Green Finance Institute

Green Finance Quarterly

Creating new international markets to scale the green transition

5th Edition | December 2024

Dr. Rhian-Mari Thomas OBE

Chief Executive | Green Finance Institute

The last quarter of this year has been characterised by global climate summits and seismic political changes around the world. With new governments elected in more than 64 countries and stalled international climate change negotiations, one thing is certain, the urgency for action is increasingly putting the onus on business and finance to drive the global transition forward.

Much of COP29 was about the New Collective Quantified Goal - developed nations' refreshed commitment of direct financial support for developing markets to decarbonise. This commitment could shift from the current one of USD $100 billion a year, well into the trillions. There has been debate on whether this needs to come direct from governments, or whether development bank contributions can be included. Either way, what is imperative is how this climate finance can be deployed to support private capital mobilisation where we know there is investment available – this is what the GFI continues to focus on.

To achieve this, we need both the supply of capital as well as viable demand – a pipeline of investments that private capital can finance. In our fifth anniversary year, the GFI is now acting across the value chain on policy, public and development capital deployment, and financial product design. Our aim, as always is to go to-market, alongside our partners, with our suite of solutions to supply funding at a competitive cost of capital and to help generate this demand.

In this issue, we reflect on the implications of changes to the fiscal rules in the UK that should increase the risk appetite of the National Wealth Fund (NWF). This is significant since it can now play a more catalytic role in the capital stack, to crowd-in private capital to sectors and deals that would have been otherwise out of reach. The GFI is working directly on new innovative finance models that NWF can deliver.

We also analyse the state of play of taxonomies both here and globally. The GFI has been advising the UK Government since 2021 on the design of the UK Taxonomy. Taxonomies send clear signals to market participants about the viability of their present and future investments and as such are an important contributor. But they are not enough on their own.

The GFI has developed a range of product solutions that support private investment into key sectors for the transition. In this issue we focus on two of them.

Property Linked Finance, a flagship GFI product, creates the means to decarbonise key segments of our built environment globally, and in so doing, build up key skills and supply chains that will ultimately support the whole sector to retrofit. The GFI is now pursuing implementation and scale across a range of geographies, including the UK.

Similarly, Heavy Goods Vehicles represent a key segment of road transport and so we need to pilot and scale a range of solutions to support the transition to electric or hydrogen powered freight. Building on our pioneering Utilisation Linked Finance product, the GFI has developed a range of solutions and is now looking to take these to market using our team of experts in Spain.

In short, the problem has been admired for long enough. The main source of capital is the private sector – it can only be mobilised if there are viable investments. We need to create them using our full toolkit of public and private solutions. If you would like to partner with us on this, please get in touch.

Contents

Enabling active transitions through international taxonomies

A Green Finance Institute piece written in partnership with:

Nadia Humphreys

Head of Sustainable Finance Data Solutions at Bloomberg

In the battle to align financial flows with the terms of the Paris Agreement, access to decision-useful climate related financial disclosures will be key. Taxonomies – designed well – can help achieve this.

They establish objective criteria for determining whether an economic activity is environmentally sustainable, providing clarity for investors on which economic activities and investments various jurisdictions consider sustainable. Companies and financial institutions can thus use taxonomies to assess their activities' sustainability and guide their disclosures to investors, enabling better informed climate-related financial decision-making.

The concept behind sustainable finance taxonomies is simple enough: provide a reliable, consistent framework to classify activities as "green", "transitioning", or "not-so-green", to facilitate appropriate capital allocation. While investors gain clarity and businesses understand expectations, the practical implementation proves considerably more complex, particularly given that different regions and governments will – quite naturally – have different views on the pathways and pace of the transition. Nonetheless, for investors and corporates thinking about climate risk and opportunity it is worth engaging with this complexity.

Why taxonomies matter

Taxonomies help users evaluate economic activities against sustainability goals. They serve multiple stakeholders, by:

- Enabling companies to clearly understand and align with expected environmental performance standards and metrics.
- Creating enhanced transparency around both current performance (revenue) and future investment (capex) in relation to net zero objectives.
- Providing reliable frameworks for assessing and measuring environmental impact.
- Enabling investors to take informed decisions in supporting verified environmental initiatives and projects.

Importantly, taxonomies don't just highlight top performers – they help identify companies actively transitioning, particularly those demonstrating higher green capital expenditure compared to their current green revenue.

The interoperability dilemma

Noting that different countries and regions have differing views on the pathways and timings for transition to a sustainable economy, globally over 50 taxonomies have been implemented or are under development. This of course includes the proposed UK taxonomy, on which the UK Government is currently consulting to understand market views on its value case. While some frameworks focus specifically on financial products and debt instruments, others adopt more comprehensive approaches.

