Aligning Development Finance with Nature's Needs

The role of government shareholders of development banks

October 2021

FINANCE FOR BIODIVERSITY
Initiative

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About this report

This paper analyses the duties of governments in relation to nature and the supervision Public Development Banks (PDBs). It also appraises the powers available to government shareholders to direct PDB management: to improve risk management practices related to nature dependency; and, to reduce impact on nature.

Comments are welcomed. Please direct these to:
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Acknowledgements

This report has been written as part of the Finance for Biodiversity initiative (F4B) and was produced with support and analysis from Vivid Economics. This research also draws on a database on Public Development Banks published by Finance in Common.

We are also grateful for the comments received from Jeremy Eppel, Rupesh Madlani and Robin Smale.

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About Finance for Biodiversity

F4B's goal is to increase the materiality of biodiversity in financial decision-making and so better align global finance with nature conservation and restoration.

Our work on Development Finance draws from the entirety of our portfolio, which is organised across five workstreams:

- **Market efficiency and innovation:** including a leadership role in the Taskforce on Nature-related Financial Disclosures (TNFD), and support to a number of data and fintech-linked initiatives.
- **Enhanced liability:** focusing on extending the legal liabilities of financial institutions for biodiversity outcomes, such as extended use of anti-money laundering rules.
- **Citizen engagement:** public advocacy and campaigning, and advancing digital approaches to catalysing shifts in citizens' financing behaviour.
- **Public finance:** advancing measures and advocacy linked to stimulus and recovery spending, and the place of nature in sovereign debt markets.
- **Nature markets:** catalysing nature markets by developing new revenue streams and robust governance innovations, including the governance of voluntary carbon markets.

F4B has been established with support from the MAVA Foundation, which has a mission to conserve biodiversity for the benefit of people and nature. F4B's work benefits from partnership with, and support from, the Children's Investment Fund Foundation (CIFF) and the Gordon and Betty Moore Foundation.

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Executive summary

This paper analyses the duties of governments, especially G20 governments, in relation to nature and the supervision of Public Development Banks (PDBs). It also appraises the powers available to government shareholders to direct PDB management: to improve risk management practices related to nature dependency; and, to reduce impact on nature.

Background

Public Development Banks include multilateral development banks (MDBs), bilateral development banks, and national development banks. All PDBs have majority shareholding by one of more governments. MDBs and bilateral development banks invest internationally, while national banks only invest in their home country.

PDB assets are concentrated in a few banks, and shareholding of those banks is concentrated in a few shareholder countries. The eight largest multilateral development banks (MDBs) manage a total of $1.83 trillion of assets, according to a database of 455 development banks.[1] G7 and G20 countries have considerable influence over these banks, with G20 countries holding more than 50% of voting power in seven of these MDBs. G20 members also own nine of the ten largest bilateral development banks, each with over $5 billion in assets, and 10 national banks with development mandates, each with over $30 billion in assets.

The case for action by PDBs

The Finance for Biodiversity Initiative estimated that approximately 40% of development bank portfolios are invested in countries and sectors which are highly dependent on nature, for example through land and water use.[2]

PDBs are exposed to material risks to their balance sheets. These risks from nature dependence and from impact to nature undermine the banks' development mandates. PDB lending is weighted towards resource-intensive countries with high levels of biodiversity and relatively weak regulation, where adverse nature impacts are most likely and where nature is most vulnerable.

In addition to the risk exposure, there is risk to achievement of their mandates; development banks have obligations to pursue the Sustainable Development Goals (SDGs).

While many development banks have adopted some environmental safeguards, they have not aligned their portfolios as a whole with environmental goals, although some are now starting to align on climate change. A review of PDB policies by WWF in 2020 found that 'implementation of biodiversity safeguards is variable and patchy'.[3] Among 98 development banks, less than 25% had an allocation for investments that directly benefit nature.

Powers for governments as shareholders

Shareholder governments are aware of the importance of action by PDBs to achieve their collective climate and nature goals, and some have exhorted PDBs to act. For example, the Nature Compact agreed at the G7 Summit in June 2021 encouraged 'all Multilateral Development Banks (MDBs), International Finance Institutions and Development Finance Institutions to embed nature into their analysis, policy, dialogue and operations, and [...] to increase and mobilise finance for nature.' There is much more that shareholder governments could and should now do to ensure that nature is integrated into the risk management and investment mandates of PDBs. Through the voting power and influence exercised by representatives on the boards and committees of PDBs, shareholder governments can demand the following actions:

1. Direct PDBs to integrate nature and biodiversity into their strategies and investment policies

2. Require PDBs to stress test their balance sheets to quantify nature dependency and nature-related risks;

3. Direct PDBs to disclose nature impact at portfolio and project level;

4. Require PDBs to resource internal capability to manage and mitigate nature risk;

5. Direct PDBs to enhance credit risk assessment and safeguards, including due diligence on nature impact, environmental crime, supply chains, deforestation, and anti-money laundering regulation.

In addition to managing risks, these actions will also help align PDB activities with shareholders' national policy objectives related to nature and biodiversity. Government shareholders should apply the same approach to multilateral, bilateral and national development banks.

