DISCUSSION PAPER

Enhanced Cooperation between MDBs and NDBs

Seeking Synergies for Transformative Climate Impact

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Authors: Anja Carolin Gebel (Germanwatch),
Laura Sabogal (E3G), Imogen Outlaw (NewClimate
Institute), Valerie Laxton (World Resources Institute)
Editor: Lindsay-Jane Munro
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Office Bonn
Kaiserstr. 201
D-53113 Bonn
Phone +49 (0)228 / 60 492-0, Fax -19
Website: www.germanwatch.org

Office Berlin
Stresemannstr. 72
D-10963 Berlin
Phone +49 (0)30 / 5771 328-0, Fax -11
E-mail: info@germanwatch.org

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Enhanced Cooperation between MDBs and NDBs

Seeking Synergies for Transformative Climate Impact[1]

Anja Carolin Gebel (Germanwatch), **Laura Sabogal** (E3G), **Imogen Outlaw** (NewClimate Institute), **Valerie Laxton** (World Resources Institute[2])

Ongoing discussions to reform the international financial architecture across various fora are driven by a common recognition that international public financial resources are not being delivered at the scale and pace required to tackle global challenges, including climate change. As such, a large opportunity lies in leveraging the diversity and potential synergies of the broader public development banks (PDB) ecosystem[3] to support the realisation of countries' climate and development goals at the national level.

Multilateral development banks (MDBs) and national development banks[4] (NDBs) each contribute distinct qualities to such an ecosystem. However, a 2023 report by Climate Policy Initiative (CPI) and E3G found limited MDB-NDB climate-related on-lending across emerging and developing economies (EMDEs) between 2015 and 2022, totalling 55 transactions for an amount of approximately USD 7 billion.[5]

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1 This paper is partly based on research commissioned by the authors and conducted by the Institute for Climate and Sustainable Cities (ICSC) and the Institute for Essential Services Reform (IESR) on the cooperation between MDBs and NDBs in the Philippines and Indonesia, respectively. This does not imply these organisations' consent with the views presented in this paper.

2 The opinions and views presented are of the author alone and do not necessarily represent opinions and views of the World Resources Institute.

3 We understand the public development bank 'ecosystem' to consist of government-owned financial institutions, including national and multilateral development banks, that fund projects aimed at economic growth and addressing social and environmental challenges. As an ecosystem, it facilitates collaboration and access to capital for sustainable development through various partnerships and investment models.

4 The term 'national development bank' is meant here to also encompass national development finance institutions that are in fact not banks. We still choose to use this term as it is more established and readily understood in related discussions than 'national development finance institutions.'

5 CPI and E3G, 2023, [Enhancing MDB-NDB Cooperation](), p. 19. Note that the respective figure specifically considers flows to NDBs based in EMDEs, so does not provide a full picture of all MDB-NDB climate on-lending (i.e. by not accounting for any lending to NDBs operating in advanced economies). (Accessed 14 February, 2025).

Set in the context of overall MDB climate finance, this makes for only around 7 percent of the total sum of USD 99.9 bn (in 2022).[6] Consequently, these actors are called upon to improve their climate-related cooperation to better leverage their comparative advantages.

This paper summarises each institution's strengths, highlights potential synergies and suggests options for enhanced cooperation.

Mechanisms for MDB-NDB cooperation

Cooperation between MDBs and NDBs can be classified into four categories:

- **Financial cooperation** – In addition to disbursing money directly to government agencies or private clients, MDBs can also channel it through NDBs or co-finance with them. Through collaborative financing agreements, banks can pool resources and leverage their joint strengths. Examples include guarantees, blended finance mechanisms and Special Purpose Vehicles.
- **Institutional technical cooperation, knowledge sharing and capacity building support** – At the institutional level, MDBs can work with NDBs to provide technical support, share knowledge and best practice, and build capacity. In turn, NDBs can share local expertise and networks.
- **Country dialogue and strategy** – MDBs and NDBs can collaborate and align in their support to governments coordinating strategic efforts around policy support, infrastructure financing, technical cooperation and capacity building.
- **Monitoring, reporting and evaluation** – Enhancing collaboration can also enable more effective monitoring, reporting and evaluation frameworks to gauge impact.

