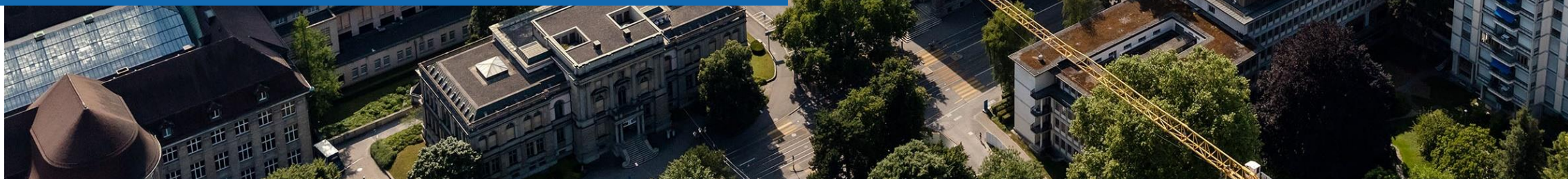


# Lessons learned from Paris Alignment of multilateral development banks

**Bjarne Steffen, ETH Zurich**

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

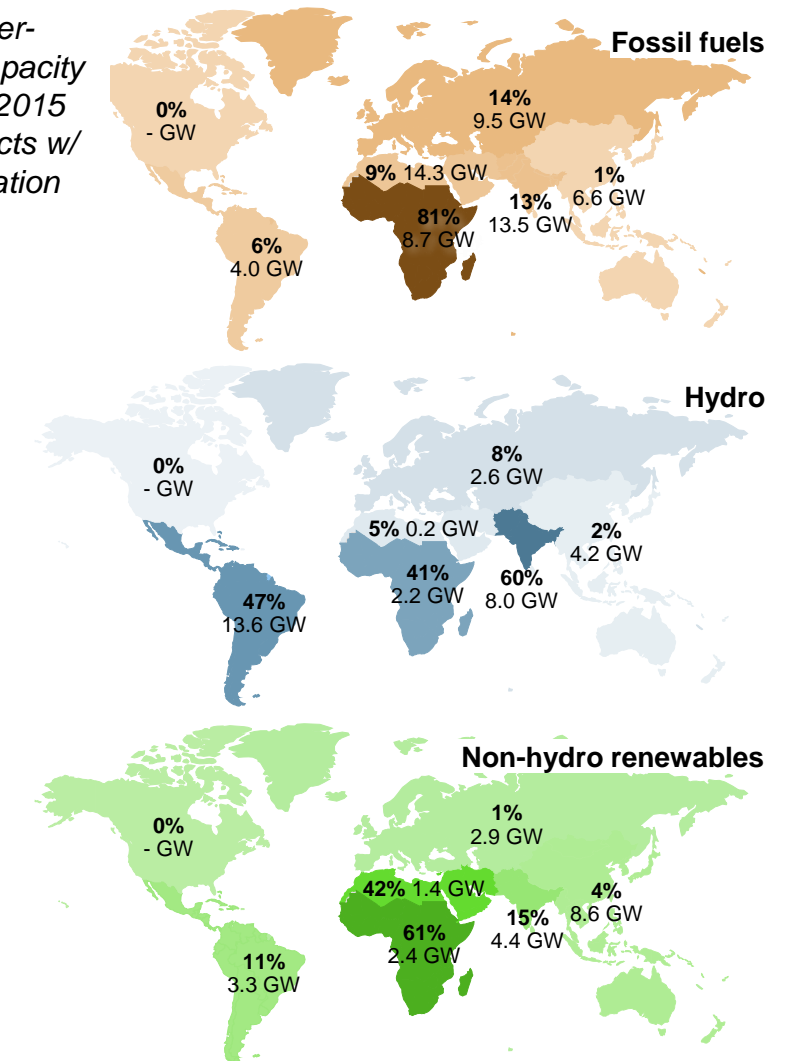
## BUT:

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

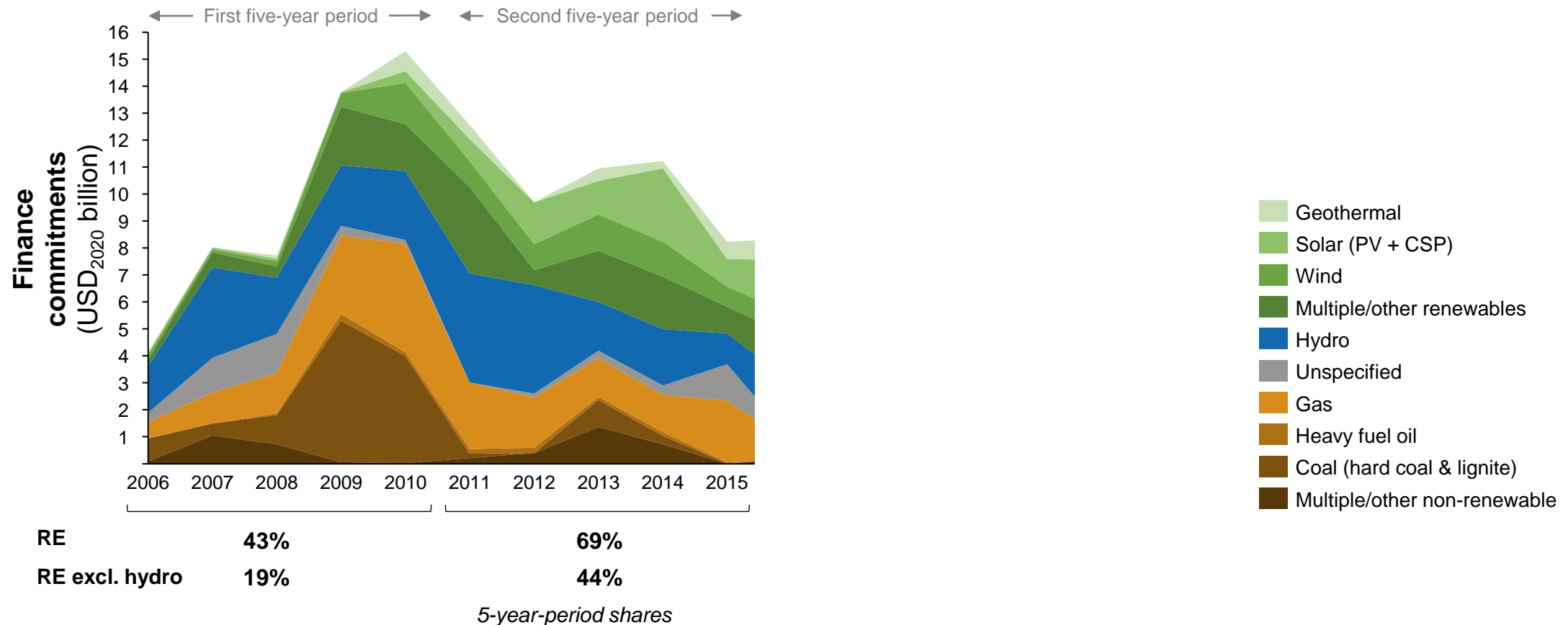
➤ *Likely not a blueprint, but important learnings for ECAs*

Source: Steffen, B., & Schmidt, T. S. (2019). A quantitative analysis of 10 multilateral development banks' investment in conventional and renewable power-generation technologies from 2006 to 2015. *Nature Energy*, 4(1), 75-82;

Share of power-generation capacity added 2007–2015 through projects w/ MDB participation



