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Connecting multilateral climate finance to mitigation projects

A guide to the multilateral climate finance landscape of NAMAs

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Acknowledgements

This report is based on interviews carried out with representatives from AfDB, EBRD, IDB, the GCF and the World Bank for the Annual NAMA Status Report 2016¹, as well as discussions during a Climate Finance Dinner² organized in November 2016 under the Mitigation Momentum project. Additional interviews were carried out with representatives of ADB and IFC.

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¹ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

² Ecofys, ECN, 2016, How can NDGs benefit from the Climate Finance experience of NAMAs? Summary of Roundtable Dinner



List of abbreviations

ADB	- Asian Development Bank
AfDB	- African Development Bank
CERs	- Certified Emission Reductions
CIF	- Climate Invest Funds
CTF	- Climate Technology Fund
EBRD	- European Bank for Reconstruction and Development
EFTA	- The European Free Trade Association
FIRM	- Facilitating Implementation and Readiness for Mitigation, run by UNEP
GCF	- Green Climate Fund
GEF	- Global Environment Facility
GET	- Green Economy Transition
GHG	- Greenhouse Gases
GIZ	- Deutsche Gesellschaft für Internationale Zusammenarbeit
IDB	- Inter-American Development Bank
IDBG	- Inter-American Development Bank Group
IFC	- International Finance Corporation
IFIs	- International Financial Institutions
IIC	- Inter-American Investment Cooperation
IKI	- International Climate Initiative
LAC	- Latin-American and Caribbean
LDCs	- Least Developed Countries
MDB	- Multilateral Development Bank
MENA	- Middle East and North Africa
MRV	- Measuring, reporting and verification
MSMEs	- Micro, Small & Medium size enterprises
NAMA	- Nationally Appropriate Mitigation Action
NDA	- National Designated Authority
NDC	- Nationally Determined Contribution
SDGs	- Sustainable Development Goals
SEI	- Sustainable Energy Initiative
SMEs	- Small & Medium size enterprises
UNDP	- United Nations Development Programme
UNEP	- United Nations Environment Programme
UNFCCC	- United Nations Framework Convention on Climate Change
WBG	- World Bank Group

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1. Introduction

While preparing a global climate agreement that would eventually include both developed and developing countries, the international climate negotiations introduced the concept of Nationally Appropriate Mitigation Actions (NAMAs) in 2007. Through this concept, developing countries have been invited to carry out voluntary climate change mitigation actions in the context of sustainable development, which should be supported by developed countries through finance, technology and capacity development. These actions should also be measurable, reportable, and verifiable.

Developing countries have since accepted this invitation: over 200 NAMAs have been or are currently being developed, with a steady increase over the past few years. However, most of their mitigation potential has yet to materialize, as less than 10% have managed to secure funding for implementation.³

With the global and legally binding Paris Agreement going into force at the end of 2016, climate action has gained new momentum worldwide. The Agreement is based on Nationally Determined Contributions (NDCs) of both developed and developing countries, in which they specify their mid-term climate targets. Furthermore, it reiterated the commitment of developed countries to provide climate finance to developing countries. NAMAs could play an important role in both (1) implementing the NDCs of developing countries and (2) presenting climate investment opportunities in these countries.

A great deal of political and financial capital has been invested in the development of NAMAs. If the majority of them are left untouched, the international climate process will likely lose credibility, which in turn may hamper future attempts to implement climate action in countries that have sought to advance NAMAs. At the same time, many of the points discussed in this report go beyond those mitigation actions labeled “NAMAs”, and can be applied to low-carbon investment opportunities in developing countries generally.

To connect available international climate finance - both public finance and associated mobilized private finance flows - to mitigation projects on the ground, knowledge gaps on both the financing and the beneficiary sides need to be addressed. Financiers need to better understand the existing project pipeline in developing countries as well as the needs of countries and project developers to further develop this pipeline. The governments of developing countries and project developers need to better understand climate finance options that are available, both in terms of sources and investment criteria. While the NAMA Facility, the only funding source to date that explicitly earmarks funding for NAMAs, is well known amongst NAMA proponents, it has limited funding. In its fourth call for proposals in the fall of 2016, the Facility received 75 proposals, whereas funding will probably only be sufficient for four to five NAMAs. This shows that countries and project developers need to tap further funding sources.

³ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

This report seeks to help government representatives and project developers gain a better understanding of available multilateral funding options⁴ for NAMAs and other mitigation actions, as well as how these resources can be tapped. It focuses on the six largest multilateral development banks (MDBs) and the Green Climate Fund (GCF). While the latter has only been operational since 2015, governments have agreed in the international climate negotiations that a major share of new multilateral climate financing will be channeled through this Fund. Considering the importance of private sector investments in climate projects, the International Finance Corporation (IFC), a member of the World Bank Group (WBG) that exclusively focuses on the private sector, is also analyzed more closely. The following sources of multilateral finance are covered in this report:

- Asian Development Bank (ADB)
- African Development Bank (AfDB)
- European Investment Bank (EIB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank Group (IDBG)
- World Bank Group (WBG)
- International Finance Corporation (IFC)
- Green Climate Fund (GCF)

Chapter 2 summarizes the main findings of the analysis carried out and highlights important considerations for developing countries and project developers when approaching the six largest MDBs and the GCF for funding. Chapter 3 contains the detailed analysis of the MDBs and the GCF with regards to their overall goals, their approaches to climate finance and NAMAs in particular, and important investment criteria to be considered.

The information presented here was sourced from expert interviews with representatives of MDBs and the GCF and is complemented by extensive desk research.

⁴ The possibility of bilateral funding directly provided by a donor country to a beneficiary country is not further explored here.

2. Tapping multilateral climate finance for NAMAs – main findings of analysis

The analysis of multilateral financiers presented in Chapter 3 shows that the largest MDBs and the GCF are open to financing NAMAs as long as they meet their investment criteria. In their climate finance activities, all MDBs currently have a strong focus on mitigation, whereas the GCF finances adaptation and mitigation actions more or less equally. While ADB and IDBG have already supported NAMA development, EIB is actively looking for opportunities to invest in NAMAs in the Eastern and Southern Mediterranean region. At EBRD, NAMAs are seen as a potential tool to increase the delivery of climate action, and the bank, like ADB, has invested in mitigation projects that carry all the features of NAMAs without being labeled as such. WBG has indirectly supported NAMA development through its Carbon Finance Unit. The GCF, in its short operational lifetime, has already received funding proposals that emerged from NAMAs, but did not comply with its investment criteria. IFC, focusing exclusively on the private sector, would also invest in NAMAs, however, they are currently not seen as scalable investment opportunity by its private sector clients.

AfDB has not yet provided finance for NAMAs, mostly because its beneficiary countries have not yet requested to include NAMAs in so-called country strategies or plans. This is an important observation, considering that these plans or strategies are used by several MDBs (ADB, AfDB, IDBG, WBG) as investment roadmaps in beneficiary countries. They are negotiated and agreed between the banks and the national governments, typically the ministries of finance. As long as NAMAs are not included in these plans, they – or any other mitigation action, for that matter – are not considered an investment priority in the respective bank's development funds.

The increased 2020 climate finance targets of MDBs (see Table 1) and increasing pledges to the GCF mean that rising amounts of mitigation finance will likely be made available in the coming years. This represents an unprecedented opportunity for developing countries and project developers to tap these resources for NAMAs and further mitigation projects, and realize their potential as implementation vehicles for NDCs. To successfully do so, the following steps and points should be considered:

- 1. Identify the possible multilateral financiers:** apart from the two global players, the GCF and the WBG, most developing countries are eligible for climate finance from at least two other large MDBs. The regions with the most options are the Middle East and North Africa (MENA), and Central Asia: for example, some countries in the MENA region are beneficiary countries of the AfDB, the EIB, and the EBRD, and some in Central Asia of the ADB, the EIB and the EBRD.
- 2. Take financiers' overarching objectives into account:** once the possible multilateral financiers are identified, NAMA proponents should first consider the overarching goals of these institutions and how they fit with the respective NAMA project or idea. For example, a NAMA that does not have the private sector at the core of its project design will not have the best chances of receiving EBRD funding. Likewise, NAMAs seeking finance from AfDB, IDBG or the WBG should highlight the ways in which they contribute to the achievement of NDCs and Sustainable Development Goals (SDGs), etc.

Figure 1. Six steps to tap multilateral climate finance



3. Become familiar with communication channels and procedures used by potential financiers: understanding the procedures and communication channels used by the potential financiers is crucial, as certain MDBs and the GCF have rather rigid rules in this regard. For example, the primary counterparts of ADB, AfDB and IDB in beneficiary countries are typically the national finance or economic planning ministries. Consequently, these ministries need to bring NAMA funding proposals to the attention of MDBs when discussing the country strategies that in turn define investment priorities. The momentum of the Paris Agreement and the need for additional investment to implement NDCs provide an opportunity to position NAMAs more prominently on national agendas. The GCF relies on so-called National Designated Authorities (NDAs) as counterparts in its beneficiary countries, which are responsible for communicating national priorities to the Fund. Furthermore, only entities accredited by the GCF can propose projects to it. NAMA proponents, be it sectoral ministries or private sector representatives, therefore need to identify and align with these actors first. In contrast, EBRD, EIB and IFC can be approached directly with project ideas by the project proponents. The same applies to the Inter-American Investment Corporation (IIC), IDBG's private sector branch, and the private sector operations department of ADB.

4. Make contact in project development phase: Multilateral financiers usually don't expect project proponents to approach them - taking the adequate communication channels into account (see step 3) - with a finalized funding proposal, but instead offer support in the project development phase. For example, support can be provided to set up the financial mechanism (e.g. IDBG) or to develop the proposal further so that it meets the financier's requirements (e.g. GCF, IFC). Through an early exchange, project developers can ensure that preferences and comments of the potential financier are taken into account in the final proposal. However, the proponent should already have a concrete project idea, ideally along with a business plan, that is aligned with the financier's overall objectives.

5. Develop or adapt the funding proposal to key investment criteria: the NAMA proponent should ensure that the funding proposal meets the respective financier's investment criteria, uses a similar language and takes the financier's comments from the initial exchange into account. While the criteria vary across multilateral financiers, there are some that rank high across the board (see box).

Box 1: Important investment criteria for mitigation projects

- Country ownership
- Consistency with NDC
- Enabling policy and regulatory framework
- Scalability
- Profitability/Bankability

First and foremost, country ownership is very important. This means that projects need to be consistent with national priorities and development plans. Secondly, climate projects need to be consistent with the respective country's NDC. Furthermore, financiers want to see an enabling policy framework for public and private investment in the beneficiary country. Where policies and regulations are not clear or discourage fair competition, (additional) investment flows from public and private sources will be limited. It should be noted that MDBs offer support to countries to improve their policy and regulatory frameworks through technical assistance or policy dialogues (e.g. ADB, EBRD).

Scalability of climate projects, i.e. projects that can be replicated widely and where investment can be scaled up, as well as profitability/bankability, essentially meaning that the gains of the investment must be larger than its cost, can also be found among the top criteria. Multilateral financiers favor large or scalable investment opportunities since these have lower transaction costs and the potential to attract public or private co-finance, lowering investment risk. They are also looking for profitable investments: even though their objective is not to maximize profit, they must generate sufficient margins to keep their financial base sound.

Looking at these investment criteria, meeting the financial requirements seems to be the largest challenge facing NAMAs to date, as they are often not considered as investment opportunities. The more NAMAs are seen and structured as mainstream investments in this regard - while keeping their mitigation and development focus - the higher the chance that they will be financed. This underlines the importance of deviating from the historic approach of only involving financiers once the respective mitigation action has been developed. Instead, discussions need to be started as early as possible to ensure alignment on (financial) expectations and requirements (see step 4).

6. Consider co-financing in the project's financial mechanism: as aforementioned, MDBs like to co-finance their climate investments with other funding sources to increase scalability and decrease risks. Co-financing typically comes from other international public sources (major co-financing source of AfDB, EIB, WBG), domestic public money (ADB, IDBG), or the private sector (EBRD). Usually, multiple co-financing sources are preferred. This means that the financial mechanisms of NAMAs should be set up in a way that allows for multiple sources of funding.

3. Multilateral financiers and their approach to NAMA financing

Definition of MDBs

MDBs are a category of international financial institutions (IFIs) which usually refers to the World Bank Group and Regional Development Banks. Like all IFIs, MDBs are established by a group of countries and operate on an international level. MDBs provide financial support, technical assistance and policy advice to governments, as well as loans and equity to private businesses to foster economic and social development and reduce poverty. Regional Development Banks only finance projects and programs in specific regions. Every MDB analyzed in this report has both developing and developed country member states. However, while all countries must make a capital contribution to become member of a specific MDB,⁵ developed countries are in most cases not beneficiaries of the products offered by the banks. In brief, MDBs are an important intermediary of public finance from developed to developing countries.

