

# Sixth Annual Meeting of the San Giorgio Group: Expanding Green, Low-Emissions Finance

8-9 May, 2017, Island of San Giorgio Maggiore, Venice

A meeting organized by Climate Policy Initiative in collaboration with the World Bank Group, CLP and the Organization for Economic Co-operation and Development



## SUMMARY

On 8-9 May 2017, Climate Policy Initiative (CPI) brought together key financial institutions engaged in green, low-emissions finance at the Sixth Meeting of the San Giorgio Group for frank discussions on the most pressing policy and investment issues related to scaling up climate action. Fondazione Eni Enrico Mattei (FEEM) hosted the event.

This summary provides key insights from the discussions. Comments are unattributed as discussions took place under the Chatham House rule.

## TRACKING AND POLITICS

**Major progress has been made on climate finance tracking since 2011 and more is to come.** In 2011, there was little comparable data available to provide an overview of climate-relevant investment. Now, consensus on tracking approaches is increasing among many actors and [a much clearer picture is emerging in some areas](#). However, data gaps still exist, including for private adaptation finance, sustainable land use investments, domestic public expenditure, and in terms of understanding more broadly how to track progress towards implementation of the Paris Agreement. Various organizations are addressing them:

- The European Bank for Reconstruction and Development (EBRD) and the United Nations Environment Programme Finance Initiative (UNEPFI) [are working with some private financial institutions to improve tracking of energy efficiency finance](#).
- [A recent CPI report](#) highlights challenges for energy efficiency tracking and best practices and opportunities for international financial institutions (IFIs) looking to improve the productivity of their investments.
- [Sustainable Energy for All has commissioned CPI, the World Bank and others to track finance flowing toward energy access](#) for a report due for release

in September, [bringing together development and climate considerations](#).

- Organizations such as the OECD and IRENA are looking more closely at South-South climate finance.
- In coming years, multilateral development banks (MDBs) will make further progress on improving methodologies to close important tracking gaps. On adaptation, they will develop metrics that can be applied throughout portfolios and have more to do with doing projects differently rather than funding distinct adaptation projects.
- MDBs will also work on finance mobilization. OECD, CPI, the [MDB Task Force on Measuring Private Investment Catalyzation](#), and others have also made progress on understanding mobilization but more work is needed to increase understanding and standardize methodologies to harmonize reporting and ensure there is no double counting across organizations.
- Since 2011, CPI has contributed to identifying and improving best practices through [its Global Landscape of Climate Finance](#). The next edition of this report, expected in October, will further address these challenges.

**For international public finance institutions, the most effective interventions may be the ones for which they get the least recognition.** Institutions providing international public finance are increasingly encouraged to ensure that their efforts mobilize as much private investment as possible. Doing so effectively requires these institutions to use instruments not typically classified as overseas development assistance that tend to get less recognition or credit in certain climate finance policy discussions.

Risk mitigation instruments, for instance, tend to leverage higher levels of private investment than concessional

loans, but, while the latter is classified as overseas development assistance, the former is not.

Similarly, while technical assistance and support to improve policy and regulatory environments are fundamental for investment, it is [difficult to isolate and quantify the impact of this kind of intervention on financing levels](#).

Ongoing methodological work may help resolve some issues. OECD will make recommendations this year on whether to account for guarantees in ODA accounting and, if so, how to approach it.

**National-level tracking can realign investment flows to promote climate action, particularly when using countries' own definitions and accounting systems.** At the national level, working to define climate finance according to countries' identified priorities can encourage local ownership and ensure the relevance of tracking exercises. The [European Forestry Institute presented work on public land use finance in the Ivory Coast](#). Produced by working closely with the government, it has helped to improve understanding of the current impacts of spending.

Quantifying "net climate finance" at national, or regional levels could also be useful. For instance, comparing spending supporting carbon-intensive projects and practices from that spent on their green equivalents could reveal whether government spending is coherent and help achieve green growth goals at lower cost. A clear picture will require research into projects whose climate impacts are unclear (e.g. energy efficiency actions in existing fossil fuel plants).

## EVOLVING CLIMATE FINANCE ARCHITECTURE IN EMERGING MARKETS

**Green financial institutions should address the constraints of particular local financial systems.** In some cases, other kinds of financial institution may better address geographical or sectoral needs than green banks. For instance, China has made large investments through state-owned banks, achieving some of the highest levels of low-carbon energy investment in the world. Countries should focus on who can best bear the risks of investments and customize institutions and approaches based on this.