Contents

1

INTRODUCTION

This paper analyses the duties and powers of governments in relation to Public Development Banks (PDBs). It examines how shareholders of PDBs might use their powers to promote improvements in risk management practices in relation to nature dependency and alignment of investments with nature-positive goals. It is addressed to policymakers in shareholder governments and board members of PDBs.

A note on terms

The term Public Development Bank (PDB) encompasses a range of institutions with government shareholding, including multilateral, bilateral, national, and sub-national development banks. These banks have public policy-oriented mandates (as opposed to commercial mandates), and deploy financial instruments such as loans, equity, or guarantees (as distinguished from grant-making agencies). A subset of PDBs focused on private sector lending are also known as development finance institutions (DFIs). To avoid confusion, we use the term 'public development bank' in this paper to refer to the broader set of development banks with government shareholders. However, the conclusions are equally relevant to DFIs.

The paper is organised as follows:

Section 2

"Background" explains the duty to align PDB portfolios with nature-positive goals and refers to statements made in recent, or upcoming, G7, G20, and CoP summits.

Section 3

"Options to influence PDB policy" appraises the powers of shareholders to direct PDB management.

Section 4

"Key development banks" presents data on the shareholding, size and mandates of the eight largest multilateral development banks, the ten largest bilateral develpment banks and ten national development banks.

2

BACKGROUND

2.1 The management of nature-related risks and impacts by PDBs

Public Development Banks (PDBs) exist to enable sustainable economic development, but some of their investments also put nature at risk. A recent Finance for Biodiversity Initiative report estimated that approximately 40% of development banks portfolios are invested in countries and sectors which are highly dependent on nature, for example through land and water use.[5] For example, one multilateral development bank has $9.6bn of loans outstanding for agriculture in Asia, a sector that also accounts for nearly three quarters of water use in the region.[6] Without adequate safeguards, these financed projects could be causing deforestation and water scarcity. G7 and G20 countries, which have combined shareholdings of 46% and 75% respectively in this bank, have the powers to demand strong safeguards and nature-positive investments.

The associated nature risks and impacts stemming from PDB activity demand a high level of engagement from shareholder governments. PDBs have made progress on measuring, reporting and aligning their climate risk and impact. They now need similarly to strengthen their approach to nature.

There are reasons for governments to act now:

• Nature dependency and impact confers risks to PDB loan portfolios. Examples include investments in agriculture, forestry, fisheries and construction, which have high dependency on nature, according to research published by WEF and PWC.[7]

• Certain investments have high impacts on nature, for example through deforestation, unsustainable water use and pollution, which run counter to the sustainable development mandates of the PDBs and their shareholder governments.

A recent assessment published by WWF[8] highlights gaps in PDB policies towards nature. It found that when PDBs conduct Environmental Impact Assessments, the 'implementation of biodiversity safeguards is variable and patchy', with various degrees of robustness based on the type of institution, as shown in Table 1 below. It also found that among 98 development banks, less than 25% had an allocation for investments that directly benefit nature.

Table 1: Summary of existing PDB policies towards nature

TIER **Typically (though not always) includes:**	**C** **Smaller PDBS / National and Sub-National banks**	**B** **Mid-sized PDBS / Regional and bilateral banks**	**A** **Larger PDBS / The mobs, some bilateral banks with public-sector focus**
Summary of current status			
Mainstreaming and commitments	No consideration of nature	General invironmental commitments	Biodiversity commitments, climate targets
Safegards for biodiversity	Relies on regulatory EIA	Applies PS6 or own framework, but with limited supporting structures or capacity	Applies PS6 or own framework, with relatively robust structures or capacity
Investments in nature	None	Very few, not policy driven	Low-level but increasing, policy driven

Source: WWF & Biodiversity Consultancy, 2021. Public Development Banks and Biodiversity

2.2

Recent commitments by shareholder governments

Shareholder governments have already made commitments to engage more closely with development banks, in order to embed nature into their strategies. For example, in June 2021, the G7 Leaders' Summit adopted the G7 2030 Nature Compact, which calls for a range of ambitious actions that, in total, aim to lift nature to the political status of climate change, acknowledging that the two crises cannot be solved independently of one another. The Compact commits to 'Encouraging all Multilateral Development Banks (MDBs), International Finance Institutions and Development Finance Institutions (PDBs) to embed nature into their analysis, policy dialogue and operations: we call on MDBs and PDBs to increase and mobilise finance for nature; and MDBs to sign a Joint Statement on nature ahead of COP26 as appropriate. This will complement MDB efforts to align with Paris Agreement goals.'[9]

The G7 Leaders Communiqué further reads: 'We welcome efforts of the MDBs to scale up their climate and nature finance, urge them to mobilise increased finance including from the private sector, and call on them, Development Finance Institutions (PDBs), multilateral funds, public banks and relevant agencies to publish before COP26 a high-level plan and date by which all their operations will be fully aligned with and support the objectives of the Paris Agreement and the multilateral environmental agreements we support.'[10]

COP 26 will include a focus on Nature Based Solutions as an opportunity to address multiple challenges. The UK, holding the COP26 Presidency, has signalled its endorsement of the Dasgupta Review on *The Economics of Biodiversity*[11] and has called on MDBs to mainstream nature across their portfolios.[12]

Shareholder governments should now do more. They should use the powers at their disposal to require PDBs to take specific actions to embed nature into their strategies, policies, investment plans, safeguards and risk management practices, including stress testing at portfolio level.

