



Reclaiming Development

Pathways for
Public Development
Finance in the
Indo-Pacific

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Contents

Abstract	4
Introduction	5
I. Development, Sustainability And ‘Goeconomics’ In The Indo-Pacific	9
II. Creating A Sustainable Development Narrative In The Indo-Pacific: Actors And Themes That Matter	15
III. A Sustainable Indo-Pacific Agenda: SUFIP Takeways	26
IV. The Way Forward: Report Recommendations	32
About the Authors	38

Abstract

This report hopes to inform and contextualise the needs for sustainable finance in the Indo-Pacific and to nurture ongoing discussions supporting this agenda. The report examines the intertwining nature of the sustainability and security agendas in the Indo-Pacific, and identifies the need for a politics of sustainability in the region. It also analyses the roles that public development banks and their partners are playing in the region, the shared themes in their interventions, and possibilities for alignment of their mandates, actions, principles, and norms. Finally, it discusses the SUFIP Conference (Sustainable Finance in the Indo-Pacific) and lays down the main conclusions and next steps on the Indo-Pacific's sustainability agenda. The SUFIP illustrates an important move towards consolidating a common agenda for a sustainable future in the region.

Introduction

Samir Saran
President, ORF

We hope SUFIP, the first conference on Sustainable Finance in the Indo-Pacific in Paris, was the beginning of consolidated efforts to reclaim development as the centrepiece of our conversation on Indo-Pacific. In the recent times, that region has been in the news for other matters, largely security related. This is both a maritime domain and a continental landmass, which seeks cooperation and collaboration dedicated to fulfilling the aspirations of its young population and, of course, the growth potential that exists within the region. And we hope that such work—the conference in February 2022 in Paris and now the publication of this report at the Raisina Dialogue—could create that impulse.

I have three points to make:

- First, to some extent, the Indo-Pacific is ground zero for the global response to climate change. We cannot win the battle against climate change and global warming unless we get the architecture of the Indo-Pacific right, if we are not able to invest in the right infrastructure, to build the right kind of economies, and if we are not able to reach the aspirations and dreams of the billions who live there.

What we are discussing in this report is a global project that seeks to respond to the climate imperative.

- In many ways, we are looking at a global moral project. None of us should be able to sleep well at night if such kind of poverty and misery exist in the world, as it does in this vast region. We must make sure that what we were not able to do in the last century, we are able to complete in this decade. We must work together to be creative in delivering development finance, through public development banks, private capital, and philanthropy to key essential geographies that seek our assistance and, more importantly, our partnership. I come from this region, and we have seen progress made. We have seen recent efforts made to deliver results, but we have also seen the pandemic push us back. We all need to refocus and redouble all our efforts post-pandemic so that we can continue the road to growth, resilience, and sustainability that we have promised to so many by 2030.
- Third, unless we are not able to get two elements right—the green response and the development response—we will not be able to respond to the political challenges of the region. Therefore, I have always argued that development policies are deeply political. We must get development policy right, we must get climate responses policies right. If we get these two policies right, we will be investing towards sustainable and resilient societies, communities, countries, and indeed the region.

Therefore, I think there is a political imperative today to rethink how we need to address this very important and urgent task. Let me suggest three ideas alongside with this report. All know that we never had larger pool of savings in the world and yet we know there is also a great development finance gap. What is preventing us from using this large amount of capital for climate finance and development? Is it regulation, or regulatory laziness? Is it a lack of creativity, a lack of political will, or a lack of collaboration? We must find the answer soon, because there is a large amount of capital that we should deploy to geographies that offer answers to questions related to climate, development, and growth. Second, we still need to work how we work with private sector. Development finance is critical, but it must bring private capital, which is larger. It is imperative to find this for building the new collaboration that could open the floodgates of green finance to many geographies that require it. Finally, how do we chronicle some of the success stories? We all hear about the failures, but we are not necessarily listing what has gone right. It is important that this region start building its own stories of transformation that are shared freely with others so that they can emulate it.

We hope that this report will bring ideas to make it louder and begin a journey that we can make together.

Philippe Orliange
Executive Director for International Opérations, AFD

The SUFIP Conference was a first step towards building a common and sustainable agenda for the Indo-Pacific. More than 500 participants from 27 countries attended, which demonstrates the importance of this question for the region. Alongside our partners from ORF and India Exim Bank, and under the patronage of the European Union (EU) in the presence of EU Special Envoy to the Indo-Pacific Gabriele Visentin, this event successfully gathered speakers representing 21 different development financial institutions from across the region. As stated in the Final Communiqué of the Conference, we hope this event will initiate a regular high-level dialogue on issues related to the achievement of the sustainable development goals in the Indo-Pacific to identify potential areas for cooperation.

SUFIP has fully recognised the strategic importance of the Indo-Pacific region to deal with global challenges such as health, climate change, biodiversity, and the protection of oceans. SUFIP pledged to reclaim development as a component of the Indo-Pacific concept, and to take actions that would strengthen this dimension of the concept. In the specific context of this region, public development banks and development financial institutions play a key role in delivering sustainable and high-quality projects, taking into account the needs of partner countries and ensuring lasting benefits for local communities.

I am glad that our partnership has proven the alignment of our visions in terms of what is necessary to support the achievement of the Sustainable Development Goals (SDGs) in the Indo-Pacific, and I look forward to seeing all of us put this development agenda into action. There is indeed a pressing need to recognise that, among the challenges that the Indo-Pacific is facing, sustainability is no less urgent and strategic than the security agenda. The region is at the frontline of climate change impacts, and there is a crucial need to strengthen its ability to adapt to warming temperatures while preserving natural resources. It is time also to recognise that the region's weight in the global economy (60 percent of global GDP) and share of world population (two-thirds) make it crucial in achieving a global green transition. Countries in the region will simultaneously have to address the social challenges and the setback that the pandemic has caused to the journey towards the 2030 Agenda for Sustainable Development. A comprehensive response from the financing institutions active in the region is key to catalyse progress on the implementation of the SDGs in the Indo-Pacific.

