Lessons learned from Paris
Alignment of multilateral
development banks

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With input from Nadine Palmowski, Florian Egli, Tobias S Schmidt
The journey of MDBs as a blueprint for export finance decarbonization?

- **Multilateral development banks** (MDBs) highly important for emission pathways globally
- Commitments for **power plants** lock-in (or not) emissions
- Much **bank-internal policy activity** at since early 2000s
- Power generation portfolios did change towards RE

**BUT:**
- Large differences btw. banks and public/private sector loans
- Multitude of policy instruments, more/less binding for boards

➢ **Likely not a blueprint, but important learnings for ECAs**

MDB finance commitments for power plants strongly changed over time

Source: Preliminary data/unpublished study, ETH Zurich (2021)
MDB finance commitments for power plants strongly changed over time

*Differences between banks*

Source: Preliminary data/unpublished study, ETH Zurich (2021)
How did MDBs achieve the change in technology portfolios?

Internal policy instrument types identified

- **Strategy**
  - Use of normative frameworks
  - Quantifiable goals
- **Budget**
  - New dedicated funds
- **Lending policy**
  - Operational policies & safeguards
  - Carbon-sensitive economic assessment
  - Exclusion criteria
- **Organization**
  - Internal processes & staffing
- **Information & capacity-building**
  - New dedicated funds for capacity building
  - Information
  - Cooperation

**Number of policies per MDB by type, Introduced by latest 2020**

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<th>Lending policy</th>
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Source: Preliminary data/unpublished study, ETH Zurich (2021)

Most relevant (based on MDB interviews)
How did MDBs achieve the change in technology portfolios?

Policies by bank over time (most relevant policy instruments only)

Source: Preliminary data/unpublished study, ETH Zurich (2021)

Prof. Dr. Bjarne Steffen
How did MDBs achieve the change in technology portfolios?

A step towards linking policies and commitment outcomes

Statistical analysis

- Regression models on a project level, ca. 1,600 observations
- E.g. logit models «Chance that a committed project/USD is renewable energy-based»
- Specifications correcting for time effect (including external policy shocks like the Paris Agreement), bank, project size etc.

Preliminary results

- Large time effect: Since 2015 (Paris Agreement), ~40% more likely that a project is green vs. the time before
- The higher the policy density, the higher the chance of a project being green – an increase from 0 to 14 policies increases the chance of the project being green by ~15%
- Policy instrument types with statistically significant effect (if types differentiated)
  - New dedicated funds
  - Quantifiable goals

Source: Preliminary data/unpublished study, ETH Zurich (2021)
Learnings for decarbonizing ECA

A stringent policy mix is important
- MDBs (largely/partly) decarbonized their power generation portfolio by developing a broad toolset
- Including, but by no means limited to exclusion criteria (for coal-fired power plants)

Quantifiable goals on carbon intensity, and new dedicated funds particularly important
- New facilities allowed to build competences & relationships on renewables, allowing to offer alternatives
- Quantifiable goals, linked to personal incentives, with huge effect on different levels of the organization

For implementation, dealing with public sector entities can be quite challenging
- Partly explained by characteristics of countries that primarily rely on state-owned enterprises
- Generally, the agenda and power of state-owned actors need to be managed

Besides phasing-out fossil fuel finance, phasing in green finance should be a priority
- At MDBs, early-on renewables added to existing business, but later green did not fully replace brown
- Danger of other financiers stepping in, and for development pathway of rapidly-growing countries
Thank you for your attention!