Private and public finance and investment actors have the means to shift economies towards low-carbon and resilient modes of operation. They can do so directly by providing funding, or indirectly through investment mandates that shape business models and make for sustainable financial markets worldwide. In this respect, finance actors are enablers of climate action, who use established and innovative financing strategies to identify and manage climate risks and seize opportunities. Yet, the financial system itself is also affected by the impacts of climate change. Changing natural environments and socio-economic contexts require business, finance and investment to re-assess operational and decision-making processes and design new product types and services. As such, the finance sector is starting to undertake significant efforts to mainstream climate change considerations into operational and strategic practices.

**Stakeholders are collaborating to design innovative financing solutions**

Proven and innovative financing strategies are required to fund climate mitigation and adaptation solutions and create investments that are sustainable. At the global level, one initiative is the Invest4Climate platform which brings together development and climate finance institutions, such as the World Bank Group and other multilateral development banks, the Green Climate Fund and philanthropic foundations. The platform works with private sector actors and national and sub-national representatives to mobilize and deliver finance needed to transition to a low-carbon and climate-resilient future. The aim of the platform is to identify and make visible opportunities for action and investment, to mobilize and combine available sources of finance to maximize their impact, and to identify and address barriers to scale-up climate investment.

At the regional level, examples include a specialists funds blend of funding from governments and development banks with private capital to enable low-carbon and climate resilient infrastructure projects. A USD 350 million Sub-national Climate Fund for Africa, supported by Regions of Climate Action (R20) and Blue Orchard, was launched at COP23. In May 2018, the formation of the Sub-national Climate Fund for Islands and Coastal Regions was announced by Fiji and Reunion Island working with R20 and the Pacific Regional NDC Hub, a regional initiative of the NDC Partnership that was announced at COP22.a

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ICLEI launched a new call for applications to local and regional governments worldwide to submit projects to ICLEI’s Transformative Actions Program (TAP) at the GCAS on 13 September 2018. Local and regional governments were able to apply through the TAP for support to develop concepts into low-risk, high-feasibility, high-impact sustainable infrastructure projects. ICLEI aims to help projects improve their bankability by increasing their visibility to potential investors, introducing them to project preparation facilities, or helping them connect with specific tools or services that can increase the maturity of the proposed project.

At the cities and municipal level, the C40 Cities Finance Facility supports members of the C40 Cities Climate Leadership Group to prepare and deliver low-carbon and climate resilient projects. Together with the Inter-American Development Bank and the World Resources Institute, the facility is supporting Bogota to deliver a public cycling scheme, and in Mexico City, the facility supports the municipal government to conduct a feasibility study for a new bus corridor project and cycling lanes.

Bonds are a natural fit to finance low-carbon and climate-resilient infrastructure projects. They are financial instruments under which project developers can receive money from investors as a debt which, in addition to interest, is repayable at specified dates. At the outset of project development, bonds can help to raise large sums of money to cover development and construction costs while allowing investors to benefit from interest payments that can be spread across long time-scales, thus offering stable and predictable investment opportunities (see Climate Bonds Initiative).

In 2018, the total value of climate-aligned bonds peaked at USD 1.45 trillion. Examples of innovative bonds issued in 2018 include the USD 95 million sustainability bond known as the Tropical Landscape Financing Facility, a public-private transaction supported by the Indonesian government which forms part of several Climate Financing Facility type transactions arranged by BNP-Paribas. The bond will help to finance a sustainable natural rubber plantation on heavily degraded land in two Indonesian provinces providing a return for investors with impact for the issuer. It will generate social and environmental co-benefits, including protecting a neighbouring national park from encroachment. Governments are also tapping the green bond market, with issuances in Africa (Nigeria with proceeds allocated to renewable energy and afforestation projects) and SIDS with the Republic of Seychelles has issued a first-of-its-kind sovereign ‘blue bond’ to help conserve its marine environment.

SIDS with the Republic of Seychelles has issued a first-of-its-kind sovereign green bond, in an issue that was upscaled to USD 1.25 billion. Indonesia became the first Asian country to issue a sovereign green bond, in an issue that was upscaled to USD 1.25 billion. Indonesia aims to achieve climate resilience from comprehensive adaptation and mitigation programmes and disaster risk-reduction strategies. Eligible green projects include the following sectors: renewable energy; energy efficiency; resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction; sustainable transport; waste-to-energy and waste management; green tourism; green buildings; and sustainable agriculture.

