OVERVIEW

Greening National Development Financial Institutions

Trends, Lessons Learned, and Ways Forward

Emma Dalhuijsen, Eva Gutierrez, Tatsiana Kliatskova, Rachel Mok, and Martijn Gert Jan Regelink
OVERVIEW

INTERNATIONAL DEVELOPMENT IN FOCUS

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Global pursuit of climate and environmental objectives will require trillions of dollars of investment over the next decade. However, many countries, particularly low- and middle-income nations, are grappling with significant fiscal and economic constraints in the aftermath of pandemic-related disruptions to economic and social activity.

In this context, National Development Financial Institutions (NDFIs) are vital actors in mobilizing needed financing from private sources to meet countries’ pressing needs. These financial institutions, typically state owned and driven by socioeconomic objectives, guide country development plans and policies. With their substantial assets—amounting to over US$19 trillion and accounting for more than 10 percent of global investments annually, NDFIs have the scale and influence to play a transformative role, especially in low- and middle-income countries, where public actors provide 60 percent of total climate financing, almost half by NDFIs.

NDFIs, when managed efficiently, can help overcome market barriers and mobilize private-sector financing for green investment, including through the provision of long-term financing, as well as innovative structuring of blended finance and credit enhancements. NDFIs can address existing market gaps by helping with structuring and co-financing long-term, high-risk projects and with surmounting obstacles such as extended payback periods and perceived project risk, particularly for projects in which social returns exceed financial returns. NDFIs have also helped create markets through transaction demonstration effects, having been the first issuers of green bonds in many countries. This unique position makes them effective in mobilizing finance from public and private investors for priority goals.

Like other financial institutions, NDFIs also face risks from climate change and environmental concerns in their investments and lending. Thus, they are aware of the importance of following emerging guidance on climate and environmental risk management and disclosures from financial-sector supervisors and standard setters. NDFIs are also familiar with the application of environmental safeguards to limit negative impacts of their operations and can be an effective advocate for wider application of these good practices throughout emerging-market financial systems.
The World Bank Group stands ready to support NDFIs through funding and technical assistance to strengthen their governance and risk management while working closely with governments to create the preconditions for NDFIs to catalyze private funding for climate. This report is part of this effort. It offers a comprehensive analysis of the current trends and policy actions required to expand the “green” role of NDFIs. Drawing on a survey of 22 NDFIs from diverse regions and income levels, as well as in-depth case studies of selected institutions, the report presents recommendations to enhance the efficiency, effectiveness, and environmental impact of their investments. It also emphasizes the importance of pipeline preparation and private-capital mobilization to boost green finance.

We look forward to working with these financial institutions to apply the lessons from this report, expand climate and environmental investments, and move closer to the scale of public and private funding required to reverse climate change.

Jean Pesme
Global Director
Finance, Competitiveness & Innovation Global Practice
World Bank
Executive Summary

National Development Financial Institutions (NDFIs) are crucial for mobilizing the required financing, including from private sources, to reach countries’ climate and environmental (C&E) objectives. Funding needed to achieve countries’ C&E goals is in the trillions of dollars, and many countries are also facing significant fiscal and economic constraints. Low-income and middle-income countries (LICs and MICs), other than China, need an estimated US$783 billion per year in additional investments for climate action—to recover education and investment losses from the pandemic and to address conflict and fragility—through 2030 (World Bank 2023). NDFIs have the scale to play an essential role in mobilizing the required financing from public and private donors toward C&E goals.

NDFIs are well positioned to overcome market barriers associated with green investments and catalyze private-sector financing. NDFIs, when adequately managed, can address market failures and create new markets. Compared to private investors, NDFIs have a stronger appetite for financing long-term, high-risk investments and can thus overcome market barriers associated with green investments, such as long payback periods and high perceived project risk. NDFIs have the tools to support private capital mobilization through de-risking instruments and blended financing. Moreover, NDFIs can enable private-capital mobilization by supporting the generation of a green project pipeline and through demonstration transactions that stimulate market creation. Given the limited capacity of governments to scale up C&E financing owing to current fiscal conditions, NDFIs’ role in mobilizing private financing will be critical to closing the C&E financing gaps.