I am convinced that the European public development banks and those of the Indo-Pacific region together have a role to play and considerable assets to support the transformation of economies and promote more sustainable development. Strengthening their partnership can catalyse long-term investments to achieve the SDGs, given the momentum those institutions can create within the financial community. In line with the achievements of the international community, this approach is also part of the ‘Global Gateway’ strategy, which encourages cooperation based on the values upheld by the EU, guaranteeing the highest environmental standards, decent work, good governance and transparency, in favour of quality and “green” infrastructure, with lasting benefits for local communities.

It is time to reclaim development for these local communities. Together, we can and we must reckon that a “free and open” geographic space can be embedded into these concepts with sustainability. Let us, thus, collectively rise to the challenge and contribute to the achievement of sustainable development in the Indo-Pacific.

I.

Development, Sustainability And 'Geoeconomics' In The Indo-Pacific

Security and Sustainable Development: From One Narrative to the Other

The 'security' narrative predominates in how the Indo-Pacific is perceived

The Indo-Pacific region, which encompasses almost 40 countries and two-thirds of the world's population, is also the location of contestation between global powers and differing approaches to economic development and cooperation. In the past decade, questions about the application of international law and the freedom of navigation and trade have created fresh challenges for a region that, defined by two oceans, now accounts for over 60 percent of global gross domestic product or GDP. New groupings and relationships have arisen between the countries of the region to deal with maritime and other challenges. Yet, the dominance of a security-based narrative in visions of the region has raised questions about how effectively the nations of the region can cooperate to deal with sustainable development challenges.

Yet sustainable development is the primary challenge for the Indo-Pacific region

An exclusive focus on security in the Indo-Pacific as a basis for regional cooperation does not make space for the importance of addressing the sustainable development agenda in the region. Even before the pandemic hit, the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) SDG Progress Report¹ indicated that the Indo-Pacific fell short of its 2020 SDG milestones. It is the location of some of the greatest challenges for the global green transition:

- almost half of the world's greenhouse gases—16.75 billion tonnes of carbon dioxide in 2020—are produced here²
- seven of the 10 biggest coal consumers are in this area³
- six of the 10 most-vulnerable countries regarding natural disasters are in the Indo-Pacific⁴
- According to the International Federation of the Red Cross and Red Crescent, over 57 million people were affected by climate disasters in the Asia-Pacific region⁵

Many countries in the region are heavily dependent on both the revenues and the energy produced from legacy fossil fuels such as oil, gas, and coal. Given its level of income and state capacity, it has also suffered in its ability to adapt to warming temperatures. Deeply susceptible to natural calamities and recurrent disasters, its vulnerability to climate change is enhanced by its heavy dependence on natural resources and the agricultural sector. As the location of crucial biodiversity hotspots, an inability to manage adaptation also affects conservation and the sustainable management of natural resources. Communities across the Indo-Pacific have similar problems when it comes to rural resilience, agricultural productivity, and skilling the workforce. The pandemic has also underlined the weakness of several public health systems in the region. Thus, the sustainability challenge is as defining a common element in the Indo-Pacific as are security questions.

In fact, sustainability and security have become intertwined in the Indo-Pacific

Many governments have developed an official strategy for the Indo-Pacific or expressed aspirations for the region in official statements. These include strategies from Germany,⁶ France,⁷ the EU,⁸ the US,⁹ and Japan,¹⁰ as well as multiple official statements from India¹¹ and its partners, including the Association of Southeast Asian Nations (ASEAN).¹² These statements and strategies develop a coherent image of the

Indo-Pacific—one based on the promotion of freedom and the rule of law, and the location for “a stable, law-based multipolar order”, in the words of the French vision. ASEAN defines the principles underlying its outlook on the Indo-Pacific as “openness, transparency, inclusivity, a rules-based framework, good governance, respect for sovereignty, non-intervention, complementarity with existing cooperation frameworks, equality, mutual respect, mutual trust, mutual benefit and respect for international law”. These ends do not exist in a vacuum. They have a purpose—to create a governance and cooperation architecture for the region that is open, inclusive and transparent, and which in turn will ensure equitable and sustainable economic growth. Thus, the sustainable development component of the Indo-Pacific region is at the heart of the region’s geoeconomic challenges and strategies focused on this region. There are many examples of areas where security concerns can strengthen the drive towards sustainable development: for example, addressing transnational security challenges, such as the effects of climate change or the protection of freedom of navigation, is mutually beneficial for the countries of the region. Furthermore, many sovereign governments in the region, particularly in the context of the pandemic, have come to view national development partly as a question of “economic security”; Japan, in fact, has created an “economic security law”. Security and autonomy are viewed by many governments as prerequisites for renewed growth; India has stressed “self-reliant” post-pandemic development, for example. Thus, the sustainable development dimension and the security agenda in the region are intrinsically linked; consideration of both is crucial for the success of major key transitions for global issues. The intertwined and mutually reinforcing nature of the sustainability and security agendas in the Indo-Pacific highlight the importance of promoting sustainable, resilient, and inclusive components of the regional architecture.

However, the economic effects of the pandemic have complicated efforts towards sustainable development

The COVID-19 pandemic has not just altered the strategic context of the Indo-Pacific, but also greatly affected the development narrative and economic trajectory of the region. Several countries have lost years of growth, expecting a return to pre-pandemic levels of output only in 2023. The year 2020 saw a loss of 5.7 percent to 8.5 percent of regional GDP, according to an analysis by the Asian Development Bank (ADB).¹³ The impact of this growth shock on the most-vulnerable has been particularly difficult. The ADB further estimated that 75 million to 80 million people have been thrown into “extreme poverty” as a consequence of the pandemic. The impact on the region’s emerging middle class was equally harsh—the International Labour Organization’s World Employment and Social Outlook Trends 2022 calculated that 58 million jobs were lost overall in Asia and the Pacific in 2020, and 39 million exited the

workforce.¹⁴ The broader sustainable development agenda suffered; UNESCAP expects “some regression... on 20 percent of measured [SDG] indicators in the Asia-Pacific region (half of which are environmental indicators)”.¹⁵ Pandemic-related policy packages in the region have prioritised economic recovery rather than sustainability: the Climate Policy Initiative examined recovery packages in five large economies in the Indo-Pacific (Singapore, the Philippines, Indonesia, India, and South Korea) and developed a “greenness index” that ranged from -73 for Singapore to -12 for South Korea, indicating that these stimulus packages emphasised “dirty” measures such as protection of extractive and carbon-emitting industries rather than sustainability measures.¹⁶