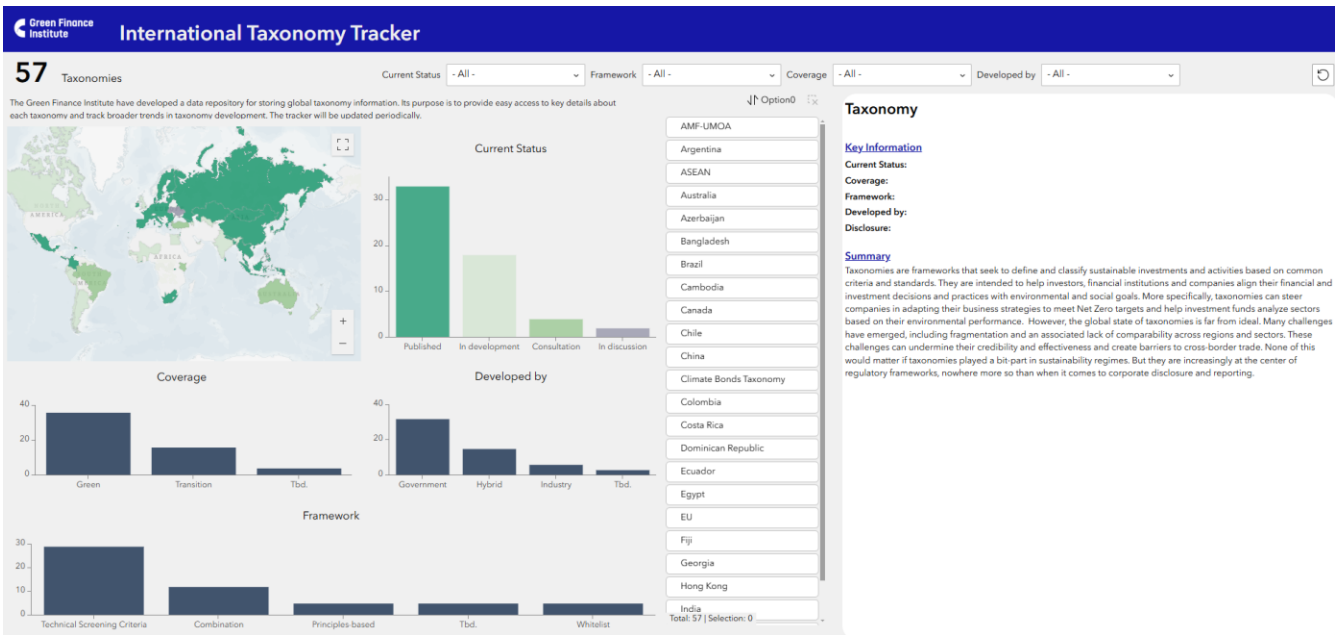
This diversity creates challenges for multinational businesses and global investors who must navigate multiple, sometimes conflicting frameworks.

A paper by the UK's Green Technical Advisory Group (GTAG), which was chaired and run by the Green Finance Institute (GFI), published an international interoperability advice paper which addresses these complexities. While acknowledging that perfect harmonisation may be unrealistic, it emphasises the importance of better alignment to prevent "taxonomy arbitrage" – where activities considered sustainable in one jurisdiction are deemed unsustainable in another.

Challenges and path forward

Stakeholders have raised concerns about excessive reporting burdens stemming from complex frameworks, while developing economies express concern about stringent global standards potentially limiting investment opportunities. The solution increasingly points towards developing tools capable of effectively translating multi-jurisdictional frameworks into actionable insights.

The GFI has created an interactive database tool to help with the navigation of these taxonomies – the international taxonomy tracker. The database has been launched as a beta version and will be refined over time.



The tracker can be used in two ways:

Option 1: Use the filters to narrow down the dataset, based on the following selection criteria:

- 'Current status' of development (published / in development / consultation / in discussion).
- 'Approach to eligibility' (technical screening criteria / principles-based / combined / whitelist)
- 'Coverage' (green vs transition focus)
- 'Disclosure' (mandatory vs voluntary)

Option 2: Select a specific taxonomy from the list on the right-hand side of the dashboard.

Visit the dashboard here: greenfinanceinstitute.com/programmes/uk-green-taxonomy-gtag/

Behind the interactive dashboard is a global taxonomy data repository, providing searchable access to individual taxonomies while tracking broader trends in taxonomy development.

Bloomberg's ESG Data Solutions complements these efforts by providing detailed taxonomy alignment metrics across multiple jurisdictions, enabling efficient portfolio screening and reporting. Proprietary analytics help investors evaluate companies against various taxonomy criteria, while real-time news and analysis keep users informed about regulatory developments and market trends.

More common ground needs to be found on more controversial transition activities.

For companies seeking to understand their taxonomy alignment, Bloomberg provide tools for assessing activities against multiple frameworks, including detailed revenue mapping capabilities and forward-looking transition assessment tools.

