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# EXECUTIVE SUMMARY: ENHANCING MDB–NDB COOPERATION[1]

## UNDERSTANDING CLIMATE FINANCE FLOWS AND PARIS ALIGNMENT

**VIKTOR AHLGREN & LAURA SABOGAL, E3G**

**NEIL CHIN, ELENA BAGNERA & NICOLE PINKO, CPI**

On-lending by multilateral development banks (MDBs) to national development banks (NDBs) has significant potential to accelerate global climate investment where it is needed most, by leveraging the institutional advantages that MDBs and NDBs each possess.

Ongoing calls to reform the international financial architecture (IFA) have stressed the need for public financial institutions to work as a system, moving from project-based approaches to more coordinated country platforms in which local financial institutions actively participate. However, the current state of engagement between MDBs and NDBs in emerging and developing economies (EMDEs) is not comprehensively documented, particularly regarding climate-related finance flows. A better understanding is needed, including establishing a baseline from which climate-related finance flows will grow.

At the same time, inherent differences between MDBs and NDBs – such as in terms of institutional structure, size, client base, mandate, and political context – can affect pathways for aligning financing with Paris Agreement goals. These differences can also have implications for the approach of these institutions to broader climate mainstreaming, and hence, mobilisation capabilities.

In this context, detailed analysis of climate finance interactions among MDBs and NDBs can advance progress on wider IFA reform by revealing opportunities to increase the volume, effectiveness, and equity of global climate finance. Furthermore, understanding what factors impact NDBs' and MDBs' progress

[1] This is an Executive Summary of the **report of the same name**, published December 2023 and revised on 26 January 2024 to reflect updated data from the IDB.

towards Paris alignment can enable more effective diffusion of best practices and mitigate barriers to progress.

These two areas of study are highly related. In practical terms, differing approaches to Paris alignment may impact the quantity and quality of climate on-lending from MDBs to NDBs, particularly as MDBs begin to push for Paris alignment among their counterparties. Furthermore, research has documented several system-level barriers to greater MDB–NDB engagement, ranging across governance, political, operational, and institutional aspects, which are exacerbated by misalignments on climate mainstreaming.

**Our research finds limited MDB–NDB climate cooperation within the financial flows of these two groups that can be tracked to date. MDBs and NDBs also diverge on their paths and progress towards Paris alignment.[2] Understanding these two interrelated trends will enable public development banks (PDBs) to work more effectively together as a system to achieve climate goals.**

Consequently, understanding how and why the Paris alignment process varies between MDBs and NDBs can help to optimise these banks' relationships to increase the volume and effectiveness of on-lending, particularly for climate projects. To enhance MDB–NDB collaboration and the effectiveness of the public bank ecosystem, it is key to understand where the banks have common goals and how to address factors that impact both the volume of on-lending and level of Paris alignment.

## Status of MDB–NDB climate finance flows in EMDEs

Producing reliable estimates of the volumes of MDB finance to NDBs is difficult due to inconsistent reporting by both sets of actors. CPI therefore undertook a web scraping exercise of project portals from MDBs' joint reporting on climate finance to obtain a sample of climate-related MDB-to-NDB financial flows across EMDEs.[3] While this dataset, spanning the period 2015–2022, is likely underrepresenting total MDB-to-NDB finance, it reveals 55 total transactions involving MDB–NDB joint participation. In 52 instances, the NDB is the recipient of MDB financing. The remaining three transactions are co-financing arrangements.[4]

