The Role of National Development Banks in Mobilizing International Climate Finance

Washington, D.C., April 18 & 19, 2012

SUMMARY NOTES

The Association of Development Financing Institutions in Asia and the Pacific – ADFIAP, the Agence Française de Développement – AFD, the Latin American Association of Development Financing Institutions – ALIDE, the German Federal Ministry for Economic Cooperation and Development – BMZ, the Development Bank of Southern Africa – DBSA, the Inter-American Development Bank – IDB, KfW Bankengruppe, the United Nations Environment Programme – UNEP, the United Nations development Programme – UNDP, and the World Resources Institute – WRI, have jointly organized a workshop on "The Role of National Development Banks in Mobilizing International Climate Finance", in the headquarters of the Inter-American Development Bank, in Washington, D.C., on April 18-19, 2012.

The workshop was attended by 169 participants (see full list attached), including representatives of national and regional development banks, first tier public and commercial banks, finance and environmental ministries, multilateral and international agencies, non –governmental organizations and climate change experts. The main objectives of the workshop were to provide for a platform to discuss:

- Opportunities and challenges for the implementation of the Green Climate Fund and the extent to which national development Banks can guarantee the fulfillment of the guiding principles and operational requirements of such fund.
- The role of treasuries and public sector financial institutions in the coordination and leverage of international, national, public and private funding.
- Experiences with international climate funds and market mechanisms in order to draw lessons and make recommendations to improve their implementation or the design and implementation of any new international climate fund, such as the Green Climate Fund.
- Potential common recommendations that could be presented to international processes such as the Rio+ 20 conference in June 2012 and the Climate Change Conference in December 2012.

The workshop was organized around a series of presentations followed by panel and working group discussions. The event showed that there is a great opportunity to work with national development banks and local financial institutions to leverage international climate finance and promote transformational low carbon resilient programs. While many examples of efforts to develop programs

to address climate change by regional/national DBs and local FIs are already underway, there is still a huge need for capacitating DBs and local FIs to have sufficient technical capacity to integrate new aspects from the climate change agenda in their business and play a more proactive and effective role in promoting climate change mitigation and adaptation. Efforts will also be needed to enhance national public policy frameworks that promote and incentivize the participation of national development banks in climate finance. Finally, a key aspect for efficient leveraging and implementation of the programs will be to consider ongoing experiences from local financial institutions with development programs and finance at local level when developing rules and criteria to access international climate finance and to monitor, report and verify expected results.

A summary of discussions that took place in the workshop is provided below, more detailed information including web cast of some of the presentations is available at: http://events.iadb.org/calendar/eventDetail.aspx?lang=en&id=3472.

DAY 1: High Level Segment

Challenges and opportunities for international climate change finance and the international Green Climate Fund

Opening remarks

- Santiago Levy, Vice President for Sectors and Knowledge, Inter-American Development Bank (IDB) – TBC
- Rodrigo Sanchez Mujica, President of Latin American Association of Development Financing Institutions (ALIDE)
- Amy Fraenkel, Director and Regional Representative, Regional Office for North America, United Nations Environment Programme (UNEP)
- Jean-Yves Grosclaude, Executive Director, Operations, Agence Française Développement

Opening remarks highlighted the scale of the climate change challenge and the scale of investments needed in low-carbon technologies in order to address the challenge. Speakers noted that national development banks (NDBs) are already playing a key role in development in their countries, and addressing market failures. However, there is a need to expand the role of NDBs in climate finance in order to shift countries onto a path of low carbon, climate resilient development.

Session I: Introduction and context– International Climate Change Finance

Moderator: Alexis Bonnel, Cross-Operations Department, French Development Agency (AFD)

Presentations[1] :

- Maria Netto, Lead Climate Change Specialist, Inter-American Development Bank (IDB)
- Chantal Naidoo, Divisional Executive Environment Finance, Development Bank of Southern Africa (DBSA)
- Barbara Buchner, Director, Climate Policy Initiative (CPI)

The presentations introduced the landscape of climate finance and discussed the importance of public climate finance mechanisms (including the international climate funds, national climate funds and budgets, market mechanisms and national and international policies) in leveraging private sector investment to catalyze transformation toward low carbon, climate resilient development. Presenters noted the importance of the Green Climate Fund as a new institution that will have the potential to catalyze climate finance at a large scale, provide developing countries with direct access to climate finance, address some of gaps in the current climate finance architecture, and be transformational in its impact.