A fresh understanding of the role of development finance has evolved post-pandemic

The pandemic has caused many sovereign governments to revisit the economic relationship among countries and increase their existing desire for resilience, autonomy, or self-reliance in these relationships, particularly with respect to key strategic sectors. It should be noted that if these national ambitions for secure supply chains and production bases are shared priorities for countries with strong geopolitical linkages, then development finance can add greater resilience by collaboration between those geographies, integrating their economies, and widening the support base for their joint economic activity and development efforts. Clearly, this is a point in time when such strategic concerns in multiple nations in the Indo-Pacific have begun to align. The pandemic has also had a clear impact on state finances in the region; a combination of a major drop to government revenue as a result of stalled trade and lockdown measures and the need for greater spending on relief have increased debt and deficits, and greatly reduced fiscal space for emerging economies in the Indo-Pacific. This has made it imperative that alternative and additional modes of financing development be found, and cooperative mechanisms to address shared problems be devised. There is also a fresh understanding, post-pandemic, of how the shared burdens of the global commons affect the development and security constraints of each individual nation. It has also been freshly understood during the pandemic that public development finance is irreplaceable, in that it alone can play a counter-cyclical role at times of crisis.

Strategy and Cooperation: How to Build a Sustainable Indo-Pacific Agenda?

Do “like-minded” development strategies exist for the Indo-Pacific?

As befits a region defined by both great power contestation and the aspiration towards a stable multipolar order, there is no single approach or strategy in the Indo-Pacific towards the geoeconomic and development agenda. However, several initiatives exist that seek to connect otherwise disparate national efforts and stress some convergences of views of key ‘like-minded’ Indo-Pacific players, including the EU, India, Japan, ASEAN, and the US. The US-led effort, known as the Blue Dot Network, seeks to energise private capital in connectivity to “certify” projects in the infrastructure sector as being “open and inclusive, transparent, economically viable, financially, environmentally and socially sustainable, and compliant with international standards, laws, and regulations”.¹⁷ This builds on the Japanese government’s efforts, following that country’s leadership of the G-20, to create a coalition around “quality” infrastructure. The 2015 Partnership for Quality Infrastructure,¹⁸ announced by Japan, sought to increase Japanese investment in regional infrastructure by 30 percent between 2016 and 2020; and as chair of the G-7 in 2016, Japan released the High-Quality Infrastructure Export Expansion Initiative to nearly double its support for exports from Japan in this capital-intensive sector. The emphasis in these partnerships, as it is in similar efforts by the Quad grouping, is on ensuring that connectivity projects can be both affordable and accessible for countries in the Indo-Pacific, while also meeting environmental, financial, and quality standards. A similar approach informs the EU’s Global Gateway Initiative,¹⁹ which seeks to extend the European Green Deal outward through building capacity for sustainable modernisation. The Global Gateway is closely integrated also with the EU’s Indo-Pacific strategy, which is discussed further below. National approaches, including the Indian and French approaches to development cooperation, also have similar baselines.

Can we build a politics of sustainability in the Indo-Pacific?

Thus, the Indo-Pacific displays an interplay between geopolitical imperatives, economic aspirations, policies, strategic shifts, and sustainable development trajectories: a complex of “geoeconomic” questions that are central to the region’s development. There are, consequently, multiple pathways of cooperation for stakeholders in a region that is the engine of global growth and the location of consequential, even systemic competition. The question is: can a politics of sustainability in the Indo-Pacific be developed? In particular, can cooperation on elements of the SDG agenda in this region concentrate the efforts of development finance in particular, and utilise or transcend the security agenda as required?

The SDG agenda in the Indo-Pacific must respond to the region’s shared sustainability challenges, while also taking into account the constraints and exploring the opportunities opened up by the security agenda. At a policy level, like-minded nations together have an opportunity to devise a coherent development agenda that fits within the broader geoeconomic matrix. This policy direction can then be implemented in part through collaboration between public development banks and development finance institutions (DFIs). Directing development finance into these channels will play a crucial role in creating an inclusive sustainable development framework in the Indo-Pacific that responds to national aspirations, economic needs, financial efficiency, and sovereign requirements.

II.

Creating A Sustainable Development Narrative In The Indo-Pacific: Actors And Themes That Matter

Spanning the Indo-Pacific—from the eastern and south-eastern seaboard of Africa, through South Asia, South-East Asia, to the Pacific Ocean—this report discusses some of the actors capable of leveraging finance towards the sustainability agenda in the Indo-Pacific. This section will assess several aspects: the key actors in the Indo-Pacific’s public development finance landscape; the need for closer alignment among DFIs; the recent lending activities and mandates of public development banks (PDBs) and their partners in the region to derive broad themes in their lending that serve as avenues for cooperation; and certain elements of cooperation in public development finance in the Indo-Pacific that can be explored further.

Sustainable Finance Actors of the Indo-Pacific

Private development banks are key actors in the sustainable development agenda in the Indo-Pacific

PDBs and their bilateral initiatives are the primary focus of the report for two reasons. First, they remain the central mode through which public development finance flows in the Indo-Pacific. Globally, public development banks represent about

10 percent of total investment flows in an average year,²⁰ with more likely since the pandemic due to their counter-cyclical actions during crises. Other recent developments have reinforced this centrality. Since the 2008 global financial crisis, infrastructure in particular has struggled to attract bank financing, especially commercial bank financing. Given the tenure mismatch between commercial bank liabilities and much infrastructure investment, post-crisis regulations have served to limit commercial banks' exposure to such crucial development-oriented projects. Thus, the movement away from traditional national DFIs or PDBs—as observed in the 1980s and 1990s in the privatisation or conversion to commercial banks of prominent PDBs in countries like India and Sri Lanka—has reversed. In 2021, India's finance minister announced the creation of a new DFI, the National Bank for Financing Infrastructure and Development, that will become operational over the coming year.²¹ It has been described in India's enabling legislation as “a provider, enabler and catalyst for infrastructure financing and as the principal financial institution and development bank for building and sustaining a supportive ecosystem across the life-cycle of infrastructure projects”.²² Second, in a time of geopolitical churn as the Indo-Pacific is currently expecting, national PDBs remain the most trusted implementers of sovereign requirements. Their national, bilateral, and regional engagements are a clear guide to the impulses, expectations, and priorities of the sovereign governments to which they are accountable. Some of these partners and engagements are described later in this section.