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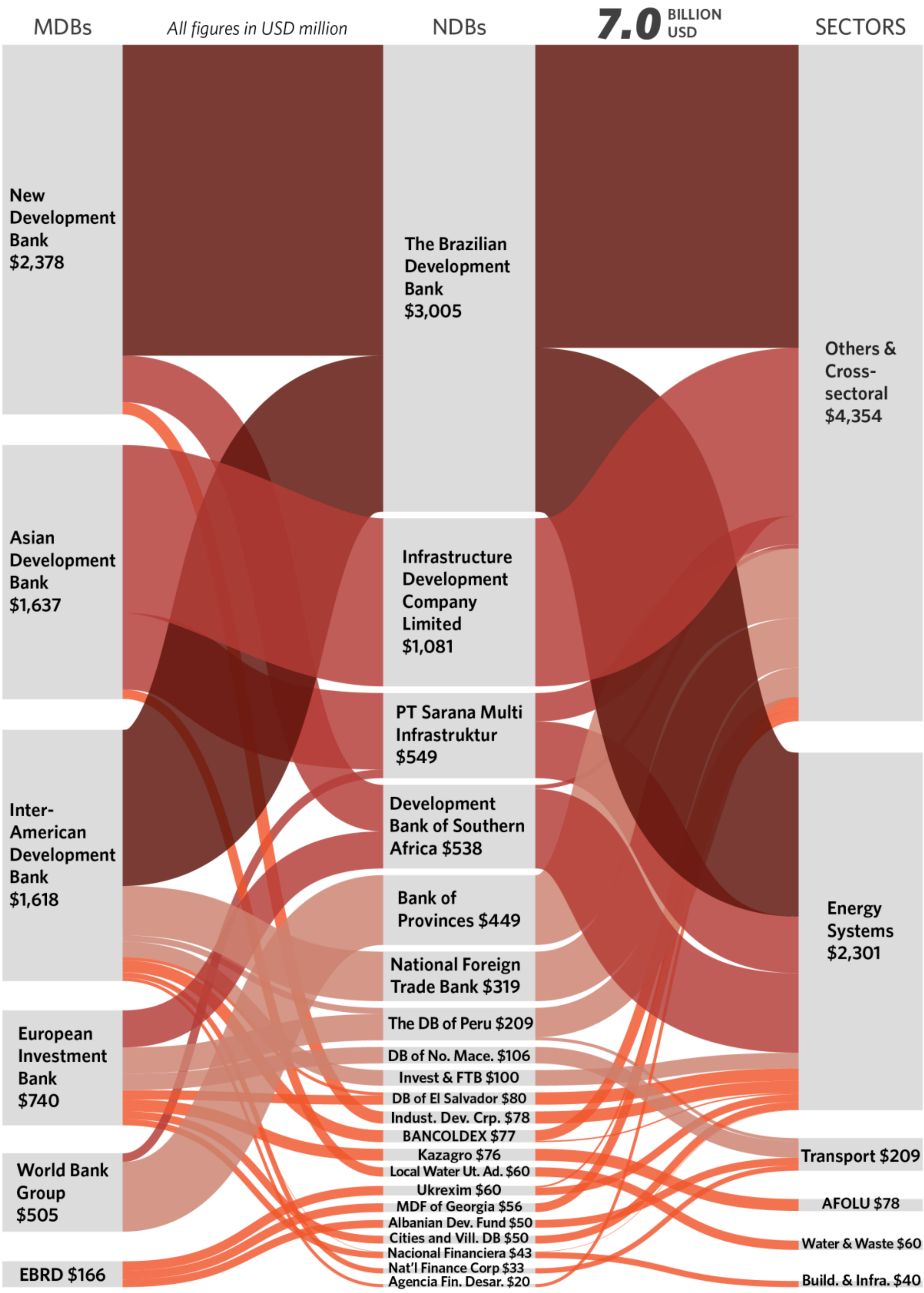
[2] E3G, **Public Bank Climate Tracker Matrix** (webpage), accessed November 2023

[3] See Annex 1 for data collection methods and limitations.

[4] The full list of bank names and acronyms is available in Annex 1.




*DB stands for Development Bank. Nat'l Bank for Agr. and Rural Dev. and Unknown sum to <5mn and <0.1% of total finance*

*Figure 1: MDB-to-NDB climate-related finance flows by sector*

Analysis of the data shows significant variability in terms of the institutions, regions, and sectors involved (Figure 1). Notably, most climate-related MDB–NDB finance by volume does not have a specific sectoral focus, but project descriptions suggest that these transactions typically aim to support general green investment, recovery from natural disasters or economic distress, or infrastructure development. Where a specific sectoral focus can be determined, energy systems is the largest recipient. Finally, these arrangements are implemented through a wide array of secondary transaction structures (e.g., direct project sub-loans, public–private partnerships, corporate credit) and are often supported by third parties, typically via sovereign guarantee.

Further research, based on interviews and a literature review, has identified a series of operational challenges to greater on-lending, particularly where misalignment between MDBs and NDBs creates transactional friction. These challenges include currency risks and domestic currency lending, general risk appetite, institutional capacity, and expertise – illustrated through the support and development of project pipelines, the role of NDBs as financial intermediators, and the procedures and approval policies that come with MDB loans – as well as macroeconomic political economy and governance risks.

## Progress on Paris alignment across MDBs and NDBs

Parallel to increased collaboration on joint climate finance, both MDBs and NDBs have been mainstreaming climate considerations into their overall operating structures and processes. Such climate mainstreaming can also help to unlock greater MDB–NDB collaboration on climate finance.

Aligning operations with Paris Agreement goals (a proxy for climate mainstreaming) has received significant attention across public development banks, but with uneven progress. Given their differences in mandates, technical capacity, and financial operating structures, different types of institutions should not be subject to the same specific expectations. Nevertheless, in order to ensure system-wide alignment, it is valuable to understand in what respects progress against general expectations varies, and why this might be.

In order to build this understanding, this report assesses the state of progress on Paris alignment for a sample of six MDBs and six NDBs[5] across five dimensions based on an abbreviated version of E3G Public Bank Climate Tracker Matrix.[6] The resultant findings are summarised in Table 1.