Session II: Discussion – The Green Climate Fund within the current international climate finance architecture: challenges and opportunities

Moderator: Manish Bapna, Acting President, World Resources Institute

Panelists:

- René Castro, Ministry of Environment, Costa Rica
- Naoko Ishii , Deputy Vice Minister of Finance for International Affairs, Ministry of Finance, Japan
- Gilbert E. Metcalf, Deputy Assistant Secretary, Environment and Energy, U.S. Treasury
- Nick Dyer, Director of Policy Division, Department for International Development, United Kingdom
- Bambang Brodjonegoro, Head of Fiscal Policy Office, Ministry of Finance, Indonesia
- Alejandro Diaz de Leon, Chief of the Public Credit Unit, Ministry of Finance, Mexico

[1] Presentations are available on the event website at: http://events.iadb.org/calendar/eventDetail.aspx?lang=en&id=3472


Perspectives from countries

Panelists presented some brief perspectives on existing experiences in climate finance from their own countries and experiences.

- Costa Rica experienced major deforestation in the 1990s, but was able to reverse the trend through national policy, revenues from a fuel tax and with support from Germany and the Nordic countries. It aims to be the first carbon neutral country in the world by 2021, and is developing innovative new industries around carbon neutral products, for which national banks play an important role in providing finance.
- Indonesia has set up a number of funds to manage climate finance:
  - the Indonesia Climate Change Trust Fund, managed by the government, aims to align climate and development objectives and has received support from DfID and AusAid, but is experiencing challenges in scaling up and is thus far only supporting three pilot projects;
  - the Indonesia Green Investment Fund is being developed as a state-owned enterprise with the aim of leveraging private sector and market based instruments for renewable energy and sustainable land use;
  - the Fund for REDD+ in Indonesia is being established to manage results-based payments, as well as grants and investments for REDD+, and has received initial support from Norway.
- In Mexico, the National Infrastructure Fund was an effective model in fostering private sector investment in infrastructure development.

Role for the Green Climate Fund

Panelists discussed some of the gaps in the existing climate finance architecture that the Green Climate Fund could be well-placed to fill. Some areas in which panelists felt the GCF could play a crucial role include:

- Providing a range of financial instruments, such as instruments that can address risk, including technology risk and risk associated with being a first-mover in the market;
- Support for putting in a place a policy frameworks that incorporate environmental and climate change factors into national development planning and decision and making, thereby enabling a paradigm shift toward low carbon, climate resilient development;
- Achieving a global scale by including a broad involvement of contributor and recipient countries and supporting a broad range of activities;
- Facilitating and promoting direct access of recipient countries to climate finance;
- Leveraging and catalyzing private sector investment in low carbon technologies.

Role of National Development Banks

Panelists noted that NDBs can play an important role at the national level in bringing together funds from a variety of sources and supporting the effective implementation of climate change policies and strategies. A number of features of NDBs that makes them well placed to play a more central role in the climate finance landscape at national level were discussed, including their knowledge and understanding of local market failures, their access to decision makers and their legitimacy as nationally-owned institutions, their financial intermediation capacity, as well as their ability to take risks that other financial institutions may not be willing or able to take. It was noted that NDBs may not always have the requisite capacity to manage climate finance, and may need support to build this capacity. One panelist cautioned that an increased role for NDBs in climate finance should not come at the cost of restricting competition in local financial markets, and that there may be cases in which other institutions are better placed to manage climate finance than NDBs. The role of NDBs in promoting and leveraging private sector investment at the national level was also discussed, and panelists noted that NDBs can promote private sector involvement in climate finance by altering the risk-return balance in favour of climate friendly investments; promoting changes in policy frameworks that are conducive to investment in low carbon technologies; and by supporting smaller private sector actors such as small and medium sized enterprises in low carbon sectors.

