Co-funded by the European Union

National DFIs: Critical allies for climate action
Why and how can they be more involved in climate finance?
ICReport in the series on Innovative Finances

Executive Summary

National development finance institutions (NDFIs) can play a vital role in promoting climate financing and thus achieving Nationally Determined Contributions (NDCs) due to their knowledge of local markets, their close connections to domestic public and private stakeholders and their ability for local currency financing. However, currently NDFIs are not involved as intensively in this field as they could be. This report discusses and recommends how national development finance institutions could play a greater role in climate financing, how they could be best supported by the ICR Facility and others to do so.

Key Findings

- Dialogue between NDFIs and national stakeholders engaged in climate policy and financing should be strengthened.
- NDFIs would benefit from additional capacity building and experience sharing on how to access international climate funds, including accreditation as well as development of project proposals.
- Accreditation and access to international climate funds for NDFIs should be promoted as it is a very effective approach to mobilise climate finance.
- In parallel, approaches beyond direct access for NDFIs should be explored further, e.g. partnering of NDFIs with public or private accredited financial institutions to structure climate action credit lines.

Implemented by

Content

National DFIs: Critical allies for climate action – Why and how can they be more involved in climate finance?

Background

The report builds on workshops "Regional Program on Mainstreaming Climate Finance Actions in National DFIs" the ICR Facility organized jointly with AADFI[1] and the discussions held with DFIs during the trainings. The trainings are part of the ICR Facility's 2nd component which supports national and sub-regional development finance institutions (DFIs). The article also adds to the ICR Facility's series on climate smart investments (CSI) which targets government and public agencies, practitioners and private sector representatives besides DFIs[2].

Development Banks worldwide

Currently more than 450 public development banks (PDBs) exist worldwide. 106 PDBs are in African, Caribbean and Pacific (ACP) countries, with 84 in Sub-Sahara Africa, 14 in the Pacific and 8 in the Caribbean[3]. About half are part of regional networks, such as the Association of African Development Finance Institutions (AADFI), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) or the Latin American Association of Development Financing Institutions (ALIDE) [4].

What are national DFIs? National Development Finance Institutions (NDFIs), are institutions that a national government fully or partially owns, that are legally independent and self-sustained and that have an explicit legal mandate to reach socioeconomic goals in a region, sector or market segment (NSE, 2019 & World Bank, 2018b[5]).

Why are national DFIs relevant for the development of a low-carbon climate resilient (LCCR) economy?

In general, NDFIs are particularly well positioned to catalyse climate-related (green) investments due to their proximity to domestic public and private stakeholders, their solid understanding of local market opportunities and their ability to support the financing and implementation of national policies in local currency. Often, they are also well connected to a wide range of finance sources, including international capital markets, institutional investors and regional and multilateral DFIs besides national governments. Furthermore, NDFIs can offer a variety of financing instruments, including grants, loans, equity and guarantees and can operate as blenders and dynamic mobilisers of concessional finance. Overall, this makes them very relevant partners for international climate funds. NDFIs can establish dedicated facilities to promote climate-friendly investments generally, e.g. the Climate Finance Facility of the Development Bank of Southern Africa (DBSA) [see p. 4] or in a specific sector as for example the BOAD's Climate Finance Facility to Scale Up Solar Energy Investments in Francophone West Africa LDCs [see p. 5]. Alternatively, NDFIs can operate fully as a green bank, as is e.g. planned with the establishment of the Rwanda Catalytic Green Investment Bank[6]. By channelling funds to climate-related investments, NDFIs not only provide funding to projects, but also play an important role in creating examples of resource mobilization for climate finance, thus encouraging domestic and international private sector investors to engage in the project pipelines and investment opportunities developed by NDFIs. This, in turn, may trigger more project development in climate-friendly areas.

