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Financial Architecture – Exploration of a New Model for Development Finance Institutions

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Abstract[1]

The international financial architecture comprises institutions, treaties and agreements that disburse and regulate global finance. The International Bank for Reconstruction and Development (IBRD), later renamed the World Bank (WB) and the International Monetary Fund (IMF) form the historical foundation of the global financial architecture, with the mandate to provide development finance for reconstruction and development in low and middle-income countries.

After the debt crisis in the 1970s, the Washington Consensus emerged calling for a reduced role of the state in the economy. Subsequent critiques called for a post-Washington Consensus and new institutions that were more equitable and based on need rather than power. These new institutions have played an important role in changing the global financial architecture.

The International Development Finance Club administered a questionnaire in 2020 about new strategic partners from the South and the need for new modes of finance. This paper produces three recommendations that cover partnerships, modes of finance and the gaps and opportunities that the IDFC members could leverage for the effective and successful financing of the Sustainable Development Goals (SDGs).

[1] This paper was prepared for an IDFC conference.

Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BICE	Banco de Inversion y Comercio Exterior (Argentina)
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazil)
BRICS	Brazil, Russia, India, China and South Africa
CADF	China-Africa Development Fund
CDB	China Development Bank
CfBD	Convention for Biological Diversity
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
EBRD	European Bank of Reconstruction and Development
EIB	European Investment Bank
FCSSC	UN Finance Centre for South-South Cooperation
FOCAC	Forum on China Africa Cooperation
GEF	Global Environmental Facility
GCF	Green Climate Fund
GNP	Gross National Product
IADB	Inter-American Development Bank
IBRD	International Bank of Reconstruction and Development
IDFC	International Development Finance Club
IDA	International Development Agency
IDBG	Inter-American Development Bank Group
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LIC	Low Income Country
MDB	Multilateral Development Banks
NDB	New Development Bank
netFWD	Network for Foundations Working for Development
NEPAD	New Partnership for Africa Development
NGOs	Non-Governmental Organisations
ODA	Official Development Aid
OECD DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee
P4G	Partnership for Growth Foundation
PPF	Project Preparation Fund
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
US DFC	United States International Development Finance Corporation
WB	World Bank
WBG	World Bank Group

1 Introduction

The international financial architecture comprises institutions, treaties and agreements that disburse and regulate global finance. The International Bank for Reconstruction and Development (IBRD), later renamed the World Bank (WB) and International Monetary Fund (IMF) form the historical foundation of the global architecture, with the mandate to provide development finance for reconstruction and development in low- and middle-income countries. Later regional development banks were added to the structure and national development banks emerged as countries identified their own development agendas.

2 Background

This paper aims to map the current global financial architecture in order to understand who the key stakeholders are, their genesis and roles, similarities and distinctions and how these are performed given their geographic contexts.

2.1 The traditionalists

Since the 1950s, the WB and IMF dominated the development finance space by providing grants and loans to many countries. This financial assistance was attached to conditionalities for structural change within the recipient countries. The WB's lending arm, the IBRD provided finance to middle-income and developing countries, while the IMF did the same with smaller regional Multilateral Development Banks (MDBs) filling in the gaps across the world. Examples of these are as follows:

- the Inter-American Development Bank (IADB) established in 1959 to provide development finance to Latin America and the Caribbean;
- the European Investment Bank (EIB) established in 1958 under the Treaty of Rome as a policy bank to drive European integration;
- the African Development Bank (AfDB) established in 1964 to provide development finance to the newly independent African countries; and
- the Asian Development Bank (ADB) established in 1966 to support social and economic development in Asia.

These traditional DFIs were established to finance in-country development programmes informed by national development plans and to provide regional and global support based on their respective mandates.

The traditionalist models promoted structural adjustment programmes particularly after the Latin American debt crisis of the 1970s and 1980s where Mexico and other countries in that region had amassed significant foreign debt and were unable to service it. The MDBs introduced economic policies that were intensely criticised for their neoliberal focus on reducing the role of the state in the economy. The related Washington Consensus, linked to the MDB policies was challenged by the Post-Washington Consensus and development economists such as Lin, Stiglitz and Rodrik (Marangos, 2008). The post-Washington Consensus called for the renewed role of the state in economic policies and programmes.

Since the financial crisis of 2007/08, DFIs have reviewed their roles in supporting countercyclical investments to ensure that economies continue to have access to finance through downward growth trends. The international financial institutions (IFIs) had to review their role in the global financial architecture as the world ratified the SDGs.

While their actions have a significant influence on developing countries and on the well-being of their populations, most of these institutions are dominated by the world's major economic powers of the global North. The traditional MDBs have held the leadership positions since their inception with no opportunities for change in the global governance framework. For example, the IMF has always been chaired by a European representative while the World Bank has consistently had an American representative at the helm.

At the 2015 Financing for Development Conference in Addis Ababa, calls were made for the global financial architecture to adapt to support the SDGs. The World Bank and the IMF, with other multi-lateral development banks adopted the Billions to Trillions paper (MDBs & IMF, 2015) that called for new roles for their institutions and for recipient governments to consider alternative sources of financing, such as domestic resource mobilisation through taxation. The rationale for the concept was to catalyse, mobilise and crowd-in other sources of finance that could support the achievement of Agenda 2030. The traditional modes of finance of either development assistance or aid and grants required new sources of finance to supplement them. This was particularly important as the United Nation's call for contributions amounting to 0.7% of the Gross National Product (GNP) from member states for development projects was not being responded to with equal commitment.

The adoption of the SDGs has generated the need for MDBs, IFIs, National or Public Development Banks to search for new modes of financing and cooperation amongst themselves. A few of the new financial agreements that emerged in 2015 are:

- Exposure to exchange agreements where MDB partners share the headroom for country loans;
- Blended finance where concessional funds are combined with other sources of finance to produce the most affordable cost of finance to low and middle-income countries;
- MDBs, for example the AfDB are also providing poor countries access to their non-concessional windows;
- Risk sharing instruments such as the EIB blending concessional and non-concessional resources to bring projects to a credit level acceptable to private investors;
- EBRD is establishing new vehicles to allow institutional investors to participate in its investments; and
- The IMF has increased access to IMF loans for low-income countries by 50%, with a similar increase in access to fast-disbursing loans for countries hit by disasters or conflict situations.

These MDBs were using public finance to reach a wider band of recipient countries, with risk-sharing modalities and access to private sector finance.