MDBs and NDBs already cooperate across all four areas

Co-financing of projects is a frequent form of cooperation that banks are taking steps to institutionalise. For example, the German KfW and the World Bank recently concluded a framework agreement to intensify their cooperation in financing international development and transformation projects. They agreed to harmonised standards and a division of labour in jointly financed projects.[7] In addition, the World Bank launched a co-financing platform[8] at its 2024 Spring Meetings to convene donors, such as MDBs and "other co-financiers,"[9] and to facilitate their coordination.

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6 EBRD et al., 2023, 2022 Joint Report on Multilateral Development Banks' Climate Finance - the percentages are the authors' own calculations. (Accessed 14 February, 2025).

7 KfW, 2024, Investment in development and transformation - KfW and World Bank join forces. (Accessed 14 February, 2025).

8 World Bank, 2024, The Global Collaborative Co-Financing Platform. (Accessed 14 February, 2025).

9 Collaborative Co-Financing Portal for the Public Sector. (Accessed 14 February, 2025).

One recent example of **capacity building** between MDB and NDBs is the Inter-American Development Bank's (IDB) Latin America and the Caribbean Facility for Greening Public Development Banks and the Financial Sector.[10] The initiative intends to support public development banks in evaluating their portfolios, integrating climate and socio-environmental risks into decision-making processes, promoting increased green lending, and facilitating access to climate and capital markets finance.

Cooperation on **country dialogues and strategies** is emerging. In South Africa, for example, the European Investment Bank (EIB) and the Development Bank of Southern Africa (DBSA) are partnering to support South Africa's energy transition. The banks jointly support the Renewable Energy Investment Program, a financing initiative that supports private sector solar and wind energy projects. The collaboration is part of Global Gateway, Europe's external strategy to invest in clean and sustainable infrastructure projects worldwide. It aligns with existing EIB commitments under the Just Energy Transition Partnership (JETP) to support South Africa's decarbonisation efforts. Current efforts by some countries[11] to develop country platforms[12] provide additional opportunities for cooperation.

Joint efforts in **monitoring, reporting and impact evaluation** are the least frequent cooperation case. However, in 2023, the International Development Finance Club (IDFC) and the MDBs adopted common principles for adaptation and mitigation finance tracking.[13]

Room for enhancing climate-related cooperation

Despite existing cooperation practices, there is a range of opportunities for deepening, adapting and strengthening these existing forms of MDB-NDB cooperation with regards to climate – with the aim of better and more efficiently supporting countries in their transformation towards climate-neutral and resilient economies.

MDBs and NDBs play diverse and critical roles in advancing national climate and development goals. Combining their respective strengths through active collaboration at the country level can lead to even greater impact.

10 IDB, 2023, IDB and Germany Launch New Facility to Support Climate Action in Public Development Banks in Latin America and the Caribbean. (Accessed 14 February, 2025).

11 See, for example, IMF, 2024, Madagascar Launches Country Platform for Climate Finance Through International Partnership. (Accessed 14 February, 2025).

12 According to ODI, "A country platform is widely understood to be a government-led partnership that aligns international and national goals, thereby unlocking international finance (public and potentially private) to support a step change in climate action. Beyond that, different actors use the term 'country platform' in very varied ways." (ODI, 2022, Country Platforms for Climate Action). (Accessed 14 February, 2025).

13 African Development Bank et al., 2023, Common Principles for Climate mitigation Finance Tracking IDFC, 2023, Common Principles for Climate Adaptation Finance Tracking. (Accessed 14 February, 2025).