The role of regional development banks

Regional development banks (RDBs) are a major actor in harmonising financial flows across borders and encouraging cooperation. From the point of view of this report, they are of importance because while domestic or national institutions have their own standards and priorities, RDBs have a regional mandate that helps embed a dynamic of harmonisation in the broader financial activities of the region. They can create additional capacity for PDBs and nudge national institutions in similar directions, including towards adopting similar standards and practices. As one example, banks with a regional perspective often seek new and innovative partnerships with private sources of finance. The Eastern and Southern African Trade and Development Bank (TDB) offers a range of financing solutions including project finance, corporate finance and leasing, and guarantees. Crucially, banks such as the TDB serve as intermediaries between national-level private sector actors, including project managers, and pools of capital managed by multilateral agencies and others with less regional expertise. In 2021 alone, the European Investment Bank launched a joint facility with the TDB focusing on lending to the private sector in fragile situations,²³ and the Islamic Corporation for the Development of

the Private Sector agreed on a framework to strengthen capital markets and finance sustainability-related transactions in relevant TDB-serviced locations.²⁴ Thus, regional development banks, through their two-way cooperation, create a pathway towards a similarity of approaches and priorities among multiple development agencies in the region they serve.

Development finance mandates and the ‘Indo-Pacific’ concept

The DFIs and PDBs that operate in the Indo-Pacific bolster technology transfers and trade flows, essentially building an economic bridge between this region and others. Their mandates, as designed by their sovereign governments, are naturally responses to each country’s economic specificities. Necessarily, these mandates and lending decisions also make place for strategic concerns, such as national interests pertaining to trade and security. For example, post-pandemic state investment has stressed the building of “resilience” into supply chains, often understood as averting dependence upon any single external providers, avoidance of bottlenecks or strategic weaknesses, and the creation of additional capacity and flexibility to deal with crises such as the pandemic. Other lending priorities, as shown below, have been determined by the desire to construct a domestic base of crucial health- or resource-related production. However, there is still considerable work to do to reap the possible benefits of the strategic spillover effect—meaning avenues for strengthening the collaboration between development finance agencies thanks to the creation of security-driven alignments. Despite the increasing importance of the Indo-Pacific construct for sovereign governments, sustainability and resilience standards have yet to be reflected in the implementation of development finance in the region. It is to be hoped that this report will serve to raise awareness on this process and help create an Indo-Pacific mandate within the PDBs of the region.

The Need for Closer Alignment

Closer alignment of development finance institutions will assist countries in the Indo-Pacific

As discussed in Part I, the Indo-Pacific countries share certain vulnerabilities and challenges. Addressing the latter is the primary aim of public development finance in the region. A large proportion of countries have a substantial rural population that needs support for agricultural practices and incomes. Despite the increasing importance of the Indo-Pacific construct for sovereign governments, sustainability and resilience standards have yet to be reflected in the implementation of development finance in the region. Addressing carbon mitigation and the nationally

determined contributions under the Paris Agreement is also a concern throughout the region. Climate change is thus an overarching concern for public development finance. Energy transition is another area where an alignment of activities and mandates makes sense to efficiently target both energy security and emissions reduction

Shared themes can already be observed in development lending in the Indo-Pacific

Given these shared concerns and alignments, it is possible to witness basic harmonies and resonances between the various PDBs' mandates and decisions. A proper understanding of the commonalities in their actions and imperatives will permit the beginning of a shared approach to rediscovering a path towards sustainability, resilience, and strategic autonomy for countries in the Indo-Pacific. For the purposes of this report, we have identified themes and cross-cutting concerns that underlie the mandates and activities of development banks in the Indo-Pacific. These have been developed primarily because they reflect the shared challenges of the region, and allow for the discussion on possible collaboration and cooperation in a granular manner.

Themes

- **Connectivity and physical infrastructure:** In the Indo-Pacific, the “connectivity” challenge usually refers to the physical infrastructure deficit, particularly when it comes to trade-related infrastructure such as ports and highways. This is a major and shared concern of governments in the region and is therefore at the centre of PDB mandates in the region. Estimates of the required level of investment in connectivity infrastructure vary, but the most quoted figure, dating from a 2017 ADB analysis is US\$1.7 trillion a year to 2030.²⁵ This is a significantly large proportion of regional GDP: for the Pacific rim and South Asia, it is about nine percent of GDP, and for Southeast Asia about six percent of GDP. The impact of climate change-related requirements for infrastructure on the total cost is stark: the ADB notes that the cost in 2017 of the infrastructure build-out had more than doubled since 2009, reflecting the additional pressure on spending caused by climate-related investment. The gap between required and actual spending was 2.4 percent of GDP a year. It is, therefore, unsurprising that physical infrastructure continues to be a major concern for development banks in the region. The financing gap means that this is the most evident location for cooperation between agencies and across geographies. Partnership with the private sector to mobilise funds beyond

the capability of national budgets is easily explained in this context. Given the scale of the expenditure required as a proportion of national budgets, concerns about debt sustainability, repayment, and renegotiation are also easy to understand. The link to geopolitical considerations (explored in detail subsequently) is fairly well understood when it comes to connectivity infrastructure. It is certainly visible in the construction of infrastructure partnerships and alliances, most (though not all) of which overlap with strategic bilateral and multilateral partnerships. There are over 10 infrastructure and connectivity partnerships in operation in the Indo-Pacific, many of which are funded, including the Blue Dot Network and the EU's Global Gateway project. The Master Plan on ASEAN Connectivity works on creating trade corridors to connect Southeast Asia with the world, and Japan's bilateral partnerships with the EU, India, Australia, and African nations through the African Development Bank have focused on its action plan for quality infrastructure.

