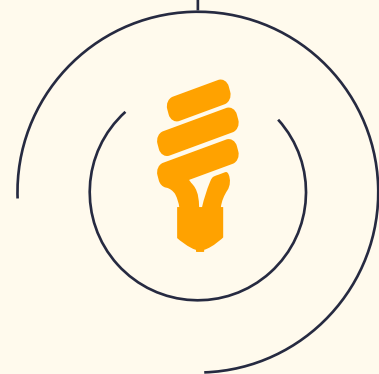


# THE ROLE OF MULTILATERAL DEVELOPMENT BANKS IN FINANCING ENERGY TRANSITION IN SOUTH AMERICA



BRICS  
Policy Center  
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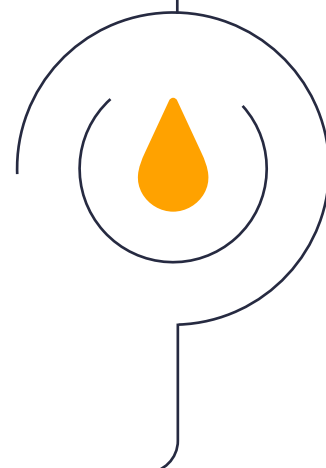


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# 1. INTRODUCTION





**W**ith the signing of the Paris Agreement in 2015, the world institutionalized the goal of keeping global temperature rise below 2°C, based on efforts to adapt to and mitigate climate change. It is in this context that the actors involved presented their commitments to establish policies and strategies to reduce carbon emissions in different sectors of the economy.

This process of reducing emissions can be called decarbonization and consists of replacing fossil energy sources with clean

renewables, in addition to encouraging the use of electrification technology, such as electric cars. This movement promotes transformation toward a low-carbon economy in various sectors.

In the energy sector, this transformation is called the clean energy transition, as it attempts to reduce greenhouse gas emissions in the energy matrix. For this to happen, increasing the use of renewables over using fossil fuels such as coal and oil is encouraged.

**Table 1 — What activities contribute to the transition?**

CONTRIBUTE TO THE TRANSITION	DO NOT CONTRIBUTE
<p>Wind, solar, hydropower<sup>5</sup>, geothermal, and biomass generation. Along with energy efficiency projects, or financing to improve and expand transmission, distribution, or modernization of energy infrastructure.</p> 	<p>Fossil fuels, such as mineral coal, natural gas<sup>6</sup> or petroleum products, and nuclear energy, or related economic activities.</p> 

Source: Own work

**5.** Although hydropower plants are considered renewable sources – as they use water power to generate electricity – building them can have negative social and environmental impacts, such as displacing communities, altering the course of rivers, reducing biodiversity, and causing greenhouse gas emissions through the decomposition of submerged organic matter. Therefore, it is crucial to assess the impacts of each hydropower project on its own and try to mitigate them.

**6.** In comparison to coal and petroleum products, natural gas is a relatively clean fossil fuel due to its lower emissions of almost all types of air pollutants and carbon dioxide (CO<sub>2</sub>) while producing the same amount of energy. However, natural gas exploration, drilling, and production can be said to affect sustainable development. This is because drilling activities pollute the air and can contaminate large volumes of water. In addition to this, the engines used to operate equipment and compressors in natural gas wells and pipelines cause air and noise pollution (EIA, 2022). Hence, it is not reasonable to consider natural gas as a clean energy source that contributes to the energy transition.

This context presents the challenge of addressing the gap between the level of existing infrastructure common in fossil-based frameworks and the lack of financing available to achieve the desired level, characterized by higher levels of renewable energy and the use of technologies that allow for greater efficiency and storage.

The current scenario, characterized by a high dependence on fossil fuels – which constituted 82% of primary energy use in 2021 (BP, 2022, p. 03) – raises an important question: How can we align the goal of the Paris Agreement to reduce both carbon emissions and new investments in fossil fuels with an economy that is so dependent on them?

In the debate on financing energy transition, there are a number of actors involved who can actively contribute to this issue, ranging from private agents, such as companies, investment funds, and commercial

banks, to public actors such as governments and national and multilateral development banks.

Since the establishment of the Paris Agreement during the COP 21 meeting in 2015, multilateral development banks (MDBs)<sup>7</sup> started to establish joint commitments in the form of goals, actions, initiatives, and voluntary principles in an effort to increase climate financing and address the need to decarbonize the global economy. In this context, the Joint MDB Climate Finance Group, a group that issues annual reports measuring MDBs' efforts toward climate change, announced in 2017 a framework to address the goals of the Paris Agreement, affecting their operations and metrics to assess their respective contributions to the mitigation and adaptation to climate changes (World Bank, 2018). Table 2 and Graph 1 put into perspective the current status of these banks' contributions to climate change.

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**7.** African Development Bank, European Investment Bank, Asian Development Bank, Inter-American Development Bank, Asian Infrastructure Investment Bank, Islamic Development Bank, New Development Bank, European Bank for Reconstruction and Development, and World Bank.

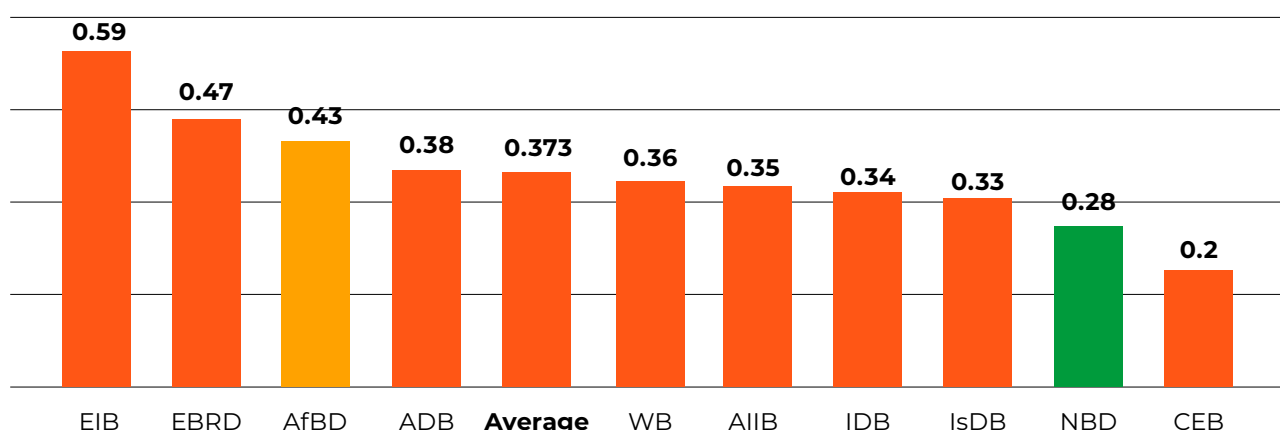


**Table 2 — Current contribution to climate change and post-pandemic goals of MDBs<sup>8</sup>**

CLIMATE GOALS OF MDBS			
Bank	Current values (2022)	Goal	Period
AfDB	45%	Climate financing will correspond to 40% of total annual approvals, of which at least 50% will be financing for climate adaptation.	2020 - 2025
ADB	39%	75% of operations (on a three-year moving average) will focus on mitigation and adaptation to climate change. US \$100 billion	2019 - 2030
AiIB	35%	50%, totaling US \$50 billion (cumulative)	2025 (50%) 2030 (\$50 billion)
EBRD	43%	50%	2025
EIB	57%	50%	2025
IDB	34%	Over 30%	2020 - 2023
IsDB	33%	35%	2025
NDB	28%	40%	2022 - 2026
World Bank	37%	35%	2021 - 2025
<b>Average</b>	<b>39%</b>	<b>45%</b>	<b>2026</b>

Source: Own work based on EIB, 2023.