MDBs bring considerable technical capacity, international expertise and policy thought leadership, along with financial firepower. In contrast, NDBs have an unparalleled understanding of and position within the local context and are thus well placed to support project origination and channel global resources towards local priorities. Moreover, NDBs typically provide local currency financing, potentially helping to reduce currency exchange risks and the cost of capital.

Both MDBs and NDBs are currently in the process of integrating climate considerations into their overall operations that can help unlock and accelerate further cooperation on climate finance. However, according to research undertaken in the past five years, differences in mandates, technical capacity and financial structures mean that progress differs among these groups.[14] While variation is expected, there is a risk that, if MDB and NDB priorities and approaches are not aligned at the country level, this could lead to suboptimal financing structures, investment gaps and missed opportunities, or even conflicting investments. Such misalignment would undermine the efficient use of limited public resources, hindering countries' ability to transition effectively.

Hence, opportunities to accelerate the speed and quality of climate finance deployment may transpire through enhanced cooperation between MDBs and NDBs.

Steps towards a PDB ecosystem able to address global challenges

opportunities for enhanced climate-related cooperation between MDBs and NDBs

If MDBs and NDBs effectively cooperate, deploy financing instruments and prioritise investment areas based on their respective strengths and country priorities, they can create synergies that support countries in pursuing a low-carbon, climate-resilient, and nature-positive development path. The following sections discuss respective opportunities across the four previously identified mechanisms of MDB-NDB cooperation. Given that MDBs and NDBs differ in their capacity and mandate, the applicability of the subsequent recommendations will differ depending on the MDB or NDB.

14 See E3G and CPI, 2023, Enhancing MDB–NDB cooperation and Germanwatch, 2024, Multilateral Development Banks' Paris Alignment Methodologies. (Accessed 14 February, 2025).

Financial cooperation

Co-financing and on-lending can have benefits for both MDBs and NDBs and help accelerate and increase disbursements of climate finance.

- NDBs may face high costs of capital due to their credit rating (which is tied to the rating of the relevant country) as well as limited liquidity. In contrast, MDBs, with their triple-A rating, have greater access to international capital markets, which some NDBs might not have. **On-lending** to NDBs below market rates can enhance NDBs' financing capacity. This is important for climate-related investments and particularly adaptation investments, which typically entail longer time horizons and do not necessarily generate financial returns.

    - NDBs can lend in local currency, which minimises the risk of currency mismatch for the end client, ultimately reducing the cost of capital of the investment.[15] This means that on-lending to NDBs can help MDBs make their climate-related investment offers more attractive to country clients, whether sovereign or private. The question of who bears the foreign exchange risk becomes a matter of negotiation between the MDB and the NDB.
    - Risk mitigation options offered by MDBs, such as flexible currency conversion (e.g., IDB's Flexible Financing Facility) can further incentivise NDB participation in on-lending arrangements.[16]
    - Moreover, long tenors and highly concessional terms in MDB climate-related loans can support NDBs in collaborating with MDBs on climate-related projects. Such additional incentives might be especially helpful if NDBs do not have a climate-specific mandate yet and might be more hesitant to undertake climate-related investments.

- MDB **co-financing** can lower the overall cost of capital of a climate project and increase economic feasibility. This is especially important for investing in climate technologies at an early stage of development, which might be more expensive or have returns that will materialise only at a later stage. In this regard, the MDBs' new co-financing platform, the Global Collaborative Co-Financing Platform, could be used to facilitate greater collaboration between MDBs and NDBs, by helping to identify suitable co-financing opportunities between those institutions.
- MDBs can also issue **grants** for specific climate-related purposes and combine them with NDB financing. This type of co-financing can mitigate some of the risks of activities that cannot easily be financed, such as early warning systems or capacity-building programs to support agricultural system transformations, for example, which do not bring immediate and certain financial returns but rather focus on building long-term resilience.[17]

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15 This risk comes from the fact that, when a client borrows in USD, the loan has to be repaid in USD, too, whereas the revenue from the project is usually received in local currency. If the exchange rate changes during the loan tenor, this can increase the financial burden for the borrower.