- **The energy transition:** The transformation of the energy landscape in the Indo-Pacific is crucial to meeting sustainability and climate goals. But many countries in the Indo-Pacific, particularly in Southeast Asia, may not have sufficient domestic resources to generate 50 percent of their electricity from wind and solar sources in 2050.²⁶ It is unsurprising that investment in the energy transition is a major common priority for DFIs in the region, and a fruitful location for ongoing cooperation. Some of this is focused on specific subregions in the Indo-Pacific. India Exim Bank, for example, is a significant contributor to rural electrification, power transmission and hydropower projects in South Asian countries such as Bhutan.²⁷ While private financing in large-scale grid-connected renewable energy infrastructure has increased in recent years, the infrastructure improvements required to improve delivery efficiency and manage the complexities of a higher share of renewables has often required public financing. Increasing electrification and access is not just important to meet the SDGs, but also so that there are fewer points of intervention required to reduce emissions in the broader economy. Joint cross-border ventures in this domain are common, for example ADB and ASEAN Infrastructure Fund's Sumatra Program, a results-based lending framework intended to strengthen the rural electricity grid in Indonesia. Another co-financing initiative for sustainable power supply by ADB and ASEAN Infrastructure Fund is seen in Ha Noi and Ho Chi Minh City Power Grid Development Sector Project in Vietnam. PDBs are tapping new sources of finance, including global finance, to aid this transition. Indonesia's PT Sarana Multi Infrastruktur (PT SMI) has traditionally raised resources from multilateral and bilateral DFIs for infrastructure development projects. It also issued Indonesia's first green bond in 2018, of IDR 3 trillion (around US\$200 million),

after being accredited by the Green Climate Fund and seeking out a rating from an independent environmental research centre.²⁸ Early in the carbon trading process, the World Bank assisted Bangladesh's IIDFC to take up a Clean Development Mechanism project focused on improving kiln efficiency in the local brick-making industry. The emissions reductions were subsequently sold to the ADB and helped bolster the country's foreign exchange reserves. The analytical capacity so created in IIDFC has been passed on to the national ecosystem—it has moved into energy efficiency financing under the 'Bangladesh Industrial Energy Efficiency Improvement Finance Program', which conducts energy audits and opens up possibilities for raising further finance. It is thus important to create capacity in PDBs in the region so they can more effectively take such steps. This is an active area for cooperation. The European Investment Bank's cross-border financing initiatives in India set up solar and wind-generated energy and rolled out urban climate-friendly transport schemes. The ASEAN Infrastructure Fund is involved in Pakistan through Gas Storage Development Systems in an attempt to accelerate South Asia's progress towards clean energy. The collaborative platform Coalition for Disaster Resilient Infrastructure (CDRI) also directs its raising of finance for resilience towards energy; it has mapped the power sector's resilience to disaster in the Indian state of Odisha, for example. Another example is the European Climate Foundation's regionally-led grant-making initiative Tara, working to fast-track energy transformation in Asia; it also holds joint cooperative initiatives with Shakti Sustainable Energy Foundation in India.

- **Agriculture and resilience:** PDBs in the Indo-Pacific have historically prioritised outreach to and the support of agricultural enterprises and rural communities, and the creation of infrastructure that connects them to national and global markets. In many countries of the region, agriculture and non-farm rural activities still employ a large proportion of the population, although the sector's output may be shrinking as a percentage of GDP. Yet, there have been important shifts in emphasis in this support in recent years, many of which were accelerated by the pandemic. For one, support for rural communities and for agricultural enterprises began to be seen as a critical component of social resilience in the face of crises like the pandemic and climate change. These are some of the most vulnerable communities in the region, and increasing their access to resources is vital to build additional resilience. Thus, development finance's support of agriculture is now well rooted within three important narratives. First, sustainability, since agricultural practices impact and are impacted by climate change. Second, adaptation, since rural incomes and access are the bedrock of plans for recovery and resilience in the face of crises. Third, security, since food

security is a national priority for many countries, and securing rural incomes is often considered vital for national stability by policymakers. This will become a major issue in the coming years as the effects of climate change worsen. Thus, the core activity of traditional PDBs in many developing countries in the Indo-Pacific, support of agriculture, is now also located at the intersection of the security and sustainability narratives. The presence of the food security element is of importance, as the mandates and actions of PDBs in the region reveal that they often converge and collaborate on opening avenues for investments that address the creation of regional rural infrastructure, and that they participate in fruitful policy dialogue regarding shared regulations. In the course of this engagement and collaboration, national interests become closely integrated with global sustainable targets. Consider rice production in Cambodia, which is both a question of food security and of livelihoods for that nation. Traditionally, 75 percent of lending by the Agricultural and Rural Development Bank of Cambodia has been to the rice sector.²⁹ The country's Climate Resilient Rice Commercialization Sector Development Programme, however, conducted in partnership with the ADB, has focused national efforts on constructing a climate-resilient value chain, and Agricultural and Rural Development Bank of Cambodia is a crucial partner in ensuring that rice millers have access to the credit they need to build the appropriate architecture. Similar examples abound of how collaboration between PDBs allows the focus on shared themes—such as building climate resilience into agricultural communities and enterprises—to become prominent. Cross-border financing of agricultural enterprise in another country, such as lending by Japan Bank for International Cooperation (JBIC) to the curry roux producer PT. Java Agritech in Indonesia, ensures that quality finance and sustainability practices begin to be shared across national boundaries even in the agri-processing sector. It is essential to note, however, that notions of community resilience have expanded beyond incomes and livelihoods during the pandemic. Access to health, social protection and education have naturally become a prominent part of the sustainability pillar of PDB work. They have also become important aspects of bilateral collaboration. For example, the European Investment Bank (EIB) committed almost €250 million (US\$283 million) towards the Bangladesh COVID-19 Public Health Programme, aimed at creating healthcare capacity and purchasing vaccines.³⁰

Cross-cutting concerns

- **Gender:** Inclusion and diversity, especially regarding gender, is a cross-cutting mandate for many PDBs and is increasingly becomes a shared priority. JBIC seeks to encourage diversity and equality through its Financing for Women initiative; the EIB's SheInvest focuses on boosting gender equality and women economic

empowerment in Africa; and AFD subsidiary Proparco has financed credit lines to the Sri Lankan small and medium enterprises (SME) sector with a focus on female entrepreneurs and employment. Mainstreaming gender as a factor in project appraisal does not necessarily mean that gender equality is the sole objective of the programme. The AFD's financing project on biogas reservoirs in the Indian state of Karnataka has a strong but indirect social impact. A low-carbon energy source, the utility of a biodigester translates into less time and effort spent on the hard physical labour of collecting wood for local women. An additional mechanism for inclusion is including inclusion priorities in the financing of infrastructure schemes: a light metro in the Indian city of Kochi, which was partly financed by AFD, put into place the preferential hiring of female employees, particularly from less privileged socioeconomic strata.

