

# Financial Innovation for Climate Investment and Development

IDB Keynote

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Thank you to Ilan and the IDB for hosting this event.

And thanks to our host country for your generous hospitality and ambitious agendas to accelerate Brazil's net-zero transition while putting nature at the centre of global efforts.

Your impact is already being felt, notably through your step-change in protection of the Amazon.<sup>1</sup> And your drive is reinforcing the momentum created by COP28, whose commitments, if implemented, could yield up to one third of the emissions reductions the world requires by 2030 to get on track for 1.5 degrees.<sup>2</sup>

But while the emissions curve is beginning to bend, much more will be needed to reach climate justice. That will require financial innovation—the topic of this gathering. If we can get this right, the whole will be more than the sum of its parts, and together we can build the sustainable, inclusive economies that our citizens deserve.

## THREE GAPS

Financial innovation starts with closing three gaps: on data, action plans, and investment.

**First, to close the climate data gap** through consistent, comprehensive, and decision-useful climate disclosure, Mike Bloomberg and I launched the voluntary, private-sector TCFD at the Paris COP eight years ago. Two years ago, in Glasgow, after the voluntary approach had been taken as far as it could go, over 40 countries launched the International Sustainability Standards Board (ISSB) to develop an official standard that could be applied globally. The ISSB agreed its final climate disclosure standard in record time. It has now been endorsed by IOSCO, and its implementation has begun in some countries—most notably Brazil.

**It's now time for all G20 countries to finish the job by committing to and implementing the ISSB standards (or their equivalent).**

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<sup>1</sup> <https://www.bbc.co.uk/news/world-latin-america-67962297>

<sup>2</sup> [Energy Transitions Commission](#), COP28: A High-Level Assessment of Mitigation Proposals

That disclosure must be broadly available so that every stakeholder has free access to the emissions data of companies, their targets for reducing emissions, and their performance against those targets. To that end, another innovation, **the Net Zero Data Public Utility (NZDPU)** launched its proof-of-concept at COP28 in Dubai.

Several jurisdictions are already partnering with the NZDPU, and this year, the G20 can accelerate progress by consolidating around the NZDPU as the open global repository of foundational climate transition-related data.

**Second**, while disclosure defines the problem, **action plans** are needed to fix it. Every country, city, company, and financial institution needs a credible, science-aligned net-zero transition plan to fulfil their commitments.

GFANZ is helping mainstream this imperative. This year, over 250 major financial institutions will set out their transition plans. Policymakers in the US, the EU, Britain, Japan, Hong Kong, and Singapore are already recommending others follow.

Given the lateness of the planetary hour, we cannot wait a decade for transition plans to become mandatory as we did for climate disclosure. **The G20 should act by mandating transition plans for large companies and financial institutions.**

In parallel, every country needs a transition plan that details how they are going to achieve net-zero with the policies to drive action across sectors, and with regular assessments of progress and major gaps. With the *Ecological Transformation Plan* and the *Nova Indústria Brasil*, Brazil is setting the new standard.

As *Nova Indústria* recognises, these plans must include financing heavy-emitting companies that are intent on decarbonising. That's why GFANZ has developed transition finance guidance that includes financing the decarbonisation of heavy industry and, if that is not possible, the managed phase out of stranded assets, particularly in EMDEs.

**The G20 should adopt this approach in their taxonomies for transition finance.**

Already, the Singapore-Asia Taxonomy includes coal phaseout criteria, the Japanese government has set out guidance on transition finance<sup>3</sup>, and Secretary Yellen's Principles for Net Zero Finance and Investment recommends that net zero-committed financial

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<sup>3</sup> [Japan](#) has set out guidelines for Green Transformation (GX) to support issuance of GX bonds.

institutions apply these four finance strategies consistent with the GFANZ recommendations.

Moreover, to maximise impact on the climate, all transition financing should be complemented by estimates of their impact on emissions reductions. This will encourage financial institutions to support investments in major emissions reductions rather than crowding into low-emitting software companies or simply divesting their way towards net zero. After all, the climate's fate depends on what happens on the planet, not on paper.

Brazil can encourage the G20 to deliver—not just discuss—the fundamentals of climate finance—disclosure, transition planning, and transition taxonomies.

