Partnering for Finance Adaptation

Enhancing collaboration between public development banks in emerging markets and developing economies

September, 2024

CLIMATE POLICY INITIATIVE

ACKNOWLEDGMENTS

The authors want to thank the following organizations for their insights, in alphabetical order: African Development Bank Group (AfDB); Asian Infrastructure Investment Bank (AIIB); Association of Development Financing Institutions in Asia and the Pacific (ADFIAP); British International Investment (BII); Development Bank of Latin America and the Caribbean (CAF); Development and Investment Bank of Türkiye (TKYB); Inter-American Development Bank (IDB); Islamic Development Bank (IsDB); Nacional Financiera (NAFIN); Uganda Development Bank (UDB); West African Development Bank (BOAD). We would also like to thank our colleagues at Climate Policy Initiative (CPI) who contributed inputs and review of the document: Chris Grant, Nicole Pinko, Morgan Richmond, Kirsty Taylor, Karla Esquinca, Taarika Peres, Sasha Abraham, and Sean Stout and Elana Fortin.

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices around the world in South Africa, Brazil, India, Indonesia, the United Kingdom, and the United States.

DESCRIPTORS

Sector

Financial

Region

Global

Keywords

Climate Finance, Adaptation and Resilience, Financial Institutions

Related CPI works

Enhancing MDB-NDB cooperation: Understanding climate finance flows and Paris alignment

Global Landscape of Climate Finance 2023

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Recommended Citation

CPI, 2024. Partnering to Finance Adaptation. Climate Policy Initiative. Available at: https://www.climatepolicyinitiative.org/?post_type=cpi_publications&p=74745

EXECUTIVE SUMMARY

International, regional, and national public development banks (PDBs) play vital and distinct roles in providing climate finance in emerging markets and developing economies (EMDEs). This report focuses on the potential to increase collaboration across various types of PDBs to mobilize greater volumes of adaptation finance.

While there have been limited adaptation-focused collaborations among PDBs to date, interest is growing in these partnerships. International development finance institutions (DFIs) and multilateral development banks (MDBs) can cooperate with national development banks (NDBs)[1] in EMDEs to leverage their comparative strengths and enhance adaptation finance flows. This can be done through various mechanisms, including long-term concessional finance, technical assistance, and policy dialogue to foster climate adaptation ecosystem development.

This report identifies barriers that hinder collaboration between DFIs/MDBs and NDBs for climate adaptation. Challenges for cooperating with DFIs/MDBs include a lack of shared understanding with smaller domestic NDBs on what qualifies as adaptation finance, long and complex processes to apply to their DFI/MDB funds, and a focus within DFI/MDBs on projects with large ticket sizes. Meanwhile, NDBs face a lack of capacity to track adaptation finance, an inadequate pipeline of bankable projects, an internal perception that adaptation projects have lower returns, and local currency risk.

Informed by an analysis of the current state of play, this report presents five main recommendations for increasing the quantity and quality of such cooperation. These are:

1. **Developing complementary taxonomies** to establish compatible definitions of adaptation and tracking methodologies.
2. **Leveraging country platforms** to support alignment between international adaptation financing and national needs.
3. **Having regional development banks (RDBs) function as regional adaptation hubs** to aggregate context-specific adaptation financing needs, channel international financing, and fill gaps in local capacity.
4. **Strengthening capacity-building and knowledge-exchange initiatives** to enhance adaptation finance understanding and facilitate the effective implementation of adaptation projects in EMDEs.
5. **Leveraging concessional and blended finance** to enable DFIs/MDBs to support the de-risking of adaptation investments and enhance projects' returns profiles, thereby strengthening the business case for adaptation initiatives.