- **Climate Change:** The imperative of climate change adaptation and mitigation can be found as an essential component of many PDBs in the region. Energy transition and the challenge of developing resilience and productivity in agriculture and rural communities have an obvious and close link to climate change, which emerges as a cross-cutting theme in PDB action in the Indo-Pacific. Agricultural stability will become a key issue in coming years as climate change will globally impact both yields and demography, raising pressure on existing agricultural systems. Connectivity choices, especially as concerns the building of high-quality infrastructure that meets recognised sustainability and environmental standards, are also impacted by climate change. Indeed, meeting climate changes requirements significantly increases the costs of building connectivity infrastructure in the region.

Pathways for Cooperation

Leveraging associations with regional organisations and platforms

PDBs in the Indo-Pacific have associations with regional banks and agencies that help create pathways for sustainable finance and serve as a basis for harmonisation of priorities. The JBIC, for instance, has initiated and financed projects along with the ADB to improve the environmental health of island states. There is a clear geopolitical component to such actions, as they reflect the Japanese government's policy of raising the standard and quality of available infrastructure in the Indo-Pacific. However, the ADB itself has worked closely with island PDBs such as the Fiji Development Bank. Particularly relevant to the agenda of harmonising development finance priorities in the Indo-Pacific are promising organisations such as the Association of

Development Financing Institutions in Asia and the Pacific (ADFIAP). The ADFIAP plays a key role in strengthening the coordination and cooperation of DFIs with regard to sustainable development in the region. Advocating for innovative financing mechanisms, training in development banking and management is undertaken by one of its agencies, the Asia-Pacific Institute of Development Finance. This institution is especially important given the complex strategic milieu of the Indo-Pacific since it serves as an effective location for collaboration and partnership, and to nudge national development banks in the direction of sustainability through directed efforts. For example, the AFD and the ADFIAP have recently signed a partnership to create green finance-related capacity in PDBs in the Indo-Pacific.³¹ Another avenue for collaboration are platforms such as the CDRI, the International Solar Alliance (ISA), and the Indian Ocean Commission, which respond to specific sectoral or regional needs. These agencies help facilitate linkages between sources of public development finance and can harmonise investment towards critical sectors and regions. Some like the Indo-French-led ISA and the Indo-UK led CDRI are examples of a new paradigm that blends strong bilateral strategic relationships with multilateral outreach on sustainability issues.

Growing convergence between private commercial banks and public sustainable finance in the Indo-Pacific

One feature of many emerging markets in the Indo-Pacific is that private or state-owned commercial banks, especially those with a history of being a DFIs, often serve as intermediaries for development finance from multilateral, regional, or extraterritorial PDBs. They fill this crucial role especially in countries that no longer have an anchor PDB, and thus these private commercial banks must be a part of the sustainable development conversation in the Indo-Pacific. Credit under the AFD's SUNREF label in East Africa encourages local banks to increase their activities towards low-carbon projects. Work to increase capacity and raise awareness about sustainability criteria among commercial banks at the front-line of lending is thus a fruitful area for cooperation between PDBs. It is important to note that such commercial banks are also frequent destinations for global capital that has been directed to meet both the geopolitical and sustainability mandates of the original lender—for example, they may serve as conduits for infrastructure lending by the US Agency for International Development (USAID). Naturally, they are at the front-line when it comes to amalgamating SDGs and business targets. In Sri Lanka, the state-owned People's Bank is one of the leading implementers of lending to SMEs under an eight-year-old ADB project and has been awarded for its responsiveness to distress during the COVID-19 pandemic.³² Private-sector banks are also crucial arms of this strategy, as directed by national governments. Still in Sri Lanka, Hatton National Bank (HNB)

has worked with ADB funds to enhance lending to underserved indigenous communities, with Proparco to expand its rural lending network, and with USAID to do the same for female entrepreneurs. These choices in sourcing and destination of capital may be mediated or influenced by broader national policy. Despite being a private bank, HNB's mission statement is defined with respect to national geoeconomic goals, noting Sri Lanka's development agenda is to become "the hub of the Indian Ocean by 2025" and that HNB sees "significant opportunities to contribute to achieving this national vision".³³ Proparco was created to enhance private sector development globally and has an explicit focus on the SDGs. In such efforts, PDBs might work directly with companies or with partners in other countries. This was particularly evident during the pandemic. For example, in November 2020, the HNB announced a US\$60 million credit line from Proparco to support SMEs in rural areas.³⁴ One key takeaway from an analysis of these associations is that, while the governance and mandates of commercial banks and PDBs is not the same, PDBs have a clear ability through their funding mechanisms and credit lines to create a harmonisation between the actions of private and public sustainable capital.

Catalysing action by the domestic and transnational private sector

The development financing gap in the Indo-Pacific—already evident even before the pandemic—has only been exacerbated by the calls on the public purse brought about by COVID-19 relief and recovery. A major alignment of PDB actions and mandates in the Indo-Pacific, therefore, is the inclusion and catalysing of private players to create additionality in finance. This reflects actions already being taken by PDBs at the national level. Several national development banks have worked towards pulling private players in to leverage finance. In Indonesia, PT SMI's public-private partnership (PPP) project development portfolio spans multiple sectors—for instance, promoting innovation and technology transfer in energy (Surakarta City Public Street Lighting), water supply (Kamijoro Water Supply Project, Umbulan Regional Water Supply Project, East Java, Pekanbaru Water Supply), health (Sam Ratulangi University Teaching Hospital, Manado City, Dr. Pirangadi Hospital, Krian Hospital, Sidoarjo Regency), among others. Some influential PDBs in the region have pioneered a close working relationship with private sector stakeholders, even when it comes to major development priorities like sustainability and recovery. JBIC's participation in sustainability initiatives is characterised by the involvement of private sector stakeholders. The 1.5-trillion yen (around US\$14 billion) "post-coronavirus growth facility" was established by the Japanese government during the pandemic to manage the "overseas development of high-quality infrastructure and other overseas business activities toward decarbonized economy conducted by Japanese

companies” through the JBIC.³⁵ Notably, an additional criterion was the creation of “supply chain resilience”, which can be understood as directing public finance towards aligning private corporate supply chains with geopolitical realities and expectations. There is a possible scope, therefore, for PDBs to align financial tools in such a way that transnational private finance finds it easy to build up productive partnerships with different PDBs, particularly in the emerging economies of the Indo-Pacific. Similar approaches that empower the counterpart, emphasise co-financing, and centre standards and sustainability are a possible further path for convergence between PDBs in the Indo-Pacific.