The role of climate finance in MDBs' investment portfolios

As climate change negatively affects sustainable economic growth and poverty reduction and thus the overall mandate of MDBs, the financing of climate action ranks high on their strategic agendas.⁶ MDBs use public finance instruments to reduce the risks and costs of low-carbon investments, and invest in low-carbon and climate-resilient infrastructure in developing countries. Due to public resources being limited, MDBs are expanding the use of instruments to leverage private low-carbon investments. Particularly the EBRD and IFC work closely with the private sector on climate-related investments: while more than two thirds of MDB climate finance in 2015 was provided to public recipients or borrowers, climate finance at EBRD is primarily, and that of IFC entirely, provided to the private sector.⁷

MDBs play an important role in delivering the USD 100 billion climate finance commitment made by the governments of developed countries in the international climate negotiations. In 2014, almost 30% of global public climate finance flows was channeled through MDBs (note that the GCF only became operational in 2015).⁸ From 2011-2015, the six largest MDBs committed more than USD 130 billion to climate action in developing countries and emerging economies (USD 25.1 billion in 2015), the vast majority of which flowed to mitigation actions (80%).⁹ This amount is expected to significantly increase by 2020 in light of the MDB's new 2020 targets and strategies:

During the run-up to the Paris Agreement in 2015, the largest MDBs announced targets to rapidly expand their climate finance activities by 2020 (see Table 1). These MDBs are scaling up their efforts to provide access to low-carbon finance, strengthen associated policies and institutional capacities, and deliver technical support to developing countries and their private sectors. The new climate finance targets also provide a chance for increased financial flows to NAMAs, especially considering that these climate actions combine mitigation with sustainable development benefits, which are at the core of the MDBs' mandates.

⁵ Nelson, 2015, Multilateral Development Banks: Overview and Issues for Congress

⁶ The World Bank Group, 2016, Statement by Multilateral Development Banks: Delivering on the 2030 Agenda

⁷ Joint Report on MDBs' Climate Finance, 2015

⁸ Climate Policy Initiative, 2015

⁹ Joint Report on MDBs' Climate Finance, 2015

Table 1: 2020 Climate Finance Targets of MDBs¹⁰

MDB	2020 Climate Finance Target
ADB	USD 6 billion annually of own resources (up from USD 3 billion in 2015)
AfDB	40% of annual investments (ca. USD 5 billion) (up from 26% on average between 2011-2014)
EBRD	40% of annual investments (ca. EUR 3.6 billion) for green finance* (up from 25% on average between 2010-2014)
EIB	35% of annual lending in developing countries (ca. EUR 2 billion); min. 25% of overall annual lending (ca. EUR 21 billion) (up from 25% in 2015)
IDBG	30% of annual operational approvals (ca. USD 4 billion) (up from 14% on average between 2012-2014)
WBG	28% of annual commitments (ca. USD 16 billion) (up from 21% in 2015)

* Composed of climate finance and finance for projects with a positive environmental impact.

The six largest MDBs predominantly provide climate mitigation finance through investment loans (75% in 2015). This is followed by grants and guarantees (6% each), budget support (5%), equity and lines of credits (4% each), and other instruments such as advisory services, carbon funds, and currency and interest rate swaps (1%). In 2015 more than half of MDB climate finance was committed to the energy sector (51%), particularly renewable energy projects (30%), followed by transport (26%), cross-cutting issues (12%) agriculture, forestry and land use (6%) and waste management (3%).¹¹

Next, the six largest MDBs and the GCF are analyzed. Particular attention is paid to their geographical scope and overall goals, the financial structure of climate projects, their approach to climate finance and NAMAs in particular, and important investment criteria to be considered.

¹⁰ Joint Report on MDBs' Climate Finance, 2015;
Asian Development Bank, ADB to Double Annual Climate Financing to \$6 Billion for Asia-Pacific by 2020;
African Development Bank Group, Climate Finance;
European Bank for Reconstruction and Development, 2015, EBRD steps up green financing in build up to Paris climate conference;
World Bank Group, 2015, World Bank Group Pledges One-Third Increase in Climate Financing;

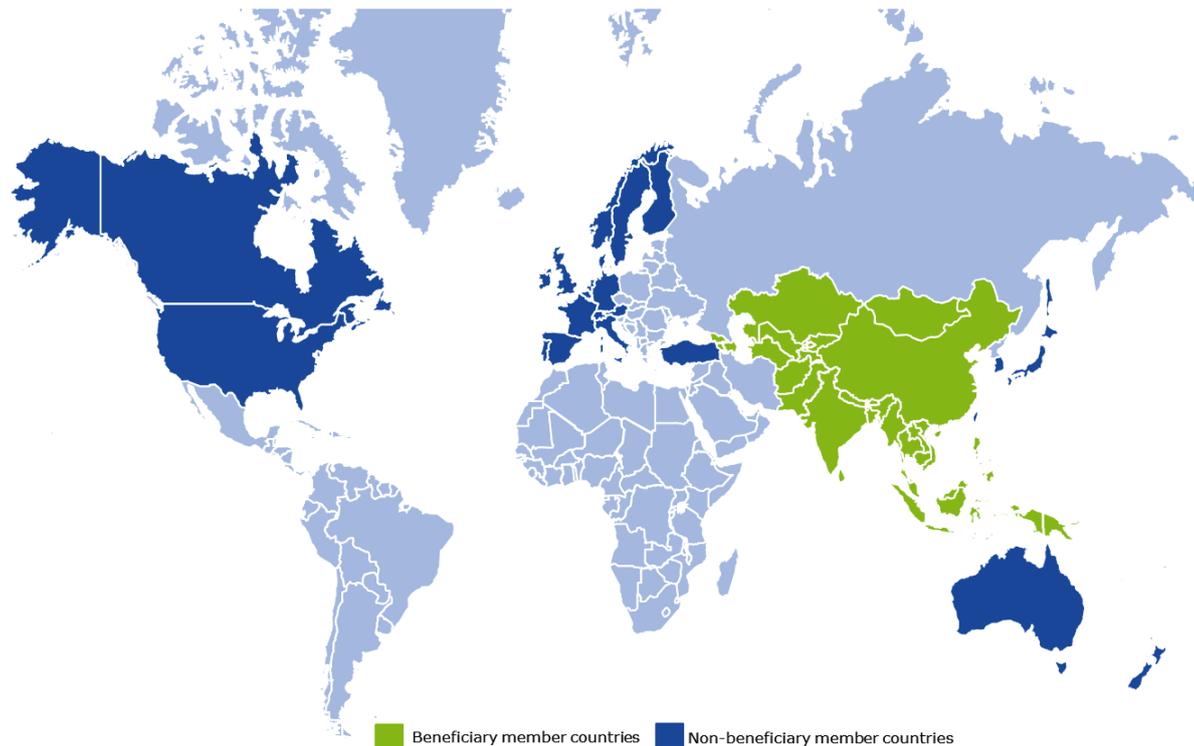
¹¹ Joint Report on MDBs' Climate Finance, 2015

3.1 Asian Development Bank (ADB)

General background

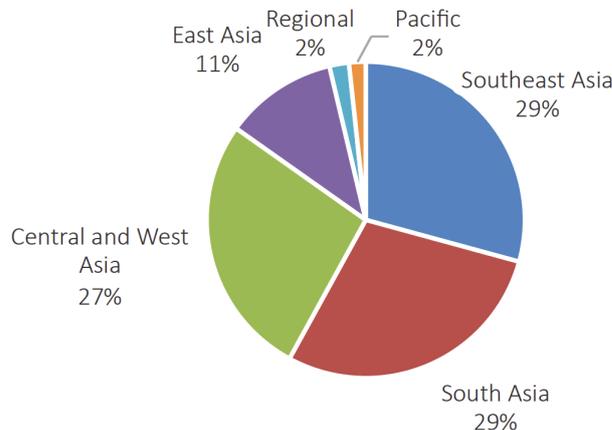
The ADB aims to reduce poverty in the Asia and Pacific region by providing technical and financial assistance for both public and private sector investments in economic and social development in its beneficiary countries. The bank's focal areas are the environment, regional economic integration, agriculture and food security, financial sector development, infrastructure (energy, transport, water), and education.¹² ADB's member countries are shown in Figure 2.

Figure 2. ADB member countries¹³



In 2015, the largest ADB beneficiary country was India with a share of 14.4% of total investments including co-financing. Pakistan and Indonesia were also major beneficiaries of the ADB in 2015.¹⁴ ADB's operations totaled USD 27.17 billion in the same year.¹⁵

Figure 3. ADB regional investment distribution, 2015¹⁶



¹² Ibid.
¹³ Asian Development Bank, Members
¹⁴ Asian Development Bank, 2016, Annual Report 2015, Scaling up to meet new development challenges
¹⁵ Ibid.
¹⁶ Ibid.

Financial structure of climate projects

The typical financial instruments that ADB uses, including for mitigation projects, are concessional loans, grants, equity investments and guarantees. For its climate investments, ADB uses its own resources as well as external climate finance resources that it manages (about 9% of ADB's climate investments in 2015). These include amongst others the Climate Investment Funds (CIF), the Global Environment Facility (GEF), and the Urban Climate Change Resilience Trust Fund.¹⁷

ADB typically seeks to co-finance mitigation projects along with the respective beneficiary country's public sector (>50% of co-financing in 2015). Other major co-financing sources include other international and national development banks (about 22% of co-financing) and the private sector (21%).¹⁸

Climate finance at ADB

Addressing climate change is one of ADB's top ten strategic priorities until 2020. Accordingly, it is scaling up its investments in climate projects in Asia and the Pacific. In 2015, the bank invested USD 2.92 billion, which equals about 11% of its total investments, in climate projects. In the run-up to the Paris climate conference, ADB set the target to double its climate finance to USD 6 billion in annual investments by 2020, out of which USD 4 billion will be dedicated to mitigation projects. Currently, mitigation finance accounts for 88% of ADB's climate finance portfolio. The public sector is the main recipient of ADB climate finance with almost 80% in 2015.¹⁹

Climate projects are eligible for ADB financing if they are included in the medium-term "Country Partnership Strategies". These strategies, developed in consultation between ADB and the ministries of finance in its beneficiary countries, are based on country priorities and needs and form the basis for the "Country Operations Business Plans" which detail project pipelines and the resources needed for a period of three years. So far, the strategies focus on large infrastructure projects such as power grids or railway systems.

In addition to scaling up its own climate financing, ADB plans to increasingly explore new and innovative co-financing opportunities with public and private partners. One example is the mobilization of concessional financing from the GCF for ADB's adaptation projects in poorer countries. The bank also plans to tap institutional investment through private equity funds, and to issue more green bonds as a source of funding for its climate operations.²⁰

NAMAs in ADB's climate finance portfolio

ADB has been an early supporter of its member countries' efforts to develop NAMAs. The bank has supported its beneficiary countries in identifying and developing NAMAs in various sectors. For example, it provided technical assistance to help develop a solar energy NAMA in Uzbekistan ("Solar Energy Development in Uzbekistan"²¹) and a NAMA in the agricultural sector in Mongolia ("NAMA for Grassland and Livestock Management in Mongolia"²²). Together with the Nordic Development Fund (NDF), the bank is further supporting the development of a "Transport NAMA Support Facility" in selected ADB member countries.²³ The Facility aims to strengthen transport NAMA development in Asia and provides technical assistance to build capacity at ADB and its beneficiary countries, with the ultimate goal to develop at least two transport NAMAs in the region. The project will also address barriers for NAMA finance to stimulate NAMA investment in the region.²⁴

¹⁷ Asian Development Bank, Funds and Financing

¹⁸ Joint Report on MDBs' Climate Finance, 2015

¹⁹ Asian Development Bank, Funding the Fight Against Climate Change

²⁰ Asian Development Bank, ADB to Double Annual Climate Financing to \$6 Billion for Asia-Pacific by 2020

²¹ Joint Report on MDBs' Climate Finance, 2015

²² Asian Development Bank, March 2013, Nationally Appropriate Mitigation Actions for Grassland and Livestock Management in Mongolia

²³ Nordic Development Fund, 2014, Transport NAMA Support Facility

²⁴ Nordic Development Fund, 2014, Transport NAMA development strengthened in Asia

It should be noted that **NAMAs are currently rather seen as instruments for capacity building or as components of large climate finance investments than as investment opportunities at ADB.** The bank has, however, already invested in mitigation projects that carry all the features of NAMAs without being labeled as such.²⁵

Important investment criteria

When seeking financial support from ADB, beneficiary countries should first of all ensure that their NAMA or other investment request is nested in the respective Country Partnership Strategy agreed with the bank. Furthermore, ADB bases its project evaluations on the following investment criteria:

- **Country ownership:** ADB seeks to invest in projects that align with national development agendas. To ensure this, the bank along with its country members develops the aforementioned Country Partnership Strategies that are meant to speak to national development needs as well as the bank's ultimate goal of poverty reduction in Asia and the Pacific.²⁶
- **Bankability:** projects should be financially viable and provide clear plans of financing and implementation.
- **Enabling regulatory framework:** the right policies and regulations that enable an investment environment are crucial for ADB investments, especially for large projects that seek multi-party investors, including the private sector. The bank supports countries in structuring the policy, regulatory and institutional frameworks, as part of technical assistance work, or as components of projects.²⁷

²⁵ Interview with ADB representative

²⁶ Asian Development Bank, Global Partnership for effective Development Cooperation, What it means for ADB

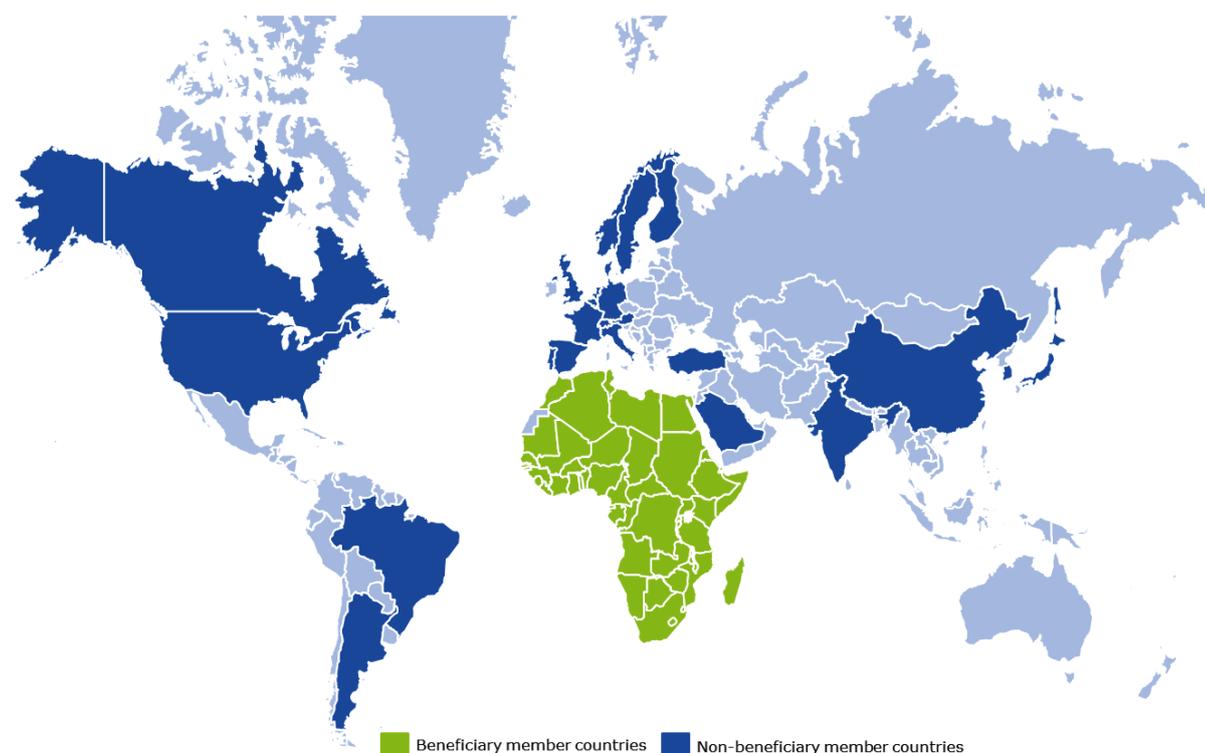
²⁷ Asian Development Bank, Project Approval Process

3.2 African Development Bank (AfDB)

General background

AfDB's overarching objective is to spur sustainable economic development and social progress in its regional member countries in Africa and contribute to reducing poverty. It does this through mobilizing and allocating resources for investments and providing policy advice and technical assistance to support development efforts. Furthermore, AfDB's efforts are geared towards achieving the SDGs.²⁸ AfDB beneficiary countries comprise the 54 UN-recognized countries across Africa. Figure 4 shows the bank's member countries.

Figure 4. AfDB member countries²⁹



The region with the highest AfDB investment in 2015 was Southern Africa³⁰ with around 21% of total investments, see Figure 5. Total investments in 2015 amounted to USD 8.64 billion.³¹ The bulk of AfDB investments flows to infrastructure projects (energy, transport, and water and sanitation), accounting for almost half of the bank's investments in 2015.³²

²⁸ African Development Bank Group, Mission & Strategy

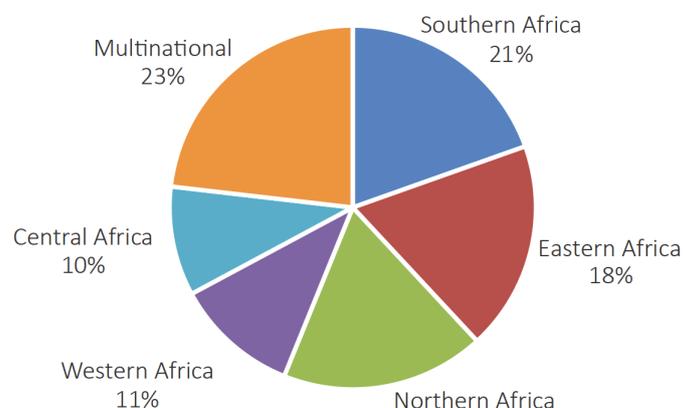
²⁹ African Development Bank, Member Countries

³⁰ Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe

³¹ African Development Bank Group, 2016, Annual Report 2015

³² Ibid.

Figure 5. AfDB regional investment distribution, 2015³³



Financial structure of climate projects

The basic financial instruments that AfDB uses for climate projects are concessional loans and grants, provided to governments. The bank also offers guarantees to enable countries to gain access to capital markets and financing in their local currency. Usually, AfDB co-finances climate projects and programs along with financial resources contributed by other entities, above all other IFIs and international public sources (>80% of co-financing in 2015), followed by domestic public money contributed by the beneficiary countries (ca. 10%) and the private sector (ca. 6%).³⁴

AfDB's climate investments are generally structured with multiple sources to increase scalability and reduce risks. The AfDB has two main lines for climate finance that involve multiple external financial resources which are managed and channeled through the bank. On average, these account for about 10% of AfDB mitigation investments.³⁵ The first line includes funds whose resources are managed by the bank's Energy Environment and Climate Change department³⁶, namely the CIF, the GEF, the Sustainable Energy Fund Africa, and the Africa Climate Change Fund. The second one includes those managed by the bank's Water and Sanitation and Agriculture and Agro-industry departments, namely the African Water Facility, the Rural Water Supply and Sanitation Initiative, the Agriculture Fast Track Fund, and ClimDev-Africa.³⁷

Climate finance at AfDB

AfDB provides financial and technical assistance to mainstream climate change in beneficiary countries' development agendas, aiming at achieving the SDGs. Climate projects have the possibility of receiving AfDB financing when countries request these to be included in the five-year Country Strategy Plans agreed between AfDB and the specific country.³⁸

Through its climate finance, the bank seeks to:

- (1) create an enabling environment for green project or program development by lowering barriers for private and other investors;
- (2) co-finance new and innovative projects and support the project cycle from preparation to implementation, and
- (3) work through multiple climate-focused funding channels offering grants, concessional loans, guarantees and equity to strengthen national finance and to leverage new and additional money from public and private sources.³⁹

³³ Ibid.
³⁴ Joint Report on MDBs' Climate Finance, 2015
³⁵ Ibid.

³⁶ Note that AfDB is currently restructuring and these activities will be included in an Operational Complex entitled "Power, Energy, Climate and Green Growth".

³⁷ African Development Bank Group, 2016, Spearheading Change: The AfDB role in financing a climate-smart Africa

³⁸ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

³⁹ African Development Bank Group, Climate Financing

Between 2011 and 2014, AfDB committed USD 7 billion to support over 200 climate resilient and low-carbon development projects. Since late 2015, the target is to reach annual climate finance of USD 5 billion a year by 2020. This represents 40% of the bank's total new investment by 2020. With the ratification of the Paris Agreement, AfDB is further mobilizing resources for the implementation of NDCs in African countries.⁴⁰

NAMAs in AfDB's climate finance portfolio

The vast majority (80%) of AfDB's climate finance between 2011-2014 was committed to mitigation projects, primarily in the public sector (>90%).⁴¹ However, none of this finance has specifically flowed to NAMAs. This is because AfDB develops its agenda based on the five-year Country Strategy Plans agreed with each country's ministry of finance, planning or economic development, which have not requested to include NAMAs as an investment priority. In some countries, the ministry of environment or other sector ministries have approached AfDB directly seeking financing for NAMAs. However, as such requests are ad-hoc and not part of the Country Strategy Plans, they are treated with low priority.⁴²

Important investment criteria

When seeking financial support from AfDB, countries should first of all ensure that their NAMA or other investment finds its way in the aforementioned Country Strategy Plans. When evaluating funding proposals of mitigation actions, AfDB considers investment criteria including:

- **Country ownership:** in AfDB's definition, country ownership is achieved if its investment agenda in a specific country is aligned with the development plans of the respective beneficiary government, resulting in five-year Country Strategy Plans. These plans are prepared in close partnership with each of the countries, more specifically the ministries of finance or economic development, and are results-oriented.
- **Ambition and consistency with NDCs:** climate mitigation projects, including NAMAs, should be compatible with the level of ambition implied in the Paris Agreement, which is to limit global warming to 2°C and undertake further efforts to limit it to 1.5°C by the end of this century. To receive funding, mitigation projects should further be in line with the country's own NDC. The transfer of emission reductions achieved by a specific project is not seen as helping a host country meet its commitments under the Paris Agreement.
- **Enabling policy framework:** national policies should be put in place that create an enabling environment for the implementation of mitigation projects and that create a long lasting environment in which climate actions can continue beyond AfDB funding.
- **Robust Monitoring, Reporting and Verification (MRV) systems:** countries should have or plan to put in place a strong monitoring and reporting system, so that the project execution and its results can easily be monitored and verified.
- **Scalability potential:** mitigation projects should be designed to allow for scalability through new and additional finance, ideally from the private sector.⁴³

⁴⁰ African Development Bank Group, 2016, Climate Finance Newsletter

⁴¹ Joint Report on MDBs' Climate Finance, 2015

⁴² Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

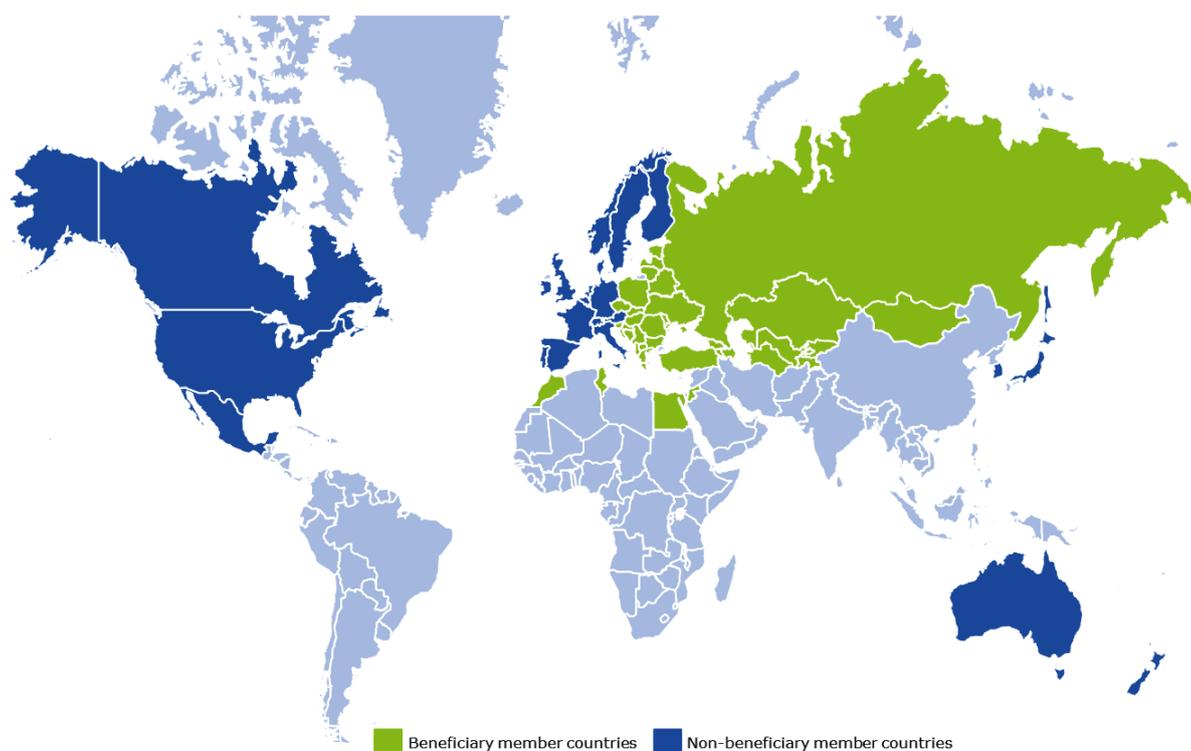
⁴³ Ibid.