---

[1] https://adfi-ci.org/news-166-regional-program-on-mainstreaming-climate-finance-actions-in-national-dfis.html

[2] The first event zoomed in on the different needs of climate smart businesses – from micro agricultural enterprises, to large water utilities and financial institutions – and how investment climate reforms can be tailored to unlock investment and accelerate climate adaptation. You can access the recording here. Future events and ICReports will be published on https://www.icr-facility.eu/knowledge-hub

[3] https://financeincommon.org/pdb-database

[4] For more information on regional DFI associations, see AADFI: https://www.adfi-ci.org/, ADFIAP: https://www.adfiap.org/, ALIDE: https://www.alide.org.pe/en/

[5] Xu et al (2019). Often, they are also referred to as National Development Banks (NDBs) or Public Development Banks (PDBs).

[6] https://coalitionforgreencapital.com/projects/green-banks-in-developing-countries/

Example Box 1: DBSA Climate Finance Facility (CFF)

Countries: South Africa, Eswatini, Namibia, Lesotho

Volume: 110m USD (55m GCF and 55m DBSA)

Financing Sources: GCF, DBSA

Implementation period: 2018 – 2024

The DBSA identified three key barriers that prevent investment in climate mitigation and adaption projects in the Southern African region: the limited tenor of financing that commercial banks can provide (usually max. 7-8 years), high interest rates, and the high perceived investment risk for such projects. With the Climate Finance Facility (CFF), the DSBA aims to address these barriers and thereby catalyse private sector low-carbon and climate resilient investments.

The CFF is the first-of-its kind facility in Africa, using a pioneering Green Bank model. It targets commercially viable technologies that cannot be fully financed by the private sector by taking early stage risks. It focuses on infrastructure projects that contribute to climate mitigation or adaptation, e.g. renewable energy, energy efficiency, and water efficiency. Financing is provided as first loss or subordinated debt as well as tenor extensions to allow financing for up to 15 years. The blended rate provided to projects by the CFF is more favourable than the market rates and the provision of subordinated debt and first loss reduces risks for commercial banks, helping to unlock private funds. For DFIs, the CFF can provide additional co-funding in the form of credit enhancement products.

Covering climate adaptation and mitigation projects, the impact of the CFF is estimated to be a reduction or avoidance of 29.7 tonnes of carbon dioxide equivalent. Furthermore, the installation of water systems will help avoid dismissal due to water shortages, thereby saving an estimated 22.6k jobs. Indirectly and directly, the project is set to benefit 466k people.

About the Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA) is one of Africa's leading development finance institutions (DFI) and is wholly owned by the Government of the Republic of South Africa. The DBSA's primary purpose is to promote inclusive and sustainable economic development, growth and regional integration through infrastructure finance and development that improves the quality of life for people in Africa. Established in 1983, the DBSA participates across the entire infrastructure value chain and provides planning, financing, project preparation and implementation support for economic and social infrastructure in South Africa, SADC and the rest of the African continent.

Further information: https://www.dbsa.org/EN/prodserv/CFF/Pages/default.aspx

However, the current situation does not yet enable the full potential of NDFIs. Often, international funds to fight climate change are preserved for DFIs in the OECD system and are not channelled directly to developing countries. By design, the Climate Investment Funds (CIFs)[7] are only directly accessible for 5 multilateral DFIs (MDBs), not for regional or national DFIs. The Green Climate Fund (GCF), however, is notably different: As of now, more than 10 NDFIs have direct access, reflecting the GCF's emphasis on country ownership and direct access by national entities (ODI, 2020). Other climate funds as the Adaptation Fund (AF) and the Global Environment Facility (GEF) also offer direct access for national organizations like NDFIs, but so far only a limited number of NDFIs has been accredited.

Compared to the $132 billion of climate finance from NDFIs, the $3 billon from international climate funds appear rather small (est. 2017 & 2018 numbers, ODI 2020). Yet, the former includes climate funds from all NDFIs, i.e. including those in developed countries. Further, most climate finance from NDFIs is market-level debt, whereas flows from international climate funds have a higher grant and/or concessional element which implies they can take on higher risk. Therefore, direct access to international climate funds is a relevant source of climate funds, especially for NDFIs in developing countries.

