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Enhancing Resource Mobilization for Sustainable Investments through Multilateral Development Banks Partnerships with National Development Banks

Policy Brief

Partnering for Climate: How MDBs and National Development Banks Can Unlock Green Finance

Rogerio Studart (lead author) with contributions from Larissa Farnetti, João Felipe Ribeiro and Gustavo Bezerra

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Abstract

The world must significantly increase climate financing for transformative investments across various sectors and countries to achieve net zero. Access to concessional or low-cost funding, along with exceptional patient capital from public or multilateral sources, is essential for attracting private green financing, which needs to rise substantially. Many developing countries face this challenge, trapped in a macro-financial cycle where limited public financing restricts their ability to attract the scarce private capital available for green investments. This cycle leads to insufficient investments, particularly in climate adaptation, resulting in higher costs of inaction that exacerbate public finance challenges, creating a vicious climate finance trap. Enhanced partnerships between Multilateral Development Banks (MDBs) and National Development Finance Institutions can help disrupt this cycle, increasing their effectiveness in addressing the macro-financial trap. This policy brief uses Brazil as a case study to illustrate the problem and demonstrate how these partnerships can enhance climate finance and secure essential funds for a sustainable transition.

Keywords: Climate Finance, Development Banks, Sustainable Development.

1

Introduction

When they chose to implement "green new deals," developed nations and China could provide low-cost funding from government budgets using monetary financing, expanding public debt, or through their public and development banks. Therefore, they could also offer tax and financial incentives for their private sectors to embark on such programs involving various green technologies and investments. Developing nations stand at the forefront of the climate crisis, facing the brunt of its devastating impacts. Yet, they are caught in a cycle of insufficient financing, severely hindering their ability to implement essential programs for transitioning to a low-emission, climate-resilient future. To effectively address the interconnected crises of climate change and financing in developing nations, it is crucial to escape a macro-financial trap. This trap is marked by a lack of access to affordable funding, often due to limited fiscal space. Low-cost, patient capital is vital for creating the conditions necessary to unlock the private investments for substantial climate action.

Brazil's current situation vividly highlights a crucial example. As the host nation for COP30 in 2025, Brazil stands at the forefront of global climate action, acknowledging the necessity to fulfill international climate agreements as a top priority. Additionally, the government has strategically framed the transition to a low-greenhouse gas emission economy—one that is resilient to the challenges posed by climate change—as a fundamental aspect of its development agenda. The challenge of funding ambitious climate action, such as those from the current Brazilian government, begins with the absence of "patient public capital," which usually provides significantly better financing conditions than private capital. This shortfall restricts the ability to finance foundational investments crucial for enabling additional green investments, creating and monetizing incentives that attract private investors, and developing financial instruments that mitigate uncertainties tied to more transformative green investments.

Escaping this climate finance trap first requires securing low-cost financing to kickstart the process. However, that is not all: to mobilize funding beyond this initial support, it is crucial to address various bottlenecks in connecting the demand and supply of potential sources of green patient capital. Multilateral development banks (MDBs) and national development banks are vital in climate finance. We argue that, especially in economies with relatively advanced financial systems, like Brazil, they can become even more effective in overcoming this trap through strengthened collaboration, connecting the dots for higher overall climate finance.

The brief is organized as follows. Section 2 discusses the climate finance trap facing developing economies: the macro-financial barriers that prevent them from attracting the necessary public and private investments for effective climate policies. Section 3 analyzes Brazil as a case study, emphasizing its aspirations for a just transition to a low-carbon and environmentally sustainable economy while acknowledging the challenges in securing both public and private funding and the contributions of development banks to these efforts. Section 4 further explores the potential for closer collaboration between multilateral development banks (MDBs) and national development banks to overcome the trap. The conclusion summarizes the main points and presents practical recommendations from the analysis.

2

Climate finance shortage as a macro-financial issue

Today, the value of financial assets exceeds $120 trillion globally. Meanwhile, the resource gap for developing countries to achieve their sustainable development goals widens yearly, reaching $4 trillion in 2023. This situation is not vastly different when we focus solely on the investments necessary to tackle the climate crisis. Although global climate financing exceeded $1.5 trillion in 2023, it is estimated that $7.4 trillion in funding will be required annually until 2030 to support the investments necessary to maintain the planet's temperature within the 1.5°C target and other SDG goals.

As Table 1 shows, global climate finance is not only far behind what is needed but is also very unevenly distributed.

Table 1 – Global climate finance and distribution (2023)

Region	Domestic (USD billion)	% domestic/total	International (USD billion)	% international/total	Total	% of global climate finance
Latin America & Caribbean	32	50,8%	31	49,2%	63	3,7%
South Asia	25	61,0%	16	39,0%	41	2,4%
Central Asia & Eastern Europe	16	47,1%	18	52,9%	34	2,0%
East Asia & Pacific (excluding China)	9,4	46,1%	11	53,9%	20,4	1,2%
Sub-Saharan Africa	3,1	16,2%	16	83,8%	19,1	1,1%
Middle East & North Africa	7,7	41,2%	11	58,8%	18,7	1,1%
Transregional	0	0,0%	8,5	100,0%	8,5	0,5%
Subtotal developing nations less China	93,2	45,5%	111,5	54,5%	204,7	12,1%
China	613	97,3%	17	2,7%	630	37,1%
Advanced Economies	522	79,3%	136	20,7%	658	38,8%
Subtotal developed nations plus China	1135	88,1%	153	11,9%	1288	75,9%

Source: Own elaboration based on data available at CPI (2024a)

Developed nations and China mobilize more than three-quarters of climate finance. In the meantime, funding for climate-related investments in all other developing countries (excluding China) was merely $204 billion – less than 17% of the total. This situation is unacceptable for at least two reasons.

First, developing nations represent two-thirds of the world's population, many of which serve as stewards of critical natural carbon sinks. While they have historically and currently contributed minimally to the causes of the climate crisis—demonstrated by their share of CO2 emissions—they remain the most vulnerable to the impacts of climate change.