**Graph 1 — % of MDB portfolios allocated to climate change (2022)**



Source: Own work based on EIB (2023).

**8.** Of all the banks on the report, the only one not to mention a goal was the Council of Europe Development Bank (CEB), influencing the average rate of the current values directed to climate change. If the CEB is included, the average is 37.7%, but it rises to 39% if it is not.

While MDBs introduce collective goals and commitments, each institution also has its own strategies. By analyzing these institutions' documents and action plans, we can not only assess banks' efforts to finance climate actions but also observe their understanding of the energy transition, and thus identify priority sectors and how they interpret the issues at hand, such as using natural gas as an intermediate source, or considering hydropower a clean renewable despite the social and environmental risks it poses.

This study aims to present the main characteristics of how MDBs are involved in the discussion on financing the transition. Its goal is to examine the banks' initiatives and strategies<sup>9</sup> and understand climate goals, primarily those relating to the energy transition, of the major multilateral banks operating in Latin America: World Bank, Inter-American Development Bank (IDB),

and New Development Bank (NDB)<sup>10</sup>.

To assess their practices, we mapped and categorized all financing for the energy sector carried out for the region by these three banks, starting from 2015, when the Paris Agreement was signed, until December 2022. These investments were grouped by sector to demonstrate whether they contributed to energy transition. It is also possible to assess which countries have benefited the most from each bank and whether there have been any changes in the investments over the years.

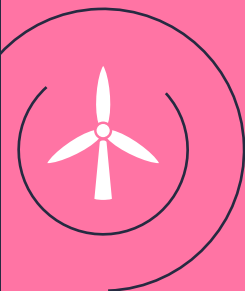
This paper is structured as follows: First, the statements and standards of the World Bank, the IDB, and the NDB were analyzed regarding financing of the energy sector in South America. Then, a comparative perspective was used to observe the differences and trends between them for the following years.

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**9.** It is important to highlight that in the following sections, we will mainly explore how the banks approach strategies for dealing with climate change impacts by demonstrating what these institutions are saying and what their commitments are.

**10.** The information available about the Development Bank of Latin America and the Caribbean (CAF) was insufficient to include the institution in the scope of this study.

## 2. MULTILATERAL DEVELOPMENT BANKS AND FINANCING THE TRANSITION: NARRATIVES AND PRACTICES



Considering that MDBs have stated a commitment to the energy transition agenda, it is important to analyze how they operate in reality. These goals, whether collective or individual, are voluntary commitments. The institutions' intent is shown through their strategies, although it is im-

portant to assess whether these efforts are related to material conditions. In order to evaluate to some degree how effective these proposals are, we will not only present the commitments and principles of these institutions, but also analyze the financing they provide.

### 2.1 WORLD BANK

The actions and strategies of the World Bank for dealing with climate issues were reinforced after the Paris Agreement in 2015. However, in 2013, the institution released a document with the subtitle “Directions for the World Bank Group’s Energy Sector,” with the goal of “support[ing] its client countries in securing the affordable, reliable, and sustainable energy supply needed to end poverty and promote shared prosperity.” (World Bank, 2013, p. 10). The document pointed out the intrinsic relations between climate actions and energy issues, demonstrating the high rate of carbon emissions associated with energy production and consumption (World Bank, 2013, p. 7).

A handful of characteristics highlighted

within the scope of this institutional guidance help to understand how the bank understood energy transition at the time. Energy efficiency and the expansion of renewable energies were highlighted as major contributions to this process. In addition, the development of hydropower plants is mentioned in a positive light and is portrayed as “the largest source of affordable renewable energy” (World Bank, 2012, p. 22), encouraging hydropower projects of all sizes and types despite the substantial social and economic impacts associated with them.

Acknowledging the negative impacts of coal on climate issues, the bank pledged to stop financing coal-based power generation projects except for rare circumstances

(World Bank, 2013, p. 25). This commitment was borne out in reality, as since 2015 none of the projects involving the energy sector in South America have been coal-related.

Furthermore, the group announced the expansion of financing for natural gas, which it considers the fossil fuel with the lowest carbon intensity, serving as an interim fuel for a low-emissions future (World Bank, 2013, p. 23).

After the Paris Agreement was formalized, in 2016 the World Bank Group published a strategy to tackle climate challenges, the Climate Change Action Plan (2016-2020). The group presented strategic changes, aiming to support the implementation of member states' plans and goals by integrating climate agendas with internal operations, as well as by designing investment policies and programs for climate finance investment, and by leveraging private financing (World Bank, 2016, p.1).

We can highlight the institution's commitment to "increase the climate-related share of its portfolio from 21 to 28 percent by 2020 in response to client demand, with total financing of potentially \$29 billion per year by 2020" (World Bank, 2016, p. 1). According to the data presented by the 2020 Joint Report on Multilateral Development Banks' Climate Finance, climate financing is equivalent to 29% of all the group's operations (Joint Report on Multilateral Development Banks' Climate Finance, 2021, p. 13).

In terms of energy, with powerful incentives and tools to favor investments in renewables, the group aims to reach a cumulative target of 20 GW scaled up "in renewable energy generation over 5 years, representing a doubling of current World Bank additions" (World Bank, 2016, p. 36). We can evaluate the bank's efforts based on the increased investments in renewables. Since 2015, the institution has financed 7 projects with this purpose out of 24 projects in the energy sector for South America.

It is important to emphasize that the World Bank Group still encourages the development of large hydropower plants, and includes hydropower generation in the renewable category despite the associated social and environmental controversies and risks. Moreover, the bank will increase its operations for energy efficiency projects, seen as crucial in order to provide carbon reduction, stabilize climate change issues, and allow universal access to energy (World Bank, 2015, p. 33-34). The bank highlights the reduction in fossil fuel investments as well, limiting them to "emergency situations, strong cases for development impacts, or when they support a transition to a cleaner energy mix" (World Bank, 2016, p. 35).

In 2021, the World Bank updated its strategy with the release of the Climate Change Action Plan (2021-2025), aimed at improving institutional actions on climate chan-

ge and supporting countries and private clients to maximize the impact of climate financing in reducing carbon emissions. (World Bank, 2021, p. 2)

The action plan highlights the great demand for financing to support the transition, as in certain countries that still need large long-term public investments to reduce the use of coal. It also emphasizes that “developing countries will need an estimated \$4 trillion per year in approvals up to 2030 to build infrastructure to meet

their development needs” (World Bank, 2021, p. vi).

For this reason, the World Bank has committed to increase climate financing for this period, enhancing the previous target of 28% to 35% of operations dedicated to climate-focused investments by 2025. This much more ambitious target was introduced after climate-related financing reached a record USD 21.4 billion in 2020 (World Bank, 2021, p. 6).

