present

DELIVERING ON THE PROMISE OF CLIMATE FINANCE *AT LAST*

Part of the Edinburgh Science Climate Co-Lab series

CHAIR

Ed Crooks, Vice-chair Americas, Wood Mackenzie

PROVOCATIONS

Ambassador Patricia Espinosa Cantellano, Former UNFCCC Executive Secretary, Former Minister of Foreign Affairs of Mexico, Ambassador Emeritus of Mexico, CEO and Founding Partner of onepoint5

Mohamed Sultan, Regional Lead Africa, Global Methane Hub

Nigel Topping CMG, UN Climate Change High-Level Champion at COP26, Member UK CCC, NED at UKIB

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LEADERSHIP AND NEW MINDSET
FOR A JUST TRANSITION

Welcome

Ed Crooks

I would first like to welcome the person who has very generously hosted us here today, Professor Dame Heather McGregor, Provost of Heriot-Watt University out in Dubai. Thank you.

Professor Dame Heather McGregor

Thank you everybody. Welcome to this evening's event, we're really very pleased to have Wood Mackenzie and Edinburgh Science here and there has never been a more important time to talk about climate finance. I'm delighted to welcome you but sadly I must leave you because we are amazingly having three different things going on at the same time.

I should tell you that by welcoming you to the Climate Hub it is really important for us as a university, to be part of the solution and this University, Heriot-Watt, has been going since 1821.

We were founded to help people up-skill and get better jobs in 1821 and in 1821 we did all our teaching at night so that people could work in the day. It was revolutionary in 1821 but we're still doing it in 2023, in Dubai, because we teach all our postgraduates here at night so that they can work during the day.

As a university, for those of you who don't know us, we are very heavily focused on science. We are the sort of MIT of Scotland. All that there is here at Heriot-Watt is science and business. There's nothing else. You can't study History of Art or French Literature. We have a mission-led approach to trying to solve some of the big challenges of the world and there isn't a bigger challenge, of course, than the climate emergency. We have got one generation to solve it, which is really quite a sobering thought. But what is important is that we have lots of different talented people that will solve this.

It's not just what goes on in the lab. The people next door are the United Nations Council of Engineers, they're all in the lab. But it's not just in the lab that the battle will be won. To get there we are going to need every single solution including the financial solution. I commend this evening to you, I commend Herriot-Watt to you.

I should tell you that we've turned over the top two floors of this building for the whole of COP. On the floor above, with the help of and all credit to, The British Government and with the help of a grant from the Gulf Strategy Fund, we have brought out 14 of the most promising clean tech firms in the UK. If you have a chance to come back at any time we would love to see you. Thank you very much.

Dr Simon Gage

Well, a warm welcome from me as well. I'm Simon Gage, I'm Director of Edinburgh Science. I'm going to be brief because the meat of the evening is really what you're here for.

We're an educational charity. We come out of Edinburgh, we started science festivals globally and then came to the UAE and we ran festivals for a decade, so we have a lot of affection for this part of the world. These conversations – and this is a conversation, it's not a conference – you are going to do some work here – were stimulated by Christiana Figueres, who came to the Edinburgh Science Festival in 2019. It was a remarkable experience. She came to receive an award and one of our board directors said, "well, if you're getting her there, get every Chief Exec you can possibly get your hands on and put them in the room with her." At short notice, we did this. We do know quite a lot of CEOs of banks and tech companies and Principals of universities and government ministers and we put them in a room. She inspired them, saying of the need to respond to climate change:

It's you, it's now and it's faster than you ever imagined. I'll be back in eight weeks and you're going to tell me what you're going to do.

And she did come back in eight weeks and it was wonderful.

We sat in the boardroom of Baillie Gifford, which is one of the biggest fund managers in Britain, and she just looked them in the eye and said, "yeah, okay, do it. Do it, be faster, do it now". That stimulated us to keep these discussions going.

The value of these discussions is that you meet people, you are essentially the coalition of the willing, so you're in good company. We find people make connections that enable them to travel faster, arrive at solutions that they didn't know about and get information they didn't have before. And some really substantial material partnerships have come out of this.

One of them is running to billions of pounds of investment, so it's a good place to make some good friends.

The rules of the game are we make a record of the conversation but nothing is attributable. It's the time to be frank, it's the time to be open it's the time to be direct and that's the sort of conversation we hope to hear. Thanks to Heriot-Watt for hosting us. Thanks to Wood Mackenzie for enabling us to do this.

I hope it's going to be wonderful.

Ed Crooks

Thanks very much indeed to Edinburgh Science for partnering with us at Wood Mackenzie.

Thanks very much, Professor Dame Heather, for hosting us as well here at Heriot-Watt, this fantastic location. I'm Ed Crooks, I'm Vice Chair for the Americas at Wood Mackenzie, which is an energy and natural resources research and consulting firm.

COP28 is absolutely at the heart of what we do. It is critical for our industry and all the work that we do at Wood Mackenzie and it's a great pleasure and privilege to be able to be taking part in these events over these couple of weeks. As Simon was saying, the Climate Co-lab is a somewhat different kind of format from your usual kind of conference or panel discussion.

We're going to talk through this series of provocations and then try to perhaps draw some conclusions about the overall picture for Climate Finance and how we can, as we say, at last deliver on what feels like many, many years of failure and not a great record of success in the past.

I'm delighted to welcome Ambassador Patricia Espinosa who will be familiar to all of you, the former Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC).

Provocations

Ambassador Patricia Espinosa

Thank you. Thank you very much, Ed. And thank you for what you do at Wood Mackenzie and also for allowing us to come together tonight here. Thank you. Simon and the whole team of Edinburgh Science and again, let me congratulate you also for the work you do. If some of you have not been to the Science Festival, I really recommend you go. It's amazing. It's fantastic in that beautiful city of Edinburgh. I was very happy and honoured to be part of the activities this year. I want to apologise also from the beginning, because I will need to leave. Something came up, and I will have to leave but I will have my very good friend Nigel brief me and tell me all about the discussion and how many of you disagreed with what I'm going to say.

