



CLIMATE  
POLICY  
INITIATIVE



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# FiCS Financial Innovation Lab

## Scoping study (summary version)

May 2024

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## Objectives of the scoping study

In November 2023 FiCS, Inter-American Development Bank (IDB), and Climate Policy Initiative (CPI) [partnered](#) to operationalize the FiCS Lab, with CPI as the Secretariat.

The Climate Policy Initiative (CPI) carried out a scoping study to:

1. Articulate **mission** and short- and long-term **goals** of the FiCS Lab
2. Take **stock of innovation** amongst FiCS members and understand similar initiatives within the four selected themes
3. Assess key **operational and governance** considerations to enable commencement of activities in March/April 2024.

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## Methodology

**In-Depth Interviews:** CPI engaged with around 20 participants drawn from the FiCS membership and partner organizations, to gain qualitative insights into the scoping study objectives.

**Collaborative Workshops:** CPI conducted two extensive focus group workshops with around 45 participants.

**Detailed Questionnaire:** All FiCS members were given the opportunity to provide written submissions.

**Global Outreach:** Audiences across multiple continents: Asia, Africa, Europe, North America, Latin America.

**Diverse Participation:** We have spoken with NDBs, regional and sub-regional banks, MDBs, civil society organizations, and private sector representatives.

\*Note: For a list of consulted of FiCS members and broader stakeholders see Annex A at the end of this deck.

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## The problem statement

Outreach to Public Development Banks (PDBs) identified three key challenges that the FiCS Lab could address when it comes to increasing the quantity and effectiveness of climate finance:

- **Lack of capacity** for mobilizing climate finance at scale and developing innovations, particularly for PDBs in emerging markets and developing economies (EMDEs).
- **Tendency to work in silos** and varying degrees of awareness of existing practices among different FiCS members, resulting in unrealized potential for dissemination of innovations and collaboration between PDBs in mobilizing climate finance at scale.
- **Lack of standardization** when it comes to popular or common financial instruments, resulting in new and costly work for each instance of implementation.

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## The mission of the FiCS Lab and its value add

**Mission:** The FiCS Lab is a platform that fosters innovation and collaboration among PDBs in mobilizing private capital and expanding climate finance, particularly in EMDEs.

A review of existing initiatives found the FiCS Lab to differ in the following ways:

1. **Targeted to PDBs**, particularly smaller ones in emerging markets and developing economies.
2. **Both an incubator and a taskforce.**
3. **Offer multiple types of activities** that feed into each other: technical assistance, re-granting, coordination, and knowledge-sharing.

The FiCS Lab is envisaged as a dynamic, membership-led initiative, which will evolve over time.

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## The FiCS Lab's three pillars

The FiCS Lab will include three types of activities (“Pillars”):

- **Pillar 1: Sharing and advancing knowledge and best practices** on financial innovation gaps, initiatives and implementation. This will be achieved by releasing issues briefs and primers, disseminating existing knowledge products, and having regular learning sessions within the working groups.
- **Pillar 2: Facilitating structured policy dialogues** to standardize or harmonize approaches to ease the implementation of climate finance instruments and operations.
- **Pillar 3: Supporting incubation** via a competitive call for ideas of specific financial innovations in institutions that are ready to act but need technical and/or financial support.

**In development:** Pillar 3 will require further refinement over the course of Q2-3 of 2024, reflecting engagement with potential participants and other stakeholders. CPI will refine the logistics and technical approach, proposal evaluation and eligibility requirements, and technical assistance. We will be as transparent as possible in this process.

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## The FiCS Lab's four themes

The FiCS Lab will focus on the following four themes in 2024:

- **Theme 1: Climate Resilient Debt Clauses** will explore ways that PDBs – from DFIs and regional MDBs to smaller NDBs – can successfully implement debt clauses and explore the role of larger insurance-related instruments, particularly in regard to climate resilient infrastructure.
- **Theme 2: Debt for Nature/Climate Swaps** will explore how PDBs, as part of a country platform, and DFIs can implement a debt for nature or debt climate swap in a way that benefits both parties and may be cross cutting with the other themes.
- **Theme 3: Domestic Carbon Markets** will examine how NDBs, with the support of other national institutions, can develop a platform for intra-country carbon trading and play a strong role in ensuring the integrity of the offsets offered on the market.
- **Theme 4: Foreign Currency Risks**, the working group will determine one aspect of currency risks in climate finance to address in 2024, such as options for securitization of local currency loans or opportunities to pool currency risks. A forthcoming paper highlights the role of depreciation in climate lending and proposes several solutions.