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**“While the target for 2020 was to increase climate finance to 28% of all operations, the World Bank is committed to reaching 35% of its projects aimed at climate finance by 2025.”**

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Another commitment announced is the World Bank’s intention to align all approved operations with the climate goals starting from July 1, 2023. To that end, it is developing methodologies to assess alignment, in addition to implementing guidance and training at the sector level to ensure convergence with current climate commitments (World Bank, 2021, p. 15)

In addition, the World Bank plans to extend access to energy, as more than 800 million people lack electricity around the world. In this regard, in order to establish actions

to support countries and private clients in extending access to energy according to Sustainable Development Goal (SDG) 7, the institution is taking actions such as “energy subsidy reforms, and improving the operational and financial performance of utilities; investing in projects to increase energy access, including through renewable energy and improved energy efficiency; and a just transition away from coal” (World Bank, 2021, p. 20).

Additionally, the plan mentions initiatives such as green hydrogen, which is gaining

attention as an alternative to hydrogen derived from fossil fuels. Hydropower is highlighted as an important source of clean energy as well, and an important option to support the integration of wind and solar energy in power systems (World Bank, 2021, p. 21).

Lastly, the group approaches the issue of just transition away from coal dependency and aims to accelerate the closure of coal mines and power plants by promoting new sources of employment for affected people, communities, and regions. Moreover, it plans to reduce or prevent coal usage by increasing the use of low-carbon energy sources. In this context, the bank highlights

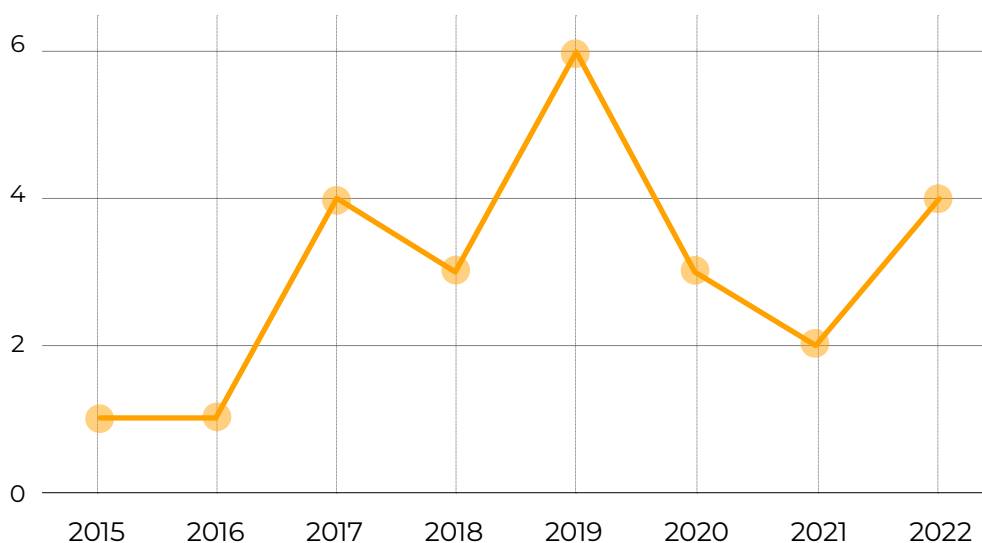
the role of natural gas in providing increased power supply reliability (World Bank, 2021, p. 24). In addition, the bank announced in 2019 that it would stop financing operations of oil and petroleum exploration (Volcovici et al, 2021).

When looking at the World Bank Group's energy projects in South America, it is evident that they are following through as promised, as there have been no records of financing for oil and petroleum exploration since 2019. It is important to highlight the existence of one project related to oil and petroleum for Guyana in 2019, but it is more focused on institutional elements instead of exploration. The data analysis is presented below:

## ANALYSIS OF THE WORLD BANK FINANCING FOR THE ENERGY SECTOR IN SOUTH AMERICA

Regarding the World Bank's data for South America, financing for the energy sector amounted to a total of 24 projects, with more than USD 7.5 billion provided since 2015.

**Graph 2 — Number of energy projects financed in South America by year, 2015–2022**

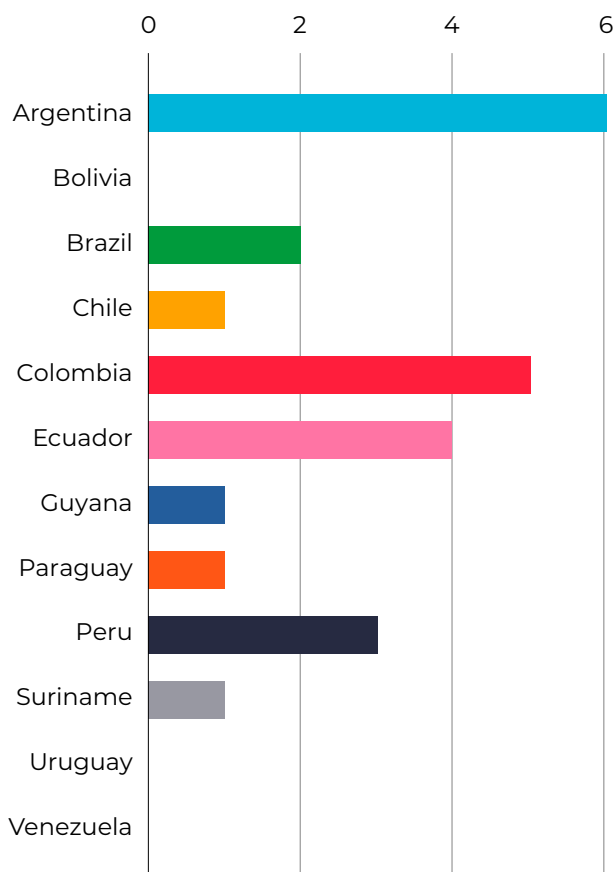


**Source:** Own work based on World Bank, 2022.

Em perspectiva temporal, pode-se identificar, em certo nível, uma tendência crescente, com uma diminuição dos projetos em 2020 e 2021, período de crise pandêmica. No entanto, até setembro de 2022, foi registrado uma quantidade de financiamentos nos mesmos patamares de 2017, demonstrando uma retomada, como ilustrado no gráfico acima.

No que tange a distribuição desses financiamentos em relação aos países da região, o gráfico ao lado demonstra que alguns países acabam registrando uma quantidade maior de projetos financiados que outros.