At the same time, NDFIs must manage the risks that climate and other environmental concerns present to their investment and lending operations. NDFIs, like other financial institutions (FIs), are exposed to the impacts of physical risks—financial risks stemming from the effects of climate change, environmental degradation, and loss of nature on the economy—as well as transition risks originating from the realignment of economies with C&E goals. In addition, lack of compliance with good C&E practices and regulations can affect the financial performance of assets or result in reputational risks for the institution. Moving forward, NDFIs should respond to emerging guidance set by financial-sector
supervisors and standard setters to better manage and disclose C&E risks at the institutional, project, and portfolio levels.

The main purpose of this publication is to take stock of the current trends and recommend policy actions for “greening” NDFIs. The report identifies key steps NDFIs can take to catalyze finance toward countries’ C&E objectives and manage C&E risks. The assessment of NDFIs’ C&E practices is based on a review of key elements of NDFI operations and their institutional setup. It draws from the results of a survey conducted by the World Bank of greening practices within NDFIs based in countries in a range of regions and income levels, as well as on in-depth case studies of four NDFIs:

1. Los Fideicomisos Instituidos en Relación con la Agricultura (FIRA, in Mexico),
2. Korea Development Bank (KDB, in Republic of Korea),
3. Türkiye Sinai Kalkınma Bankasi (TSKB, in Türkiye), and

Results of a survey of NDFIs (refer to Figure ES.1) conducted by the World Bank show that the majority of NDFIs have adopted green goals in their strategy and governance and that a few have set specific targets linked to Paris Agreement commitments. More than 80 percent of the survey respondents have set green objectives and prepared strategies to green their portfolios, often accommodated within the existing development mission and strategy of the institution. About two-thirds of respondents have made public pledges or commitments to align with international or national climate goals. However, only a few institutions have set specific targets or disclosed their contributions to C&E targets such as Nationally Determined Contributions (NDCs). The majority of surveyed NDFIs have set green finance targets and excluded financing of some nongreen projects. Over half of the surveyed NDFIs have incorporated environmental and social considerations into their governance arrangements, often supported by specific policies and strategies, and many have created dedicated units or high-level committees to address C&E topics.

**FIGURE ES.1**

Key results of NDFI survey

![Chart showing key results of NDFI survey](chart.png)

Source: Figure original to this book and based on self-reporting by 22 NDFIs.

Note: C&E = climate and environmental; NDFIs = National Development Financial Institutions.
NDFIs are leading players in public climate finance, but the share of green assets in their portfolio remains low, with limited adaptation financing and private-capital mobilization. NDFIs provide around 22 percent of total global climate financing and the majority of public climate finance, especially in LICs and MICs. However, although NDFIs are critical players in public climate financing, the share of green assets in their credit portfolios is still relatively low, with most survey respondents reporting green assets of less than 20 percent of credit portfolios, or 14 percent on average. For the few surveyed institutions that monitor climate adaptation and mitigation finance, climate finance is strongly biased toward mitigation, mainly through direct lending, with limited exposure to climate adaptation. Only a handful of the surveyed NDFIs target and track the mobilization of private capital, including through co-financing with other FIs. Surveyed NDFIs use green and sustainability-linked debt instruments to fund their green ambitions. However, use of these instruments remains limited. Perceived challenges by NDFIs to scaling up green financing include an unsupportive policy environment, a funding gap, and lack of knowledge and awareness of C&E issues on both the clients’ and NDFIs’ sides.

Moreover, C&E risk management and disclosure practices are still nascent. So far, surveyed NDFIs have been introducing C&E risks mainly through the lens of environmental and social risk management systems, assessing environmental and social risks at the loan origination level with a focus on the impacts of loans and investments on C&E factors. Although these systems are still basic in many cases, the majority of the surveyed NDFIs have developed some definition or classification system for green projects. At the same time, most NDFIs are not assessing and managing exposures to C&E financial risks at the portfolio and balance sheet levels or integrating this information into strategy and governance arrangements. Lack of data, standardized methodologies, and technical capacity are cited as critical challenges to mainstream C&E risk management practices. Moreover, while some of the surveyed NDFIs have public sustainability reports, C&E financial disclosures in line with international guidance are mainly absent.

