Chapter 9
The Role of Development Banks in Green Finance and Sustainability

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ABSTRACT

The development banks (DBs) contribute to a broader aspect of the financial system, rather than private banks that serve more specific areas in retail, wholesale, and investment needs. In this chapter, the author discusses how DBs work to support the implementation of the United Nations Sustainable Development Goals (SDGs) by providing financing for sustainable infrastructure, renewable energy, climate change adaptation and mitigation, and biodiversity conservation. They also help countries to build resilience to the impacts of climate change and environmental degradation. It is very critical to support sustainable economic development in various parts of the world, especially advanced and developed economies who are the major polluters. Therefore, development banks perform an important role in the contribution and achievement of public policy objectives through green and sustainable finance. The author concludes with his thoughts on existing regulations, programs, and incentives and further recommendations to support and build a more sustainable future.

1. INTRODUCTION

Promoting green finance (WEF, 2020) and sustainability requires the involvement of central banks and development banks through a variety of mechanisms, such as incentivizing the use of renewable energy and implementing policies to encourage sustainable banking practices. While central banks play key roles in ensuring financial stability and in shaping the regulatory landscape of financial services, development banks are a major promoter of economic development. DBs are important players in promoting sustainable finance and helping to mobilize private sector investment towards sustainable development

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goals. Along with the need to support sustainable economic development in many parts of the world, green and sustainable finance are closely related to public policy objectives for both types of banks.

2. THE ROLE OF DEVELOPMENT BANKS

Development banks are public financial institutions tasked (usually) with promoting socio-economic development in a country, region or worldwide. Both developed and developing countries benefit from development banks' efforts to promote economic development by providing financing and advisory services and capacity-building programs to clients and sectors where commercial banks and local capital markets do not adequately meet their financial needs. Clients typically include SMEs, large private corporations and public bodies.

Development banks vary widely in scale and can take a number of different forms:

- **Multilateral Development Banks (MDBs)**

These institutions are owned by sovereign states, who are their shareholders. They often include developing countries in their remits, reflecting the development and cooperation policies established by these states. Among the MDBs are the World Bank, the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Asian Infrastructure Investment Bank (AIIB).

- **National Development Banks (NDBs)**

National Development Banks (NDBs) are financial institutions that are owned and controlled by the government. Their primary objective is to offer financing for the economic growth of the country, particularly for projects that promote industrialization, infrastructure development, and social welfare. NDBs often focus on providing funding to SMEs, as well as to projects in underdeveloped regions of the country. Some national development banks also provide financing for international development. NDBs tend to have in-depth local knowledge, relationships with, and understanding of, domestic policy and markets. Examples of NDBs include the China Development Bank, European Investment Bank, the Scottish National Investment Bank (SNIB) and the German KfW.

- **International Organizations**

There are international organizations that support the green movement such as the Global Green Growth Institute (GGGI). The GGGI is a global intergovernmental organization that supports and promotes robust, inclusive, sustainable growth. For example, in 2021, the Republic of Korea (ROK) established the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) within the GGGI, which includes Brunei Darussalam, Indonesia, Malaysia, and the Philippines. The aim of this partnership is to promote inclusive and balanced growth in the Southeast Asia region and promote ASEAN connectivity by enhancing partnerships between the BIMP-EAGA and the Republic of Korea.