



Financing Climate Futures

RETHINKING INFRASTRUCTURE

OECD Case Study KEY FINDINGS

Financing Climate Futures: The role of National Development Banks in Brazil and South Africa

Bridging the infrastructure investment gap will be critical for developing countries to make a decisive transition towards climate-friendly development pathways. Infrastructure supports economic growth and human development but what infrastructure is built over the next decade will either lock developing countries in to emissions-intensive development pathways, or not.

National development banks (NDBs) and development finance institutions – publicly owned, domestically-focused financial institutions with a specific development mandate – are key actors in infrastructure financing in developing countries and could help mobilise commercial capital for low-emission, climate-resilient infrastructure. But to do this, these banks will need to move beyond their traditional role of financing projects and companies to attracting commercial investors to public and private projects, through approaches such as blended finance to support the creation of new markets.

There has been relatively limited emphasis on the potential role of NDBs in supporting their governments achieve commitments under the Paris Agreement. New work from OECD shares insights on this through a case study of two banks – the Brazilian Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and the Development Bank of Southern Africa (DBSA).



Why do National Development Banks (NDBs) matter, and why now?

Amidst a changing development finance landscape, NDBs in emerging economies and developing countries are poised to play a critical role in delivering global climate and sustainable development goals. With the largest volumes of financing for development originating domestically, NDBs are key in financing the development priorities of their governments, especially for areas where private finance is not available. The relevance of these banks for sustainable development lies in their collective financial footprint as well as their trusted role in delivering the policy mandates of their governments. The case of BNDES and DBSA clearly demonstrate the value-added of these institutions.

While differing in size and scope, both BNDES and DBSA are relevant actors in the context of national economic development and infrastructure promotion

BNDES is one of the largest development banks in the world, with total assets estimated at 13% of GDP in 2017, and has played a critical role in financing infrastructure in Brazil. S&P Global Ratings (2017) estimate that BNDES was responsible for 70%-80% of total infrastructure financing in Brazil over the last 10 years¹. In comparison, DBSA is a smaller NDB, specialising in infrastructure financing with a major focus on transport, and is an increasingly important

actor across the Southern African Development Community, with 30% of its disbursements in 2017 being made outside South Africa in the SADC region.

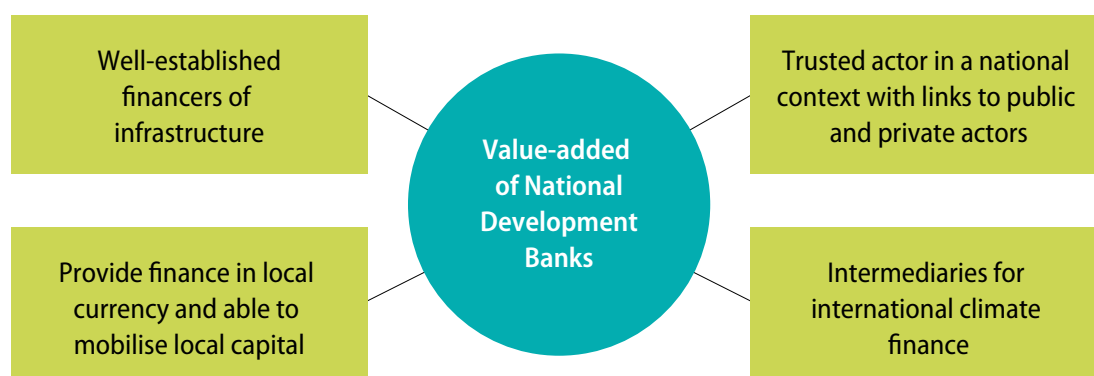
1. S&P Global Ratings (2017), BNDES' Role in Brazil's Infrastructure Development Goes Beyond Subsidized Lending. Available at: https://www.spratings.com/documents/20184/1634005/CO_IFR_October11_2017_BNDESRoleInBrazilInfrastructureDevelopmentGoesBeyondSubsidizedLending/996655f4-5b74-4572-aa19-789a81eb6fab

BNDES and DBSA play a role in the deployment of low-carbon infrastructure in their countries.