NDFIs can take various actions to boost green financing, including through private-capital mobilization, and to improve the management and disclosure of C&E risks (refer to figure ES.2).

- **NDFIs should introduce internal governance and strategy arrangements to support the prioritization of green objectives and ensure stakeholder coordination.** Governance arrangements should include strong board involvement and coordination mechanisms. A strategy should cover the complete set of activities across green financing and C&E risk dimensions. It should also communicate clear targets, including the targeted share of green assets. The strategies could consider broader contextual priorities set out by the NDCs and align with global agendas around the Paris Agreement. NDFIs should also build the required expertise across the organization by leveraging international and national networks.

- **To increase green finance, pipeline preparation and private capital mobilization should take center stage.** NDFIs can support the enabling environment for private capital through the development of bankable projects using technical assistance, market education, standardization of application procedures, and the creation of project preparation facilities. Improved access to international concessional climate funds can further support NDFIs to finance their ambitions. Where possible, NDFIs should explore using more
innovative instruments (beyond direct lending activities) to catalyze private finance. This work includes increasing focus on blended and equity financing, as well as scaling up the use and piloting of innovative green instruments, such as sustainability-linked bonds and loans to incentivize green performance. NFDIs should also expand their offerings in critical development areas that generate important global or domestic public goods, such as adaptation and nature-based financing.

• **A better and more systemic understanding of C&E financial risks is an important first step to informing C&E risk management practices.** NFDIs should adopt comprehensive C&E risk management approaches that consider C&E risks from both the impact and the financial risk angles—that is,

**FIGURE ES.2**

Overview of key recommendations for NDFIs, authorities, and development partners

Source: Original to this publication.

Note: C&E = climate and environmental; NDFIs = National Development Financial Institutions.
Executive Summary

NDFIs could conduct exposure and forward-looking assessments, including more advanced tools such as scenario analysis and stress testing, to better understand the impact and materiality of C&E financial risks on NDFIs’ credit and investment portfolios. These efforts should be supported by harmonizing and obtaining relevant data. Based on initial findings of the risk assessment, NDFIs could integrate C&E risks into their risk management process, internal control frameworks, and capital and liquidity adequacy assessment processes.

- **NDFIs should enhance their C&E disclosure and reporting practices,** which is an important means to facilitate communication with clients, beneficiaries, and other stakeholders. Disclosures should build on Task Force on Climate-Related Financial Disclosures (TCFD) guidance and International Sustainability Standards Board (ISSB) guidance, once finalized. Equally, NDFIs should aim to improve the quality, transparency, and consistency of green financing tracking methodologies, including methodologies that track the amount of private finance mobilized.

Governments, financial-sector regulators, and Multilateral Development Banks (MDBs), including the World Bank, have an essential role in supporting the greening of NDFIs. Governments and other financial-sector authorities have a crucial role in shaping the enabling environment for greening NDFIs. This involves several key actions, such as developing ambitious national C&E targets, integrating NDFIs into the implementation of NDCs, establishing supportive legislation and policies (for example, carbon pricing and sector regulations), as well as developing financial-sector policies and regulations (for example, a green taxonomy and prudential regulations). Governments can incentivize further integration of C&E considerations into NDFIs’ mandates, strategies, business models, and investment targets. The World Bank and other MDBs could provide targeted support through

- Technical assistance for NDFIs to build their capacity on C&E risk management and green financing,
- Funding to NDFIs that are looking to green their operations, and
- Support to authorities to create the enabling environment for greening NDFIs.

As NDFIs scale up operations to meet green financing needs, it is essential to enhance NDFIs’ efficiency and effectiveness by ensuring that they are effectively managed and properly supervised. To improve efficiency, governments could incentivize the greening of state-owned NDFIs by integrating C&E and private capital mobilization considerations into NDFIs’ mandates or missions and aligning incentives throughout the institution by using effective shareholder functions. NDFIs should maintain financial sustainability, beyond subsidies, limiting the scope of subsidized lending with a view to avoiding crowding out the private sector, fostering innovation, and reducing incentives for corruption. Financial supervisory authorities should ensure that NDFIs are properly supervised and operate on a level playing field related to prudential regulations and competition. In cases where the environment is not supportive of NDFI effectiveness, it may be advisable to operate in a second tier through other financial intermediaries. Experience from FIRA in Mexico underlines the scope for second-tier institutions to become market referents for green finance.
NOTES

1. The results of the survey cover responses from 22 NDFIs accounting for about 9 percent of global NDFI assets. Although the results of the survey are not necessarily representative for the whole universe of NDFIs, they are used to showcase the best practices of NDFIs in developing and pursuing a green agenda.

