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IDB

Role of National Development Banks in Promoting Climate Finance

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Key Features of National Development Banks

Development Mandate

Promotes financing and associated market development in underserved sectors

Public Sector Entity

Can interact with different levels of governments and potentially influence policy-making

Financial Institution

Is in the business of financing and risk taking, particularly in support of long term investments

Mobilizer

Works with private financial institutions and seeks to mobilize or attract co-financing

Project Structurer

Understands the risks and barriers and can shape and influence the project structure

Risk Taker

Can identify, manage, mitigate and assume risks that the private sector LFI cannot

Incubator and Aggregator

Can develop innovative and catalytic financial instruments and can manage small scale projects

International Partner

Has access to long-term hard currency borrowings and work closely with the MDBs, bilateral DFIs and foreign ECAs

Connector

Has connections to all of the relevant public and private sector actors

Conditions for effective scale up of private climate finance

Pre-investment phase

Policy development /
Enabling Environment

- Internal capacity
- National dialogue

Demand creation

- Project proponent education and awareness raising
- LFI education and awareness raising

Feasibility studies /
Project preparation

- Develop feasibility study for large projects
- Prepare Project / investment plan for smaller projects

Investment Phase

Financial structuring

- Debt on market terms
- Equity on market terms

NDBs Instruments

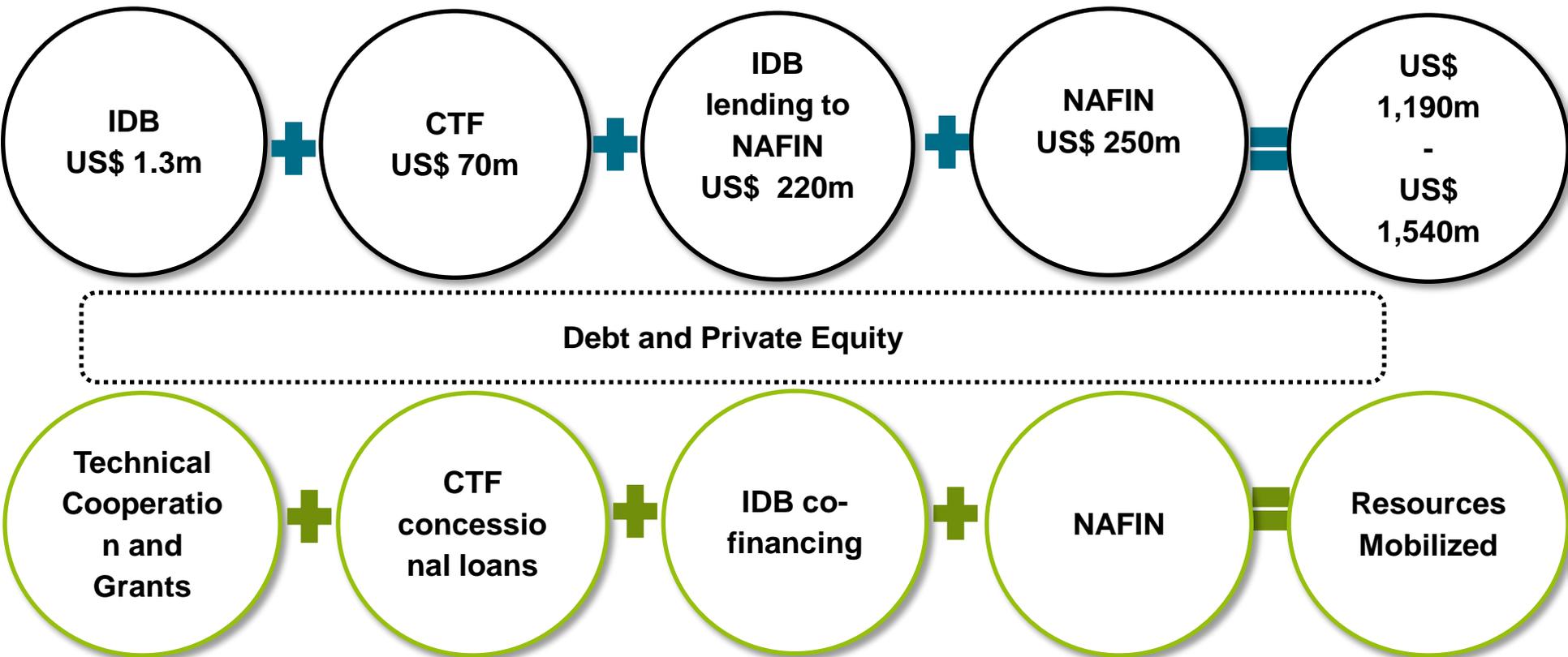
Phase	Climate Finance Needs	Climate Finance Activities	NDB Instruments
Pre-investment phase	Technical Assistance	Policy development and capacity building	Grant
	Technical Assistance	Demand creation	Grant
	Financial Contribution	Feasibility study / project preparation	Partial grant or reimbursable contribution
Investment Phase	LFI needs LT funding	Debt	Tier 2 loan market terms
	LFI needs LT funding / Project needs subsidized interest rates		Tier 2 loan subsidized interest
	Project needs additional capital		Tier 1 loan market terms
	Project needs additional subsidized capital		Tier1 loan subsidized interest
	Project needs early stage cash flow room		Tier 1 longer tenor / grace period
	LFI needs risk sharing		Guarantee
	Project needs additional capital		Mezzanine debt
	Project needs additional equity		Equity
	Project needs equity which will draw other equity in	Equity first loss position	

NDB leverage Potential

Category of Instrument		NDB Theoretical Leverage Factor
Tier 1	Non-concessional debt	2-5 x
	Debt financed via grants	8-10 x
Tier 2	Non-concessional debt	1 x
	Debt financed via grants	4-8 x
Tier 1	Direct Equity	12-15 x
	Equity financed via grants	20 x
Tier 2	Direct Equity	12-15 x
	Equity financed via grants	N/A
	Guarantee at non-concessional rates	4-8 x
	Guarantees financed via grants	25 x

Source: Adapted from AGF Work Stream 7; Brown et al. (2011)

Example CTF-REFF and NAFIN



Bottom line

Enhancing the role of NDBs could go a considerable way to filling the investment gap

- High potential of leveraging public and private finance to address climate change
- Structuring demand for investments and coordinating supply and demand is fundamental to exploit the full leveraging potential
- NDBs can play a more effective role in scaling up investments through international climate finance, if
 - they are better integrated and recognized, and
 - strengthen their technical capacities to play an active role in climate finance

...helping nations spend their money wisely



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