2.3

Actions being taken by financial institutions

Financial institutions are ramping up their engagement and their actions on nature. Recent examples include:

• Under the Finance for Biodiversity Pledge, 75 financial institutions representing over €12 trillion of assets under management, have committed to assess the impact of their financing operations on biodiversity, to set targets and to report progress publicly.[13]

• More than 55 financial institutions support and are actively contributing to the emerging Taskforce for Nature-related Financial Disclosures (TNFD), which was endorsed by G7 Finance Ministers.

• In October 2020, the world's biggest asset manager, BlackRock, joined a shareholder action, demanding that the world's biggest consumer goods corporation, Procter & Gamble, specifically measure and report its impact on forests.

Shareholders can ask PDBs to participate in the TNFD and follow its recommendations. In particular, the TNFD has convened a Development Finance Hub, which will coordinate PDB-related activities.[14] The TNFD follows the framework of the Taskforce for Carbon-Related Disclosures (TCFD), which is now supported by over 1,500 companies, including 60% of the world's largest 100 companies.[15] PDBs can prepare to integrate nature into their operations using a similar framework, laid out in the TNFD Technical Scope document.[16]

In addition, some PDBs run initiatives relating to nature in their strategy-making, research and investment processes. Examples include:

Examples of relevant commitments by PDBs include:

- The Inter-American Development Bank (IDB) has created a Natural Capital Lab to test new models in natural capital finance. IDB is also releasing an open-source version of its economic-environmental modelling platform (IEEM).[17]

- The European Bank for Reconstruction and Development (EBRD) is developing an approach for the valorisation of natural capital, which can integrate the economic and societal value of ecosystems and the services they provide in the bank's decision-making[18]

- The French Development Agency (Agence Française de Développement, or AFD) has allocated 30% of its climate funding to benefit biodiversity directly, reaching €1 billion by 2025.[19]

Additional examples are discussed in a benchmarking report published by the International Development Finance Club (IDFC).[20]

PDBs can adopt emerging practices and lead by example. Shareholder demands can cause PDBs to accelerate these efforts.

3

INFLUENCING AND DIRECTING PDB POLICY ON NATURE

A range of powers is available to shareholders to influence and direct PDBs' approach to nature.

3.1 Governance arrangements of PDBs

Development banks typically have the following governance structures with representatives from shareholder governments:

Board of Directors

Boards of Directors typically have the power to approve investments, strategic plans and operational policies. In the case of multilateral banks, countries with significant shareholding appoint their own Director, giving them a stronger voice. Countries with fewer shares form a constituency and elect a director, usually from the country which has the most shareholding.

Board of Governors

Boards of Governors generally have less power to influence strategy, but they play an oversight role, including with respect to credit risk. In multilateral development banks, each member country has one appointed representative on the Board of Governors.

Audit/risk committee

This committee is independent from bank management and is appointed by the Board of Governors or is formed from the board of Governors.

Development impact committee

Where it exists, this committee oversees impact and sustainability reporting. In some development banks it is staffed by board members who represent shareholder countries.

Government shareholders may use the powers vested in them as members of these boards and committees. The channels open to them depend on the nature of their shareholding. Section 4, below, details the shareholding of 19 countries in 28 key development banks.

Broadly speaking, national governments will have one of the following relationships with each development finance institution:

1 A controlling shareholding of a bilateral or national development bank

In these cases, a shareholder government can set investment objectives for the bank in line with national policy and can exercise oversight via a Board Chair or other functions appointed by Ministers of Finance or Development.

2 Shareholder with a seat on the Board of Directors of an MDB

In the case of multilateral banks, shareholder governments have voting rights proportional to their subscribed capital. The largest shareholders (typically over 5% of shares) also have the right to appoint a Director, who participates in Board meetings, committees and casts votes on behalf of the shareholder. Shareholders collaborate with allies to support new proposals; one country cannot unilaterally push for change. For example, within the EBRD, no country has more than 10.5% of shares, but G7 members together have 56.5% of shares.

3 Shareholder without a seat on the Board of Directors of an MDB

Smaller shareholders cannot directly appoint Directors but can elect Directors in combination with other countries. All shareholder countries usually have a representative on the Board of Governors. Through their oversight role, Governors can advance a bank's risk management and transparency. This provides several options to demand the assessment of nature-related risks, as discussed below.

4 Non-shareholder investor

Non-shareholders might be able to secure transparency data and nature-related disclosures through the Investor Relations teams of PDBs. These teams prepare comprehensive financial statements not only to account for how public funds are used, but because they raise additional capital from private investors and receive ratings from credit agencies such as Moody's or Standard & Poor's.

3.2

Potential objectives for engagement

Through representation on boards and committees, shareholder governments can direct PDBs to pursue several objectives, such as increasing the strategic focus on nature, conducting stress tests of nature-related risks, improving transparency, and strengthening risk management practices. These are described below and then summarised in Table 2.