**Green banks are not a silver bullet and face many of the same issues as other national finance institutions.** Green financial institutions will not be able to resolve issues such as corruption or inadequate regulatory environments for green investment alone. The establishment of national green banks or greening of existing institutions will not automatically address the issue of public finance crowding out rather than crowding in local private investment. Any

institution will also depend on continued political support though a clear legislative mandate can establish legitimacy and insulate organizations from political changes.

**In countries where appropriate financial institutions exist, it may prove more efficient to work with them to mainstream climate action into their operations rather than establish a new institution.** For instance, if high-quality NDBs exist, can secure a green mandate, and have incentives and political support for the long term, working with them to 'green' their finance will likely prove less expensive and more efficient than founding a new institution.

**Streamlining international climate finance architecture to reduce overlaps, improve efficiencies, and channel more finance through domestic organizations could increase its effectiveness.** In the last decade, the focus has been on developing international climate finance architecture through organizations such as the Green Climate Fund (GCF). While these efforts are important, the proliferation of institutions is tough for recipients of finance to navigate. In addition, since [most investment takes place at the national level](#), it may be time to refocus attention here.

Providers of international climate finance could support this process by streamlining access to finance. For instance, participants suggested the GCF might channel part of its concessional finance through national financial institutions, making it easier for national actors to access.

**Developing countries can learn from developed countries' experiences establishing green investment banks.** The Coalition for Green Capital (CGC) has experience of working in the U.S. to establish state, city, and county level green banks. The [Green Bank Network](#) will create visibility, connect, and share best practice among institutions.

**International and national DFIs can work together to enable local financial institutions and particularly pension funds to invest in local projects.** While pension funds in some developing countries are growing and could provide finance in local currencies, currently only a small proportion of them invest in local infrastructure projects.

Participants stressed that engaging local pension funds in providing green finance will be a challenging and lengthy process, but that green banks and financial institutions could crowd in finance from local pension funds and other local investors by lowering project risks, thereby ensuring returns are sufficient to attract project developers and power affordable for consumers.

A forthcoming CPI paper includes recommendations on how IFIs can support NDBs to finance countries' NDCs by providing co-financing and risk mitigation instruments, and support for project preparation and green bonds.

## OVERCOMING CITIES' FINANCE CONSTRAINTS

**International climate finance architecture does not focus on cities despite 80% of mitigation actions necessary to limit dangerous climate change involving them.**

Participants observed that many important city-level efforts on mitigation and adaptation were not captured in countries' NDCs, that DFIs and climate funds such as the GCF do not tend to directly support cities, and that most development assistance is channeled through national governments. Participants suggested governments should work to integrate cities more fully into their NDCs, and that multilateral development banks (MDBs) should consider committing a share of support and funds to cities. They agreed that NDBs could play a key role in this.

**Creditworthiness prevents cities from attracting green finance but national governments and domestic and international partners can help address this.** Cities face many challenges in enhancing their creditworthiness and raising finance to invest in green infrastructure, including struggles to collect tax revenues, reliance on variable budget allocations from central government, and legislative barriers that limit what they can do. [4% of cities in developing countries have access to international capital markets and 20% to domestic capital markets](#), according to the World Bank. Others are unable to borrow more if they want to maintain their credit ratings.

Many cities unable to access international capital markets directly can do so by partnering with DFIs or more highly-rated municipal utilities or transport authorities. Of the USD 2 billion in green bond finance that had flowed to cities in developing countries by summer 2016, [94% came from DFI bonds](#). Participants highlighted the capacity development and credit enhancement provided by the International Finance Corporation (IFC) and Development Bank of South Africa's (DBSA) to [support the City of Johannesburg](#) to issue a [USD 140 million green bond](#) as an example.

They also suggested other models for consideration: [mini-bonds issued by eight Italian water utilities in the Veneto region](#), and a dedicated aggregation facility to help smaller cities secure loans for green infrastructure and then bundle these loans in green bond issuance.