3.3 European Bank for Reconstruction and Development (EBRD)

General background

EBRD's investment focus lies in the private sector, where about 70% of its transactions are made. It was founded in 1991 to assist in the market transition of initially central and eastern Europe, furthering progress towards 'market-oriented economies and the promotion of private and entrepreneurial initiative'. The bank's operations have since expanded to Turkey and the Southern and Eastern Mediterranean region, as well as Greece as a temporary recipient since 2015. It works through the financing of projects, the provision of technical assistance, and policy dialogues with stakeholders in the countries of operation. EBRD is owned by 65 countries from five continents (Europe, North America, Africa, Asia and Australia) as well as the European Union and the EIB.⁴⁴

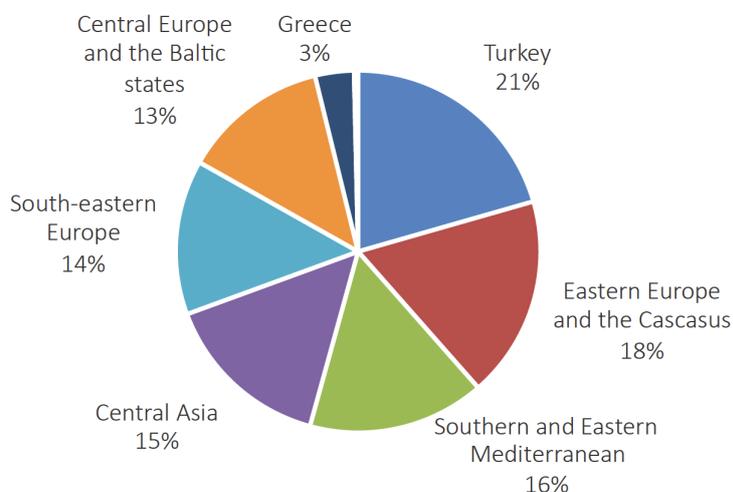
Figure 6. EBRD member countries⁴⁵



In 2015, Turkey was the largest EBRD beneficiary, with about one fifth of the total investment volume. This was followed by the regions of Eastern Europe and the Caucasus, Southern and Eastern Mediterranean, and Central Asia.⁴⁶ EBRD's total investments in 2015 amounted to EUR 9.3 billion.⁴⁷

⁴⁴ European Bank for Reconstruction and Development, Who We Are
⁴⁵ European Bank for Reconstruction and Development, Shareholders and Board of Governors
⁴⁶ European Bank for Reconstruction and Development, 2016, Annual Report 2015
⁴⁷ Ibid.

Figure 7. EBRD regional investment distribution, 2015⁴⁸



Financial structure of climate projects

For the direct financing of individual mitigation projects, EBRD provides loans, direct equity, equity funds and credit lines to private and public clients.⁴⁹ EBRD investments in private sector projects can range from EUR 5 million to EUR 250 million, with an average of EUR 25 million.⁵⁰ EBRD can acquire equity in amounts ranging from EUR 2 million to EUR 100 million in industry, infrastructure and the financial sector if there is an expected appropriate return on investment. The bank will take only minority positions and will have a clear exit strategy.⁵¹

EBRD seeks co-financing of projects mostly from the private sector (>60% of co-financing in 2015). To address high market barriers and reduce perceived investment risks, EBRD also combines its funding with concessional finance of other MDBs (ca. 19% of co-financing), and other international public sources such as multilateral donor funds (ca. 12%).⁵²

Furthermore EBRD indirectly finances mitigation projects through Green Economy Finance Facilities. These provide credit lines to local financial institutions for on-lending to small and medium-sized enterprises and homeowners. They also offer technical guidance to lending partners on designing appropriate financial products and advise borrowers on how to turn green projects into sound investments.⁵³

Climate finance at EBRD

EBRD has been making green investments for a decade. To give a greater role to clean energy, climate protection and natural resources, the bank introduced the “Sustainable Energy Initiative” (SEI) in 2006. The objective of SEI was to increase investments in energy efficiency and renewable energy by developing financial instruments that mobilize private capital and improve the business environment for sustainable investments.⁵⁴ Since 2015, EBRD invests in sustainable energy projects via its Green Economy Transition (GET) approach. Expanding the SEI focus on energy efficiency and renewable energy projects, the GET approach also includes the areas of water and material efficiency and climate adaptation.⁵⁵

⁴⁸ Ibid.

⁴⁹ European Bank for Reconstruction and Development, Green Economy Transition

⁵⁰ European Bank for Reconstruction and Development, 2013, Guide to EBRD financing

⁵¹ European Bank for Reconstruction and Development, Equity investments

⁵² Joint Report on MDBs’ Climate Finance, 2015

⁵³ European Bank for Reconstruction and Development, Green Economy Transition

⁵⁴ European Bank for Reconstruction and Development, 2014, Sustainable Energy Initiative - SEI

⁵⁵ European Bank for Reconstruction and Development, Green Economy Transition

Between 2006-2015, EBRD invested more than USD 18 billion in over 1,000 mitigation and sustainable resources projects.⁵⁶ In 2015, the bank committed USD 3.2 billion to climate projects, of which more than two third in the private sector.⁵⁷ Under the GET approach, EBRD seeks to increase the volume of green financing from an average of 24% of its annual investments (2006-2015) to 40% by 2020. This target is composed of climate finance and finance for projects with a positive environmental impact, as the bank does not have separate targets for these categories. However, it is expected that the majority of this finance will be climate finance.⁵⁸

NAMAs in EBRD's climate finance portfolio

Even though more than 90% of EBRD's climate finance flows to mitigation actions,⁵⁹ **no funding has yet been committed to a NAMA per se.** However, at EBRD NAMAs are seen as potential tools to increase the delivery of climate finance and enable a future uptake of increased ambition.⁶⁰

EBRD is already carrying out work that is very similar to typical NAMA activities, such as the arrangement of partnerships between donors, recipients, and the private sector, development of new business models, policy dialogue and capacity building, and actual low-carbon investments. Furthermore, to leverage its investments and those of the governments and other donors, the bank assists countries in lowering the risks of projects and bring in private sector investments.⁶¹

Important investment criteria

While EBRD is seeking to enhance the use of public delivery channels for climate projects, its primary investment focus remains with the private sector.⁶² Therefore, government-driven NAMAs or further mitigation projects seeking EBRD financing should highlight how their investment helps develop the private sector. The bank offers support to structure projects through technical assistance, policy dialogues and capacity building. Countries and project developers should pay attention to the following key investment criteria that EBRD uses to appraise mitigation projects:

- **Country ownership:** the request for support should come from the host country.
- **Consistency with NDCs:** mitigation projects, including NAMAs, should be in line with the country's NDC mitigation targets. These are considered as the most concrete document and starting point of countries' low carbon development pathways.
- **Enabling policy framework:** countries should address investment and regulatory barriers as part of the policy dialogue and capacity building work.
- **Scalability:** projects should have the ability to deliver climate change mitigation and climate resilience at scale; there should be international sponsorship potential for technical assistance and co-finance to overcome barriers.⁶³
- **Bankability:** projects must be financially viable and profitable and have significant equity contributions in cash or in-kind from the project owner (beneficiary or third party).
- **Benefit the local economy:** projects should benefit the local economy and help develop the private sector.⁶⁴

⁵⁶ European Bank for Reconstruction and Development, 2015, EBRD steps up green financing in build up to Paris climate conference

⁵⁷ Joint Report on MDBs' Climate Finance, 2015

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

⁶¹ Ibid.

⁶² European Bank for Reconstruction and Development, Green Economy Transition

⁶³ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

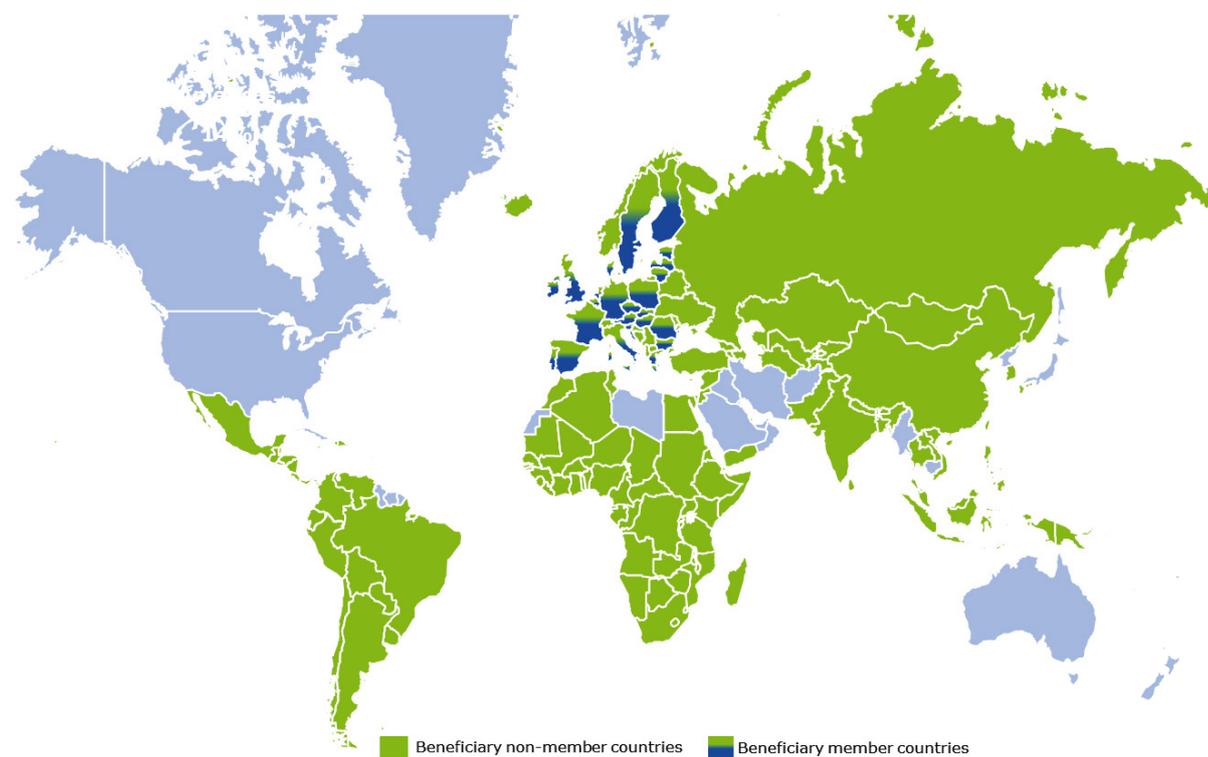
⁶⁴ European Bank for Reconstruction and Development, 2013, Guide to EBRD financing

3.4 European Investment Bank (EIB)

General background

EIB provides financial support in the form of loans and equity, and technical assistance for sustainable investment projects that contribute to the EU's economic policy objectives. Its focus areas are the environment, infrastructure, innovation, SMEs, climate protection and regional development. It is owned by the 28 Member States of the European Union (EU). The bank is the largest multilateral borrower and lender by volume, while more than 90% of the bank's operations are focused on Europe.⁶⁵

Figure 8. EIB member countries⁶⁶



In 2015, EIB's annual investments amounted to about EUR 83 billion, of which 6% was committed to developing countries. Most of EIB cumulative investments to developing countries to date have flown to the Mediterranean region (40%), followed by the regions of Asia and Latin America (30% combined) and Africa, Caribbean and the Pacific (30% combined).⁶⁷ The top borrowers from the EIB are large Western EU member states, led by Spain and Italy in 2015 (see Figure 9). Germany, France and the UK are also major borrowers, while simultaneously being the top three donors of the bank.⁶⁸

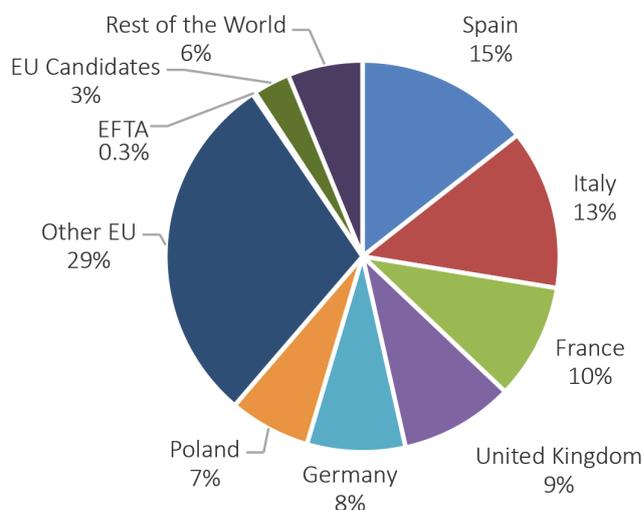
⁶⁵ European Investment Bank, EIB at a glance

⁶⁶ European Investment Bank, Shareholders

⁶⁷ European Investment Bank, Projects financed

⁶⁸ European Investment Bank, 2016, Financial Report 2015.

