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Electric scooters in the World Heritage Site of Luang Prabang in Lao PDR. The World Bank is conducting a study of ways in which the city can enhance green mobility and make its tourism industry more sustainable. —PHOTO: AIDEN GLENDINNING / WORLD BANK

FINANCING TO SUPPORT THE TRANSITIONS

Meaningful climate action will require scaling up finance. This is especially important to help poorer countries make large investments in global public goods, such as reducing coal use, and to finance adaptation efforts, which require upfront costs but yield growing benefits over time. Developing countries will need an estimated $4 trillion per year in investments up to 2030 to build infrastructure to meet their development needs.[63] These investments would enable developing countries to build sustainable and resilient infrastructure, create new jobs, and sometimes leapfrog to low-carbon solutions. Current finance flows fall far short of that figure, however. To successfully achieve climate and development objectives, the world must mobilize trillions of dollars in the coming decade. Existing public, private, and concessional climate finance needs to be deployed in more transformative and catalytic ways, leveraging additional capital to bridge the gap between available resources and needs.

The WBG will continue to play a critical role in mobilizing finance at scale for climate action. IBRD, IDA, and IFC have a financial model of issuing AAA-rated bonds in capital markets, which leverages scarce shareholder capital with substantial private capital mobilization (PCM). For example, since inception, IBRD has directly mobilized capital market resources to provide development financing volumes that are 40 times the amount of capital provided by shareholders.

Along with the WBG committing, on average, 35 percent in climate finance and at least 50 percent of IDA and IBRD climate finance for adaptation, we will use our tools, platforms, and convening power to mobilize international, domestic, concessional, and private finance for mitigation and adaptation. The WBG will structure financial packages that include guarantees, insurance, risk mitigating structures, and capital markets instruments to address incremental costs and other barriers to carrying out the five key transitions outlined in Section III.

To increase the financing available and maximize the use of finance for climate action, the WBG will focus on: (i) helping client countries boost their public domestic resources; (ii) increasing mobilization of international and domestic capital, including catalyzing domestic private capital; and (iii) supporting global efforts to raise and strategically deploy concessional climate finance to de-risk climate investment.

Well beyond WBG financing alone, the broader financial sector, encompassing both the public and private sectors, can and must play a key role in mobilizing capital for green and low-carbon investments and managing climate risks. In emerging markets, the ability to scale green finance provides a pathway to greening the real economy, including by helping high-emitting sectors transition to low-carbon alternatives. The WBG will support greening the financial sector across emerging markets through its work with central banks, national development banks, and private sector financial institutions, including through targeted advisory engagements to equip clients with the necessary frameworks to create enabling environments and risk mitigation practices to embrace climate action, while also enabling innovative and scalable funding mechanisms in support of sustainable investments.

BOX 8

Building Country Financial Stability and Integrity

Regulatory and policy reforms are crucial to greening the financial sector, incentivizing low-carbon, sustainable investments in the real economy, and requiring the sector to address financial risks from a changing climate. The creation of global standards is critical to develop a credible class of climate assets that is recognized by global investors. The WBG is supporting this work through the Coalition of Finance Ministers for Climate Action, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), the Sustainable Banking Network (SBN), and the WBG's close relationships with financial sector standard-setters.

Through both the public and private sectors, the WBG will work toward ensuring that valuation, trade, product, and disclosure standards and requirements are truly global and can be applied in proportionate and appropriate ways in the context of developing countries' markets without unintended consequences that could undermine sustainable investment and capital mobilization in developing countries. The WBG will support market discipline by contributing to transparent rules for disclosure to generate positive externalities that will move markets in a climate-oriented direction. The World Bank will work to build capacity of financial authorities and support regulatory and supervisory reforms that are a prerequisite to scaling green finance through the financial sector. For example, the Bank will work with clients to introduce climate risk in the regulatory framework, and IFC will work with banks to adapt their reporting to the new requirements and help them design financial instruments to green their balance sheets.