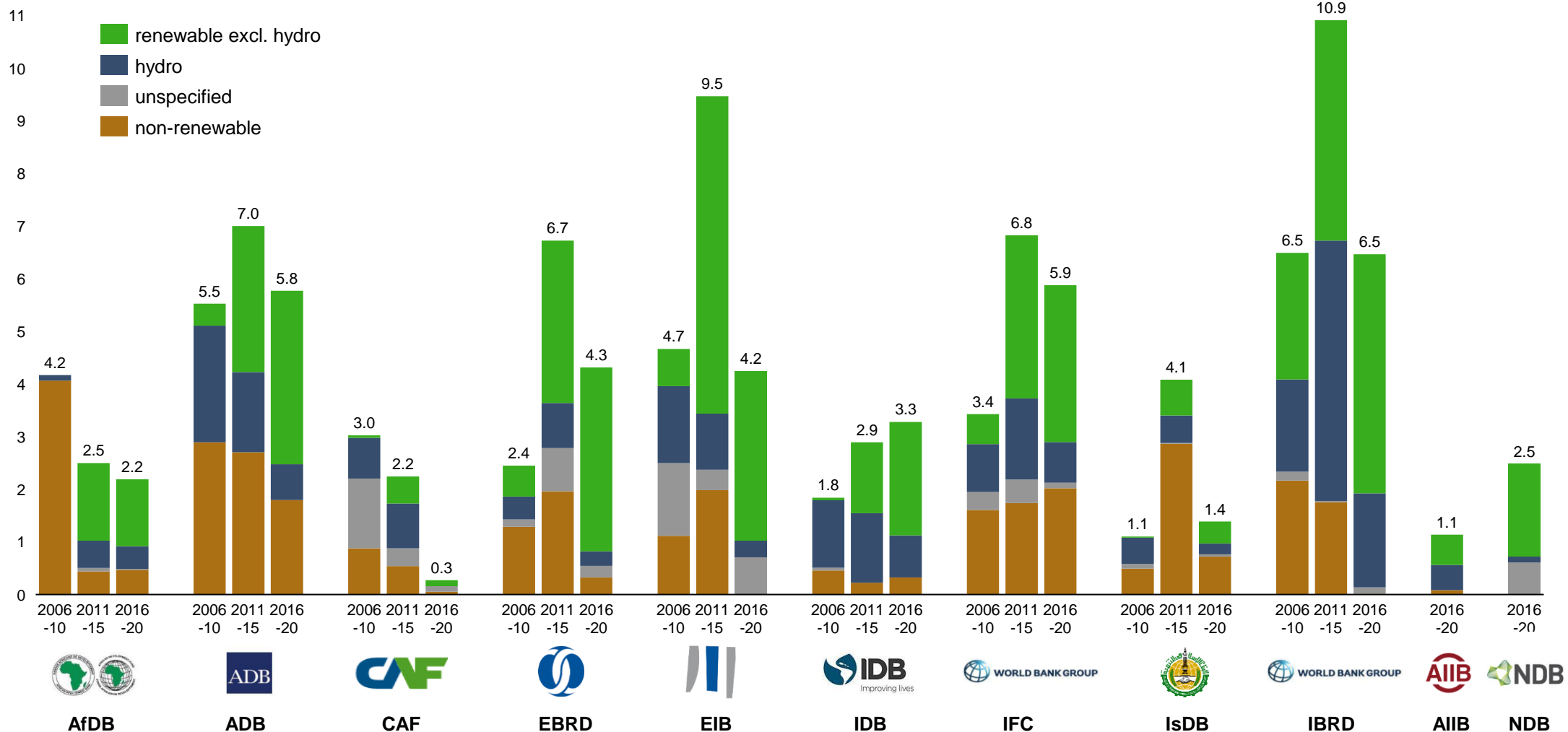
# MDB finance commitments for power plants strongly changed over time



Source: Preliminary data/unpublished study, ETH Zurich (2021)