16 IDB, n.d., Flexible Financing Facility (FFF). (Accessed 14 February, 2025).

17 WRI, 2022, Adaptation Finance: 11 Key Questions, Answered. (Accessed 14 February, 2025).

- MDBs can provide **equity and earmarked hybrid capital** for NDBs to enable them to improve their credit rating and obtain more favourable financing conditions for climate-related investments.[18]
- MDBs can provide specific instruments to **reduce the risk** of climate-related investments by NDBs. For example, MDBs can utilise credit enhancing mechanisms, like co-lending and risk-sharing instruments, which help to crowd in capital from commercial banks for climate purposes.
- In some cases, even the mere involvement of an MDB in a specific technology or market area may increase the **confidence of other investors** and thus their likelihood to invest alongside NDBs in similar activities. This can be helpful for climate-related technologies or country contexts perceived by investors as bearing high risks.
- MDBs have considerable experience in designing dedicated **sustainable financing instruments**, such as climate-related funds and loans, green or sustainability-linked bonds, green asset-backed securities, green equity investments, green venture-capital investments, or de-risking instruments for climate investments by the private sector. NDBs, in turn, have a deep understanding of the local context and the needs of the local private sector. Hence, MDBs and NDBs can team up to develop such products and tailor them to the local context.
- Due to their extensive local networks and markets, and their understanding of country-specific barriers and opportunities, NDBs are an ideal partner for MDBs to cooperate on the **origination of investment-ready projects** aligned with national climate priorities, including efforts to crowd-in climate investments by the local private sector. This can help reduce costs associated with project origination and ensure project success.
- Since NDBs can offer **smaller size financial products** than MDBs and are familiar with the local private sector, cooperation can help effectively reach SMEs and smallholder farmers more effectively, for example in the context of climate-related programmes co-designed by MDBs and NDBs. NDBs can also lend on to local financial institutions (local banks or non-bank financial institutions) which then on-lend to local SMEs.
- MDBs can also provide **performance-based financial incentives** to NDBs to make aligning their portfolio with Paris goals more attractive. This is, for example, part of the new 'Latin America and the Caribbean Facility for Greening Public Development Banks and the Financial Sector' launched by the IDB and supported by the German government.[19] It includes a 'performance-based payments mechanism, which incentivises PDBs to increase their portfolio share aligned with the Paris Agreement objectives'.
- In addition, MDBs could try to proactively develop **tailored cooperation offers** catering for the varying mandates of NDBs. For example, some NDBs have a sector-specific focus (e.g., rural development banks that support small farmers) which requires tailored engagement from MDBs that responds to the specific financing and support requirements in this area.

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18 See Volz, Lo, and Mishra, 2024, Scaling Up Green Investment in the Global South. (Accessed 14 February, 2025).

19 German Federal Ministry for Economic Affairs and Climate Action (BMWK), 2023, IDB and Germany Launch New Facility to Support Climate Action in Public Development Banks in Latin America and the Caribbean. (Accessed 14 February, 2025).

Institutional technical cooperation, knowledge sharing and capacity building support

There are a number of options for MDBs and NDBs to enhance their technical cooperation.