**Increasing finance flowing for cities depends on building out the pipeline of bankable projects. Cities require technical assistance to achieve this.** The flow of green bond finance to cities, [USD 19.3 billion as of summer 2016](#), demonstrates investors' appetite for green projects but many cities need support on project preparation and finance to provide more investment opportunities. Participants noted

a number of initiatives aimed at building the capacity of local financial systems: e.g. [C40 Cities Finance Facility](#), the World Bank's [Public – Private Infrastructure Advisory Facility \(PPIAF\)](#), and its [Global Facility for Disaster Reduction and Recovery \(GFDRR\)](#).

Given the current proliferation of initiatives, participants suggested a one-stop shop to make cities aware of the technical and financial advisory services available to them. They also stressed cities' varying levels of financial maturity and the need to offer the right kinds of support often for considerable periods of time. For instance, mobilizing investment in Chile required support for regulatory reform from GIZ and KfW from 2006 onwards.

**There is a need to demonstrate there are sufficient bankable projects to make it worthwhile for investors to develop the expertise necessary to assess them.**

Participants pointed out that HSBC is currently the only commercial bank doing urban bus investments precisely because [it is the only one with a cities division](#).

Publishing a pipeline of projects could help. Analysis from C40 and CDP shows there are [over 3,000 low-carbon infrastructure projects in planning stages across C40 cities](#) but the quality of project development information is often too patchy to attract investors. Participants suggested building the quality of such pipelines and providing a matchmaking service to market opportunities. Elsewhere, [CDP's Climate Financier project](#) will gather data from institutional investors on barriers to private sector investment into mitigation projects in urban areas. One participant highlighted the need for a similar process to gather information on adaptation projects to raise awareness of these opportunities among private sector investors.

**Growing experience and innovation can drive investment in infrastructure that delivers cleaner, greener, better-connected cities, and is attractive to investors.**

Participants highlighted [the potential of land value capture for funding upgrades in transport infrastructure](#) and considered whether flood defense could be financed in a similar manner. They also noted the success of energy performance contracting in Germany as an approach that could be replicated elsewhere.

Finally, participants highlighted innovative technologies that could prove game changers for cities, including [Lumenion's Combined Heat and Power Storage](#), a technology that stores excess electricity and delivers it as dispatchable power and heat to city-based clients.

## PROMISING FINANCIAL INSTRUMENTS TO UNLOCK ADDITIONAL FINANCE

**DFIs could leverage more investment through programmatic commitments or private equity rather than financing individual projects.** For instance, KfW and others' [Geothermal Development Facility for Latin America](#) targets exploration risk, the major barrier to increased geothermal investment. It expects a grant of tens of millions to result in at least 350MW in geothermal capacity. Elsewhere, the [GEEREF NeXt fund](#) is covering the first loss in private equity funds that invest in the private sector. One participant estimated that the fund could support USD 30 billion in projects if it reaches its USD 750 million target [with the help of the USD 265 million in funding recently approved by the GCF](#).

Participants wondered whether a lack of equity and adequate equity returns in emerging markets are more important investment barriers than access to debt. One felt that rather than providing loans, DFIs should focus on acting as anchor investors for initial public offerings (IPOs), thereby crowding in commercial debt. Another argued, that investors do provide equity through investment in corporates such as Greenko listed on India Stock Exchange and gain exposure through yield instruments.

**New, financially sustainable instruments are beginning to mobilize investment at scale.** [The Labs](#) are providing some of these instruments. For instance, TCX supports the provision of long-term international investment in foreign currencies in emerging markets where domestic funding is unavailable, too expensive, or too short-term while providing a solution to hedge the currency risks that this creates.

The international green bond markets have grown rapidly in the last few years with [total issuance now in the hundreds of billions](#). Some evidence suggests investors may be willing to pay a premium for green over standard bonds. The IFC and Climate Bonds Initiative will research pricing differentials to see if this is the case.

Organizations are also supporting emerging market institutions to access the market. IFC and Amundi agreed to create [the largest green bond fund dedicated to emerging markets](#). A USD 2 billion initiative, it will act as a cornerstone investor to lower the risk for the private sector and attract new investors, and work with local financial institutions to strengthen their capacity to issue them.

Participants highlighted the potential of other promising approaches including making loans conditional on reforms to enabling environments as a way to mobilize further investment, or insurers incentivizing governments to develop stronger and more sustainable policies by lowering their premiums when they do so.