**Graph 3 — Number of energy sector projects financed in South America, by country**

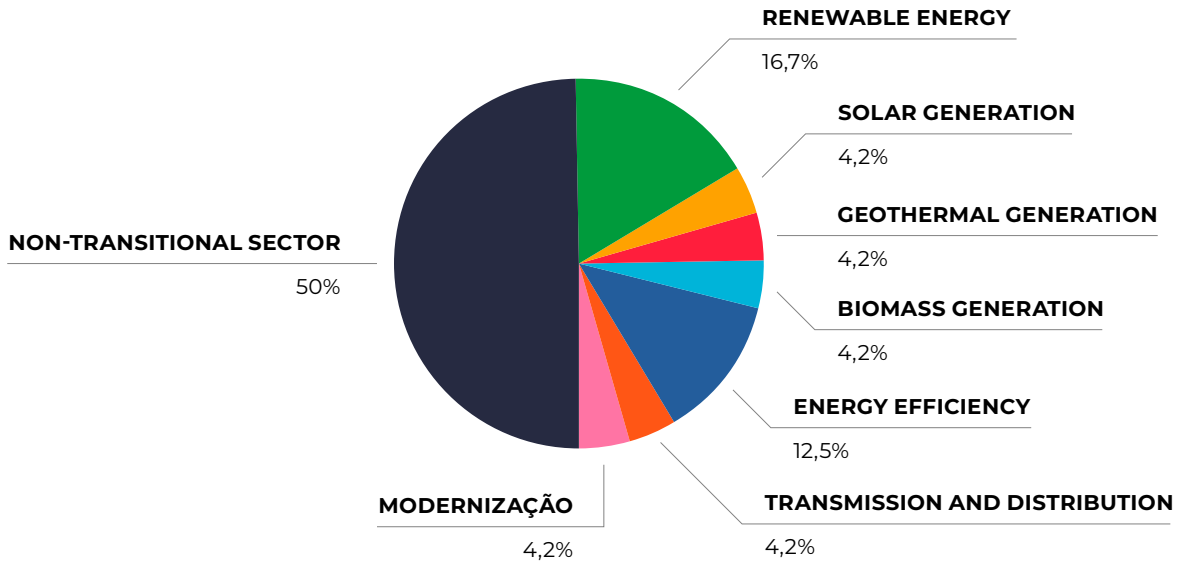


**Source:** Own work based on World Bank, 2022.

Argentina had 6 projects aimed at renewable energy initiatives, solar generation, and energy efficiency. Colombia received 5 instances of approval for the sector, with some projects focused on renewable energy and others dedicated to areas not associated

with energy transition. Meanwhile Ecuador received 4 financed projects, although only 1 was associated with energy transition. The rest of the countries received fewer than 3 projects each, with Bolivia, Uruguay, and Venezuela receiving no approved financing for the energy sector.

**Graph 4 — Energy sector projects financed in South America, by sector**



**Source:** Own work based on World Bank, 2022.

It is important to mention that 50% of the projects categorized by the institution as belonging to the energy sector are not truly associated with the process of energy transition, such as projects to support public administration and management, or for the oil, gas, and mining sectors.

In contrast, 50% of the remaining projects

are distributed among several different sectors, with an emphasis on financing directed toward renewable energy<sup>11</sup> and energy efficiency. We can see that USD 5.6 billion out of a total of 7.5 billion represent an effective contribution to the energy transition process and are thus considered in institutional climate financing goals.

**11.** In these cases, there is no specification regarding the predominant type of energy generation in the projects.



## 2.2 INTER-AMERICAN DEVELOPMENT BANK (IDB)

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The Inter-American Development Bank released the Bahamas Resolution of 2016 with the goal of increasing climate change investments, in which were established the Climate Change and Sustainable Development Sector (CSD) and the NDC Invest platform as a support mechanism for Latin American countries to develop and implement NDCs, or nationally determined contributions (IDB, 2020a, p. 2).

The strategy of the Climate Change Action Plan (2016-2020) set a goal of 30% of all total approved IDB loans, guarantees, investment grants, technical cooperation, and equity operations to be directed toward climate change-related projects by 2020 (IDB, 2021a, p. 06). To achieve this, the bank turned to the private sector to increase finan-

cial climate resources without undermining member countries' long-term strategies.

In the 2020 Joint Report on Climate Finance, the IDB states "climate finance reached 30 per cent of the total amount improved" (Joint Report on Multilateral Development Banks' Climate Finance, 2021, p. 14), meeting the goal.

The new IDB strategy in the Climate Change Action Plan (2021-2025) was to align approvals to address both pandemic- as well as climate-related issues, seeking investments that prioritize sustainable recovery. The IDB also maintained its goal of ensuring that 30% of all financing be directed to climate issues (IDB, 2021a, p. 23) but complemented with additional measures (IDB, 2021a, p.10).

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**“The IDB maintained the commitment to direct 30% of all approvals toward climate issues by 2025”**

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One of the examples mentioned in the document is the integration of climate change agendas with biodiversity issues, based on the idea that nature-based solutions help mitigate and stabilize global warming. Along these lines, the IDB announced that it would detail its approach in a specific action plan about integrating biodiversity

(IDB, 2021, p. 8). Related is the Amazon Initiative, launched in 2021, which aims to “forge sustainable development models based on human capital, natural wealth and the cultural heritage of the Amazon region” (IDB, 2021b).

Both the relevance of the private sector

and the priority of national interests remain important elements of this new strategy. Another commitment noted in the initiative is to ensure 100% of projects with moderate or high disaster risk will be monitored to identify resilience actions by 2023 (IDB, 2021a, p. 21).

First, in terms of political backing, we can cite a few actions, such support to countries to help update their NDCs and to the private sector to carry out sustainable projects aligned to these national goals (IDB, 2021a, p. 41). The second aspect, which deals with aligning goals with the Paris Agreement, can be represented by the internal actions taken to define a methodology for climate risk assessment in the financing portfolio, design carbon emission-tracking tools, and train staff to apply sustainable practices in project stages (IDB, 2021a, p. 42-43). The third deals with climate resilience and includes policies to support disaster risk assessments at multi-country, national, subnational, sector, and project levels, in addition to promoting cash-transfer programs to provide immediate support to populations affected by disasters (IDB, 2021a, p. 43-44).

The fourth aspect stresses a commitment to direct 30% of all approvals into climate finance. The fifth emphasizes methods

of transparency and accountability, such as through implementing mechanisms to promote the use of climate resilience indicators at the project level and improving reports on how climate change operations contribute to Sustainable Development Goals (SDGs). Lastly, the sixth dimension presents improvements for the bank's own practices and internal governance, seeking to increase the amount of electricity from solar and replace its vehicles with more efficient hybrid or all-electric models (IDB, 2021a, p.46-48).