1 NDB is a PDB created by a nation's government

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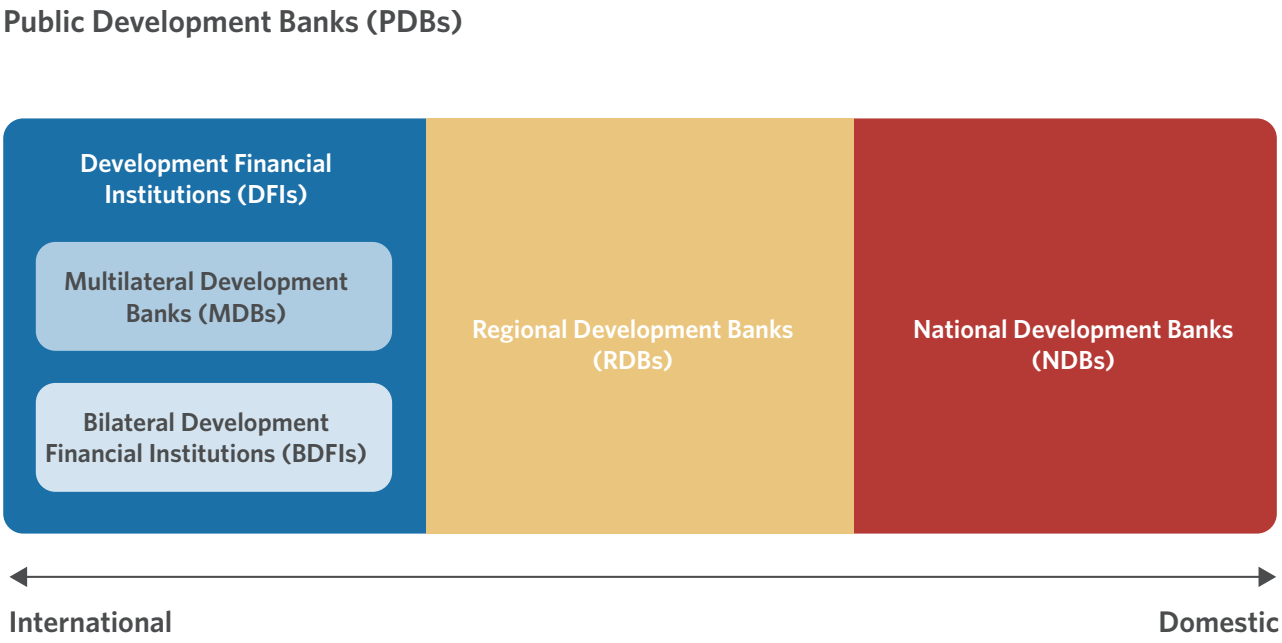
1. INTRODUCTION

Ongoing calls for the international financial architecture to increase climate ambition have stressed the need for public development banks (PDBs) to work as a cohesive system. This would result in PDBs working more collaboratively, including directing more resources towards technical assistance and capacity building to boost the volume and effectiveness of climate finance, especially when channeled toward development banks that operate in EMDEs. (CPI and E3G, 2023).

PDBs' development-focused mandates and ability to connect diverse financial and political actors present a significant opportunity to drive the resilient economies, while also contributing to net-zero goals. The PDB landscape encompasses various types of institutions, each with distinct operations, mandates, and geographic scope (international, regional, and national). This paper analyzes opportunities for collaboration across the landscape of PDBs as illustrated in Figure 1.

Figure 1. Landscape of public development banks



PDBs play a role as financiers, enablers, and mobilizers of climate finance, particularly for adaptation. NDBs and MDBs jointly committed an annual average of USD 47 million in 2021/22, over 75% of global adaptation finance flows for that period (CPI, 2023).[2] Nonetheless, developing countries are estimated to require USD 212 billion per year in adaptation finance up to 2030, and USD 239 billion per year between 2031 and 2050 (CPI, 2023a). Increased collaboration between these institution types could catalyze much-needed climate adaptation finance.[3]

2 Individual contributions of the NDB and MDBs represent 42% and 33% of the total adaptation finance flows tracked in 2021/22.
3 Recent growth in global climate finance, which doubled in the past two years, has been driven by investment in mitigation. Adaptation finance continues to lag, with its all-time high of USD 63 billion in 2021/22 equaling just 5% of total climate finance.

Collaborations between international development finance institutions (DFIs)/multilateral development banks (MDBs) and national development banks (NDBs) extend beyond a lender-recipient dynamic. They also encompass project finance structures that include co-financing mechanisms to de-risk investments, project preparation support through grants or repayable loans, provision of technical assistance for local capacity building, and policy dialogue to strengthen adaptation efforts led by local governments.

Although these joint efforts can increase both the volume of on-lending and the level of Paris adaptation alignment, there has been little inter-PDB cooperation on climate finance to date (CPI and E3G, 2023). For instance, only USD 7.5 billion in financial transactions was found between 2016 and 2023, and less than 5% of the collaborations analyzed were tagged as relating to adaptation.[4]

Inherent differences between DFIs/MDBs and NDBs have hindered their alignment and collaboration on financing the Paris Agreement goals. Variations in structure, size, client base, mandate, and political context mean that these institutions have different mobilization capabilities and have adopted different approaches to climate mainstreaming.

The context-specific nature of adaptation interventions can render DFI/MDB-NDB cooperation particularly impactful in financing adaptation in EMDEs. These partnerships can leverage different PDBs' comparative advantages in local knowledge, stakeholder relationships, technical expertise, access to capital, capacity to de-risk investments, and other areas to achieve effective and efficient financing.

Understanding PDBs' distinct approaches to climate adaptation can help to enable and scale their cooperation in this area. This report assesses the extent of existing collaboration between international and regional/national PDBs on adaptation in EMDEs and explores how it can be strengthened. It is informed by desk research, 13 informational interviews, and analysis of 15 case studies of collaborations between PDBs in EMDEs with an identified adaptation outcome.