The traditional portfolio of products for infrastructure development financing such as non-sovereign financing windows, guarantees and other co-financing and risk-mitigation instruments, and to creating new specialized project preparation now include the G20 Global Infrastructure Hub and the WBG-hosted Global Infrastructure Facility which will support greater collaboration in preparing and structuring complex infrastructure projects to attract long-term financing from private investors. Project preparation facilities (PPFs) were also established such as the IDBG's InfraFund, AfDB's NEPAD Infrastructure PPF, EIB-hosted initiatives such as the Arab Financing Facility Technical Assistance Fund (co-managed by the Islamic Development Bank and IFC), EBRD's Infrastructure PPF, ADB's Asia Pacific PPF, as well as AfDB's Africa50 Initiative, which focuses on both project preparation and project finance.

Table 1: Traditional MDB Financing Instruments

Name	Modality	Detail
World Bank Group	IBRD Loan, IDA credit/grant and guarantee	Investment project financing Financing for policy development within countries.
	Conditional finance linked to outcomes	Program for Results
	Trust Funds and Grants	Provided for social programmes
	Guarantees	MIGA and IFC guarantees
	Multiphase Finance	Breaking down project into smaller phases to make finance more affordable
	Bonds	The world's first labelled Green Bond was issued in 2008. In 2018, IDA issued the inaugural \$1.5 billion benchmark bond that raised \$4.6 billion in orders from around the world. WBG Green Bonds have raised the equivalent of \$13 billion through more than 150 transactions in 20 currencies
	Technical Assistance	Build institutional capacity to manage public debt

Source: WBG, 2020

The financial crisis and stronger voices from southern countries resulted in the establishment of new banks and sources of finance to counter the power of the traditional MDBs.

The new institutions that emerged from these critiques centred on the developmental state. In addition, the new institutions called for a new financial architecture that provided each member with equal voting rights, removed veto-powers of the bigger institutions and created a more egalitarian relationship between finance provider and recipient. The global south, through the South South Cooperation (SSC) initiative drove southern partnerships that were characterised by different geopolitics based on the criteria listed above. Not only were these new development banks global south focused but they were also financed by southern sources of finance.

The next section will explore a few of these new institutions that challenged the existing global financial architecture.

2.2 New Development Partners

Agenda 2030 saw the emergence of new institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) that have changed the landscape. These institutions committed to changing the global financial landscape to ensure that countries and regions had more access to development finance and to alternative options other than the traditional MDBs.

2.2.1 New Development Bank

The New Development Bank (NDB), also referred to as the BRICS Bank, was established in 2015 in Ufa, Russia at the BRICS Summit. The founding members, Brazil, Russia, India, China and South Africa hold the rotating chair while one member is the Chair of the Directors and each member has an Executive Director in the day-to-day operations of the Bank. The first round of funding was made available to member banks for projects within their regions or their countries.

The NDB's financial instruments include loans, equity, guarantees, investments in special funds, and subscriptions to bonds and debentures. In relation to loans without sovereign guarantee, the NDB will only provide a loan if there is no objection from the relevant government or governments in the case of a cross-border or multi-country project. Partnerships are important as they wish to leverage their access to finance by bringing in other sources of finance (NDB, 2016a).

The NDB changed the structure of global finance with five global south countries that determine how and where they spend their contributions across the world. The first window was spent within the five BRICS nations on their prioritised infrastructure projects. Membership was limited but there have been rumours of extending the BRICS and NDB membership to other global south giants such as Turkey, Nigeria and Indonesia. Decisions were made by one vote per member and no one member had right of veto. The NDB's operations were also run along commercial lines with quick response-rates, non-interference policies and local currency loans (Jiajin, 2015).

2.2.2 Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) was established in 2016 to create a counterbalance to the more-established ADB. Currently, it has 103 members from around the world. The AIIB's mandate extends to the Asian region but membership is open to all interested countries. According to its Articles of Agreement, the AIIB can "provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asian region" (AIIB, 2020).

The AIIB financing instruments include loans, equity, guarantees, whether as primary or secondary obligor, in whole or in part, loans for economic development. In addition, the Bank may underwrite, or participate in the underwriting of securities issued by any entity or enterprise for purposes consistent with its purpose.

The AIIB changed the financial architecture by introducing more agility and adaptability of finance in Asia and globally. This was partly influenced by the slow reporting of the financial stature of China in the global economy by traditional MDBs (Dollar, 2015).

2.2.3 United States International Development Finance Corporation

The US DFC is the development finance institution of the United States federal government primarily responsible for providing and facilitating the financing of private development projects in lower and middle-income countries. This institution was formerly the Overseas Private Investment Company (OPIC) that was renamed US DFC in 2019. Equity, debt, technical development and political risk are the main modes of finance from the US DFC. Projects are financed across the developing world including Africa in the ICT, critical infrastructure and energy, education, healthcare, investing in women and agriculture sectors. US DFC finances projects where the private sector has interest in providing equity finance and to investors who have a track record with US DFC for long-term finance.

The US DFC will most probably finance equity investments through the Better Utilization of Investments Leading to Development, or the BUILD Act, which gives DFC equity authority and sets the cap for equity investments at about $20 billion over a seven-year period (Saldinger, 2019). The DFC is serious about its developmental role by planning to measure its development impact through a tool called Impact Quotient (Saldinger, 2019).

2.2.4 JP Morgan Development Finance Institution

In January 2020, JP Morgan announced the establishment of the new JP Morgan Development Finance Institution to build on its development finance initiatives in emerging markets. The narrative has moved from commercial financing to finance that could achieve high levels of development impact. The entity seeks to define eligible transactions and anticipate their impact in order to attract much-needed private investment to developing countries (Pinto, 2020).

The JP Morgan DFI has shaped the financial architecture by combining a commercial and private investment institution. O'Donohoe (2020) argues that it remains to be seen whether the JP Morgan DFI will adhere to the Paris Agreement and not finance coal or extractive industries and whether the institution will be sufficiently innovative to produce new financial products that will change access to finance.