Table 2 – Climate finance: uneven and unjust

Grouping	Share of Climate Finance (%)	Share of Population (%)	Share of CO2 Emissions (%)	Share of GDP (%)	Share of Renewables in Electricity (%)	Population with Access to Electricity (%)	Number of Countries in the 25 Most Vulnerable (ND-GAIN)
EMDEs	59.0	87.0	68.0	42.0	39	90	25
EMDEs (ex. LDCs and China)	14.0	55.0	36.0	23.0	33	95	5
China	42.0	18.0	31.0	18.0	45	100	0
LDCs	2.7	14.0	1.1	1.4	49	57	20
SIDS*	0.5	0.8	0.4	0.4	19	75	9
Advanced Economies	40.0	13.0	29.0	58.0	42	100	0
US & Canada	10.0	4.7	15.0	28.0	34	100	0
W. Europe	25.0	5.6	7.0	20.0	58	100	0
Others	5.2	3.2	7.0	10.0	31	100	0

Source: (CPI, 2024a)[1]

[1] Data for Small Island Developing States (SIDS) are also included in the analysis of climate finance for advanced economies and Emerging Markets and Developing Economies (EMDEs). The percentages for climate finance do not add up to 100% due to transregional flows, which amounted to approximately USD 3.2 billion in 2022. Similarly, the percentages of CO2 emissions do not add up to 100% due to transregional emissions, including those from international aviation and maritime transport.

Second, global sustainable development depends on countries' ability to adopt climate-friendly growth and development. For at least these two reasons, it is crucial to break the macro-financial vicious circle that impedes their promotion of bold climate action – as we discuss next.

The virtuous and the vicious circles

Developed nations and China have launched impressive green industrial programs in the past few years, mainly aimed at decarbonizing their energy matrix or industrial complexes. One of the most recent ones, implemented by the US Biden administration, was the Inflation Reduction Act (IRA) (The White House, 2024), which, by adopting a renewed focus on technological nationalism and reinforcing American leadership in the context of the global climate crisis, represented a paradigm shift in public policies related to technology and industry.[2]

The European Commission (EC) launched its updated industrial strategy in March 2020 (revised in May 2021) with three primary goals: (i) strengthening the resilience of the Single Market; (ii) addressing the EU's strategic dependencies; and (iii) accelerating green and digital transitions. In February 2023, the EC reaffirmed its commitment to climate neutrality by introducing the Green Deal Industrial Plan, which further simplifies regulations for strategic projects and facilitates access to critical inputs, such as essential minerals, for the production of key technologies; expedites access to private financial resources and EU funds for the development and production of clean technologies; enhances workforce skills for employment in industries crucial to the green transition; and promotes free trade in clean technology sectors.

A report from the Brazil National Industries Confederation (CNI, 2023) presents data from 2014 indicating that the total funding allocated to initiatives and economic stimulus policies in the economies analyzed by this CNI report—Germany, China, South Korea, the United States, Japan, the United Kingdom, and the EU—totals at least USD 12 trillion. This investment represents between 8% and 10% of public budgets in certain countries. All these programs have received significant government support, including low-cost funding from government budgets, as well as public banks and agencies. Furthermore, they have successfully mobilized private capital (CPI, 2024a) and domestic currency, sometimes with considerable leveraging.

Table 3 – Public and private climate financer in advanced economies by regions and sectors 2020

Region	Sector	Public (USD billion) (1)	Private (USD billion) (2)	Unspecified (USD billion)	(2)/(1)
Western Europe	Energy	24,4	59,6		2,44
	Transport	23,9	70,9		2,97
	Buildings & Infrastructure	60,5	81,2		1,34
	Other	36,6	7,7	1,1	0,21
US and Canada	Energy	1,4	58,2		41,57
	Transport	1,5	43,6		29,07
	Buildings & Infrastructure	5,9	29,7		5,03
	Other	2,3	3,8	1,5	1,65
East Asia and Pacific	Energy	3,5	10,6		3,03
	Transport	0,8	9		11,25
	Buildings & Infrastructure	10,5	15,7		1,5
	Other	1,4	1,4	0,2	1
Other Regions	Energy	1,7	12,1		7,12
	Transport	0,5	2,9		5,8
	Buildings & Infrastructure	1,3	2,3		1,77
	Other	1,5		0,4	-
Total		**177,7**	**408,7**	**3,2**	**115,75**