While there is general agreement on a core set of mature clean energy solutions counting as 'green', more common ground needs to be found on more controversial transition activities. It therefore remains important for financial institutions and corporates to also have their own forward-looking strategic view on what counts as sustainable investment – and the taxonomy tracker can be a useful support tool to facilitate that.

Accelerating the decarbonisation of the built environment through Property Linked Financing

Decarbonising the built environment: A $51 trillion investment gap

The built environment and construction sector is responsible for 37% of global emissions, making it by far the largest emitter of greenhouse gases.[1] An estimated USD $51 trillion of investment is required to decarbonise the built environment between 2030 and 2050.[2] In the UK, buildings account for 23% of UK greenhouse gas emissions and an estimated investment of £360 billion is needed to upgrade the UK's inefficient buildings by 2050.[3]

However, the current landscape of financial solutions struggles to address the major barriers to energy efficiency and resilience improvements. These barriers include the high upfront costs of energy efficiency improvements, long payback periods of low carbon technologies, and split incentives between landlords and tenants.

Addressing the investment gap will require innovative financial solutions that overcome these barriers, support property owners on their net-zero journey, and provide attractive risk-adjusted returns to financial institutions. One such solution is Property Linked Finance (PLF).

1 Building materials and the climate: Constructing a new future, UNEP
2 The net-zero transition, McKinsey & Co
3 Sixth Carbon Budget, Climate Change Committee

An innovative financial solution: Property Linked Finance

PLF – an innovative financial solution designed to support the decarbonisation of residential and commercial buildings – provides an opportunity for global capital to invest into local projects that reduce emissions from buildings.

PLF is long-term, affordable finance that is linked to the property, rather than the property owner, where the obligation to meet PLF payments transfers to the new owner on the sale or transfer of the property. PLF can fund projects that improve the environmental performance of a property, including the installation of low carbon technologies, increased energy efficiency, and enhanced climate resiliency measures.

PLF addresses the major barriers to retrofitting by covering up to 100% of the hard and soft costs of a retrofit project and offering payment terms that match the useful lifetime of the green measures. It can typically be passed through leases to tenants, with the finance linked to the property. The latter is particularly important, as property owners will only pay for the energy efficiency measures up until they sell their property or the measures have been paid off, and the new buyers will benefit from a more energy efficient and comfortable property in return for continuing to make regular payments towards the upgrades.

PLF solutions have been developed in the United States, Canada and Australia, and are currently being developed by the Green Finance Institute (GFI) in the UK and Spain.

Pockets of excellence: PLF solutions around the globe

UNITED KINGDOM

PLF could play an important role in supporting the decarbonisation of the UK's building stock, which is facing a £360 billion investment gap to 2050. Research commissioned by the GFI in 2023 found that, if scaled, PLF could support between £52-70 billion of investment into building decarbonisation across England, Scotland and Wales in the residential market alone[4].

A recent report by the GFI, Lloyds Banking Group and NatWest Group identified the key features for a UK PLF solution, including the need for PLF to run with the land (i.e. the payment obligation should transfer to the new owner on sale) and for the solution to be non-accelerating (i.e. limits the liability in the event of non-payment to the amount in arrears at the time and not the total outstanding balance).[5]

The report recommends the creation of a Property Linked Finance Local Land Charge, which would automatically link the finance to the property although as this will require primary legislation, the report also recommends exploring a Restriction on Title to pilot PLF for commercial properties.

The next steps to create a thriving PLF market in the UK includes testing and refining the solution with a pilot for commercial properties using the Restriction on Title method, introducing enabling legislation to create the Property Linked Finance Local Land Charge; priming the market (including financial institutions, conveyancers, property owners, regulators and local authorities); and continually improving and iterating the market.

4 Property Linked Finance a new financial solution to decarbonise the UKs homes and buildings
5 A greenprint for Property Linked Finance in the UK, Green Finance Institute

UNITED STATES

PLF is inspired by the US Property Assessed Clean Energy (PACE) market, which can cover 100% of eligible projects hard and soft costs through a fixed rate, fully amortising financing for up to 30 years. Property owners make payments via an assessment on the property's tax bill – a different approach to that being explored in the UK – which can automatically transfer upon sale. PACE assessments are filed with the local municipality as a senior lien on the property and are enabled by state legislation and at the local level by cities and counties.

PACE has enabled the investment of over USD $16 billion of capital into improving the energy efficiency and resilience of over 400,000 buildings in the US, according to the US trade body PACENation, generating over 220,000 job-years and USD $30 billion of economic impact.

AUSTRALIA

Environmental Upgrade Agreements – the name for PLF in Australia – are voluntary agreements made between a commercial building owner, a financial institution, and a Council to deliver building improvements that can generate significant savings and be used to repay the upgrade finance.