Finance has been really at the centre of the climate change multilateral process since the very beginning and I have had the opportunity to be part of those discussions since 2009 in Copenhagen, which was the first time that the figure of the $100 billion was presented.

There was a group of very eminent personalities working on that, including Nick Stern and some others who were trying to do calculations on what could be a figure that could be put on the table at the end as happens in the multilateral negotiations.

The $100 billion figure was one that would be easy to remember, that could be seen as something that was significant at that time.

It seemed very difficult, we're talking about 2009, right? But why is that figure so important? Or why has it been so important? Because it constitutes one of the main pillars of the whole climate international climate change process.

We have mitigation, we have adaptation and we have, what we call in the process, means of implementation. Mainly, when people talk about means of implementation, they think about finance. It is not only finance. It also includes capacity building and it also includes technology. But finance has been in many ways, the reason why many countries decided to join this effort to address jointly, as an international community, climate change.

I had the honour to preside over the conference in 2010, after the conference in Denmark, in Copenhagen. It was always one of the elements that I was raising with people from different countries when I was trying to convince them that the world, we all needed an agreement. And so my point there then and still now is:

If we do not have an agreement, if we do not have a framework, we all are going to lose. There is nothing to win by disagreeing and there is much to win if we can agree.

For the small island countries, for many of the very vulnerable and very exposed countries, it's really since then the hope that they could be supported in a very specific and different way than the traditional official development assistance in their processes to develop and to become modern countries. This has been really the point behind it. I was told it's a provocation, so maybe some of you can disagree with that but in my mind, this is why so many developing countries have put their hopes behind it. It's a way of addressing so many challenges that they would not be able to address through the traditional means.

What has happened throughout these 13 years is that the consequences of climate change have only become worse. This reaffirms the need to continue to be working on this.

I am frequently asked, why are you an optimist? Well, first, I like to be an optimist, I don't like to be a pessimist. But secondly, I think this is something that we cannot afford. Every one of us that can contribute, even those who think they cannot, we have that obligation – to ourselves and to the future generations.

Where are we now in terms of climate finance?

Firstly, apparently the developed countries are likely to put together the $100 billion by this year. But we will not really know about that until in two years when we have some reports that reflect the actual figures. For me, really in this year, in the 21st century, that's something that is not acceptable. How can we say that we cannot get the real-time picture of where we are in terms of climate finance? I don't think that's acceptable. And I have fought against that. I have raised this issue in multiple fora and the fact that it remains like that. This is something that I believe should be addressed.

I think the world has enough technology but also enough bright minds that could make it happen so that by the time people come to COP here at this conference, 133 heads of state and government, that really they can offer a real picture of what is going on. Where are we? And then there can be discussions about is this really climate finance or not? There can be discussions, but something like just saying no, we have to wait two years until we have the real picture. In two years it's history, right? It doesn't matter, it's not important, it's irrelevant.

The other point is we come here and we say every year, we cannot continue with business as usual. This is terrible. The urgency is there. I don't need to tell you much more about how urgent and how critical the situation is. I think I would underline only that it is very clear that climate change has also become a threat multiplier.

Whatever challenge there is in a society, climate change is making it only worse. And we do have many challenges around the world.

This is really the time where we need to have a completely different mindset. What do I mean by that?

I think it's a time where we need to really acknowledge, and we need leaders to acknowledge that it is not about how much can you pledge, how much money will you be able to contribute? Why? Because that's the same mindset of the past.

This is a time where we need leaders to really acknowledge that it is not about giving to others, helping others. It is about investing in our own future. It is about investing in what is going on in our countries. And I also challenge people to think: if you don't yet have somebody close that has been affected by the effects of climate change, you will experience it very soon. That is something that we really need to take very seriously.

Now, what do we need in order for that to happen? We need, of course, societies to become more aware and to really ask their leaders to address this seriously.

In Germany, there was a lawsuit promoted by a group of young people and they won. And then the parliament had to go back and review the law and lawsuits are multiplying. I would hope that we wouldn't need the lawsuits for people to act, because at the end, it's also an investment of resources in something that is not really doing the job that we need to get done. But I think this is something that we really need to see happening.

What else do we need to see happening?

I think we need to see really much more collaboration and dialogue between the private and the public sector and much better understanding of what the challenges are. It's evident that the public finance is not going to be enough and is not going to solve all the problems. We need those actors really to work together. And to work together, by the way, also with civil society. In my view, what is happening in general regarding global governance is that the structures that we have are not yet reflecting the reality of the world we are living in.

We are still operating with a financial system that was put together so many years ago, the Bretton Woods Institutions and the reality today is completely different. That means that governments alone are not the ones who can solve any of these problems, not the Sustainable Development Goals, not climate change.

We really need to get those global frameworks changed and some progress has been done. And I do want to recognise the efforts by Nigel in his role as a [climate] champion in bringing in the private sector, in making the point and making the argument in a very good way. But we're still very far.

I am personally encouraged to see so many of the private sector leaders coming to COP and really willing to engage. So changes are starting to happen, but we need the push of society for it to become a transformation.

Thank you very much.

Mohamed Sultan

Good afternoon, everyone. It's a bit intimidating to be at the MIT of Scotland in Dubai and it's also intimidating to follow that. What I want to speak about today is something that was touched upon briefly before and coming from the perspective of the part of the developing world; I'm from West Africa.

What I want to discuss today is the need for greater collaboration and cooperation to achieve common objectives. And there are a few things in particular that I would like to highlight and push all of us on from a finance perspective.

Of course, we're living in a bit of a fractured world politically. We're living through sort of a time of greater conflict, of disruption and that leads certain countries or places to think more about national stability than necessarily global cooperation. In many ways it makes a lot of sense. You're responding to the constituency that elected you or where you feel that change must come from.