While a number of national and international taxonomies for green bond definitions have been established, such as the Green Bond Principles and the Climate Bonds Standard, the market still requires further development. To help cities, regions, private companies and financial institutions to accelerate the issuance of green bonds, the Global Green Bond Partnership was launched at the GCAS this year. Founding members include the World Bank, the International Finance Corporation, Amundi Asset Management, the European Investment Bank, the Climate Bonds Initiative, Ceres, ICLEI – Local Governments for Sustainability, the Global Covenant of Mayors for Climate and Energy and the Low Emission Development Strategies Global Partnership. The partnership will provide technical assistance to potential issuers, for example regarding the development of vehicles, and provide de-risking instruments. Further, the partnership plans to prepare a ‘Green Bonds Readiness Framework/Toolkit’ to allow potential issuers to rapidly assess their readiness to issue green bonds and identify key gaps and barriers.

In addition to applying and defining innovative financing strategies, stakeholders engage in pioneering partnerships to disrupt established modes of raising funds. Founded in 2014, The Lab (previously known as the Global Innovation Lab for Climate Finance), is a public-private partnership which brings together major development banks, private sector financial institutions and companies, climate finance donor governments and philanthropic foundations. The Lab sources and selects ideas and supports them with analysis, stress-testing and guidance from experts and investors. Lab members then vote to endorse ideas and launch them for piloting and implementation. As of March 2018, the Lab mobilized nearly USD 1 billion and attracted another USD 535 million in expressions of interest. Out of this amount, USD 300 million were sourced from the private sector. Building on its global success, national labs were established in India (2015) and Brazil (2016) and a Lab for Southern Africa is already at the planning stage.
Finance Snapshot

Businesses and investors are reporting on and are managing climate risks and opportunities

To allow for informed pricing and efficient capital allocation, financial markets rely on the consistent availability of accurate information about risks and opportunities. Climate change is one of the most significant risks that organizations face today. At the same time, climate change creates new business opportunities.

While in recent years many businesses and investors have developed expertise in identifying and assessing climate impacts, more accurate and comparable climate-related disclosures will help business and investor decision-making. The Recommendations of the Task Force on Climate-related Disclosures (TCFD), released in June 2017, provide a framework for companies, finance institutions and other stakeholders with public debt or equity to evaluate and disclose material information on climate-related risks and opportunities. Specifically, the Recommendations suggest that organizations voluntarily disclose, in their annual financial filings, material information about internal governance structures, strategy and risk management processes and the use of metrics and targets used to assess and manage climate risks.

As of September 2018, more than 500 companies with a combined market capitalisation of over USD 7.9 trillion stated that they support the TCFD Recommendations. To showcase how TCFD compliant financial reporting can be achieved in practice, the Climate Disclosure Standards Board (CDSB), an international consortium of business and environmental organizations, launched an initiative in July 2017 which brings together 19 front-running companies that have committed to aligning their reporting with the recommendations within three years of their commitment. The aim of the initiative is to demonstrate how climate-related financial disclosures can be mainstreamed into company processes and market practices, and improve investor relations. The experiences and lessons learned from the initiative have been made available at the TCFD Knowledge Hub, a platform developed by CDSB to help organizations find all the resources, guidance and tools currently available on implementing the TCFD Recommendations.

Despite the wide recognition of the recommendations and early-mover implementation efforts, challenges persist. These include insufficient data availability, difficulties in defining methodologies and metrics for scenario analyses and the need to align timeframes and procedures for sustainability and financial reporting. In this respect, major sustainability reporting platforms, including CDP, the Global Reporting Initiative and the UN Principles for Responsible Investments (PRI), have endorsed the Recommendations and some have produced guidelines and best practices to help reporting organizations align their disclosure practices. For example, as of this year, all companies reporting through CDP will be able to access data required for TCFD compliant disclosure.

Investors have a key role to play to further drive voluntary compliance with the TCFD recommendations. Through their investment choices investors can exert pressure on companies to disclose climate-risks and align operational practices with the aims of the Paris Agreement. In December 2017, a group of investors launched Climate Action 100+, an initiative which aims to engage systemically important greenhouse gas emitters and other companies with significant potential to drive the clean energy transition. The investor coalition calls on companies to implement the TCFD Recommendations and align corporate strategies to reduce emissions. The initiative now brings together more than 290 of the most influential investors who collectively hold USD 31 trillion in assets under management. In September 2018, the Investor Agenda, an alliance of nearly 400 institutional investors, asset owners and managers and pension funds with USD 32 trillion in assets under management, was launched. Members of the alliance will shift their portfolios to low carbon and climate resilient investments and integrate climate change into analysis and decision-making processes. The initiative also calls for bolder government action and engages the world’s largest corporate greenhouse-gas emitters to curb emissions to achieve the Paris goals. Importantly, more than 60 members of the alliance themselves have committed to reporting in line with the TCFD recommendations.