2. According to the Climate Policy Initiative (CPI), the average climate finance provided by NDFIs in 2019–2020 was US$145 billion, or 22 percent of total climate financing, representing the majority of public climate financing in that period.

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Climate adaptation and resilience is a response to global warming that seeks to reduce the vulnerability of social and biological systems to the impact of climate change.

Climate finance is all lending and investments drawn from public, private, and alternative sources to support mitigation and adaptation actions that will address climate change.

Climate mitigation consists of actions to limit the magnitude or rate of long-term global warming and its related effects.

Climate physical risks are (financial) risks resulting from the physical impacts of climate change. This could include acute hazards (that is, event-driven hazards, including more frequent and intense extreme events such as cyclones or heat waves) and chronic hazards (that is, long-term changes in climate patterns, such as temperature rise).

Climate risk is a broad term capturing climate physical and transition risks.

Climate scenario analysis explores potential climate risk outcomes. By examining a wide range of scenarios, this approach can help explain uncertainties and estimate tail risks.

Climate stress testing is applying scenario analysis to evaluate the resiliency of the financial sector or individual institutions to shocks caused by the effects of severe but plausible climate scenarios. Stress tests for climate risks are typically explorative in nature and have so far not been used as pass/fail exercises or to increase capital requirements for financial institutions (FIs).

Climate transition risks are (financial) risks that can result from the process of adjustment toward a lower-carbon and more circular economy, prompted, for example, by changes in climate and environmental policy, technology, market, and consumer sentiment.

Environmental risks cover climate physical risks, transition risks, and non-climate-change–related environmental risks such as local air pollution and loss of biodiversity.
Financial institutions (FIs) are financial-sector firms, including banks, pension funds, insurance companies, asset managers, brokerage firms, and investment dealers.

Green finance includes all lending and investments that contribute to climate mitigation, adaptation, and resilience and to other environmental objectives, including biodiversity management.

Greening the financial system is the role of all actors in the financial sector in mobilizing investments and lending toward green goals and managing climate-related and environmental risks.

Greenwashing is the practice of marketing financial products as green when in fact they do not meet climate-related or environmental standards.

National Development Financial Institutions (NDFIs) are any type of financial institution that a national government fully or partially owns or controls and that has been given an explicit legal mandate to reach socioeconomic goals in a region, sector, or market segment. Development banks (DBs) are the largest NDFIs, but other institutions, such as public credit guarantee funds, public trust funds, or public credit agencies, are included under the NDFI definition.

Nationally Determined Contributions (NDCs) are a central element for implementing the Paris Agreement and represent a country government’s plan for national climate actions, including climate-related targets, policies, and measures.

Net-zero greenhouse gas (GHG) emissions will be achieved globally when human-caused GHG emissions have been reduced to the absolute minimum levels feasible and any remaining “residual emissions” are balanced by an equivalent quantity of permanent anthropogenic removals so that they cannot be released into the atmosphere. The term anthropogenic removal refers to the withdrawal of GHGs from the atmosphere through deliberate human activities, for instance, by technological solutions (direct air capture and storage) or by natural solutions (land restoration and improved forest management).

Paris Agreement is a legally binding international treaty on climate change that was adopted by 196 Parties at COP (Conference of the Parties) 21 in Paris on December 12, 2015, and entered into force on November 4, 2016.

Public authorities cover government ministries or government agencies, as well as supervisors and central banks. This report targets financial policymakers (for example, Ministries of Finance, central banks, and financial regulators and supervisors).

Sustainable finance includes all lending and investment that contributes to environmental, social, and governance (ESG) goals.
Funding needed to reach countries’ climate and environmental (C&E) objectives is in the trillions of dollars at a time when many countries face significant fiscal and economic constraints. Low-income and middle-income countries (LICs and MICs), other than China, need an estimated US$783 billion per year in additional investments for climate action—to recover education and investment losses from the pandemic and to address conflict and fragility—through 2030 (World Bank 2023). Investment needs could increase sharply if interventions are delayed, spending is inefficient, or policies are inadequate (Rozenberg and Fay 2019).