I truly believe that unless we're able to balance those national interests with global objectives, between objectives of supporting global development and climate, then we may just run in circles and we may come back to the starting point because emissions are going to be rising in the places that are overlooked today. There is going to be great development in places that have very high population growth. There is going to be this development and that is needed and necessary because people's lives and dignities are at stake. They will need to produce more food, they will need to consume more, they will need to find energy sources, they will need to transport, they will need to build cities. And that is absolutely normal. They have an opportunity and we have an opportunity to front load what we've learned with investments alongside them, particularly under their leadership, to make sure that we're not getting back to a situation where we're in an extractive system that continues to fuel climate change.

There are many, many ways that this multilateral approach happens. And we're here at COP, it's the epitome of discussions internationally but I would like to focus on four areas where I believe that we can hone in on the financing side.

There are a number of national plans across the world, in the US, in Europe, that are meant to prop up domestic industries, particularly alongside renewables. In many ways they make tremendous sense and they will accelerate national capacity. But they may also contradict one another and they may break down value chains and ultimately lead to not as stark of a reduction in, let's say, the price of the rollout of renewables in the developing world where that is most needed. These dynamics where you have countries competing and yet when they know that ultimately, they need to be cooperating, is happening more and more. We're encouraged by some of the overtures between the US and China. That's great what we're seeing around technology developments, but we need to see much more of that.

I'll take an example, there's a few ways this potential coordination around research, partnerships, and let's say around renewable energy in particular can facilitate an environment to create more incentives.

You have to safeguard the governance of research and rollout of technology for multilateral development banks or for pools of resources that deal directly with the developing world. There's an opportunity to harmonise and actually make these investments more targeted.

Finally, there's opportunity for a sort of triangular engagement, including joint financing and more targeted financing.

The second aspect that I want to speak about is critical minerals and critical minerals are fundamentally different from fossil fuels. For one thing, they're very concentrated in a limited set of countries, most of them in the global south, that are organising around how they're going to make these available along the value chain. It is a very different proposition for investment and fossil fuels. They don't create as much rent and they're also not as disruptive to the energy security, but very disruptive to the energy transition. So how the investment world and how financing decides to think about how we organise access and the management of critical minerals in the developing world is going to hugely impact the rollout of renewables across the world. How we deal with that is a matter of governance, is a matter of targeted finance, is a matter of greater transparency, cooperation and frankly, building up the places where those minerals are coming from much higher up the value chain than if we stay within an extractive system that hasn't worked for many developing countries. I come from Africa, there's many examples of them. We're just going to be fuelling poverty and we're not going to be able to address the climate concern.

There's an opportunity to help countries realise opportunities alongside value chains, regional cooperation, really important for countries to pool resources, accessing deals at a wider scale, not on a country by country basis, but certainly across countries, harmonising greater coherence on responsible and sustainable transparent value chains.

This is really important from an investment perspective, especially as Environmental and Social Governance (ESG) regulation increases and is more and more important to the investment space. The other thing is, in this critical mineral space, 54% of all critical minerals are located on community and indigenous land. That is really, really important because it heavily affects how those minerals are then extracted. The impact that they have not only on the environment, but on social life and social dynamics.

The flow of finance needs to fundamentally think about its impact there and how it can better process that to fundamentally minimise the risk associated with it.

Trade on trade. We've got import standards coming up on energy, we've got the Carbon Border Adjustment Mechanism (CBAM) coming up. The recent study by the London School of Economics and the African Climate Foundation found that the potential impact of the CBAM could lead to a loss of revenue of about $25 billion for African countries. That may not seem a lot but that IS a lot. That is quite a bit for countries that are already struggling to finance their own development and finance and support a global climate effort.

We need to be thinking about trade rules and intellectual property and how we invest in ways that we can distribute it, so that the poorer people, the ones that are ultimately affected, but that are part of the solutions, are not, again, feeling the brunt of it.

Technology transfer is the same thing. Africa has 40% to 60% of solar renewable capacity but it has 1% of the renewable investments. Last year it produced as much renewable solar as Belgium. What are we doing? What are we talking about? The money is just not going to the places that it could be going. Solar is not as cheap as people say when you're a country and you're borrowing at 15% and the perception of risk in your country doesn't match reality.

For all of you that are following the finance flow, the African Union is trying to set up its own credit rating agency. Why? Because it doesn't make sense. Some countries had higher risk premiums than Argentina amidst its crisis a few years back, countries that have never defaulted. I think it's really important to think about the structural questions of why finance doesn't flow to where it needs to flow and the structural levers that could change it.

Two more things. You've all followed the Just Energy Transition Partnerships (JETPs) in South Africa, in Indonesia and across the world. These are individual plans for transitions and they are really good at crowding in resources. They're still very much debt driven, not a lot of concessional funding and they're still very much country-led. There's a huge opportunity to streamline them from a regional perspective, from a more collaborative perspective, from an investment side, it even makes more sense and we're still not really seeing that. Hopefully we can see that and there's tons of lessons to be learned.

Two final thoughts. I did want to speak about the reason why – I work a lot on emissions reduction in methane and it is obvious to me that the investment world is not yet ready and doesn't fully understand how its capital matches the need of the investors or the people that have the resources and the outcomes that they want to see between development and revenue and climate. I think there's a fracture there and these spaces are not talking to one another: The people that understand the science, the people that are managing the money, the people that are the beneficiaries or the actors, I think there's a huge opportunity to make that happen. And the challenge that I have for you is uncoordinated and unilateral approaches are going to make the transition and climate efforts more expensive, take more time and be less fair than it should be. So, the challenge to this room is:

What are we doing to do to get finance to understand the climate space better so that money goes where it should be in the way that it should, where the most impact could happen?

Nigel Topping CMG

I was told to give a provocation and where I come from, provoking people means being a bit rude and annoying them. My intention in the next ten minutes is to at least make you feel a bit uncomfortable, maybe make you feel personally attacked. If I don't at some point say something where you think "that's bullshit", or "never thought of that", or "he must be crazy", then I've failed.