As of 2022, over AUD $111 million in energy savings had been delivered via Environmental Upgrade Agreements, preventing 632,274 tonnes of greenhouse gas emissions (equivalent to taking 395,171 cars off the road for a year).[6]

CANADA

PACE is currently available in Nova Scotia, Ontario and Alberta. Provincial legislation is required to authorise municipalities to use PACE recuperation mechanisms to finance upgrades to private properties. Once this legislation is established at the provincial level, municipalities need to determine the programme specifications to implement PACE through by-law amendments.

The Canadian PACE market is at a nascent stage with PACE enabling legislation enacted in several municipalities, however wider adoption is needed within municipalities to take full advantage of this programme.

6 Property Linked Finance a new financial solution to decarbonise the UKs homes and buildings

SPAIN

With 87% of Spain's buildings being energy inefficient[7] and contributing towards 30.6% of total energy consumption[8], to meet the Energy Performance of Buildings Directive (EPBD) goal of a zero-emission building stock by 2050, extensive energy renovations are necessary. To address this, the Spanish National Plan for Energy and Climate projects the renovation of 1.37 million dwellings by 2030. This ambitious target requires an additional investment in the country of €32.4 billion between 2021 and 2030, requiring significant private capital to be mobilised[9]. To address this, scalable and replicable private financing schemes must be developed.

Building on the success of PACE in the United States and PLF findings in the UK, GFI España is innovating a tailored adaptation of PLF for Spain. This adaptation leverages a dormant legal framework rooted in Roman law to create a PLF mechanism in Spain for financing energy efficiency upgrades in properties. By utilising established legal frameworks within Spanish law, a new PLF asset product known as the PACE Canon (or ecological fee) could be introduced.

The PACE Canon *(or Prestación Adscrita a un Canon Ecológico)* aims to develop a private-sector-driven financing structure for energy efficiency upgrades in Spain, applicable to both residential and commercial properties. Building on existing PACE models internationally without requiring regulatory changes. This initiative will assess the feasibility of implementing this structure within the Spanish legal framework, with the goal of creating a new asset class, to generate stable, long-term cash flows.

Under the PACE Canon, the initial capital would be provided to the owner as a permanent benefit rather than a loan, generating periodic payments as rent or canon for deep retrofit investments over typically 20 years, secured by a charge over the property. Importantly, these periodic payments cannot be accelerated. This mechanism, which attaches to the property and transfers with ownership, offers an off-balance-sheet financing solution akin to a property tax or ongoing operational expense.

This model aims to deliver affordable, inclusive financing based on property value, with obligations tied to the property itself for added security. Its scalable, adaptable design allows for easy implementation across EU and Latin American markets, supporting climate goals, enhancing resilience, and creating local jobs.

7 España suspende en eficiencia energética en los hogares
8 Informe de Inventario Nacional de Emisiones de Gases de Efecto Invernadero. Edición 2024 (1990-2022)
9 Plan Nacional Integrado de Energía y Clima (2023-2030)

A global asset class: Unlocking PLF's true potential

PLF is a proven solution with growth occurring in new and existing markets; however, it has been slow to scale in comparison to the size and urgency of the climate crisis. Existing markets have taken 7.3 years on average to exceed $100 million of capital deployed, due to fragmentation across geographies, submarkets and project types.

A co-ordinated global effort to scale PLF into a global asset class is imperative. Establishing clear objectives, unifying principles and pathways to develop local PLF products, and active support for current and future PLF markets – within a context of differing cultural, legal and economic contexts – is required to provide local markets the opportunity to benefit from PLF. By shortening the learning cycles and creating an international community of best practice, PLF has the potential scale from regional 'pockets of excellence' into a global asset class.

If you are interested to learn more about the GFI's work to establish PLF in the UK and Spain, or our programme to scale PLF into a global asset class, please get in touch at info@gfi.green.

The road to net zero: Decarbonising HGVs across Europe

Significant investment is needed to help Europe's heavy goods vehicle (HGV) fleet transition away from fossil fuels and ensure that greenhouse gas (GHG) emissions targets are met.

HGVs are the backbone of supply chains and are vital to Europe's economy[1]. Transport accounts for 29% of Europe's total GHG emissions, and this could increase to 44% by 2030 without sufficient intervention[2]. HGVs are a significant source of emissions: despite representing just 2% of vehicles, they contributed to 65% of road transport emissions in 2021[3]. Limited progress has resulted in transport being decarbonised more than three times slower than the rest of Europe's economy[4] meaning that without widespread adoption of zero emission HGVs, Europe will be unable to meet its net zero targets.

On a positive note, Zero Emission Technologies (ZET) are expanding into the HGV sector, offering viable alternatives to GHG-emitting internal combustion engine (ICE) vehicles. Zero emission HGVs are now capable of ranges up to 800km, sufficient for even the most demanding HGV applications, including long-haul, which has daily driving averages of up to 500km[5].