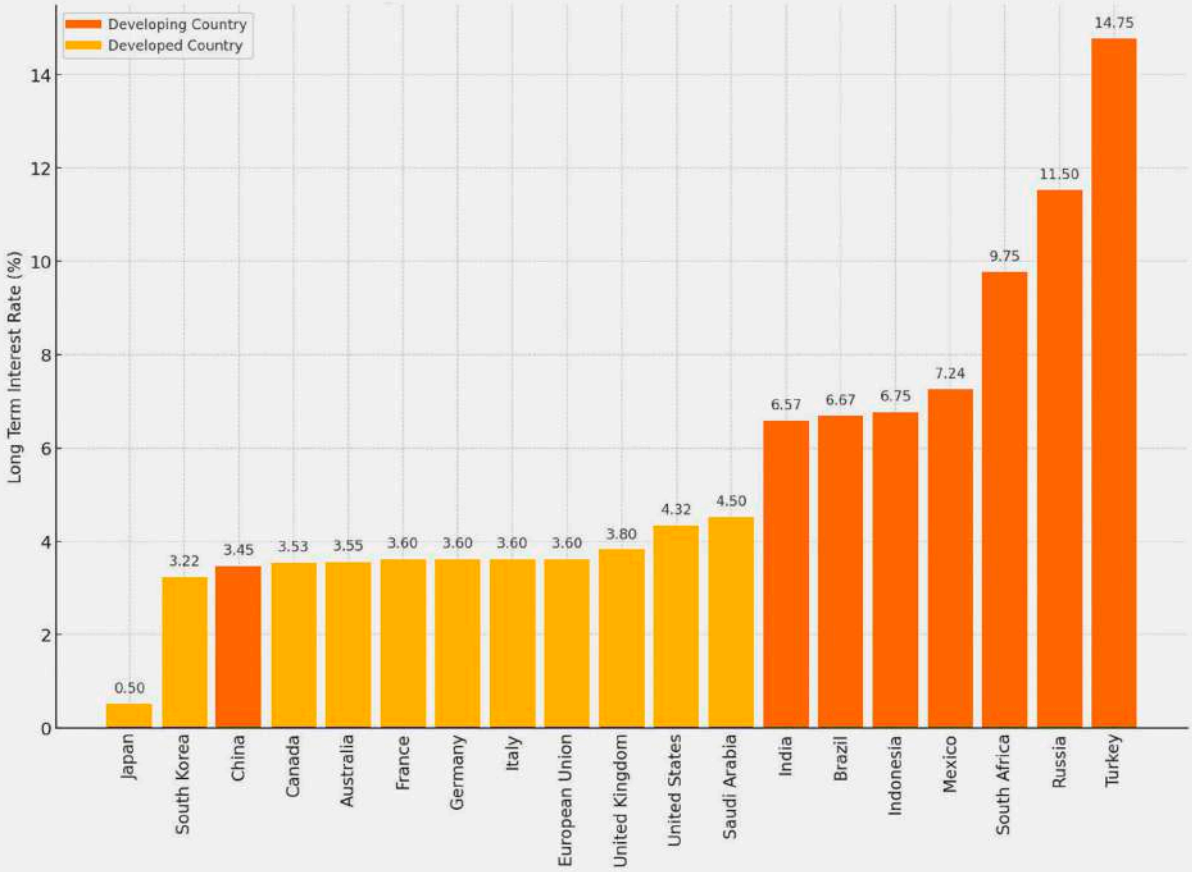
Source: CPI (2024a:41)

2 The IRA had very ambitious security and climate goals, as it aimed at catalyzing investments in domestic manufacturing capacity, encouraging the procurement of critical supplies from local markets, and boosting research, development, and commercialization of cutting-edge technologies such as carbon capture and storage and green hydrogen.

The situation is almost the opposite of what occurs in most developing nations, starting with the absence of affordable public financing. The reason is well-known: as depicted in the figures below from the IMF, some countries in the Global South have public debt-to-GDP ratios that are much lower than those of their counterparts in developed nations (IMF, 2024). However, the public credit conditions (costs and maturities) in these countries are considerably worse than those in the North.

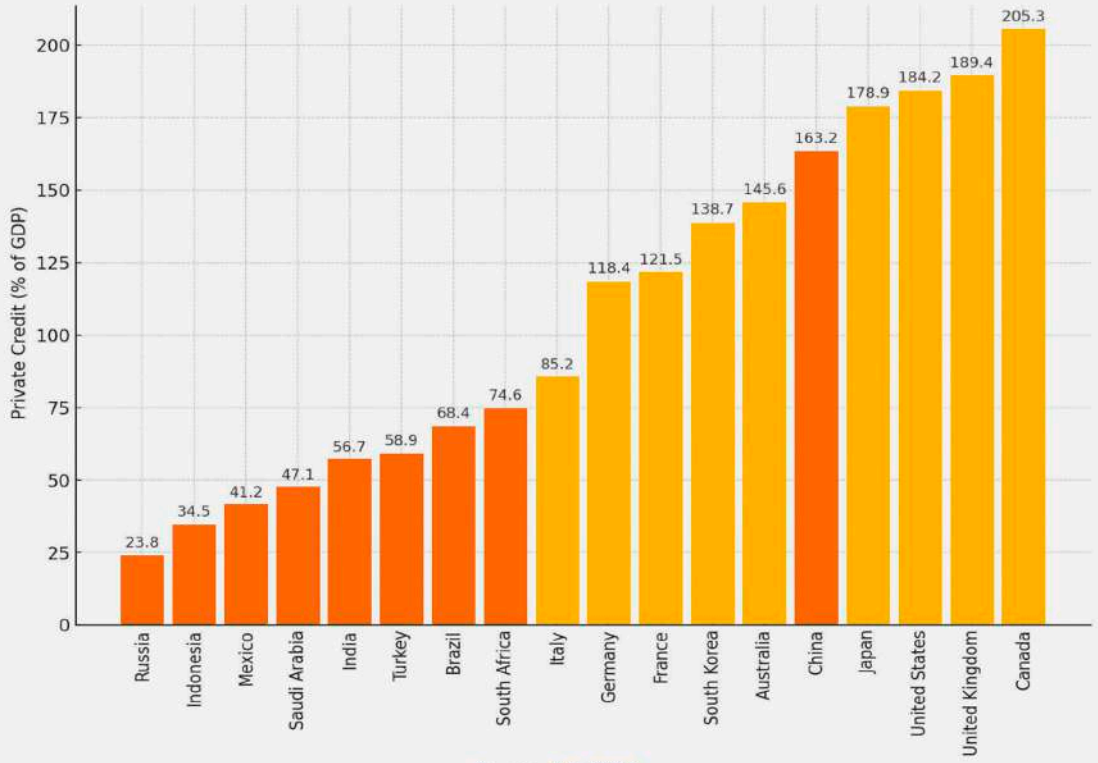
Of course, situations differ in different countries. However, governments in many low-income countries (LICs) were already in a challenging financial position before the pandemic. They expanded their deficits and public debt to meet the needs generated by the health and social crisis. The rise in international interest rates after the pandemic devastated public finances. Therefore, it is no exaggeration to say that some face a debt crisis again (Fischer et al., 2023). Other consequences arose from this external shock. In many cases, the adjustment often necessitated fiscal and monetary austerity. On the one hand, many observed an increasing scarcity of public funding resources, credit crunches, and a higher cost of capital in numerous economies. To grasp the severity of the issue, one need only examine the cost of capital for EMDEs within the G20.