I really very much agree with what the previous two speakers have said. I just think they're being quite polite, so I'm going to try and break the politeness protocol.

We've talked a bit about the failed promises of finance. I want to provoke you by saying basically three things:

1. You are using the wrong framing in thinking about solving climate change at COPs
2. When you're talking about the failed promise, you're talking about the wrong promise
3. Maybe we need to look much more creatively at some unusual allies, including perhaps far right-wing politicians when it comes to making the arguments to mobilise climate finance.

So why have you got the framing all wrong?

The UNFCCC is not the world. So when you say "Do we need the UN to coordinate it?" No, we don't. The UN has got nothing to do with coordinating it. The world is largely outside of the UNFCCC. Often when we come together in these gatherings, all people talk about is what's on the bloody negotiating agenda. A lot of it is irrelevant to the way most of the world works and when we make the problem of focusing on a small thing, when we're trying to solve a big thing, we do disservice to the big thing.

The UNFCCC framing is all based in the world as it was in 1992. I remember meeting the South Korean ambassador before a visit there when I was in the high-level champion role. I said to him – South Korea will be the 7th biggest economy in the world by 2030, according to the UNFCCC, it's a developing country. Right? But that framing persists in some of the groupings and some of the language within which the negotiations take place.

The UNFCCC is a negotiation entirely between sovereign governments. Sovereign governments don't run the world. They make the rules for the world. But there are lots of other very powerful actors. The state of California is the fourth biggest economy in the world, but doesn't have a vote, doesn't have a seat in the convention. Mexico City, some of the huge megacities in Asia are bigger than most European countries in terms of their population and their economy, and, of course, businesses. If you add up the turnover of Apple and Walmart, then you have more economic activity than the 92 smaller countries in the bottom half of the Pareto by population and Gross Domestic Product (GDP) and the UNFCCC is run by environment ministers. Nearly all the levers for change lie elsewhere. In Finance Ministries, in Industry Ministries, in Agriculture Ministries, in Energy Ministries.

I sat at a roundtable on green hydrogen in Cairo. On either side of me were African energy ministers, both told me that it was the first time they'd been to a COP. So, if you think that all the solutions to the climate crisis are going to be found in the negotiations of the COP, then it's the classic looking for the key under the lamplight mistake.

I don't say that to denigrate the COP. When people say the COP's rubbish, it doesn't work, that's an even bigger crime, it's all we've got. And it is working, but it's just not the only thing. And perhaps worst of all of the wrong framing is the $100 billion. It's just the wrong promise.

We have lost ten years on climate finance by obsessing about the $100 billion. Believe me, if we'd met $200 billion, it would have made hardly any difference because it's a very small part of the problem. My dear friend Mahmoud Mohieldin, who's taught me a lot about Development Finance, who's an Egyptian High Level Champion and was the Trade Minister in Egypt, he did more to drive foreign direct investment as Trade Minister in Egypt than any of his predecessors, before or since. He's now had a career at the World Bank and the IMF. He always says that international climate finance is insufficient, there's not enough of it. It's inefficient, it's not working well and it's unfair and that means everything's wrong. Not much is working. So that's why we asked Nick Stern and Vera Songwe to look at what we need to do to fix it? Not how much could we squeeze out the rich countries? Could we get them to go to $150 billion or $200 billion? How do we know if that's going to solve it. Let's take an engineering approach. What's the problem? What do we need to do and what's it going to take?

The problem is a massive rewiring of the global economy, a massive investment in energy and industrial infrastructure, a massive amount of investment needed in nature-based solutions, food and agriculture and a massive amount of money needs to go into adaptation, resilience, loss and damage. We asked them to look at that and they've actually just published their second report[1], which I think is the beginning of an action agenda for climate finance.

There are three numbers that I want you to remember. None of them are $100 billion, in case you hadn't got that. I'm not interested in that number. I am, of course, interested in it as a token of trust that's broken and that needs to be met. That's what it's about, right? That's very relevant and that's why a lot of people focus on it, why it hurts so much – but it won't solve the problem.

1 https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2023/11/A-Climate-Finance-Framework-IHLEG-Report-2-SUMMARY.pdf

The three numbers I like to remember are:

1. 0.00, empty pockets
2. 17 cents
3. $2.4 trillion

What's zero? Zero is the net amount of money that will go from the multilateral development banking system to emerging and developing economies this year. It'll be negative next year because they don't just disperse money, they take back principal repayments and interest. So next year, the entire multilateral development edifice will be literally, not literally really, but metaphorically making the least developed and emerging economies run to move backwards.

$0.17. That's the average private sector leverage that we get out of a dollar of multilateral finance. I give you a dollar of precious public money and the best we can do is seventeen cents in private finance. Of course, the multilateral system obsesses about how much it's deploying. They don't talk about how much they're impacting or how much they're leveraging, hardly ever. Their budgets are set by how much they deploy and how much fees they get, not on how much impact they make. There's a perverse incentive spilled into middle management, which is the way that many edifices lose their focus on the mission.

The $2.4 trillion is the amount of money that needs to be deployed in emerging markets, excluding China. That's the scope that Nick and Vera were given because we think there's enough liquidity in China to finance their transition.

$2.4 trillion a year by 2030. And that's about four times where we're at now. It sounds pretty daunting, but think exponentially, in terms of the way that a lot of these things happen, that's two doublings in seven years. I do really encourage you to read that report.

We do need more money from the multilateral system. It needs to treble broadly, but it needs to be used much, much more wisely to unlock domestic finance.

Again, this is one of the problems of the framing, the confrontational framing of negotiations is that if you're in a negotiation and you're talking about climate finance and you mention words like 'enabling conditions' or 'domestic capital mobilisation' as a developed country negotiator in the presence of developing and emerging country negotiators, you're told to shut up, maybe more politely. But those are forbidden topics because it's like you're just trying to get off the hook of actually living up to your commitments. You can understand that in a zero-sum game that's confrontational.

