

G F A N Z

Actions to Mobilize Capital to Emerging Markets and Developing Economies



GFANZ

Glasgow Financial Alliance for Net Zero

Acknowledgments

The GFANZ Secretariat has published this report on behalf of the GFANZ Workstream on Mobilizing Capital to Emerging Markets and Developing Economies. GFANZ's Leadership believes this work product to be the result of a consensus on the major issues presented in this report among the member organizations represented on the workstream. This report was developed by the Workstream on Mobilizing Capital to Emerging Markets & Developing Economies. The Statement from the GFANZ Principals Group was consensus-endorsed by the GFANZ Principals Group with review by the Steering Group, and input from the Advisory Panel, as outlined in the GFANZ Terms of Reference. This does not imply that every finding included herein is endorsed by every GFANZ sector-specific alliance member firm, including the firms represented on the Principals Group. The workstream was supported by the GFANZ Secretariat. Pollination Group provided knowledge and advisory support.

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Members of the seven financial sector-specific net-zero alliances comprising GFANZ have signed up to the ambitious commitments of their respective sector-specific alliances and are not automatically expected to adopt the principles and frameworks communicated within this report, although we expect all members to increase their ambition over time, so long as it is consistent with members’ fiduciary and contractual duties and applicable laws and regulations, including securities, banking and antitrust laws.

Statement from the GFANZ Principals Group

Achieving net zero requires a truly global, whole-economy transition. The transition of emerging markets and developing economies (EM&DEs) is critical to achieving global climate goals. Estimates indicate that by the end of the decade an additional US\$ 1 trillion per annum will be required for clean energy investment in EM&DEs alone to put the world on track to reach net zero by 2050.¹ Despite this, there has been insufficient momentum in mobilizing climate finance to support their just transition to economies with clean, affordable, and accessible energy.

New BloombergNEF research commissioned by GFANZ, [Mobilizing Capital into Emerging Markets and Developing Economies](#), explores the current state of energy transition investment in order to better understand and address the challenges and opportunities of mobilizing capital to support EM&DE transition. Positively, domestic investment into renewable energy plants in EM&DEs has increased 19% in 2020-2021, reaching new highs and recording the largest increase since 2015. Overall, renewable energy investment in EM&DEs increased 40% in 2017-21 compared with 2012-2016, but much more is needed. The overall picture, including international flows, has been less positive in recent years; energy transition asset finance in EM&DEs remained flat in 2021 at \$67 billion, the same level as in 2019 and a marginal decline from the \$73 billion peak reached in 2018. The impact of the pandemic explains some of this stagnation, but energy transition investment in developed nations has recovered and grew 24% year-on-year in 2021 — the climate finance mobilization gap is widening.²

GFANZ will continue to work with stakeholders to create the right conditions for increased investment, as outlined in the [2021 Mobilisation Statement of Support](#).

To increase renewable energy investments in EM&DEs to the scale required, while bolstering investments in sustainable industry, transport, land use, and adaptation, we need to strengthen global efforts, build stronger partnerships, support the development of public sector risk-sharing mechanisms for blended finance, and grow high integrity voluntary carbon markets to mobilize more private capital. Private finance cannot substitute for public finance, and it cannot flow in the absence of public policies that support the creation of an investible pipeline of projects. Where these conditions exist, there has been progress. Our shared objective is to help replicate these conditions more broadly to drive the scale of investment required and deliver a just transition. That is why GFANZ is working to drive progress in the following critical areas:

- **Data and transparency:** improving the tracking and understanding of financial flows supporting EM&DE climate transitions and the enabling environment actions that influence them, notably through a GFANZ-commissioned report on [Mobilizing Capital into Emerging Markets and Developing Economies](#), authored by BloombergNEF.

¹ Reflects clean energy investment needed by the end of the decade if the world is to meet net zero by 2050. The data does not include statistics from China. Source: Financing clean energy transitions in emerging and developing economies, IEA, 2021.