The WBG is working to stimulate uptake of such reforms in investments and risk management by the private sector. The "30 by 30 Zero Program", led by IFC and supported by World Bank work on regulatory and supervisory issues, aims to increase the share of climate business in participating banks' portfolios to 30 percent while reducing coal exposure to zero or near-zero by 2030. To achieve this, the program will work to align financial sector policies and strategies with the implementation of NDCs. MIGA is also working with its banking clients to reduce their coal exposures and scale up their climate finance activities. IFC and MIGA also plan to develop an advisory program on climate risk assessment and management for select client financial institutions, and it will share best practices under the Task Force on Climate-related Financial Disclosures (TCFD).

The WBG will also step up support to countries and companies to address financial risks that arise from both slow-onset and sudden-onset climate change impacts. The World Bank is helping countries protect their populations through the Disaster Risk Financing and Insurance Program (DRFIP). The program provides technical advice and grant finance to implement comprehensive financial protection strategies, bringing together sovereign disaster-risk financing, agricultural insurance, property catastrophe risk insurance, and scalable social protection programs.

With respect to financial stability risks, the World Bank embeds climate and environmental risk and opportunity assessments into the Financial Sector Assessment Program (FSAP), jointly with the IMF, and conducts climate risk assessments and stress testing as part of broader climate-related technical assistance programs. This work builds on, and will be increasingly integrated with, foundational macroeconomic climate risk modeling work, including disaster risk scenarios. This includes a focus on transition risks—meaning exposure to abrupt policy, legal, technology, and market changes driven by the need to reduce GHG emissions and physical risks. The World Bank and IFC are also supporting the establishment of the Taskforce on Nature-related Financial Disclosure (TNFD), which is modeled on the TCFD and seeks to create a framework for FIs and companies to assess and report on material financial risks associated with biodiversity loss and their impact on biodiversity. MIGA is also leading on the development of the first political risk insurance country assessment methodology to incorporate climate risk in its ratings typology.

Source: World Bank.

BOOSTING CLIENT COUNTRIES' PUBLIC DOMESTIC RESOURCES

Public finance and domestic resources, including state-owned banks, will be critical to financing global public goods, such as adaptation, mitigation, and a just transition. The WBG will help client countries increase resources for climate action and build fiscal buffers to prepare for climate-related shocks through domestic public finance (including financing released through asset recycling) and realigning incentives through fiscal policy, such as carbon tax and subsidy policies. Specifically, the World Bank will support fiscal reforms, including fossil fuel subsidy reforms, to increase domestic resources for mitigation and adaptation, as well as efforts to improve tax administration. The Bank will help countries to adopt a budgeting approach that prioritizes climate-responsive investments to move from greening projects to greening economies. In that context, the Bank will provide technical assistance to countries to assess the fiscal impact of public-private partnerships (PPPs) for sustainable infrastructure.[64] In addition, the World Bank will provide technical assistance to countries to prepare for and implement carbon pricing. The WBG will support countries in building systems and approaches for domestic carbon markets and for participation in international voluntary and compliance markets, including technical assistance to prepare projects that generate eligible emission reductions that meet these markets' requirements.

MOBILIZING AND CATALYZING PRIVATE CAPITAL

The WBG will work to catalyze and mobilize investment for climate action by (i) supporting upstream efforts to create new, sustainable, and green markets across developing countries that encourage private investment; (ii) expanding access to private capital and green finance; (iii) building climate capital markets; (iv) working with development partners and through capital markets to support finance for adaptation and resilience and finance for biodiversity; and (v) enabling the catalyzation of domestic private capital for climate investment.

Upstream Support

The WBG has played a key role in opening sectors by working with governments on the reform agenda, advising them on PPP structures, and then investing or de-risking directly, with these sectors subsequently able to attract capital based on foundations laid by the WBG. An example is the green bond space in the Philippines: IFC invested in the first few green bond issuances for a total of $450 million; today, this market issues green bonds for about $3 billion per year. This scaling up would not have been possible without the initial work by the WBG in working with the regulators on the regulatory framework, setting standards, and supporting issuers on the structuring of Green Bonds for the international capital markets. The WBG will scale up using similar approach, leading to catalyzing significant capital into the climate space.