DAY 1: The role of public and national development banks in climate change finance

Opening:

Opening remarks by Kurt Focke, Chief of the Capital Markets and Financial Institutions Division at IDB and Walter Vergara, Chief of the Sustainable Energy and Climate Change Unit at IDB highlighted the scale of the climate change challenge and the importance of leveraging additional funds to address it, and noted the important role that development banks are currently playing and the opportunity for them to play a much bigger role in the future.

Session I: The role of national development banks in the promotion and execution of climate change finance

Moderator: Maria Netto, Lead Climate Change Specialist, IDB

Presentation: Diana Smallridge, International Financial Consulting Ltd., Canada

Panelists:

- Chantal Naidoo, Divisional Executive, Environmental Finance, DBSA
- Inada Kyosuke, Advisor, Office for Climate Change, Japanese International Cooperation Agency (JICA)
- Gustavo Merino Juárez, General Director, Financiera Rural
- Marcio Macedo Da Costa, Head of Environmental Department, BNDES
- Dinia Fatine, CEO, Caisse de Dépôt et de Gestion CDG Capital, Morroco
- Siddhant Pandey, Chief Executive, Ace Development Bank

The presentation highlighted the significant role that NDBs could play in climate finance, and considered some of their characteristics that make them well suited to play a more central role:

- Their development mandate and their ability to promote financing and associated market development in underserved sectors;
- Their ability to develop strong relationships with national government and integrate development priorities into climate investment;
- Their ability to take risk that other financial institutions might not be willing or able to take;
- Their ability to bring in different actors and blend, intermediate and leverage different sources of finance, both at national and international levels;
- Their familiarity with the local context and understanding of local market failures, as well as risks and opportunities;
- Their role as incubators of new financial products and aggregators of small scale projects;
- Their linkages between national and international institutions and between public and private sector actors.

The panel discussion explored the role of NDBs further and noted some of the conditions under which NDBs could play a more active role in climate finance and some of the areas in which they would need support. Some key observations included:

- In many cases, NDBs need capacity building and awareness of the risks and opportunities around climate change and how they can be part of the solution
- NDBs need to operate in a supportive political environment – the experience of Ace Development Bank in Nepal, which provided training to local financial institutions to finance solar home systems for rural communities, showed that limited support from the government can reduce the impact and replicability of an effective project with climate and development benefits.
- National needs and contexts differ widely between countries, and it is important for international climate funds to provide sufficient flexibility to meet these diverse needs.
- Coordination of policies and actors at the national level and integration of NDBs with national policies is crucial in order for NDBs be effective and influential players at the national level - in Brazil, there are several sectorial policies for agriculture, industry, infrastructure, deforestation, etc., and the national development bank BNDES has a mandate enact these policies, and has the support of the federal government to do so.
- The importance of partnerships between NDBs and national government was also highlighted through the case of the Development Bank of Southern Africa (DBSA), which works closely with various government Ministries and has a mandate to support government to develop various climate-related policies and initiatives, including South Africa's integrated resource plan and its national climate policy, as well as its national Green Fund from which DBSA will be the manager. It has also created platforms to engage international finance institutions and donors.
- Financial instruments deployed by NDBs need to improve productivity and innovation, and have poverty reduction benefits.
- The importance of responding to climate change is not fully recognized by all actors in developing countries, and many local level actors lack the information and capacity to comprehend the complex international climate finance architecture, and MDBs and NDBs have an important role to play in legitimizing and emphasizing the importance of the issue.
- NDBs will play a crucial role in implementing direct access modalities and in demonstrating efficient delivery of funds with local knowledge for the benefit of the most vulnerable, and in implementing national climate change policies.
- The international climate finance architecture (including the new GCF) needs to more explicitly acknowledge the role of NDBs as key players and stakeholders in climate finance.

