



Green Investment Banks as a mechanism to mobilize Climate Finance in Colombia

- Context

The Latin America and Caribbean (LAC) is the region where most vulnerable countries to climate change are located. 32 out of 33 countries in LAC have signed the Paris Agreement, and 24 have put forth intended nationally determined contributions (INDCs) (IDB, 2016). CPI estimated that total climate finance invested in LAC in 2014 was US\$32 billion, US\$24 billion of which was provided by public finance institutions (CPI, 2016). In a 2016 report, IFC estimates that reaching LAC's NDC targets for renewable energy, urban infrastructure, and industrial energy efficiency alone will require investment of more than US\$176 billion per year between 2016 and 2030 (CFI, 2016).

Investment requirements in low carbon, climate-resilient infrastructure (LCR) to achieve nationally determined contributions under the Paris Agreement (NDCs) in LAC far exceed the public capital and private financial institutions are currently supplying (CFI, 2016), it represents a financial gap to face the Climate Change in the region.

National Development Banks (NDBs) could play a pivotal role in bringing in the additional private capital needed, by using their local market knowledge and long-term capital, to mitigate risk for commercial capital. It attributes US\$11 billion in climate finance to 12 institutions in Chile, Mexico, and Brazil in 2015 alone, mainly in concessional and market-rate lending to large-scale renewable energy projects. However, the NDBs face financial, technical capacity, governance, regulatory and policy constraints that prevent them from being more effective in achieving NDCs. NDBs are particularly challenged in assuming or transferring greater degrees of technical, credit, funding, high up-front cost, and demand-side risks (Abrmskiehn, 2017).

Green Investment Banks (GIBs) can help incubate innovative investments, and their funding can focus on risking the aggregation of small-scale clean energy projects, introducing new technologies to the local market and engaging in research and development of adaptation-focused financial products (NRDC, 2017).

Exists a number of critical areas that both, NDBs and GIBs, can overcome, such as: risk management, monitoring and verification, warehousing and aggregation of small projects, consumer financing of

distributed solar and energy efficiency, green bond issuance, and risk profiles of emerging technologies, such as offshore wind, electric vehicles, and energy storage. Adaptation investment is an area in which some NDBs, because of their broader infrastructure focus or sector-specific mandate, have more practical experience than GIBs. GIBs may have more experience with new technologies and business models being developed and deployed in advanced economies (NRDC, 2017).

GIB and GIB-like entities are not banks in a traditional sense. They are publicly capitalized, domestically focused, specialist financial institutions specifically established to crowd in private capital to investments in clean energy. Existing GIBs are currently filling critical roles in the climate finance ecosystem where financing is lacking. These GIBs are much smaller than most LAC NDBs and do not accept deposits or savings channel. However, GIBs use the same tools and products that some NDBs, including risk mitigation products, co-lending, co-investing, warehousing, securitization and demonstration projects (NRDC, 2017).

Colombia made a commitment to reduce its greenhouse gas emissions by 20% with respect to the projected business-as-usual scenario (BAU) by 2030 (Colombian Government , 2015). This scenario is aligned with the Green Growth Strategy that is an overarching theme in the country National Development Plan (2014-2018). To accomplish this ambitious target, Colombia need to overcome its climate change financial gaps. According with the Climate Financial Colombian Strategy Framework, by 2030, the climate change investment must to increase annually between 9.8 and 15.8 billion (CDKN, 2016) . This target could be achieved with the establishment of GIBs or through synergies between this model and the NDBs already in operation in Colombia.

The objective of this project is to analyze the relevance for Colombia of Green Investment Banks as a model to improve the investment capacity in low carbon and climate-resilient infrastructure, required to fulfill the country NDCs.

This project aims to the following impacts:

- ❖ Raise interest in the financial sector to develop Green Investment Banks in Colombia to mobilize resources and to put in place actions for Climate Change adaptation and mitigation
- ❖ Attract the private investment in Climate Change mitigation and adaptation projects, using the Green Banks Investment risk reduction mechanism, as well as the synergies created with the existent National Development Investment Banks in Colombia
- ❖ Improve the Colombian capacity to invest in low carbon and climate-resilient infrastructure required to fulfill the country NDCs