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## Theme deep-dive (I/II)

### Climate-Resilient Debt Clauses (CRDC)

Clauses in sovereign debt instruments that allow countries to suspend or delay debt repayments following severe climate change-induced events.

- Several **MDBs** and a coalition of 73 countries have pledged to increase the use of CRDCs.
- Discussions remain around the **shape** that these clauses should take and how institutions beyond large MDBs can adopt them.

### Debt for Nature/Climate Swaps (DFN/DFC)

Restructuring of sovereign debt in return for a commitment to finance nature or climate projects in local currency.

- DFN swaps have been applied to  $\approx$  30 countries, often involving **DFIs, MDBs** and/or an intermediary.
- Discussions remain around the **scalability** of these swaps in terms of countries targeted, mobilizing private investment, and expanding beyond a focus on nature.



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## Theme deep-dive (II/II)

### Domestic Carbon Markets

National systems that allow domestic companies to trade emissions reductions through regulated frameworks or voluntary actions.

- Several countries (i.e. Brazil, Mexico, South Africa) have introduced voluntary carbon trading platforms preparing for the creation of regulated markets, often in collaboration with **national development banks**.
- Discussions remain around the **role of PDBs**, particularly national development banks, and how to maximize the integrity of these markets.

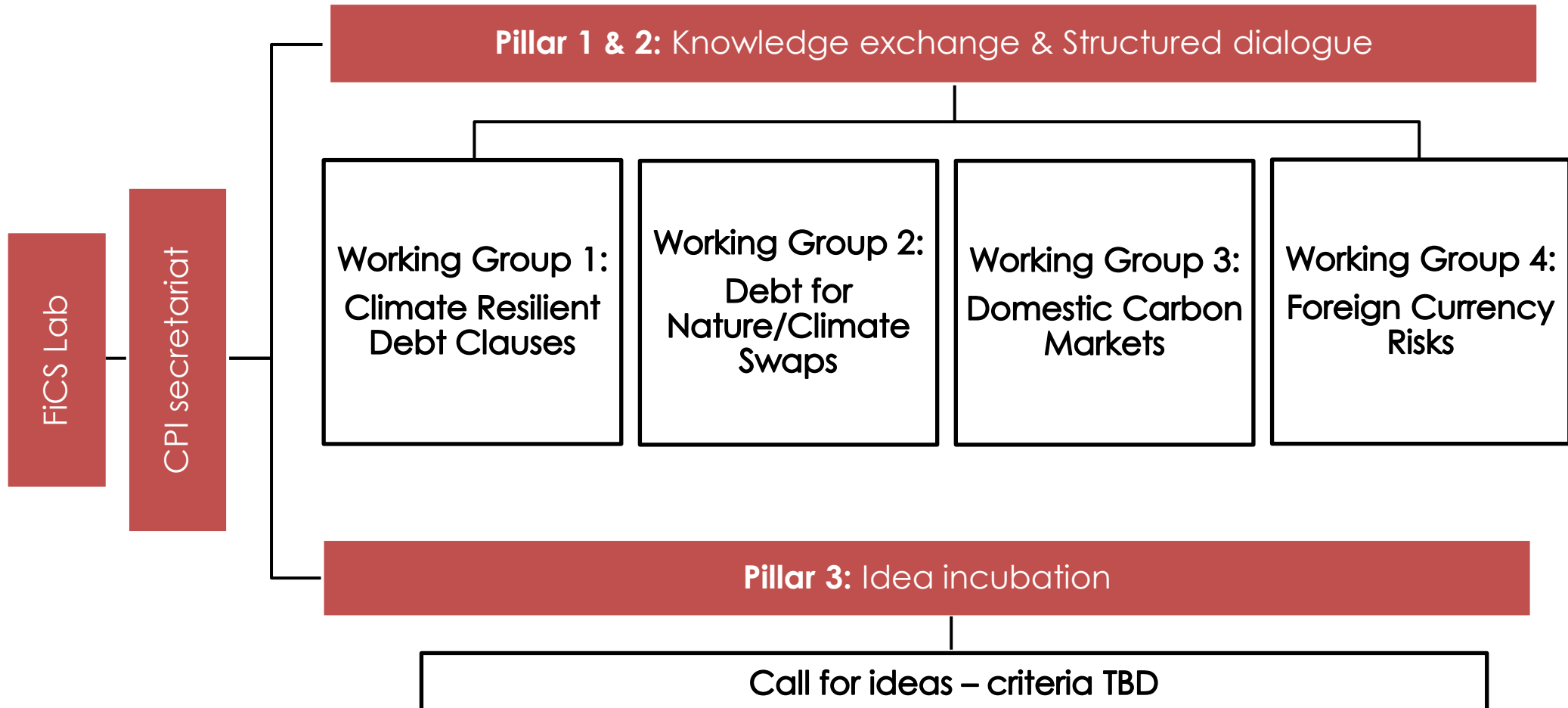
### Foreign Currency Risk

Climate projects are exposed to foreign exchange (FX) risk when they generate revenues in local currency, while the loan and/or investment is denominated in hard currency.