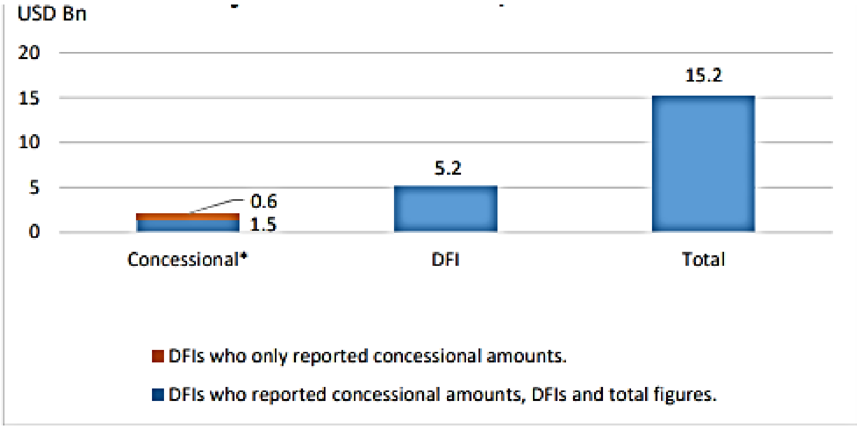
2.3 Multilateral Blended Concessional Finance

Many MDBs provide concessional finance to low-income or vulnerable states. Since the 2015 Financing for Development conference in Addis Ababa, blended finance has become more important as public and private sector partners jointly finance projects. The official definition for blended concessional finance is

> Combining concessional finance from donors or third parties alongside DFIs' normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources (IFC, 2017:3).

Figure 1 below shows the contributions of DFIs and the private sector to blended finance for projects.

Figure 1 – DFI private sector blended finance project commitment, 2014 – 2016



Source: IFC, 2017:10

The OECD has worked on blended finance and adopted the Tri Hita Karana Roadmap for blended finance (OECD, 2018a).

2.4 Philanthropists

The philanthropist organisations such as the Bill and Melinda Gates Foundation, the Howard G. Buffet Foundation, the SDG Philanthropy Platform and others have become key players in development finance, particularly in the social sectors of education, health and water and sanitation. In 2015, the OECD established the Global Network for Foundations Working for Development (netFWD) to track the contributions they made to development programmes around the world. Philanthropists favour investing in stable, middle-income economies and through large, established partners such as international organisations and NGOs. The report shows that 67% of country-allocable philanthropic giving was targeted to middle-income countries, such as India (7% of the total), Nigeria, Mexico, the People’s Republic of China (“China”), Ethiopia or South Africa.

Figure 2 – Philanthropy for development at a glance

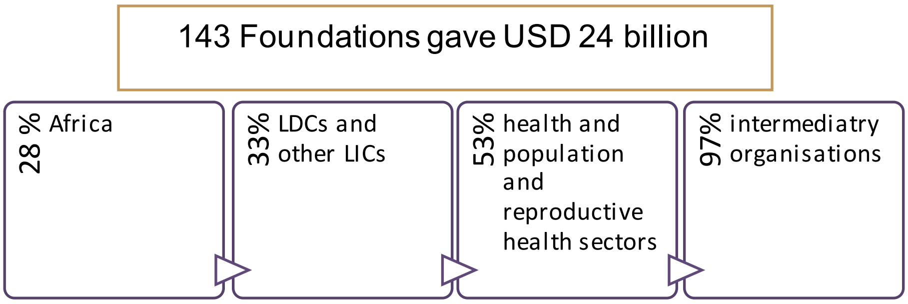


Table 2: Contributions of the Top 5 Philanthropic Foundations (2013 – 2015)

Top 5 Philanthropic Foundations	Total contributions (2013 – 2015)
Bill and Melinda Gates Foundation	USD 11, 672.2 million
Children's Investment Fund Foundation	USD 747.9
Susan T Buffett Foundation	USD 724.6
Dutch Postcode Lottery	USD 666.4
Ford Foundation	USD 613.4

Source: OECD, 2018a

In the area of infrastructure, the Partnership for Growth Foundation (P4G, 2019) supports green finance for energy, water, cities and a circular economy, and food and agriculture. The P4G provides finance for start-ups and for scale-up and is in conversation with DFIs to explore partnerships where the DFI might be an intermediary financing organisation.

2.5 Global Environment Facility and the Green Climate Fund

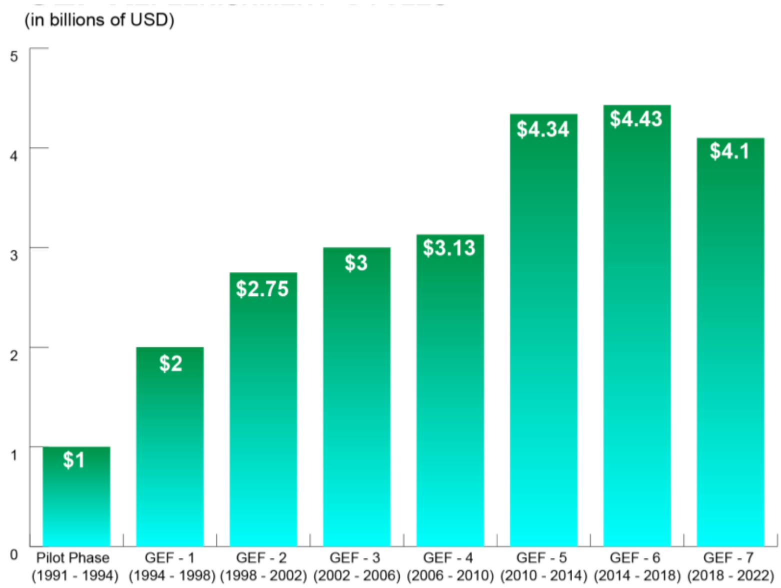
Green finance was introduced in 1992 at the Rio Earth Summit but has gained importance since the Paris Agreement was entered into in 2016. The Global Environmental Facility (GEF) funds are available to developing countries and countries with economies in transition to meet the objectives of the international environmental conventions and agreements. GEF support is provided to government agencies, civil society organizations, private sector companies, research institutions, among the broad diversity of potential partners to implement projects and programs in recipient countries.

The GEF Trust Fund is financed by commitments from member countries and administered by the World Bank. In 2018, 30 countries pledged $4.1 billion to GEF.

Other GEF funds include:

- Special Climate Change Fund
- Least Developed Countries Fund
- Capacity-Building Initiative for Transparency
- Nagoya Protocol Implementation Fund
- Adaptation Fund

Figure 3 – GEF Replenishment Cycles



Source: GEF, 2020

The United Nations established the Green Climate Fund (GCF) in 2010 to reduce greenhouse gas (GHG) emissions in developing countries, and to help vulnerable societies adapt to the unavoidable impacts of climate change. Given the urgency and seriousness of this challenge, GCF is mandated to make an ambitious contribution to the united global response to climate change. GCF launched its initial resource mobilisation in 2014, and rapidly gathered pledges worth USD 10.3 billion. These funds come mainly from developed countries, but also from some developing countries, regions, and one city. The GCF takes care of LDCs, Small Island Developing States, and African States. Their funding model entails using their funds to crowd-in private sector investors. In 2019, contributors pledged more than USD 9.8 billion for the GCF-1 programming period.