As the government's main instrument of long-term finance, BNDES is often implicitly a key implementer of government policy and plans on the environment. BNDES manages the Amazon Fund, Brazil's main national and regional REDD+ financing mechanism, and was instrumental to the development of Brazil's wind industry as a cost competitive renewable energy source by financing wind power across the country. Similarly, DBSA has played an important role in supporting South Africa's transition path to a green economy through the management of the Department

of Environmental Affairs-funded Green Fund. DBSA and other state-owned actors have also helped drive infrastructure development. DBSA's support for the setup of South Africa's Renewable Energy Independent Power Producer Procurement Programme, and subsequent financing for projects within the programme, highlights its relevance in implementing the government's renewable energy plans. It was also a demonstration of how a blended finance approach, embedded in a government plan, can drive the development of financially viable markets for renewables over a short span of time.

The strengths of NDBs in supporting low-emission, climate resilient infrastructure



What will it take to harness the ability of NDBs? Insights from BNDES and DBSA.

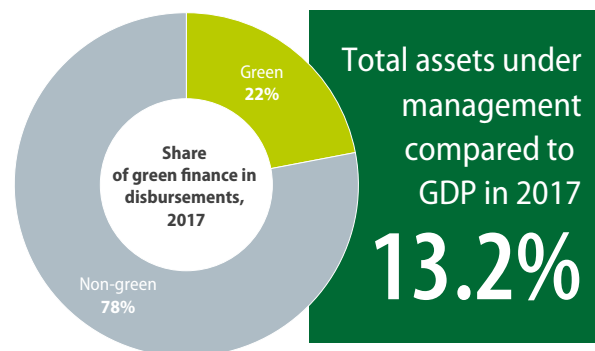
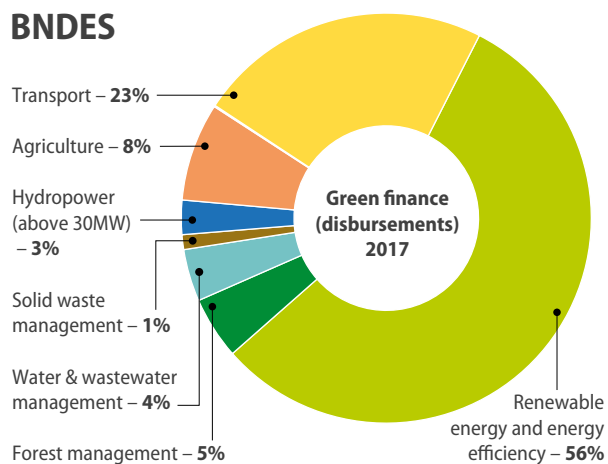
Mission-driven institutions – clear mandates, strategies and targets, and tools in support of climate action

Both BNDES and DBSA have policies and strategies in place to support environmental and climate mainstreaming and have started putting these into action. Environmental sustainability is a clear focus in the recently revised mission and strategy of BNDES, and in 2016, BNDES announced it would cease financing for conventional thermal power plants. DBSA's recently adopted Climate Change Policy Framework situates the bank's role in contributing to South Africa's Nationally Determined Contribution (NDC) and sets a climate finance target for the organisation of a minimum of 35% of annual lending by 2022 (with sub targets of 70% for mitigation and 30% for adaptation).