Graphic 1 – Long Term Interest Rates of G20 Countries (2024)



Source: IMF 2024

Graphic 2 – Private Credit as a Percentage of GDP in G20 Countries (2024)



Source: IMF 2024

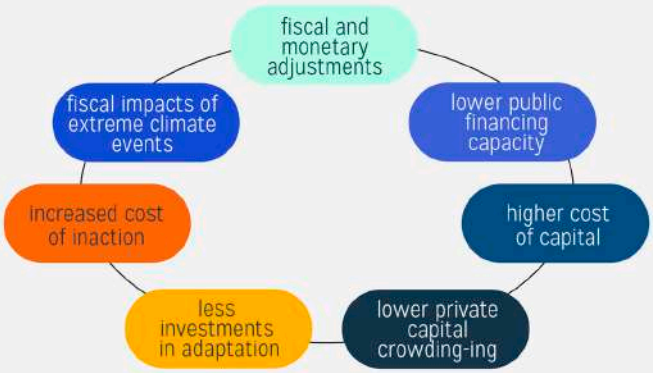
This vicious cycle is not new; many so-called "third-world economic crises" over the past fifty years have been driven by external shocks associated with sudden increases in international interest rates (Carvalho et al., 2019). Historically, these factors have created a macro-financial trap that has diminished public financing, raised the cost of capital for essential investments, and restricted the potential for crowding in private finance and investment. However, the situation is now even more perilous: it prevents many developing nations from implementing critical programs to combat the rising global costs of climate inaction. This will be our next topic.

The climate finance trap and the cost of inaction

Developing countries facing debt crises often have no choice but to adjust by implementing conservative fiscal and monetary policies. As a result, interest rates and the overall cost of capital tend to rise, creating a dual financial tightening: the lack of low-cost public funding hinders the government's ability to initiate promising projects and obstructs the potential for derisking (for example, by establishing guarantee funds) or blended finance. This deterioration of domestic credit conditions also discourages private financial institutions and investor funding, particularly for projects considered higher risk.

Due to the risk profile of specific key green investments, this macro-financial issue significantly impedes the ability to unlock climate finance overall and make crucial investments to mitigate and adapt to climate change. Reduced adaptation investments also lead to increased vulnerability to extreme climate events in the medium and long term. This trend tends to elevate fatalities and the destruction of infrastructure and businesses. The negative impact on overall production and the rising demand for public resources to address crises and support reconstruction give rise to further fiscal challenges and the need for ongoing adjustments. It results in a climate finance trap.[3]

Figure 1 – The climate finance trap and the cost of inaction



Source: IMF 2024

In discussing how to mitigate this trap, much debate and energy has been placed on increasing international financial flows to developing nations to fund climate-related projects directly. The problem however requires much more than that – for different reasons. Increasing these flows can mitigate the problem of climate finance in most developing nations. For instance, concessional resources may be crucial in creating blended financing structures with consistently manageable costs for climate action (Ameli et al., 2021). However, funding in international currencies—even concessional or non-concessional loans from multilateral development banks—cannot fill the gap created by the lack of public government financing capacity in domestic currency.

Additionally, the current global concessional climate finance landscape is very small, restricted to specialized vertical funds often managed by MDBs.[4] Additionally, developing countries' access to low-cost funding in domestic currency obtained from international markets is also very costly and often constrained by foreign investors' lack of complete knowledge of profitable investment opportunities or their "appetite' to expose themselves to currency and other risks often associated with developing nations.[5] Breaking free from a macro-financial trap requires expanding access to low-cost funding. However, as we will discuss next, it doesn't stop there.

Connecting the dots to overcome the climate finance trap

As stated earlier, if low-cost public funding is limited, the primary challenge for many developing nations in promoting "green transitions" is unlocking additional private sources of patient capital. This issue involves converting investments or

[3] Even without the exceptional financial situation created by the pandemic, expanding climate finance carries challenges such as funding critical investments at any stage of development (Studart, 1995; Mazzucato and Penna, 2015; de Carvalho et al., 2019) – for at least two reasons. First, as mentioned above, the volume of investments needed for meaningful climate action in the South exceeds public financing capacity, making attracting additional patient capital crucial. Second, historically, private financial institutions and markets have effectively managed risks. However, they struggle with uncertainties, especially when significant structural changes occur in the future. Most required investments are large-scale and often come with uncertainties. The tightening of domestic financing conditions is compounded by the fact that most developing economies have very shallow capital markets, which extraordinarily limit access to relatively lower-cost patient capital.

[4] It is also highly fragmented, with numerous funding structures, stakeholders, and initiatives focused on individual projects or thematic objectives at relatively small scales. See CPI (2024b).

[5] Indeed, as Schmidt-Traub and Sachs (2015) describe: " Most infrastructure lending occurs in international currencies, such as the US dollar or euro, but the revenues that will pay back outstanding loans accrue in local currency. Currently, it is tough for investors and borrowers to hedge currency risks over sufficiently long periods to adequately de-risk this dimension of project finance, particularly for the currencies of smaller low-income countries."

pipelines of investments into asset classes that can facilitate debt or equity issuance for various types of investors. Achieving this requires creating an environment where uncertainties are minimized to manageable risks, and several steps are necessary to accomplish this.

An essential initial step is to establish the right investment climate. This entails a clearer and more credible outlook for potential green capital investors. Beyond public commitment to climate action, it necessitates the development of action plans that coordinate various government sectors and policy instruments (including government agencies and financial institutions). It may also require adjustments to regulations, incentives, and support mechanisms for affected industries and workers.

Adequate capacity to perform the necessary tasks at each stage of the planning and implementation cycle must be ensured. Preventing coordination issues is essential to maintaining the program's credibility and effectiveness. Lastly, reliable monitoring and evaluation mechanisms facilitate tracking the execution of the just transition plan and assessing its efficacy. Utilizing feedback and data to make necessary adjustments and improvements is crucial.

