CLIMATE POLICY INITIATIVE

10th Meeting of the San Giorgio Group

Mobilizing Capital for a Just and Resilient Global Transition

EVENT SUMMARY

Although there was progress on climate finance in 2023, risks remain that hinder the momentum required to reach investment at scale. Urgent, bolder action is of paramount importance. This includes instruments to mitigate risk and reduce the delivered cost of capital, as well as bolder institutions with a specific focus on bolstering domestic markets. All this alongside the need to execute a systemic reform of the international financial architecture.

As global efforts to mobilize greater and higher-quality sums of climate finance progress, each year brings a new, daunting goal, but also better information about what is needed, where it can achieve greater impact, who needs to be involved, and how to enhance and optimize the financial plumbing required to mobilize greater quantum of capital towards climate needs and opportunities.

More than 70 climate and development finance experts gathered at the 2024 San Giorgio Group meeting to focus on key outcomes that can build on existing efforts to make significant near-term impact, explore ways to connect parallel processes and initiatives, define milestones, and identify priority areas.

The following summary provides key insights from the discussions. Comments are not attributed as discussions took place under Chatham House Rules.

CONTEXT: A REALITY CHECK

- While not providing an excuse for lowering ambition, it is important to acknowledge that increasingly uncertain macroeconomic conditions and geopolitical tensions are adding complexity to progressing on climate policy and finance. Some key considerations include:
- Nationalism and protectionism are resurging, influencing development aid commitments and priorities. ODA, which is already stretched thin, now also faces new incidences of "tied aid."
- Rapid urbanization remains an underappreciated tectonic shift, driving gigantic infrastructure needs; India alone is estimated to invest at least USD 1.4 trillion in infrastructure by 2030. Cities, buildings, infrastructure, and their relation to adaptation, resilience, and sustainability, needs critical attention.

SAN GIORGIO GROUP RECOMMENDATIONS

1. ESTABLISH A STRONG NARRATIVE

Considering the context and the evolving ways in which the climate conversation occurs in finance and policy, we need to ensure that the "climate narrative" underscores urgency, informs action, and corresponds to an updated theory of change that reflects the current political and economic context.

- **The cost of inaction is becoming increasingly clear and compelling**. It is not just about the failure to scale near-term investment, but also to take a holistic, human-centered view on economic development, sustainability, nature, adaptation, and just transition.

- **We are seeing a fragmentation of the development agenda, which is costly and inefficient**. Instead, we should recognize the interdependence of these systems and make considerable efforts to pursue cross-disciplinary approaches to policy and investment.

- **The global adaptation funding gap is widening, partially due to a lack of robust, measurable climate impacts**. A bolder, evidence-based adaptation investment strategy is needed, integrated with higher-level political agendas.

- **We must move beyond ambiguous "private sector mobilization" invocations to a true private sector view**. A more data-driven focus on risks and risk-adjusted returns is needed, driven by more robust and easily-accessible information on challenges, opportunities, scenarios, and strategies.

2. FOCUS ON THE KEY LEVER: COST OF CAPITAL

To meet approximated climate needs, it is estimated that 10% of the world's investable wealth needs to be invested in the next 10 years. This has never happened. Most of this must go to emerging markets and developing economies (EMDEs). To accomplish this, reducing the delivered cost of capital must be prioritized for investments in EMDEs, particularly for renewables and other mitigation measures.

Real and perceived risks drive the higher cost of capital in EMDEs. Focusing on strengthening domestic markets and institutions, together with bold reforms of the international financial architecture, can bring about the necessary changes for capital mobilization. Additionally, better data and improved capacity and coordination will facilitate these changes.

3. THE NECESSARY INGREDIENTS TO DELIVER FINANCING QUICKLY AND AT SCALE

Existing efforts must evolve to provide the signals and incentives that are politically attractive and build investor confidence.