The DBSA and the Green Climate Fund

Climate and environmental finance are embedded in the DBSA strategy, and the DBSA has played a key role in implementation of projects on transitioning South Africa to a green economy, including acting as the implementing agency for the Green Fund of South Africa. As an Accredited Entity (AE) of the GCF, the DBSA strives to share experiences with local partners – such as national development banks – in the development of programmatic initiatives similar to the Climate Finance Facility described below, with a view to addressing the needs of SADC countries to effectively access climate finance to support NDC implementation.

The DBSA endeavours to assist in building capacities of DFIs in the region regarding their journey to accreditation, example being work done with CRDB Bank Plc Tanzania which has recently been accredited. This support includes sharing lessons with respect to best practices for policy development including gender, risk and general accreditation matters.

The partnership approach with the GCF is guided by a continued focus on a programmatic approach where we envisage large multi-country programmes or regional climate finance facilities with national DFIs acting as executing partners.

We also foresee ourselves working as a co-financier and/or executing entity on ambitious GCF programmes delivering transformational and large-scale impacts. In relation to the partnership with the GCF, we also plan to work with the GCF to help develop innovative approaches (e.g. to develop products and services that facilitate access to capital, as per DBSA's Climate Change policy framework) and sectoral knowledge (e.g. water, E-mobility and off-grid energy solutions).

The DBSA is supporting identification and piloting of climate change financing instruments and products that will catalyse private sector investments on climate change through GCF's Project Preparation Fund (PPF). Examples of such PPF initiatives currently underway or completed include the Public Private Sector Energy Efficiency Programme (PPSEEP), Municipal Solid Waste Programme (MSW) in South Africa (SA) and SA Water-Reuse Programme (WRP) summarised below.

As a member of the IDFC, the DBSA is committed to promoting low-carbon and climate resilient futures and provides thought leadership on global challenges and solutions in playing a meaningful role in the development of financing and attainment of the SDGs.

2.6 China model

China's state-financed infrastructure investment companies have produced a new development finance model. These entities include the China Development Bank (CDB), Industrial and Commercial Bank of China (ICBC), China International Trade and Investment Corporation (CITIC), China Export and Credit Insurance Corporation (CECIC), Sinosure and the China Export-Import Bank. These state driven institutions have vast resources at their disposal and provide discounted loans to Chinese corporations, subject to their own measures of accountability and transparency constraints.

The China model of finance is also provided to African countries in exchange for access to resources. The 'Angola mode' (Habiyaremye, 2013) of financing is an example of this where Angola signed off rights to oil in exchange for long-term 'loans' for infrastructure. In many cases, China Exim Bank's loans were used to leverage Chinese corporate access to Angola's oil sector.

At the 2007 Forum on China Africa Cooperation (FOCAC), the China Africa Development Fund (CADF) was established to provide financing for infrastructure and development based on the political agreement. CADF funding has led to increased development in Africa (Habiyaremye, 2013) but with a loss of independence for those recipient countries (Sun, 2014).

2.7 South-South and Trilateral financing

New partnerships for financing have emerged as power relations across the world changed. North to South partnerships marked earlier modes of financing as finances flowed from the 'developed' northern donors to the 'underdeveloped' southern recipient countries. South-South financing became more important as developing countries began to support each other through Official Development Assistance (ODA), including skills transfers and technical assistance.

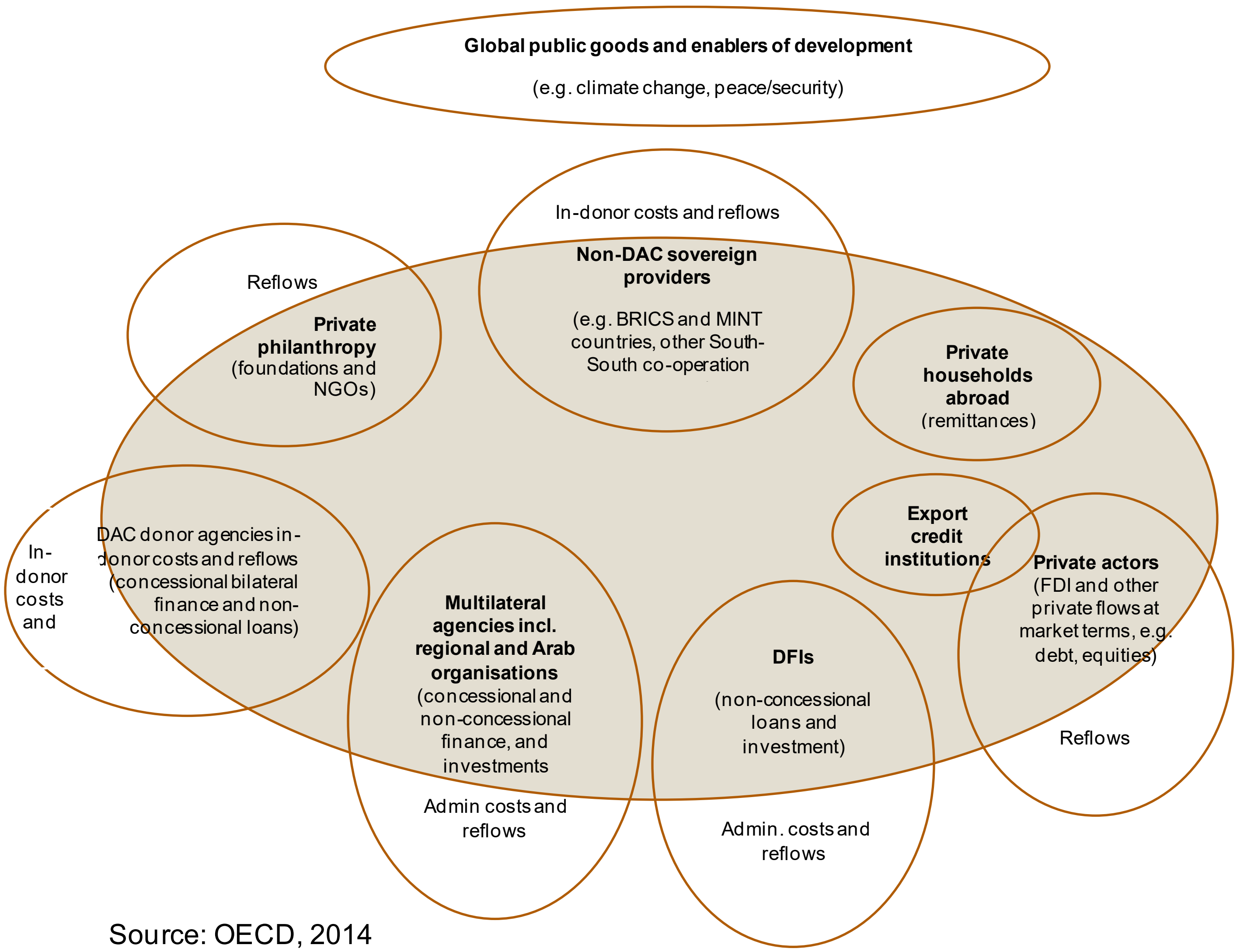
By 2017, South-South Cooperation was estimated to be US$15 billion –US$20 billion a year, and 22 per cent is provided through multilateral organizations including the United Nations and World Bank (CfBD, 2017). Using the OECD Rio marker for biodiversity as reference, some US$200 million of annual South-South cooperation may be of high relevance to biodiversity purposes (ibid). Economists have predicted that by 2030 South-South cooperation will be one of the main engines of growth, accounting for 57 per cent of the world's gross domestic product (GDP) (ibid.).