Objective 1: Direct PDBs to integrate nature and biodiversity into their strategies and investment policies

Nature is already part of PDB mandates through their development and SDG objectives. To give nature priority in a PDB strategy, a shareholder or investor could ask for it to be specifically referenced in the PDB's asset allocation, investment policy, risk management and reporting. Such activities to 'mainstream' nature[21] are also referenced in the G7 Nature Compact, where G7 shareholders committed to ask PDBs to 'embed nature into their analysis, policy dialogue and operations.'

PDBs' recent efforts to develop climate-related strategies and capabilities can also be used to accelerate progress on nature. This was best summarised by an environmental finance manager at an MDB, who said: 'We need to condense what we did for climate change in last 10 years and do it again for biodiversity.' In addition, there is an opportunity to fund nature-based solutions as part of PDB's existing programmes on climate change adaptation.

Objective 2: Require PDBs to stress test their balance sheets to quantify nature dependency and nature-related risks

Through representatives on boards or on audit and risk committees, shareholders can demand that a PDB conducts nature-related stress tests of its balance sheet. The bank would then conduct a systematic review of its portfolio through a nature risk lens.

The bank's risk management staff would identify high-risk projects and monitor them regularly. They might commence by using Finance for Biodiversity's methodology, which allows a first-pass assessment of nature-related risks on PDB balance sheets to be created, using readily available data.[22]

Objective 3: Direct PDBs to disclose nature impact at portfolio and project level

Shareholders can direct PDBs to improve transparency by publishing lists of financed projects, environmental impact assessments, and reports on nature impacts across the portfolio.[23]

To complement PDBs' own analyses of nature-related risks, shareholders and civil society actors should also demand access to public interest data including lists of financed projects, and environmental impact assessments. Ideally, this should be published in the standard format used by other members of the International Aid Transparency Initiative (IATI).

Even small shareholders and members of the public can make specific demands relating to disclosure, for example by requesting a list of project sites along with GPS coordinates, which can be checked against protected areas and sites of high importance for nature. This could reveal investments in locations with a high risk of deforestation. Once published, this type of information opens new pathways to engage PDBs and to hold them to account.

Objective 4: Ensure PDBs resource internal capability to manage and mitigate nature risk
Once nature-related objectives are reflected in a PDB's strategy and policies, success in implementation depends on PDB staff. As funders of PDBs, shareholders can provide additional funding to resource environmental impact assessment teams, to ensure they have the right tools to conduct biodiversity assessments, and sufficient staff to follow on mitigation measures. Due to the international remit of multilateral and bilateral PDBs, it may also be appropriate for shareholders to fund capacity building activities in the countries where those PDB-financed projects take place.

Shareholders can also review whether the organisational structure of a PDB supports its overall nature strategy. Questions they might ask include: Are the biodiversity experts 'siloed' in the agriculture team, or do they work across sectors? Are nature experts involved in originating investment opportunities, or just in assessing impacts? Do finance risk teams have the right tools to consider nature-related risks?

Objective 5: Direct PDBs to enhance credit risk assessment and safeguards
As shown in Table 1 (page 9), most PDBs have already implemented some environmental safeguards. Shareholders can demand that safeguards are strengthened by including performance standards and adding exclusions. Example exclusions include: any projects resulting in deforestation, degradation of critical habitats, logging in forests that are not sustainably managed, production of pesticides, drift net fishing, transboundary movement of waste, or fossil fuel extraction.

In addition to safeguards, shareholders can demand that PDBs expand their due diligence activities on environmental crime, supply chains, deforestation, and anti-money laundering regulation.

The objectives and activities discussed above are summarised in table 2 below.

Table 2: Objectives which can be pursued by PDB shareholders

Objective	Activities
1. Prioritise nature in overall strategy	• Align PDB mandates and policies to the shareholders' international and national commitments on nature (G7, G20, COP). • Set funding targets for nature-positive investments, conservation projects, and/or nature-based solutions. • Leverage climate-related funding for nature-based solutions.
2. Stress testing	• Conduct an annual, comprehensive assessment of nature-related risks across the investment portfolio and the wider balance sheet.
3. Improved disclosures	• Increase public transparency on investments by publishing portfolio data at the project level, including nature-related risk assessments. • Disseminate project-level data in a standard format through the International Aid Transparency Initiative (IATI).
4. Improved internal resourcing	• Provide additional resources to environmental impact assessment teams, to ensure they have the right tools to conduct biodiversity assessments, and sufficient staff to follow on mitigation measures.
5. Enhance safeguards and risk management	• Implement safeguarding criteria for biodiversity and exclusions. • Review the credit risk assessment process to ensure that it assesses nature-related risks and impacts. This engages personnel from the risk management function of the bank, which provides an additional level of scrutiny.

This section has explained the principal powers of PDB shareholders and demands they might make. These are summarised in Table 3 below.

