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Task Force 03
REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Fostering a Global Public Financial Ecosystem for Development and Climate Action

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Abstract

The international financial architecture has not mobilized the long-term, low-cost, and stable finance needed to facilitate green and just transitions, to achieve the Sustainable Development Goals (SDGs), or to fulfil the Paris Agreement. This is due to an over-reliance on and the under-performance of private finance and an under-appreciation for and the under-utilization of global public banking capacity to confront the challenge.

Policymakers should call on public national development banks (NDBs) and multilateral development banks (MDBs) to begin fostering a global public financial ecosystem grounded in accountable public-public collaboration.

Diagnosis of the Issue

According to the United Nations (UN), the international financial architecture has been 'unable to support the mobilization of stable and long-term financing at scale for investments needed to combat the climate crisis and achieve the Sustainable Development Goals' (SDGs) (UN 2023). This has resulted in a persistent and growing SDG investment gap worldwide that, according to the United Nations Conference on Trade and Development (UNCTAD), is about to reach $4 trillion annually in developing countries alone. Around $30 trillion in investment is needed over the next eight years globally. The world is simply not on track to meet SDG ambitions.

There are two reasons for this collective failure to finance green transitions that are socially just. **First**, an over-reliance *on* and the under-performance *of* private investors to deliver green and just development and climate finance at the pace, scale, or on terms required to meet the SDGs. **Second**, an under-appreciation *for* and the under-utilization *of* existing public financial institution capacity.

Over-reliance on and under-performance of private investors

Strategies for financing the 2030 SDGs and development have tended to over-rely on private investors as the solution to the challenges. This over-reliance stems from calls made in the 2015 Financing for Development *Addis Ababa Action Agenda* (AAAA) and, more significantly, from the World Bank's *Billions to Trillions* agenda that disproportionately advocates for market-based and private-sector led development and climate solutions.

Despite the confidence placed in them, private investors have under-performed and demonstrated an unwillingness to meet climate investment or sustainable impact demonstration requirements. Table 1 provides Climate Policy Initiative data on tracked global climate finance from 2017 to 2022. **In 2022, private investors accounted for $463 billion, or 32.7 per cent, of total climate finance. By contrast, public institutions accounted for $730 billion, or 51.6 per cent.** Yet global private financial institutions and investors hold over 80 per cent of the over $340 trillion in total global financial assets (public and private); public institutions hold less than 20 per cent. While private commercial institutions have meaningfully increased climate finance since 2017, **private investors collectively under-invested despite having more than four times the financial capacity of public institutions.** Moreover, private climate finance is highly concentrated in only the most profitable and safest investments in energy and transport, with little investment in the least developed regions or in adaptation (CPI 2023). In short, over-reliance on private investors and the market have under-delivered on global development and climate finance.

TABLE 1. Global Climate Finance by Household, Private, and Public Sources. billions USD$

Source	2022	2021	2020	2019	2018	2017
Households/Individuals	**222**	**147**	**59**	**51**	**65**	**41**
Private Investors	**463**	**418**	**274**	**252**	**215**	**227**
Commercial Financial Institutions	247	223	128	116	50	46
Corporations	203	182	132	118	147	165
Funds	7	5	3	8	10	6
Institutional investors	5	7	5	3	8	8
Unknown	1	0.3	7	7		2
Public Institutions	**730**	**549**	**332**	**337**	**261**	**340**
Bilateral Development Financial Institutions	38	27	25	23	26	18
Export Credit Agency	2	2	1	1	3	2
Government	106	93	30	35	35	30
Multilateral Climate Funds	2	4	4	4	3	3
Multilateral Development Financial Institutions	104	82	75	62	58	56
National Development Financial Institutions	268	209	130	160	94	174
Public Funds	0.1	0.3	2	2	2	2
State-Owned Enterprises	133	88	13	12	23	26
State-owned Financial Institutions	77	44	52	38	18	30
Total	**1415**	**1114**	**664**	**639**	**540**	**608**

Source: CPI, Global Landscape of Climate Finance database, updated 12/01/2024.

Private investors have also tended not to demonstrate sustainable investment impacts on the terms appropriate to socially just and equitable green transitions, particularly in the global south and within marginalised communities (Eurodad 2018). This is because private investors and corporations have little choice but to maximize profits due to management's fiduciary duties to shareholders (TNI 2023). Verifiable climate action, socially just transitions, and equitable development are secondary concerns. This structural limitation to market-based approaches are pronounced in World Bank support for the blending and de-risking of private investment with public money, including via public-private partnerships (PPPs), which use public funds to underwrite private profits and socialise investors' risks. De-risking mechanisms, including blended finance and PPPs, however, come with high fiscal and human costs and often carry hidden liabilities for governments and citizens, aggravating already unsustainable debt situations (Eurodad 2022). Private investors can have a role in development and climate finance. But public alternatives that can prioritize equitable development and socio-environmental climate concerns are leading the charge – even as more needs to be done to demonstrate positive development impacts for all people, impacts that are also verifiably green and just.