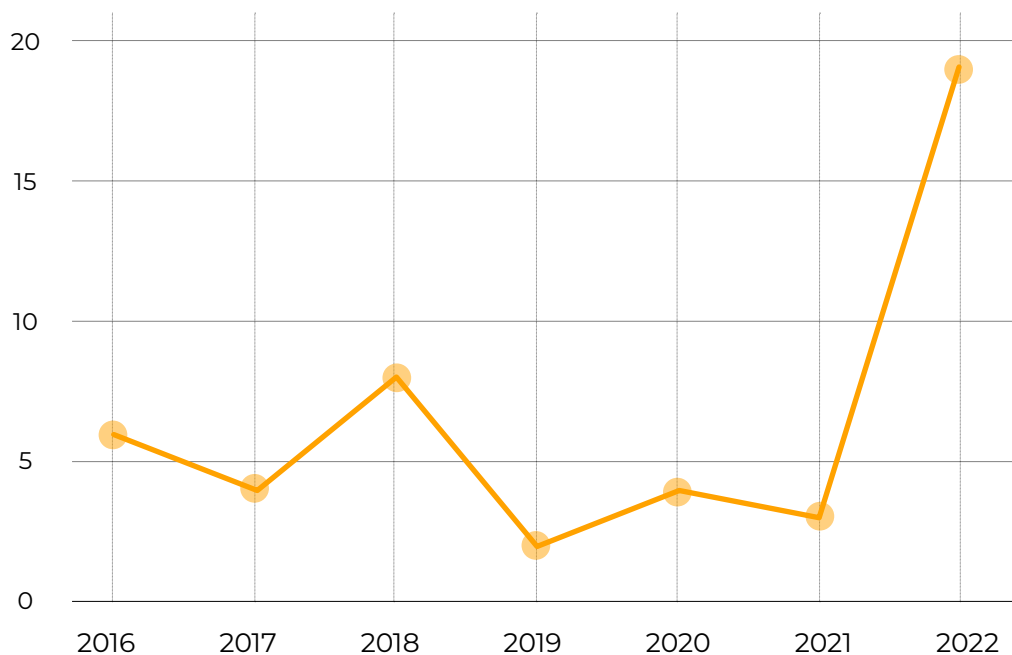
Furthermore, the launch of the IDB's Environmental and Social Policy Framework in 2020 is worth mentioning. This document contains information about IDB's commitment to sectors that will not receive investments from the bank. This information is reaffirmed by the 2021 action plan, which determines that the IDB will not finance activities incompatible with its commitment to tackle climate change challenges, such as: "(i) thermal coal mining or coal-fired power generation and associated facilities; (ii) upstream oil exploration and development projects; (iii) upstream gas exploration and development projects" (IDB, 2020b, p. 20). Below will show that commitment has been proven, at least regarding the energy sector approvals that have been laid out.

## ANALYSIS OF THE IDB'S INVESTMENTS FOR THE ENERGY SECTOR IN SOUTH AMERICA

Regarding the IDB's data for South America, there was a total of 53 energy sector projects, with more than USD 6.3 billion mapped out since 2015. This shows that although the number of projects was almost double that of the World Bank in the same period, the amount spent was lower.

The distribution of these projects over the 8 years considered for this study can be seen in the graph below.

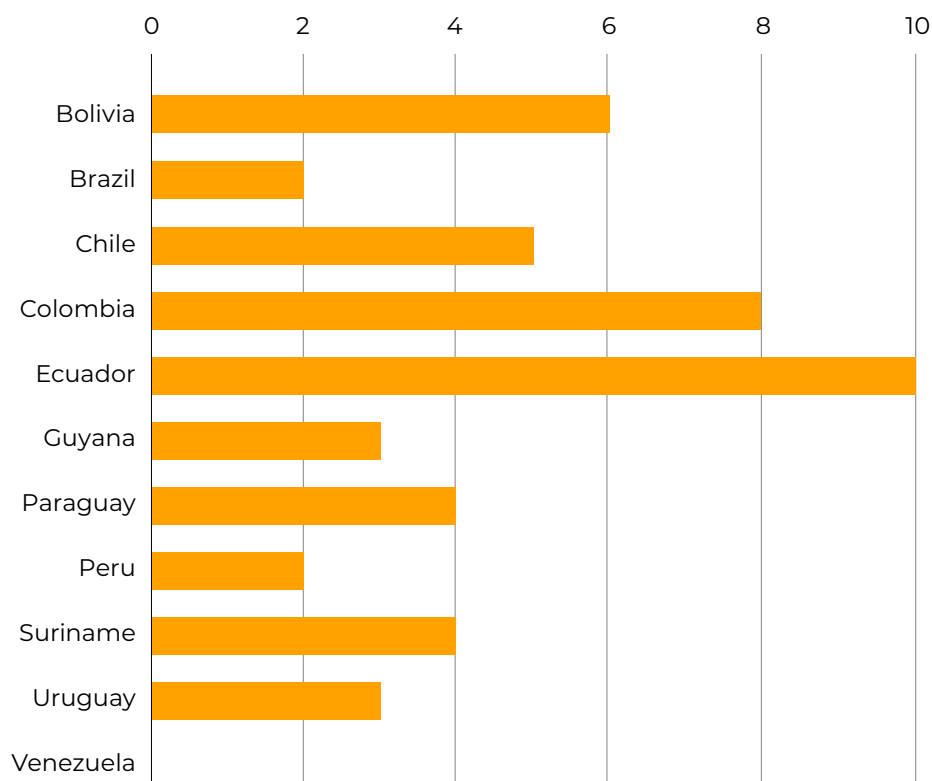
**Graph 5 — Number of energy sector investments in South America, by year**



**Source:** Own work based on IDB, 2022.

While the number of projects peaked in 2022 with 19, approvals were reduced from 2019 to 2021. The recovery in 2022 signals an upward trend in investments for the energy sector by the IDB.

**Graph 6 — Number of energy sector investments in South America, by country**



**Source:** Own work based on IDB, 2022.

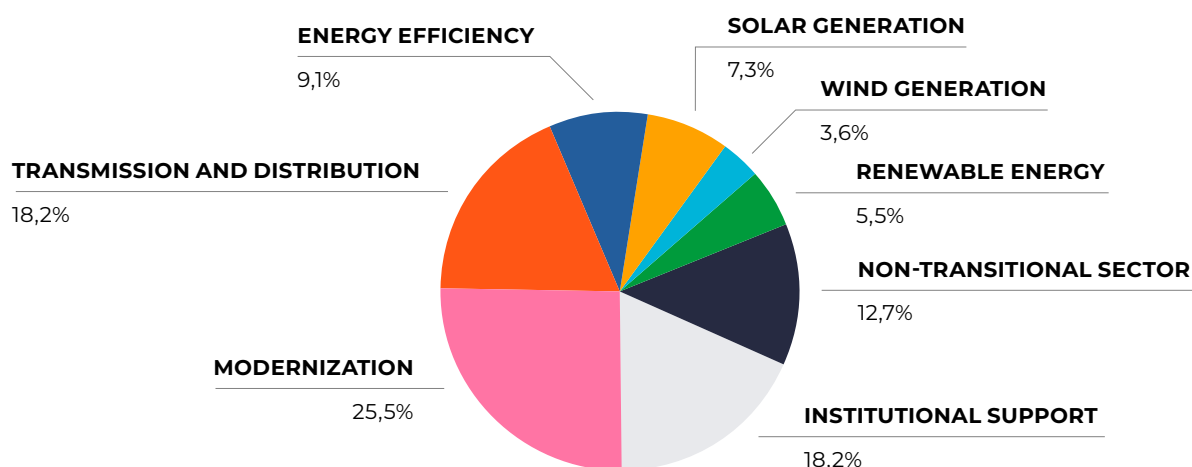
Regarding the distribution of approvals among the countries, Ecuador received the most with 10, primarily focused in the areas of transmission, distribution, and modernization of the country's energy matrix.

Colombia obtained 8 projects, especially directed toward energy efficiency and modernization. Chile was the country with the third-most approvals with a total of 5, focused on solar generation and modernization. It is important to point out that Bolivia and Uruguay, which did not receive financing for the energy

sector from the World Bank, received a substantial amount from the IDB, with 6 and 3 projects respectively. Venezuela, however, has not received any projects for the energy sector yet.

Regarding the sectors of these operations, and unlike the World Bank, most of IDB's investments for the energy sector contribute to the energy transition in South American countries, with only 13.2% of the projects coming from sectors not associated with the transition process, as shown in the graph below.