Despite progress, investment in ZETs for HGVs is still very limited with over 99% of all HGVs in Europe still using ICE technology. Fleet operators face a number of barriers, including high upfront vehicle costs, and a lack of charging or refuelling infrastructure. To help overcome these challenges, the Green Finance Institute (GFI) is looking to partner with key organisations to create the solutions and supporting frameworks that investors and businesses need to derisk investing into zero emission HGVs, mobilising capital at the pace and scale needed for the sector to transition. Many of these solutions have been designed and tested in partnership with industry experts in the UK.

1 Road Freight Statistics in Europe (2024) - Eurosender
2 Europe's transport sector set to make up... | Transport & Environment
3 Truck CO2: Europe's chance to lead | Transport & Environment
4 Europe's transport sector set to make up... | Transport & Environment
5 The European heavy-duty vehicle market until 2040: Analysis of decarbonization pathways

Limited adoption of ZETs

ZETs such as battery electric or hydrogen, are expected to play a key role in reducing HGV fleet emissions. Over 500 makes and models of zero emission HGVs are available worldwide and capable of average ranges of 240km in a single charge, sufficient for most duty cycles. In the UK, where the average daily HGV distance is around 100km[6], studies have shown that the lighter half of the HGV fleet could be electrified with technology available today without relying on development of public charging infrastructure.

A variety of companies are beginning to experiment with zero emission HGVs due to potential benefits such as lower running costs and improved driver experience. In the UK this includes SME hauliers, like Welch's transport, and large retailers, like Tesco. Widespread adoption of these technologies, however, is still low. Out of a European fleet of 6.5 million HGVs, less than 10,000 currently use ZETs[7] due to high upfront cost of the vehicles and a lack infrastructure, among other barriers. In a sector where operational efficiency is vital and profit margins are typically no more than 2-3%, any incremental cost presents a significant challenge.[8]

Capital needs to be mobilised at pace and scale

Coordinated public and private sector action will be required to transition to zero emission HGVs. Regulation is expected to kickstart adoption: the EU CO2 Regulation for Heavy Duty Vehicles will require manufacturers to sell a minimum proportion of zero emission HGVs, starting with 15% in 2025, and increasing year by year, to 90% in 2040.[9] This will not be sufficient in isolation; companies will need additional investment support.

In 2023, the GFI calculated that installing the necessary charging infrastructure and transitioning the entire 500,000 UK HGV fleet to battery electric from a low starting base of 0.1% adoption, would cost £100 billion. Transitioning the larger European fleet could cost as much as €1.56 trillion based on a similar level of adoption and calculating the figure on a proportional basis.[10]

Much of the capital required need to be mobilised by private companies, including SMEs, which often have low cash reserves. This is problematic when considering that electric HGVs typically cost 2-3x ICE vehicle equivalents, and hydrogen fuel cell 4-5x. Ensuring companies are supported in accessing the capital they need will therefore be a crucial step in the transition to zero emission HGVs.

6 HGV Haulage Statistics for the UK | Crown Oil
7 Trucks & buses - IEA
8 Delivering-Net-Zero.pdf p.10
9 Heavy-duty vehicles: Council and Parliament reach a deal to lower CO2 emissions from trucks, buses and trailers - Consilium
10 Delivering-Net-Zero.pdf pg. 2 This figure has not been adjusted to account for national variations in costs, and is used purely to illustrate the amount of investment required.

Attracting global capital into the EU with targeted policy and public finance

There is appetite in Europe to increase investment and to improve the competitiveness of clean technologies and transport[11]. Alongside this, there are recommendations for the reform of EU pension fund investment[12] and greater private pension investment to help support the scale up of investment into decarbonisation. Creation of zero emission HGVs as a new asset class could therefore provide an attractive option for investors with a sustainable agenda.

Supporting the logistics sector to transition could also yield further benefits, since due to its interconnected nature, the industry is also often an enabler for other industries to grow. In a recent Logistics UK report for example, it was found that supporting the logistics sector could boost the UK economy by £8 billion per year. The focus of policymakers should therefore be on designing policy measures which attract global institutional capital into European zero emission HGV investments through attractive deal-flow and risk-absorbing measures.