4 Of 55 collaborations tracked in the dataset, only two were labeled as adaptation and ten as having dual climate benefits for both adaptation and mitigation (CPI and E3G, 2023).

2. PDBS' ROLES AND APPROACHES TO ADAPTATION

NDBs, which have established relationships with relevant public and private stakeholders, serve as key intermediaries to access local capital markets at regional and domestic levels. They are also typically mandated to align with national climate priorities through countries' NDCs (ODI, 2020). Their institutional mandate of financing government development priorities, particularly for infrastructure projects, can potentially be interlinked with building climate resilience.

NDB's sectoral expertise and extensive networks with domestic financial intermediaries and local government bodies position them to serve a critical role in facilitating the mobilization and disbursement of adaptation finance. They serve as a key role in pipeline development and providing risk mitigation mechanisms for adaptation finance. Despite this scale and their ability to mobilize blended finance, NDBs' role in adaptation finance has been understated (Lasnick, 2021).

NDBs role in pipeline development and risk mitigation is complemented by MDBs' provision of long-term concessional funds that can be used in de-risking mechanisms, as well as their advanced capacities for finance tracking, target-setting, and mainstreaming of climate risk. The nine largest MDBs have already adopted adaptation commitments (EIB, 2023) and are engaged in on-lending for climate finance, though mostly for mitigation (CPI and E3G, 2023).

MDB's international development mandates all include support for EMDE's climate adaptation and mitigation efforts. MDBs are also well-placed to develop and strengthen the climate finance ecosystem through technical cooperation with NDBs and can help to create an enabling environment for adaptation finance through knowledge sharing and by providing best practices for policy frameworks.

Table 1 below summarizes the resources provided by PDBs, distinguishing between financial and non-financial support from MDBs and NDBs, and includes examples of their application.

Table 1: Roles of Different Public Development Banks in Climate Adaptation

Resource	Support type	Institution	Examples of use
Non-financial	Capacity Building	MDBs	▪ Support for data collection for climate-risk assessments
	Technical Assistance	MDBs	▪ Creation of taxonomy and frameworks for adaptation projects ▪ Develop sector-based impact metrics
	Knowledge Sharing	MDBs	▪ Sharing of international best practices for pipeline development of adaptation projects
	Policy Engagement	NDBs	▪ Provision of inputs for domestic policy frameworks and roadmaps to incentivize investments in climate finance
	Pipeline Development	NDBs	▪ Support for pipeline development through project preparation funding

Financial	Innovation	MDBs, NDBs	▪ Enabling access to finance in emerging sectors and existing underserved markets through blended finance structures (that align risk-return expectations of different investors)
	Risk Mitigation	MDBs. NDBs	▪ Provision of risk mitigation mechanisms through guarantees or insurance to leverage private sector capital ▪ Provision of countercyclical finance
	Long-term Finance	MDBs, NDBs	▪ Commitment of long-term finance at favorable or concessional terms

3. CURRENT COLLABORATION ON ADAPTATION FINANCE

Collaboration between PDBs, including support from international DFIs/MDBs to NDBs, can significantly help scale up sustainable finance (UNDP and FiC, 2022). However, these actors have not cooperated extensively on climate finance to date. As noted in the introduction, of 55 transactions identified as climate finance involving both MDBs and NDBs just two had exclusive adaptation objectives, while 10 had dual benefits for both mitigation and adaptation (CPI and E3G, 2023).

Interviews for this report aimed to build understanding of how different types of PDBs approach adaptation and to identify how this influences their collaboration with other PDBs. Several trends observed from existing collaborations between MDBs/DFIs and PDBs with adaptation outcomes in EMDEs are summarized below.

Interviewees all expressed growing interest in initiating collaborations on adaptation finance. Representatives noted that collaboration between different kinds of PDBs could strengthen their internal capabilities to either begin or increase their engagement with adaptation, mainstreaming of climate risks, and tracking of adaptation finance.

Most PDB representatives interviewed for this report noted that their institutions, in collaboration with other PDBs in the ecosystem, fund significantly more mitigation than adaptation, in terms of both the volume of financing and number of projects. Some interviewees from DFIs and MDBs noted that their organizations do not have partnerships with NDBs on adaptation or climate finance in general. A number of interviewees noted that they work more frequently with commercial banks on adaptation than with national or regional PDBs, due to a combination of strategic choice, technical capacity, and complexity of requirements of other public institutions.

DFIs/MDBs can engage with local PDBs in various ways, including on-lending schemes, project finance structures with co-financing mechanisms to de-risk investments, and provision of technical assistance for local capacity building. NDBs in EMDEs, often serving as financial intermediaries, can receive financing and technical assistance from MDBs for adaptation finance transactions; in some cases, this support is bundled (UNDP & FiC, 2022). NDB representatives have highlighted the effectiveness of this engagement and expressed appetite for increased technical assistance to mainstream and engage with different areas of adaptation. Additionally, DFIs/MDBs can offer project preparation support through grants or repayable loans and engage in policy dialogue to bolster adaptation efforts led by local governments.