*Table 1: Summary of findings across the key dimensions across MDBs and NDBs*

| Area | Sampled MDBs | Sampled NDBs |
|---|---|---|
| Direct finance | All have prevalent targets and thresholds for financing dedicated towards climate, as well as common accounting definitions for this purpose. | Show considerable variance in accounting for and setting targets for climate finance, though many seek alignment with their countries' nationally determined contributions (NDCs). |
| Indirect finance | Typically extend the environmental safeguards and exclusion requirements of their direct lending policies to cover lending through financial intermediaries, including provisions for those intermediaries as part of their environmental and social safeguard policies. | Show greater variability in terms of available information and the detail of policies applied to financial intermediary financing, though most extend their own frameworks and guidelines to financial intermediaries. |
| Institutional strategy and governance | Five of six MDBs have published dedicated climate change strategies. Climate change is consistently integrated into overarching strategies, though Paris Agreement alignment is not. | Have incorporated climate into core strategic documents, largely in the context of reaching NDCs, though some have also developed additional climate-specific strategies. |
| Adaptation and resilience | Five of six MDBs have set clear goals to increase adaptation finance, although their commitments vary extensively in their specificity. | Adaptation finance goals are addressed in the context of long-term country goals and/or NDCs. |
| Energy policy | Four of six have a dedicated energy sector policy, though these vary in climate alignment and specificity. In these cases, they are accompanied by coal exclusion policies, and varying levels of oil and gas exclusion. | No NDB had a clear energy-specific policy, though many are involved in just transition efforts which have a strong energy dimension. While only one had a clear fossil fuel exclusion policy, many evaluate whether prospective fossil fuel financing is aligned with NDCs. |

[5] MDBs: AfDB, ADB, AIIB, BOAD, CAF, IDB; NDBs: Bancóldex, BNDES, CDB, CDG, DBSA, PT SMI

[6] E3G, **Public Bank Climate Tracker Matrix** (webpage), accessed November 2023

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## Recommendations

This research identified three key factors that impact the volume of climate-related on-lending from MDBs to NDBs, and Paris alignment. These are:

> political economy and governance

> public finance mandates

> institutional capacity and expertise.

The recommendations in Table 2 are designed to help overcome these factors and strengthen MDB–NDB engagement on climate finance.

*Table 2: Recommendations and targeted actions flowing from this report*

| Recommendation | Targeted actions |
| --- | --- |
| **Political economy and governance**: As an initial step, MDBs should optimise operating models for delivering climate finance through NDBs via on-lending to improve the scale, durability, and effectiveness of MDB–NDB collaboration. | Both MDBs and NDBs should:<br>> Engage third parties (e.g., governments and multilateral climate funds) to bring concessional support into joint MDB–NDB financing arrangements.<br>> Require a counterparty approach assessment for any further lending by NDBs to private sector partners in high-emitting or hard-to-abate sectors.<br>MDBs should:<br>> Support NDBs' development of sectoral pipelines with clear climate criteria.<br>> Promote the development of local currency instruments.<br>> Promote greater standardisation of their approval processes. |
| **Mandates:** At an institutional level, mandates for climate action should be clarified for both MDBs and NDBs and leveraged as a framework for collaboration and development of institutional capacity. | Both MDBs and NDBs should reconsider how their institutional mandates enable an effective, and fitting, contribution to the response to the global existential challenge of climate change.<br>Further research is required to determine effective strategies for promoting engagement between NDBs, national governments, and national agencies to incorporate climate objectives into existing mandates. |

*Table 2 (continued): Recommendations and targeted actions flowing from this report*

| Recommendation | Targeted actions |
|---|---|
| **Institutional capacity and expertise** should be shared between MDBs and NDBs to enhance collaboration on advancing institutional climate mainstreaming, scaling intermediated financing structures, and filling data gaps. This would help remedy the current lack of shared and detailed understanding between MDBs and NDBs on how mandates, local context, and risk appetite impact climate-related finance. Increased capacity and expertise is also critical to effectively implement the interim operating model recommendations listed above. | Both actors should leverage existing platforms, such as Finance in Common, for exchanging best practices in constructing joint MDB–NDB climate finance programs.<br><br>As part of this, MDBs should increasingly coordinate and pool their efforts to build capacity at a regional level. |
| | MDBs should actively collaborate to disseminate their knowledge and lessons learnt from their internal capacity-building experience. |
| | Efforts should include a public, searchable database of joint financial engagements disaggregated at the project level, tracking when NDBs participate as on-lending intermediaries or as co-financiers. |
| | At an individual level, all MDBs should introduce a phased technical assistance approach. |
| | To add additional resources to this effort, MDBs should coordinate to make public a clear database of available technical assistance programs and support. |

## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**

## About Climate Policy Initiative

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States.

More information is available at **www.climatepolicyinitiative.org**