

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

25-26 February, 2015, Island of San Giorgio Maggiore, Venice

A joint 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 25-26 February 2016, Climate Policy Initiative (CPI) hosted the Fifth Meeting of the San Giorgio Group (SGG) in Venice. The SGG brings together financial intermediaries, public, and private institutions interested to share insights about how public policies and private interest can be aligned to catalyze climate-related investment. With the Paris Agreement providing a new political context, the meeting provided an opportunity to explore how to move from the world of diplomacy, toward implementing deals on the ground.

In December 2015, the historic agreement reached at the United Nations Climate Summit in Paris sent a clear signal to governments and businesses to speed up efforts to decarbonize their economies, supply chains and business models. The Paris Agreement came just months after countries finalized new Sustainable Development Goals and together these two events represent a game-changing opportunity to redefine how countries pursue economic growth and engage with each other on climate change.

The keystone of success in Paris was the bottom-up, country-driven pledges to implement Nationally Determined Commitments (NDCs). SGG participants highlighted there are still significant gaps between the ambitions of the climate actions proposed and the goal of limiting global temperature rise to 'well below 2°Celsius', and between the ambition expressed in countries' NDC goals and many countries' capacity to implement them. Much of the focus of SGG discussions was on what could be done to encourage deal flow quickly to ensure scaled up investment.

The Paris outcome framed much of the discussions, and participants agreed that while international agreements send strong political signals, confidence in the technical and economic feasibility of both actions and investments are crucial to success on the ground, and can only be built from experience and practice. Participants pointed to the very significant falls in the incremental costs of clean versus fossil-based technologies over the last 5-10 years that have driven scaled up deployment, particularly of solar and wind in both developed and developing countries. Further cost reductions are likely but more understanding is needed of the how disruptive

technologies will affect existing energy systems, as if left unmanaged, they could harm confidence and even begin to undermine the business case for the scale and pace of investment consistent with a below 2°Celsius world.

The need to build pipelines of projects, and the continued need for limited concessional finance in many countries was also seen as indicative of the challenges that Paris alone could not address. Significant national and international learning has taken place in recent years, and drawing upon the expertise of key financial intermediaries and institutions engaged in green, low-emissions finance, the SGG asked what is needed to move the finance discussion from diplomacy to implementation?

Participants addressed the question from three main perspectives: climate finance tracking, climate finance effectiveness, and the implementation of NDCs. The discussion took place under Chatham House Rules so this overview does not attribute views to specific participants.

TRACKING CLIMATE FINANCE: PROGRESS MADE, PROGRESS NEEDED

In the opening panel, participants highlighted that information about global climate finance in the form of good quality databases and reporting is critical for several reasons. Firstly, the Paris Agreement refers to specific finance targets, and has linked climate finance to the 2°Celsius goal. From a political perspective, it will be important to credibly measure the finance that is flowing. Secondly, investment figures help to illustrate that climate-friendly measures are not marginal, but are instead becoming mainstream investments. Finally, sound data is needed to improve the design of policies and financial instruments and to assess the impact of investments.

Reference was made to [the November 2015 joint OECD / CPI report](#) that made an initial assessment of developed countries' progress towards mobilizing USD 100 billion per year to developing countries by 2020. There was agreement that the report's assessment, while not free from political disagreement, provided a clear methodology

on how the numbers were reached for the first time. Participants agreed that away from the politics of Paris, the report has played a role in satisfying the huge demand from countries to understand how the climate finance landscape has evolved, how different players work in terms of setting up project pipelines and disbursing finance, and best practice in terms of mobilizing increased climate-relevant investment. However, there remain lots of open questions: definitional and methodological questions on what should count towards the USD 100 billion commitment, tracking and data questions on how to harmonize approaches and capture investment flows, evaluation questions on what constitutes green investment, and other underlying accounting issues.

The SGG proposed some concrete measures that could help to bridge the gap between the ambitions expressed in the international negotiations and on-the-ground action:

- **Linking climate finance more closely to development impacts could improve the design and uptake of projects.** At the moment, climate finance is often looked at from a single dimension – the volume flowing. It will be useful (albeit challenging) to add other dimensions, such as jobs created, improvements to energy access, as well as emissions reductions achieved. Performance influences strategy and broadening the metrics and principles for tracking climate finance will help to bridge the political gaps that sometimes make action difficult – particularly for developing countries whose primary commitments are poverty alleviation and economic development.
- **Broadening the networks of actors contributing data and improving communication to make sure both that awareness of definitions, methodologies, and best practice is more widely spread, and that understanding of opportunities is improved.** This is particularly true for developing countries. It will be important to encourage further collaboration between data providers in particular amongst developed and developing countries. This will require reaching out to developing country experts as is planned for the upcoming Biennial Assessment being prepared ahead of this year's negotiations in Marrakesh by the UNFCCC's Standing Committee on Finance. Linking data providers with policy makers will also be critical to bridge the gap between analysis and action.
- **Methodological improvements are urgently needed.** Common principles are lacking on what constitutes adaptation finance, what constitutes mobilized private finance, what the scope is for tracking exercises in different contexts (e.g. whether or not to include south-south flows) and more generally, what constitutes green finance (e.g. criteria for what qualifies as a genuinely green bond).

SCALING UP CLIMATE-RELEVANT INVESTMENT IN CITIES

In two panels on cities and managing climate risk, discussions focused on the intersection between effective (or ineffective) public policy and support and the needs of private investors. In short, what works and what does not?

Cities are increasingly important for addressing climate change. 70% of cities are already dealing with the effects of climate change and nearly all are at risk of future impacts. Over 90% of all urban areas are coastal, putting most cities on Earth at risk of flooding from rising sea levels and powerful storms. Sectors relevant for mitigation such as transport and buildings and many actions to adapt to climate change require action from cities. Importantly, action at the city level also takes account of small communities, who are often neglected at the regional or national levels. The following observations were made:

- **Systemic issues can make raising municipal finance for cleaner, more resilient growth a challenge.** For example, many cities struggle with low credit ratings as a result of low tax collection rates. Even when cities have positive ratings (e.g. AAA) central governments may set caps on how much credit they are allowed to raise. To overcome constraints on access to capital, discussants highlighted that municipalities could be supported to develop financial products that could allow cities to take advantage existing assets (e.g. infrastructure, state owned enterprises) to get climate finance flowing.
- **For donors, DFIs, MDBs, philanthropical foundations or NGOs looking to support cities, providing technical assistance on innovative policies and mitigating risks holding back private investments through risk mitigation instruments can be very effective.** In many cases, these interventions may be more appropriate than providing concessional finance direct to cities, as this can impact their debt levels. An example of an innovative policy was presented, where land taxes were tailored to encourage energy efficiency improvements in buildings.
- **A number of global initiatives are fostering knowledge exchange between municipalities and can help them to move from a project-based approach to a more programmatic target-based approach.** [C40 Cities Climate Leadership Group](#) is an example of such an initiative, and connects more than 80 of the world's largest cities, representing 550+ million people and one quarter of the global economy.
- **Cities face particular energy efficiency challenges that will require innovative financing approaches.** Measures that ensure revenue-neutral payback of energy efficiency savings through taxes linked

to the property could be a good way to make publically-funded energy efficiency investments in buildings where, because of the landlord-tenant relationship, no party has clear incentives to carry them out. Reforming procurement regulation for municipal energy efficiency investments in recognition that these investments are geared towards saving and not spending money could also help.

FINANCE AND VULNERABILITY: HOW TO BETTER MANAGE CLIMATE RISKS

As understanding increases about exposure to climate risk, individuals and countries have three basic options to deal with them: 1) invest in mitigation; 2) transfer risk through instruments such as insurance; or 3) accept the risk that costs may significantly increase in the future.

Agribusinesses and corporations that have begun to recognize the climate change risks in their supply chains and operations can take steps to mitigate these by modifying their business models. However, for impacts already locked in, new approaches to insurance are needed to help align risk in the real economy with risk in the financial economy. Importantly, the low-income individuals in vulnerable countries who are often most at risk from climate impacts are also the most challenging to reach.

The SGG discussed the role of climate risk insurance in terms of climate action and development, and what could be done to encourage more affordable insurance for developing countries. They highlighted:

- **Insurance can help transfer climate risks, helping people feel more secure, resulting in changed behavior.** There is evidence better insurance can increase individuals' appetite to invest in more innovative technologies and measures that in turn improve resilience. However, panelists emphasized that insurance is only part of a broader package of measures that can help build resilience.
- **In fact, investment in up-front mitigation makes economic sense for 40-60% of identified climate-related risks.** Insurance can soak up the 'tail' of weather-related risks that are already present but relatively rare. It was noted, however, that it is only possible for the insurance sector to do this in a 1.5-2°Celsius world where events are relatively predictable: a 4°Celsius world is difficult to insure based on current evidence and practice.
- **There are few incentives for insurance companies to build vulnerable countries' ability to assess and mitigate the risks they face.** Insurance companies that take the initiative to assist countries in quantifying climate risks and that

educate them on how insurance can help are often subsequently excluded from providing insurance due to procurement procedures. Development Finance Institutions are among those helping to overcome this through use of open source models for assessing climate risks rather than strict reliance upon proprietary ones, but the question of which organizations carry out the capacity building necessary to enable countries to use the models remains.