**The third gap** that we must close is the **investment gap**.

**To do so, the rapid growth of clean-energy investment must continue.** Global clean-energy investment has grown over 40% since 2020, to \$1.8 trillion, is now almost twice the level of fossil fuel investment. This pace must be sustained so that clean energy investment reaches \$4.5 trillion a year in the 2030s.

There are reasons for optimism. Over the past two decades, wind and solar are the fastest-growing sources of electricity in history. And battery deployment has been growing even faster over the last eight years.<sup>4</sup>

At COP28 countries agreed to “transition away from fossil fuels” and committed to treble global renewable energy capacity and double annual energy efficiency by 2030.

But clean energy won't be enough. **The world won't get to net zero unless heavy-emitting industries also make their contributions.** These industries generate a third of global emissions<sup>5</sup>, and based on current trajectories those emissions will rise by over 30% by 2050—putting the world's climate goals out of reach.<sup>6</sup>

The challenges to decarbonising heavy-emitting industries are legion. They are hard to electrify. Reducing emissions requires building new low-carbon manufacturing facilities,

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<sup>4</sup> In 2015, some 36GWh of lithium-ion batteries were produced; last year the total was around 1TWh.

<sup>5</sup> ITA Secretariat calculations. Scope 1 & 2 emissions of steel (3.6Gt), aluminium (0.9Gt), cement (2.5Gt), chemicals (1.8Gt), aviation (0.8Gt), shipping (0.9Gt) and oil & gas (5.1Gt) totalling 15.6Gt - 27% of total GHG emissions (57.4Gt, UNEP Emissions Gap Report) and 38% of energy and industrial process emissions (41.3Gt, MPP calculated from IEA)

<sup>6</sup> IPCC, Special Report on Global Warming of 1.5C (2018)

developing sustainable fuels and green hydrogen, and pursuing carbon-capture and storage. Many of these technologies are nascent. All are uneconomic at small scale. Regulatory barriers often skew incentives. And given the interconnections, slow progress in one sector delays action in another.

As a result, many companies are caught in transition traps. They know what they need to do but struggle to get financing to cut emissions meaningfully. Without clear paths forward, investors are demanding the return of cashflows today rather than encouraging companies to invest them for a low-carbon tomorrow. Reducing emissions requires building new low-carbon manufacturing facilities, developing sustainable fuels and green hydrogen, and pursuing carbon-capture and storage. For all this, heavy emitters need finance—a lot of it.

To tackle these challenges, the UAE COP Presidency and UN launched the Industrial Transition Accelerator (ITA), which I co-chair with Mike Bloomberg, Sultan Al-Jaber and Simon Steil. Already, 1,300 companies, representing almost 20% of global emission, are members of ITA partner organisations.

The ITA will spring the transition traps for high-emitting sectors by bringing together the leadership across industry, finance, and governments to overcome the challenges of decarbonisation in six sectors— aluminium, cement, chemicals, steel, aviation, and shipping – and their energy supply chain. We will focus on green demand, value chain orchestration, integrating new energy sources, and driving green industrial policies to attract transition finance on the huge scale required.

**To invest in a truly global transition, we need radical reform of the international financial system.**

The world has been caught in a Paradox of Prudence in which international financial institutions are micro-prudentially sound by minimising project-specific risks but macro-prudentially foolish by fostering the existential risk of climate change. It bears remembering that climate change is the ultimate systemic risk from which no institution, including MDBs, can diversify. There will be no AAA ratings if there is no planet.

An example of what is possible was provided in Dubai. To support the transition in the emerging world, the UAE launched the innovative \$30 billion catalytic climate fund ALTERRA, with an ambition to mobilize \$250 billion by 2030 from private and institutional investors. With its unique capped return structure, ALTERRA challenges all of us—MDBs,

philanthropies and private capital—to maximise total climate financing to emerging markets by creatively combining first loss structures, guarantees, FX hedging and securitisation.

This starts with getting incentives right. MDBs should use all their capacities – operational, financial, and technical – to maximise total financing to address climate change. **G20 countries as the main shareholders should adopt as their Key Performance Indicators the total impact of MDB actions rather than narrow measures of balance sheet exposures.**

Maximising total impact will require much greater and more effective use of guarantees, insurance, and blended finance. I'm pleased that our leaders are responding with facilities such as the IMF's Resilience and Sustainability Trust and the IDB's innovative foreign exchange facility with Brazil that was announced this week to support large-scale investment in decarbonisation.