**Graph 7 — Energy sector investments in South America, by sector**



**Source:** Own work based on IDB, 2022.

In terms of distribution across sectors, the modernization sector received the most financing, reaching 25.5% and more than USD 2.5 billion. Transmission and distribution projects came in second, with 16.2%

of approvals and USD 1 billion allocated. In third place were energy efficiency projects, which reached nearly 9.1% and received USD 941 million.

## 2.3 NEW DEVELOPMENT BANK (NDB)

In order to access the New Development Bank's primary sources of strategy, we selected two core documents that present the main characteristics of NDB operations: General Strategy for 2017-2021 and General Strategy for 2022-2026. Both documents portray the bank's goals from its early years. Based on this, it is possible to understand how the bank approaches issues related to energy transition.

The first document, covering the bank's actions between 2017 and 2021, highlights the institution's operational focus. Since starting operations, the NDB has sought to establish efforts toward infrastructure and sustainable development, such that one of its primary strategic goals of the period was to attain 2/3 of financed projects going toward those ends.

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**“In the NDB strategy for 2017-2021, one of the goals was to have 2/3 of the financed projects aimed at sustainable infrastructure”**

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According to NDB sources, this goal was met and surpassed in 2016, reaching 78% of approvals directed toward sustainable infrastructure<sup>12</sup>, the vast majority of which were aimed at renewable energy generation<sup>13</sup> (NDB, 2017, p. 12). Thus, according to the NDB, the institution sought its goal of becoming a key actor in financing this sector, at least in its first year of operation.

Additionally, one of the bank’s key areas of investment is clean energy. From this perspective, the document emphasizes that:

NDB supports the shift to a more sustainable energy path through: i) structural transformation of the energy sector, in particular by promoting emerging renewable technologies; ii) energy efficiency, including the upgrade of existing power plants, overhaul of electricity grids and energy-efficient building techniques; and iii) reduction of air, water, and soil pollution in the energy sector. (NDB, 2017, p. 20).

For this to happen, projects could finance activities more explicitly related to the energy transition, such as wind and solar generation, but also those which contribute indirectly and can aid the transition process, such as energy storage systems, smart electricity grids, and solid-waste-based energy generation. (NDB, 2017, p. 20).

Another issue that deserves attention is the NDB’s perception that green infrastructure investments are becoming increasingly present in the current context, in which the “costs of solar and other renewables have reached parity with those of fossil fuel-based energy in many countries” (NDB, 2017, p. 8). This shows that the topic is relevant in the current time and that it is important for the bank to act in this sphere, so that “green energy is the present – not the future” (NDB, 2017, p. 08).

After the first five years of operation, the bank updated its policies and strategies,

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**12.** The NDB’s concept of sustainable infrastructure does not have clear definitions on how these investments are represented, although they are the main focus of the bank. This raises questions regarding the institution’s commitment to sustainability when selecting and implementing projects.

**13.** It is important to note that investments in renewable energy are not free from potential social and environmental risks and may have devastating impacts on populations or territories where they are carried out.

setting new directions and actions reflected in the 2022-2026 strategy document. The document quantifies the results achieved during the period of the previous strategy: according to the information given, the bank directed a wide range of efforts toward different SDGs, with 29% of the projects for SDG 9 (industry, innovation, and infrastructure), 15% for SDG 11 (sustainable cities and communities), and 13% for SDG 7 (affordable and clean energy) (NDB, 2022a, p. 15).

Thus we can see that the energy efficiency and clean energy sectors, which contribute to SDG 7, were prioritized, as this is one of the areas that received the most approvals.

In this strategy, the sectors continue to be a pillar for actions. The NDB “will continue to support its member countries’ transition toward a low-emission development pathway, as guided by their NDCs” (NDB, 2022a, p. 20). The priority given to this sector will be maintained for the next five

years to ensure “the deployment of clean and renewable energy at scale, as well as energies that enhance the efficiency of power transmission, distribution, and storage through proven and emerging transformative technologies” (NDB, 2022a, p. 20), and the bank “will not consider financing any new coal-fired capacity for power generation” (NDB, 2022, p. 20).

The institution further declares that the goal of tackling climate change and disaster risks is one of its key operational priorities, as the bank “will identify and prioritize projects or components that contribute to reducing GHG emissions, support transition to lower-emission economies and help countries adapt to climate change” (NDB, 2022a, p. 21).

Lastly, it is worth knowing that the current strategy aims to “direct 40% of total approvals to projects contributing to climate change mitigation and adaptation including energy transition over the strategy period” (NDB, 2022a, p. 28).

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**“The strategic planning of 2022-2026 aims to direct 40% of total approvals to projects contributing to climate change mitigation and adaptation, including energy transition”**

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In regard to the NDB's commitment to end investments in coal and other fossil fuels, it is important to note that the "Environment and Social Framework," published in 2016, does not present these resources in the exclusion list of the institution. However, the list was updated

in 2020 with the document "Sustainable Financing Policy Framework: governing the issuances of green/social/sustainability debt instruments," which included technologies related to coal and fossil fuels in the exclusion list of the bank's investments (NDB, 2020, p. 9).

## **ANALYSIS OF THE NDB'S FINANCINGS FOR THE ENERGY SECTOR IN SOUTH AMERICA**

Among the projects of the New Development Bank in South America, only 3 finance the energy sector, as Brazil was the only country to receive financing from the BRICS institution. It is also important to note that the bank is new and began its operations in 2016.

Also worth mentioning is that, while Uruguay joined in 2021, institutional procedures have not yet formalized any approved project for the country, and no other country in the region is a member of the bank.

Because of this, the 3 NDB projects in Brazil amount to more than USD 600 million, as shown in the figure below.

**Figure 1 – Energy sector approvals in South America (NDB)**



**Source:** Own work based on NDB, 2022b.



The table below shows the main characteristics of the approved projects for Brazil.

**Figure 2 — List of energy sector projects in Brazil (NDB)**

<b>NDB projects in Brazil</b>	<b>YEAR</b>	<b>VALUE</b>	<b>SECTOR</b>	<b>IMPLEMENTING AGENCY</b>
Financing renewable energy and associated transmission projects	2016	US\$ 300 million	Renewable Energy	Brazilian Development Bank
Brasilia Capital of Solar Lighting Project	2021	US\$ 107 million	Energy Efficiency	Brasília Energy Company
Banco do Brasil Sustainable Finance Project	2022	US\$ 200 million	Renewable Energy	Banco do Brasil

**Source:** Own work based on NDB, 2022b.

The financing provided in 2016 is considered the first bank project approved for Brazil. It was carried out in partnership with the Brazilian Development Bank in a co-financing deal in which each institution contributed USD 300 million for subprojects related to renewable energy and its transmission (NDB, 2016).

The project “Brasilia Capital of Solar Lighting” proposed in 2021 is still awaiting bank approval. It will be implemented by the Brasília Energy Company and has a total value of USD 107 million. The project aims to “reduce the energy consumption from the public lighting in the Federal District by approximately 50% through the replacement of existing vapor lamps with LED lamps. The project will also provide renewable energy generation capacity of 162.5

MW” (NDB, 2021).