Figure 9. EIB regional investment distribution, 2015⁶⁹



Financial structure of climate projects

EIB does not provide grants or venture capital, but just loans and technical assistance to public and private sector clients.⁷⁰ In the area of climate finance, more than 90% of EIB investments currently flow to the public sector (2015). Lending is by far EIB's principal activity, accounting for ca. 90% of its total financial commitments. Loans are provided to large individual projects for which total investment cost exceeds EUR 25 million, and can cover up to 50% of the total investment cost. For projects with lower investment cost, EIB provides intermediate loans (credit lines) to local, regional and national banks, which subsequently on-lend to financial beneficiaries.⁷¹

The bank also provides instruments to help clients blend the bank's financing with additional sources of investment. These include for example guarantees to cover project risks or blending of EIB's own resources with trust funds of the European Commission and the EU Member States that EIB manages (ca. 1% of EIB climate investments in 2015).

EIB is looking for co-finance for its climate investments, mostly from other international public sources (ca. 70% of co-financing in 2015). The second largest co-financing source of EIB climate projects is the public domestic sector in beneficiary countries (ca. 20% in 2015). Furthermore, EIB seeks to draw private money to climate finance projects alongside public funds in three ways: (1) co-investments, which allow private fund managers to get behind bigger projects than they could do on their own, (2) layered-risk deals in which public funds take a larger portion of the risk in a project, and (3) soft enhancement, i.e. deals where EIB's presence demonstrates that a project has been examined in-depth and assessed to be a good one.⁷²

Climate Finance at EIB

EIB adopted its "Climate Strategy – Mobilising finance for the transition to a low-carbon and climate resilient economy" in September 2015. The strategy has three strategic action areas that serve as the guide to the bank's climate action: (1) reinforcing the impact of EIB climate financing, exceeding 25% of its global lending for climate action, (2) building resilience to climate change, and (3) further integrating climate change considerations across the bank's operations.⁷³

⁶⁹ European Investment Bank, 2016, Financial Report 2015

⁷⁰ European Investment Bank, Eligibility

⁷¹ European Investment Bank, Products: Lending, blending and advising

⁷² European Investment Bank, 2016, Climate finance: Three strategies to cut the risk

⁷³ European Investment Bank, 2016, EIB Climate Strategy, Mobilising finance for the transition to a low-carbon and climate-resilient economy

The bank focuses its climate finance efforts on high-impact projects, furthering financial innovation, increasing the pipeline of climate action projects and supporting the green bond market.⁷⁴ In October 2016, EIB announced its commitment to continue innovation to support climate finance, such as unlocking additional investments from institutional investors and building the pioneering role it has played as the largest issuer of green bonds.⁷⁵

In the period 2010-2014, EIB provided more than EUR 90 billion to climate projects, making it one of the largest climate financiers globally.⁷⁶ In 2015, the bank committed EUR 20.7 billion to climate finance (EUR 2.2 billion outside the EU). More than 90% of this was invested in mitigation action, above all in a lower carbon transport sector (ca. 50% of total climate finance), followed by energy efficiency (ca. 17%) and renewable energy projects (ca. 16%). During the run-up to the Paris Agreement, EIB set the goal to increase its climate finance for developing countries to 35% by 2020, up from 25%, and set the minimum target to spend at least 25% of its total annual investment on climate-related activities.⁷⁷

NAMAs in EIB's climate finance portfolio

Whereas EIB has not yet invested in NAMAs, it is explicitly looking for NAMA investment opportunities. To this end, the bank is supporting NAMA-related activities. In 2016, it launched a study on NAMA potentials in its Mediterranean partner countries, with the aim to identify opportunities for NAMA investments in the region in the short and long term. In the short term, the study focuses on identifying a number of mature NAMA projects that could already be taken to a pre-feasibility phase in preparation of a possible EIB investment. A particular focus will be on NAMAs that foresee the participation of the private sector. In the long term, the study will facilitate the emergence of new climate investments through analyzing gaps and barriers to NAMA development and implementation where IFIs can intervene, e.g. via support for financial structuring of NAMA projects or capacity building.⁷⁸

Important investment criteria

Countries and project developers who seek EIB finance should keep in mind that the EU's bank has the primary focus of promoting EU economic policy objectives. Projects in developing countries are correspondingly only eligible for EIB loans if they are in line with these objectives, i.e. support innovation, SMEs, environment, infrastructure that connects internal markets and economies, climate protection and regional development in Europe and beyond.⁷⁹ Mitigation projects that apply for EIB finance should thus be framed in a way that highlights how they are conducive to e.g. energy security in the EU or enhanced regional cooperation. EIB has also set specific priorities for different regions it operates in, which should be taken into account by the potential beneficiary:⁸⁰

In the **Mediterranean partner countries**⁸¹, the two focus areas of the bank are (1) private sector support for micro, small and medium-sizes enterprises (MSMEs) and in the industrial sector, and (2) creating an investment-friendly environment for the private sector by improving infrastructure in the sectors energy, transport, environment and human and social capital.

In the **EU Eastern neighbor states**⁸², EIB focuses on growth and employment, intraregional trade, and helps protect the environment and mitigate climate change by supporting low-carbon and climate resilient growth.

⁷⁴ Ibid.

⁷⁵ European Investment Bank, 2016, EIB welcomes ratification of Paris agreement and reaffirms support for climate investment

⁷⁶ European Investment Bank, 2016, EIB Climate Strategy, Mobilising finance for the transition to a low-carbon and climate-resilient economy

⁷⁷ European Investment Bank, 2016, EIB standards on Climate Action: Update on Climate Finance Tracking and Carbon Footprinting, EIB Stakeholder Engagement Workshop

⁷⁸ European Investment Bank, CAMENA climate action envelope

⁷⁹ European Investment Bank, Priorities

⁸⁰ European Investment Bank, Our regions of activity

⁸¹ Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, and Tunisia.

⁸² Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine

In **Central Asia partner countries**⁸³, EIB supports investment grade projects in renewable energy, energy efficiency, carbon capture, transportation or storage projects aiming to reduce GHG emissions and projects contributing to EU energy supply security.

In **Sub-Saharan Africa, the Caribbean and the Pacific**, EIB's primary goal is to help generate long-term private-sector led sustainable economic growth and reduce poverty through job creation and improved access to productive resources. It also supports public sector infrastructure projects that underpin private sector development, particularly for SMEs.

In **Asia and Latin America**, EIB prioritizes three types of projects: (1) climate change mitigation and adaptation, (2), development of social and economic infrastructure, and (3) local private sector development, in particular SMEs.

It should be noted that initial contacts to discuss a proposed project with EIB can be in any form (e.g. telephone, email or letter). However, the project promoter should already be able to provide information that shows that the project complies with EIB lending objectives and has a well-developed business plan.⁸⁴

Once it is ensured that a project takes the EIB's priorities into account and is thus eligible for EIB funding, the bank screens mitigation projects by analyzing the following:

- **Adjusted economic and financial rates of return:** EIB incorporates an economic cost of carbon when appraising the economic case for a project resulting in a significant change of GHG emissions.
- **Carbon footprint:** the bank carries out an assessment of GHG emissions of investment projects based on sector-specific methodologies.⁸⁵

More generally, EIB applies the following criteria to evaluate the quality and soundness of project proposals:

- **Technical scope:** the funding proposal should contain a technical description that shows the technical soundness of the project, involvement of an innovative technology, and foreseen risks and mitigation measures. Also, information on capacity for products and services should be provided.
- **Implementation capability:** the project promoter should show the capability to implement the project and provide information on timing and employment during implementation.
- **Operation capability:** the project promoter should show the capability to operate and maintain the project, and provide information on production, operation and maintenance costs as well as employment during operational life.
- **Procurement compliance:** the project should comply with applicable legislation and EIB guidelines.
- **Environmental impact:** the project should comply with applicable environmental legislation and provide information on environmental impact assessment.
- **Market and demand:** the proposal should show that there is a demand for the project's products or services over its lifetime, with reference to sectoral studies of EIB's Projects Directorate.

⁸³ Tajikistan, Kazakhstan and Kyrgyzstan.

⁸⁴ European Investment Bank, Applying for a loan

⁸⁵ European Investment Bank, Climate Action

- **Investment cost:** information on project costs and its detailed components as well as a comparison with similar projects should be provided.
- **Profitability:** information on financial profitability and related indicators (e.g. rate of return) should be provided, as well as information on economic profitability.⁸⁶

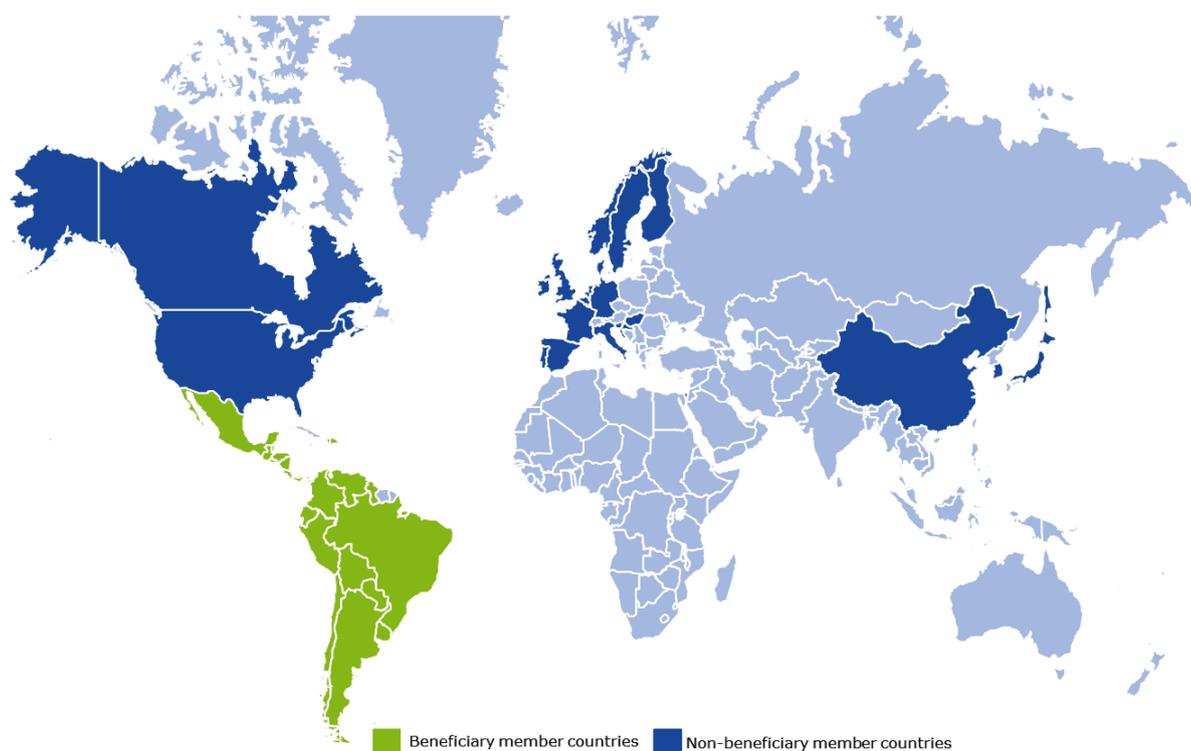
⁸⁶ European Investment Bank, Appraisal

3.5 Inter-American Development Bank Group (IDBG)

General background

IDBG has three overarching goals that guide its operations: (1) realizing the SDGs, (2) increasing climate finance flows, and (3) promoting and assisting countries in private sector development. It operates in the Latin America and the Caribbean region and offers financial and technical support to public and private sector clients. IDBG is composed of the Inter-American Development Bank (IDB), established in 1959, and the new Inter-American Investment Corporation (IIC), in which the IDBG consolidated its private sector operations in January 2016. IDBG's member countries are shown in Figure 10.