In addition to more robust corporate reporting, many organizations use internal carbon prices to assess and manage climate-related financial risks, to drive operational emissions reductions and shift to low-carbon activities. In 2017, over 1,300 companies disclosed that they are already using, or intending to introduce, an internal carbon price within the next two years. This represents an increase of 11 per cent from 2016. As investors, financial institutions are paying increasing attention to the internal carbon pricing approaches of businesses to stress-test their portfolios against carbon risk. For example, in September 2017, the World Bank updated its approach to economic analyses of project financing in the energy, forestry,
agriculture, transport, water and urban sectors to align with the recommendations of the High-Level Commission on Carbon Prices.\(^1\)

However, developing and implementing carbon pricing policies requires technical knowledge and capacity. To this end, the Carbon Pricing Leadership Coalition (CPLC), an alliance of over 200 partners from the government, business and civil society communities, supports organizations that aim to introduce carbon prices, including through facilitating dialogue between the various stakeholders involved and by sharing best practices. CPLC aims to expand carbon pricing to 25 per cent of global emissions by 2020 and achieve a 50 per cent coverage until 2030.\(^6\)

**Development and commercial banks are mainstreaming climate change into their operational practices**

Commercial and development banks are undertaking steps to shift the banking industry towards climate-smart modes of doing business. In November 2017, 29 multilateral development banks and development finance institutions released a joint statement committing to embed climate change considerations within their strategies and to redirect financial flows towards low-carbon and climate resilient development.\(^7\) In 2017, multilateral development banks’ climate finance commitments totalled USD 35,219 million.\(^6\)

Further, the Climate Action in Financial Institutions Initiative, a partnership of 42 commercial and development financial institutions, aims to facilitate the integration of climate considerations into the activities and operations of the financial sector. The Initiative focuses on the uptake of five voluntary principles for mainstreaming climate change. These principles provide guidance for climate change to become a core consideration and a lens that shapes how financial institutions are doing business. This requires institutions to look at all operations and all activities, rethinking investments, strategies and their operational and institutional set-up. The goal is to go beyond sectoral- and project-based thinking which in the past dominated the way banks approached climate change. To do so, the management of supporting institutions are strategically recognising climate change as a key factor of doing business which must be integrated across all operations. Further, supporting institutions are developing business cases to demonstrate to both internal teams and external partners the value of addressing climate change – and the tools and analytical frameworks to measure and track climate performance. To facilitate these efforts and to disseminate knowledge and best-practices to a broader audience, the Climate Action in Financial Institutions Initiative has set up a publicly available online database where emerging practices and case studies are shared.

**Regulators have started to work on designing a low-carbon and climate-resilient financial system**

Reserve banks and financial regulators have started to assess how climate change will affect the global financial system.\(^8\) In December 2017, regulators from various countries across Europe, the Asia-Pacific, Africa and Latin America founded the Network of Central Banks and Supervisors for Greening the Financial System. The aim of the Network is to share best practices and exchange experiences on managing climate-related risks and to explore the role of the financial sector in supporting the transition to low-carbon economies. To date, the initiative has set up three technical workstreams through which members collaborate to identify good supervisory practices, assess the potential of climate change on the financial system and to investigate the role of regulators in scaling-up green finance. The Network currently comprises 18 members and five observers. National green investment banks are becoming a replicable model that moves problem-solving and agency to the national level, empowering developing countries to benefit from international financial resources while also better attracting private and domestic capital.

In the last year, important work has been done to set the finance and investment industry sector on track for a low-carbon and climate-resilient future. Yet, further action is needed to ensure scale and diversity across regions and players so that early-stage tools, ideas and strategies mature and are realized soon. To do so, it will be key to strengthen and expand existing partnerships by reaching out to actors beyond the centre of current dialogues, including for example national development banks, risk analysts, financial advisory firms, financial lawyers, portfolio managers, actuaries, finance certification educators, securities, conduct and judiciary duty oversight, in both developing and developed country financial centres and markets. A collaborative effort of all relevant stakeholders is required to develop a common and robust understanding of how to harness the financial opportunities climate change finance and investment already offers and in doing so demonstrate the ways many are showing how to minimize the impact on the stability of financial markets and managing climate risk.

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\(^2\) Source: https://www.carbonpricingleadership.org/become-a-partner