But the fact is and Vera Songwe used to run the UN Economic Commission in Africa, and Nick Stern, who's probably done more than anyone to really raise our awareness of what he calls the growth story of the 21st century, said, no, actually, of that $2.4 trillion, $1.4 trillion needs to be domestic. More than half of the money needs to come from domestic markets. If we don't have the capacity for domestic sovereigns to raise capital and deploy it, if we don't have the deep and liquid local capital markets, then we won't have that $1.4 trillion and then also we won't attract the other big chunk of money, which is the private sector internationally.

The last thing I'll say is that quality of finance really matters. We just talk about quantum all the time and it's emerging, right? Many, many emerging developing countries are highly indebted. So just piling on more debt?

I remember some of the central bankers I spoke to saying, it's really nice that people want to help us with the green bond, but actually, we can raise money in capital markets. The problem is not raising the debt, it's deploying it well. It's maybe the cost of it but it's not the quantum of it.

We've got to tackle the level of debt. So we need less debt. That needs some of the smart debt for finance, debt for nature, and debt for climate swaps. We've seen some really good ones. I was just interviewing Mia Mottley. They've done debt for nature, they're going to do a debt for climate swap, takes the quantum down and also directs some of the savings towards tackling the problem. Yes, we need more grants and concessional finance.

We also need cheaper debt. More countries need access to lower cost, longer term debt. We need to use some of the instruments like sustainability linked bonds, which give a reduction in the cost of the debt in exchange for a commitment to implementing strong policy, which means that the country is on the hook.

We need to change some of the rules of the game. There are very biased rules in the international Prudential regulations. For example, that a very well-intended and profit seeking international banker can't do some things basically because they're required to hold twice as much capital for investing in the same project with the same risk profile and the same credit rating in a non-OECD country and OECD country. So, like, dude, half the profit? No, thank you, I'm not going to do that. The rules need to be addressed and fundamentally, we need more equity.

There are opportunities and people are making money. There are people making money investing in whole continents, which I hear written off. Africa is a very sophisticated country with 54 countries very varied in their opportunities, in their politics, their resources and in their capital markets. And I still hear people saying, "don't expect me to invest in Africa."

I'm like, yeah, I do. Get on a plane, go and visit it. Learn from some of the people like Hendrik du Toit at Ninety One, who's got a $2 billion African infrastructure fund, which is doing very nicely, thank you. Making his investors good returns, lower default rates than in Europe. That doesn't mean that everything in Africa is lower default rate than in Europe it means if you're a good investor, you can do the work, find the projects and you can make money. And you can make money for your ultimate owners.

I loved Mohamed's story about the two meetings. Mohieldin Mahmoud tells a really nice story about that. We got a bit frustrated, I co-founded and launched the Glasgow Financial Alliance for Net Zero (GFANZ), but we did get a bit frustrated with this.

Sort of like, we got loads of money, there's just no projects on one hand and on the other hand, we've got loads of projects and there's no money. You can't both be right, or at least if you are both right, then we're not going to move forward. And I often think that literally, literally, they're in different meetings complaining about each other.

Mahmoud and I launched a series of roundtables and actually just published a report called Assets to Flows 2[2] to try and say, it's no good, saying you got $130 trillion of assets, you've got to get it moving and you've got to get moving in some of these challenging markets. We held these roundtables again in partnership with the UN Economic Commissions.

I'll give you one anecdote to illustrate this. I was in the round table in Latin America, in Santiago, and we had two hours of project preparation from originators on the public side, good projects, some of them stronger than others. Some are very well defined, some are not so well defined and then we invited feedback from the private sector and a Latin American asset manager, stood up and said

Thank you very much for presenting these ten very interesting projects. I only have one piece of feedback. We are now much more likely to be interested in exploring and investing in these projects because we have seen them for the first time.

Complaining about people not investing when you haven't even pitched, or complaining about there being no investable project when you haven't even got on the plane, I think we really need this paradigm shift. Nick Sterns always talked about the growth story of the 21st century. President Ruto talked about climate positive development.

Again, the points being made earlier, obsessing about decarbonisation in an economy that's largely decarbonised is a very weird pitch and we really need to move from a paradigm of problems and costs to one of opportunities and investment. To one where we abstractly think of finance as people in flashy suits with big chequebooks and realise that finance, yes, has people with big chequebooks but it's staffed by people who are experts at solving complex problems. And it's that intellect that we need to get in which then unlocks the chequebooks and it needs to be brought in early.

The last, most provocative point, I want to make is that I think we just need to be smarter about the politics of climate change in the reframing that President Ruto brought. Which meant that the African Climate Summit was the most positive, most problem-solving atmosphere that I've ever been in any climate summit.

People were not complaining, they weren't pointing fingers. They were saying, Africa's got tons of resources, 60% of the world's renewable capacity, a young entrepreneurial population very motivated to solve the problem and to be part of solving the problem for the world. Which then leads to amazing projects like we're starting to see in Namibia with massive renewables, massive green hydrogen and then bringing some of the value-added processes of the steel supply chain back onto African shores. And interestingly, in partnership with some German partners who are basically letting go of some of the value added, to reversing some of the extractive economics and politics of the past.

The point I made about right wing politicians is I'm worried about right wing politicians but what I'm most worried about is that if we don't make that $2.4 trillion flow, then we create the conditions for populism jingoism, lack of collaboration and those are the conditions for very nasty politics and conflict.

But just as the Marshall Plan after the Second World War was argued for on the basis of self-interest, not, "hey, we should help those Europeans out". It was "we need to stop the spread of communism and we need to keep American factories busy. Let's help Europe get back up on its feet."

The Prime Minister of Italy, Giorgio Maloney, recently held a conference on the very challenging topic of immigration, which affects politics all over Europe. We've seen it was the argument that led to Brexit, which is terrible for my country and I think for Europe. It's the argument that has led to some really worrying right wing rise in many countries in Europe.