Figure 10. IDBG member countries⁸⁷

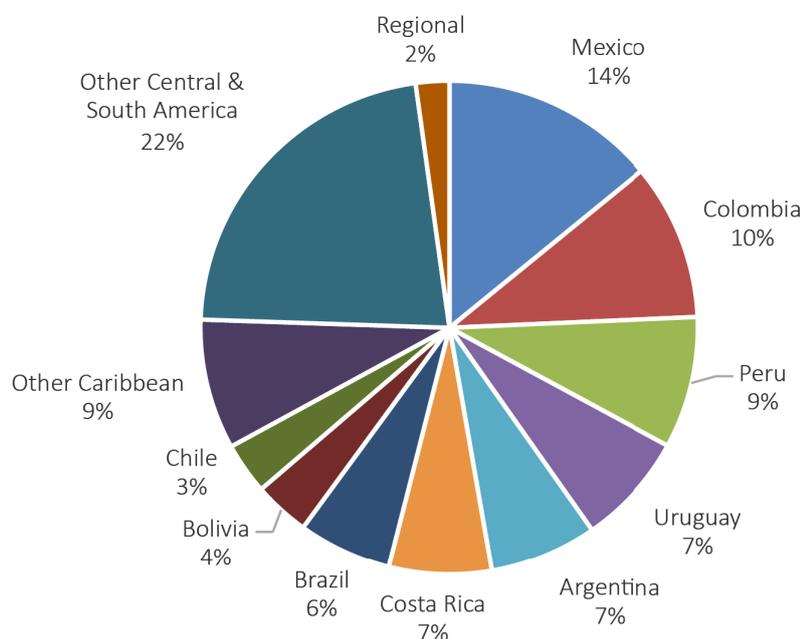


In 2015, Mexico was the largest IDBG beneficiary country (14%), followed by Colombia and Peru (see Figure 11). The total investment volume in 2015 amounted to USD 15.4 billion. When considering the accumulative investment in the period 1961-2015, the country with the largest investment is Brazil, followed by Mexico, Argentina and Colombia.⁸⁸

⁸⁷ Inter-American Development Bank Group, Capital Stock and Voting Power

⁸⁸ Inter-American Development Bank Group, 2016, 2015 Annual Report – The Year in Review

Figure 11. IDBG regional investment distribution, 2015⁸⁹



Financial structure of climate projects

Once a project idea is considered bankable, IDBG offers support to countries to set up the financial structure and designing the financial mechanism for the project. While the structure may vary and is unique to each project, it usually involves concessional loans, risk mitigation instruments such as partial credit guarantees and direct financing through value chains⁹⁰, and domestic (69% of co-financing in 2015) and/or international (29%) public co-financing⁹¹. As part of its climate finance, IDBG also manages and channels external resources (ca. 10% of IDBG climate finance investments in 2015), amongst which the Canadian Climate Fund, the Energy Efficiency and Self-supply Renewables Fund, and the Climate-smart Agriculture Fund.⁹²

IDBG is increasingly looking to leverage private sector investments to accelerate the decarbonization of the region's economies. Available public finance will not be enough to cover the trillions of investments needed in the region (IDBG estimates USD 80 trillion per year) to achieve low-carbon economies. This is where IDBG's private sector arm IIC comes into play to complement other sources of private finance and support the private sector in the implementation of climate-friendly programs.⁹³ Private sector clients can directly approach IIC with a funding proposal. IIC offers direct loans between USD 1 and USD 25 to medium-sized companies and small business loans with quick approvals, as well as credit lines to financial intermediaries. Furthermore, it offers equity investments in profitable SMEs ranging from USD 2 million to USD 10 million, and partial credit guarantees for debt securities.⁹⁴

Climate finance at IDBG

Stepping up climate finance flows is at the core of IDBG's operations. The bank's investments consider climate change as a cross-cutting issue. In 2015, more than 80% of IDBG's climate finance flowed to public sector recipients or borrowers. Furthermore, 84.5% of IDBG's climate finance was committed to mitigation action.⁹⁵ IDB's investment portfolio is guided by "Country Strategies" agreed between the bank and its beneficiary countries. These strategies are four to five years investment plans that are the result of a consultation process carried out between IDB and the national finance and budget planning ministries.⁹⁶

⁸⁹ Inter-American Development Bank Group, 2016, 2015 Annual Report - The Year in Review

⁹⁰ Inter-American Development Bank Group, Financing and Technical Assistance)

⁹¹ Note that IDBG climate finance figures for co-financing don't account for equity investments.

⁹² Joint Report on MDBs' Climate Finance, 2015

⁹³ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

⁹⁴ Inter-American Development Bank Group, 2015, Inter-American Investment Corporation

⁹⁵ Joint Report on MDBs' Climate Finance, 2015

⁹⁶ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

Between 2012 and 2014, IDBG committed 14% of its total investments to climate-related projects on a yearly average.⁹⁷ As part of its strengthened commitment to increase the share of climate finance to 30% of operations by 2020, the bank plans to increase the use of financial products like loans, technical cooperation grants, guarantees, and equity investments along with innovative instruments like green bonds to leverage private sector finance for climate action.

Following the Paris Agreement, IDBG focuses on assisting its beneficiary countries in implementing their NDC commitments. To this end, the bank has created the “NDC Invest” platform that offers countries resources for transforming their commitments into achievable investment plans and projects.⁹⁸ Even if a beneficiary country has not yet developed an NDC, it can still benefit from the Platform as long as it pursues the objective of stepping up mitigation, adaptation or climate finance activities.

NAMAs in IDBG’s climate finance portfolio

IDBG considers NAMAs as instruments for climate change mitigation in Latin America and the Caribbean and has supported multiple beneficiary countries in NAMA development. For example, IDB supported the world’s first recorded NAMA in the housing sector in Mexico and has been actively involved in the preparation of further NAMAs in the region. These include NAMAs in Mexico, Honduras, the Dominican Republic, Barbados, Costa Rica, Colombia, Ecuador, Peru, Argentina, Chile and Uruguay, primarily in the energy, transport, agriculture, and housing sectors.⁹⁹

It should be noted that the label of a mitigation action is only of secondary importance to IDBG. A project is eligible for IDBG financing as long as it is demand-driven and complies with the bank’s investment criteria.¹⁰⁰

Important investment criteria

Latin America and Caribbean countries that seek IDB climate financing should first of all make sure that their mitigation projects are included in the Country Strategy agreed with the bank. Once this is ensured and the project is considered bankable, the bank offers support to countries to structure the mitigation action and/or design the financial mechanism for the project. Private sector clients eligible for IIC funding are typically majority owned by the citizens of any beneficiary member country.

While there is no mandatory requirement to accept project ideas, IDB considers at least the following investment criteria:

- **Country ownership:** projects should be driven by country governments and should be within the Country Strategies agreed between the bank and each member country.
- **Ambition and consistency with NDCs and SDGs:** projects should set ambitious goals that support the implementation of countries’ NDCs and the SDGs.
- **Capacity of beneficiary:** the potential beneficiary should demonstrate its borrowing capacity, potential capacity building needs, and the market potential in the respective sector.
- **Bankability:** the project should be feasible from an investment point of view.
- **Size of the investment opportunity:** projects should have a sizeable return on investment and volume of cash-flow. They should also benefit from the participation of the private sector.

⁹⁷ Inter-American Development Bank Group, 2015, IDB aims to double financing for climate change

⁹⁸ Inter-American Development Bank Group, NDC Invest

⁹⁹ Inter-American Development Bank Group, 2013, NAMAS: a strategic instrument for climate change mitigation in Latin America and the Caribbean

¹⁰⁰ Interview with IDBG representatives.

- **Proper risk management:** projects should be structured in a manner that the risks are shared between public and private investors, considering appropriate risk mitigation instruments.
- **Reasonable transaction costs for bank:** the transaction cost for IDBG, namely the resources invested in the preparation of the project should be reasonable in relation to the potential impact of the project.¹⁰¹

IIC's investment criteria include the following:

- **Originate in private sector:** projects must originate in the private sector, including state-owned enterprises.
- **Contribute to development of a beneficiary member country:** projects must foster the development of an IDBG beneficiary member country.
- **Profitability:** a project must be financially viable and profitable to receive IIC funding.
- **Audited financial statements:** the project owner must demonstrate the ability to provide audited financial statements.¹⁰²

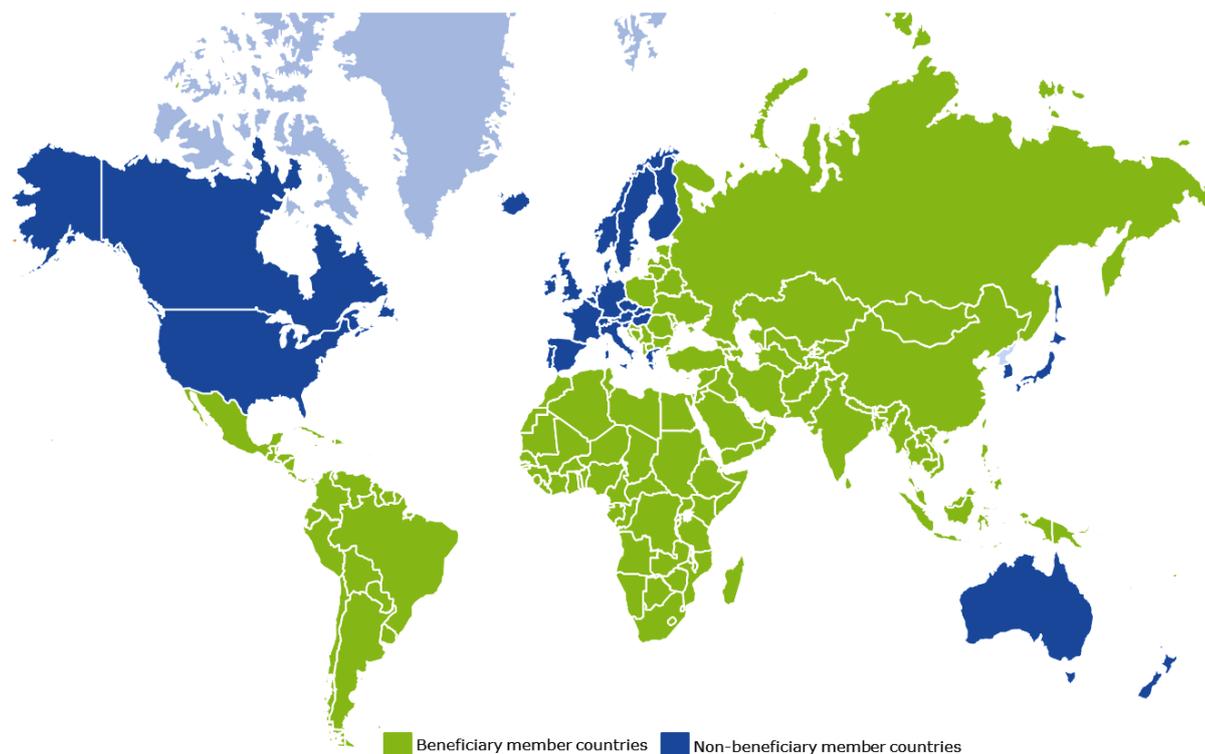
¹⁰¹ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions
¹⁰² Inter-American Finance Corporation, How to Apply for Financing

3.6 World Bank Group (WBG)

General background

The two overarching goals of the WBG are to end extreme poverty and promote shared prosperity by 2030. To this end, the bank offers financial and technical assistance to developing countries around the world. It provides low-interest loans and credits, as well as grants in the areas of education, health, agriculture, public administration, financial and private sector development, and environmental and natural resources management. It also supports the countries through technical assistance, policy advice, research and analysis.

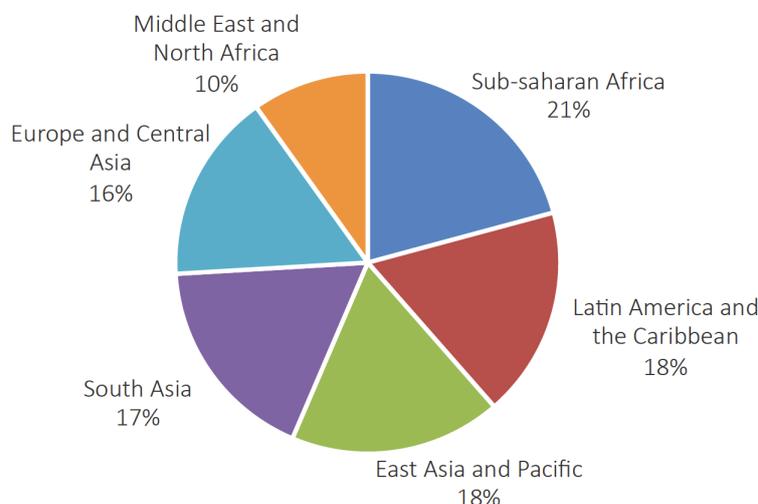
Figure 12. WBG member countries¹⁰³



In 2016, Sub-Saharan Africa was the region with the largest share in WBG investments (21%) (see Figure 13). The bank's total investment in the same year amounted to USD 64 billion.¹⁰⁴

¹⁰³ World Bank Group, World Bank Group Finances, Country Summaries
¹⁰⁴ World Bank Group, 2016, Annual report 2016

Figure 13. WBG regional investment distribution, 2015¹⁰⁵



Financial structure of climate projects

WBG's climate investments are usually structured with multiple funding sources to increase scalability and reduce risks. Apart from loans and grants, the bank uses multiple lines of investments for low-carbon and climate resilient development, such as the CIF, the Clean Technology Fund (CTF), the Pilot Auction Facility (PAF), and green bonds.