- There is growing commitment, primarily by **MDBs**, to increase local currency financing and mitigate FX risks through guarantees, hedging tools, developing local currency bond markets etc.
- Discussions remain around how to **scale up** tools to mitigate FX risk and how to boost the participation of national development banks.

## How themes and pillars interact

The four themes will be operationalized as **four working group across Pillars 1 and 2**, each co-chaired by select PDBs. Pillar 3 will operate across all four themes.



## Working group operations and roles

Working groups will meet on a **monthly basis**, mostly virtually with at least one hybrid meeting at the FiCS annual summit.

Roles	Who	What
<b>Secretariat</b>	CPI team	<ul style="list-style-type: none"> <li>• Manage scheduling and meeting logistics</li> <li>• Circulate agendas, papers, and readouts</li> <li>• Support the co-chairs by drafting meeting materials and providing briefings</li> </ul>
<b>Co-chairs</b>	Ideally 2 PDB senior staff that can be authoritative, taking into account regional diversity and representation of PDB types	<ul style="list-style-type: none"> <li>• Chair meetings</li> <li>• Provide strategic direction on workplans</li> <li>• Promote the activities of the working group both with members and outside</li> </ul>
<b>Members</b>	10-15 drawn from PDB FiCS members, taking into account regional diversity and representation of PDB types	<ul style="list-style-type: none"> <li>• Attend the meetings regularly</li> <li>• Contribute own material/experience for knowledge products (when relevant)</li> <li>• Provide comments/edits on drafted documents</li> </ul>

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## Working group deliverables

### Pillar 1: Knowledge-sharing

The Secretariat, under the guidance of the working group co-chairs will produce:

- One primer/issue brief per working group.
- One in-depth analytical paper on carbon markets.
- Working group learning sessions open to all members and partner organizations.  
(Indicatively 2 for each working group).

### Pillar 2: Structured dialogue

Each working group will be expected to develop, based on the theme's circumstances, one or both of:

- Principles or guidelines on a specific theme.
- Standardized templates or frameworks for use by the FiCS membership.

# Overview of proposed FiCS Lab governance

## Overall strategy and direction

### Responsible:

- FiCS
- IDB
- CPI (the 'Secretariat')

### Accountable:

- FiCS Executive Committee
- FiCS Chairman & Secretary General

### Consulted:

- FiCS membership

## Pillars 1&2

### Responsible:

- CPI
- Working group co-chairs
- Working group members

### Consulted:

- FiCS
- IDB

## Pillar 3

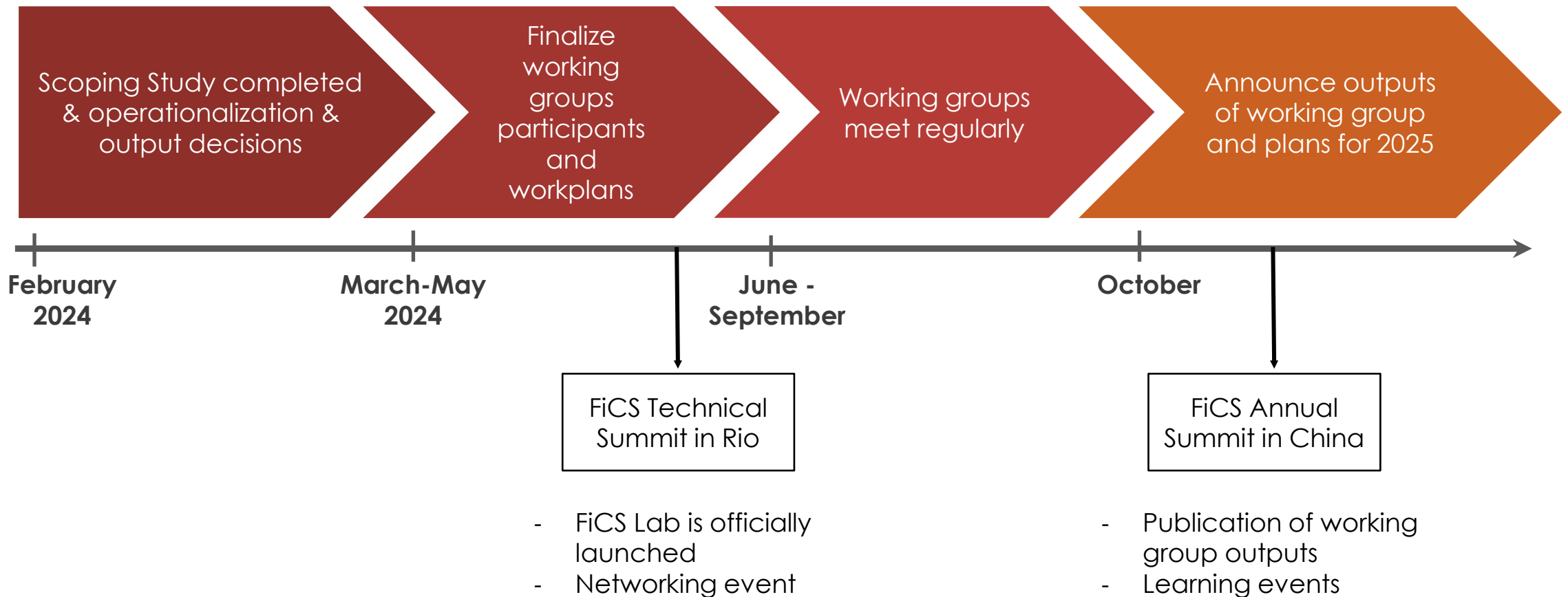
### Responsible:

- CPI

### Consulted:

- FiCS
- IDB
- Working group co-chairs & members

## Next steps and key events



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## Key benefits of active participation in the FiCS Lab

- **Innovation and collaboration:** Be part of a pioneering platform that fosters innovation and collaboration among PDBs, with a focus on mobilizing private capital and scaling up climate finance.
- **Knowledge sharing:** Access a rich repository of knowledge, best practices, and insights on financial innovation through issue briefs, blogs, and other knowledge products.
- **Expanded networking opportunities:** Connect with a diverse network of PDBs, donors, and climate finance experts, expanding your professional network and promoting partnerships for future collaboration.
- **Influence global climate finance policy and the SDG agenda:** Help shape global climate finance policies and the broader 2030 SDG agenda by advancing climate finance solutions.
- **Technical and financial support:** Benefit from technical and/or financial support to incubate specific financial innovations, taking ideas from inception to implementation with expert assistance.

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## Outreach to FiCS membership

CPI, IDB, and FiCS will be as transparent as possible throughout the development and implementation of the FiCS Lab.

- Materials will be regularly posted and updated on the FiCS Lab website (to come).
- FiCS will send regular emails updating the FiCS membership on any changes or developments.
- FiCS members can join a working group at any time.
- Learning sessions will be open to all FiCS members, while structured dialogues will be limited to the FiCS Lab working group members.

**If you have any questions, please reach out to [FiCSLab@cpiglobal.org](mailto:FiCSLab@cpiglobal.org)**



## Annex A: Stakeholder consultation

We would like to thank the following organizations for participating in the stakeholder consultation for this project, either by attending a workshop, participating in an interview, or submitting written comments.

- ADB (Asian Development Bank)
- AIIB (Asian Infrastructure Investment Bank)
- Bahamas Development Bank
- Bank of America
- Banobras (National Bank of Public Works and Services, Mexico)
- Bezos Earth Fund
- BCIE/CABEI (Central American Bank for Economic Integration)
- Banco de Desarrollo Productivo (Bolivia)
- California Infrastructure and Economic Development Bank
- Capital Hubs Canada/Concordia Advisors
- CDP (Cassa Depositi e Prestiti)
- CIFF (Children's Investment Fund Foundation)
- Credit Agricole du Maroc
- EBID (ECOWAS Bank for Investment and Development)
- EBRD (European Bank for Reconstruction and Development)
- FIRA (Trust Funds for Rural Development, Mexico)
- FinDev Canada
- Findeter (Financial Development Institution, Colombia)
- GFANZ (Glasgow Financial Alliance for Net Zero)
- GGGI (Global Green Growth Institute)
- ICO Group (Spain's Official Credit Institute)
- IDB (Inter-American Development Bank)
- iCS (Institute for Climate and Society)
- Montreal Group
- Nature Conservancy
- National Development Bank of Ecuador
- OECD Development Co-operation Directorate
- OPEC Fund for International Development
- TCX (The Currency Exchange Fund)
- UNDP (United Nations Development Programme)
- UNICEF (United Nations International Children's Emergency Fund)
- WINGS Philanthropy