IFC and MIGA will work upstream to help build a pipeline of investable projects for the private sector and will provide advisory support to build market awareness of existing products and solutions, improve monitoring and reporting capabilities, and build pathways to align with climate-related commitments. For example, IFC will work with international programs to green the financial sector through the IFC-led Sustainable Banking Network (SBN). The SBN will continue to coordinate the measuring and reporting of green finance through its 40 member countries, which represent $43 trillion (85 percent) of the total banking assets in emerging markets. Based on the SBN model, IFC has established a new alliance of green commercial banks, focusing initially on Asia. IFC will further scale up the rollout of the Climate Assessment for Financial Institutions (CAFI) tool, a first-of-its-kind impact monitoring and reporting tool for climate impact data that allows users to assess and quantify the climate impact of each project. In addition, IFC's Green Banking Academy, in partnership with Felaban, RENAC (Germany) and other partners, builds knowledge and capacity for banks in Latin America. Building on its success in Latin America, the Green Banking Academy is exploring how to adapt and replicate this model in Europe and Central Asia and in Africa.

Expanding Access to Private Capital and Green Finance

The WBG will work to increase access to private capital for climate investments via guarantees to attract and de-risk private sector investments (equity and debt) and commercial financing to support climate action in developing countries by mitigating real and perceived risks associated with climate investments. As the lack of a bankable project pipeline has been a barrier to private sector mobilization to date, the WBG will support the Global Infrastructure Facility (GIF).[65] In addition, the World Bank is planning a thematic climate guarantee window, which will support risk sharing facilities and innovative financing structures to strengthen the creation of new local currency markets.

The WBG will support client countries' access to ESG investors and build local currency finance ecosystems for key climate transitions in nascent markets through technical assistance and targeted risk mitigation. As leaders in impact investing, IFC and MIGA will help to increase access to private capital by expanding their product offerings, increasing the uptake of and private investment in sustainability-linked loans, ESG-linked loans, and other instruments to connect global investors with climate-friendly investment opportunities in emerging markets. For example, IFC is supporting early-stage ventures for climate technologies through its Cleantech Venture Capital initiative. In addition, IFC's Managed Co-Lending Portfolio Program (MCPP), a syndicated loan platform that has raised $10 billion to date, creates diversified portfolios of emerging market private sector loans, allowing investors to increase exposure or get first-time entry to this asset class. IFC is seeking potential opportunities to expand this innovative program with a targeted impact/climate-focused platform, to give sustainability-driven borrowers access to crucial pools of capital and help increase the amount of impact-focused private investments. MIGA, as one of the only institutions that provide long-maturity guarantees, will be instrumental in establishing continuous climate action, including through the scale-up of its capital optimization product, which is being deployed to support a range of climate loans and other green activities in partnering commercial banks.

IFC will also expand access to green finance through its approach to financial institutions, which represent nearly half of its investments. IFC has a client base of more than 750 financial institutions with $5 trillion of assets under management in emerging markets. This business provides a strong foundation for IFC to continue to lead in the greening of the financial system in emerging markets through new asset classes and redefining sustainable energy finance. To accomplish a green transformation in emerging markets, the financial system needs further capital market development, new types of climate funds, and new investable products that target climate, sustainability, transition, and other environmental benefits which IFC can provide.[66] IFC will step up support for greening equity investments in financial intermediaries (FIs), aiming to increase climate lending and transparency, and to reduce coal exposure in clients in which it has equity or an equity-like exposure. Under this approach, IFC will no longer invest in the equity of FIs that do not have a plan to phase out their investments in coal-related projects to zero or near-zero coal exposure by 2030. It will also require its equity FI clients to disclose publicly their aggregated exposure to coal-related projects on an annual basis.