To mobilize private sector investments in the form of equity and/or debt, the WBG has a guarantee program in place. The guarantees ensure that government-related risks are mitigated so that projects become bankable and financially viable; they also help to cut the project costs and ensure its long-term sustainability.¹⁰⁶ Private sector capital constitutes the second largest source of WBG climate co-financing (ca. 33% of co-finance in 2015) after international public finance (ca. 38%).

Climate finance at WBG

Among the MDBs, the WBG is the largest source for mobilizing finance for climate change mitigation and adaptation in developing countries. Currently, it provides an average of USD 10 billion per year as direct finance for climate action, of which about 60% flows to the public sector and close to 70% to mitigation actions.¹⁰⁷ In addition, WBG has helped countries access other sources of financing such as the CIF, the GCF and the GEF. For example, it is the largest delivery partner and hosts the Secretariat of the CIF, which is the largest scale facility that advances funding for mitigation programs including NAMAs.¹⁰⁸

Process-wise, the bank develops four to six-year "Country Partnership Frameworks" for its beneficiary countries. These frameworks lay out the main country development goals that WBG aims to help achieve, and proposes a program with indicative WBG interventions for this purpose. The Frameworks are based on assessments ("Systematic Country Diagnostics"), in which the WBG analyzes barriers to poverty reduction and prosperity in the country in close consultation with national authorities, the private sector, civil society and other stakeholders.¹⁰⁹

¹⁰⁵ World Bank Group, 2016, Annual report 2016

¹⁰⁶ World Bank Group, Guarantees Program

¹⁰⁷ Joint Report on MDBs' Climate Finance, 2015

¹⁰⁸ Interview with WBG representative

¹⁰⁹ The World Bank Group, Country Strategies

In 2015, the WBG announced that it will increase climate financing to 28% of its annual investments. If current investment levels are upheld, this will amount to USD 16 billion annually in 2020. In addition, it plans to continue current levels of leveraging co-financing for climate projects, particularly from the private sector (see IFC). The WBG was one of the first institutions to issue green bonds, which are seen as an important source of private sector led climate finance, and issued a record USD 64 billion in bonds in the international capital markets in the fiscal year 2016.¹¹⁰

In the wake of the Paris Agreement, the WBG seeks to advance NDC implementation and is part of the core group of the NDC Partnership. The partnership consists of a broad range of governments of developed and developing countries, international institutions and non-state actors, with the aim to help countries achieve their climate and sustainable development targets as quickly as possible. It follows a three-step approach, consisting of (1) creating and sharing knowledge products, (2) facilitating greater alignment of technical assistance and capacity building efforts, and (3) working with relevant actors to boost climate-smart investments.¹¹¹

NAMAs in WBG's climate finance portfolio

The WBG does not have an explicit facility to finance NAMAs, but given its conventional development work and channels, it can advance NAMAs in different ways.¹¹² The bank has provided some financial support for the early stage development of NAMAs in Vietnam, Colombia, Mexico and Peru. This was done by offering to purchase Certified Emission Reductions (CERs) generated by selected NAMA activities through the bank's carbon funds or facilities¹¹³ in its Carbon Finance Unit. However, it should be noted that while NAMAs can be an opportunity to disperse these funds, offering NAMA finance through certificates - also in light of a weak global market for CERs - seems to be exceptional for the time being.¹¹⁴

Whereas the Carbon Finance Unit has played a role in early stages of NAMA development, the bank's Regional Units or associated country offices can be approached by the beneficiary countries' line ministries to mobilise funding for sectoral development programmes with mitigation benefits such as NAMAs.¹¹⁵

Important investment criteria

The WBG's overarching goals of reducing poverty and increasing prosperity are the primary criteria for climate projects to qualify for the bank's financial support. Therefore, mitigation projects need to have a high development impact to receive WBG finance. Furthermore, mitigation actions for which financing is sought should be fed into consultations leading to the Country Partnership Frameworks.

The task of identifying specific projects for WBG financing lies mainly with the beneficiary governments. This involves, amongst others, a priorities test comparing a specific project's urgency with other projects. However, before receiving financing, the projects have to pass the bank's appraisal.¹¹⁶ The WBG's investment criteria are summarized below:

- **Country ownership:** this is an important requirement of every WBG investment, being a loan or grant. The bank is set to invest in projects that are aligned with countries' poverty reduction strategies, which it seeks to capture in the Country Partnership Frameworks.

¹¹⁰ World Bank Group, Overview

¹¹¹ NDC Partnership, About NDC Partnership

¹¹² Interview with WBG representative

¹¹³ The WBG's carbon funds purchase project based greenhouse gas emission reductions in developing and emerging economies within the framework of the Clean Development Mechanism and Joint Implementation of the Kyoto Protocol.

¹¹⁴ Ecofys, ECN, 2015, Annual Status Report on Nationally Appropriate Mitigation Actions (NAMAs)

¹¹⁵ Interview with WBG representative

¹¹⁶ World Bank Group, The World Bank Project Cycle

- **Development impact and consistency with SDGs:** given the nature of the WBG’s mission, every mitigation project should demonstrate that it will contribute to low-carbon growth and the SDGs. Projects in the energy sector should contribute to the objectives of the “Sustainable Energy for All Initiative”, i.e. achieving universal access to energy, accelerating improvements in energy efficiency, and doubling the global share of renewable energy by 2030.
- **Scalability potential:** in designing projects, countries or project developers should consider the possible avenues for scalability, whether they can be replicated nationally, or whether they can attract third party investors to scale up the size of the project and the volume of emissions abated.
- **Technical feasibility:** technical questions assessed in the bank’s project appraisal include the following: Is the project soundly designed and engineered? Does it meet acceptable standards? Will it displace local people? Will it affect the environment in any adverse way?
- **Institutional feasibility:** the project proposal needs to demonstrate that the borrower has the necessary capacities (organization, management, staff, policies) in place to implement and maintain the project activities; if this is not the case, it should address required changes.
- **Economic feasibility:** this includes analyses of cost-benefits, the economic impact on local people, and the rate of return on the investment.
- **Financial feasibility:** the project should have a sound financial plan and should be financially viable, as well as demonstrate an adequate accounting system.¹¹⁷

¹¹⁷ Ibid.

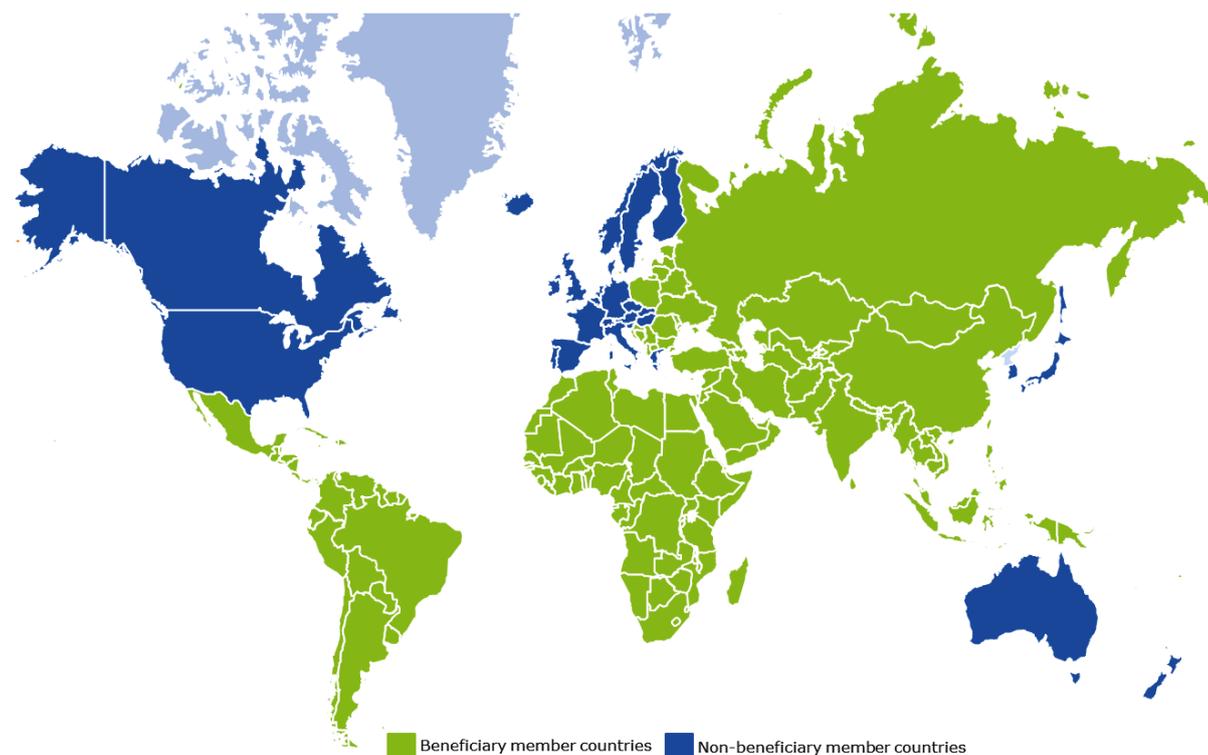
3.7 International Finance Corporation (IFC)

General background

IFC, a member of the WBG since 1956, is the largest global development institution focused exclusively on the private sector in developing countries. It provides services to the private sector in more than 100 developing countries, through financial instruments and advisory services. IFC raises funds for lending activities through the issuance of debt obligations in international capital markets, and finances projects and companies through loans and equity. IFC has a special sectoral focus on infrastructure, manufacturing, agribusiness, services, and financial markets.

As part of the WBG, IFC shares the mission of ending poverty by 2030 and boosting prosperity in developing countries.¹¹⁸ It should be noted that numbers on IFC investments presented in the following are not additional, but part of the overall WBG figures illustrated above.

Figure 14. IFC member countries¹¹⁹



The largest IFC beneficiary regions are East Asia and the Pacific and Latin America and the Caribbean (see Figure 15). At a country level, India is the largest IFC beneficiary with a share of about 10%, followed by Turkey and China.¹²⁰ IFC's total disbursed investments in the fiscal year 2016 amounted to almost USD 10 billion.¹²¹

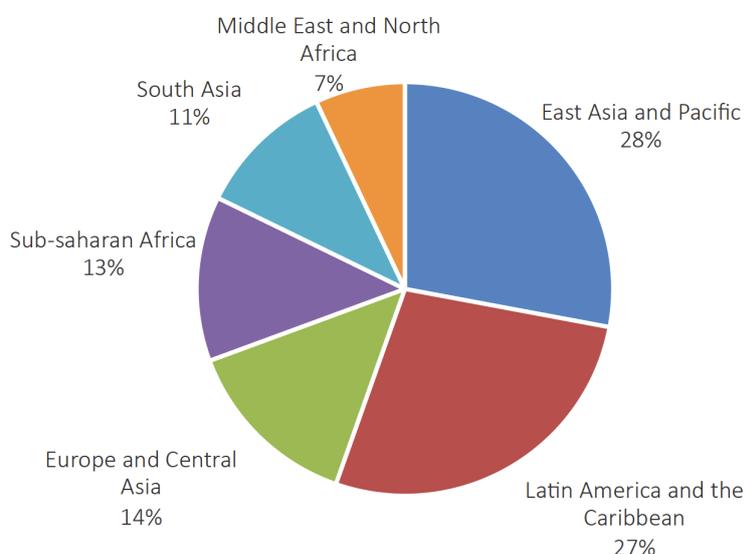
¹¹⁸ International Finance Corporation, About IFC, Overview

¹¹⁹ World Bank Group, World Bank Group Finances, Country Summaries

¹²⁰ International Finance Corporation, 2016, IFC Annual Report 2016 : Experience Matters

¹²¹ Ibid.

Figure 15. IFC regional investment distribution, 2016¹²²



Financial structure of climate projects

IFC finances projects and companies through loans and equity. Loans are typically from seven to 12 years. IFC also provide loans to intermediary banks, leasing companies and other financial institutions for on-lending to micro, small or medium enterprises that cannot directly receive IFC loans. IFC has made it a priority to structure loans in local currencies. Furthermore, it also directly invests in companies' equities (between 5-20%) and through private-equity funds.¹²³

Climate finance at IFC

Climate is an important business area for IFC: since 2005, it has invested a total of more than USD 25 billion in climate financing for renewable power, energy efficiency, sustainable agriculture, green buildings and private sector adaptation projects. In the fiscal year 2016, IFC's own climate-related investments reached close to USD 2 billion spread through 73 projects worldwide. Furthermore, it leveraged another USD 1.28 billion from third party investors.¹²⁴

IFC is committed to helping achieve the WBG 2020 climate target through scaling up direct investments in renewable energy projects, developing de-risking instruments, and sharing knowledge.¹²⁵ In 2016, IFC launched its Climate Implementation Plan with four objectives: (1) roughly double climate investments to reach 28% of IFC's annual financing by 2020 (2) catalyze USD 13 billion in private sector capital annually by 2020 to climate sectors through mobilization, aggregation, and de-risking products, (3) maximize impact through GHG emissions reduction and resilience, (4) account for climate risk - both the physical risk of climate impacts and the carbon asset risk in IFC's investment selection.¹²⁶

¹²² Ibid.