Session II: Round Tables

Moderator: José Juan Gomes, Lead Financial Markets Specialist, IDB

The round table discussions provided an opportunity to explore the above issues in more detail and draw on the lessons learned from experiences of participants. A number of points came out strongly from the majority of round tables:

- NDBs work according to national development priorities, not for climate change objectives *per se*. Climate change considerations need to be integrated into development planning.
- National policies around low carbon and climate resilient development need to be clear and consistent, and NDBs need to be familiar with national polices and have a clear mandate in implementing them.
- Different stakeholders have different roles to play and different strengths –NDBs can position themselves to take more risk, but need to share risks between different actors, and international finance should provide additional incentives for projects that would otherwise be marginal for NDBs.
- NDBs need capacity building support to take on a more central role in climate finance.

Day 2: The role of public and national development banks in climate change finance

Session I: Experiences in changes in public policy frameworks that have enhanced the effective participation of the development bank in climate finance.

Moderator: Roberto Borjabad, Head of Climate Change Mitigation Unit, Regional Office for Latin America and the Caribbean, UNEP

A presentation by Hernan Carlino of Torcuato Di Tella Institute (ITDT) in Argentina emphasized the need for a clear, coordinated response to climate change at the national level that is aligned with national development goals and gives a clear mandate to NDBs. Policies should provide conditions to assist adaptation and mitigation efforts and financial incentives to shift the risk-reward balance in favor of low carbon investments in order to promote private sector engagement in this space. There are a wide range of policy instruments available, including tax instruments, subsidies (or removal of fossil fuel subsidies), support for research and development, emissions trading schemes, regulations and standards and insurance policies, amongst others. It was noted that the financial sector can be an important agent of change, by developing new services, financial instruments and products, and incorporating climate change considerations into lending portfolios, and that there is a need for more

emphasis on financing small and medium enterprises, which have a lot of potential to be part of the solution.

Roundtable discussions explored further the role of public policy in enhancing the participation of NDBs in climate finance. Some of the key messages that came out of the discussions include:

- NDBs need to have a clear mandate, both from their governments and from the Boards
- Governments need to make their priorities clear and set coherent policies, targets and incentives
- NDBs should be involved in the policy planning and design process. In Brazil for example, BNDES has played an important role in shaping the climate change agenda and is a key player in implementing policy.
- An assessment of the capacity of NDBs and other financial institutions is helpful in identifying where there is a need for capacity building support.

Session II: Experiences of public, national and regional financial institutions in channeling and leveraging international climate change funding

Moderator: Romy Calderon, Chief of Research and Information, ALIDE

A presentation by Christoph Sigrist, Head of Energy and Economic Development in the Latin America and the Caribbean Division and Pablo Obrador, Senior Manager of Energy and Economic Development of KfW spoke of the experiences of KfW as a development bank involved in financing domestic programs as well as providing international support. KfW has a long tradition of financing environmental projects and programs in Germany and internationally, and makes use of a mix of instruments including grants, concessional loans, equity, mezzanine finance, and technical assistance, as well as blending funds with those of other financing institutions. KfW generally lends to development banks, which lend to first tier banks, which lend to the end user – at each level of banking, there should be some level of concessionality to incentivize engagement in the deal. KfW has been effective in leveraging capital markets through this approach. The presenters noted the role of development banks as policy advisors and agenda setters on national climate policy, and their ability to bring together different actors at national and sub-national levels and to provide an adequate mix of instruments to attract climate-related investment.

In the roundtable discussion, participants noted that the NDBs have generally played a limited role in shaping policy, and in many countries have come in at the operational stage, however their knowledge of local markets and ability to coordinate between national and international actors makes them well placed to play a more pro-active role in shaping policy. NDBs can be critical in promoting new

investment as they can blend sources of finance and provide guarantees against risk. It was noted too that NDBs differ widely in their institutional capacities and familiarity with climate changes issues, and thus in their role as brokers of climate finance between national and international institutions. Some NDBs need technical assistance and other support to more effectively play this role. It was cautioned that it important to ensure that MDBs do not interfere with that of NDBs.

Session III: Experiences in the structuring and implementation of program and project monitoring, reporting and verification (MRV) systems.