At any moment of the investment cycle, acquiring and developing skills also play a critical role. Building additional capacity across various areas is essential to support climate action plan implementation, particularly in developing nations where such capacities may be scarce (CDKN, 2024). This includes several different aspects: (1) governance and coordination; (2) technical capacity for modeling and evaluation, including sectoral expertise; (3) relational capacity to forge partnerships and invest in processes; and (4) strategic capacity for systemic policy design and implementation. While each aspect is essential on its own, enabling relevant actors to develop all of them together, tailored to their specific country context, is likely to result in a self-sustaining system.[6]

Another important step in creating a new asset class is ensuring that stakeholders investing in or financing such assets share a common understanding of sustainable investments. Acceptable taxonomies are critical for this (Albuquerque et al., 2023). Establishing such a "lingua franca" reduces uncertainty and enables stakeholders to identify potentially more appealing investments.

As mentioned, climate action may require transformative investments in energy, land use, agriculture, production value chains, and social and economic infrastructure. It may also necessitate new industries and technologies, often involving untested markets (e.g., green hydrogen). Reducing uncertainties may require additional warranties and incentives, such as partial or total demand guarantee agreements. This is essential for making investments attractive to private investors and financiers.

Finally, securing funding that aligns with different investment profiles entails "connecting the dots" between the demand for funding—companies ready to invest—and the potential supply of funding. Understanding the requirements and procedures of various financing and investment opportunities in partnership with investing governments is essential.

In summary, attracting private investors and funders for climate action investments is a challenging process that connects various elements while reducing uncertainties. Unsurprisingly, much of the recent discussion on resource mobilization has focused on three key issues: expanding access to low-cost funding in local currency,

[6] It is vital to offer training and reskilling programs to equip workers with the skills needed for emerging green industries. Partnerships with educational institutions help align curricula with the needs of a green economy (CDNK, ibid idem).

the role of blended finance and other financial instruments that mitigate uncertainty, and the establishment of country-level platforms, along with platforms at the subnational level—states, provinces, and municipalities.

We will return to these topics when we discuss the role of development banks in obstructing the channels for raising funds for climate action. Before that, it seems essential to "land" our analysis on a concrete case—Brazil seems to be an interesting case to study.

3

Brazil: Climate Ambitions and Financing Frustrations

Brazil's current situation seems to be a good and paradoxical example of a climate finance trap. Its government has made fulfilling international climate agreements one of its primary goals. However, it went further: it proposed using the transition to a low-GHG emission economy with greater resilience to climate change as a development axis. Several sectoral programs have been introduced in this context. Three stand out: one is a broader infrastructure and logistics program—the new Growth Acceleration Program (New PAC, using the Portuguese acronym). The other two focus more on Brazil's ambitions to transition to a low-carbon, climate-resilient economy: the Ecological Transformation Plan, led by the Ministry of Finance, and the New Industry Program.

All three of them have received political support from the government, but they face a paradoxical challenge: despite Brazil's domestic fiscal landscape appearing much healthier than that of many other G20 nations and possessing a robust level of international reserves (Annex 2), securing sources of investment funding has proven to be highly difficult. We will discuss this paradox shortly, but first, let's examine the main programs.

The National Infrastructure Investment Plan (New PAC)

Launched in mid-2023, the New PAC (Programa de Aceleração do Crescimento, or Growth Acceleration Program) represents a comprehensive initiative of investments and institutional measures. It is coordinated by the Office of the Chief of Staff of the Presidency of Republic in partnership with the private sector, state and municipal governments, and social movements. The primary objective of the New PAC is to promote sustainable economic growth and social inclusion, which in turn creates jobs and income while reducing social and regional inequalities Casa Civil (2024). This program goes beyond mere investment goals; it also encompasses 43 institutional measures designed to foster a favorable investment climate.

The overall investments within the New PAC are categorized into nine main sectors. Several of these focus on climate action, such as efficient and sustainable transportation, which makes up nearly 21% of the total investments. Additionally, sustainable and resilient cities, which encompass notable initiatives to tackle urban climate issues, receive the most significant portion at 36%. Finally, investments are dedicated to energy transition and security (32%). Most investments (R$1.3 trillion, US$224.1 billion) were planned for 2023-2026, while the remaining R$400 billion (US$69.0 billion) are earmarked for 2027 and beyond.

Table 4 – PAC - Sectorial Investments (BRL bi and %)

Sector	Investment (BRL Billion)	Percentage (%)
Efficient and Sustainable Transport	349.8	20.7
Inclusive Social Infrastructure	2.4	0.1
Sustainable and Resilient Cities	609.7	36.1
Water for All	30.1	1.8
Digital Inclusion and Connectivity	27.9	1.7
Energy Transition and Security	540.3	32.0
Innovation for the Defense Industry	52.8	3.1
Education, Science and Technology	45.0	2.7
Health	30.5	1.8
Total	**1,688.5**	**100.0**

Source: Own elaboration based on data available at: https://www.gov.br/casacivil/pt-br/novopac

The program estimates an overall investment of around R$1.7 trillion (app. US$293 billion). Over 25% of the investments under the PAC (Growth Acceleration Program) will be funded by public banks, with about 15% sourced from one institution: the National Development Bank (BNDES).

Table 5 – PAC Investment Overview (R$ bi and estimated US$ Bi)

Category	Investment (R$ billions)	Investment (US$ billions)	%
Federal Budget	370.0	63.7	21.0
Private Sector	610.0	105.1	34.7
State-Owned Enterprises (mainly Petrobras)	340.0	58.6	19.3
Public Banks*	440.0	75.8	25.0
** of which Brazil's National Development Bank (BNDES)*	270.0	46.5	15.3
Total	**1,760.0**	**303.2**	**100.0**

BNDES (2024: 31-2). Estimates in dollars by the authors

The other two government programs dedicated to climate action, namely the Ecological Transition Plan and the New Industry Program, tackle some of these investments with greater specificity. While their financing mechanisms still need clarification, one aspect is already evident: the Brazilian government's failure to provide low-cost patient capital – a contradiction due to its political relevance to governments agenda – necessitates the urgent identification of alternatives for these plans to be successful.