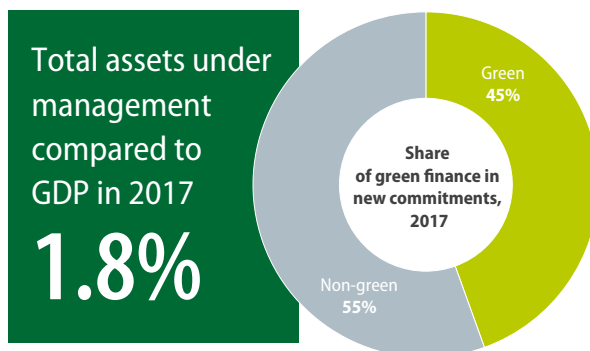
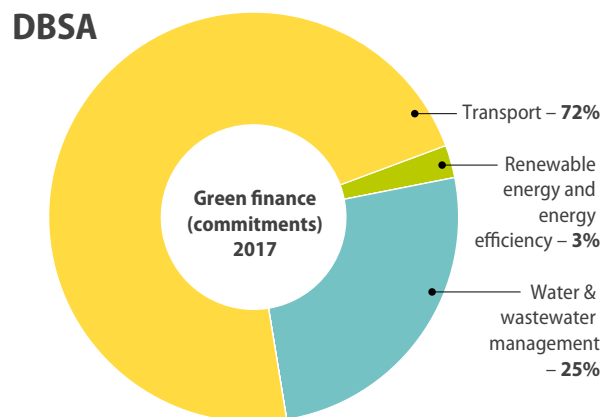
These strategies are supporting BNDES and DBSA to deliver and increase their green and climate finance. Despite a decrease in overall disbursements in the last few years, BNDES has maintained or increased its share of green economy-related financing. Green economy-related disbursements made up 22.5% of total disbursements of the bank in 2017, and have been increasing year-on-year from 13.4% in 2012. For DBSA, green finance commitments represented 44.5% of DBSA's new commitments in 2017, the majority of which (33%) were for the green economy and climate change mitigation.

BNDES and DBSA's green finance in 2017 – key facts and figures

BNDES



DBSA



Source: Authors, based on annual reports and data provided by BNDES and DBSA.

Transitioning from ‘financer’ to ‘mobiliser’ of investment for infrastructure

Spurred by national awareness of the limitations in public finance and need for more infrastructure investment, both BNDES and DBSA are at stages of transition from their traditional role as providers of long-term finance for infrastructure to enablers and mobilisers of other sources of finance. DBSA has clearly recognised the importance of this transition. The bank has recently adopted a corporate target and is reporting on finance catalysed as a result of their operations, alongside original measures of disbursement and size of portfolio. Its Climate Finance Facility, recently approved for financing from the GCF, is an example of how DBSA can support the mobilisation of commercial finance. The facility is based on a blended finance structure that will crowd-in commercial capital in local currency by improving the risk-return profile of

climate projects that are currently not yet able to self-fund in the market, and demonstrate their commercial viability.

BNDES's new mission recognises the importance of its ongoing work on capital markets development. In May 2017, BNDES issued a USD 1 billion green bond which was the first international green bond issuance of a Brazilian bank. Another example is the bank's BRL 500 million (USD 144 million) Sustainable Energy Fund (Fundo de Energia Sustentável), which will build on an established securitisation framework. Through this fund, BNDES finances the construction of sustainable energy projects and securitises the less risky operational phase of sustainable energy projects.

Support from governments and the international climate finance community

As national financing institutions, BNDES and DBSA are backed by mandates from their governments and their activities are influenced by policies and plans at national and subnational levels. In the case of BNDES, increases in the bank's pricing are being driven by government efforts to diversify sources of funding for infrastructure in the country, however, low-cost financing will continue to be needed, especially for technologies that are new to

the market. International climate finance can be a driver of action within NDBs. For example, going through the accreditation process for the Global Environment Facility (GEF) and the Green Climate Fund (GCF) has helped drive mainstreaming of climate change considerations within DBSA, the overhaul of the bank's environmental and social safeguards policy, and the creation of the bank's climate change policy framework.

Background

The forthcoming case study report ‘Mobilising commercial capital for low-carbon, climate-resilient infrastructure: Insights from national development banks in Brazil and South Africa’ is part of the Financing Climate Futures: Rethinking Infrastructure initiative, a collaborative effort between the Organisation for Economic Co-operation and Development, the UN Environment and the World Bank Group.

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