The UN's Finance Centre for South-South Cooperation (FCSSC) has an established fund for the Belt and Road Initiative, a technical programme for the establishment of green industrial parks. JICA is the leader of triangular financing. The Savanah programme in Mozambique is an example where JICA provided finance to Brazil's BNDES to assist Mozambique in agricultural projects.

3 Financial architecture of external financing

In 2012, the Organisation for Economic Cooperation and Development (OECD) Development Action Committee (DAC) requested a map representing 'donor effort' and 'recipient benefit' of development finance. Figure 4 below shows the architecture of external financing.

Figure 4: The emerging architecture/taxonomy of external financing: developing countries' perspective



Source: OECD, 2014

4 IDFC Experiences

As echoed in the 2019 Financing for Sustainable Development Report, aid levels are stagnating and falling short of commitments. Private investment levels in developing countries are lower than they were in 2012. And, while foreign direct investment flows to developing countries increased in 2018, they remain unevenly distributed, largely bypassing many least developed countries.

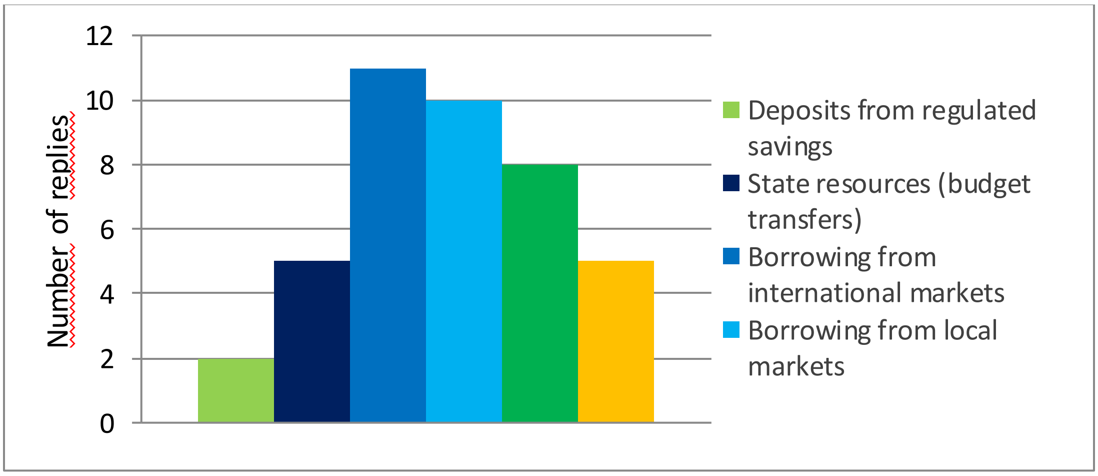
Furthermore, climate change continues to threaten sustainable development in all regions. The current challenges reinforce the urgency of adopting national and global approaches to financing sustainable development and achieving sustainable development in way that "leaves no one behind."

Within this framework, a survey was carried out in September 2020 for the 26 IDFC members and 12 of them completed the questionnaire. The objective was to assess the role of NDBs in facilitating access to financial flows toward financing SDGs, with a specific focus on low carbon and climate resilient investments. It also emphasized productive investments towards the generation of employment, the empowerment of women, and it takes special consideration to promote the post-pandemic recovery.

4.1 Funding sources

The responding IDFC members report that they use at least two different sources of funding. The majority respondents (92 per cent) obtain their funding from international markets, and 83 per cent report sourcing funds from local markets. The institutions with shareholding report sourcing 66 per cent from their shareholders and only 41 per cent of the respondents receive funding from state resources.

Figure 5: IDFC Sources of Finance



Source: IDFC Financial Architecture Questionnaire 2020

The relatively smaller proportion of members receiving funds from the state is surprising because the general international model for DFIs is that they are state financed. This result might point to the constricted public spending due to economic constraints or due to public spending being directed at public good projects within the state.

In some institutions, the sources of funds are third party funds that are ring-fenced or targeted to programmes, particularly climate-related funds. Of the members surveyed, 92 per cent manage third-party funds from bilateral donors and climate financiers. This prevalence of third-party finance points to development partners being more targeted with their interventions and with closer alignment to development programmes such as the SDGs and the Paris Agreement. Additional funds were ring-fenced for women and youth development programmes, infrastructure investment funds, Small and Medium Enterprises (SMEs) funds and project preparation funds.

