

Cities Climate Finance Leadership Alliance Webinar: Enhancing the Role of National Development Banks in Supporting Climate-Smart Urban Infrastructure

August 5, 2020

National Development Banks (NDBs) are generally well positioned to support climate-smart urban infrastructure investments, and to address larger systemic challenges facing cities in their efforts to contribute to the Paris Agreement goals as well as broader development objectives. With more than USD 5 trillion in assets and several comparative advantages relative to other financiers, NDBs are key to leading this shift.

On August 5, 2020, the Cities Climate Finance Leadership Alliance (the Alliance), hosted a webinar to accompany a recently published policy brief commissioned by FELICITY-GIZ and developed in collaboration with the Alliance, entitled '[Enhancing the Role of National Development Banks in Supporting Climate-Smart Urban Infrastructure](#).' During the webinar, experts from NDBs, urban institutions, and other key partner organizations reflected on the challenges and opportunities facing NDBs, cities, and the private sector for financing climate-resilient urban infrastructure.

In opening remarks, **Inga Beie, Advisor at FELICITY**, highlighted the great potential and demand of NDBs to support cities and project promoters in the development of sustainable urban infrastructure projects. To accelerate urban climate finance and maximize NDBs' potential in supporting cities, the Leadership for Urban Climate Investment (LUCI) initiative, launched at 2019 UNSG Climate Action Summit, aims to provide a framework to close gaps in the subnational financial architecture by addressing the key structural constraints of the entire investment value chain. **Priscilla Negreiros, Project Manager of the Alliance**, introduced the key points and recommendations from the policy brief, also emphasizing the important role that the Alliance and LUCI could play by convening key players, raising awareness, motivating action with clear targets, and tracking and analyzing the contributions of NDBs.

Climate-smart urban infrastructure projects face several challenges, both on the supply and demand sides of investment. This includes regulatory conditions, a lack of bankable project pipelines, limited capacity to structure urban infrastructure projects, and investment level challenges, such as high transaction costs. There are several ways to enhance the role of NDBs as supporters of climate-resilient urban infrastructure. Some of these opportunities can be pursued by NDBs themselves, while others require the involvement of, and support from, other actors such as national and local governments, bilateral cooperation agencies, MDBs, or International Financial Institutions.

To support cities, NDBs must revise mandates and policies to prioritize climate-smart urban infrastructure and seek support from international networks and international climate funds. Finally, NDBs can develop and deploy additional product offerings, for example, project preparation facilities and risk mitigation instruments.

Reflections: Opportunities and challenges for NDBs and Cities

Three speakers were asked to reflect on the findings and recommendations of the policy brief:

Boitumelo Mosako, Chief Financial Officer of Development Bank of Southern Africa (DBSA), emphasized how the challenge of achieving the goals of the Paris Agreement could provide a great opportunity for NDBs to prioritize climate-resilient urban infrastructure and play an important role in reaching these goals. Ms. Mosako highlighted DBSA's strategic mission in providing integrated infrastructure solutions across the value chain and the critical role of the bank's climate finance unit in developing policies and strategies. Furthermore, she stressed the great opportunity for DBSA to act as a catalyser and underlined the unique position of the bank to drive regulatory changes being owned by the South African government.

The scale of infrastructure investments is enormous and NDBs cannot do it alone, and there are also fiscal constraints to consider. Therefore, there must be innovation around financial instruments. This will lead to de-risking mechanisms and allow for the private sector to participate in infrastructure investments.

Anna Jayme, Advisor on Public Investment and Financing at the Institute of Research and Urban Planning of Curitiba (City of Curitiba, Brazil), echoed these thoughts and mentioned that Brazilian cities are facing financial issues that will deteriorate further due to the pandemic. She suggested that the Brazilian Development Bank could help cities by increasing its support in project preparation, adopting a more proactive approach to organize a portfolio of climate infrastructure projects, and by offering more attractive financing with lower interest rates.

In addition, she indicated that NDBs can play an important role in providing incentives to a network of cities which are committed to climate-resilient urban infrastructure to create a pipeline of projects. While Brazilian cities cannot issue bonds to finance infrastructure projects, green bonds from other issuers could also be a great new addition to increase investment and as Ms. Jayme discussed, the Brazilian Development Bank could support this transition.

Edgar Salinas, Executive Principal, Environment and Climate Change Division at Development Bank of Latin America (CAF), remarked that only few cities in Brazil have the capabilities to integrate climate-resilient infrastructure with only four cities fully committed to the goals of the Paris Agreement and developing their climate action plans. Mr. Salinas acknowledged that a major barrier for many cities, especially in developing countries, is a lack of access to international credit markets. NDBs could assist cities in improving their creditworthiness. To address this, CAF has developed alliances with local banks in Brazil and these banks have mandates to work with municipalities. Such partnerships help local banks improve their reporting practices as CAF requires reporting on urban interventions, which contribute to a green economy. The challenge, however, is to make the reporting systems compatible across the value chain. CAF has resources to help intermediate banks develop their processes and to recognize when an intervention is addressing a climate change issue.

Key discussion points

- **Strengthening NDBs' capacity beyond just financial investment could have a positive impact on supporting the acceleration of climate-smart urban infrastructure development.** CAF, for instance, has created an initiative to

provide a holistic approach for urban interventions. This means, whenever CAF is offering finance for urban projects, there is additional focus on efficiencies in urban planning and how that intervention is placed in the context of the city.

- **Small cities often do not have the fiscal capacities to engage with international institutions and carry a greater risk, highlighting the importance of NDBs and Subnational Development Banks.** In Brazil, the guarantee, which they would have with the local bank is based on revenue stream from a tax collection system. This protocol helps to minimize the risk and has enabled CAF to conduct more business with local banks which address climate change risk.
- **One challenge is that some NDBs can lend to cities but cannot lend to municipal utility companies or municipal housing companies, where urban climate finance is needed.** This is the case in some, not all countries. In Brazil, CAF and state level banks have mandates to engage with utility companies. In most cases that would be a public sector loan if that service is in hands of the municipality or a PPP. State level banks do have mandates to engage with PPPs. CAF also has loan operations with PPPs if the amount and conditions are met. This is an important consideration for NDB mandates, and as a next step, the recommendations of the policy brief will be employed to create practical and actionable solutions to address current challenges, including this point.
- **Developing investment-ready proposals and building capacity in developing pipeline of bankable projects both at regional and national level is a key issue.** One of the key questions is how to deal with the lack of bankable projects. Project preparation plays a key role in this matter and helps de-risking according to her. This is the reason why DBSA specifically focuses on project preparation and how to package projects. NDBs can play a key role in project preparation, with many of them presenting a sectorial expertise.
- **Adaptation projects: how can NDBs assist with capacity building?** Adaptation projects are very challenging to finance and implement. The common principles for climate finance tracking in adaptation specify that projects require a solid basis demonstrating the correlation between the projects and climate risks exposing a society or system to climate hazards. It is of absolute importance that NDBs are not passive project takers and engage in projects with their clients in developing countries and help address those issues, as stated in the recommendations of the policy brief. Ms. Mosako emphasized the importance of funding in this process. Taking the example of urban green bond issuance, she explained the importance of addressing the price benefit element of adaptation projects. Issuing green bonds has an important compliance cost with often no pricing benefits, and this needs to be addressed to attract the private sector players into the financing process of adaptation projects.

****This summary was written by Victoire de Carné and Atta Oraee***