Under-appreciated and under-utilized global public financial capacity

Global public financial institution capacity has been under-appreciated within development and climate finance discussions until very recently. Only in recent years has the Finance in Common Summit (FiCS), inaugurated in 2020 as a global forum for the world's public development banks, identified over 530 public development banks with more than $23 trillion in assets.

These public development banks, that is, the world's multilateral development banks (MDBs) and national development banks (NDBs) together can form the foundation of a powerful new global public financial ecosystem.

There too is enormous potential to then expand a global financial ecosystem initially based on the public development banks (NDBs and MDBs) to form a truly comprehensive pro-public global financial ecosystem. By combining the public development banks with the world's public retail, universal banks and postal banks, there are more than 900 public banks with combined assets of $57 trillion (based on 2024 BankFocus data). Inclusive of the world's public multilateral and central banks, the total assets of these 1105 public financial institutions exceed $90 trillion – an amount 55 per cent greater than the 2023 GDPs of the USA, China, Germany, Japan, and India *combined*.

It is not simply that in collaboration public banks can provide more financing. Public banks can together *better* support socially just and demonstrably sustainable development projects than in isolation (Steinfort and Kishimoto 2019). Public-public collaboration can effectively internalise the interdependence of climate action with sustainable and equitable development as a matter of policy priority. Adaptation, mitigation, and biodiversity goals can be better achieved through intentional, coordinated, and impact-oriented public investments. So the ambition is not simply *more* financing, but more collaborative financing that demonstrates verifiably positive impacts for people and the planet – everywhere – and does so as a matter of policy.

There is awareness of the under-utilization of public development bank capacity to finance the 2030 SDGs. A 2023 G20 Expert Group recommends strengthening the MDBs to support the 2030 SDGs to help end extreme poverty, boost shared prosperity, and contribute to global public goods. New research papers on MDB and NDB climate finance relationships show promise in existing collaborations but underscore that little is known, more research needs to be done, and policy efforts need to be made to enhance MDB and NDB collaboration (Marois, Stewart, and Marodon 2023; CPI/E3G 2023). Both the quantity *and* quality of climate financing need improvement to ensure public finance fosters sustainable, equitable, and green development.

Recommendations

Policymakers should call on public national development banks (NDBs) and multilateral development banks (MDBs) to begin fostering a global public financial ecosystem grounded in accountable public-public collaboration.

While public banking financial capacity to date has been under-estimated and under-appreciated, new accountable collaborations between the world's NDBs and MDBs can concretise an intentional global public financial ecosystem geared towards achieving just transitions and equitable development as a matter of public policy. This is a viable recommendation because NDBs and MDBs already have the financial capacity, institutional resources, and developmental expertise needed to begin fostering this public ecosystem (Marois, Stewart, and Marodon 2023; Volz 2024). The parts are available. What is missing are the explicit mandates to foster a new *global* ecosystem of public-public financial collaboration for the global public good.

What does a global public financial ecosystem for equitable development and just climate action, founded on NDB and MDB collaboration, look like?

A new global public financial ecosystem would build from both the SDGs and the Paris Agreement on climate change and finance. Several, if hardly all, public NDBs and MDBs have already made clear, and sometimes binding, climate action commitments. Across Europe, most public NDBs and MDBs have begun reporting on SDG-aligned financing. The Nordic Investment Bank has a climate policy banning future investments in carbonizing energy. More than sixty public development banks have formed the FiCS Water Finance Coalition in support of SDG6 Water for All. Globally, regional MDBs have provided some direct financing to NDBs to support municipal regeneration and energy, transport, health, and educational infrastructure – all of which need to be climate resilient. In response to the Covid-19 pandemic MDBs supported NDBs to deliver financing to micro-, small-, and medium-sized enterprises (MSMEs), water, and public healthcare providers. NDB and MDB collaborations already exist, if at the relative margins of global finance. More must be done to bend public-public collaborations to green and just development transitions (Marois, Stewart, and Marodon 2023; CPI/E3G 2023).

A global ecosystem of NDB and MDB collaboration that formalizes and builds out from existing promising practices can offer cheaper financing on terms more appropriate to delivering more rapid green and just transitions while respecting a rights-based approach to development. Research on municipal infrastructure financing shows that public bank loans can be less costly, easier to access, and on better terms than private sector loans (Steinfort and Kishimoto 2019). MDBs can help to bring down the domestic cost of capital by making use of their strong credit ratings (Volz 2024). As a matter of policy, public banks can adjust the terms of loans to help advance shared climate policy, just transition, and equitable development objectives (Marois 2021).

A global public ecosystem can offer cheaper financing because it need not be profit-driven. Profit-driven private sources of development and climate finance drive up the cost of capital due to shareholders' financial return expectations. By making global development and climate finance *policy-driven* rather than profit-driven, this finance becomes cheaper and more affordable.

Finally, a global ecosystem of public NDBs and MDBs can be a pillar for democratic, accountable, and transparent development and climate action. This is *not* because NDBs and MDBs are inherently better or worse institutions than private banks (Marois 2022). There are instances of MDB collaborations with governments and NDBs that have enabled business as usual in ways that have circumvented effective decarbonization (Güngen 2023). Such counter-productive relationships must and can change. The underlying point is that public development banks are financial institutions owned by public authorities. As such, these institutions have the *potential* to be held accountable and be run according to democratic norms where and when society commands it.

