

IDFC Principles for Fostering Sustainable Development

I. Background

The International Development Finance Club is a network of 19 development finance institutions with mandates for national, sub-regional, regional and international activities around the world. Each institution has a critical role in bridging critical funding gaps, co-developing with governments enabling regulatory and policy environments, building technical competencies, strengthening institutions and catalyzing investment in new economic, social and environment sectors. The members of the IDFC are key players in collaborating with the governments, private sector and civil society and towards advancing the sustainable development agenda. The IDFC members have a successful and measurable track record of integrating sustainable development pillars into their mandates.

II. Addressing the Challenge of Fostering Sustainable Development

Sustainable Development is Development for All: for the rich and the poor, for developed and developing nations and for present, but most important for future generations. Sustainable development is also a transition process from the current inadequate treatment of inclusive development and the limits of the planet to a new context that allows for improved human well-being, social equity and the respect of planetary boundaries.

At this moment, the fundamental focus of a sustainable development drive entails the full comprehension and organization of the process of moving away from a resource-intensive system, to a system that brings us towards a more “sustainable and desirable economy-in-society-in-nature”¹ state. Sustainable development is thus a transition to a new frame of mind, to new ethics, to new

¹ Drawing on the title of Costanza et al report to the United Nations for the 2012 Rio +20 Conference: Building a Sustainable and Desirable Economy-in-Society-in-Nature

responsibilities, to new challenges, to new risks, to new behavior and to a new social framework.

It is clear that sustainable development involves a broad range of issues and transformations that must be approached and tackled in a holistic fashion if change is to be effective. It is not possible to fully address mitigation of greenhouse gas emissions without addressing behavior and consumption patterns, for example, just as it is not possible to reduce technological gaps between countries without designing local innovation policies and technological cooperation arrangements between developed and developing nations. It will also be necessary to focus on human well-being and to go beyond GDP measurement and growth. It will be necessary to recognize the values of natural and social capital. New metrics and new indicators must be introduced and adopted. In this way, sustainable development and a thorough transformation of society are intertwined concepts. Structural change, in short, is the bottom line of sustainable development.

In practical terms, we are talking about implementing investment-led long-term strategies that run both on active industrial, social, and technological policies as well as on market forces under proper, enabling framework conditions. The successful implementation of such policies and enabling market conditions depend on the active support from the national authorities (and their development financing institutions) and the participation of the private sector. Here the development banks come in with their expertise in catalyzing change towards desired objectives and in using their funds to leverage private investments. A longer-term financing approach, the ability to provide loans with incentives for strategic sectors, and the capacity to de-risk private capital explain this positive externality on the side of development institutions.

Anticipation and leverage are features that must be underscored. When we consider the high volume of resources that are needed for the process of promoting a successful transition to sustainable development and the limited volume of funds that are currently being destined to this end, it becomes clear

that the leveraging capacity of development banks will play a critical role in the process. Designing long-term policies and sectoral frameworks and placing them as soon as possible into execution will also be extremely important, considering the high present value of mitigation of future impacts and the insurance against the non-linear effects of planetary damage, aspects which are well beyond our knowledge and control. This also takes into account important macroeconomic considerations such as the design of poverty alleviation strategies, environmental services protection, and reduction of throughput, productivity boosts and the design of much needed comprehensive “production sector policies”.

Thus, it becomes evident that there is here a special call for the development banks to exercise their expertise in offering to the economic agents the resources and instruments that will facilitate and accelerate their insertion into a more sustainable, social and ecological economy that is needed.

III. The Pledge

The IDFC members pledge to heed to this call, placing their technical and operational capacity in favor of the process of accelerating transition towards a sustainable development.

The IDFC members pledge to channel their resources to enable a business environment for sustainable development investments, leveraging as a consequence public and private resources.

The IDFC members pledge to align themselves within the new principles of sustainable development as a fundamental preparatory step towards exercising the catalyst and coordinating role of providing for the transition to this new paradigm. This involves such effects as training staff, establishing an enabling sustainable development within each institution which includes the provision of information, tools and priorities that favor the design of financing facilities and,

also, the alignment of internal practices (such as procurement policies) with the sustainable development imperative.

The IDFC members pledge to recognize nonmarket contributions to human well-being from natural and social capital.

The IDFC members pledge to consider “that true development must be defined in terms of the improvement of sustainable well-being (and) not merely (the) improvement in material consumption”².

The IDFC members pledge to promote sustainable development based on the economic, social and environmental bottom-lines and to enhance features such as innovation and regional integration.

The IDFC members pledge to abide to those socio-environmental safeguards which represent fair expectations of society.

The IDFC members pledge to support the establishment of new market mechanisms (which can include new regulation and local, national, or regional cap-and-trade systems) for environmental assets with the intention of making prices better reflect environmental values.

The IDFC members pledge to invest in sustainable infrastructure (such as renewable energy, public transportation and water and sanitation) and in public knowledge platforms to help advance the dissemination of new technologies.

The IDFC members pledge to help reduce incentives that support unsustainable production and consumption patterns.

The IDFC members pledge to enhance the financial prudence of their investments, taking great care in reducing the accumulation of risks that could precipitate social and environmental impacts.

² - Ibid note 1

The IDFC members pledge to be transparent and accountable to society.