Two sectoral decarbonization programs

Brazil's Ecological Transformation Plan (ETP) is organized around six "pillars": technological development, bioeconomy, energy transition, circular economy, new infrastructure and adaptation, and sustainable finance.

The bioeconomy pillar involves investing in biotechnology for sustainable biome exploration, merging with three programs—two for the agricultural sector and one to increase the export of non-timber forest products. The pillar also features concessions for forests and conservation units and payments for environmental services.

The energy transition pillar involves electrifying urban buses, tackling barriers to wind and solar energy growth, promoting renewable fuels such as green diesel and low-carbon hydrogen, establishing emission reduction goals for the aviation and shipping sectors, and offering incentives for cleaner light vehicles and their necessary infrastructure. The circular economy pillar focuses on investing to transform landfills into resource recovery facilities, enhancing selective waste collection, and fostering waste reuse and treatment innovations through research and development.

It also encompasses programs promoting circular economy initiatives within the industrial sector, increasing sanitation access, and streamlining wastewater treatment protocols. The pillar for new infrastructure and adaptation measures includes public works to minimize natural disaster risks, resilience strategies for significant infrastructure projects, environmental emergency declarations that provide targeted assistance for at-risk municipalities, and plans for enhancing agricultural, energy, and health security resilience.

The plan additionally includes sectoral and R&D funds to advance strategic decarbonization technologies. It promotes public procurement for innovation that aligns with ecological transition objectives and the establishment of technological innovation centers. Moreover, the plan focuses on training a highly skilled workforce and offering incentives for local processing and industrialization of products with competitive advantages.

The New Brazil Industry Policy (NIB), launched in January 2024, is a long-term strategy to decarbonize important parts of the national industry. It is also seen as a mechanism to revitalize and drive Brazil's "reindustrialization." Its three primary goals are: "(i) stimulating technological progress and, consequently, national productivity and competitiveness, generating high-quality jobs; (ii) leveraging the country's competitive advantages; and (iii) repositioning Brazil in international trade" (MDIC, 2024). The NIB includes six missions, each with defined "aspirational goals," presented in the following table.

The funding of these programs is still very uncertain. For instance, the government estimates that the ecological transformation fund will need investments of US$130-160 billion annually. However, the total expected budget for public investment over the next two years is R$75 billion (less than US$12 billion). One of the plan's more certain primary funding sources is the National Climate Change Fund (Climate Fund). This fund is one of the National Policy on Climate Change instruments. Managed by the National Development Bank (BNDES), the fund is linked to the Ministry of the Environment to guarantee resources to support projects or studies and finance projects to mitigate climate change. Recently, it has seen a significant increase thanks to the transfer of R$10 billion from the revenues generated by a successful US$2 billion issuance of a sustainable bond by the National Treasury (BNDES, 2024).

Other sources of funding are uncertain. For example, the plan's description also includes additional, less specific funding sources, such as the outcomes of implementing a mandatory carbon market and tax and future issuances of sustainable sovereign and corporate thematic options bonds. Thus, although it is referred to as a program pillar, the sustainable finance goal is more of a "vertical inspirational goal." The reasoning is straightforward: funding for the plan is only vaguely defined, apart from a few existing sources.

This lack of clarity on the funding for this new "green" industrial plan is essential risks the implementation of the project. Total financial resources allocated for NIB amount to R$300 billion through 2026, which includes the recently announced R$106 billion. BNDES and two other public agencies will oversee these funds, available through low-cost or concessional credit lines. Investors are expected to access capital market resources backed by new instruments developed by public banks—such as Development Credit Notes (LCD)—and resources obtained from the newly regulated carbon market. One thing is already evident: to achieve this, national development banks and MDBs must work together—not necessarily as "a system" but as "dot connectors" addressing the gaps needed to provide the low-cost, patient capital required to attract private funding and alleviate Brazil's climate finance challenges. This will be our next topic.

4

Collaborating to connect the dots better

Development banks are already mobilizing resources for climate action around the globe. National development banks alone contribute an average of $238 billion each year. However, their share of global climate finance remains relatively small, at only 7.5% – considerably lower than the contributions from national development banks, which represent 18.2%.

Table 6 - Global climate finance

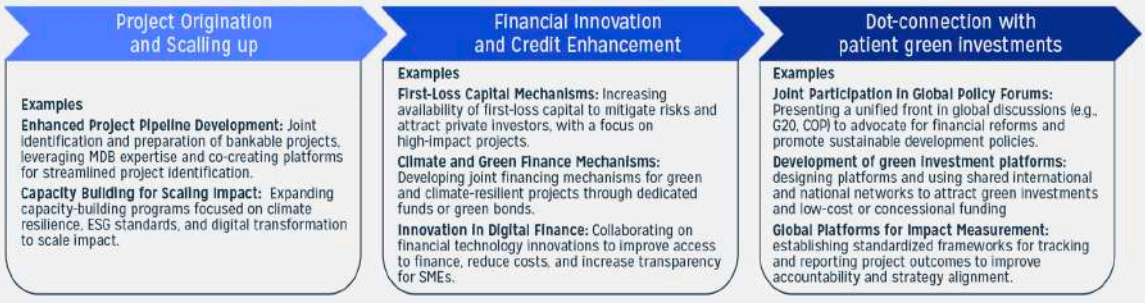
Source/Intermediary	Amount (USD Billions)	% of total
Government	108	8.3%
National DFI	238	18.2%
Multilateral DFI	98	7.5%
State-owned FI	61	4.7%
Bilateral DFI	30	2.3%
Multilateral Climate Funds	3	0.2%
SOE	98	7.5%
Other	35	2.7%
Commercial FI	244	18.7%
Corporation	206	15.8%
Household/Individual	185	14.2%
	1306	100.0%
Public	636	48.7%
of which DFI	366	28.0%
Private	635	48.6%

Source: Own elaboration based on data available at CPI (2024a)

MDBs and NDBs collaborate in various ways, including co-financing projects, blending finance, sharing knowledge, providing technical support, and engaging in policy dialogues. MDB lending to national development banks has recently been the most apparent form of collaboration. However, even joint on-lending remains inexplicably low and underreported (Annex 1).[7]

Other types of collaboration are essential on at least three critical fronts: project origination and workflow; the development of financial innovations to mitigate uncertainty for domestic and foreign financiers and investors; and the expansion of connections with essential actors – private, multilateral and philanthropic – that can help expand access to financing with more appropriate conditions.