Very few of the collaborations reviewed for this report envisioned adaptation benefits as the primary outcome of the transaction. While many of the transactions delivered adaptation and resilience benefits, this was not typically their central focus. Rather, adaptation was commonly considered to be a co-benefit, as previous analysis suggests (CPI and E3G, 2023). In particular, collaborations tend to focus on adaptation when bundled with another end-use, such as mitigation or disaster risk reduction. Adaptation finance is also difficult to label and track, and is rarely labeled correctly, further complicating the landscape.

4. LESSONS FROM EXISTING PDB COLLABORATIONS

Several challenges that hinder climate finance of all kinds are amplified for adaptation projects in EMDEs. Our literature review and interviews indicate that MDBs, DFIs, and NDBs face several interlinked barriers in financing adaptation projects jointly. These barriers, outlined further below, are centrally: a lack of common understanding of adaptation among different PDB types, misalignment in the project sizes they seek to fund, and difficulty to demonstrate and predict returns on adaptation projects, resulting in a limited pipeline of bankable projects.

4.1 BARRIERS TO COLLABORATION WITH MDBS/DFIS

1. LACK OF SHARED ADAPTATION UNDERSTANDING BETWEEN DFI/MDBS AND NDBS

Given the context-specific nature of adaptation projects, there is a lack of shared understanding of adaptation definitions between DFIs/MDBs and NDBs, as well as of associated impact metrics and methods to track adaptation finance. While DFIs and MDBs have jointly developed a common methodology for tracking adaptation finance (EIB, 2023), this requires disaggregation and mapping to local contexts to be understood by NDBs.

For example, a solar energy project serving a rural community would typically be tagged as a mitigation effort in many developed countries but can also deliver simultaneous adaptation benefits in several EMDEs.[5] Even though some emerging countries have developed taxonomies that define what qualifies as adaptation and identify relevant sectors, the development of compatible regional frameworks remains nascent. The lack of harmonized approaches makes it challenging for larger international PDBs to effectively interact with NDBs on adaptation finance. This also hinders the identification of adaptation activities and the development-related project pipelines to access dedicated climate adaptation financing.

2. COMPLEXITY AND LENGTH OF DFI/MDB PROCESSES FOR NDBS TO ACCESS FINANCE

DFI/MDB standards and benchmarks for lending and investment lead to lengthy due diligence processes, which are often misaligned with NDB timelines. This mismatch hinders the potential for adaptation-focused collaborations. Further, DFIs/MDBs have a long accreditation process to access climate finance, particularly in the case of climate funds (such as the Green Climate Fund and the Global Environment Facility), due to stringent accreditation requirements. Thus, accessing international funds can be difficult for NDBs that have limited expertise and capacity to meet the conditions for financing , monitoring, and reporting results.

5 In countries that are vulnerable to extreme events such as floods and storms, energy resilience can potentially minimize the impacts of future climate risks.

3. MISALIGNMENT OF MDBS/DFIS AND NDB PROJECT TICKET SIZES

MDBs typically fund projects with large ticket sizes, while average ticket sizes for PDB-funded projects are often smaller in comparison. This is especially the case in EMDEs, which have an average ticket size of climate finance projects of lower than USD 2.2 million, one-third of the average project size in developed countries (CPI, 2023). This barrier is amplified in the context of adaptation projects (such as agriculture, water and sanitation, etc.), which are generally lower in size than mitigation activities.

4.2 BARRIERS TO COLLABORATION WITH NDBS

1. LACK OF NDB CAPACITY TO LABEL AND TRACK ADAPTATION FINANCE

Systemic tracking of adaptation finance must be built on a granular understanding of physical climate risks and vulnerabilities. This requires disaggregated country and regional data on climate-risk assessment to identify, assess, and evaluate whether a given activity improves climate resilience for targeted beneficiaries.

NDBs have diverse approaches to adaptation, with limited technical capacity and tools to undertake the comprehensive climate-risk assessments required to identify if a project should be classified as "adaptation" according to the the framework and definitions followed by DFIs/MDBs. While several NDBs are now starting to mainstream adaptation, their progress on this is varied and requires streamlining.

2. INADEQUATE PIPELINE OF BANKABLE ADAPTATION PROJECTS

MDBs often cite the availability of funds but a lack of a bankable pipeline of climate finance projects at the national level. This stems from the difficulty NDBs face in identifying adaptation projects that have an articulated economic and impact case that qualifies for funding and complies with their requirements to become a credit holder.

A layer of complexity is added as several end-user beneficiaries of NDBs in EMDEs (such as SMEs) are in the early stages of adopting adaptation practices. NDBs struggle to aggregate sufficient high-quality, small-scale adaptation projects to build a pipeline and mobilize MDB finance, given the disparity in local developments and limited absorption capacity of the project entities. Even where NDBs identify local sub-projects for adaptation, these may not fit the bankability thresholds of MDBs in terms of scalability, project design, or demonstrated social and financial benefits.