**Investors are unable to commit the capital they have set aside because of a lack of quality projects.** Participants stressed that a lack of deals is often a bigger barrier to scaling up investment than a lack of capital. Some felt specialized schemes such as the [US-India Clean Energy Finance \(USICEF\)](#) are better at generating the deal flow needed but warned that specialized teams in existing institutions may be more effective than developing new institutions such as green banks.

While participants also observed the need to build capacity in renewable energy and energy efficiency projects in local markets, they saw conservation projects as a particularly challenging area. For instance, private capital committed by Credit Suisse and others to finance conservation projects reached a new high of USD 8.1 billion in 2015, but [a record USD 3.1 billion remained undeployed by the end of the year](#). Despite conservation having the potential to deliver 30% of the emission reductions needed to limit global temperature rise, it receives only 2% of total climate finance in large part because projects require complicated interactions with countries and communities and offer uncertain cash flows.

Conservation International and the Nature Conservancy are attempting to address this with the [Cloud Forest Blue Energy Mechanism](#). It prepares projects and secures financing to restore and conserve cloud forests that can increase hydropower operators' revenues through decreased sedimentation management costs and increased energy outputs and thereby hopes to secure investment from said hydropower operators.

## FROM RISK DISCLOSURE TO ACTION

**There is a window of opportunity to define strong, common standards for climate risk disclosure before approaches start to proliferate.** Companies and investors will want to minimize administrative burden by reporting according to one widely-used set of standards. Participants suggested these standards should be: simple, consistent, and comparable; integrated with traditional financial metrics and reporting; and include third party verification. Some felt that early momentum on standard setting could be driven by public finance providers updating the [Equator Principles](#) risk management framework.

**Momentum is building around climate risk disclosure. France's introduction of mandatory climate change-related reporting for institutional investors is key to further progress.** The G20, [the Financial Stability Board \(FSB\)](#), and others may endorse the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#). Participants noted the voluntary nature of the recommendations, emphasized the economic benefits of adopting them, and suggested alternative routes forward. For instance, France's institutional investors are requesting disclosure from international companies as they seek to



comply with the [country's climate-reporting law](#). Provided its reporting metrics and standards are strong, replicating France's approach in other countries could be more effective than multilateral endorsement.

Mandatory reporting on climate risk management strategies from investors could accelerate progress compared to the voluntary reporting and disclosure model companies have operated under for the last decade. It also removes a major barrier to disclosure: the reluctance of companies to release climate risk assessments publicly in case it disadvantages them versus competitors that do not. Many companies know which part of their assets or supply chains are most at risk from climate and strategize to manage this but do not disclose this information to investors.

**Integrating scenario planning will be crucial to minimize the losses and maximize the benefits of risk disclosure.**

As the report from the TCFD highlights, the disclosure of climate risk increases transparency and enables investors to allocate capital to top performing companies and projects in various sectors. Understanding current risks and their drivers for particular companies and sectors is a vital first step. However, all participants agreed that future scenarios were essential to inform credit risk assessments and business strategies. [Stress and scenario tests](#) that gather company representatives to consider the impact of particular scenarios already exist in some jurisdictions. This process could form part of companies' financial audit and may be preferable to overly complicated risk modelling.

**Even with the improved disclosure of climate risks the challenge of encouraging investors to adopt longer-term investment horizons remains.** Even in the insurance industry, almost all policies are issued on an annual basis and so only deal with current risks. Adaptation requires a long-term view but only a few investors consider even a 3-5-year horizon. We need many more to think in terms of 10 years or more.

**Scaling up a standardized approach to assessing climate risk across the economy may require investing in companies providing data and screening services.** Every asset has a carbon footprint and carries some resilience risk. Investors need clear comparable metrics and data to improve their allocation of capital but available products do not yet fully solve this problem.

Providing investors with the locations of companies' facilities and suppliers overlaid with data on heat stress, water stress, and flood risk can allow them to benchmark companies' performance inform their conversations when they request disclosure. This remains true even if the data is not as detailed as engineers or insurers might use. [A recent report](#) from the Global Adaptation & Resilience Investment

Working Group (GARI) highlights the needs for measuring physical climate risk.

Participants stressed that current physical risk analysis is much more sophisticated than in previous decades. The insurance and reinsurance industries are highly skilled at limiting their risk exposure through catastrophe models that quantify risk hazards, exposure, and vulnerability. Many large companies have chief risk officers and actuaries who manage many different kinds of risk.