Recently in the Netherlands, there was a conference on immigration and in it they said that one of the things that Europe really must focus on is making the case for smart investment in Africa. And I thought, oh, that's a surprising ally – but maybe we should encourage that argument a lot more, that there's a self-interest argument in developed countries working to accelerate investment.

The language of assistance is very different from the language of investment to improve the situation, in the round, economically and socially for everybody. You're all using the wrong framing and thinking that the UNFCCC is where everything's at. You're focusing on the wrong promise when you look at the $100 billion. And maybe we need some unusual political allies.

Thank you.

2 https://climatechampions.unfccc.int/wp-content/uploads/2022/11/R20-Assets-to-flows-compressed-2.pdf

Q&A

What are the barriers to reducing the cost of capital to developing countries? Is it perceptions, is it bias or other issues there?

I think it's a bit of everything. I think perception. There's ample literature around risk premium that's associated with emerging markets and risk, particularly for Africa, that doesn't meet the reality on the ground. You're looking at countries that have never defaulted or projects that have never defaulted and they're still paying a high percentage, 14, 15, 18% on loans. And part of it is the perception.

I mentioned the point that the African Union went to try to set up its own credit rating agency. Part of the pushback was we don't have enough data, we just don't have enough data on these countries and gather enough data points to be able to have a reasonable view of what the market is, of what the risks are. So we're just proxying everything. So there is a question of availability of data.

There's a real bias, which I think we should be honest, there is a bias that can be adjusted.

But I think it also goes both ways. I think a lot of developing countries need to invest more in their ability to interact with credit rating agencies, with financial actors in a way that allows them to have a truer picture as well. So, there's a bit of a bit of a mix, it is very interesting.

Is there a market-driven solution to getting a coordinated global approach to investments or does it need the UN?

I'm a big believer in the values of the UN but I can be a bit sceptical about their ability to do everything that they need to do. Certainly, there's a role to co-ordinate and certainly I think what we've seen that when we talk to investors, when we talk to scientists, when we talk to countries.

This morning, for example, we were in a conversation with bankers at the World Bank at Morgan talking about how financial flows can move to help some mitigation efforts. And there were no countries in the room. It was us. You went 10 meters down the road and Ghana, at their country pavilion, was going through the list of projects and initiatives that they have on mitigation efforts and on adaptation efforts. There was not a single financier in the room, and this was like 10 meters.

I think there's a reality that the projects that need the money are not visible to the folks that have the resources. The folks that have the resources may not understand the type of projects and the impact. Certainly, maybe the people whose money is being invested have sort of a divergent view of what they want to do with the money and what criteria they set around, whether it's a mitigation outcome, whether it's a climate outcome. There's a little bit of, I don't know if co-ordination is the right word, but certainly educational process alongside the continuum of investments that needs to happen if we're going to get better projects.

I'll also say that in terms of project preparation, a lot of these initiatives and projects have a very hard time formulating projects for financing. It doesn't meet criteria or it's not in the right form, or it doesn't seem to be attractive.

Sometimes it's just a matter of form, to be honest. Others, it's much more complex.

Is finance under-utilised?

I just wanted more of an observation in the comments that there's a large proportion of development finance that is under-utilised, that has not even been deployed. That maybe speaks to what you were saying, that conversations and collaboration and communication, there's a role to facilitate that the UN can fill in terms of filling the gap between deployment of funds that are already there. And people are talking about raising the amount, which absolutely needs to happen, but perhaps in step with figuring out how to deploy what's already there.

How do you perceive the allocation of funds in multilateral development banks for climate-related projects and what improvements do you believe can be made to ensure a more effective impact on reducing emissions and addressing climate change?

Money that sits particularly in multilateral development banks sometimes seems to be used for one thing and not for the other. It's not that there's a competition but there's a more sophisticated way to think about climate work. For example, mitigation efforts in methane. A large-scale improvement of waste management has a direct impact on emissions of methane, which has a substantial impact on the warming of the planet. But you will rarely find a World Bank, large, $20 million waste project that even mentions [this relationship between climate and effective waste management].

I think understanding the actual impact of some of these projects on infrastructure, on waste, on the areas that are highly emitting sources, is actually quite important. There's a large pool of money that could be deployed better.

Is under-utilised finance a result of using the traditional method of what a return on investment looks like and instead of thinking longer on a social return on investment?

I do think that when it comes to climate, depending on what the investment vehicle is, if you're managing a large pension fund, right, and your clients have a very specific and very hard target but they do tell you that they have benchmarks for what you can and cannot invest in.

It makes it a little bit difficult but maybe they don't understand what goes into meeting those objectives and so it's a bit challenging because then it becomes restrictive.

I know it sounds abstract, but one example is again, methane mitigation. To reduce methane emissions out of the oil and gas sector in some ways you must invest in the infrastructure of the oil and gas sector.

Very few, and rightly so, organisations are now willing to invest in oil and gas in the context of a reduction in consumption and a ramp up of renewables. But to do that you have to be able to say, if you are Nigeria and you have sort of infrastructure that's leaking and that you need to repair: who's paying for that? Because the return is both a climate and a financial return.

This is just one example but ultimately the overall education and understanding of climate pathways needs to happen at the investor level, needs to happen at the sort of project preparation level and overall at the outcome level so that we can have an aggregate view of what the actual impact is. And again, I use the energy example but obviously there's many more examples that we can find out there.

Something that I think we've come across a bit, certainly in the area of critical minerals and possibly you could say it's an issue of methane – and possibly renewable energy as well -–is this question of kind of perverse intentions being set up like climate commitments being made by banks and West ESG guidelines.

Sometimes, as you say, you talk about critical minerals, a large proportion of the reserves being on land held by indigenous peoples and so there are questions about what the issues and problems there are.

Do those well-intentioned rules with supposedly positive results actually result in choking off sorts of capital that could be useful both in terms of economic development and climate benefits?

