

# Green Financing for Developing Country Development Banks

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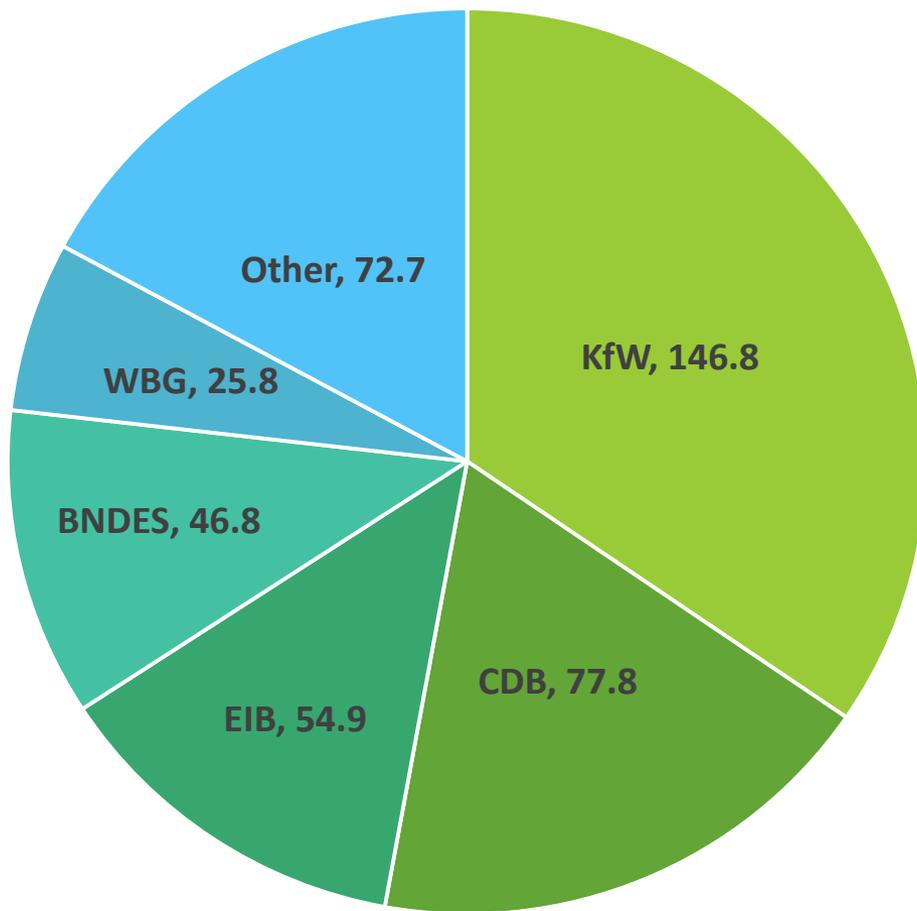
# The Role of Development Banks

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- Green development projects are often **high-risk, capital intensive,** and **long-term**
- A developing country development bank can help compensate for this underinvestment
- Development banks can:
  - Serve as financial institutions with a public mission
  - Emphasize long-term investments with higher risk tolerance
  - Prioritize structural transformation
  - Can leverage public funding to attract private investment and FDI
  - Supply technical assistance
  - Evaluate and monitor projects

# Cumulative Development Bank Support for Renewable Energy, 2007-2012, bn USD

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Total: 425 billion

- Renewable energy (53%)
- Energy efficiency (40%)
- Transmission/distribution (7%)

Source: Bloomberg 2013, Clean Energy White Paper

# Challenges for Developing Countries

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- **(1) High cost of green investments**

- DBs can encourage private investment through public risk sharing
- Encourage cost-effective, decentralized investments (e.g., solar panels, energy efficiency, environmental protection) in conjunction with large-scale projects