**New approaches to managing climate risks are emerging.** Participants highlighted one of The Lab instruments, [the Oasis Platform](#), which provides open source models for assessing climate risk. It aims to improve understanding and management of climate-related risks in emerging economies to facilitate investments in risk reduction.

## ACCELERATING NDC IMPLEMENTATION

**NDCs are insufficient to limit global temperature rise to agreed levels but there are clear opportunities to increase ambition over time.** For instance, IRENA figures show that while unconditional NDC pledges could add 37GW of renewable energy capacity in Africa, other national plans aim to add a further 86GW. With rapid price falls, it may be cost effective to add a further 155GW by 2030.

**Countries and their international partners need to focus on creating the right legal and policy frameworks in place to enable the development of robust bankable project pipelines that can attract investors.** NDC implementation will require economy-wide transformations financed largely by private finance. Participants noted that a stronger focus on risk mitigation instruments and technical assistance could help public finance to mobilize more private investment. Removing fossil fuel subsidies could also improve countries' economic performance.

**New initiatives are supporting countries to accelerate NDC implementation.** The [NDC Partnership](#) is intended to support coordination between implementing partners on the ground and promote knowledge exchange, help national developing country governments to coordinate NDC implementation across all relevant ministries, and provide support to access international finance. The International Climate Initiative (IKI) of the German Federal Environment Ministry (BMUB) is also supporting many projects that lay the groundwork for NDC implementation. [GNIplus](#) brings together world-leading analytical, legal, and technical expertise from AECOM, CPI, and Baker McKenzie to support countries to create enabling environments and build pipelines of bankable low-carbon and resilient projects to mobilize private investment for effective NDC implementation.

**Some countries have made more progress towards NDC implementation than others but many could still benefit from support tailored to their needs.** Participants heard about progress in Kenya, where the government has established a policy and governance framework for climate action through a national Climate Change Act, a National Climate Change Action Plan, and a Climate Change Council that will guide implementation of its NDC commitment to reduce emissions by 30% compared to a 2010 baseline. However, Kenya has made more progress on mitigation than adaptation components and adaptation planning and finance is now the government's priority. Furthermore, little international support is available to work on some industrial sectors such as waste management. It is, therefore, vitally important to work directly with host governments to design support programs tailored to national needs and circumstances.

## CONCLUSIONS

To limit climate change to 2°Celsius or below, economic systems need to be transformed. The following insights and tools can help to achieve this:

- **Good, comparable data is essential to effective climate action.** Many private companies have a better idea of the climate risks and opportunities they face in coming years and initiatives such as the Task Force on Climate-Related Financial Disclosures (TCFD) and legislation such as France's climate-reporting law will enable investors to access this information and use it to allocate capital. Balancing the need for robust disclosure data and tools and the need for simple, comparable, and standardized formats will be key. Ensuring that tracking is helpful for practitioners is essential. National-level data and tracking is an important starting point to realign public budgets and incentives to promote climate action.
- **Innovative financial instruments can leverage greater private investment in new sectors and countries.** The Global Innovation Lab for Climate Finance offers a successful and scalable model for developing, and piloting such instruments as shown by recent successes and its applications in the India Innovation Lab for Green Finance and the Brasil Lab. However, it remains a challenge that more effective interventions are not always officially recognized.
- **There is a need to refocus attention on the national and subnational levels where most green investment is raised and spent.** Streamlining international climate finance architecture to reduce overlaps, improve efficiencies, and channel more finance through domestic organizations could increase the effectiveness of the system. Establishing green banks or other national or sub-national financial institutions is an opportunity to scale investment. In many countries, it may prove more efficient to work with existing financial institutions to mainstream climate action into their operations rather than to establish new ones.
- **We have the tools to close the investment gap and increase climate action.** Technology costs continue to fall and the challenges faced in many countries have already been met in others. There is a wealth of experience on which to draw. Multilateral, bilateral, and national providers of public finance and support can play an important role in disseminating this knowledge.
- **Transforming countries' nationally determined contributions (NDCs) into projects on the ground will require all of the above actions.** Improving enabling environments and understanding of climate risks, building technical capacity not least in managing public finance, and providing financial support and innovation to unlock the private investment that will finance the transition will all be important. New initiatives such as the NDC Partnership, the US-India Clean Energy Finance (USICEF), and GNIplus will help.