3. LACK OF LOCAL CAPACITY TO QUANTIFY AND MODEL RETURNS FOR ADAPTATION PROJECTS

Unlike mitigation projects, it is difficult to quantify returns for adaptation projects, particularly in ways that deliver revenue-generation benefits, in addition to cost-saving or social returns. This complexity is exacerbated in adaptation projects that may require concessional finance to improve their bankability.

Typical mitigation projects funded by MDBs (e.g., clean energy infrastructure) entail more predictable revenue streams in a relatively shorter timespan than projects to build long-term climate resilience (e.g., coastal resilience). In addition, reduction in climate risks is itself a benefit that is not captured by traditional investment returns as calculated by investors.

4. CURRENCY RISK

Many EMDEs have relatively underdeveloped financial markets and limited volumes of domestic savings available to meet climate finance needs. As a result, climate-related projects may seek financing from abroad, which usually requires repayment in hard currency (e.g., US dollars or euros). When a project's debt is denominated in foreign currency, but its revenues are in local currency (as is often the case for climate projects), borrowers are exposed to currency risk,. If the local currency depreciates, repayment of foreign-currency debt becomes more expensive, potentially threatening the viability of climate-related projects. Moreover, many climate-related projects are most efficiently financed by long-term loans due to the long lifespans of the assets, but such loans increase the project's exposure to potential currency fluctuations and the cost of hedging currency risk (CPI, 2024a).

4.3 CASE STUDIES

The three case studies that follow are selected for their regional and sectoral diversity and either explicitly focus on adaptation or demonstrate an implicit link to adaptation through green transition and disaster resilience. They aim to illustrate how technical support from MDBs can be pivotal in mobilizing adaptation finance for NDBs, and how they can leverage their respective roles to collaborate effectively for climate resilience.

4.3.1 IDB-NAFIN-FIRA FUNDING ADAPTATION FOR MEXICAN AGRIBUSINESSES

A USD 100 million credit line from the Inter-American Development Bank (IDB), a multilateral development bank focused on Latin America (LATAM), is dedicated whose objective is to enhance adaptation and resilience in Mexico's agricultural sector through its support to the National Development Bank, Nacional Financiera (NAFIN).

Agribusinesses are vital for Mexico's economy, employment, and food security. However, agricultural units have low productivity due to limited access to technology and financing, while also being extremely vulnerable to climate risks. To address these challenges, IDB approved a credit line over five years (2024-2029) to NAFIN as the borrower, with the Fondo Especial para Financiamientos Agropecuarios (FEFA) as an integral part of the Agricultural Trust Funds of Mexico (FIRA)[6] as an executive agency. The program aims to provide financing for small and medium-sized farmers, and agri-businesses of various sizes in Mexico by incentivizing investment in infrastructure and practices that promote adaptation in agriculture and improve resilience to climate risks (IDB, 2024).

6 FIRA is a second-tier development bank, a set of trust funds administered by the government of Mexico that provides finance, technical assistance and risk mitigation mechanisms for agricultural and related sectors in Mexico.

Strategic alignment: The project aligns with both the strategic focus of IDB and the climate priorities of the Mexican government. Mexico's NDC aims to strengthen the resilience of the most vulnerable municipalities by 50% (Government of Mexico, 2015), and this target has been integrated into Mexico's Special Program on Climate Change 2021-2024. The project also aligns with IDB's institutional strategy of focusing on productivity and innovation for rural MSMEs, as well as the MDB's Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (IDB, 2011) for Latin America and the Caribbean.

KEY ASPECTS OF COLLABORATIONS THAT ADDRESSED BARRIERS:

The IDB-FIRA partnership featured the following elements that were critical to address barriers typically faced by adaptation projects in EMDEs:

1. **Alignment of adaptation priorities and identification of projects:** The project used several tools and frameworks to develop a common list of adaptation activities that reduce the vulnerability and improve the resilience of agriculture in Mexico. This project used information from 1) the heat mapping tool HeatMapR to identify physical risks, and 2) the Atlas of Vulnerability of Mexico's National Institute of Ecology and Climate Change (INECC) to enhance alignment with the adaptation objectives of the Paris Agreement.

   The identified practices also integrated the classification of adaptation and resilience activities based on FIRA's Taxonomy and Sustainability Bonds Framework, for which IDB had previously provided technical support to FIRA. Having a clear demarcation of adaptation projects allows investors to track the use of proceeds from the program.

2. **Demand aggregation through sub-projects:** As an executing agency, FIRA is providing on-lending to eligible financial intermediaries for program implementation. Through its extensive network of local intermediaries in Mexico, FIRA is able to aggregate demand for projects for its engagement with IDB. Through FIRA and its intermediaries, the project is expected to support 1,100 sub-projects with an average loan amount of USD 90,000. The selection of sub-projects/sub-borrowers are based on FIRA's internal eligibility requirements.