Green finance can improve long-term fiscal sustainability and resilience, as well as enhance countries’ competitiveness and growth; however, the large funding needs for C&E action come at a time when many countries are facing broader development challenges. Slowing growth, rising food and energy prices, high levels of public and private debt, and growing fiscal constraints are exacerbated by rising interest rates globally, the persistence of the COVID-19 pandemic, and the impact of the war in Ukraine (World Bank 2022b). Under such circumstances, LICs and MICs face difficult trade-offs between competing investment needs and are struggling to mobilize public and private resources required for their climate, environmental, and development priorities.

Recognition is growing that C&E physical and transition risks could negatively affect countries’ economies and financial sectors. Physical risks stem from the short- and long-term effects of climate change, environmental degradation, and natural disasters such as sea level rise, droughts, floods, and hurricanes. Transition risks originate from efforts to mitigate climate change and improve environmental conditions by greening the economy, which may create economic adjustment costs in a broad range of sectors. One estimate suggests that insufficient action on climate change could cost the global economy US$178 trillion by 2070, almost double the current global gross domestic product (GDP) (Deloitte 2022; World Bank 2022c). At the same time, climate change and other factors are leading to irreversible, nonlinear impacts on biodiversity and ecosystem services. Estimates suggest that this issue could lead to a reduction in GDP of more than 10 percent in LICs and MICs in 2030 (Johnson et al. 2021). These impacts could, in turn, adversely impact the financial sector if they are not anticipated by financial institutions (FIs).
To respond to these risks, an increasing number of central banks and supervisors have begun to reform their supervisory framework to encourage FIs to better assess, disclose, and manage C&E risks. Standard-setting bodies are also starting to introduce guidance and principles to promote a common understanding around how climate-related financial risks can be effectively managed.¹

This report aims to take stock of the current trends and recommends policy actions for “greening” National Development Financial Institutions (NDFIs). By examining the current state and trends across different dimensions, as discussed later, this publication aims to identify steps that NDFIs could take to catalyze finance toward countries’ C&E objectives and to manage C&E risks. It also identifies priority actions that country governments, Multilateral Development Banks (MDBs) (including the World Bank), and financial regulators could take to create an enabling environment for greening NDFIs.

NDFIs² are well positioned to play an essential role in mobilizing the required financing toward countries’ C&E objectives. The collective scale of NDFI assets (close to US$19 trillion) significantly exceeds that of the multilateral system, and NDFI financing activities represent over 10 percent of global investments annually.³

In this context, NDFIs could play an important role in addressing C&E challenges. First, the involvement of NDFIs in the provision of green financing can be justified by their role in addressing market failures, including those arising from externalities that result in underfunding of projects with large social returns, such as green projects (Levy-Yeyati, Micco, and Panizza 2004). Thus, NDFIs often fulfill development objectives by financing projects that the private sector is unwilling or unable to finance—for example, in such underserved sectors as agriculture and micro, small, and medium enterprises (MSMEs) (de la Torre, Gozzi, and Schmukler 2007; Gutierrez et al. 2011; Hainz and Hakenes 2012; World Bank 2012). Furthermore, as compared to private investors, NDFIs usually have a stronger appetite for financing long-term, high-risk investments and can thus address critical market barriers associated with green investments, such as long payback periods and high perceived project risks.

Second, NDFIs can have considerable influence on a country’s development and investment plans and policies owing to their proximity to policymakers, local markets, and international development finance. Third, NDFIs can crowd in private investment for green activities by developing innovative approaches such as blended financing, co-financing, and de-risking instruments. Finally, NDFIs can also play a role in creating private capital to enable environmental projects by building a track record on green investments and acting as a first mover in financing demonstration projects at the early stages of market development. NDFIs can also provide technical assistance and capacity building at all stages of project development.