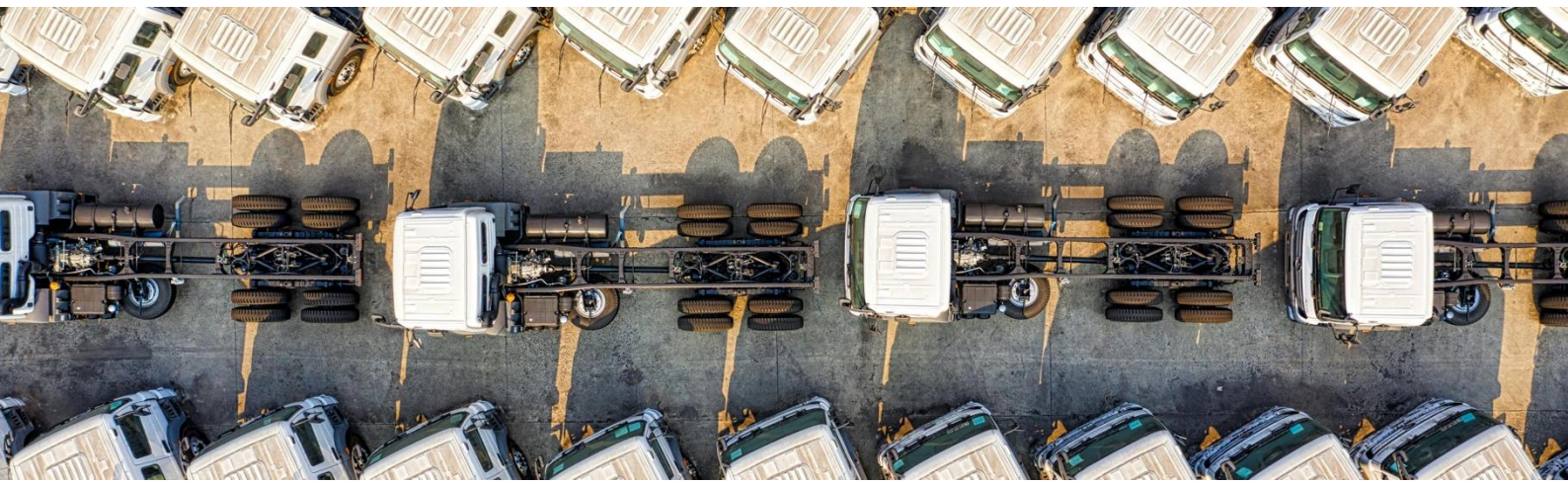
GFI's portfolio of solutions

In partnership with UK experts from logistics, energy, finance and government, the GFI has developed a portfolio of shovel-ready solutions that could unlock investment to accelerate adoption of zero emission HGVs. These have been developed through extensive stakeholder engagement and incorporate the needs of both the public and private sectors.

The GFI is looking to scale these solutions to support other European HGV markets to transition, so that zero emission HGVs can be developed into a viable asset class for investors and enable greater access capital at the scale required. Several solutions are tailored to the needs of SMEs.

Spain has the third highest road freight volume in the EU and has relatively low electricity prices compared to other EU-27 countries[13], making it a prime country for electrification of the HGV fleet. GFI Spain is expanding its work programme to explore and deliver zero emission HGV funding solutions.

If you would like more information on our HGV solutions, or to get involved in this work, please reach out to us at info@gfi.green.



11 The Draghi Report: A Strategy to Reform the European Economic Model
12 Draghi puts pension funds at work for the future of EU competitiveness | etui
13 Energy crisis in Europe: Which countries have the cheapest and most expensive electricity and gas? | Euronews

Budget reflections: How public finance can close the investment gap

The UK total stock of capital, both public and private, comes to £5 trillion. Despite this quantum, for the last forty years, the UK has been usually in the bottom 10% for investment in the G20 and total fixed investment has been below every other G7 economy[1].

This is not sustainable, most obviously because it will lead to a degraded, underperforming and unproductive public realm. In the context of net zero, which will require an estimated investment of £1.4 trillion by 2050, it will mean both a lack of investment in key climate infrastructure and technology and an overall lack of resilience in the UK economy[2].

The UK Government has now begun thinking more fundamentally about how this investment could ultimately be delivered. It starts with the way government investment is ultimately scored in the public finances. Presently, investment is largely treated as spending with no offset for any assets acquired – so-called Public-Sector Net Debt. So, whether through loans or equity, involving on-balance sheet public finance institutions or not, there is an assumption that equity will not yield upside, and loans will not be repaid. It is even the case that third party capital, invested in an on-balance sheet PFI, would add to the public debt.

This has led to an overreliance on grant funding in the way government supports key infrastructure and industrial strategy and an under-utilisation of public investment strategies. This has effectively constrained the amount of capital ultimately deployed by not recycling capital for reinvestment and by missing opportunities to build investment pathways for private capital – the only credible route to £1.4 trillion.

The 2024 Budget does though start to chart a different course. Firstly, the Financial Transaction Control Framework[3] confirms a switch to Public Sector Net Financial Liabilities as the preferred measure of government spending. This is crucial as it recognises assets acquired alongside liabilities[4]. Secondly it emphasises the central role of public finance institutions in making investments on government's behalf, recognising the specific expertise required. This makes the mandate and approach of the National Wealth Fund in particular, of critical importance in the pathway to reducing Public Net Debt through promoting effective, catalytic deployment of capital.

The Prospectus, the Government's response to the GFI chaired National Wealth Fund Taskforce set out a direction of travel. Firstly, the total balance sheet of £27.5 billion, with a KPI to mobilise private capital of at least 3:1 leverage, should deliver 'at least £70 billion'. To achieve this, (the GFI has stated that more leverage is available, particular in certain sectors), the capital must be deployed in a more catalytic way.