MIGA will use its guarantee products to support the greening of FIs, with a focus on promoting the implementation of climate-friendly sustainable financing practices. MIGA's engagement with FI clients is serving to direct the use of proceeds of MIGA-supported finance, or the capital relief facilitated by MIGA's capital optimization product, toward adaptation and mitigation investments, while helping to strengthen those clients' climate risk strategies whenever possible. In particular, MIGA's capital optimization product is proving a successful instrument for engaging with financial institution clients on greening strategies. In step with IFC's approach, MIGA will no longer support FI clients that do not have a plan to phase out their investments in coal and coal-related projects over an agreed period of time, but no later than 2030, and will develop disclosure frameworks for its FI clients.

MIGA will also provide advisory support to FI clients to help them green their portfolios, grow their climate finance business, and mainstream climate risk assessments, including by (i) evaluating the clients' existing capacity and providing guidance on organizational constraints and knowledge gaps related to climate change management; (ii) evaluating their existing portfolio of investments and providing insights on climate finance opportunities in specific markets and regions; (iii) educating clients on relevant climate-related policies, regulations, and low-carbon and climate-resilient development trajectories; (iv) conducting capacity building centered on tools and methodologies to facilitate better carbon and climate risk management; and (v) providing guidance on enhanced climate-related financial disclosures.

Building Climate Capital Markets

The WBG will step up its efforts to develop countries' green bond and loan markets and other innovative financing instruments, including sustainability-linked loans and green mortgages. The WBG will develop tools such as green taxonomies, green bond standards, and supportive risk and reporting regulations to help address these issues. The WBG will also support public institutional investors in integrating climate and broader environmental, social, and governance (ESG) considerations in their investment strategies. IFC will support the growth of green, blue, and other climate-relevant bond markets in emerging markets by developing bond market guidelines and policies in line with international standards. IFC is starting to define criteria for its investments in transition bonds, an increasingly popular asset class for the energy sector, which aim to decrease activities' carbon intensity and set institutions on a path toward further GHG reduction.

IFC will also support the establishment of local markets by issuing local currency bonds and will help banks issue their own green bonds by providing guarantees, acting as an anchor investor, and providing advisory services and tools to help clients develop, issue, and track green bonds. This work will provide emerging market clients with access to a wider investor base and pave the way for future issuances without enhancement. IFC will also support the green bond issuances of manufacturing, agriculture, and consumer services sector clients, targeting those who have made public climate-related commitments. IFC's green bond funds—the Amundi Planet Emerging Green One (EGO) Fund and the HSBC Real Economy Green Investment Opportunity (REGIO) Fund—aim to stimulate both demand and supply of green bonds in emerging economies and are anticipated to spur investment in adaptation and mitigation projects. The long time frame and large size of these funds is expected to increase the scale and pace of climate finance in emerging markets significantly by crowding in capital from investors and creating new markets. IFC will seek to replicate this model to further develop the green bond market and capitalize on this vast opportunity. Through its Green Bond Technical Assistance Program, IFC is exploring ways to encourage bond issuers in emerging markets to disclose material ESG performance indicators to increase investments in emerging markets as well.

Finance for Adaptation and Resilience and Biodiversity

The World Bank will work with its development partners and through capital markets to crowd in private capital for client countries' adaptation and resilience priorities. The Bank will engage with trust funds such as the Public Private Infrastructure Advisory Facility (PPIAF), which has launched dedicated support through the Climate Resilience and Environmental Technical Advisory (CREST), to deepen climate risk analysis in private participation projects upstream. The Bank will also work with the Quality Infrastructure Investment Partnership (QIIP) to help countries draft or update adaptation strategies and develop policy measures and analyses of investable initiatives.[67] The Bank will also provide support through financial instruments, such as its guarantee program, which will explore launching thematic climate windows to support clients to adopt climate adaptation and resilience technologies in nascent markets. Further, the Bank will employ capital markets to support client countries that suffer losses arising from climate-related disasters. The World Bank Treasury's Capital at Risk Note program issues catastrophe-linked bonds (CAT bonds) that offer payouts when an earthquake or tropical cyclone meets the predefined criteria under the bond terms. These bonds facilitate risk-transfer solutions to Bank's clients using capital markets, where the investors' principal bears the potential risk of disaster losses.