Table 3: Objectives and channels available to PDB shareholders

OBJECTIVES	Directors	Governors	Audit/risk committee	Development impact committee
1. Prioritise nature in overall strategy	✓	✓		
2. Stress testing	✓	✓	✓	
3. Improved disclosures	✓	✓	✓	✓
4. Improved internal resourcing	✓			
5. Enhance safeguards and risk management	✓	✓	✓	✓

4

KEY DEVELOPMENT BANKS

This section shows the shareholdings of the world's largest PDBs, identifying countries and groups of countries which control and influence PDBs. The analysis focuses on 28 development banks which account for $7.6 trillion of assets.

The section is organised as follows:

Section 4.1
presents a summary of PDB assets and shareholdings for G7 and G20 countries;

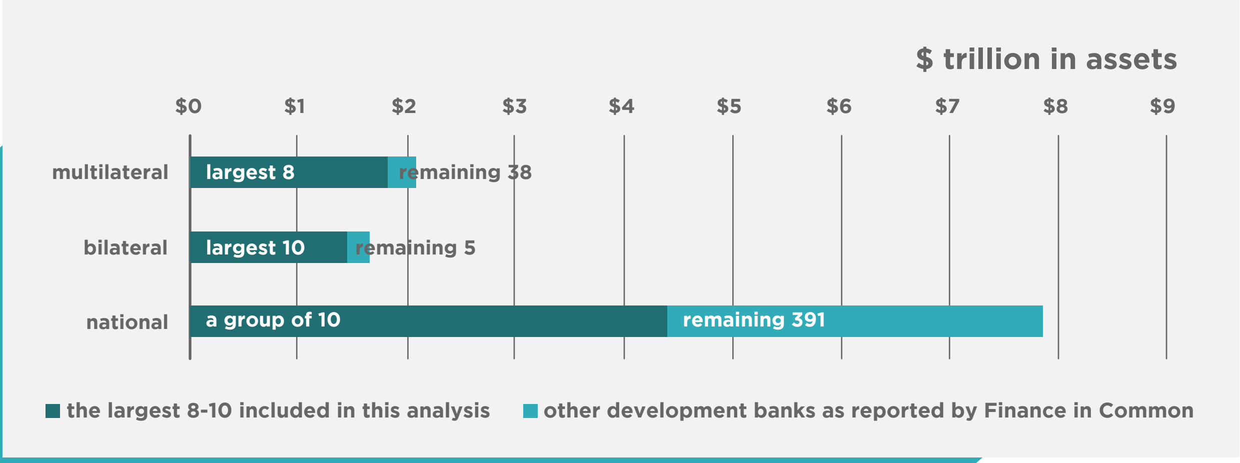
Section 4.2
breaks down the shareholdings of the eight largest MDBs;

Section 4.3
shows the shareholdings of ten bilateral development banks;

Section 4.4
lists the shareholdings of the largest ten national banks with a development mandate.

The 28 banks in the analysis account for over 66% of global development bank assets. Figure 1 shows the total assets of the 455 public development banks in the Finance in Common database, along with the 28 development banks included in this analysis.

Figure 1: Concentration of assets among public development banks



Source: Finance in Common - Public Development Banks Database[24]

4.1

Summary of PDB assets by member of G7 and G20

Through their ownership of PDBs, G7 and G20 countries control or influence over $6 trillion of assets, as shown in Table 4 below.

Table 4: Value of PDB assets allocated by shareholding, $billion

	Assets in 8 multilateral development banks ($bn)	Assets in 10 bilateral development banks ($bn)	Assets in 8 national development banks ($bn)	Total ($bn)	G20 rank
G7 countries					
Japan	$100	$276	$347	$7237	2
Germany	$183	$561	-	$744	3
Italy	$162	$487	-	$649	4
France	$173	$49	-	$222	7
US	$188	$10	-	$197	8
UK	$46	$7	-	$154	12
Canada	$40	-	-	$40	14
G7 total	**$891**	**$1,390**	**$347**	**$2,628**	
Rest of G20					
China	$41	$40	$3,349	$3,430	1
Korea	$20	-	$233	$252	5
Brazil	$29	-	$207	$236	6
Saudi Arabia	$20	-	$130	$150	9
India	$34	-	$70	$104	10
Russia	$15	-	$48	$64	11
Mexico	$18	-	$30	$48	13
Argentina	$23	-	-	$23	15
Australia	$22	-	-	$22	16
Indonesia	$17	-	-	$17	17
South Africa	$7	$6	-	$13	18
Turkey	$8	-	-	$8	19
EU	N/A	N/A	N/A	N/A	N/A
G20 total	**$1,148**	**$1,436**	**$4,413**	**$6,998**	

Note - the above table includes: (i) multilateral development banks: EIB, World Bank, IDA, ADB, IADB, IFC, EBRD, AfDB; (ii) bilateral development banks with assets over $5billion (not all assets represent international development activity, as shown in table 4); and, (iii) 10 of the largest national development banks, selected to include those with a development mandate, but excluding export-import banks, state-owned pension funds, local (sub-national) development banks and national banks whose mandate is to provide funding exclusively to other public bodies.

Source: Vivid Economics analysis, Finance in Common Public Development Banks Database[25], development bank websites.