It's a tough question. I will say that I think more principled investment is needed. I think it is a good thing that investors and holders of capital are looking with more intent at the economic but also the social and the climate and environmental outcome of their resources. Of course, that means more restrictions and makes fund managers or investors job harder. But I think I want to preface this by saying it's a good thing.

Where it becomes tricky is where the pathway from the investment to the realisation of the objective is misunderstood. Where do you need to invest the money so that the outcome that you don't want to see, or you want to see, happens? I think there's sort of shortcuts that happen there sometimes that make those sort of guardrails difficult. But fundamentally, I think the more principles and value-based investments we have, the more able we'll be at addressing the climate question. And it doesn't mean that the returns need to be necessarily lower. Sometimes they will be, sometimes they won't be: the capacity to return on renewables can be pretty high – and it can be very high. It's not like people are not going to make money, but as you say, people need to be thoughtful and apply the rules in the right way.

How do you get from problem and costs to a global mindset of solutions to investments? Which friends do you need to do that?

I think we are making progress along all those areas in Paris, the parties, the countries recognise that national governments can't do it on their own. That's why they created the role, which I had to work with non-staff as private sector, civil society, cities and regions. I think the $100 billion was well intended, but we've sort of understood the limitations of it, which is why we've ended up now with a much broader finance agenda. We know the size of the problem now. It's pretty well defined.

We have most of the solutions in terms of the different ways of tackling the high cost of capital. I think probably the number one thing we need to do is educate the really big pools of capital that there are opportunities in emerging markets and that if they don't get on the plane and take them, then other people will take them.

I think we need to focus much more on opportunity because opportunity creates FOMO (fear of missing out) which then gets people on the planes, which gets people saying, maybe we should be part of that deal. And people will dip their toes in markets by putting a small amount in a fund, which will mean that they will learn and then they'll come back. And a lot of this is about learning.

I mean, this point about the high cost of capital, which is partly about perception, a lazy perception. There are very good examples of Infracredit schemes in Nigeria. This. form of credit enhancement, so they provide guarantees which lower the cost of capital. That helps bring in new investors and they have one very interesting experience of bringing a new investor with that instrument. But once the investor is in the market and builds confidence, they don't need that instrument the second time around. I think it's through getting everybody to move and seeing us as a learning opportunity, not primarily as a moral duty or as an ESG tick box exercise, but something that businesses need to be doing because there's opportunity and governments need to be doing because they want to be re-elected.

Just think you've got to be much smarter about self-interest. Yes, there's always a moral argument in the background, but if you lead with that, then a lot of people just don't feel that's what they've been elected or employed to do.

Comments

I just wanted to emphasise the point about who has a seat at the UNFCCC table. New York City: 8.8 million people, the 10th largest economy in the world. And so, the fact that cities that large don't have a seat or a voice is a real problem because we're the ones on the ground that are really going to make things work.

The $100bn goal never included global north private sector investment, if it had, the target would have been met in year one.

Banks' climate goals and ESG guidelines more generally seem to mitigate against investment in the critical minerals that are needed for the energy transition.

Closing Remarks

Ed Crooks

Final thoughts? My takeaway is just that I want to highlight a few things I thought that particularly struck in Nigel's many interesting comments. His point about that number zero as being a significant number and the net flows from rich countries to the developing world being zero because of debt service and the cost of that. It's extraordinary and really casts a lot of this whole debate about climate finance in a very different light, if you think about that as what has been going on and obviously plugs the whole climate finance debate very directly into the broader debate about debt and international debt on the implications of that. So, I think that's really worth thinking about.

Another of his numbers, I thought was fascinating was that number of $0.17 when he talked about that kind of the leverage that is exerted by multilateral development bank lending saying on average it only manages to draw in an additional seventeen cents of private sector capital. Which does seem crazily low and very much then related to what Patricia Espinosa was talking about in her address where she talked about needing a completely different mindset in terms of climate finance, needing to approach it in different ways, needing to make it much more efficient.

I also liked Ambassador Patricia Espinosa's point on different mindsets. We think about climate finance in the wrong way and we think about it as something that rich countries are doing to help poor countries. We should be thinking about it as an investment in our collective future. Going back again to that point Nigel was making about self-interest is very important. We have to get people to align their self-interest with the collective interest of all of us in tackling climate change.

Finally, I just wanted to pick up on something that Mohammed Sultan was talking about in terms of risk. And the thing I thought was fascinating, I'm not a banker, I should say, quick disclaimer, there may well be bankers in the room. I do spend quite a lot of time talking to bankers in my professional life. If I was a banker, hearing you talk about some of the issues you've talked about, what it screams to me is there is colossal opportunity here. If there is this huge need for financing.

That anecdote about the two rooms not talking to each other is extraordinary and highly revealing. And the possibility that there is this massive opportunity there with a lot of risk that's being mispriced, essentially, as you say, that for various reasons. Both just because of people making kind of irrational decisions, having views that are not based on real evidence and just because there are various obstacles in terms of the lack of data, in terms of regulations perhaps, that have perverse consequences in directing investment or obstructing investment, preventing investment, being deployed to Africa.

Those are barriers that can be overcome. That suggests to me that there is this massive opportunity there in terms of investment in all kinds of decarbonisation, in reducing methane emissions, in renewable energy, in critical minerals and so on in Africa. That was exciting and inspiring to hear about.

In general, actually, this whole event has been wonderful for thinking about the problems, getting a really clear and insightful view of what the issues are, what the barriers are to flows of climate finance and also very much in pointing to positive ways forward, the solutions that are there and that we do have some visibility into opportunities so that we can make progress towards turning them into a reality in the months and years to come.

I hope you found this useful, interesting, entertaining. I think it's been a fantastic discussion. I've really enjoyed it. I think the format, as I say, is an unusual one. First time for me doing this but I think it's really worthwhile and a great way to do things.

Certainly, I think we'd be very keen to try this again in the future and again get involved with Edinburgh Science and work on future Climate Co-Labs because certainly having a chance to have these discussions in this format is a bit different and a good way to do things.