For biodiversity financing specifically, the WBG is committed to helping bridge the financing gap by bringing governments and the private sector together to fund investments to reverse global biodiversity loss. A recent WBG report highlights two approaches to mobilizing private finance for biodiversity.[68] First, it assesses opportunities for "financing green"—that is, financing projects that contribute to the conservation, restoration, and sustainable use of biodiversity and ecosystem services. Second, it looks at "greening finance" by directing financial flows away from projects with a negative impact on biodiversity and ecosystems.

Enabling Domestic Catalyzation

The WBG will leverage both its upstream work as well as its direct investments to enable more private capital mobilization and support the creation of new markets. Leading by example will allow the

WBG to support the significant scale up of investment flows toward climate friendly purposes across developing countries.

The WBG will provide advisory work to client countries to develop scalable platforms, including in solar, wind, and other key infrastructure sectors to build momentum and crowd in private sector investment. The World Bank will employ diagnostic tools, such as Infrastructure Assessment Programs (InfraSAPs), to help prepare the foundations for PCM in client countries and scope lending and non-lending operations that are aligned with both PCM and climate priorities. IFC will support climate capital market development through standard setting and active demonstration. MIGA will complement the World Bank and IFC's upstream policy and market creation work by incorporating insurance or de-risking solutions which have proved instrumental in the creation of new markets.[69] For example, MIGA is collaborating with the World Bank to explore de-risking the exchange of mitigation outcomes in international voluntary and compliance markets.

CONCESSIONAL FINANCE

The scale of resources required to fund climate action on adaptation and mitigation is immense. New sources of concessional finance at scale will be essential. The WBG commits to mobilizing significant resources and building global partnerships and alliances to support its clients and achieve our climate goals.

Concessional finance is critical to de-risk, leverage, and mobilize additional financing for climate action and achieve our climate goals. Concessional finance helps leverage private capital to develop and scale new climate-smart technologies and business models in emerging markets and plays an additional foundational role in catalyzation of private capital into developing countries. Concessional finance also serves as a de-risking tool to bridge gaps in commercial markets. It can enable opening new markets, investing in projects in IDA and FCS countries, and scaling up climate finance for decarbonization in middle-income countries.

IDA, with its significant balance sheet leverage and its country-based relationships and know-how, is a unique and highly impactful vehicle for climate concessional financing. The World Bank will, first and foremost, use IDA19 and IDA20 funds to support countries with concessional climate finance. The WBG will strategically deploy other sources of concessional finance.

The Bank will raise and utilize concessional finance through several umbrella trust funds and financial intermediary funds, which will allocate finance, provide technical assistance, and support flagship analytical and knowledge work that contributes to countries' climate and development policies and plans. In addition, the World Bank support global efforts to mobilize and deploy concessional climate finance through the Climate Investment Funds (CIFs), the Green Climate Fund (GCF), and others to catalyze country-level and private sector transitions.

IFC and MIGA will continue to use blended concessional finance, particularly in countries where the private sector faces higher risks or uncertainties associated with new, unproven technologies or first-of-their kind projects. Replicating the success of Scaling Solar and other similar initiatives will support private capital without concessionality once early efforts are successful or as risks are reduced.

IFC and MIGA will also leverage concessional finance to help offset the high cost of bringing innovation and technology into emerging markets and incentivize a faster decarbonization. To maximize climate impact, this funding will need to be flexible in terms of geography (including IDA and MICs), technologies, and financing instruments selected. To date, in many of the countries where IFC and MIGA operate, funding sources that are optimal across those dimensions have been very limited. When used and designed effectively, these funding tools will work to drive climate action to benefit vulnerable populations, and others, by using blended finance to de-risk climate projects, push innovative solutions that will achieve the climate impacts intended across client countries and markets, and target commercially viable investments to crowd in private sector funding. This work will complement IFC's upstream approach, which helps to establish the conditions in a country that lead to private sector investment.