Moderator: Dennis Tirpak, World Resources Institute

Presentation: Martin Schroeder, KfW carbon Fund

Panelists:

- Javier Warman, Deputy General Director, Strategic Planning and Sectorial Analysis, Financiera Rural
- Claudio Forner, Program Officer NAMAs and Registry, United Nations Framework Convention for Climate Change Secretariat (UNFCCC)
- Ari Huhtala, Senior Environmental Specialist, World Bank
- Helen Montfourd, Organization for Economic Cooperation and Development (OECD)
- Maria Netto, Lead Climate Change Specialist, IDB

The discussion focused on the reasons why monitoring, reporting and verification is important and some of the challenges involved with implementing MRV systems. Some of the key points include:

- MRV adds additional complexity to the discussion, but it presents an opportunity to ensure the effectiveness of programs and the achievement of results
- MRV can support strategic decisions making by helping contributors to identify how they can use their money to get the best impact
- MRV is costly to implement – it is important to ensure that the costs of implementing MRV systems do not become higher than the benefits of climate finance.
- The importance of MRV and the level of detail required will depend on the objectives that the climate finance is intended to achieve. In the case of a carbon market, for example, detailed MRV will be important to ensure that the certificate or permit being traded accurately reflects the reduction in greenhouse gas emissions that it represents.
- In some cases it is very difficult to identify how and what to measure, report and verify – for example when climate finance supports broad programmatic objectives or the development of

policy or capacity building activities, which show results over longer periods of time and not easily attributable to a particular intervention.

- There is no "one size fits all" MRV system – it needs to be tailored to the specific context and objectives of the intervention.
- Notwithstanding the above point, there is a need for greater harmonization of and coordination between contributors of climate finance in order to allow greater comparability between initiatives, to allow scalability and replicability of MRV systems, and to reduce the administrative burden on recipient countries.
- Transparency in MRV systems is important to ensure that the methodology for measuring effectiveness is clear.
- Greenhouse gas emissions reductions per dollar spent is an often-used measure of effectiveness and can be an insightful measure, but it is important to keep in mind that climate finance can have numerous objectives and this measure alone can be a misleading signal of effectiveness.

Session IV: Strategic alliances for leveraging private sector investment

Moderator: Virginia Sonntag O'Brien, UNEP

A presentation by Franco Pisa of Bancolombia described the experience of a commercial bank in developing innovative financing for climate change mitigation, and noted that private sector clients need support in the following areas: i) knowledge of climate change and the risks it poses as well as the opportunities it presents for innovation; ii)technical support for developing climate related projects, including support for feasibility studies; and iii) financial support. NDBs have an important role in providing technical and financial support, and it is important that they provide concessional finance to incentivize investment in climate related projects.

The round table discussions delved into the topic of leveraging the private sector in more depth. It was noted that the private sector will not be attracted to invest in low carbon projects if the requirements for accessing climate finance are too burdensome or the process too slow or complex, or if it is perceived as too risky. There are a number of instruments available for attracting private capital, including grants (which are critical for technical assistance), loans (including concessional loans), equity and guarantees (which are important for attracting investment in projects for which there are high risks or limited experience). These instruments can be applied in different ways across different sectors. Participants also discussed how the private sector facility of the Green Climate Fund should be structured and how it should engage with NDBs. Participants noted that the private sector facility should be sustainable, scalable, able to leverage investment, address risk, and provide technical support, and

should include a wide range of eligible beneficiaries such as NDBs, private banks, funds, micro-finance banks, and insurance facilities.

Next steps

Moderator: Rodrigo Sanchez Mujica, President, ALIDE

Brice Lalonde, Executive Coordinator of Rio+20 for the United Nations, discussed the upcoming Rio+20 conference and noted the importance of addressing broader sustainable development goals through a range of sources including innovative sources and the private sector, and engaging a wide range of actors including NDBs.

Conclusions and reflections

Presenters:
- Ana Maria Rodriguez-Ortiz, Sector Manager, Institutions for Development, IDB
- Remy Rioux, Deputy Assistant Secretary, Ministry of Finance, France
- Eduardo Vasquez, Chief of Institutional Relations, ALIDE
- Christoph Sigrist, Head of Energy and Economic Development, Latin America and the Caribbean Division, KfW

Closing remarks re-iterated the important role that NDBs can play in providing climate finance and supporting a shift toward low carbon, climate resilient development, and the unique features of NDBs that make them well suited to play this role more pro-actively.