- MDBs bring considerable technical capacity, international and operational **expertise**, and policy thought leadership, which NDBs might not have but could benefit from, to align their operations with the Paris Agreement, effectively support countries' climate transformation and unlock additional climate finance.
- For example, MDBs can support NDBs in developing **climate strategies** and Environmental and Social Governance **(ESG) frameworks**, with a view to introducing common approaches to Paris alignment.
- Based on their experience during past years, MDBs can also inspire specific **governance** structures and processes within NDBs to implement Paris-alignment-approaches, including for risk-management as well as for anchoring systematic identification of transformative investment opportunities – being mindful of each institution's mandate and national set-up.
- MDBs can also partner with NDBs to **design pipelines** of Paris-aligned and transformative projects. Such cooperation can be particularly helpful in the area of adaptation, where projects require both detailed knowledge of the respective country context and sophisticated financing arrangements to be 'bankable'.
- Careful, extensive, and context-sensitive **project preparation** between NDBs and MDBs can enable them to conduct successful cooperation projects engaging the local private sector. If needed, ongoing technical assistance during project execution can help respond to and adapt the project to challenges. If these requirements are met, even (financially) small projects can make a great difference in climate outcomes and impact.
- Building on their own experience, MDBs can build NDBs' capacity to design effective green and sustainable **finance products,** as well as facilitate knowledge sharing between institutions.
- Regarding risk management, MDBs (to varying extents) have developed comprehensive **climate risk assessment tools** that serve to effectively screen for and mitigate physical climate risks (and in some cases transition risks) across their operations. These policies and tools can serve as valuable guides for NDBs beginning to integrate climate considerations into project monitoring and evaluation processes.
- Based on their experience with **international climate funds**, MDBs can also help NDBs access those funds. According to the Green Climate Fund (GCF), the main constraints faced by members of the International Development Finance Club (IDFC) when accessing GCF funds consist in limited internal technical capacity (tools and methodologies for reliable climate impact assessment) and the lack of harmonisation of ESG and gender policies.[20] By sharing tools and methodologies for climate impact assessment and project development, MDBs can help build respective NDB capacity to realise high-quality climate projects with the funds.
- MDBs' unique positioning within the financing ecosystem renders them well positioned to disseminate best practice and facilitate information sharing and

20 Green Climate Fund, 2020, Strengthening the capacities of national and regional development banks, which are members of the International Development Finance Club (IDFC), to access GCF resources. (Accessed 14 February, 2025).

learning across contexts. NDBs, in turn, have the privilege of detailed and specific local knowledge and experience. Hence, **peer exchanges** between MDBs and NDBs to **share climate-related knowledge and capacity** relevant to specific sectors (e.g. green infrastructure and industry, climate-smart agriculture, nature-based solutions, etc.) could pave the way for collecting and socialising knowledge and experience on climate-related best practice and for harmonising approaches.

Country dialogue: Supporting strategies for low-carbon development pathways

There is a strong case to be made for enhanced collaboration between MDBs and NDBs in supporting governments' definition, implementation of strategies and roadmaps for low-carbon development.

- NDBs and MDBs each bring different strengths to the table. With their deep understanding of local social and political contexts, and a **mandate to pursue country priorities**, NDBs are well-equipped to support aligning national priorities with Sustainable Development Goals (SDGs) and Paris Agreement goals. Often, they are large economic players within their countries and play an important role in both the formulation and the implementation of national policies.[21]
- MDBs, in turn, bring broad technical expertise and the **convening power** to coordinate engagement between national, regional, and international actors to support a country in its low-carbon strategy. This diversity opens different cooperation options.
- MDBs and NDBs can leverage their dialogue(s) with countries to coordinate their (and other actors') roles and strengths in developing and implementing climate-compatible development strategies and plans. For example, MDBs and NDBs can cooperate to support **policy and regulatory reforms** that help countries pursue low-carbon, climate-resilient and nature-positive development paths whilst also accelerating the creation of an enabling environment to mobilise private climate investments.
- MDBs and NDBs can complement one another in their provision of technical assistance and capacity building to public institutions for **mainstreaming climate-related considerations** (e.g., in public administration, fiscal governance, governance of state-owned enterprises, infrastructure planning, disaster risk management, etc.), in line with their respective areas of expertise.
- Bringing together NDBs' local knowledge and expertise and MDBs' international experiences in supporting countries' transitions can enable countries to better assess transition challenges and opportunities. MDBs and NDBs can work together to help countries integrate and operationalise the concept of "**just transition**" in their development planning.
- Moreover, NDBs can cooperate with MDBs for **early coal retirement** projects, working out suitable domestic arrangements to maximise gains and minimise development and economic losses.
- Additionally, NDBs can promote the **dissemination of sustainability standards** within the local financial and banking sector by adopting international best practices with support from MDBs.