- **Individual developing countries are often unable to access insurance but regional approaches can help.** Regional approaches enable the roll out climate risk insurance and increase access as they can offer lower premiums due to diversification across countries. [The African Risk Capacity Insurance Company](#) seems to offer a promising example of how public money can be used to kick start such an approach.

THE ROLE OF INNOVATIVE FINANCIAL INSTRUMENTS, FINANCIAL REGULATION, AND MONETARY POLICY IN DRIVING INVESTMENT IN NDCs

Nationally Determined Contributions (NDCs) were a key outcome of the Paris COP 21. Maintaining momentum post-Paris will require a speedy translation of these national plans into policy frameworks while identifying the most effective ways to align public and private money to finance the low-carbon transition. The SGG discussed how countries could be supported to improve the credibility of their NDCs and ultimately turn them into 'investment plans'. Discussants explored a number of options:

- **Building platforms to share and accelerate the implementation of best practices.** To effectively implement NDCs, we need to build on what has been learned over the past years particularly in private and quasi-private sector backed by strong public engagement. The SGG noted that [The Global Innovation Lab for Climate Finance](#) is a good example of how to promote effective public-private partnerships and develop innovative financial instruments. By drawing on public and private expertise, The Lab builds trust, making it easier for initiatives to move from design to implementation within months rather than years - a critical attribute for private actors.
- **Tailored approaches to securitization will be key to mobilizing private investment at scale across all markets.** It will be important to match risks and rewards with bespoke policies and finance structures to harness opportunities within the

current macro-economic climate. Securitization through instruments such as YieldCos, green bonds and Asset Backed Securities (ABS) can engage the private sector. ABS are successful and attractive in the US for tax reasons, and YieldCos' aggregation of the cash flows from renewable energy assets is appealing to equity investors, but further efforts are needed to generate an adequate deal flow and to de-risk investments. The key will be standardizing regulatory approaches to different climate-relevant projects to enable the aggregation of such assets into these financial vehicles. This will provide the liquidity that private investors need through the size of issuance and secondary markets. In terms of transformative impact, efforts to ensure that underlying assets are genuinely climate-relevant may well be the key to increasing meaningful climate action.

- **When looking at capital markets, disclosure of climate risks is important to educate investors and reward those companies that are doing more to mitigate their impact and the risks to their supply chains, but it will not be a game changer.**

There is already a lot of information out there. We can already make much better projections on how our climate will change and what the impacts of that change will be than we can about movements in the capital markets, for instance.

- **In developed countries, in particular the EU and USA, there is a need to explore the sectoral biases of monetary policy to see if climate considerations are fairly integrated.** Monetary policy has not really entered the climate change debate but it may be time for it to do so. Central banks are creating a lot of new money and, while they claim to be sector neutral, often they are not. Refinancing operations have not necessarily been sector neutral, and thus are worthy of discussion.

CONCLUSIONS

In order to limit climate change to 2°Celsius or below, economic systems need to be transformed. In the short term, transitions in energy and land use will need to be undertaken in the context of a deflationary macroeconomic outlook that is stalling infrastructure investment. Thinking beyond the immediate climate change lens will help to ensure that the momentum generated in the negotiation space can fuel smarter action on the ground that leads to real policies, real price signals, and real, commercial deal flow. Careful consideration will be necessary to maximize the benefits and minimize the costs of transition, including costs resulting from failing to accommodate new disruptive business models. While many countries stand to benefit, there will be some losers. Minimizing stranded assets – the financial value trapped in fossil fuels – is prudent given the investment needs and in particular because this value mostly belongs to governments or state-owned entities.

The SGG group will continue to take stock of practical measures that can accelerate implementation of low-carbon and climate-resilient actions. Participants recalled the main objective of the SGG, i.e. to understand how public resources and policies are used most effectively to drive green investment, particularly by aligning public and private capital. They called upon the SGG group to focus on knowledge-sharing and innovating based on what works, to share how to address common challenges and shorten the learning curve from the evidence base to implementation. In this context, more voices from the developing world are essential. Achieving increased ambition is a race against the clock, and it will be critical to deliver successes quickly, to ensure the political will remains in place to drive action on the ground.