Figure 2 - Some key dots to be connected (and some examples)



Source: Elaborated by authors

[7] The report discussed in Annex1 indicates that Brazil's BNDES has been a preferred recipient of MDB funds in a significant sample of developing nations. Nevertheless, the total amount during the period (US$ 3 billion) represents only a small fraction of the actual needs. Furthermore, evidence shows that most transfers were semi-concessional and not free from currency risk.

There are many possible instruments for this expanded cooperation among these three sources. In the figure above, we highlight a few examples presented in the report. In Brazil's case, several fronts exist where this cooperation could have an immediate impact, which we discuss below.

On project origination, one example of an impactful program that could be implemented in collaboration is the new Climate and Ecological Transformation Investment Platform (BIP). Launched on October 23, 2024, by Brazil's Ministry of Finance, BIP is a noteworthy initiative designed to attract international investments for Brazil's ecological transition.

This platform was developed alongside global organizations and the Brazilian government, including BNDES, to draw foreign capital to sectors that support the country's sustainability goals, such as renewable energy, sustainable agriculture, and innovative industrial processes. Additionally, BIP aims to reduce investment barriers by offering transparent access to certified projects and financing opportunities instruments that align with Brazil's Ecological Transformation Plan.

One of the platform's most notable features is its ability to mitigate traditional barriers to international investment in Brazil. BIP addresses regulatory uncertainty, currency risk, and fragmented project pipelines by facilitating direct connections between foreign investors and green projects. Additio, the platform integrates transparent reporting mechanisms to ensure accountability and alignment with global environmental, social, and governance (ESG) standards.

Given its direct collaboration with the IDB and the World Bank, it makes sense for BIP to evolve toward the joint origination of projects by MDBs and national development banks. This would mark a significant step in lowering the obstacles that generate unnecessary transaction costs in three key areas for resource mobilization: project origination, the application of financial instruments that mitigate uncertainties for financiers and investors, and connections with national and international sources—especially those capable of providing concessional resources.

On financial innovation, another program, developed by the Ministry of Finance in partnership with the Inter-American Development Bank, called ECO INVEST, suggests that the potential for improved collaboration exists. This program has been in development for the past year and became effective on October 10, 2024 (Law No. 14,995). It aims to attract private foreign investments to fund long-term sustainable projects in Brazil. Developed in collaboration with the World Bank and IDB, it finances sustainable projects, including resilient cities and solid waste management.

The program's overarching goal is to foster channeling private capital into sectors essential for sustainable development. The sectors covered by the initiative include renewable energy (e.g., wind, solar, and biofuels), the circular economy, sustainable aviation fuels, and ecosystem restoration. The program strategically addresses one of the major deterrents for international investors: currency risk. Through exchange rate hedging mechanisms, Eco Invest provides a stable financial environment for long-term investment in Brazil.

The program is structured around four key financial mechanisms. It features a blended finance line for private capital mobilization to co-finance sustainable projects, leverage public resources to reduce risk, attract private sector participation, and align financial incentives with long-term sustainability goals. Additionally, it includes a Liquidity and Exchange Rate Risk Mitigation Line, maintaining project stability during significant currency fluctuations. A credit line for exchange rate hedge promotion facilitates access to financial instruments that protect investors from exchange rate risks, providing greater return predictability and bolstering investor confidence. Lastly, a credit line for project structuring is anticipated—but not fully developed—targeting the early stages of project development. This line provides resources for feasibility studies, impact assessments, and project preparation to ensure investment readiness.

In addition to offering technical expertise to develop the program, the IDB has committed over $5.4 billion to the initiative, with $3.4 billion allocated to currency hedging derivatives and $2 billion in direct credit lines. The program's initial phase has already demonstrated its potential: with an initial public investment of BRL 7 billion, it mobilized approximately BRL 45 billion in financing for sustainable projects from other financial institutions. According to the IDB, Eco Invest plans to launch thematic calls for proposals targeting specific areas of sustainable development, including degraded land restoration, sustainable agriculture, and green infrastructure projects. These thematic calls aim to deepen the program's impact and attract a broader spectrum of investors.

5

Conclusions

Among the countries most affected by climate change are developing nations, particularly low-income and middle-income countries. For these nations, mobilizing resources is crucial not only for investing in adaptation to the "new normal" of increasingly extreme weather events but also for meeting other essential decarbonization needs. However, the pathways for this mobilization are filled with obstacles. The first challenge we identify is the climate finance trap. This vicious macro-financial cycle has intensified since the pandemic, resulting in many developing economies facing external shocks or destabilized fiscal situations, leading to increasingly conservative monetary and fiscal policies. These policies restrict low-cost public financing, raise capital costs, and contribute to the further decline of public funding conditions.

This macro-financial vicious circle results in a dual consequence for financing the investments needed for climate action. On the one hand, limited public funding hinders the government from making structural investments critical for enabling other structuring and transformational investments. This, in turn, diminishes the private sector's incentive to pursue green investments due to heightened uncertainty regarding their financial sustainability. On the other hand, the absence of low-cost public financing prevents the government from providing subsidies and other incentives to mitigate the uncertainties surrounding green investment and private climate finance.