3a. Mitigate risk where it matters most

Risks need to be mitigated across the board: policy, political, currency, sovereign, credit, off-taker, liquidity, and sometimes technology. Mitigating risks is about reducing risk where possible (e.g., integrating resilience in all man-made and natural infrastructure), mitigating risk where it is not as easily reduced, and retaining risk when it makes sense. This applies to all actors, from sovereigns to corporates to banks, and requires solutions at scale including guarantees and integrated insurance products.

- **Make investments big and boring.** Investment vehicles need to be at scale, familiar to investors, and replicable, instead of chasing innovations for novelty's sake. Solutions need to take aggregating, de-risking, and securitizing to the next level.

- **Spend concessional capital wisely.** Scarce concessional capital must be deployed where it will have the most impact. For example, a higher percentage of concessional resources needs to flow to adaptation and resilience investments due to their more limited ability to leverage commercial funding.

- **Use opportunities to structure concessional funds.** Several replenishment campaigns are upcoming, including the World Bank's International Development Association (IDA). These moments are important channels through which effective risk mitigation instruments could be developed.

3b. Bolster domestic markets

Bolstering domestic markets and sourcing local capital is key to addressing the cost of capital, as well as to reaching decarbonization, adaptation, and sustainability goals. To transition to just, net zero, and climate-resilient economies, a bottom-up approach will significantly accelerate change and effectiveness. Countries and domestic institutions need to be involved at the onset of reforms, to ensure ownership and alignment.

- **Strong country ownership is the main driver.** Country-driven action and transition planning is key, possibly developed and implemented through **tailored country platforms** with clear entry points into the financial system (through domestic institutions), risk mitigation to enable finance to flow, rechanneling finance to domestic institutions, and strengthening and building bolder domestic institutions.

- **Capacity building is critical.** Capacity building continues to be needed across all actors: regulators, ministries, and financial institutions. Building capacity is not just a cost. It can reap economic and social benefits, for example, by integrating resilience into the rapid build-out of infrastructure or by helping to establish separate or ring-fenced green banks that are much more effective at mobilizing climate finance.

- **The link between climate action and trade.** Addressing carbon, climate, sustainability, and integrity in supply chains, as well as broader links to trade, are increasingly important, especially given near-term border adjustment mechanisms in developed economies, persistent inflation issues, and expanding geopolitical instability. De-carbonizing supply chains is key to advancing NDC goals and to build resilience domestically and globally, as global supply chains consist of firms of all sizes that anchor EMDE economies.

3c. Policy matters

Regulatory reform is a critical barrier and opportunity. The G20 is primed to lead regulatory action that addresses risks, including those particular to EMDEs, like mainstreaming climate risks into portfolios and ensuring that rating agencies adequately consider that without penalizing countries who prioritize climate action and fossil fuel phaseout.

- **The key role of finance ministries.** Leadership and coordination amongst finance ministers is critical. For this to happen, a clear vision on climate finance is needed, including the role of finance ministries as stakeholders in prioritizing climate within international financial institutions, as well as domestic issues such as inter-ministerial collaboration.

- **Carrots and sticks.** Exploring various forms of levies and pricing carbon and other externalities, including taxes, risk-weighted asset factors, and phasing out fossil fuel subsidies could help transform incentives. Developing domestic carbon markets could be especially relevant for countries wanting to phase out coal and other fossil fuels while having export industries in difficult-to-abate sectors.

- **Foster knowledge exchange.** Expanding peer learning and knowledge exchange on regulatory reform could significantly accelerate action. For example, focus and information exchange on green bond regulation, pension fund investment regulation, and green fiscal incentives (tax incentives, subsidies, guarantees), are key climate finance enabling environment issues that need to be addressed.

3d. Connect supply and demand

Commercial finance requires clear market signals, policy certainty, and robust data to assess risks and returns. Incentives in multiple forms are key.