² BloombergNEF, [Mobilizing Capital into Emerging Markets and Developing Economies](#), 2022. Data does not include statistics from China.

- **Support for EM&DE transition:** providing support for EM&DE implementation of climate-related practices and standards, with significant opportunity to leverage the GFANZ Africa and Asia Pacific regional networks launched in 2022 to enhance appropriate knowledge sharing and capacity building.
- **Investment:** working to increase the mobilization of finance to accelerate the transition of key sectors and deployment of climate solutions in EM&DEs, through greater public-private collaboration in country-focused financing. GFANZ published the [Private Sector Statement on the Potential for Country Platforms to Mobilize Capital for Net-Zero Transition in EM&DEs](#) and has convened private finance working groups in support of the Indonesia and Viet Nam Just Energy Transition Partnership (JETPs) and the Nexus of Water, Food, and Energy (NWFE) Country Platform in Egypt. GFANZ has also endorsed the [Climate Finance Leadership Initiative](#) (CFLI) on country pilots to drive locally tailored climate action in support of Nationally Determined Contributions (NDCs) in India and Colombia. GFANZ continues to support other catalytic initiatives that have the potential to unlock and scale greater investment in EM&DE climate ambitions.³

Across all of these areas of activity a strong partnership with governments, Multilateral Development Banks (MDBs), Development Financial Institutions (DFIs), and philanthropies will be required, with efforts geared to creating an international financial architecture that more effectively mobilizes capital for EM&DEs. We will continue to engage with all stakeholders to identify, promote, and implement the changes and mechanisms needed to unlock financial flows, including the development of public sector risk-sharing mechanisms and the rapid scaling of blended finance.⁴

A more detailed overview of the workstream's 2022 activities is included in the following section. We will continue to enhance and build on these efforts in the year to come.

³ In 2021, the GFANZ Principals Group endorsed five catalytic initiatives: CFLI; FAST-Infra; Global Energy Alliance for People and Planet (GEAPP); Innovative Finance for the Amazon, Cerrado and Chaco (IFACC); and MOBILIST.

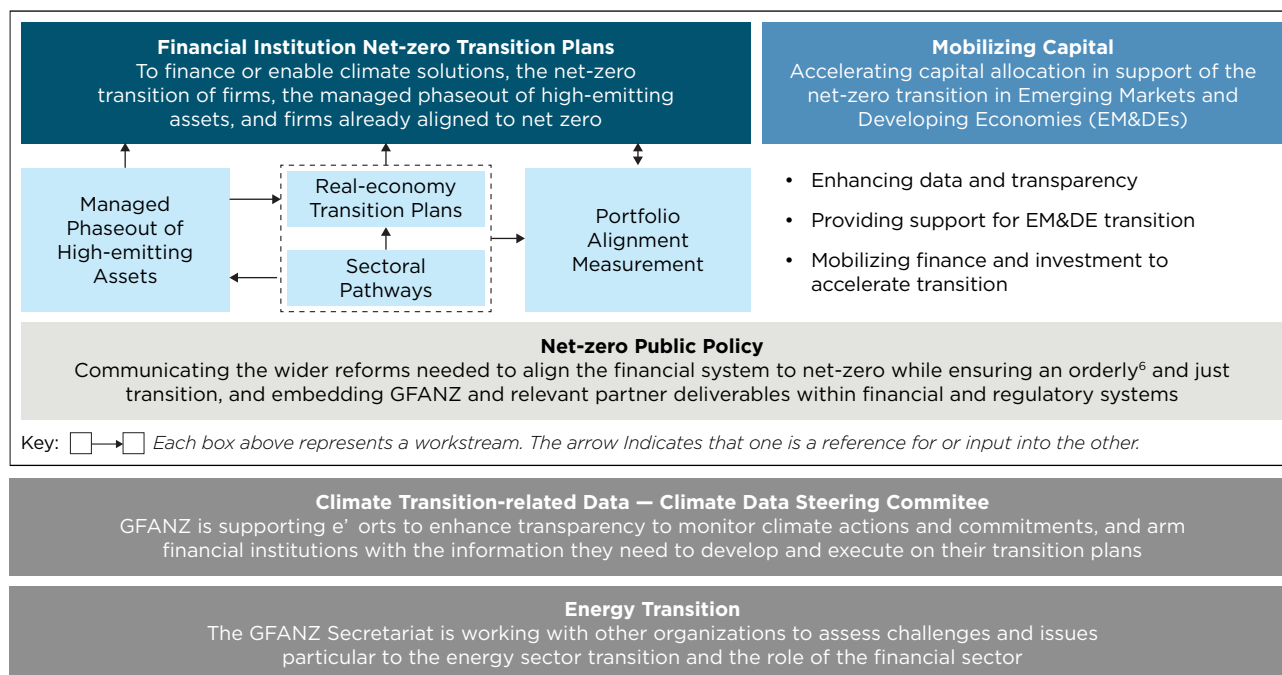
⁴ For additional details on GFANZ policy advocacy work, please refer to the [2022 Call to Action: One Year On](#).