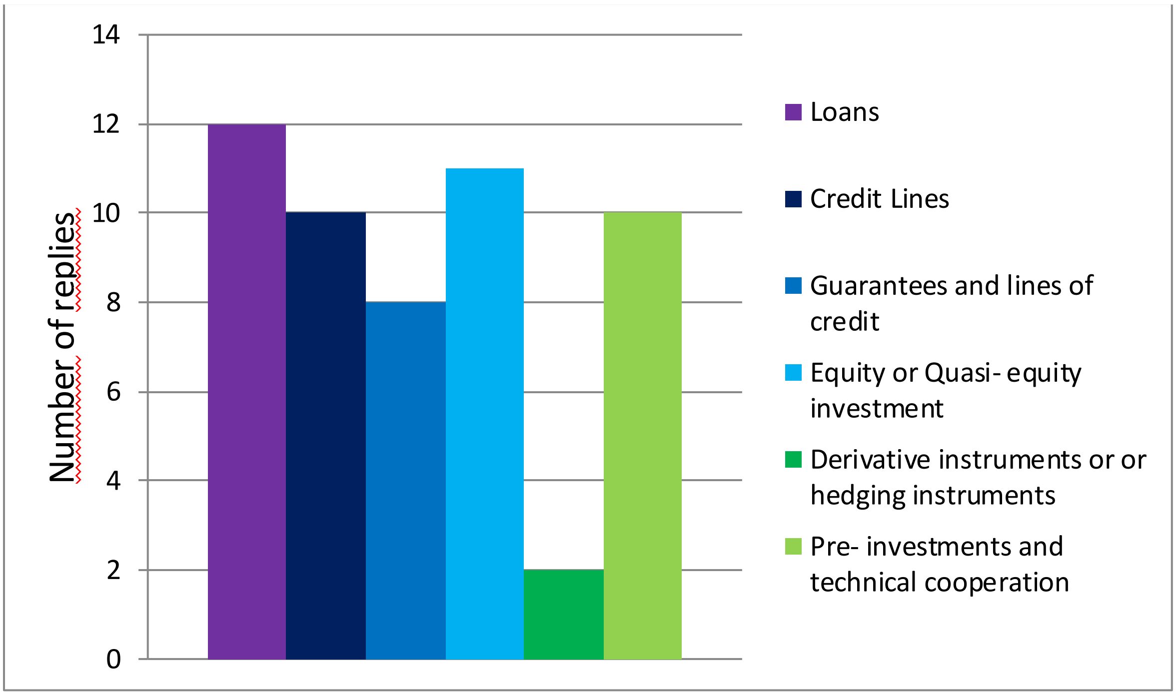
All respondents use at least 2 different types of funding where the top four are listed below:

- Climate investment funds (all respondents)
- Project preparation funds (70% of the respondents)
- SME funds (50%)
- Infrastructure investment funds (40%)

The types of funds managed by institutions show the importance and the preference of climate and project preparation funds in the ecosystem. This is driven by both the demand for and supply of these funds from DFIs and development partners. It would be interesting to map the prevalence of these funds for the post 2030 Agenda period as new agendas arise in the international financing sector.

The financing instruments include loans, equity or quasi-equity, credit lines, pre-investment and technical cooperation, credit lines and guarantees and derivative instruments. Figure 6 shows that loans comprise most financial sources with equity and quasi-equity following closely. It is encouraging to note that pre-investment and technical assistance finance is third in quantum amongst IDFC members because project preparation and advisory provided the much-needed early stage finance for preparing projects and developing institutional capacity among members.

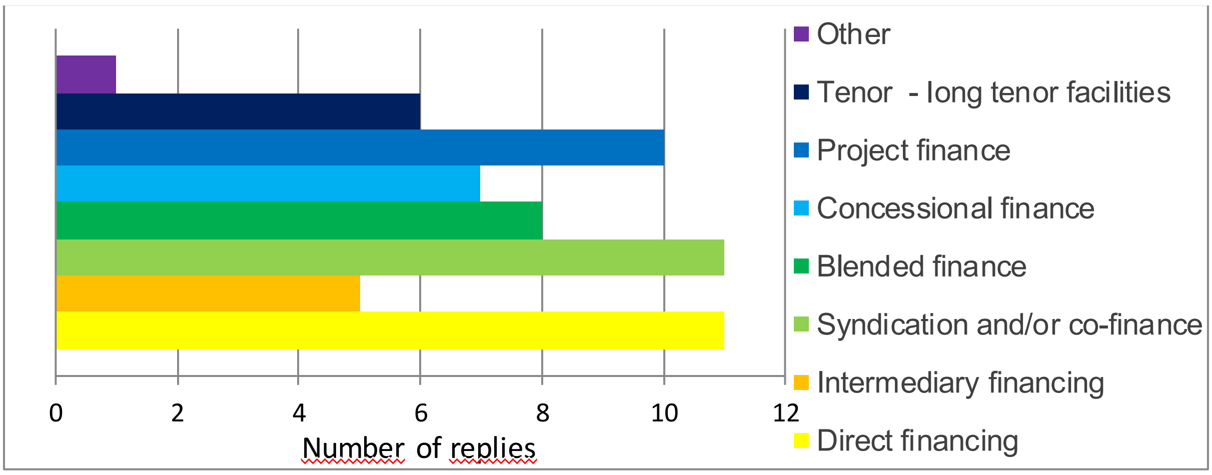
Figure 6 – Financing instruments



Source : IDFC Financial Architecture Questionnaire, 2020

Figure 7 provides an overview of funding modalities, which list intermediary financing, syndication, co-financing and project finance as the top three modalities respectively. Intermediary finance could include credit lines and on-lending while project finance points to the importance of infrastructure development and private sector involvement within IDFC projects.

Figure 7 – Funding modalities



Source : IDFC Financial Architecture Questionnaire, 2020

Case Studies: GCF Project Preparation Funding (PPF)

Public Private Sector Energy Efficiency Programme

Project preparation funding (PPF) was provided by GCF to conduct a detailed feasibility to evaluate the optimal financial and institutional model for a Public and Private Sector Energy Efficiency Programme (PPSEEP) in South Africa. Additionally, PPF funding was used to prepare the full concept feasibility study and to prepare an application to the GCF, and to conduct both gender impact and ESS studies. The estimated budget was $318 060 to complete the studies within 9 months.

The request to GCF was based on the Private Sector Energy Efficiency (PSEE) Programme pilot which provided energy efficiency services to 1 148 companies, and further builds on the NAMA facility bid for the funding of energy efficiency services for municipal buildings. Uniting these programmes, the proposed programme will provide services to private sector companies, accelerate services to the public sector and introduce a financial assistance component to increase the implementation of capital projects.