- **Improve project preparation and business development.** Project preparation facilities and developer platforms that support the creation of bankable, investment-ready projects in EMDEs will be critical to increasing climate investments. However, the current support to help prepare transactions is not enough. Facilities focused on critical sub-sectors and issues such as transmission and distribution or fossil fuel community economic replacement could make a big impact, especially if paired with direct, early-stage project investment.

- **Improve data sharing and access.** Robust and transparent information is key to assess risks and returns of any investment opportunities. While data has improved, there are still data gaps and access to existing data is not always straightforward. Short-term opportunities include expanding access to existing data, such as full access to the Global Emerging Markets Risk Database Consortium (GEMS) data base, or access to deal flow documentation of development finance institutions.

3e. All hands on deck

Advancing sustainable finance goals necessitates coordinated action from a multitude of actors spanning finance ministries, central banks, development finance institutions, non-state actors, and civil society. Each entity brings unique expertise and resources to the table, allowing for comprehensive strategies and effective implementation.

- **Governments**: Governments can create demand for projects – industrial policy, links to trade, carbon pricing, and improving the regulatory environment.

- **Development finance institutions**: As noted throughout, DFIs—including all types of public development banks (PDBs)—play a pivotal role between governments and the private sector, and between developed and developing economies. In addition to the issues outlined above, MDBs can also strengthen their ties to national and sub-national climate goals and connect better to national development banks (NDBs) and the private sector.

- **Private sector:** The private sector cannot wait to be perfectly regulated and de-risked. It plays a critical role in lobbying government for climate action, as well as being bolder about climate investment and transition planning. The insurance industry has a key role to play in reimaging its role in the climate crisis. Other non-banking financial institutions (NBFIs) have near-term actions they could pursue to better align with climate and sustainability goals. Large corporates are critical influencers of supply chain sustainability and integrity.

- **Bolder partnerships are key.** Collaboration among these diverse stakeholders, and the coalitions in which they participate, is crucial to align incentives, drive innovation towards sustainable economic growth and development, and ultimately increase pressure for concrete action.

CONCLUSION

The overarching goals of reducing the cost of capital, delivered through bolstering domestic markets, mitigating risk, and executing a systemic reform of the international financial architecture, must be executed at scale and speed. We have the tools and people to do it.

Use what we already have. Significant groundwork has been done over the past decade to lay the necessary foundation to scale climate finance. We do not need to invent new things, but rather better leverage existing institutions, structures, and knowledge. We can do this through strengthening institutions and expanding partnerships, connecting the dots across the many coalitions and initiatives that have emerged within the finance ecosystem.

Let's get big, bold, and boring. Climate finance is still too niche; a universe of relatively small deals that are inefficiently diligenced, negotiated, structured, and monitored. It has been said before, but it needs to get big and boring. We have existing approaches, such as de-risking, aggregating, and securitizing, that could be used in new ways to create much larger structures and vehicles that are safe, at scale, and simple to integrate into existing investor allocation frameworks.

There are opportunities to not only create the necessary scale for efficient deployment of capital, but also to create better, bolder approaches for large risk mitigation instruments like guarantees and integrating insurance. Most importantly, the private sector requires robust information and data to assess risks and returns to consider any opportunity and incentives in multiple forms are key while there's also the need for sticks, including carbon pricing and disclosure.

Put countries at the center. Countries have competing demands for limited resources. Their primary focus needs to be economic development to support lives and livelihoods. We know that investing in climate mitigation and adaptation supports economic development, but we can make this a political reality by framing climate finance around holistic development.

Aligning NDCs and National Adaptation Plans (NAPs) to bolder country platforms tailored around countries' specific needs can create clear signals for investors, accelerating capital mobilization. Supporting countries to lead these processes—and aligning the international financial system to support that leadership—can help frame climate finance as a more politically-palatable opportunity and not a cost, while also driving stronger focus on bolstering domestic markets.

There are several entry points for action in 2024 where this dialogue will continue to focus on the actions in which we can, and must, all be involved to ramp up progress on sustainable finance. Let's use this guidance to support our ambition and focus our efforts for near-term impact.

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