Background on GFANZ work program

GFANZ is a global coalition of seven sector-specific alliances, representing over 550 signatories across more than 50 jurisdictions, who have voluntarily made ambitious science-based, sector-specific commitments, in support of net zero.⁵ GFANZ’s core areas of work are practitioner-led and advised by leading technical and civil society organizations.

In 2022, GFANZ created new regional networks in Africa and Asia Pacific. A Latin America network will be launched in early 2023. This reflects the important role played by financial institutions based in EM&DEs and will help address the specific challenges facing those institutions in the transition to a net-zero global economy.

Figure 1: GFANZ 2022 Work Program



5 As of November 2022. The seven sector-specific alliances are the Net Zero Asset Managers initiative (NZAM), the Net-Zero Asset Owner Alliance (NZAOA), the Net-Zero Banking Alliance (NZBA), the Net-Zero Insurance Alliance (NZIA), the Net Zero Financial Service Providers Alliance (NZFSPA), the Net Zero Investment Consultants Initiative (NZICI), and the Paris Aligned Asset Owners (PAAO). GFANZ acts as a forum for addressing pan-financial sector challenges associated with the net-zero transition, helping to support high levels of ambition and credible action.

6 GFANZ uses the term “orderly transition” to refer to a net-zero transition in which both private sector action and public policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines “orderly scenarios” as those with “early, ambitious action to a net-zero GHG emissions economy,” as opposed to disorderly scenarios (with “action that is late, disruptive, sudden and/or unanticipated”). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved. This explanation applies to all mentions of the term “orderly transition” in this document.

Mobilization workstream progress update

The GFANZ Workstream on Mobilizing Capital to EM&DEs is committed to accelerating capital allocation in support of net-zero transition in EM&DEs through private-sector leadership and public-private collaboration. Despite the challenging macroeconomic and geopolitical backdrop of 2022, we have made progress on our work program in three critical areas: **data and transparency; support for EM&DE transition; and investment.**

1. Data and transparency: improving the tracking of climate financial flows across EM&DEs

Mobilizing public- and private-sector stakeholders to help create the enabling conditions to accelerate investment into the transition of EM&DEs requires an understanding of current investment flows, the different potential sources of capital, and the business models and policies that create enabling environments to unlock them. Insufficient data availability on net zero-aligned financial flows is a global challenge that is even more acute in EM&DEs.

