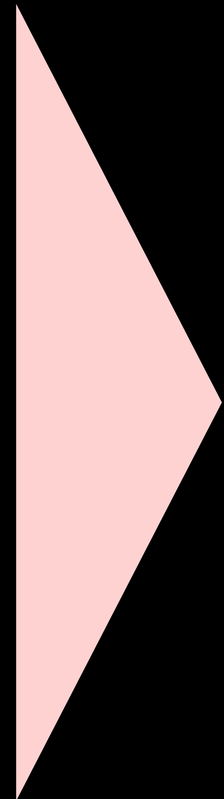
Making the NCQG a real catalyst of private sector climate finance



ICC

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At the conclusion of COP28, the global business community unequivocally welcomed the successful adoption of the UAE Consensus as providing a clear path to keep global temperature increases to 1.5°C. We believe that COP29 must now deliver a financing outcome of equivalent ambition to enable the full implementation of that framework across all countries.

Without adequate investment flows the world will not be able to embark on the transformations needed to decarbonise global energy systems, speed adaptation efforts and foster climate-resilient development. An ambitious, actionable and comprehensive New Collective Quantified Goal on Climate Finance (NCQG) can serve as a vital catalyst for mobilising the trillions of dollars needed to bridge longstanding climate investment gaps.

The business community recognises that any future NCQG must encompass a strong and central public finance commitment—in keeping with the scale of climate finance needs of developing and climate-vulnerable economies. But—given that almost half of climate finance today is provided by private actors—we also urge governments to seize the opportunity to incorporate in the NCQG an "outer layer" setting out an actionable roadmap to align the global financial system with the goals of the Paris Agreement.

Such an agenda should focus on the following three high-priority actions :

1. Alignment of financial stability regulation with global climate goals:

We are cognizant that there is a growing body of evidence that existing macroprudential rules —such as Basel III—act as an inadvertent barrier to the supply of climate finance to developing economies. This dynamic has been exacerbated by the impact of sovereign downgrades since the Covid-19 pandemic on the regulatory capital weightings applied to investments in a swathe of developing markets.

In this context, we believe that the NCQG should mandate the establishment of a structured dialogue—bringing together international standard-setting bodies, financial regulators, central banks and development institutions—to assess the impact of global macroprudential rules on essential climate finance flows.

Such a dialogue should address, as a priority, potential mechanisms—without unduly jeopardising global financial stability—to:

(i) avoid automatic increases in regulatory capital charges for existing assets in instances of sovereign downgrades;

(ii) provide enhanced capital treatment for critical sustainable infrastructure projects that meet recognised international quality standards; and

(iii) ensure regulatory capital relief for exposures covered by multilateral credit guarantees for climate-related investments.

2. Position multilateral development banks as genuine catalysts of private finance:

We recognise the genuine innovation from multilateral development banks (MDBs) in recent years in the sustainable finance space. However, it is important to recognise existing limitations in MDB interventions. By way of example, development bank financing for clean energy projects only mobilises 1.3 times the amount of private investment—far from the level needed to meet the climate financing needs of most developing markets.

Addressing this challenge will require a significant transformation in MDB investment strategies and a readiness to take on more calculated risks—including a greater focus on equity investments and early stage grants to attract private capital for critical projects. In short, we would like to see MDBs become true catalysts for private investment: COP29 has the opportunity to send a clear signal of intent in this regard.

3. Create robust domestic investment regimes:

It is vitally important that countries create the right domestic investment environment to attract private investment in climate-related projects. This can be best achieved through robust, coherent policy ecosystems that provide the needed clarity, predictability and confidence to private investors.

Such frameworks should include:

(i) clear national emissions reductions targets (with broad based political support);

(ii) robust investment protection laws;

(iii) sound permitting and regulatory processes for major infrastructure projects;

(iv) strong offtake markets for energy investments; and

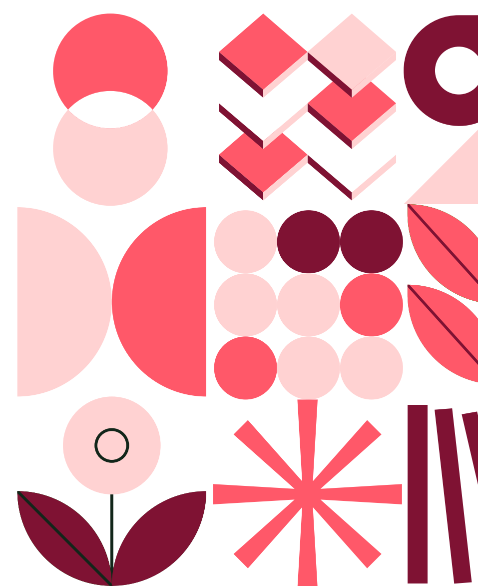
(v) appropriate fiscal incentives for sustainable infrastructure.

In this context, we believe there is an important opportunity for the NCQG to encourage all United Nations Framework Convention on Climate Change (UNFCCC) parties to embed financing plans and investment roadmaps at the centre of all Nationally Determined Contributions to be submitted in 2025.

Governments and regulatory bodies undertook an impressive and concerted programme to address the failings of the financial system in the wake of the 2008 financial crisis. A comparable action agenda with concrete outcomes—and bringing together promising existing efforts—is now required to enable the financial system to fully play its role in addressing the climate crisis.

Given the complex and multidimensional nature of the challenge of mobilising climate finance, a concerted effort on all fronts is required. There is no silver bullet, but we believe the NCQG—if appropriately calibrated—can serve as a catalyst to properly align the global financial system in line with the objective of Article 2 of the Paris Agreement.

ICC stands ready to leverage the expertise and the resources of our global business network to meet this formidable challenge head-on in the implementation of any decisions taken at COP29.



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