# MDB finance commitments for power plants strongly changed over time

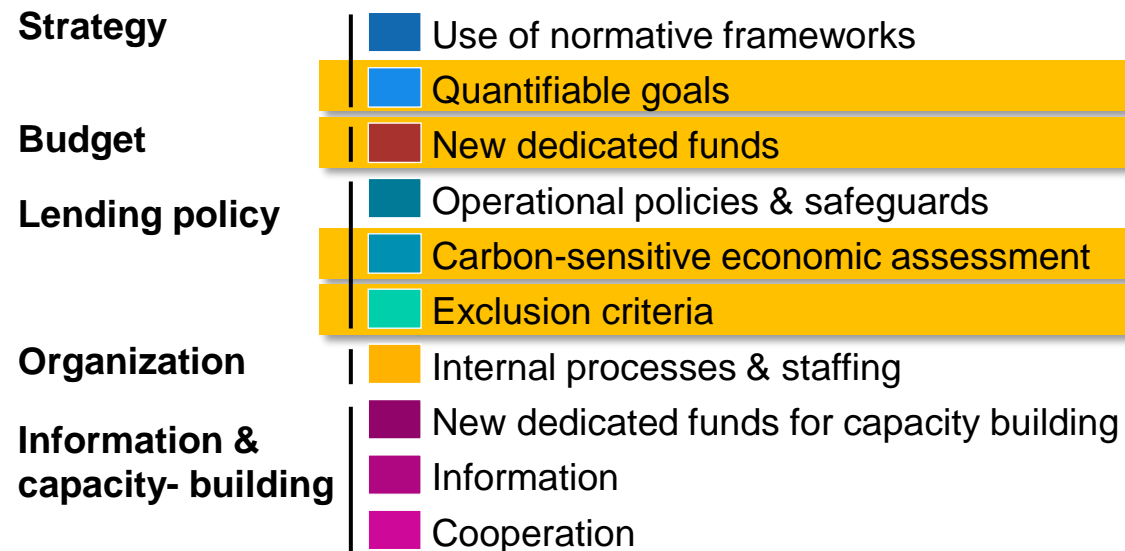
## *Differences between banks*



Source: Preliminary data/unpublished study, ETH Zurich (2021)

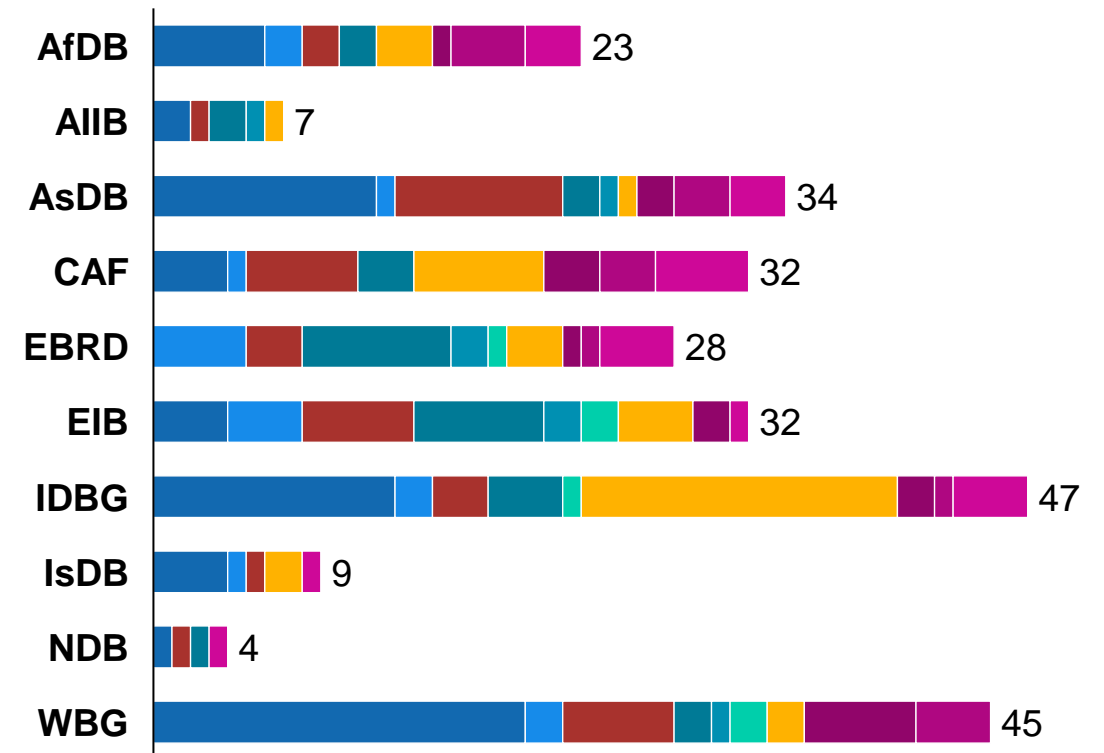
# How did MDBs achieve the change in technology portfolios?