The “Banco do Brasil Sustainable Finance” project was approved in 2022, with a financing of USD 200 million and headed by Banco do Brasil. It aims to “contribute to achieving the goals set in Brazil’s Nationally Determined Contributions (NDCs)” (NDB, 2022c). Despite being related to different sectors, this project aims to contribute to clean and accessible energy as well.

Out of the NDB’s financings, 2/3 were directed to renewable energy and 1/3 to energy efficiency. It is worth mentioning that all energy projects of the BRICS bank are associated with the energy transition process, as the bank strives to finance clean energy, with minor exceptions, such as natural gas projects in China.

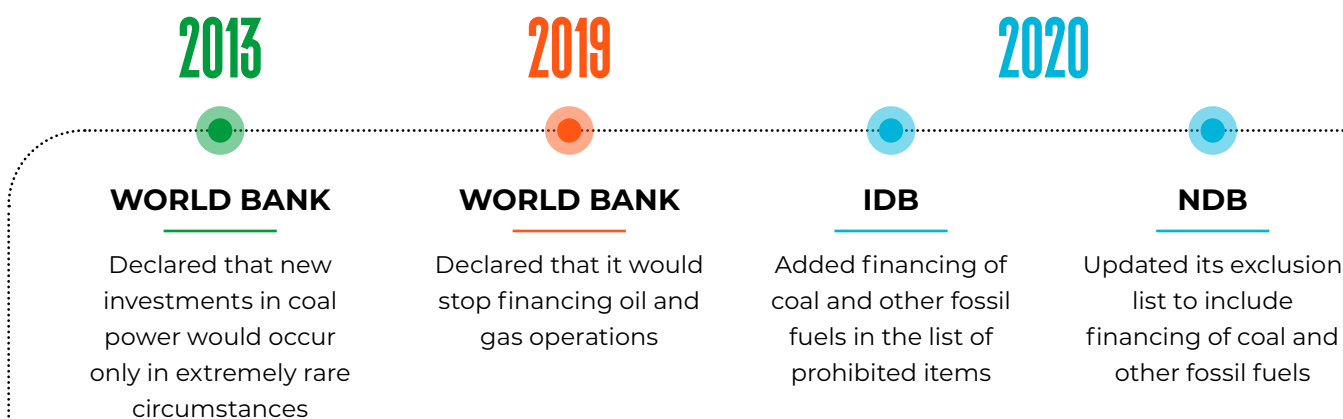
### 3. COMPARISONS AND TRENDS



Considering the analysis of both the institutional strategies and the financing laid out above, in order to achieve a global understanding of these banks' activities, it is crucial to comparatively evaluate not

only MDBs' claims of ending coal and fossil fuels financing in their operations, but also their goals, commitments, and operations in practice. The institutions' commitments can be seen over time in the figure below.

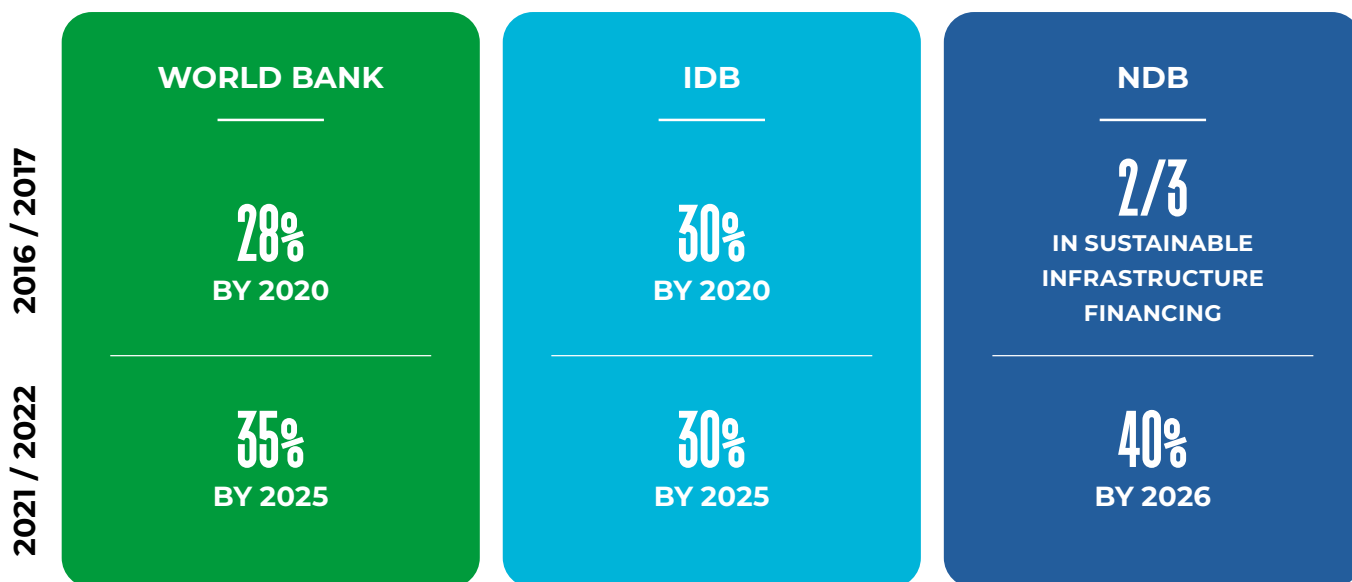
**Figure 3 – Timeline of commitments to end financing of coal and fossil fuels**



**Source:** Volcovici et al, 2021; IDB, 2020, p. 21; NDB, 2020, p. 13

To put everything into perspective, the different goals of each of the three banks in question and their institutional strategies must be compared.

**Figure 4 — Comparison of Financing Goals for Climate Change**



**Source:** Own work.

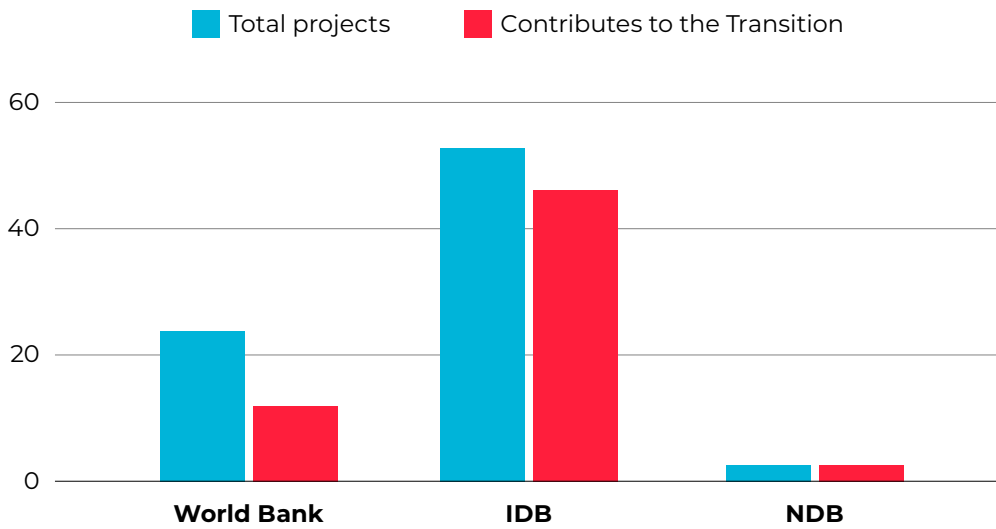
While the IDB maintained its institutional goal for climate financing in the 2021 strategy, the World Bank decided to increase its goal of tackling climate change by 7%. The new NDB strategy represents an ambitious stance by the institution to try to achieve an equally ambitious goal by 2026.