Municipal Solid Waste Programme

The Waste Management Flagship Programme is one of the 8 “Near–term priority flagship programmes” outlined in South Africa’s National Climate Change Response Policy. As a first step to implement this policy priority, the Department of Environmental Affairs (DEA) in partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) commissioned a technical assistance project (pre-feasibility study) to develop waste diversion strategies, business and implementation plans for 6 municipalities selected by DEA. The strategies define waste treatment technologies for the organic fraction of the waste streams and relevant soft interventions per municipality, to transition from an end-of-pipeline disposal-based system to a circular economy.

The purpose of the Programme would be to implement the organic waste treatment solutions identified in the 6 pilot municipalities and thereafter upscale implementation to 24 additional ones through a programmatic approach. The programmatic approach will allow subsequent 24+ subprojects to learn from the first 6 fore-runners and replicate the solutions in a streamlined, cost-efficient manner.

Project preparatory funds (PPF) were provided by GCF in order to advance towards the preparation of a GCF Funding Proposal for the Programme of the required level of detail. The PPF phase will include a feasibility study, Environmental and Social Impact Assessments (ESIAs) and detailed designs for the first 6 municipalities to list a few, as well as the development of standardized documents, processes and tools needed for adding sub-projects to the Programme. These include technology blueprints, standardized contracting and procurement documentation, environmental, technical and financial due diligence procedures for sub-project preparation amongst others.

4.2 Grant funding

One of the roles of DFIs is to provide concessional financing that could include the provision of grants for development projects. Three-quarters (75%) of the respondents receive grant funding from international organisations and MDBs. Just over two-thirds receive grants from bilateral donors, 55% receive grants from governments and 33 per cent from the private sector and bilateral partners. Recipients of grant funding have at least two different sources of funding.

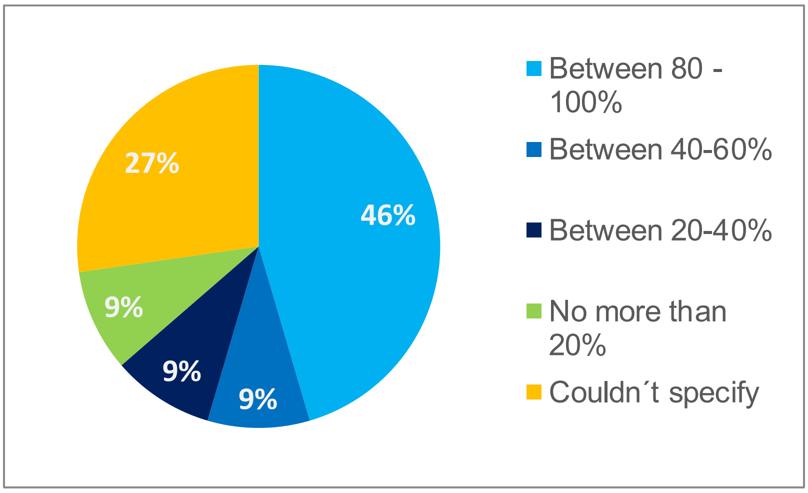
Grants have been the purview of the MDBs and international organisations rather than from the private sector and bilateral partners. The financing ecosystem has relied on large institutional funds for grants, however, the opportunities for raising grants from philanthropic sources remain untapped. Grant instruments include:

- Concessional finance
- Blended finance
- Non-reimbursable grants
- Recoverable grants

4.3 SDG-related financing

Financing sources for SDGs have increased since the adoption of Agenda 2030. Just less than half of the respondents (46%) address more than 80% of their funds to SDG projects. Given that 27 per cent of the respondents do not measure their SDG contributions due to lack of an appropriate tool or measurement, the process of aligning SDG measurement within the Club could contribute to the allocation of a greater percentage of funds to SDG measurement.

Figure 8 — Percentage of finance allocated to SDGs



Source : IDFC Financial Architecture Questionnaire, 2020

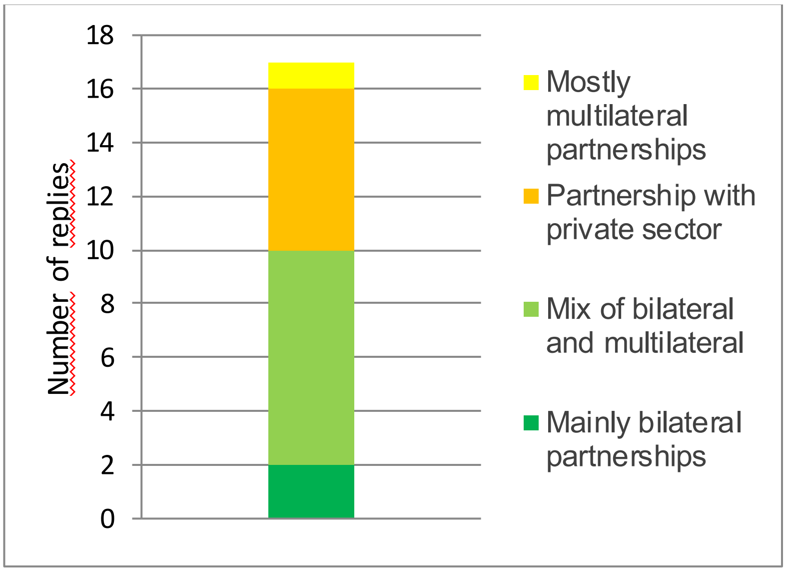
BICE – Sustainable Green and Social Bonds
In December 2018 BICE launched the First Sustainable Bond in Argentina and the first of this type in South America for USD 30 Million for a 5-Year Term, with the highest level of collateral granted by Vigeo Eiris, which gave the Second Party Opinion. BICE Sustainable Bond is within the framework of the “Green and Social Principles” of the International Capital Markets Association (ICMA) and “Argentina’s Guidelines for the Issuance of Social, Green and Sustainable Securities”, as established by the Argentine Securities and Exchange Commission (CNV)
Key activities
The Bond was designed to finance projects with positive social and environmental impact:
• *Social Projects:*
Companies led by women
Financing for the development of the North of Argentina
SMEs with high impact on the creation of jobs
Corporate bonds issued by SMEs
• *Green Projects:*
Energy-efficiency
Renewable energy
• *Funding Sources:*
The Bond was subscribed 100% by IDB INVEST
• *Type of fund:*
SMEs funds
Women funds
Climate funds
• *Financing instruments:*
Thematic Bond
Credit line

4.4 Partnerships

Financing the SDGs has highlighted the need for partnerships to leverage existing sources of finance, co-finance, syndicate and to scale up existing sources of finance.

IDFC members support SDG 17 that promotes the importance of partnerships to successfully implement Agenda 2030. The types of partnerships vary from multilateral to bilateral.