As with any other FIs, NDFIs must properly identify and manage the risks that C&E factors pose to their portfolios. As such, NDFIs should consider C&E risks beyond the lens of Environmental and Social Risk Management (ESRM) systems—that is, assessing environmental and social risks at the loan origination level with a focus on the impacts of loans and investments on C&E factors—and also consider the financial risks C&E factors pose to their balance sheets. C&E risks include physical risks—that is, financial risks stemming from the effects of climate change, environmental degradation, and loss of nature on the economy—as well as transition risks originating from the realignment of economies with C&E goals. In addition, lack of compliance with good C&E practices and
regulations can affect the financial performance of assets or result in reputational risks for the institution.

There is wide recognition of the role of NDFIs in the attainment of green objectives, despite concerns over state ownership of these entities. Main concerns include, for example, crowding out private investments, inefficient management of resources, creating competition with commercial banks, and supporting the objectives of political elites, rather than addressing sustainable development objectives. Despite these concerns, 74 new NDFIs were established during the period 2010–20. The European Commission and the United Nations have expressed strong support for NDFIs (Gutierrez and Kliatskova 2021), with the G20 (Group of Twenty) and the World Bank similarly recognizing the important role of public development banks toward the achievement of the sustainable development goals (SDGs) and the Paris Agreement (World Bank 2022a).

The conceptual framework for the assessment of NDFIs’ C&E practices is based on the review of key elements of NDFI operations and their institutional setup. The framework is based on the World Bank state-owned financial institution (SOFI) diagnostics, which includes three pillars: functional, economic, and operational. The functional pillar assesses the mandate or mission of the institution, its operations, and its alignment between operations and mandate. The economic and financial assessment pillar examines the economic and financial performance of the SOFI. Finally, the operational assessment pillar evaluates the adequacy of the legal and oversight framework, corporate governance, risk management practices, and monitoring and evaluation practices.

For the evaluation of NDFI C&E practices, this report focuses on the functional assessment aspects (mandate or mission and operations) and the operational aspects, excluding the legal and regulatory framework under which the institutions operate. The key elements of the assessment (refer to figure 1.1) include the following modules:

- **Green governance and strategy:** Addressing C&E risks and opportunities requires the boards and senior management of NDFIs to be committed and engaged. This module assesses NDFIs’ strategies, internal organization and governance structures, and allocation of adequate resources to effectively integrate C&E considerations into NDFIs’ operations.

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**FIGURE 1.1**

*Modules of assessment of NDFI climate and environmental practices*

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<th>Module</th>
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<td>Green Governance and Strategy</td>
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Source: Original to this publication based on World Bank data.
Note: NDFIs = National Development Financial Institution.
Green financing (sources and uses): This module focuses on NDFIs’ support of investments critical for achieving a country’s C&E objectives. In addition, it assesses NDFIs’ role in catalyzing private finance toward C&E actions through blended financing or co-financing, credit enhancements, and de-risking instruments (for example, guarantees). Finally, the module examines NDFIs’ ability to leverage different mechanisms to ensure that they have sufficient funding to support green investments, including accessing national and international climate funds and engaging in green finance markets (for example, by issuing green bonds).

C&E risk management: NDFIs can use various techniques to identify, assess, and manage C&E risks. Beyond approaches used in ESRM systems, tools for identifying and assessing C&E financial risks include surveys, interviews, exposure analysis, scenario analysis, and stress testing.

C&E disclosures and reporting: This module examines NDFIs’ application of green definitions and taxonomy frameworks to determine what activities contribute to C&E objectives and enhancement of C&E disclosure and reporting in line with international standards. These approaches are used by NDFIs to enhance market transparency and understanding of C&E risks and opportunities.

The role of NDFIs in the green and broader sustainability agenda is getting increasing attention, with several guidance notes and reports on the topic having recently been developed. For example, the United Nations Development Programme (UNDP) has published a paper on the role of public development banks in scaling up sustainable finance (UNDP 2022). The International Development Finance Club (IDFC), with support from the Institute for Climate Economics (I4CE) and the New Climate Institute, has developed an operationalizing framework, which includes a set of principles and tools for aligning NDFIs’ financial flows with the Paris Agreement (Lütkehermöller et al. 2021). In addition, the Inter-American Development Bank (IADB) has developed a guidebook for National Development Banks (NDBs) on climate risk, which provides a roadmap for integrating climate risks into NDBs’ lending strategies and portfolio management (IADB 2021).