1 'Great Britain?' – Torsten Bell, 2024
2 Ibid
3 https://www.gov.uk/government/publications/financial-transaction-control-framework
4 It should be noted, that accounting treatment (on or off balance sheet) is a function of risk and is ultimately determined by the ONS not HMG definitions

The prospectus confirms this as an intention and cites that the overall risk budget will be increased to match the new balance sheet. But beyond this, it is vital that the NWF ultimately crowds in private capital, by taking unique positions in the capital stack that enable private capital to invest where they would not otherwise have done so. This means firstly deploying a broad suite of products with more risk appetite. This will perform the dual role of financial de-risking and de facto policy de-risking, a critical element, since investors will assume that NWF capital deployment is in line with industrial policy.

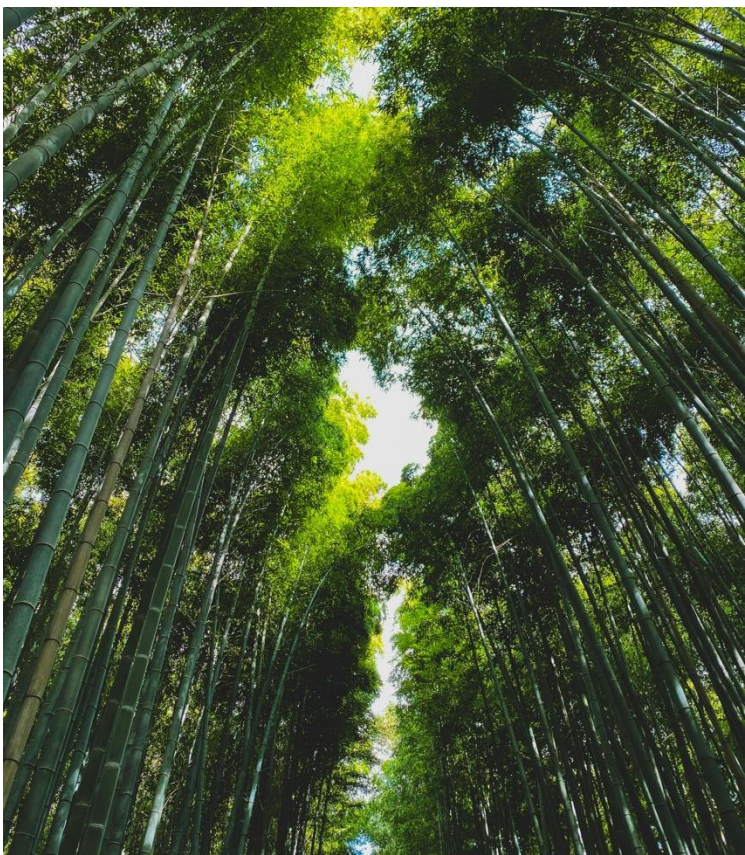
But the prospectus also highlights another function which needs further development – *trialling new blended finance solutions, with government departments, that take on additional risk to facilitate higher impact in individual deals;*

To invest in first of kind transactions in new technologies, requires an approach to origination and innovation that will be essential to create investable pathways for both NWF to deploy balance sheet and for private capital to ultimately invest. A similar capability is called for through the Transition Finance Market Review which calls for a 'Transition Finance Lab'[8].

Indeed, the Government's initial response to the NWF Taskforce highlighted the need to review the wider public finance landscape. This is recognition both that a more streamlined and efficient approach is needed, but more profoundly, if we are to unlock private investment, we need to fill in key gaps in the institutional architecture. The NWF is a big step forward, but it needs to be supported with origination and innovation to create viable investment pipeline. This is now the GFI's focus. Fiscal rules and adequate public investment are now being delivered – we need to make sure we have the right supportive architecture to support the effective deployment of capital.

These issues are also mirrored in the debate in global climate finance. COP29 delivered fresh government commitments through the New Collective Quantified Goal. Whether these commitments are seen as credible or not, there remains a lack of focus on how these commitments could mobilise private capital to deliver the investment we ultimately need. This involves recognising that just as in the UK, the public finance architecture needs to be reformed, to create more investable pathways for private finance. Capital flows between two counterparties – in this they are largely private capital from developed economies to project developers in emerging markets. More institutional connections are needed to ensure notional commitments are ultimately invested in net zero and nature positive projects

Otherwise, we are deploying climate finance just as we have deployed public spending in the UK and missed an opportunity to work with private investors. This is the 'Execution Gap' the GFI has identified and is working to close, both in the UK and globally. Private capital is available and there is certainly adequate demand. We must now create the means to deploy it. If you would like to partner with us on this agenda, please get in touch.