## Internal policy instrument types identified



Most relevant (based on MDB interviews)

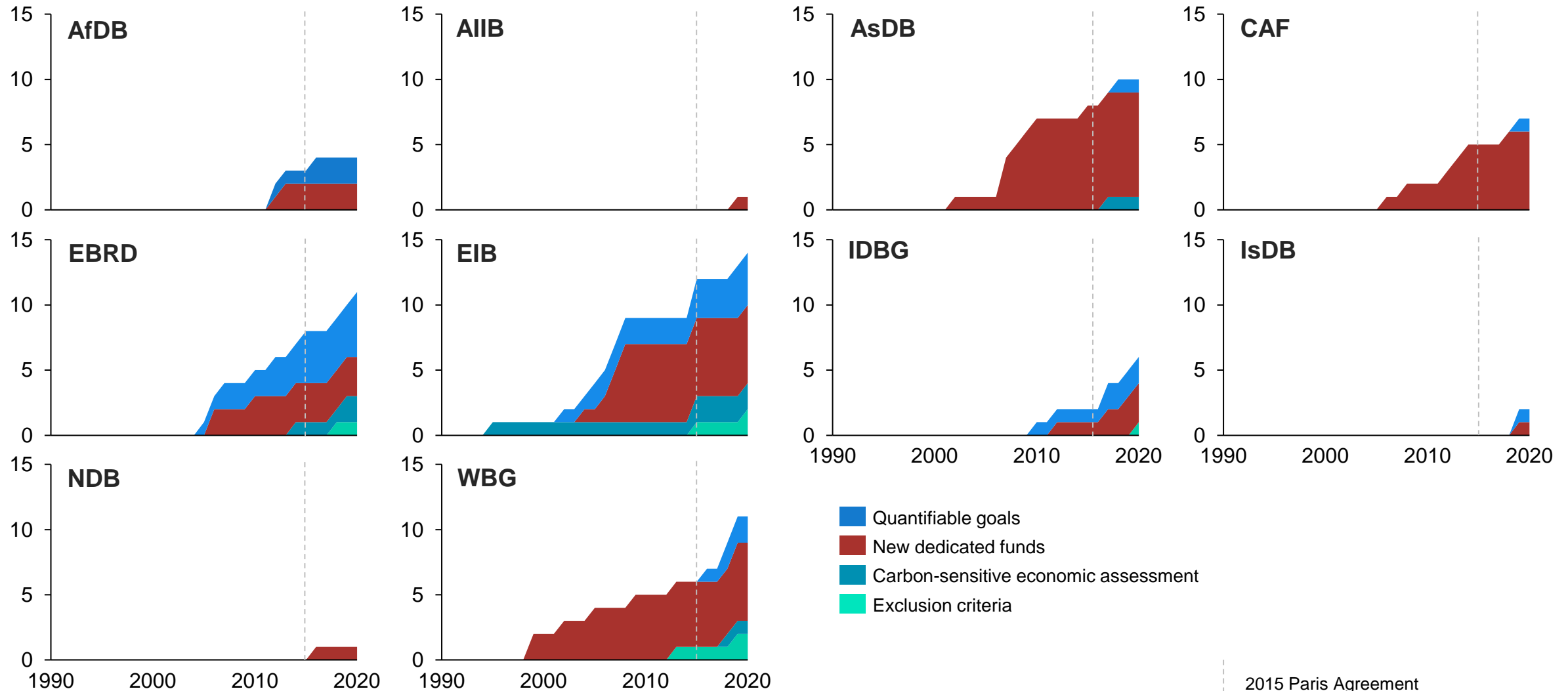
## Number of policies per MDB by type, Introduced by latest 2020



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

# How did MDBs achieve the change in technology portfolios?

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



# 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**

# 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!

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