GFANZ commissioned BloombergNEF to produce a report to better understand energy transition investments across EM&DEs and establish an analytical foundation for future work, [Mobilizing Capital into Emerging Markets and Developing Economies](#), released alongside this publication. The report provides a detailed review of recent energy transition investment trends across EM&DEs and highlights enabling environment success stories that have unlocked significant private investment, as well as the many barriers that continue to impede progress. The report reveals that total energy transition asset finance reached just \$67 billion in 2021 across EM&DEs, the lowest level since 2017 and far short of the International Energy Agency's estimated \$1 trillion of annual investment needed by 2030 to put the world on track to reach net-zero emissions by 2050.⁷ The data underlines the importance of the work needed to be done by all actors, including GFANZ members, to scale and accelerate capital flows to support EM&DEs' transition.

The report builds on existing work tracking sustainable finance flows by the International Energy Agency, Organisation for Economic Co-operation and Development, Institute of International Finance, the Climate Policy Initiative, and others.

While the report focuses on energy transition investment trends, the net-zero transition requires significant additional investment beyond clean energy. Tracking investments in sectors such as land use or adaptation remains challenging, and the required data is lacking. GFANZ recognizes the importance of broadening sector and theme coverage and is committed to engage with all stakeholders to improve the reporting and appropriate disclosure of climate-relevant financial sector activity across EM&DEs in the future.

⁷ BloombergNEF, [Mobilizing Capital into Emerging Markets and Developing Economies](#), 2022. Data does not include statistics from China.

To help provide key sources of transition-related data, GFANZ supported the launch of a new [Climate Data Steering Committee](#) to bring together international organizations, regulators, policymakers, and data service providers to advise on the creation and design of an open data utility for climate transition-related data.⁸ The Climate Data Steering Committee released [Draft Recommendations for the Development of the Net-zero Data Public Utility](#) in September 2022 for public consultation; final recommendations and guidance are scheduled for publication ahead of COP27. This public utility will enhance efforts to track progress and promote credibility of commitments.

2. Support for EM&DE transition: increasing engagement with EM&DE FIs, clients, and portfolio companies to accelerate their transition pathways where achievable

As highlighted in the GFANZ [Financial Institution Net-zero Transition Plans](#) report, engagement with clients and portfolio companies is critical to GFANZ's efforts to drive the net-zero transition in the real economy. Given their roles as trusted providers of capital, insurance, and other financial services, or as owners of companies, financial institutions can support the transition to net zero by using their expertise with a wide range of real-economy stakeholders. Engagement is even more important for financial institutions with significant EM&DE footprints, as they often face the constraints of a lack of an enabling environment and disclosure, and should take into consideration that transition pathways will inevitably look different for companies operating in countries going through an extended period of rapid population and economic growth.

In this context, EM&DE financial institutions are on the frontline of enabling the decarbonization in their home markets as funders of businesses and assets, but also as potential intermediaries that can channel international sustainable finance flows into their economies and enable a just transition. EM&DE financial institutions have invaluable local knowledge and insights into the nuanced and specific requirements of the real economy in their country, as well as the unique challenges local firms face navigating growth while limiting GHG emissions.

EM&DEs are heterogeneous, and their financial sectors are similarly diverse across maturity, structure, regulation, and sectoral exposure. GFANZ conducted a consultation with EM&DE-based financial institutions, non-EM&DE-based financial institutions with significant interest in the markets, MDBs, think tanks, and aid agencies to ensure that our work on net zero is inclusive, applicable, and universally relevant. The consultation results highlighted the urgent need for assistance with the adoption and implementation of financial sector climate commitments, in part to help EM&DEs retain and grow their access to international finance as global climate-related financing standards take hold.

To that end, and building on its commitment outlined at COP26, this year GFANZ launched regional networks in Africa and Asia Pacific to enable appropriate mutual knowledge-sharing and open dialogue on the implementation of financial sector climate commitments, and the opportunities and challenges they create. These regional networks are led by in-country staff and supported by Advisory Boards composed of leading experts on climate finance from public, private, and civil society sectors in the region. These networks will help ensure that the perspectives, expertise, and diverse needs of firms and actors across each region are embedded in GFANZ work.