8 https://www.theglobalcity.uk/insights/scaling-transition-finance

COP16 reflections: Collaborating for nature

At COP16 in Colombia, the global community came together to discuss how to make the Kunming-Montreal Global Biodiversity Framework a reality. This requires the mobilisation of USD $200 billion a year for biodiversity including from the private sector. To contribute to this objective, the Revenues for Nature project was launched by the Green Finance Institute in partnership with UNDP BIOFIN and UNEP FI and working with the Environmental Policy Innovation Center in the US (EPIC). At COP16, the project launched the first four in a series of Guidebooks detailing current models and markets already in operation that are successfully mobilising private sector capital. These included mitigation banking models in the US, Colombia and England, as well as nature-based solutions for unlocking private investment in water. The Guidebooks documented lessons learned, and considerations for replication.

This approach – of learning from what already exists and replicating or adapting models to suit different contexts – was echoed throughout the events as being vital if we are going to reach our nature goals for 2030. New financial models should be welcomed, but, given the urgency, existing models should be built upon. Some of the national mandatory mechanisms, for example, have taken governments multiple years to establish - in some cases more than a decade. Sharing lessons learned can save precious time for those seeking to set up similar schemes.

Among the learnings shared in the Guidebooks was the need for supportive policies and regulation in unlocking private sector capital. Mandatory markets naturally drive capital into nature in a more reliable way than voluntary markets. However, in order to be effective in restoring nature, efforts need to be made for such mechanisms to deliver a net gain for nature, and not just offsets alone.

Local mechanisms, sometimes led by the private sector or local governments, can be quicker to establish than national markets. Solutions such as water funds, highlighted in the water Guidebook, for example, have enabled the private sector to address water scarcity and water quality risks in a number of geographies. For example, within the Funds, companies are working with partners towards the financing of invasive species removal or sustainable agricultural practices. GFI has published a database of models from around the world to accompany the Guidebooks, many of which showcase projects in which the private sector is investing in nature restoration within its supply chain . In the second round of Guidebooks, we will be exploring these in more detail.

What was clear at COP16, and has been clear for some time, is that business sits at the heart of the flow of capital towards our global (and domestic) nature goals.. We need businesses to start paying for the ecosystems that benefit them.

While conversations around mobilising private sector capital specifically into nature restoration and nature-based solutions stalled in Colombia, one success was the creation of the Cali Fund which will mobilise voluntary contributions from companies relying on genetic data from nature, such as pharmaceutical or biotechnology companies.

Is there room for a Fund into which businesses voluntarily contribute to nature restoration? And will voluntary contributions be enough? Among the many lessons learned from our global experience of voluntary carbon markets, one that may sometimes get lost is that voluntary markets do not meet the scale of investment needed. At some point, governments may have to tell businesses at a national level what they expect from them in terms of contributions to environmental goals at a national level, translating their National Biodiversity Strategy and Action Plans (NBSAPs) into a sectoral plan for delivery. This would be a replication of the approach taken in developing sectoral plans for national net zero targets.

Is there room for a Fund into which businesses voluntarily contribute to nature restoration?

There is much to discuss, and importantly, several aspects that require testing. As part of the Revenues for Nature Project, the partners have established the Public-Private Community of Practice for Nature and Development Finance, which is open to all. Through this group, the Revenues for Nature project will actively engage governments, corporates and financial institutions alongside representatives from Indigenous Peoples and Local Communities to understand how we can improve the impact, permanence and inclusivity of current models and mechanisms, and identify where these can be replicated.

If you would like to receive updates about the Revenues for Nature project, please join our newsletter here.

Disclaimer

This publication has been made available to you for information purposes only. Nothing in this publication is to be construed as legal, tax, investment, financial or any other advice by Green Finance Institute Limited ('GFI'). This publication does not constitute, and is not intended to constitute, an invitation, solicitation, recommendation, endorsement by GFI or any third party to take any particular course of action (including, but not limited to, entering into any financial arrangements) in the United Kingdom or in any other jurisdiction. It is not intended to be relied upon by users in making (or refraining from making) decisions of any nature (including financial or investment decisions).

The information contained in this publication is of a general nature and does not address the circumstances of any particular individual or entity. Certain information contained in this publication has been obtained from or is based on sources that GFI believes to be accurate and complete. This publication is not, and does not purport to be, a comprehensive or complete statement or reflection of the matters set out herein. GFI cannot guarantee and does not take responsibility for the accuracy or completeness of the information contained in this report. Any opinions set out in this publication may be incorrect and may change at any time.

In reading and accessing this publication, you alone assume the responsibility of evaluating the merits and risks associated with the use of any information contained herein before making any decisions on the basis of such information or content. GFI accepts no liability for any losses or damages (whether direct, indirect, special, consequential or otherwise) arising out of opinions, errors or omissions contained in this publication, and it excludes all liability arising from this publication to the fullest extent permitted by law.

You should not base any investment or financial decision solely on the basis of the information contained in this publication. Where relevant, you should seek appropriate legal, tax, investment, financial or other professional advice.

GFI is not a registered investment adviser and it is not regulated by the Financial Conduct Authority.

December 2024 | comms@gfi.green