KEY LESSONS:

- **Technical cooperation between MDBs and NDBs can create a multiplier effect:** IDB has previously provided FIRA with technical assistance to design reference frameworks for thematic bonds, develop a sustainability strategy, identify physical climate risks using relevant tools, and design performance-based guarantees for regenerative agriculture. FIRA's collaboration with other MDBs/DFIs (AFD & USAID) also enabled it to develop its own classification for adaptation and resilience projects. This paved the way for improving project design and identifying suitable pipeline projects, thereby enabling better access to finance from such institutions.
- **Domestic expertise of NDBs supports scalable impact for MDBs:** By providing financing to NDBs and collaborating with financial intermediaries, MDBs can expand the economic and geographic impact of their funding. FIRA has undertaken multiple projects on adaptation and also issued the first resilience bond in Latin America (FIRA, 2023), demonstrating its expertise in supporting regional adaptation.

4.3.2 AFDB-CÔTE D'IVOIRE-BENIN: AFRICAN GREEN FINANCE FACILITY

The African Green Finance Facility (AGFF) leverages climate finance from diverse sources, including the African Development Bank (AfDB) to support local banks in their climate transition efforts. It focuses on broader climate transition and includes adaptation within its scope.

African countries require USD 250 billions of climate finance per year to implement their NDCs (CPI, 2022). In order to mobilize investment for the region's climate transition, the African Development Bank (AfDB) launched AG3F in 2022. The initiative aims to develop an ecosystem of finance facilities at the domestic and regional levels to incentivize private investment for green growth in Africa. The initiative combines two key components: technical assistance and a green finance facility (GFF). Pilot funding for technical assistance will be provided to the National Investment Bank of Côte d'Ivoire and the Deposits and Consignments Fund of Benin to finance resilient infrastructure, climate-smart agriculture projects, and renewable energy.

Strategic alignment: The initiative seeks to provide a model that leverages private and public sector investment in line with the climate ambition of African countries and AfDB's climate finance commitment. AfDB has clear targets for mainstreaming climate in its projects and allocating a certain proportion of its investments to climate projects. It has established a Climate Change and Green Growth Strategic Framework with three pillars of focus—mitigation, adaptation, and finance—and it takes into account the climate priorities of the regional member countries based on their National Action Plans, NDCs, and long-term strategies.

KEY ASPECTS OF COLLABORATIONS THAT ADDRESSED BARRIERS:

The AfDB National Investment Bank of Côte d'Ivoire- the Deposits and Consignments Fund of Benin partnership featured the following elements that were critical to address barriers typically faced by adaptation projects in EMDEs:

1. **Building the country-based capacity of NDBs to mobilize capital at a regional level:** The domestic banks, particularly on the African continent, lack the technical expertise to design and establish green banks. To this end, the technical assistance component of this initiative aims to empower NDBs to design and operationalize GFFs, build context-specific bankable pipelines of green projects, and set up monitoring, evaluation, and reporting processes to strengthen the accountability and transparency within NDBs.
2. **Using blended finance as catalytic capital:** The initiative aims to use a blended finance approach with mobilization of capital from multiple sources, including bilateral donors, climate funds, and governments. While the grant for technical assistance will be provided to governments, the equity and debt funding under GFF is targeted towards public banks and microfinance institutions. In addition, it seeks to pair green banks with national climate funds to mobilize and scale investment for climate transition in developing economies.

KEY LESSONS:

- **NDBs can utilize technical assistance to strengthen transparency and access private capital:** Technical assistance forms a core component of this program, aiming to enhance the management and governance of green projects. This technical assistance is envisaged to attract capital for climate projects across Africa by building long-term investor confidence through improved capacities for implementation, risk evaluation, and reporting tools.

- **MDBs can play a key role for pipeline development:** AfDB undertook a scoping study for selected countries and the market opportunities for climate-related sectors in Africa to evaluate the potential of green banks for member countries in Africa (AfDB, 2021). The facility highlights the role of MDBs in building capacities at the sub-regional level and enabling NDBs to structure a bankable pipeline of sustainable and Paris-aligned projects.

4.3.3 ISDB-TKYB: DISASTER RECOVERY AND AGRIFOOD SUPPORT IN TÜRKIYE

The Islamic Development Bank and the Development and Investment Bank of Türkiye have established financing facility to support businesses in earthquake-affected provinces as part of recovery efforts and enhanced agri-food support project. The envisioned impact of the project highlights the complementarity of adaptation and DRR.

In 2023, Türkiye faced an earthquake that caused significant social and economic losses across its southern and central regions. To support the country to recover and rebuild, the Islamic Development Bank (IsDB) approved the USD 100 million Post Earthquake Recovery and Agrifood Support (PERAS) project with the Development and Investment Bank of Türkiye (TKYB) in 2023.