¹²³ International Finance Corporation, Loans

¹²⁴ International Finance Corporation, 2016, Climate investment opportunities in emerging markets

¹²⁵ International Finance Corporation, Climate Business

¹²⁶ International Finance Corporation, 2016, IFC Climate Implementation Plan

NAMAS in IFC's climate finance portfolio

Recognizing the increased opportunities for private sector engagement following the adoption of the Paris Agreement, IFC is not only increasing its own low-carbon investments, but also focusing on working with other private actors to do the same. IFC is accordingly preparing to adjust its investment portfolio to the new low-carbon trajectory that countries have embarked upon. To support this effort, IFC has published the Climate Investment Opportunities in Emerging Markets report¹²⁷ that analyzes NDCs and quantifies a USD 23 trillion investment opportunity in 21 countries across key sectors and provides policy recommendations to mobilize private finance for their implementation. In doing so, it follows the requests of its private sector clients in developing countries to help them step up the decarbonization of their businesses; this in turn is seen as resulting in opportunities for governments to achieve their NDC targets. NAMAs will not necessarily play a role in IFC's portfolio, unless they are framed as an investment opportunity and have a high potential for scalability.¹²⁸

Important investment criteria

Private sector clients that seek IFC finance for their low-carbon project should take the criteria summarized below into account. Project proponents are advised to seek advisory services from IFC in order to structure projects that meet these requirements. Companies or entrepreneurs can approach IFC directly by submitting an investment proposal. After this initial contact and a preliminary review, IFC may request a detailed feasibility study or business plan before it decides to appraise the project.¹²⁹

- **Enabling policies for private investment:** IFC is clear in that its investments will only flow if the countries where its private clients operate have clear and consistent policies in place. These policies include, for example, carbon pricing, performance standards and market-based support policies. Policies should aim at reducing risks, increasing fair competition, and fostering investment and capital flows.
- **NDC commitments reflected in national policies and budgets:** NDC commitments should be mainstreamed into national development and economic agendas, policy and regulatory frameworks, and national budgets. This first step is key to signal an enabling environment for private sector climate investments.
- **Long-term and scalable investments:** mitigation projects should be designed as a long-term investment opportunity that guarantees a stable pipeline of investments. They should also consider the potential to scale investments in the long term.
- **Co-funding:** projects should use financial instruments from a diverse pool of financiers, such as private sector, bilateral or multilateral donor, commercial banks, etc., as diversification increases credibility and reduces the investment risk.¹³⁰
- **Technical soundness:** the investment proposal should show that the project is technically sound.
- **Benefit the local economy:** the proposal should demonstrate how the project benefits the local economy.¹³¹

¹²⁷ International Finance Corporation, 2016, Climate Investment Opportunities in Emerging Markets and IFC Analysis

¹²⁸ Interview with IFC representative

¹²⁹ International Finance Corporation, Solutions - How to Apply for Financing

¹³⁰ Interview with IFC representative

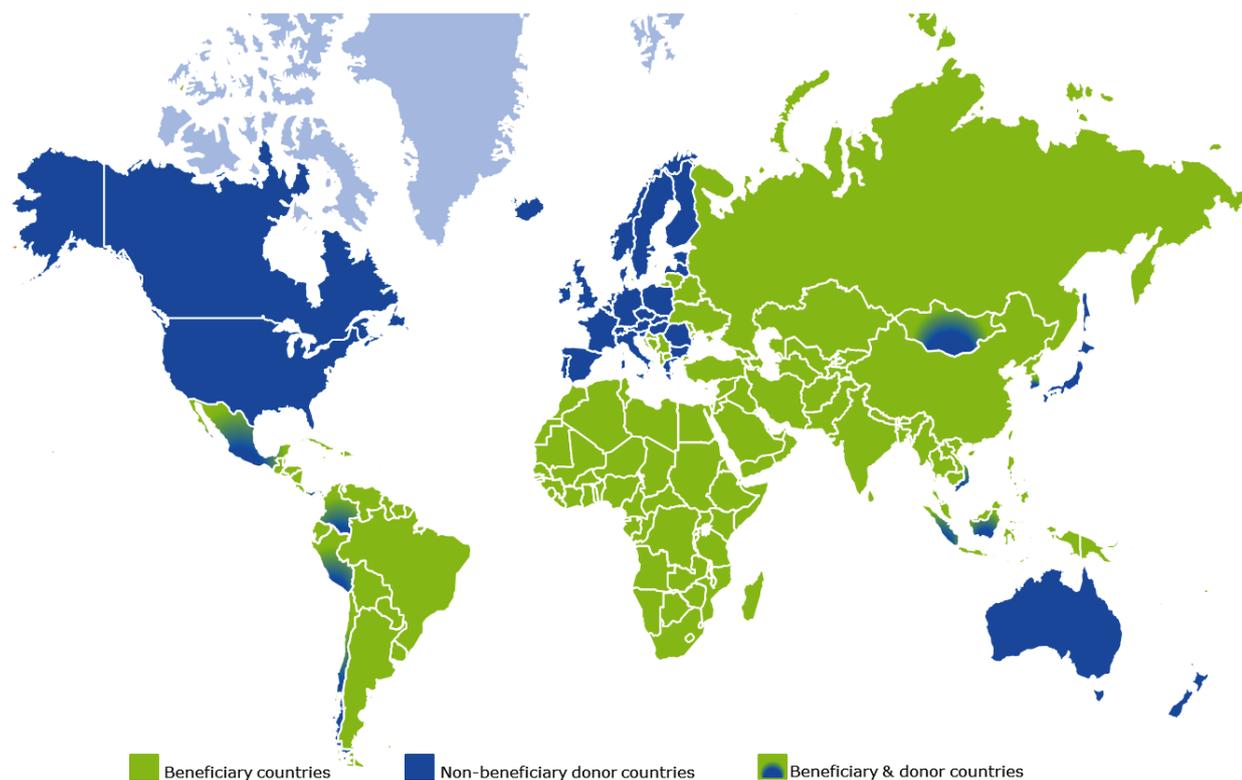
¹³¹ International Finance Corporation, Solutions - How to Apply for Financing

3.8. Green Climate Fund (GCF)

General background

The GCF is a stand-alone and legally independent multilateral financing entity with the goal of keeping the global temperature increase below 2°C. The Fund was established by the then 194 country parties to the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 and has been operational since 2015. With a view to the USD 100 billion climate finance promise of developed countries, UNFCCC parties agreed that a major share of new multilateral, multi-billion dollar funding should be channeled through the GCF. The Fund allocates its resources to low-emission and climate-resilient projects and programs in all UNFCCC developing country parties. In terms of adaptation finance, it specifically supports countries that are highly vulnerable to the effects of climate change, i.e. the least developed countries (LDCs), small island developing states (SIDS), and African states.¹³² The Fund does not have a regional focus for mitigation projects.

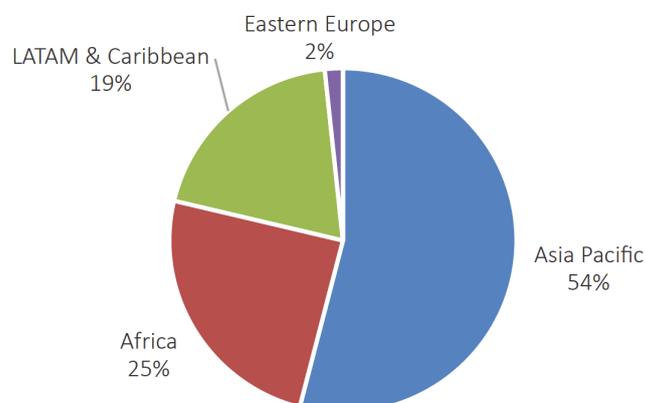
Figure 16. GCF beneficiary and donor countries, 2016¹³³



During its short operational lifetime, the GCF has supported 15 projects in Africa and 13 projects in the Asia Pacific region. This is followed by the regions of Latin America and the Caribbean (7) and Eastern Europe (2). The total current project volume as of January 2017 amounts to USD 1.5 billion.¹³⁴ The regional split in terms of the financial project volume is shown in figure 17.

¹³² Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions
¹³³ Climate Funds Update: Green Climate Fund, Countries, NDA Directory
¹³⁴ Green Climate Fund, Portfolio

Figure 17. GCF regional project distribution (financial volume), 2016¹³⁵



Financial structure of climate projects

The primary financial instruments that the GCF uses for climate projects are grants (47%) and loans (42%). In fewer cases, it also makes equity investments (10%), and provides guarantees (1%).¹³⁶ The GCF investments are sizeable and use multiple financial instruments.

To mobilize private sector capital for climate investments, the GCF has set up its Private Sector Facility (PSF). The Facility aims to mobilize at scale private finance flows from local, regional, and international commercial banks and institutional investors. There will be a significant allocation of funds to the PSF to provide incentives that encourage a paradigm shift to low-carbon development.¹³⁷

Climate finance at GCF

Climate finance is the GCF's core and only business. It directly funds climate change related projects, with an equal focus on mitigation and adaptation initiatives. The investment priority for mitigation is on energy generation and access, transport, buildings, cities, industries and appliances, and forests and land use. So far, the Fund made most of its investment commitments to cross-cutting projects (37%), followed by mitigation (34%) and adaptation projects (29%).

The GCF's counterparts in the countries are so-called National Designated Authorities (NDA) or focal points in place. They are the contact points for the Fund and have a range of responsibilities, including communicating the country's strategic priorities for financing climate action to the GCF, and submitting no objection letters for funding proposals in their respective countries. They are usually located in ministries of environment or finance, development and planning, as well as national agencies or in some cases the prime minister office.¹³⁸ Furthermore, beneficiary countries can submit funding proposal to the GCF only through entities that the Fund has accredited. These Accredited Entities can be national, sub-national, and regional implementing entities, including MDBs, United Nations agencies, and private sector entities.

As of January 2017, the GCF has approved USD 1.5 billion for 35 projects. Recipients of GCF finance are almost equally distributed across the public (48%) and private sector (52%). In total, the Fund has raised USD 10.3 billion from 43 donor countries and some regions and cities to date.¹³⁹

¹³⁵ Climate Funds Update; Green Climate Fund, Countries, NDA Directory

¹³⁶ Green Climate Fund, Portfolio

¹³⁷ Green Climate Fund, 2016, INSIGHT, an introduction to GCF

¹³⁸ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions

¹³⁹ Green Climate Fund, Portfolio

NAMAs in GCF's climate finance portfolio

NAMAs are eligible for GCF funding if they comply with its investment criteria. The Fund has no explicit focus on NAMA finance, but has already received proposals that emerged from or were built on NAMAs. However, these proposals have not yet met GCF criteria such as the requested assessments under the needs of the recipient criterion or the financial analysis under the effectiveness and efficiency criterion (see below). The Fund explicitly encourages countries or project developers to apply for grant funding to develop project proposals further, through the Fund's Readiness Program (USD 30 million available in total) or Project Preparation Facility (USD 40 million available in total). Country governments, through their NDAs, can request readiness support grants of up to USD 300,000 per project.¹⁴⁰

Important investment criteria

The GCF has set six investment criteria to appraise climate projects, which countries and project developers should be aware of when designing a project request. The most important one is considered country ownership, which is at the same time the strongest asset of NAMAs.

- **Country ownership:** measured by the level of alignment between the project's goals and the country's priorities as well as its climate and development strategies and plans. These should be communicated to the GCF by the NDAs.
- **Impact potential:** measured by the volume of greenhouse gas emission reduction the project can achieve (in the case of mitigation projects), or by the level of contribution to the increased resilience and adaptation capacity the project could realise (in the case of adaptation projects).
- **Paradigm shift:** measured by the potential of project replication or scalability.
- **Sustainable development potential:** measured by the relevance of co-benefits the project brings to the environment, society and economy (i.e. additional benefits to the main objective of the project).
- **Needs of recipient countries:** measured by whether the proponent thoroughly mapped the beneficiaries of the project and whether the project calculated the exposure to climate risks and the degree of vulnerability of the country.
- **Effectiveness and efficiency:** measures how well the financial structure of the project is developed and whether the proposed structure adequate and reasonable to achieve the proposal's objectives in its feasibility and effectiveness.¹⁴¹

¹⁴⁰ Ecofys, ECN, 2016, Annual Status Report on Nationally Appropriate Mitigation Actions
¹⁴¹ Green Climate Fund, activity-specific sub-criteria and indicative assessment factors

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