⁸ GFANZ. [French President Emmanuel Macron and UN Secretary General's Special Envoy for Climate Ambition and Solutions Michael R. Bloomberg Announce a Climate Data Steering Committee to advise how to Capture and Create Open, Centralized Climate Data to Accelerate the Transition Towards a Resilient, Net Zero Global Economy](#), June 3, 2022.

From 2023 onward, leveraging the regional networks, GFANZ is committed to launching a work program to help EM&DE stakeholders by:

1. Supporting EM&DE application of GFANZ materials and related climate practices and standards needed to support net-zero transition, including by outreach, workshops, and training with EM&DE financial institutions;
2. Assembling a coalition of partners across international organizations, development financial institutions, philanthropies, and other relevant organizations to provide capacity building, technical assistance funding, and training in support of net-zero transition in EM&DEs; and
3. Learning from EM&DE financial institutions' experiences and perspectives to inform GFANZ guidance, recommendations, and other outputs, as well as ongoing engagement.

3. Investment: increasing international financial flows to EM&DEs

Creating investment-friendly business environments and strong pipelines of bankable net zero-aligned projects requires an approach tailored to each country and sector, as each market has its own diverse economic, legal, political, and financial circumstances. GFANZ supports efforts by countries, donors, and multilaterals to explore and expand targeted, country-level public-private collaboration to strengthen enabling environments and efficiently deliver public finance to create markets, mobilize private capital, and ensure a just transition.

An unprecedented level of multilateral collaboration will be required to mobilize the scale of capital required for 1.5 degrees C-aligned projects. The JETPs and other ambitious, well-funded country platforms have the potential to accelerate development of net zero-aligned project pipelines to mobilize commercial investors and scale capital flows to finance NDCs. In July 2022, GFANZ articulated support and recommendations for potential JETPs and country platforms in the [Private Sector Statement on the Potential for Country Platforms to Mobilize Capital for Net-Zero Transition in EM&DEs](#), which provides a private-sector perspective on the elements of country platforms that, if adopted, could help create the conditions to crowd in private finance. It also sets out how the private sector could support collective efforts. GFANZ is committed to working with policymakers to create a new financial architecture that when combined with the right enabling environments in recipient countries, along with innovative and efficient blending of public and private capital, can transform the current billions of financing into the trillions needed to enable countries to deliver on their Paris commitments.

In support of the Indonesia and Viet Nam JETPs, GFANZ has played a key role in convening private finance actors to identify the barriers to crowding in private finance and the necessary elements of an enabling environment.

GFANZ is also working with Egypt to support their NWFE country platform, drawing on the insights and recommendations from the country platform statement. The success of NWFE could provide a useful example for other EM&DEs who want to build on this approach.

Aligned with GFANZ's commitment to driving locally tailored climate action in support of NDCs, GFANZ has endorsed the [CFLI](#), which brings together leading institutions across the financial value chain, working alongside corporates, policymakers, and multilateral institutions, to identify barriers to investment and support solutions that accelerate financing for low-carbon and climate-resilient projects in emerging markets.

Since its launch in September 2021, CFLI India has convened ten leading domestic and international financial institutions and corporates to develop catalytic financing concepts and policy considerations within a select group of sectors that are key to advancing India's NDCs. CFLI Colombia, launched in April 2022, has already assembled 12 domestic and international financial institutions and corporates and developed 22 financing and policy concepts around four key sectors.

To support initiatives that mobilize capital to climate solutions in EM&DEs, in 2021, GFANZ endorsed a set of catalytic initiatives, which GFANZ or GFANZ members have engaged with to move forward common climate objectives. The catalytic initiatives include:

- **FAST-Infra:** a collaboration and knowledge platform for developing solutions to build EM infrastructure as an asset class. Investment opportunities have been proposed via two proposed de-risking mechanisms, the Global Revenue Guarantee and Sustainable Infrastructure Warehousing Financing Facility. This year they have launched the [FAST-Infra](#) label, a labeling system for sustainable infrastructure, including underlying standards, reporting requirements, terms of award, and governance;
- **Global Energy Alliance for People & Planet (GEAPP):** a collaborative international platform to support developing countries' shift to a clean energy, pro-growth model that ensures universal energy access and unlocks a new era of inclusive economic growth, while enabling the global community to meet critical climate goals during the next decade;
- **Innovative Finance for the Amazon, Cerrado, and Chaco (IFACC):** an initiative with \$4.2 billion of commitments to lending and investment mechanisms for deforestation-and-conversion-free soy and cattle production in South America, to be disbursed by 2025; and,
- **MOBILIST:** a program to support investment solutions that help deliver the UN Sustainable Development Goals and the net-zero transition.

Throughout the year, GFANZ has engaged with MDBs and DFIs who are critical to establishing an international financial architecture that more effectively mobilizes capital for EM&DEs. As highlighted in the [G20 report on boosting MDBs' investing capacity](#), success in areas such as increasing MDB/DFI institutional risk tolerance and financing capacity and scaling the use of guarantees and originate-to-distribute models would support the systemic change required to crowd in private finance.

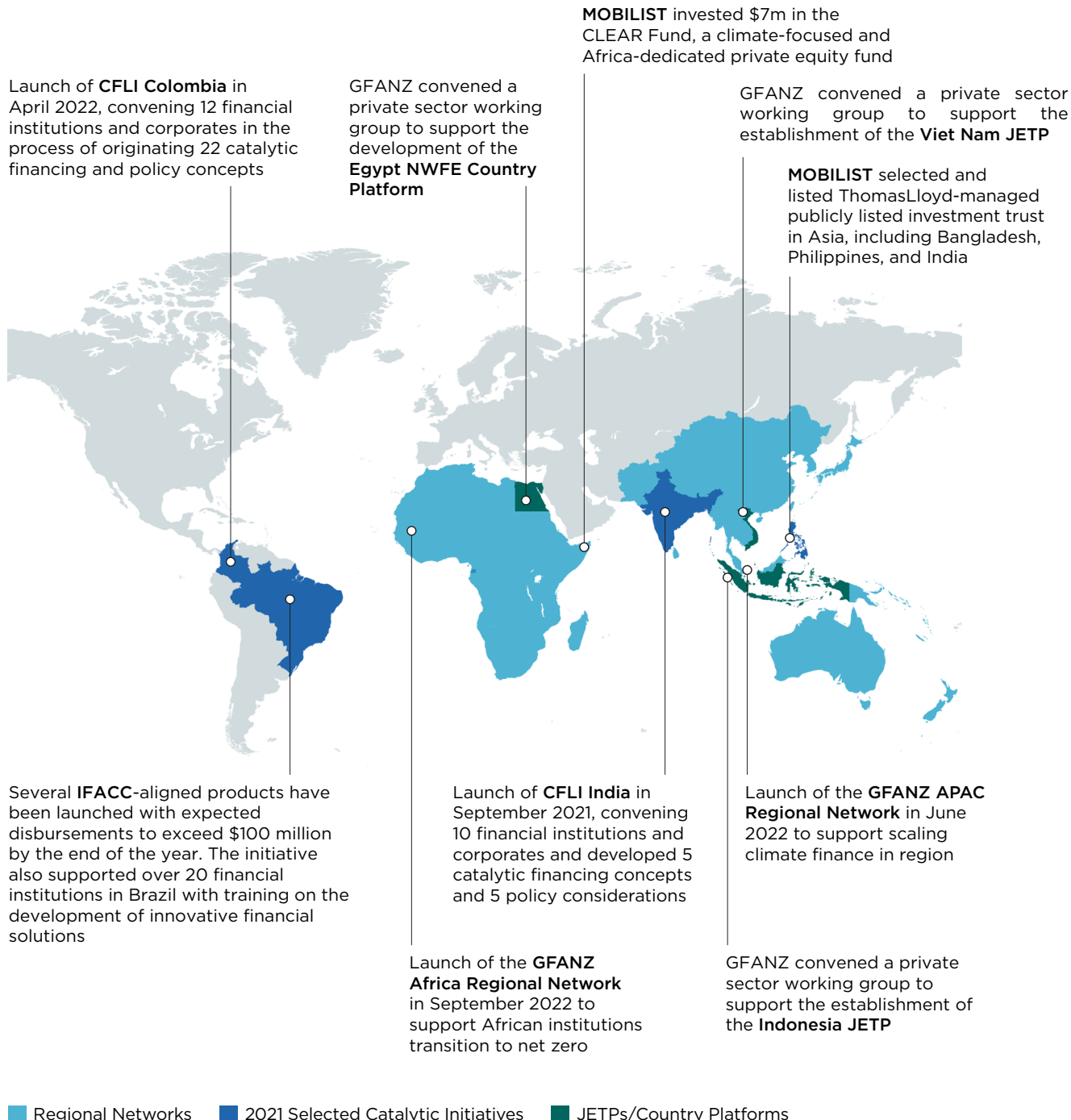
Blended finance, the use of concessional capital to crowd in additional commercial capital and private financing, is a powerful tool to increase investment that could be further scaled with policy action and MDB/DFI reform. The Net-Zero Asset Owner Alliance has done extensive work on blended finance, including recently publishing a "[Call on Policymakers to support Scaling Blended Finance](#)".