The project aims to revive the agriculture and agri-food sectors across 17 earthquake affected provinces in Türkiye. These initiatives include rebuilding agricultural infrastructure enhancement of agri-food processing and distribution systems, and the adoption of cutting-edge agricultural technologies to boost productivity and sustainability.

TKYB has also formed a strategic partnership with OPEC Fund to mobilize additional funds for this project.

Strategic alignment: Adaptation and resilience are considered as one of the IsDB's pillars of its 2025 Action Plan. The bank has already met its target of 35% of its financing having climate co-benefits. Furthermore, all of its investments are Paris-aligned and are screened against climate risk. On the other side, it is in line with Türkiye's NDCs which recognizes disaster and risk management as a key adaptation intervention. It is complemented by Türkiye's spatial strategy that aims to create disaster-resistant and climate resilient cities (UNFCCC, 2023) as well as country's National Recovery and Reconstruction agenda.

KEY ASPECTS OF COLLABORATIONS THAT ADDRESSED BARRIERS:

The IsDB-TKYB partnership featured the following elements that were critical to address barriers typically faced by adaptation projects in EMDEs:

- **Building NDB accountability through MDB processes:** In order to provide financing, the IsDB assesses NDBs' climate-risk management processes to promotes accountability and transparency in the use of funds. This enables clarity over the use of proceeds.
- **Building NDB capacity:** Capacity building can take various forms. In this case, IsDB organized targeted workshops for TKYB, with senior-level management and staff members participating in sessions focused on strengthening team capacity across different stages of the implementation process. In addition to workshops, capacity is also increased through compliance with the Bank's standards on Paris Alignment, climate risk assessment for beneficiaries safeguards requirements help ensure that necessary systems and tools are made available to NDBs as part of the support provided by MDBs.

KEY LESSONS:

- **Complementarity of disaster risk reduction and recovery and adaptation:** While earthquakes are not climate-induced, there are linkages between earthquake recovery and adaptation efforts. Both types of activity aim to reduce socioeconomic losses and to develop resilient infrastructure, which can also help to mitigate actual climate risks such as floods. There is, therefore, an opportunity to integrate adaptation as a component for programs targeting earthquake recovery, considering its overlap with priority adaptation sectors such as agriculture and infrastructure.
- **Providing MDB concessional finance for PDB project feasibility:** While the credit provided by DFIs/MDBs to NDBs can be on commercial terms, this case underscores the role of concessionality in credit lines for projects that are focused on resilience building. The PERAS project prioritized impact and the reduction of losses rather than revenue maximization. It is particularly effective in EMDEs where the targeted beneficiaries may be agribusinesses or MSMEs, which typically face challenges in accessing affordable finance.

5. RECOMMENDATIONS ON PDB COLLABORATION FOR ADAPTATION FINANCE

The following conclusions and recommendations are drawn from interviews conducted with PDB representatives, desk research, and the case studies presented above. They aim to provide suggestions for developing and improving collaboration on adaptation finance between DFIs/MDBs and regional or national PDBs in EMDEs. Figure 2 illustrates which barriers each recommendation addresses.

1. **The development of complementary taxonomies can enable international DFIs/MDBs and domestic PDBs to have a shared definition of adaptation and tracking methodologies.** As observed through interviews, the lack of a shared understanding on what constitutes adaptation finance remains a significant barrier to collaboration. This is partly attributable to the context-specific nature of adaptation, which generates different understandings of adaptation goals and impacts. Developing taxonomies that are both complementary and context-specific can provide a foundation for DFIs/MDBs and domestic PDBs in EMDEs to forge a common understanding for defining and tracking adaptation.

   Many EMDE countries have proposed domestic green or sustainable investment taxonomies, particularly in the Asia- Pacific and Latin America regions. According to the Green Technical Advisory Group, 47 taxonomies are either in effect or under development (A&O Shearman, 2024). While regional initiatives like the EU Taxonomy are already established in developed economies, similar efforts are underway in EMDEs), such as the ASEAN Taxonomy for Sustainable Finance. While these developments are welcome, research conducted for this report has highlighted an ongoing need for complementarity among existing and forthcoming taxonomies.

2. **Country platform approaches hold the potential to better align international adaptation finance flows with national adaptation needs through enhanced coordination.** Country-led frameworks for cooperation can leverage finance to support national climate, development, and economic growth. In concept, country platforms offer a viable stage for international DFIs/MDBs and local PDBs to foster innovative and ambitious collaborations on climate finance to best leverage each other's comparative advantages.

   Aligning international adaptation finance with national climate and development priorities can facilitate the uptake and prioritization of adaptation interventions (IISD, 2023). MDBs can support the development of NDB capacity to track and label adaptation projects through knowledge exchange (CPI, 2023a). Additionally, financial aggregation, coordinated through country platforms, can address several barriers, including lack of quality pipeline generation, unfavorable return profile of adaptation projects, and misalignment of ticket sizes.