Harmonisation of standards and norms in sustainable finance

Several existing dialogues and networks between providers of development finance in the Indo-Pacific, particularly those focused on physical infrastructure and trade connectivity, seek to regularise or certify standards in lending across various geographies. The Blue Dot Network, for example, has set out to create a certification. The Greater Mekong Subregion Association focuses on policy and regulatory harmonisation that will lead to greater investment in infrastructure and connectivity. The APEC Framework on Connectivity seeks the adoption of best practices in the evaluation of projects and their implementation by project agencies. The harmonisation of standards and lending practices to foreground sustainability—financial, economic and environmental—is a promising route for cooperation and will ease the creation of co-financing mechanisms between different PDBs in the region.



A Sustainable Indo-Pacific Agenda: SUFIP Takeaways

What is SUFIP?

With the knowledge support of ORF, AFD (the French Development Agency) and the India Exim Bank organised the Sustainable Finance in the Indo-Pacific (SUFIP), an important gathering of PDBs and financing institutions from Europe and the Indo-Pacific to address the latter's sustainable development challenges. This gathering took place in Paris on 21 February 2022, on the eve of the EU Ministerial Forum for Cooperation in the Indo-Pacific (see Box). As the first conclave of its kind that specifically addressed sustainable climate finance in the Indo-Pacific, this event successfully mobilised more than 500 participants from 27 countries.

Given the urgency of the global and climate-related challenges affecting the countries of the Indo-Pacific, participants reaffirmed their commitment to a comprehensive response to accelerate progress on the implementation of the SDGs and the Paris Agreement in the region. They stressed their concerns about the repercussions of the COVID-19 crisis, especially in developing and least developed countries, where it has set back progress towards the 2030 Agenda for Sustainable

Development. In this context, participants committed to finding ways and means to continue providing financial support to the achievement of the SDGs while identifying several priority areas for cooperation, such as connectivity and sustainable infrastructure development, the energy transition, the resilience of population and territories, health, and tackling climate change and biodiversity loss, which will affect billions of lives in the Indo-Pacific. Participants agreed to meet regularly to follow up the discussions launched by the first SUFIP event.

Why SUFIP? Addressing the nascent pathways of the sustainable development agenda of the Indo-Pacific

SUFIP serves as a gathering of peers that seeks to develop mechanisms for collaboration on the implementation of a sustainability agenda in the Indo-Pacific. Its main objective is sharing views on the common issues that comprise the sustainability agenda in the Indo-Pacific, and the initiation of a process that would harmonise the tools and approaches used to address them. The conference was an attempt to map and bring together the relevant stakeholders from public financial institutions and development banks.

It hosted many impactful PDBs, regional development banks, and DFIs to carve out possible pathways of convergence in favour of better intervention efficiency and quality financing. Mobilising these essential stakeholders in the region is another important target that this event succeeded in fulfilling.

It should be regarded alongside efforts such as the Finance in Common Summit, which yearly brings together DFIs worldwide. Its deliberations and conclusions informed the unprecedented summit of EU leaders and Indo-Pacific foreign ministers in Paris, which reinvigorated the sustainability and security relationship between the two regions. The institutions that implement development finance, whether national development banks or their partners, will determine if collaborative progress in sectors such as climate finance, energy transition, and health are possible. A joint communication for the institutions comprising the SUFIP was an important step towards this collaborative process.

Ministerial Forum for Cooperation in the Indo-Pacific, Paris, February 2022

The Ministerial Forum for Cooperation in the Indo-Pacific was a place for reflection and exchange to build a common vision between the EU, its member states, and the countries of the Indo-Pacific region, based on the principles of sustainability and openness. The forum highlighted the shared ambition among participants to:

- work together for peace, prosperity and sustainable and inclusive development in Europe and the Indo-Pacific
- reaffirm their commitment to a rules-based international order, democratic values and principles, and to the strengthening of multilateralism and the rule of law, respect for international law, and freedom of navigation, in accordance with the United Nations Convention on the Law of the Sea
- promote the development of the Indo-Pacific region and to strengthen the ties between the EU and Indo-Pacific partners through cooperation and solidarity actions building on shared commitments including the 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change, and the Convention of Biological Diversity
- strengthen their cooperation in several areas and to continue their exchanges on the avenues identified, in particular, in the framework of three round tables held during the forum on (a) security and defence, (b) connectivity and digital issues, and (c) global issues such as climate change, the preservation of biodiversity and oceans, and health

The EU participants reiterated the importance of the Indo-Pacific region for Europe and underlined their support for an increased and long-term engagement of the EU and its member states through concrete actions. The role of the outermost regions and European overseas countries and territories in the Indo-Pacific was highlighted in this respect.

Main Takeaways

The SUFIP, held in the overarching context of the climate crisis and the effects of the COVID-19 pandemic, included four thematic panels focusing on the Indo-Pacific region—connectivity and quality infrastructure; financing decarbonisation, resilience and biodiversity; accelerating the energy transition; and improving public health, nutrition and agriculture.

Connectivity and Quality Infrastructure: The participants noted that connectivity and trade infrastructure were closely linked to the sustainable development agenda, given that seven of the 17 SDGs were trade related. Infrastructure finance in the region must respond to the recipient country's needs and support their nation-building projects. Many speakers from the region underlined the effect of the pandemic on national balance sheets meant that collaboration between public development agencies and the private sector had become more urgent. Participants noted that the EU, the member states, and their agencies could bring long-standing experience in infrastructure development, and work in designing relationships with the private sector to the table and thereby expand local capacity. Connectivity issues also include institutional and people-to-people connectivity, and infrastructure choices embed political choices. So, the values upheld by Europe, shared by different nations across the Indo-Pacific, should spur the creation of common objectives around developing the region sustainably.