Promising democratic norms already exist among public banks, if unevenly so (Marois 2021). A global public ecosystem can draw from positive models of MDB and NDB governance. Representative forums, with Boards composed of Ministers or political representatives, are common to MDBs and NDBs (for example, the Inter-American Development Bank and Fonds d'Equipment Communal, Morocco). There are also more inclusive Boards. Among the most democratic models are the German KfW and the Costa Rican Banco Popular y de Desarrollo Comunal, which integrate differing but broad-based forms of civil society representation in the governing Boards. Finding the right forum for governing a new global public ecosystem in ways that can transparently demonstrate positive development alongside green and just climate impacts requires experimentation. There are current promising public examples to build on.

Public authorities should call on existing public development banks to begin working together and to do so in pro-public ways. This can be achieved through mandate and investment policy changes at the national level and by pushing for support from the MDBs at the multilateral level. A global public financial ecosystem carries the potential to strengthen NDBs in the global South, respecting their development pathways without compromising the need for a green and just transition. There is evidence that financing for development that is grounded in mutually supportive networks of development finance institutions, government actors, and community stakeholders is more efficient and socially sustainable (Ray, Gallagher, and Sanborn 2020).

Scenario of outcomes: The Pitfalls and Prospect of Public-Public Collaboration for Development and Climate Action

Pitfall? Public Development Banks have no capacity to form an ecosystem

The world's MDBs and NDBs have not yet been tasked to form an ecosystem delivering global public goods and therefore these institutions have not developed the capacity to do so. Notwithstanding, over the last four years the Finance in Common Summit (FiCS) has created a forum that has helped to awaken public banks to their global and national responsibilities. Three messages have emerged from the FiCS. One, the implementation of the Paris Agreement, the pursuit of the Sustainable Development Goals (SDGs), and the imperative of green and just transitions for people and the planet are one and the same goal. Two, governments already have in their hands over 530 public development banks, which serve as financing channels for development and climate projects in all sectors. Three, these public development banks can join forces and assume critical responsibility for financing just transitions at scale. Once formed, the new ecosystem of NDBs and MDBs can be extended to incorporate all public banks. To ensure sustainability and accountability, a new Governance Forum needs crafting to democratically hold the global public financial ecosystem. The shape of the ecosystem Governance Forum will require broad-based consultation on how to ensure equal voice and representation as well as democratic decision-making, transparency, and accountability for all.

Pitfall? Reduced climate investment or crowding out of private finance

Conventional economic thinking into public banks, including from the World Bank, has raised concerns over public banks leading to reduced investments or economic growth and, relatedly, to the crowding out of private finance. This earlier conventional work correlating public banks to weaker economic performance has lost forcefulness as new research evidence no such correlation. Moreover, conventional research never accounted for the urgent need to accelerate the pace of investment and improve the quality of financing in response to global development and climate ambitions and just transitions. Rather than focusing on hypothetical crowding out, public policy needs to focus on the crowding in of impact-oriented and patient public finance. This pathway must be guided by democratic, transparent, and accountable public purposes towards just development and climate action.

Capture or corruption of public development and climate finance

Conventional economic thinking points to what is perceived to be the inherent inefficiencies and corruption of public institutions, regardless of their governance frameworks. The sticky bias towards perceived private sector efficiency and superior innovativeness has privileged finance policies enabling private actors over public ones in development and climate finance. The evidence of inherent public bank inefficiency and corruption, however, is overstated. New research shows that public banks are only as good and as effective as society makes them to be – yet accountable, effective, and efficient public banks can be (Marois 2022). To be sure, society must remain vigilant about governing public banks, including through a new global Governance Forum.

Prospect! A global public financial ecosystem fit for development and climate action

The idea is simple, but the prospect significant. Call on existing public NDBs and MDBs to work together to begin making better use of their collective financial capacity, expertise, and global reach to lead global development and climate action. Collaboration between public banks can provide development and climate finance at the pace, scale, and on terms appropriate for positive development and green and just transitions. The tools and mechanisms are already in place, including everything from providing loans, guarantees, grants, technical assistance, project preparation, and equity investments (Marois, Stewart, and Marodon 2023; CPI 2023). At the same time, accountability and democratic governance can be bolstered.

The world's public MDBs and NDBs can be the foundational catalysts behind a new, intentional, and accountable global public financial ecosystem for delivering global public goods, including effective development and climate action. This prospect can be structurally more efficient and viable than indirect enticements for private investors, costly PPP/blending commitments, and non-binding global private finance commitments to align with the 2030 SDGs and Paris Agreement (for example, the basically scuppered GFANZ). The failure of NDBs and MDBs to foster a global ecosystem will see policymakers continue to struggle to realise meaningful development and climate finance commitments and to demonstrate meaningful impacts on sustainable development and just transitions. The future of just development and climate finance can and should be public.

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