[7] https://www.climateinvestmentfunds.org/

Examle Box 2: BOAD Climate Finance Facility to Scale Up Solar Energy Investments in Francophone West Africa LDCs

Countries: Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Togo

Volume: 148.4m USD, thereof USD69.3m from GCF

Financing Sources: GCF, BOAD

Implementation period: 2019 – 2027

The six target countries are characterised by low access rates to modern energy services, high electricity costs, overreliance on fossil fuels and energy security challenges. In order to reduce the reliance on fossil fuel energy, these countries plan to reach 1,192 MW of installed solar capacity by 2030. However, this figure stood at only 70 MW in 2017. With the objective of decarbonising the energy mix of the Francophone West Africa Region and of improving access to clean energy, the programme facilitates bridging this capacity gap by accelerating private sector investments in cost-competitive solar technologies and the solar sector.

BOAD will help catalyse private sector investment by using a blended finance approach to provide affordable long-term funding to solar projects and by providing tenor extension loans that will help de-risk projects and crowd-in commercial capital. This approach is set to add 215 MW of new solar energy capacity and reduce greenhouse gas emissions by 4.8m tonnes carbon dioxide equivalent. Furthermore, the programme will provide technical assistance to BOAD, local project developers, and public institutions to improve the integration of climate change considerations into projects and to enhance the regulatory framework.

About the West African Development Bank

The West African Development Bank (BOAD) is the common development finance institution of the member countries of the West African Monetary Union (WAMU). It is an international public institution whose purpose, as provided under Article 2 of its Articles of Association, is to promote the balanced development of its member countries and foster economic integration within West Africa by financing priority development projects. It is accredited to the three climate finance facilities (GEF, AF, GCF). Since 2009, BOAD sits as an observer at the UNFCCC and actively participates in discussions on the construction of an international architecture for climate finance. It has hosted since January 2013, the first Regional Collaboration Centre (RCC) on the Clean Development Mechanism (CDM) whose aim is to provide direct support to governments, NGOs and the private sector in the identification and development of CDM projects. The Bank is committed to carbon neutrality by 2023 and is an active member of the International Development Finance Club (IDFC) which brings together 24 national, regional and bilateral development banks.

Further information: https://www.boad.org/

While higher than for other funds and growing, the number of NDFIs accredited for the GCF and thus their access to international climate funds is still low. One reason for this limitation is that many NDFIs do not yet comply with GCF accreditation requirements, thus imposing reforms in their governance structure, risk assessment process, M&E system, gender policy, etc. Secondly, the low number of accredited NDFIs may be due to an often low level of interaction between climate funds' NFPs/ NDAs and NDFIs.

The following table summarizes the relationship of NDFIs with some of the main public international climate funds:

	GCF	AF	GEF
National contact	National Designated Authorities (NDAs)	Designated authorities	GEF National Focal points (NFPs)
Type of support provided	Grants, Loans, Equity, Guarantees	Grants	Mainly grants, non-grant window
Size of funded projects (USD)[8]	9-250 Million (and above)	10 Million country cap	1-5 Million
Accreditation required?	Yes (GCF accredited entities)	Yes (AF implementing entities)	Yes (GEF agencies)
# of PDBs accredited/ with access to funding			
National (in ACP countries)	+10 (2: DBSA and DB Fiji)	2 Agricultural Bank/ Niger NABARD/ India	1 Dev. Bank of Southern Africa (DBSA)
Regional (in ACP countries)	13 (4: BOAD, CDB, CABEI, CAF)[9]	BOAD, CDB, CABEI, CAF	BOAD, CAF

How NDFIs can step up their engagement for climate financing

Several actions can be highlighted for NDFIs and their ecosystem:

Strengthening national dialogue: An enhanced cooperation and dialogue among all climate funds' national contacts, NDFIs and with UNFCCC national focal points is key to align NDFIs' goals and pipelines with climate action opportunities and needs. Yet, direct contacts between these focal points and NDFIs can be challenging due to a lack of common understanding on opportunities to collaborate. It is thus important to share knowledge products with and organise awareness raising events for climate funds' NFPs/ NDAs on the importance to cooperate with NDFIs.