Taking this information into consideration, it is vital to assess how on the South Ameri-

can continent these three institutions contribute to the process of energy transition, one of the branches of climate finance.

Along these lines, the graph below shows the relation between the total number of projects and the number of approvals associated with the energy sector that contribute to the transition.

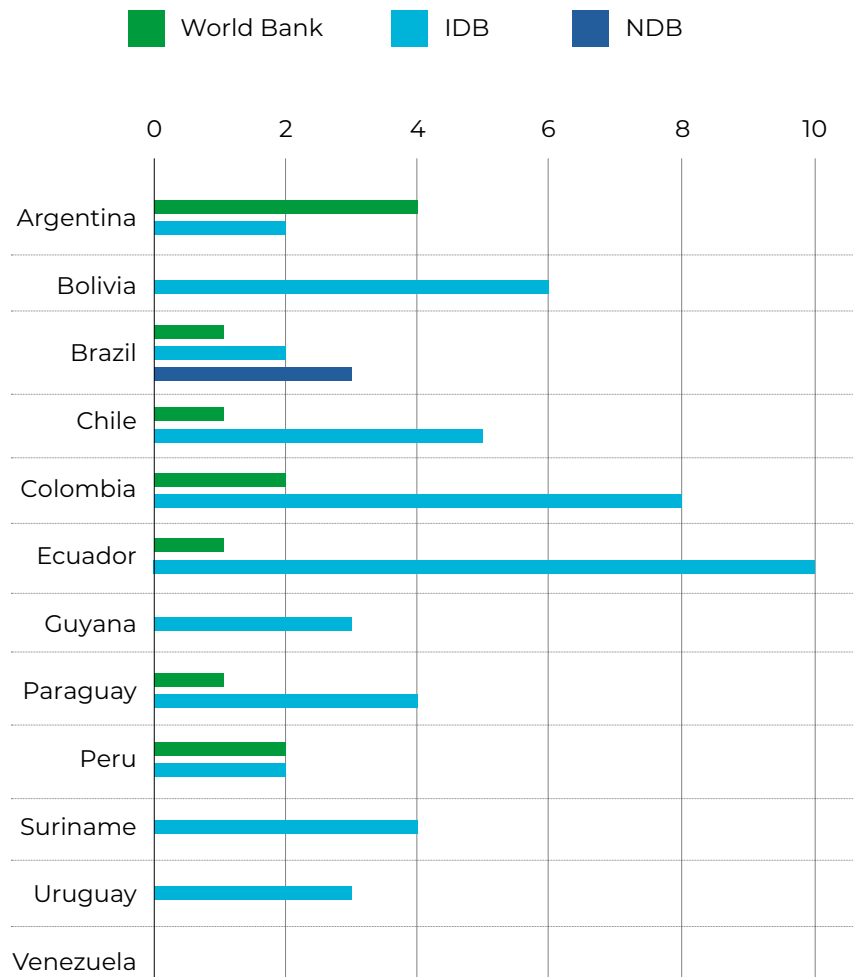
**Graph 8 — Number of projects by institution**



Source: Own work.

Based on the graph above, we can see that only 7 out of 53 IDB approvals come from sectors not associated with the transition. In comparison, half of the identified World Bank projects do not contribute, marking a big difference between the two institutions. As already mentioned, all NDB financings in question support the transition.

**Graph 9 — Number of projects that contribute to the energy transition, by institution and country**



Source: Own work.

Like the previous graphs, this shows the number of projects that contribute to the energy transition by institution and country. It is possible to see that among the World Bank projects, Argentina leads in the number of approvals, as many projects for Colombia and Ecuador are direc-

ted to other sectors. As for the IDB, little in the distribution has changed. Finally, this graph helps to assess the large contribution of the NDB for Brazil, considering that the World Bank and the IDB only have one project each for the country.

## FINAL CONSIDERATIONS

**B**ased on an understanding of the joint actions announced by multilateral development banks at COP meetings and institutional strategies and goals in regard to climate finance, it becomes clear that these financial institutions made deliberate efforts to aid the process of mitigating and adapting to climate change. However, despite their ambitious goals and discursive efforts, it is important to point out the limitations of these financial institutions' abilities and effectiveness in aiding the transition to a low-carbon economy.

First, it is important to assess the debate about the high demand for financial resources for climate-related projects in developing countries, which are severely affected by the impacts of climate change but continue to have limited finances, despite the fact that developed countries have contributed more to the current crisis.

Furthermore, there is much discussion about whether these goals, strategies, and large sums of money promised are truly

enough to tackle the current climate crisis. Considering the data of the investment approvals analyzed, at least for the energy sector, there remains much room for more significant financing to support the energy transition in South America.

Moreover, it is important to ensure that these commitments are more than just ideas on paper. Goals need to be effective to achieve positive impacts. Because of this, a greater accounting of the social and environmental risks must also be involved, beyond merely larger sums of investments available for sustainable projects. This is true for renewable energy projects as well, which can also have devastating impacts despite being commonly associated with sustainability. In other words, just investing in renewables is not enough; there must be accountability to the population and in territories where the projects are carried out.

It is important to understand other processes that affect the path toward energy transition. It is therefore important to empha-

size that the concept of energy transition must be understood to be a process that goes beyond reducing fossil fuels and expanding renewable infrastructures.

Considering this, two issues are deeply related to the regional perspective in South America. The first is related to the position the region holds in the renewable energy production chain, as South American countries are characterized by the presence of strategic minerals relevant to increasing energy efficiency and implementing renewable energy sources. While Bolivia, Chile, and Argentina have large lithium reserves, Brazil has a high potential for extracting nickel and rare earth metals (Vitto, 2022).

This imposes a new cycle of extractivism in the region, one intrinsically associated with the energy transition process, that could deepen social and environmental impacts with the presence of big players such as China, a technological leader in this type of equipment.

In this context, which suggests the countries of the region might become more dependent, it is also important to consider technology transfer. This, along with research and development strategies and policies to protect the local industry (Vitto, 2022), seems to be one of the options if the region is to reduce the advantage China holds in implementing the latest technology associated with the transition.

For this purpose, this paper sought to lay out and collect and the characteristics of MDBs' actions in the discussion on financing the transition through a presentation of their institutional narratives and discursive efforts via their stated goals, commitments, and principles. The main goal was to collect and gather information to build context awareness. This research agenda opens up opportunities for deeper analyses and critiques of the effectiveness of these initiatives, and of the social and environmental impacts that will come as a result.

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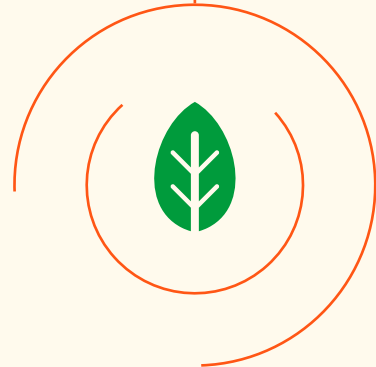
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