MDBs ROLE IN MOBILISING PRIVATE FINANCE FOR CLIMATE ACTION

PREPARED FOR THE MEETING OF THE SHERPAS FINANCE MINISTERS’ COALITION FOR CLIMATE ACTION

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Multilateral Development Banks (MDBs) can provide a powerful means to multiply limited shareholder contributions into expanded lending capacity and increased financial mobilisation for climate action.

UN Climate Action Summit High Level MDB Statement:

**Action 1:** Increase climate finance levels to at least USD 65 billion annually by 2025 doubling adaptation finance to USD 18 billion.

**Action 2:** Mobilise an additional USD 40 billion private sector finance.

**Action 3:** Help our clients deliver on the goals of the Paris Agreement.

**Action 4:** Develop new transparency framework to report on MDB impact.

**Action 5:** Support clients on long term GHG emissions and climate resilient strategies and just transition.
Based on 2018 Joint Report on MDBs’ Climate Finance:

- 2018 MDB climate finance record level of **USD 43.1 billion**
- 74% in public sector and **26% in private sector**
- 70% mitigation and 30% in adaptation
- Net total climate co-finance **USD 68.1 billion**
- 59% of co-finance from public sector and **41% from private sector**
- 89% of co-finance for mitigation and 11% for adaptation

For EBRD, **65% of cumulative climate finance in private sector**.

Accordingly, MDBs already make an **important contribution** towards the USD 100 billion goal and should have a much **stronger catalytic role** through the mobilisation of private finance.
• Support to long term low carbon resilient plans and NDCs taking account of country platforms (re. G20).

• MDBs as channels of systemic change in their countries of operations building on the work of the Finance Ministers Coalition for Climate Action, the NGFS, the EU Sustainable Finance initiative and taxonomy, and TCFD.

Includes support to formulation and implementation of measures emerging from above initiatives:
• Mainstreaming climate in macro-fiscal planning, budgeting, public investment and public procurement
• Carbon pricing and removal of fossil fuel subsidies
• National roadmaps for greening the financial system
• Disclosure of climate related financial risks
• **Carbon market** development support

• **Sector policy support** for example in energy or transport sectors, and including, for example, energy efficiency

• **Capacity building** and institutional framework developments

• **Country investment climate** for private sector investment and **market appetite**
Project type:

- **Direct private sector** project through individual project structuring in industry, financial and sustainable infrastructure sectors

- **Supporting infrastructure** for private sector investment
  - Transmission and distribution grids
  - Public transport backbone infrastructure

- **Programmatic/ Platforms**
  Examples:
  - Green financing facilities with local commercial banks
  - Amundi Planet Emerging Green One
Financing instruments:
- Pure private (non-sovereign debt, equity, guarantee)
- PPP
- Public
  - Sovereign
  - Non sovereign
- Blended finance including grants, concessional loans, guarantees, first loss, subordinated loans
- Platforms integrating policy, investment, capacity and mobilisation
- Policy loans

Need to design for mobilisation:
- Private sector oriented
- Away from own finance
- Risk return and margins
- Impact and reporting
Weak **policy context:**

- Low carbon transition paths
- Carbon price
- Sector policies
- Institutional and regulatory context

Need for **concessional finance:**

- Technical cooperation
- Capacity building
- Risk mitigation
- Just transition
Mobilisation parameters:

- Risk return
- Aggregation
- Transaction cost

Climate-related mobilisation challenges:

- Mitigation – Adaptation
- Developed markets – Developing/Emerging markets
- Energy efficiency – Renewable
- Cities and buildings
- Nature based solutions
MDBs would benefit from the work of Coalition in the following areas:

- Strengthening of **concessional funds** supporting climate action.
- Support to strong **MDB climate strategies** including **alignment to Paris Agreement goals**.
- Taking account of the scale of the climate issue and of the efficiency of MDB capital structure, consider **capital expansion** to accelerate climate action and leverage of private sector.
- Building on the work of the Coalition for Urban Transitions, support the development of the **financial capacity of cities for climate action**.
- Creation of **revenue generation streams for restoration of degraded land**.
- Specific **fiscal incentives** for example to support energy efficiency deployment or EV development, and **taxation** of high carbon materials.
MDBs and local academic institutions can play a strong role in providing a support mechanism to the Coalition based in London integrating both public and private finance and policy sources.

Building on the range of their policy and investment activity, MDBs can be an effective channel of implementation of recommendations emerging from the work of the Coalition in their countries of operations. This would allow to foster the expansion of the reach and impact of the Coalition to a broad range of countries.