   Although country platforms are not a new concept, their use to streamline and mobilize finance toward targeted national climate priorities is gaining increasing attention (E3G, 2024). Existing country platforms that mobilize climate finance have primarily focused on energy and just transition objectives. Lessons from these initiatives emphasize that the success of a country platform depends on its ability to align with the specific local context

(ODI, 2024). For an adaptation and resilience-focused country platform to be effective, countries aiming to leverage these partnerships must establish appropriate regulatory frameworks that align national priorities with climate needs and provide safeguards for the effective use of finance. National Adaptation Strategies (NAS) and National Adaptation Plans (NAP) can serve as such guiding frameworks, and as of November 2023, only 49 countries globally had developed their NAPs (UNFCCC, 2023).

3. **Where country platforms are not context-appropriate, regional development banks (RDBs) could play a role as regional adaptation hubs, aggregating context-specific adaptation financing needs, international financing, and gaps in capacity development.** As multilateral banks with regional knowledge and technical expertise, RDBs could organize local NDBs on adaptation finance. During interviews, some RDBs expressed a willingness to act as a regional touchpoint, where able, to expand or initiate technical assistance programs on adaptation for NDBs. Akin to country platforms, the regional scope of RDBs can help to aggregate smaller projects, addressing misalignment of ticket sizes, inadequate project pipelines, and helping to prove the financial case of adaptation projects.

4. **Enhancing capacity-building and knowledge-sharing initiatives can deepen adaptation finance understanding and facilitate the effective implementation of adaptation projects in EMDEs.** As previous analysis suggests, EMDE NDBs require significant capacity building to scale adaptation finance, including support on de-risking instruments, blending finance, impact measurement standards, and access to accurate and reliable data (UNDP & FiC, 2022). These initiatives should aim to bridge gaps in definitions and applications of adaptation and enhance the abilities of NDBs to track and label adaptation finance. Through targeted initiatives and integrating capacity-building into adaptation finance collaborations, MDB-NDB partnerships can provide proof-of-concept for adaptation return profiles, especially through the use of blended finance.

   Much of the existing capacity-building and knowledge-sharing takes place within multi-institutional networks, such as the International Development Finance Club (IDFC) and Mainstreaming Climate in Financial Institutions. Beyond these networks, bundling technical assistance with financing has become increasingly common, and further expanding these bundled offerings will be key.

5. **By leveraging concessional finance and their expertise in blending finance, MDBs can play a pivotal role in de-risking international adaptation finance to bolster the business case for adaptation.** As the largest providers of blended finance globally, MDBs are well-placed to apply this expertise to collaborations on adaptation (Convergence, 2024). Interviewees expressed that blended finance could support adaptation collaborations by showcasing that adaptation projects can generate acceptable returns, while delivering impact. Recently, PDBs have pursued this through climate finance facilities, with multiple launching across the African continent over the past few years.

   In addition to de-risking commercial investment in adaptation, MDBs can use blending to overcome local currency exchange risk. Blended finance transactions typically involve lending in local currency, reducing the need to convert foreign currency into local currency, and thereby, further de-risking investment.

   For the volume of blended finance transactions to grow, it is essential to align national policy frameworks with this goal. Adequate regulatory frameworks and financial market conditions

can enable and leverage concessional finance for blended structures. From a supply perspective, MDBs and DFIs can increase their existing engagements to further support the uptake of blended finance for climate action.

Figure 2: Recommendations and barriers addressed

RECOMMENDATION	ADAPTATION COLLABORATION BARRIER ADDRESSED	HOW IS THE BARRIER ADDRESSED?
Developing complementary adaptation taxonomies and tracking methodologies	Lack of a shared understanding of adaptation	Compatible adaptation understanding
	NDBs lack of capacity to label and track adaptation finance	Provide a compatible language essential for tracking adaptation
Fostering country platforms; Having RBDs be regional adaptation hubs	Inadequate pipeline of bankable adaptation projects	Financial aggregation and promotes project pipeline development
	Misalignment of MDB and NDB project ticket sizes	Financial aggregation
	NDBs lack of capacity to label and track adaptation finance	Promotes capacity building
	Adaptation projects are perceived to have low returns	Leverages concessional finance, and blended structures
Strengthening capacity building and knowledge exchange initiatives	Lack of a shared understanding of adaptation	Compatible adaptation understanding
	NDBs lack of capacity to label and track adaptation finance	Enhances capacity for labelling and tracking adaptation
	Adaptation projects are perceived to have low returns	Provide evidence of business case for adaptation
Leveraging concessional finance and blended finance structures	Local currency risk	Mitigates currency risk
	Adaptation projects are perceived to have low returns	Provide evidence of business case for adaptation

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