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21 Songwe, Stern, Bhattacharya, 2022, Finance for climate action. (Accessed 14 February, 2025).

- Sometimes, based on local context and national priorities, there can be room to enhance NDBs' potential as important actors in the country's climate transformation, and to facilitate climate-related cooperation with MDBs. For example:
  - Ideally, NDB mandates reflect the priorities set out in the country's National Determined Contribution (NDC) or Long-Term Strategy (LTS). If NDBs lack such a climate-related mandate from their respective governments, MDBs can use their country dialogue to **raise awareness of the multiple benefits of NDB support** for implementing climate-smart projects in the country.
  - If partner governments require support in **updating the mandate of NDBs** towards Paris alignment, MDBs can offer technical, financial and policy support. For example, in policy-based loans, partners could consider including a component to design a climate-related mandate for NDBs – to ensure coherence with national climate goals, and to make use of NDBs' ability to reach their specific target groups for the climate transformation. This can be supported through technical assistance by MDBs.
  - When negotiating MDB support for a country's **NDC or LTS development** and implementation, NDBs can be included to potentially receive a role in the elaboration and implementation of respective strategies. MDBs can support this role through capacity building and technical cooperation.
  - If NDBs do not have any climate-related policies or strategies, and if respective state regulation is absent, cooperation can start with extensive support by MDBs in **building capacity** to identify Paris-compatible projects.
  - Different financing requirements or conflicting rules between MDBs and NDBs can sometimes present barriers to NDB and MDB engagement, including on climate-related projects. In such cases, governments, MDBs and NDBs could work together to **simplify and harmonise processes and offerings over time** to accelerate climate-related investments and facilitate cooperation.

Monitoring, reporting and evaluation

In the context of calls for MDB reform, MDBs have been frequently called upon to improve climate finance impact and to report on climate results rather than just volumes of climate finance. The MDBs have taken first steps towards this end by developing an initial common approach to measuring climate results and sharing an indicator update during COP29. Due to the closeness to local implementation contexts, NDBs are well-positioned to facilitate effective monitoring and evaluation processes, thereby enhancing impact based on lessons learned. Therefore:

- MDBs and NDBs should work together to further develop impact-centred approaches to monitoring and evaluation. Leveraging NDBs' local expertise and MDBs' technical knowledge and convening power can contribute to both the harmonisation of standards and the quality of climate results.
- The MDBs' Common Approach to Measuring Climate Results[22] could be further co-developed with NDBs to ensure broad applicability.

22 World Bank, 2024, A Common Approach to Measuring Climate Results. (Accessed 14 February, 2025).

Identify opportunities for enhancing cooperation

Based on their potential for leveraging synergies, MDBs and NDBs should engage with each other to identify opportunities for climate-related cooperation. Increased engagement and cooperation in country platform approaches provides for both technical and strategic cooperation. Where such dedicated cooperation platforms are absent at the country level, MDBs and NDBs should proactively exchange on potential cooperation opportunities and seek to mainstream climate into their work with governments in order to better and more efficiently address the urgent need for transformative climate finance.

The Finance in Common Summits and the banks' annual meetings provide regular and dedicated opportunities to exchange on cooperation, including on climate. Tools such as the World Bank's co-financing platform are helpful to facilitate cooperation in practice. Country platforms also provide an opportunity for MDBs to cooperate with NDBs on country climate priorities. At the same time, however, both MDBs and NDBs should seek to establish structures, processes and channels, both internally and cross-institutionally, to provide for systematic identification and realisation of climate-related cooperation opportunities from the very first steps of the country engagement process to the evaluation of project impact.