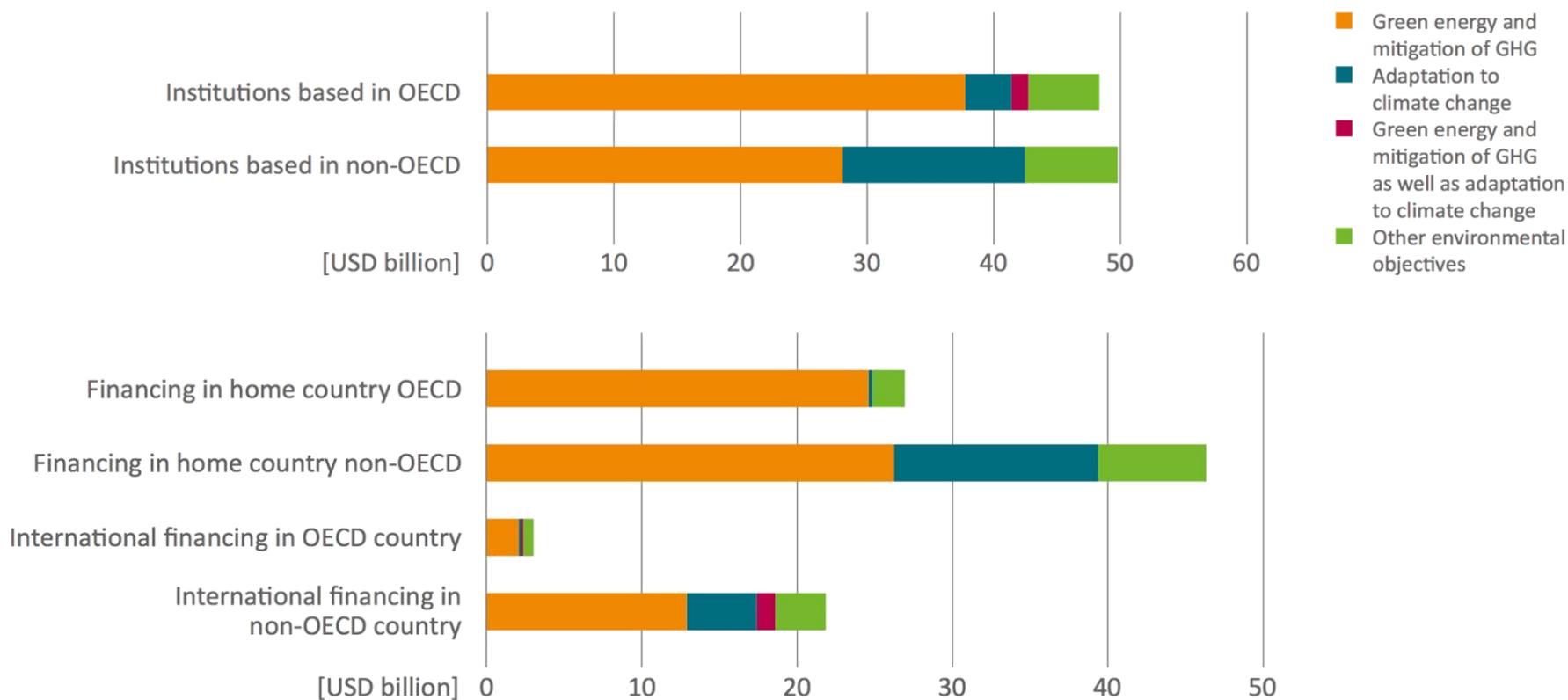
- **(2) Supporting long-term green finance without developed financial markets**

- Create blended finance instruments, institutional investment vehicles
- Cooperate with developed country development banks for co-financing and technical support

- **(3) Limited experience with green technology and financial platforms**

- Cooperate with external development banks, both multilateral (World Bank Group, EIB) and bilateral (KfW, BNDES, CDB)
- Participate in development bank forums, such as the IDFC

# IDFC Member Support for Green Projects, OECD vs. Non-OECD, 2015



Source: IDFC 2015

# Case 1: China Development Bank

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- The CDB has been an important part of China's green transition
  - In 2015, the CDB had approximately **USD 210 billion** in outstanding green loans
  - Emphasis on renewable energy, infrastructure, and urban policies
- Primary mechanism has been loans (concessional and non-concessional)
  - Fewer financial instruments/less private funding than Western DBs
  - Less FDI/technical assistance than other developing country DBs
- Strong central government support for green energy initiatives
- Cooperates with other Chinese institutions/policy banks
  - People's Bank of China (PBOC), domestic banks to co-fund projects
  - Joint underwriter of the New Development Bank's 2016 green bond issue
- Internationally, the CDB has become a large supporter of green energy projects

# Case 2: BNDES

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- BNDES has a broad strategy for green investment
  - In 2015, BNDES invested **USD 9.9 billion** in green activities (~23% of total)
  - Provides a **credit line** for renewable energy (Finem), energy efficiency programs (PROESCO), and public auctions
  - Finances a Climate Fund (Fundo Clima)
  - Officially shifted away from financing new coal/oil power plants
  - In December 2016, announced a USD 160 million Sustainable Energy Fund
- BNDES also supports low-carbon agriculture (ABC Program) in cooperation with the Banco do Brasil
  - This program has encountered difficulties
- Engaged extensively in co-financing operations with other international development banks (like the World Bank, IADB, and KfW)

# Strategies for Developing Country Development Banks

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- Enormous increase in public and private interest—how can development banks provide greater opportunities for green finance?
  - 1) Design a national strategy that reflects the need of the economy
  - 2) Coordinate with government in both policy creation and regulation
  - 3) Set guidelines and monitoring standards to ensure green projects
  - 4) Finance a variety of green projects beyond renewable energy
  - 5) Create publically-backed financial instruments to leverage public funds and increase private investment

# Thank you



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