Under Ajay Banga's leadership, the World Bank has created a Private Sector Investment Lab that brings together Bank leadership, private sector CEOs, and key stakeholders. As today's announcement on guarantees demonstrates, the Bank is stepping up with measures to catalyse significantly more *total finance*.<sup>7</sup>

There is potential for more to come, including the greater use of an originate-to-distribute model to crowd in institutional capital; possible facilities to manage foreign exchange risk; an expanded role of the World Bank, the IDB in country platforms, such as the Climate Transition Platform that GFANZ has just launched with BNDES.

This last point underscores that beyond their financial capabilities, MDBs should leverage fully their unmatched technical expertise and credibility. For example, MDBs can help address barriers to scaling private investment such as inadequate country-level investment roadmaps, and the uncertainties around whether investments can be considered transition-aligned.

It is highly welcome that Brazil is pushing the G20 to complete urgent reforms of the international financial system. Just as important is the recognition—at the top table—that new instruments and facilities must be more than the sum of their parts. For example, the decommissioning of (new) coal plants in Asia will not be feasible without the combination

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<sup>7</sup> [World Bank](#) Group Prepares Major Overhaul to Guarantee Business

of blended finance, *and* critically, Energy Transition Credits centred in high integrity VCMs. That is the brutal math of what it takes to address over \$4 trillion of stranded assets. And it will be the reality if we want to address nature-based solutions at scale.

That's why now is the time for the G20 to grasp the nettle to create global Voluntary Carbon Markets (VCMs). For too long, the COP process engaged in esoteric debates while, literally, the world burns. VCMs can provide hundreds of billions of dollars of annual cross-border capital flows to emerging markets. Most companies making net-zero commitments are in advanced economies, and the most efficient emission reduction projects will be in emerging and developing economies. VCMs can play important roles in retiring high-emitting assets and preventing new coal generation. And voluntary carbon markets can create significant financing for biodiversity and indigenous peoples.

To fulfil these roles authorities must establish standards for end-to-end integrity in carbon credits.

To do so, they can build on valuable work by bodies including ICVCM for supply integrity and VCMi on demand integrity, the IOSCO principles, and market infrastructure innovations such as the GCMU. The World Bank and the IDB can help monitor social integrity.

I would encourage Brazil to use its leadership roles to help ensure that high integrity standards for domestic compliance markets and the emerging market for voluntary carbon credits.

This points to the next frontier of innovation in transition finance: addressing the nature-climate intersection. Climate change is becoming the dominant cause of nature and biodiversity loss. Conversely, agriculture, forestry, and land use currently account for a fifth of GHG emissions, they represent the sole sink for almost 60% of human-generated carbon emissions, and they could be the most cost-effective form of emissions reductions.

Brazil is uniquely positioned to bring nature into the heart of climate action, while providing co-benefits for biodiversity and inclusive growth. Brazil's *Ecological Transformation Plan* shows how to create a "new relationship with the environment" while reducing GHG emissions. Financing nature positive solutions must become a major focus of climate finance innovation.

## CONCLUSION

The Brazilian writer and Indigenous leader Ailton Krenak defines spirituality as the "interdependence between all things living"<sup>8</sup> It is a reminder that everything is connected.

This lesson applies to innovation in climate finance.

We cannot manage what we don't measure, so we need mandatory climate disclosure.

We cannot act effectively on that disclosure unless we recognise that transition is fundamentally about getting emissions down and that must mean exposure to heavy emitting industries with plans to do just that.

No emerging or developing economy can shoulder the entire burden of financing their transitions. That means finance must move as readily across borders as emissions. This in turn requires public catalytic capital that can accelerate and amplify private flows, high-integrity carbon markets, and the pooling of global demand for new green products to scale financing for heavy emitting sectors.

Finally, we need innovation in finance that recognises that we are part of nature not apart—or separate—from it.

The nature of value must recognise the value of nature for indigenous peoples, local communities and everyone living on our planet today and tomorrow.

We are all connected.

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<sup>8</sup> <https://www.uol.com.br/ecoa/reportagens-especiais/o-mundo-pos-covid-19-15---espiritualidade-e-natureza-por-ailton-krenak/#cover>