In the future, GFANZ will also focus increasingly on the significant potential for EM&DEs to leverage the voluntary carbon markets to attract more climate finance for critical investments in nature-based solutions and the energy transition, including through GFANZ support for country platforms. Financial institutions can support the development of robust EM&DE carbon markets and supply of high-integrity carbon credits through purchasing and brokering credits, financing projects, or engaging with clients and portfolio companies. Financial institutions can also play a role in structuring transactions such that they generate carbon credits, thus enhancing the transaction economics and unlocking the bankability of projects, particularly in EM&DEs. Realizing the significant potential here depends on key structural developments as the carbon market matures, not least enhancing the integrity of the market through supply and demand-side standards. As highlighted in the GFANZ [Call to Action: One Year On](#), GFANZ welcomes efforts such as those of the Integrity Council for Voluntary Carbon Markets (IC-VCM) and the Voluntary Carbon Market Initiative (VCMI) to establish standards on the supply and demand-side respectively.

Figure 2: Highlighting global initiatives

Global Initiatives:

- **FAST-Infra** launched their Sustainable Infrastructure (SI) Label for projects demonstrating significant positive sustainability performance. FAST-Infra has now chosen a consortium comprising of two world leading institutions as the SI Label Secretariat and Data Repository. They will help move the SI Label from endorsement to application and support the global proliferation of the Label. An announcement will be made shortly.
- **GEAPP** is an alliance of 18+ public and private sector partners, in 2022 supporting 12 developing countries on their energy access and transition projects and programs.



The road ahead

GFANZ will continue to support a program of activity aligned to mobilizing capital for the EM&DE transition. The program set out here will continue to be a priority, and the workstream will supplement it with other targeted opportunities where GFANZ can be additional and make a positive contribution.

Many of the efforts that GFANZ has undertaken in 2022, such as the JETPs, NWFE, and development of the GFANZ regional networks, are ongoing initiatives that will continue in the coming years. We are hopeful that insights from our work around the JETPs and country platforms will both enhance our [Private Sector Statement on the Potential for Country Platforms to Mobilize Capital for Net-Zero Transition in EM&DEs](#) and serve as a model for replication of country-led net-zero platforms across EM&DEs.

Finally, we recognize the importance of constructive engagement and collaboration across the public and private sectors to effectively mobilize capital. We will look to build on our existing engagement efforts with MDBs, DFIs, and other actors to identify, promote, and implement the changes and mechanisms needed to unlock financial flows.

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