The Ninth Meeting of the San Giorgio Group

On March 23-24, 2023, Climate Policy Initiative convened key financial sector actors and experts—that have a combined total of more than USD 25 trillion in assets under management—for the ninth meeting of the San Giorgio Group. As the premier venue for open discussions on the most pressing policy and investment issues related to scaling climate finance, San Giorgio Group participants shaped the agenda for this year's meeting, committed to pre-event preparation to optimize the quality of the discussion, and arrived with a sense of urgent responsibility to identify practical solutions that will remove barriers and maximize opportunities.

The following summary provides key insights from this year's discussions, summarized by agenda topic. Comments are not attributed as discussions take place under Chatham House Rules.

JUST ENERGY TRANSITION

While 2022 brought significantly more attention to just energy transition principles, including major announcements of Indonesia and Vietnam Just Energy Transition Platform deals, a deal announcement is not success: it starts the process. We are just starting to dig into what needs to happen to maximize the opportunities that JETP announcements create.

It is critical to remember that "just energy transition" is not a panacea to address all development issues within a country. At the same time, just energy transition needs to be about more than just coal retirement—it is an opportunity to align multiple shareholders towards creating new economic engines. To ensure context and country-specific advancement, "just transformation" may be a more useful frame to get the right buy-in.

A new approach for enabling just transformation. Irrespective of whether we talk about just energy transition or just transformation, one lesson already learned is that we must begin with "co-creation;" getting the right people to the table as early as possible—including labor unions, subnational government, indigenous peoples, and local community groups. This is critical for creating political will as well as fully-informed units necessary for on-the-ground implementation.

Some ideas that could help build the structures that will better align stakeholders include:

- **Pilot projects:** Things that can get done first should not wait for top-down guidance. Design small pilot projects that can showcase early success while following parallel implementation, institutionalizing

transition concepts, creating practical dialogue, and guiding finance mechanisms.

- **Just and effective funding structures:** Although each platform and project requires customization, we can improve efficiency by creating well-managed funding pools that allows upfront grant support (particularly for just transition co-creation) and leverages private finance. We can create model term sheets that include just metrics (Just Term Sheets)—leveraging what has been learned so far to share common approaches at the platform and project level.
- **Professional implementing unit:** Implementing the transition requires a combination of political ownership and a well-skilled professional implementing unit that can translate commitments into transactions.
- **Sharing success stories:** Strong work is already happening in just transition, but we are not doing a good enough job of sharing that information. Creating a central knowledge-sharing platform could significantly accelerate best practices.

ADAPTATION, RESILIENCE, & NATURE

Awareness about the necessity of adaptation finance, as well as its inadequate level and growth rate, is finally becoming mainstream. Some of the challenges that contribute to the slow and inadequate response are unique to adaptation finance, but we must also stop putting adaptation into a completely separate box, as many solutions lie in connecting the dots between mitigation, adaptation, and loss-and-damage.

Reframing the narrative. The idea that there are limited business models for adaptation is artificial and misleading. Public finance is critical, but if we frame adaptation as just a public finance issue, we are missing tremendous potential. There is a growing pipeline of standalone adaptation finance opportunities, but even greater opportunity lies in identifying co-benefits and attaching adaptation to mitigation projects. For example, in the cooling and cold-chain sectors.

Better understanding of risk and returns. Reframing the narrative is not enough, as adaptation has its own risk and return profiles in both the public and private sector. This requires better modelling to build sufficient awareness of how things will evolve, and thus the risks—and opportunities—that lie therein. This is not to be confused with overreliance on de-risking; the private sector has appetite and capacity for high risk. Further discussions on the scale and timing of risk sharing will optimize the use of limited public spending and concessional capital.

Adaptation metrics that matter. Adaptation lacks a "north star," a parallel to net zero around which we can all align efforts. Ideally, a global adaptation metric would resonate in the real world, such as reducing child mortality. As we drive towards a unifying adaption metric, regulators, financial actors, insurers, and rating agencies can work together to define cohesive, simple metrics that better measure the effectiveness of adaptation solutions.

Near term actions that could help advance the above solutions include:

- **Map the opportunities:** to help the private sector better identify adaptation and incorporate it into investment and projects.
- **Accelerate technology deployment:** there are public and private benefits to rapidly expanding the use of existing adaption-relevant technology, which will help reduce the severity of future disasters.

- **Create ADASCOs:** An innovation arising from the 1970s energy crisis, Energy Service Companies, or ESCOS, are now used globally to improve operations, financing, and innovation for the energy sector. This same model could now be deployed for adaptation.
- **Expand energy efficiency taxes:** Highly-capacitated municipalities are key, so subnational finance is key. Taxing inefficient buildings is an adaptation/mitigation co-benefit that could also provide an important revenue stream for subnational governments.

PUBLIC FINANCE ARCHITECTURE REFORM

World Bank, and unfolding roadmap to COP28, there are several operating model reforms that can create significant improvements:

Develop country and sector platforms. In order to incentivize investment, MDB finance needs to move away from a project-by-project approach, and toward a coordinated and collaborative country and sector platform approach. This will expand on country platforms and support countries in implementing policy shifts to create an enabling environment for greater domestic and international private capital. Key domestic financial players like central banks, national development banks, finance ministries, and financial regulators need to be included in investment platform discussions, and fiscal integration at a domestic level will be required to better measure domestic spending and push climate action.

Innovative risk sharing instruments can catalyse private capital. To raise the volumes of capital needed, MDBs will have to increase their use of risk sharing instruments to bring in significant volumes of private capital. Scaling up the use of instruments like debt guarantees, domestic capital guarantees, and currency hedging mechanisms can address some of the critical current barriers to mobilizing climate finance, such as the rising cost of capital, exchange rate risks, and need for greater domestic capital mobilization.

MDBs need a business model overhaul. Reworking the internal lending structures at MDBs can create the change needed to effectively implement the suggested instruments and create real economy impacts. This overhaul should include the better standardization of KPIs (moving beyond financial flows to measure real economy or on-ground impacts) and definitions, balance sheet optimization, eligibility frameworks, and improved data sharing and transparency. There is also a need for MDBs to better assess their risk budgets to mobilize private finance and be willing to use private markets to free up liquidity.

CONCLUSION

The **San Giorgio Group** aims to broaden understanding and acceptance of key agendas like "just transition" and "adaptation as an opportunity," and help develop theories of change that prioritize action over analysis and can be measured over time. The initial ideas created on the above topics will hopefully inspire further engagement on frameworks and implementation that drive more sustainable, inclusive economies.

Throughout the meeting, SGG participants identified concrete action points that can be used to accelerate progress on climate action and sustainable development, including with stakeholders not present at the meeting. Utilizing our experience leading the Global Innovation Lab for Climate Finance, the CPI team is looking into creating an SGG solutions accelerator that could be used to further evaluate those ideas and to identify sub-groups that we can collaborate with.

There are several entry points for action, including the spring meetings of the World Bank and IMF, the Macron summit in June 2023, the G20 meeting in September 2023, and the Marrakech annual meeting of the WB and IMF in October 2023. These events provide opportunities to focus on the actions in which we can, and must, all be involved to ramp up progress on sustainable finance.

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