The control of PDBs is concentrated among a few shareholder countries, with G20 countries owning more than 50% of shares, individually or collectively, in 26 of these 28 banks. China, Japan and Germany have large shareholdings, with over $700 billion each, but China's total assets exceed those of the G7 combined ($3.43 trillion versus $2.62 trillion).

Japan, Germany and Italy also control $1.6 trillion in assets through bilateral and national banks that have an international cooperation mandate. This is concentrated in just four banks (Kreditanstalt für Wiederaufbau (KfW), Cassa de Depositi e Prestiti, Japan Bank for International Cooperation, Japan International Cooperation Agency). These are discussed in sections 4.3 and 4.4. below.

Among multilateral development banks (EIB, World Bank, IDA, ADB, IADB, IFC, EBRD, AfDB), the largest shareholdings are held by four countries: US, Germany, France and Italy. These four countries together hold over $700 billion of MDB assets.

This high concentration of shareholder power means that relatively few shareholder countries can direct the nature-related policies of PDBs. The following sections provide a breakdown of shareholding for 28 key development banks, allowing G7 or G20 members to identify potential opportunities for collaborative action.

4.2

Multilateral development banks

Through their votes as shareholders, G20 members collectively have board control over seven multilateral development banks (MDBs) with $1.83 trillion of assets on their balance sheets. The mandates of these institutions focus on economic development, as shown in table 5. Within this mandate, shareholders can ask for priority to be given to climate and nature.

Table 5: Summary of the 8 largest multilateral development banks

Institution	G7 total shares	G20 total shares	Assets ($m)	Mandate or key objectives
European Investment Bank (EIB)	56.3%	56.3%	$692,615	'to contribute, through the financing of investments, to the integration, balanced development and economic and social cohesion of the EU.' The EIB has also invested €78 billion outside the EU, of which €26.6 billion has gone to Africa.
World Bank (IBRD)	42.6%	67.3%	$403,056	'to end extreme poverty, by reducing the share of the global population that lives in extreme poverty to 3% by 2030.' 'to promote shared prosperity, by increasing the incomes of the poorest 40% of people in every country.'
International Development Agency (IDA)	39.2%	55.5%	$201,591	'to provide financing on highly concessional terms to governments of the poorest countries.'
Asian Development Bank (ADB)	46.8%	75.7%	$191,860	'to promote economic growth and cooperation in the Asia-Pacific Region.'
Inter-American Development Bank (IDB)	45.7%	75.7%	$129,459	'to foster the economic and social development of the IDB's borrowing member countries, both individually and collectively.' (key objectives: reducing poverty and inequality and achieving sustainable growth.)

Institution	G7 total shares	G20 total shares	Assets ($m)	Mandate or key objectives
International Finance Corporation (IFC)	48.9%	71.8%	$94,272	'to advance economic development and improve the lives of people by encouraging the growth of the private sector in developing countries.'
European Bank for Reconstruction and Development (EBRD)	56.5%	62.0%	$70,853	'to promote transition to well-functioning market economies, by financing projects and conducting policy dialogue in 38 countries [...]'
African Development Bank (AfDB)	32.2%	41.2%	$46,960	'to contribute to the sustainable economic development and social progress of its regional members individually and jointly.' (Poverty reduction and development are central goals, with water given high priority in the Strategic Plan)

Source: MDB websites, Vivid Economics analysis.

A feature of MDBs is that initial paid in capital has been used to grow the balance sheet. A case in point is the IFC, where an initial subscription from member countries of $21 billion has been leveraged to run an investment portfolio that is twice the size of the initial subscription, as well as a liquid asset portfolio that is nearly twice the size of the initial subscription.[23] Member countries can make demands relating to the combined portfolio, which is $100 billion of assets in the case of ICF. Table 6 shows the distribution of MDB shareholding among G20 countries.

Table 6: Breakdown of shareholding in multilateral development banks

	EIB	IBRD	IDA	ADB	IDB	IFC	EBRD	AFDB
Assets ($m)	$692,615	$403,056	$201,591	$191,860	$129,459	$94,272	$70,853	$46,960
G7 countries								
Canada	0.0%	2.9%	2.7%	5.2%	4.0%	3.1%	3.4%	4.4%
France	18.8%	4.0%	3.8%	2.3%	1.9%	4.6%	8.6%	4.3%
Germany	18.8%	4.5%	5.3%	4.3%	1.9%	5.5%	8.6%	4.8%
Italy	18.8%	2.7%	2.3%	1.8%	2.0%	3.3%	8.6%	2.8%
Japan	0.0%	7.9%	8.4%	15.6%	5.0%	6.3%	8.6%	6.3%
UK	0.0%	4.0%	6.8%	2.0%	1.0%	4.6%	8.6%	2.1%
US	0.0%	16.8%	10.0%	15.6%	30.0%	21.7%	10.1%	7.6%
G7 total	**56.3%**	**42.6%**	**39.2%**	**46.8%**	**45.7%**	**48.9%**	**56.5%**	**32.2%**
Balance of G20								
Argentina	0.0%	1.1%	1.4%	0.0%	11.4%	1.6%	0.0%	0.1%
Australia	0.0%	1.4%	1.3%	5.8%	0.0%	2.0%	1.0%	0.0%
Brazil	0.0%	2.2%	1.6%	0.0%	11.4%	2.1%	0.0%	0.2%
China	0.0%	5.3%	2.3%	6.4%	0.0%	2.4%	0.1%	1.4%
India	0.0%	3.1%	2.9%	6.3%	0.0%	3.9%	0.0%	0.3%
Indonesia	0.0%	1.0%	0.9%	5.4%	0.0%	1.2%	0.0%	0.0%
Korea	0.0%	1.7%	1.0%	5.0%	0.0%	1.1%	0.0%	0.6%
Mexico	0.0%	1.6%	0.5%	0.0%	7.3%	1.2%	0.2%	0.0%
Russia	0.0%	2.7%	0.3%	0.0%	0.0%	3.9%	0.0%	0.0%
Saudi Arabia	0.0%	2.7%	3.3%	0.0%	0.0%	2.3%	0.0%	0.2%
South Africa	0.0%	0.7%	0.3%	0.0%	0.0%	0.7%	0.0%	5.9%
Turkey	0.0%	1.2%	0.6%	0.3%	0.0%	0.6%	1.2%	0.5%
EU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	0.0%
G20 total	**56.3%**	**67.3%**	**55.5%**	**76.0%**	**75.7%**	**71.8%**	**62.0%**	**41.2%**