Capacity building and experience sharing: NDFI representatives would benefit from additional capacity building on how to access climate funds, e.g. writing successful project proposals, and knowledge sharing about best-in-class climate project proposals. This could also materialize through more information and experience sharing by already accredited/ implementing entities of the international climate funds[10]. Regional organizations also have a role to play to boost the networking and knowledge sharing between their NDB members. In a recent workshop organised by the ICR Facility, GCF-accredited DFIs were invited to discuss with other AADFI members. Additional targeted support to NDFIs may include: Developing a coaching programme with assistance provided by already GCF-accredited NDFIs, creating a community of practice on climate finance, for instance in conjunction with the DFI Knowledge Hub which the World Federation of DFIs (WFDFI) is currently planning.

Promoting accreditation to international climate funds: Direct access to climate funds is a very effective approach to mobilise climate finance at country and local levels while maximising ownership and reinforcing national financing channels. It is therefore critical that international climate funds increase the number of NDFIs directly accessing their resources. Several NDFIs are currently in the process of accreditation, this trend should be actively supported and promoted. To this end, the GCF is called to provide more support for the accreditation of NDFIs, which may be delivered in the context of readiness programmes. The same applies for the AF

[8] Amounts excluding possible co-financing
[9] Banque Ouest Africaine de Développement (BOAD), Central American Bank for Economic Integration (CABEI), Corporación Andina de Fomento (CAF), Caribbean Development Bank (CDB)
[10] GCF: https://www.greenclimate.fund/about/partners/ae, GEF: https://www.thegef.org/partners/gef-agencies, AF: https://www.adaptation-fund.org/apply-funding/implementing-entities/national-implementing-entity/

and the GEF. One might even think about a "fast-track" accreditation approach for NDFIs which might allow to accelerate NDFIs' applications while maintaining the funds' governance and management preconditions and standards. Also, one could explore how the CIFs could engage more directly with regional and national DFIs, in addition to MDBs. While this may pose governance challenges within the CIFs, local impacts of climate finance and country ownership may be strengthened significantly.

Exploring opportunities beyond direct access: Indeed, climate funds' accreditation represents a significant effort in terms of time and resources. In the meantime, not yet accredited NDFIs can act as financial intermediaries: they can partner with public or private international financial institutions (IFIs) who can directly access GCF financing and can help local financing institutions for instance in structuring climate action credit lines. It may thus be relevant to build more alliances between NDFIs and IFIs. To further seize this role beyond accreditation, it may be meaningful to further advocate the importance of NDFIs in UNFCCC COPs and other relevant international and regional events, and to promote targeted communication vis-à-vis NDAs/ NFPs and relevant IFIs.

The ICR Facility can provide short-term technical assistance to DFIs upon request to support the implementation of these recommended actions. For more information about the technical assistance the ICR Facility provides and the application procedure, please see https://www.icr-facility.eu/request-form.

Further reading

- ODI (2020). Report "Securing climate finance through national development banks". By Stephany Griffith-Jones, Samantha Attridge and Matthew Gouett. https://www.odi.org/sites/odi.org.uk/files/resource-documents/200124_ndbs_web.pdf

- Climate Finance Leadership Alliance (2020). Enhancing the Role of National Development Banks in Supporting Climate-Smart Urban Infrastructure. https://www.citiesclimatefinance.org/wp-content/uploads/2020/08/Enhancing-the-Role-of-National-Development-Banks-1.pdf

- OECD/The World Bank/United Nations Environment Programme (2018). "Rethink development finance for climate", in Financing Climate Futures: Rethinking Infrastructure, OECD Publishing, Paris. https://www.oecd-ilibrary.org/docserver/9789264308114-9-en.pdf?expires=1606657079&id=id&accname=guest&checksum=BBC0AF1AADA638D2C49A0AECBDDC0A14

- IDB (2013). The Role of National Development Banks in Catalyzing International Climate Finance. https://publications.iadb.org/publications/english/document/The-Role-of-National-Development-Banks-in-Catalyzing-International-Climate-Finance.pdf

- Project Syndicate (2020). How Public Development Banks Can Help Nature. https://www.project-syndicate.org/commentary/how-public-development-banks-can-help-nature-biodiversity-by-elizabeth-mrema-and-carlos-manuel-rodriguez-1-2020-11?barrier=accesspaylog

