

# The Role of Development Finance Institutions and Development Banks in Scaling Up Green and Climate Investments

High-level meeting of senior management representatives from  
Development Finance Institutions and Development Banks

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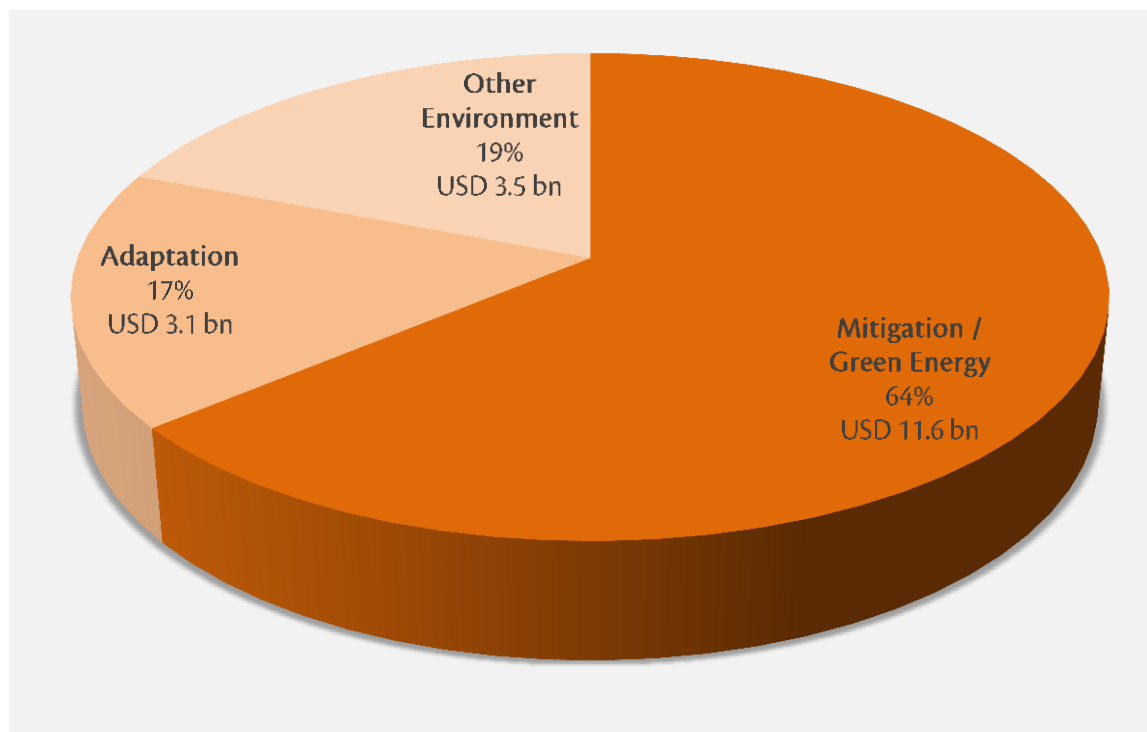
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# The role of DFIs and DBs in green and climate finance

DFIs and DBs play a significant role in financing countries' green economic development

- In 2012, the 15 surveyed DFIs and DBs committed approximately USD18.2 billion to green and climate finance.
- DFIs and DBs are typically well placed to address country risks, operational and project-related risks and technology risks.



# The role of DFIs and DBs in fossil fuel projects

## DFIs and DBs continue to finance fossil fuel projects

- 10 surveyed institutions have a strategy or quantitative target(s) for financing green economic sectors
- 9 DFIs and DBs have either a strategy to limit, or selection criteria to guide investments in financing fossil fuel extraction, processing and use.
- 12 DFIs and DBs reported total new commitments to fossil fuel projects over the last 5 years, ranging between less than 1% and 10%.

## Current strategies in green and climate finance

DFIs and DBs have various financial and non-financial instruments to catalyze investment in green economic sectors

Type of instrument	Example
Sectoral budget support	Energy Renovation Infrastructure Assistance Program for the promotion of energy efficiency
Structured funds	<ul style="list-style-type: none"><li>• Funds in the form of a PPP</li><li>• Investment funds</li></ul>
Financing lines	<ul style="list-style-type: none"><li>• for generating CO<sub>2</sub> emission credits</li><li>• for the service sector</li></ul>
Public-Private Partnerships	<ul style="list-style-type: none"><li>• Base of Pyramid (BOP) business support</li></ul>
Performance based payments	<ul style="list-style-type: none"><li>• GET FIT</li></ul>
Risk financing arrangements	<ul style="list-style-type: none"><li>• Political risk insurance mechanisms</li><li>• Guarantee funds</li></ul>
Technical Assistance and Advisory Programs	

- 13 DFIs and DBs have participated in activities that specifically included co-financing or syndication deals for projects in green economic sectors.

# What stands in the way to more green and climate finance?

DFIs' and DBs' catalytic potential in green and climate finance faces a number of constraints

DFIs' and DBs' answers	Frequency of answer*
Projects'/technology bankability	37%
Limited availability of equity/dedicated and appropriate financial resources	19%
Shortage of skilled human resources	15%
Enabling policy framework / sectors strategy in recipient countries	7%
The creditworthiness of state or state-owned counterparties in developing countries	4%
Others (e.g., limitations from donors, weak governance structures, project size, etc)	11%

- In addition, some DFIs and DBs aim to **avoid risks related to currency, start-up businesses and prototype technologies.**

# How to scale up green and climate finance?

A variety of options could stimulate demand for green and climate investments

DFIs and DBs' suggestions	No. of respondents
Improving local institutional and regulatory frameworks and relevant national policy	7
Increasing concessional financing and incentives to boost participation in green growth activities	5
Discontinuing subsidies / concessional financing for fossil fuels	3
Establishing agreed, simple and clear methodologies, procedures, and investment criteria, as well as monitoring and evaluation and reporting frameworks	3
Supporting transparent public tender processes	2
Encouraging appropriate risk-sharing between the public and the private sectors	1
Facilitating grid access and/or transmission lines	1
Promoting and marketing DFIs' and DBs' capabilities	1
Developing local financial sectors	1

# Enhancing transparency of DFIs' & DBs' green & climate finance

Consistent information about green and climate finance ensures transparency, comparability and comprehensiveness

- 12 of the surveyed DFIs and DBs publicly disclose information on financing for green economic sectors.
- **Consistent information is currently not available to quantify DFIs' and DBs' respective role as intermediaries in channeling funding to private entities.**
- **Data on leveraged third party private investment are uncertain and respective methodologies in their infancy.**
- **Consistent data on the carbon intensity of DFIs' and DBs' portfolios or the amount of fossil-fuel related funding and respective methodologies are not existing.**

## Next steps

CPI suggestions to improve DFIs' and DBs' capacity to more effectively scale up contributions to green and climate finance

1. Aligning public policies and resources with investor-specific needs in target countries to foster a business-enabling environment
2. Empowering DFIs & DBs to develop more specialized human and financial resources for green and climate finance mobilization and intermediation
3. Developing a standardized, comprehensive tracking system with improved transparency about the carbon content of DFI & DB portfolios
4. Building systematic knowledge about DFIs' & DBs' best practices with regard to green and climate finance



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