Note: For IDA and AfDB, voting power figures are used instead of shareholding.
In general, voting power and shareholding percentages differ by less than one percent.

Source: MDB websites, analysis by Vivid Economics

4.3

Bilateral development banks

While the eight largest MDBs manage $1.83 trillion in assets, the ten largest bilateral development banks manage $1.44 trillion. The bilateral development banks can play a leadership role, nimbly responding to the demands of their single country government shareholder. G20 countries manage nine out of the ten largest bilateral development banks, each with over $5 billion of assets. Table 7 lists the bilateral development banks. Domestic and international finance are included in the figure for total assets, as both activities have potential impacts on nature.

Table 7: Bilateral development banks with assets over $5 billion

Country	Institution	Acronym	Total assets ($m)	Intl dev't investments &loans($m)
Germany	Kreditanstalt für Wiederaufbau (KfW)[27]	KfW	$560,899	=$70,000
Italy	Cassa de Depositi e Prestiti[28]	CDP	$486,953	$15,046
Japan	Japan Bank for International Cooperation[29]	JBIC	$164,172	$81,813
Japan	Japan International Cooperation Agency[30]	JICA	$111,917	$111,917
France	Agence Française de Développement	AFD	$49,107	$49,107
China	Silk Road Fund	SRF	$40,000	$40,000
Netherlands	Dutch Entrepreneurial Development Bank	FMO	$9,726	$9,726
USA	International Development Finance Corporation	DFC	$9,632	$9,632
UK	Commonwealth Development Corporation	CDC UK	$7,488	$7,488
South Africa	Development Bank of Southern Africa[31]	DBSA	$6,202	$2,481
Total			**$1,446,096**	**=$400,000**

Note: A further $212 billion in overseas finance has been provided by China Development Bank (CDB)[32]. CDB has a primarily national remit and is therefore listed in Table 8 below.

Source: Finance in Common Public Development Banks Database, annual reports of PDBs

4.4

National development banks

The majority of PDBs have an exclusively national, or subnational remit. Of the 452 development banks in the Finance in Common dataset[33], approximately 390 (86%) have a national or subnational remit, accounting for 56% of total PDB assets (see Figure 1 above). Of these 390 national development banks, 10 banks owned by G20 countries account for 56% of all the assets, as shown in Table 8 below. The alignment of these banks' policies with nature would have a substantial impact.

Table 8: National banks with a development mandate

Country	Institution	Acronym	Assets ($m)
China	China Development Bank	CDB	$2,352,293
China	Agricultural Development Bank of China	ADBC	$996,287
Korea	Korea Development Bank	KDB	$232,520
Brazil	Banco Nacional de Desenvolvimento Econômico e Social	BNDES	$206,787
Japan	Japan Finance Corporation	JFC	$192,210
Japan	Development Bank of Japan	DBJ	$154,512
Saudi Arabia	National Development Fund of Saudi Arabia	NDFSA	$130,000
India	National Bank for Agriculture and Rural Development	NABARD	$70,101
Russia	VEB.RF – State Development Corporation	VEB	$48,467
Mexico	Nacional Financiera	NAFIN	$29,676
Total			**$4,412,853**

Source: Finance in Common Public Development Banks Database

The mandates of these banks include funding infrastructure projects, providing credit to private sector businesses, providing export/import credit, providing credit to public sector institutions, or investing on behalf of state-owned pension schemes.

5

CONCLUSION

Development finance institutions control over $11.4 trillion of financial assets, with 66% of these assets being held by 28 development banks. G20 countries collectively own more than 50% of shares in 26 of these 28 banks.

It is because PDB assets are concentrated in a few banks, and the shareholding of those banks is concentrated within a small group of countries, that these countries bear a disproportionate amount of the nature-related risks associated with these investments; that they have duties to supervise the risk; and that they also have a duty to direct the impact of their funds. Alongside these duties, they have the power to direct and the right to reporting.