- Jiajun Xu et al. (2019). NSE Developing Financing research Report Mapping Development Finance Institutions Worldwide: Definitions, Rationales, and Varieties; Institute of New Structural Economics, Peking University. https://www.idfc.org/wp-content/uploads/2019/07/nse_development_financing_research_report_no-1-2.pdf

Abbreviations

AADFI	Association of African Development Finance Institutions
ACP	African, Caribbean and Pacific countries
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AF	Adaptation Fund
ALIDE	Latin American Association of Development Financing Institutions
BOAD	East African Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Corporación Andina de Fomento – Development Bank of Latin America
CDB	Caribbean Development Bank
CDM	Clean Development Mechanism
CFF	Climate Finance Facility
CIFs	Climate Investment Funds
COP	Conference of the Parties
CSIs	Climate Smart Investments
DBSA	Development Bank of Southern Africa
DB Fiji	Development Bank of Fiji
DFIs	Development Finance Institutions
GCF	Green Climate Fund
GEF	Global Environment Facility
ICR	Investment Climate Reform
IDFC	International Development Finance Club
IFIs	International Financial Institutions
LCCR	Low-Carbon Climate Resilient
LDCs	Least Developed Countries
NABARD	National Bank for Agriculture and Rural Development (India)
NDAs	National Designated Authorities
NDBs	National Development Banks
NDCs	Nationally Determined Contributions
NDFIs	National Development Finance Institutions
NFPs	National Focal Points
NGO	Non-Governmental Organisation
M&E	Monitoring and Evaluation
MDBs	Multilateral Development Banks
MW	Megawatt
PDBs	Public Development Banks
OECD	Organisation for Economic Co-operation and Development
ODI	Overseas Development Institute
RCC	Regional Collaboration Centre
SADC	Southern African Development Community
UNFCCC	United Nations Framework Convention on Climate Change
USD	US Dollar
WAMU	West African Monetary Union
WFDFI	World Federation of DFIs

This paper was authored by Ludwig Liagre (Rio Impact) and Sarah Weiß (GIZ) with valuable input from the DBSA and the BOAD.

This paper is part of a series of four papers on Climate Smart Investments in ACP countries. The other three papers are:

- **Paper 1:** Stimulating investment for climate change adaptation in ACP countries: the role of private enterprises
- **Paper 2:** Mobilising international finance to stimulate investment into Climate Change Adaptation
- **Paper 3:** Domestic efforts for stimulating investment in Climate Change Adaptation

About the ICR facility

The ICR Facility is co-funded by the European Union (EU), the Organisation of African, Caribbean and Pacific States (OACPS) under the 11th European Development Fund (EDF), together with the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV.

The ICR Facility supports specific and targeted interventions at the economy-wide, sectorial and value chain level with Technical Assistance for up to 90 days based on requests. Requests can be handed in by OACPS public and private stakeholders according to the eligibility requirements.

The ICR Facility offers Technical Assistance in the field of Business Environment Reform for inclusive and sustainable economic development on the basis Public-Private Dialogue.

Imprint

The publication of this ICReport was led by GIZ. This ICReport was produced with the financial support of the European Union (EU), the Organisation of African, Caribbean and Pacific States (OACPS) under the 11th European Development Fund (EDF), the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV. The contents of the publication are the sole responsibility of GIZ and do not necessarily reflect the views of the EU, OACPS, BMZ or the other implementing partners.

The ICR Facility supports countries and regional institutions of the Organisation of African, Caribbean and Pacific States (OACPS) in their public-private dialogue process to create a more conducive and sustainable investment climate.

Publisher:
ICR Facility
Rue de la Science 14b 1040 Brussels – Belgium
www.icr-facility.eu

Author:
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH | Ludwig Liagre, Sarah Weiß

Design/layout:
Diamond media GmbH, Neunkirchen-Seelscheid

URL links:
Responsibility for the content of external websites linked in this publication always lies with their respective publishers. The ICR Facility expressly dissociates itself from such content.

Brussels, February 2021.

Implemented by

ICR Facility
Rue de la Science 14b, 1040 Brussels – Belgium
www.icr-facility.eu