THE ROLE OF A DEVELOPMENT FINANCE INSTITUTION IN CATALYSING
LOW CARBON DEVELOPMENT

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About EADB

Development Finance Institution of EAC

- Shareholders: Kenya, Uganda, Tanzania, Rwanda, AfDB, FMO, DEG, plus 6 commercial banks
- Headquarters: Kampala, Uganda; branch offices: Kampala, Nairobi, Dar es Salaam, Kigali
- Balance-sheet total at the end of 2012: USD 205 million
- Rated Annually by Fitch, Moody’s

Main mandate: promotion of socio-economic development in EAC member states

1967
Established under the treaty of the then EAC

1980
Re-established under own charter

2013

46 Years later...
- Strong capital
- Increased profitability
- Excellent liquidity
- Experienced Management
- Strong asset quality
Developing Countries are less resilient to negative effects of climate change

Vulnerabilities are due to:-

- Location
- Low levels of development
- Dependence on climate sensitive sectors particularly agriculture
- Lower capacity to adapt because of lack of financial, institutional, and technological capacity to access knowledge

The mandate of a DFI is socio-economic development

The fight against negative effects of climate change is core to transition to low carbon economies and the fight against poverty and fits in well with mandates of DFI’s

- Reduced reliance on fossil fuels
- Natural Resource Protection
- Dissemination of improved technologies
DFIs could leverage their traditional products to bring together all economic actors (both public – private) in partnership to support low carbon development.

The partnership between EADB and UNFCCC to set up RCC Kampala in order to scale up CDM projects is an example of such partnership.

Other examples include the setting up of PPP centre of excellence to support East Africa regional projects and hosting EACDF to support infrastructure development within East Africa.
## Risk Mitigation – private sector resources

<table>
<thead>
<tr>
<th>Risk</th>
<th>Possible Mitigation</th>
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<tbody>
<tr>
<td>Country Risk</td>
<td>Multilateral guarantee</td>
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<td>Host country Interactions</td>
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<td>Insufficient projects/deals to assure a reasonable return</td>
<td>Grant funding for project preparation.</td>
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<td>Partnerships with specialist low carbon project development companies to</td>
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<tr>
<td>Currency risk</td>
<td>Currency funds offering foreign exchange hedging could be used.</td>
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<tr>
<td>Low carbon policy risk</td>
<td>Low carbon risk cover alongside country risk cover.</td>
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<td>Support to National Appropriate Mitigation Actions (NAMAs) could potentially persuade</td>
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<td>authorities to formulate policies that support low carbon development.</td>
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<td>Regulatory Risk</td>
<td>DFIs could help address this risk by partnering with the UNFCCC to clarify rules and</td>
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<td>support project participants e.g. the RCC initiative.</td>
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## Leverage of Public Financing Mechanisms

- **PFMs (Supporting supply of finance)**
  1. Country risk cover
  2. Currency risk cover
  3. Currency funds offering foreign exchange hedging could be used.
  4. Low-carbon policy cover alongside country risk cover.
  5. First-loss equity positions

- **PFMs (Supporting demand for finance)**
  1. Deal-flow and technical assistance

**Development Finance Institutions**
DFIs bid competitively for public finance which they use to provide packages of risk support.

**Institutional investors**
PFMs reduce actual and perceived risks of investing in low-carbon funds and major projects.

**Financial intermediaries**
Fund managers and major corporations bid competitively for packages of risk support for low-carbon investments.

**Emission-reducing activities**
PFMs improve the returns of emission-reducing activities.
Financing Role – Providing Appropriate Finance at Each Stage of the Project Life Cycle

Adapted from UNEP and Aequro (2011): catalysing early stage investment Addressing the Lack of Early-Stage Capital for Low-Carbon Infrastructure in Developing Economies, PP 6
## Private - Public Partnerships to Create an Enabling Policy Environment for Low Carbon Development

<table>
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<tr>
<th>Category</th>
<th>Components</th>
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</table>
| **Core business environment (not low-carbon specific)** | • Customs (import and export)  
• Ease of starting, operating and closing a business, including licensing and registration  
• Labour market (skills & flexibility)  
• Property entitlements, incl. land taxes  
• Contract set-up and enforcement |
| **Investment climate**                        | • Legal institutions, rule of law  
• Education policies, human and institutional capacities, especially business training  
• Macroeconomic policy framework, political stability  
• Financial markets, access to finance  
• Infrastructure (energy, transport) |
| **Targeted policies**                         | • Cluster policies (including long-term policy signals and short-term policy incentives)  
• Targeted research and development policies  
• International cooperation on low-carbon technology (including technology transfer and trade policy)  
• Business development services boosting business capacity  
• Value chain promotion, including standards and codes |
Advisory Role

Identification and mitigation of climate risk

Low Carbon Development Strategy

Use of public finance mechanisms to promote low carbon development

Mainstreaming and up scaling low carbon development policy and regulation
Conclusion

- In most developing countries low carbon policies and regulatory frameworks are still evolving, while the level of awareness of appropriate financing mechanisms is still nascent.

- Capital markets are still underdeveloped, while financing, where it is available, focuses on the later (less risky) stages of the project life cycle. DFIs, spanning both the public and private sectors, have a critical role to play in the transition to a low carbon economy by addressing both identified and emerging barriers.

- DFIs must help strengthen legal and regulatory regimes and offer finance at all stages of the project development cycle.

- In addition DFIs must be prepared to partner with new development actors, especially in the private sector in promoting low carbon technologies and lead resource mobilisation efforts owing to their capacity to address project risks and in helping to improve the credit rating of projects.