Financing Decarbonisation, Resilience and Biodiversity: The participants noted that the Indo-Pacific is highly sensitive to the climate crisis, deeply vulnerable to natural disasters, and suffering biodiversity loss, including in biodiversity hotspots. PDBs active in the region have increasingly prioritised nature- and ecosystem-based solutions. Participants also warned that the risks of climate change were now systemic financial risks to the Indo-Pacific: extreme weather events' effect on infrastructure assets or fossil fuel dependent portfolios, for instance, could significantly affect the risk level of an economy, as measured by its credit rating and its attractiveness to the investor community. Participants called for a shared approach to and taxonomy of adaptation and nature-based solutions; a common method for integrating environmental, social, and governance risks into prudential models of lending; and for methods of hedging currency risk, possibly with PDBs lending in local currency. They also noted that a lack of capacity held back regional collaboration to a certain extent, and indicated that technical support would be a fruitful avenue for future cooperation and assistance.

Accelerating the Energy Transition: Participants noted the Indo-Pacific had a wide variety of weather and climatic patterns, differing types of energy use, and varied requirements for energy security. Thus, a one-size-fits-all approach from international investors would not be helpful. The scale of the investment required for the energy transition is so large that private capital will need to make up most of the investments. In that context, DFIs are increasingly needed as catalysts, providing long-term concessional funding for utility-scale projects aimed at covering the viability gap or accelerating innovation. Public financing institutions should collaborate to identify financial instruments that can complement each other and increase the chances of success. Sharing technical approaches to improving distribution and transmission systems between European countries and their counterparts in the Indo-Pacific might help. It is also critical to aggregate projects and make them more attractive for large financiers, which again makes collaboration between public development banks in different geographies essential. Investors need to better understand local energy markets, so a fruitful avenue for cooperation will be matching global investors and local institutions.

Public Health, Nutrition, and Agriculture: Participants noted that the pandemic had caused multiple modifications in how public development banks and other development-focused agencies deployed their funds. Some had to respond to additional requirements to support rural incomes and to ensure that women retained access to much-needed credit. Other financing institutions also set up mechanisms to better connect small farmers to regional and global markets, and to encourage them to diversify their produce. Participants emphasised the need for collaboration between the public and private sector to create new financial instruments and investment pipelines that could be used to finance rural resilience, food security, and livelihood protection. The stresses of the pandemic might, like other such moments of shock, lead to a consensus for stronger social protection, but supporting these new systems calls for the focused, sustained, and co-ordinated efforts of public financial institutions.

Enhancing Cooperation: The panellists stressed the importance of combining the various financial tools available to meet funding needs and to focus on complementarity and a more integrated approach. In this regard, the conference also stressed the importance of coordinating public and private funding and promoting PPPs. The panellists stressed the importance of dealing with the subject of standards beyond the existing framework to multiply the expected impacts in the Indo-Pacific. With regard to the vulnerability of the region, the transition risks and social impacts of climate change will have to be taken into account in the implementation of the projects.

Conclusions: The SUFIP concluded with the understanding that the Indo-Pacific region featured shared development challenges that required shared solutions. Most participants identified specific locations where they would welcome greater transnational collaborations—including managing currency risk, increasing domestic technical capacity, creating new financial instruments with a sustainability element, and harmonising regulations and regulatory practices. The substance of the conference was that the common sustainable development agenda of the Indo-Pacific called for shared approaches from the development finance agencies active in the region. Supporting sovereign efforts to fight climate change and increase community resilience will strengthen international partnerships and contribute to making the region more open and secure.

IV.

The Way Forward: Report Recommendations

The report has identified deep changes in the broader geopolitical and geoeconomic environment of the Indo-Pacific and presented a mapping of shared themes and mandates between the development finance actors of the Indo-Pacific. It has created a basis for discussion on how an open and inclusive multilateralism among like-minded countries can transform the development finance architecture of the Indo-Pacific.

The authors of this report at ORF accept that any recommendations they make for PDBs, while objective, are nonetheless a product of their standpoint as a research organisation located in India and the Indo-Pacific. The following three recommendations are offered with that understanding:

- First, a way forward exists to create a politics of sustainability in the Indo-Pacific that engages with and is empowered by the politics of security, rather than ignores it or fights it. This will require PDBs in the region to embrace the Indo-Pacific visions of their respective sovereign nations, and discover how those visions can be used to craft new coalitions around sustainable development. The ‘strategic spillover’ effect might lead to viable and lasting partnerships that address common problems.

- Second, a particularly productive avenue for cooperation might be dialogue and agreements on the shared principles that could underlie the financing of sustainability. There is already considerable governmental interest in these questions, particularly for the infrastructure and connectivity sector. Such principles could be generalised across SDG-relevant sectors by development finance actors from those like-minded nations that are committed to a free and open Indo-Pacific economic architecture. Translation of those principles in instruments and patterns of lending could follow.
- Third, and finally, cooperation between PDBs and the harmonisation of their practices and mandates could be enabled by the identification of particular landmark collaborative projects that combine the security and sustainability mandates. These could serve as a proof of concept and clarify the benefits of cooperation on development even amid the complex geoeconomic and geopolitical shifts that the Indo-Pacific is undergoing.

It is hoped that further discussion between PDBs will outline new possibilities: emerging coalitions and collaborations between PDBs, and the harmonisation of national impulses with the drive towards sustainable security in the region.

Appendix: Total assets of some of the institutions participating in SUFIP

Institution	Total assets (USD millions)
Agence Française de Développement	53,722
Bank of Investment & Development of Vietnam	12,653
Asian Development Bank	221,866
Commonwealth Development Corporation	8,611
European Investment Bank	623,331
Fiji Development Bank	254
India Exim Bank	18,353
Islamic Corporation for the Development of the Private Sector	2,529
Japan International Cooperation Agency	120,943
German Development Bank (KfW)	29,191
People's Bank of Sri Lanka	11,867
PT Sarana Multi Infrastruktur	5,460
State Bank of India	640,000
Sonali Bank Limited	15,000
The Development Bank of Southern Africa	7,187
Trade and Development Bank	6,691

Source: "What are Public Development Banks and Development Financing Institutions?—Qualification Criteria, Stylized Facts and Development Trends"³⁶

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