Figure 9 – Financing partnership arrangements

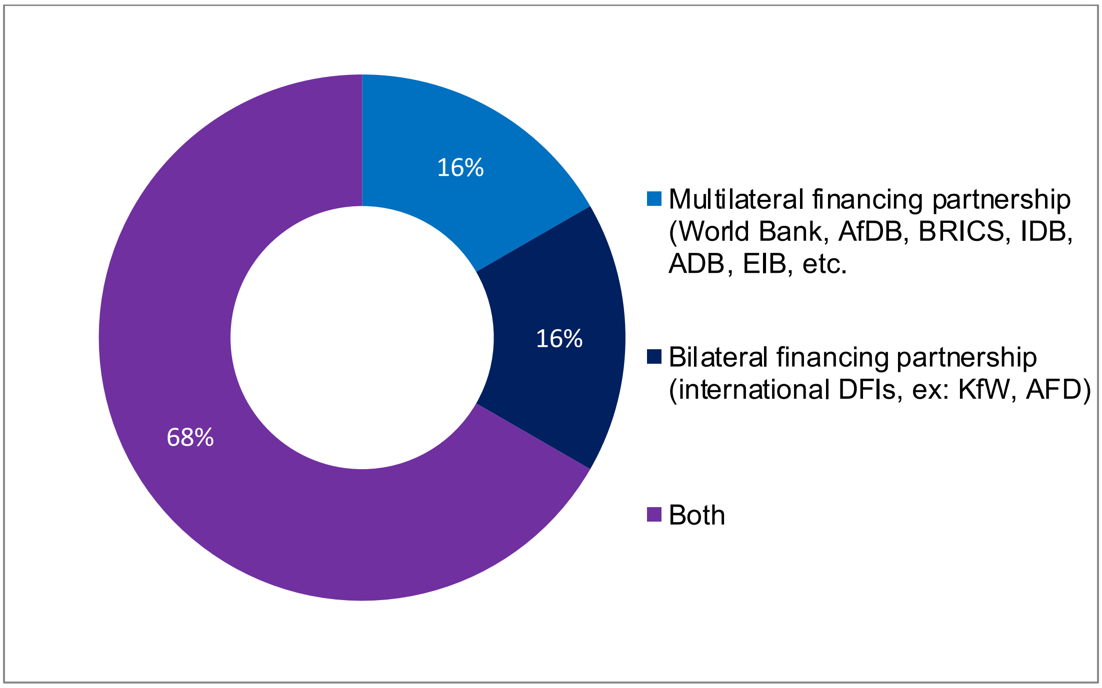


Source : IDFC Financial Architecture Questionnaire, 2020

Multilateral partnerships could also include triangular or trilateral financing where two or more IDFC partners finance a project in a third country. It is apparent that IDFC members are building a blend of partnerships to meet the SDGs, particularly in relation to financing. The combination of partnerships could be as a result of targeted programmes for climate change, clean energy, gender equality and sustainable infrastructure.

With COVID-19 constrained sources of finance, combinations of partnerships will be preferred in the future, as depicted in Figure 10 where members were asked which partnerships, they would prefer in their attempts to meet the SDGs.

Figure 10: Ideal partnerships for SDG financing



Source : IDFC Financial Architecture Questionnaire, 2020

The traditional sources of finance identified earlier in this paper received an equal rating with the new development partners, in relation to the ease of access to finance. Among the IDFC members who have engaged with the new development partners, 66% felt that the AIIB and the NDB have not been relevant to closing the SDG financing gap. The same percentage felt that the traditional sources such as the WBG had also not met the challenge to finance the SDGs.

The ICD's Bridge Platform as

Introduction of cooperative syndications that allow for several common minded financiers to address both financing gaps and opportunities. ICD has recently launched the ICD Bridge Platform, basically to help facilitate information and deal sharing and communication among our network partners to enhance business transactions (cross-selling of credit and equity transactions), whereby the ICD and its partners can mobilize leveraged resources to help address financing gaps within our member countries' markets.

In order to help our member countries during the post recovery after COVID-19, an action plan has been developed which includes the following dimensions: 1) Line of Finance (including transactions with government-backed/guaranteed facilities) 2) Term Financing /Infrastructure Financing for Healthcare, Energy and Agriculture Sectors 3) Collaboration with/through ICD Investee Companies & Other Financial Institutions in ICD Network (including onward lending from/through them) 4) Connecting Healthcare/Medical Exporter Countries with the countries requiring medical services. The ICD has also pledged their readiness to collaborate with other MDBs, including the members of IDFC to help African countries.

5 Gaps and Opportunities identified by IDFC Members

The questionnaires requested members to provide their perceptions of gaps and opportunities for further development in relation to financing the SDGs. Most of the responding member banks (86%) reported that they had gaps in financing the SDGs and mainly the following:

- SDG 4 – Quality education
- SDG 6 – Clean water and sanitation
- SDG 7 – Affordable and clean energy
- SDG 9 – Industry, Innovation and Infrastructure
- SDG 13 – Climate action

These SDGs are integral to the future of cities, human development, and healthy. The IDFC has played a significant role in the Paris Agreement and other climate initiatives that could close the gap on these SDGs (except SDG4). The respondents identified financial modalities that could assist the financing of the SDGs such as guarantees for thematic bond issuances, de-risking fund for first loss mechanisms or other credit enhancement products, equity instruments, guarantees for less than AAA multilateral institutions. The most important opportunity for responding members lies in the partnerships because through them the IDFC has achieved much and could still achieve more.

6 Recommendations

Three themes of recommendations are emerging.

- ***Effectiveness of multilateral partnerships***

  Members called for more access to multilateral partnerships that could provide more finance opportunities to members of the club. The questionnaire showed that bilateral relationships were more common than those with MDBs, which pointed to an opportunity for the IDFC to liaise more strategically with MDBs to provide more access to finance in the future.

- ***Ease of access to multilateral finance***

Access to finance includes the ease of access to MDB finance. The results from the IDFC questionnaire show that even though finance is available, the process remains onerous and complicated for smaller National Development Banks in the Club. The GCF case study narrates of a process that could take up to two-years before finance is allocated.

- ***Gaps and opportunities***

The IDFC Financial Architecture Questionnaire has provided many gaps and opportunities linked to the financing of the SDGs by club members. The biggest opportunity is to refine the financial architecture to find more effective and efficient ways to finance the SDGs in a post-lockdown world.

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