The analysis for this publication builds on existing analytical work, a qualitative survey, and interviews with a selection of NDFIs. It builds on the wealth of research that has already been conducted to identify priority actions for greening NDFIs as well as on a survey conducted by the World Bank in January 2022. The survey includes questions on (a) NDFIs’ high-level commitments to the green agenda; (b) provision and tracking of green financing; (c) sources of funding, including access to green funding; (d) management of C&E risks; and (e) challenges and aspirations for greening the NDFIs (further details on the survey methodology is provided in appendix A). The responses were received from 22 NDFIs, with wide geographical and income-level coverage. The distribution of the 22 NDFIs by income level is as follows: 3 are from high-income, 13 are from upper-middle-income, 4 are from lower-middle-income, and 2 are from low-income countries. By region of operation, 8 NDFIs are based in Latin America, 4 are in Europe and Central Asia, 5 are in East Asia and the Pacific, 3 are in Sub-Saharan Africa, and 2 are in South Asia.

In addition, in-depth interviews were conducted with 4 NDFIs to identify good practices. Interviewed NDFIs include Los Fideicomisos Instituidos en
Relación con la Agricultura (Mexico), the Korea Development Bank, the Türkiye Sinai Kalkınma Bankası, and the Development Bank of Southern Africa (South Africa), focusing on the four pillars described in the conceptual framework.

NOTES

1. Notably, the Basel Committee on Banking Supervision recently issued principles for the effective management and supervision of climate-related financial risks, which provides an important baseline for banks’ and supervisors’ practices related to climate risks.

2. This publication defines NDFIs as any type of financial institution that a national government fully or partially owns or controls and that has been given an explicit legal mandate to reach socioeconomic goals in a region, sector, or market segment. Development banks are the largest NDFIs, but there are other institutions—such as public credit guarantee funds, public trust funds, or public credit agencies—that are included under this definition.

3. This number is based on the Institute of New Structural Economics and Agence Française de Développement Public Development Bank Database (November 2022).

4. The SOFI diagnostic is conducted in the context of the Integrated State-Owned Enterprise Diagnostic, the Financial Sector Assessment Program, or on a stand-alone basis at the level of the SOFI sector or individual institutions.

5. Assessment of NDFIs’ financial performance and economic impact of their green activities is beyond the scope of this publication, which focuses on reviewing NDFI institutional arrangements for green financing. The financial performance assessment would involve assessing profitability in relation to the risk assumed, including climate risks. Evaluating the economic impact of green activities involves assessing contribution to climate goals. The assessment, however, covers whether institutions have systems in place to measure and monitor climate risks in their portfolios and whether they track reduction in carbon emissions. Similarly, the publication does not review the C&E legal framework of the countries in which NDFIs operate or the extent to which the prudential regulatory framework includes environmental or climate considerations. However, the publication covers NDFIs practices to address C&E effects.

6. Based on interviews and consultations, UNDP’s report assessed (a) the role of public development banks in scaling financing toward SDGs, (b) the good practices that banks have already developed, and (c) how national and international actors, including MDBs and the United Nations, can support this agenda.

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National Development Financial Institutions (NDFIs) are crucial for mobilizing the required financing, including from private sources, to reach countries’ climate and environmental (C&E) objectives. Funding needed to achieve countries’ C&E goals is in the trillions of dollars, with many countries also facing significant fiscal and economic constraints. NDFIs are well positioned to overcome the market barriers associated with green investments and catalyze private-sector financing.

The main purpose of *Greening National Development Financial Institutions: Trends, Lessons Learned, and Ways Forward* is to examine the current trends and recommend policy actions for “greening” NDFIs. This report identifies key steps NDFIs can take to catalyze finance toward countries’ C&E objectives and manage C&E risks. The assessment of NDFIs’ C&E practices is based on a review of key elements of NDFI operations and their institutional setup. The work draws from the results of a survey conducted by the World Bank of greening practices within NDFIs based in countries in a range of regions and income levels, as well as on in-depth case studies of four NDFIs: Los Fideicomisos Instituidos en Relación con la Agricultura, Korea Development Bank, Türkiye Sinai Kalkınma Bankası, and Development Bank of Southern Africa.