G7 leaders have already pledged to encourage development banks to 'embed nature into their analysis, policy dialogue and operations' and UNFCCC COP26 is likely to lead to further commitments.

Shareholder governments have powers to instruct their appointed representatives on the boards and committees of PDBs to demand nature-related disclosures, nature-positive investment commitments, risk management and staff resources to be deployed in this area. In some cases, small groups of several influential shareholders can reach 30-40% of voting power and secure nature-related commitments through their appointed Directors. Smaller shareholders without a direct voice on the Board of Directors can engage directly through their voice on the Risk and Sustainability committees of these banks.

Much of the focus will be on multilateral development banks, which have an explicit development mandate and control $2.1 trillion of assets. Governments should also give their attention to national and bilateral development banks, who control a further $9.3 trillion of assets globally. Here, they individually wield greater power and responsibility and can individually seek the alignment of banks' policies, processes and disclosure with national policy objectives related to nature and biodiversity.

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https://www.gov.uk/government/speeches/the-importance-of-development-banks-raising-climate-ambition-ahead-of-cop26

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[14] https://tnfd.global/news/taskforce-on-nature-related-financial-disclosures-announces-executive-director-secretariat-and-administration-bodies/

[15] https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

[16] https://tnfd.info/publications/proposed-technical-scope-recommendations-for-the-tnfd/

[17] https://blogs.iadb.org/sostenibilidad/en/developing-tools-for-valuing-natural-capitals-contribution-to-economic-well-being-open-ieem/
The IEEM enables assessment of economic impacts of public policy and investment in terms of gross domestic product and employment, but also on natural capital including forests, fisheries and water.

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At September 30, 2020, the IFC reported the following in its financial statements:
- $25,797m total capital, of which $21,059m was subscribed from its members and the remainder a balance of retained earnings.
- $42,479m total investments, of which $25,149 were loans and the remainder equity investments and debt securities
- $99,807m total assets, which in addition to the investments made under its mandate, also include a net $40,245m from a liquid asset portfolio

[27] KfW Group does not report its total loans outstanding for its development finance arm. However, new 2019 commitments were €10.6 bn or 13%, which suggests the overall development finance portfolio is €50-100 bn.
https://www.kfw.de/KfW-Group/About-KfW/Reporting-Portal/Annual-Report/

[28] CDP has total assets of €512 billion, but most of this consists of holdings in state enterprises. For the purposes of quantifying CDP's footprint as a development finance institution, we only include €8,055 million of international financing loans from CDP Corporate and €3,000 million of new funding for international cooperation (total $15,046 million).
Source: CDP Annual Report 2020. https://www.cdp.it/resources/cms/documents/CDP-Annual-Report-2020_ENG.pdf

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Figure used: "Overseas Yen Loan and Domestic Loans Transferred Overseas"

[30] In 2019, "Finance and Investment Cooperation" accounted for 19% of new JICA commitments. However, these development loans account for almost the entirety of the assets on the balance sheet, or ¥12,614,846 for the year ended March 31, 2020. https://www.jica.go.jp/english/publications/reports/annual/2020/c8h0vm0000fc7q2b-att/2020_all.pdf

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https://www.dbsa.org/solutions/financing "40% of the investment book is geared towards infrastructure in Rest of Africa."

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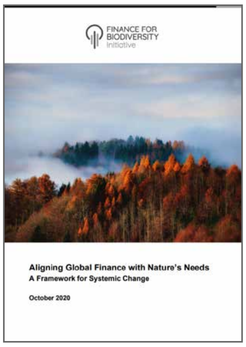

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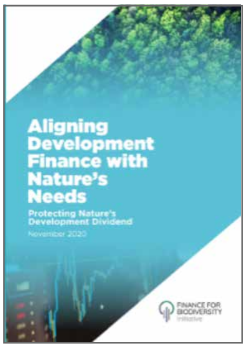

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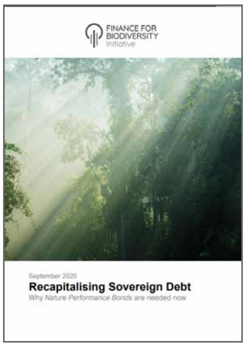

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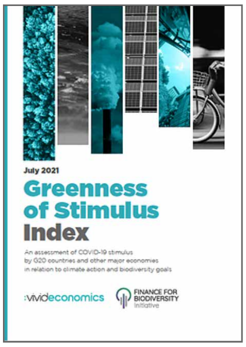

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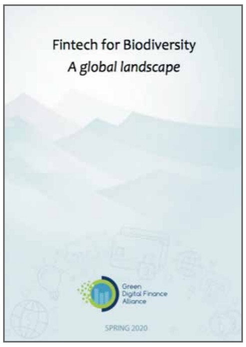

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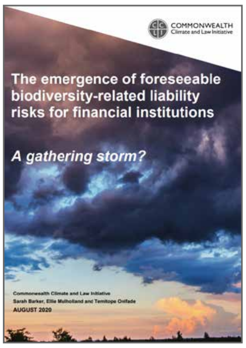

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