The lack of investment in preparing for the consequences of climate change depletes public resources to tackle the impacts of increasingly severe weather events, resulting in loss of life and livelihoods and damage to infrastructure and the productive sector. Furthermore, as part of the "cost of inaction," the fiscal situation becomes more difficult due to declining tax revenues caused by the direct economic effects of such events. In other words, the macro-financial issue described here tends to perpetuate itself, evolving into a real climate finance trap.

Development banks are crucial in providing concessional or low-cost resources to help escape this catch-22 situation. Breaking the climate finance trap requires action on at least five fronts:

(i) Promoting investment in climate reforms that facilitate and incentivize the creation of new dedicated instruments and institutions

(ii) Securing low-cost green funding in local currency to initiate green investment plans.

(iii) Originating quality projects that can be scaled up and utilized to support debt operations or the issuance of domestic and international green bonds.

(iv) Creating financial instruments (e.g., guarantees, first-loss funds, foreign exchange hedges) that facilitate connections with impact investors and other institutional investors, domestically and globally.

(v) Engaging with key stakeholders who can provide patient green capital under appropriate conditions for the investments made.

Given the "comparative advantages" that multilateral and national banks hold in each of these areas, expanding their collaboration would be an effective method to dismantle the climate finance trap.

In Brazil, notable opportunities for this cooperation are already emerging. For instance, the joint development of a green investment platform appears to be a promising avenue for overcoming the barriers to mobilizing financing throughout the entire investment lifecycle—from its origination to its implementation—thereby facilitating the attraction of national investors and private financiers for green investments. Programs such as Eco Invest can help alleviate uncertainties faced by financial partners and foreign investors, aiming for the same objective.

The outcome of this collaboration could facilitate the implementation of two of Brazil's most emblematic climate action programs: the ecological transformation program and the new industry initiative. As the host of COP30, Brazil is positioned to be a central player in the global fight for transition. Mobilizing resources for these programs poses a significant challenge to the capacity of international collaboration to produce tangible results in climate finance. It may also suggest a results-based approach to international collaboration that is critically needed in these times of increasing skepticism toward multilateralism.

6

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Annex 1 - MDBs lending to national development banks

A recent report (Ahlgren et al., 2023), utilizing a dataset from 2015 to 2022, identified a total of fifty-five transactions involving MDB-NDB joint participation. The aggregate value of these transactions amounted to US$7 billion. Among these, 52 cases involved NDBs as the primary recipients of MDB funding, while the remaining three consisted of joint co-financing arrangements.

Two aspects of the analysis conducted in the report are noteworthy. First, the total financing volume is significantly low compared to the needs of the developing countries served by the multilateral banks. Three banks issued 80% of the loans. The first (NDB) is a relatively new institution, initially established by the BRICS countries (Brazil, India, China, and South Africa) as founding members, with its loans still concentrated mainly in these countries. The second is a multilateral development bank (MDB) with a mandate to support the development of Latin America and the Caribbean.

Secondly, a relatively small number of operations are concentrated in a few large national development banks. Only two—Brazil's National Development Bank (BNDES) and the Infrastructure Development Company Limited in Bangladesh—account for US$3 billion and US$1.1 billion of these resources, respectively—more than 57% of the total.

Table 7 – MDB-NDB on-lending volumes (2021-23)

MDBs	MDB Values (USD million)	%	NDBs	NDB Values (USD million)	%
New Development Bank	2378	34%	The Brazilian Development Bank	3005	43%
Asian Development Bank	1637	23%	Infrastructure Development Company Limited	1081	15%
Inter-American Development Bank	1618	23%	PT Sarana Multi Infrastruktur	549	8%
European Investment Bank	740	11%	Development Bank of Southern Africa	538	8%
World Bank Group	505	7%	Bank of Provinces	449	6%
EBRD	166	2%	National Foreign Trade Bank	319	5%
Others		0%		1088	15%
Total	**7044**	**100%**		**7029**	**100%**

Source: Ahlgren et al., 2023

Also, as highlighted in the report, most resources are directed toward general green investments, economic recovery, or infrastructure, often without a clear sectoral focus. When a focus is identified, energy systems dominate. These operations rely on structures such as sub-loans, public-private partnerships, and corporate credit, often backed by sovereign guarantees.

Limited information exists about other, potentially more effective forms of collaboration between MDBs and NDBs besides on-lending. This suggests that such cooperation has either been restricted or its value underestimated – and they should not. However, some recent examples indicate the benefits of doing so. Two fronts are worth noting: helping to mobilize international green patient capital and developing country platforms.

Annex 2

Table 8 – G20 Economic Data

Country	GDP Relative Size (%)	Debt-to-GDP Ratio (%)	Foreign Reserves (Billion USD)	Inflation Rate (%)
Argentina	0.7	97.8	42	88.0
Australia	45778	41.3	78	45901
Brazil	45901	91.6	340	45663
Canada	45690	88.7	103	45780
China	45675	52.6	3242	0.9
France	45780	114.4	292	45663
Germany	45904	69.2	96	45721
India	45719	90.9	609	6.0
Indonesia	45809	37.6	130	45810
Italy	45839	137.4	245	45845
Japan	45812	266.8	1323	-0.4
Mexico	45717	60.3	190	6.0
Russia	45839	63.8	607	45671
Saudi Arabia	45690	39.9	455	2.0
South Africa	0.6	38.3	54	45875
South Korea	45870	45.5	437	45839
Turkey	0.7	39.1	64	45793
United Kingdom	45717	35.2	145	45908
United States	45905	85.5	62	45749
European Union	45793	88.7	3200	45749

Sources: 1. GDP Relative Size: World Bank / 2. Debt-to-GDP Ratio: International Monetary Fund (IMF) /
3. Foreign Reserves: Central Banks of the countries or IMF / 4. Inflation Rate: International Monetary Fund (IMF)

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