It's also fantastic to have had speakers of the calibre, Ambassador Patricia Espinosa, Nigel Topping and Mohamed Sultan.

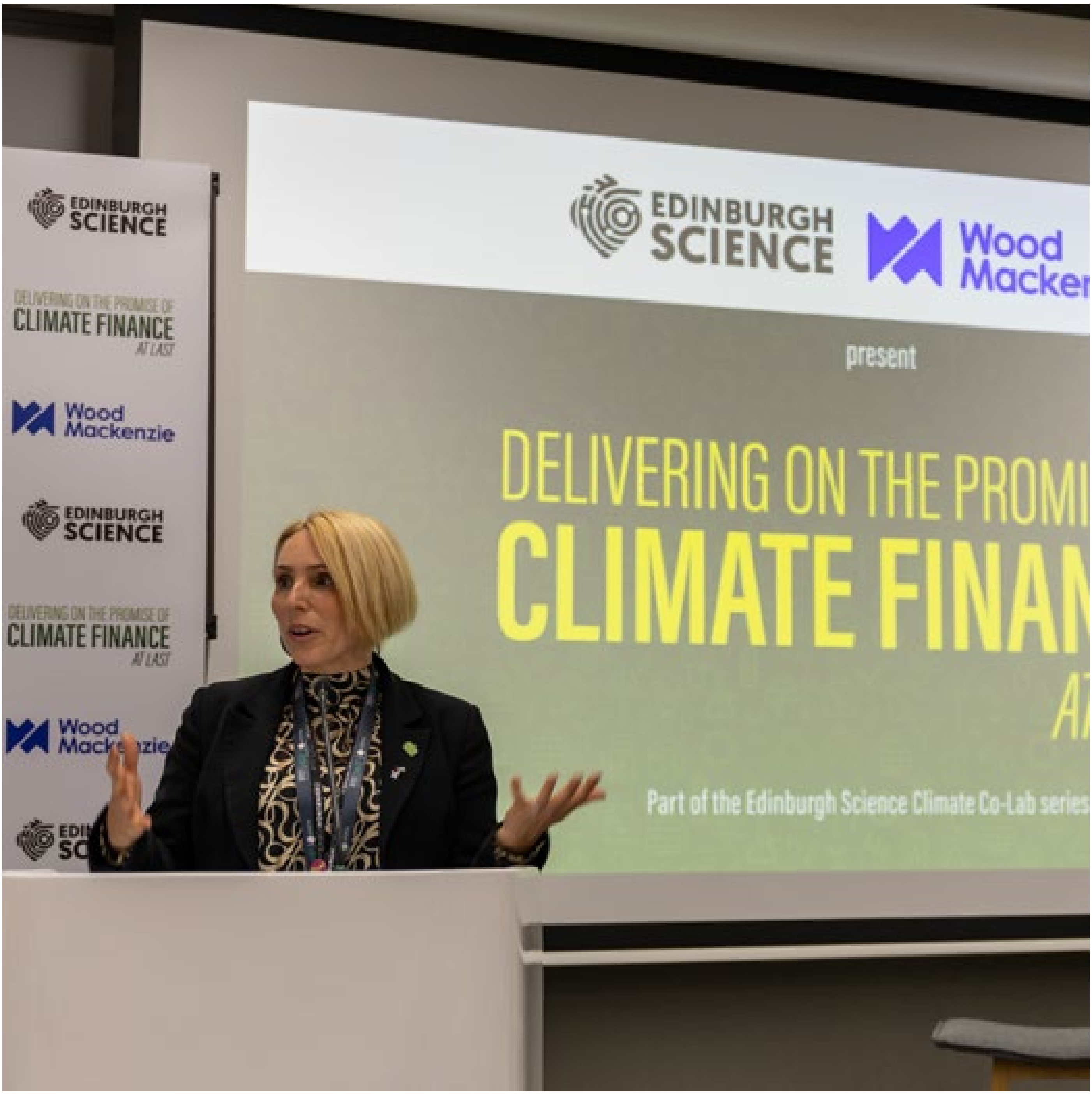
Thanks very much indeed for inviting us to be part of it.

Hannah Brodie

I just wanted to say thank you. At Edinburgh Science as an educational charity, the only way that we can carry on bringing people together, like you, is through supporters and our funders. And so we're really grateful for Wood Mackenzie, who've supported us and brought us out here to COP28 to allow us to do this. Thank you very much to Wood Mackenzie. Thank you very much to Heriot-Watt University for hosting. And thank you so much for our amazing speakers today.

And, I want to say thank you to all of you, because these events are only what they are, because you all take part, and you all have a conversation and get involved and talk about difficult things. And what I would like to do is encourage you all to carry on those conversations.

We are going to have a reception just now, it'll give you an opportunity to meet other people, to talk about some of the things that have been raised today. So please do join us. Everyone's got such busy schedules and we're so grateful that you joined us today. Thank you.



Participant List

Name	Surname	Job Title	Organisation
Sasha	Abraham	Senior Analyst on International Climate	UK Climate Change Committee
Tobias	Biggins-Gilchrist	Producer	The Podcast Guys
Louise	Bird	Head of Events	Wood Mackenzie
Duncan	Booker	Chief Resilience Officer	Glasgow City Council
Amy	Bowe	Founder & CEO	GHGBlaze
Lucas	Chapman	Observer	Columbia University Climate School
Melissa	Charlton	Head of Strategy & Sustainability	RES
Atif	Chaudhry	Senior Analyst	Wood Mackenzie
Nick	Cohen	Manager, International Strategy Forum	Schmidt Futures
Luca	Corradi	Chief Technology Officer	Net Zero Technology Centre
Dan	Cottrell	CEO	The Podcast Guys
Edmund	Crooks	Vice-Chair, Americas	Wood Mackenzie
Akshay	Datar	Strategy & PMO Manager, Energy Sustainability	RAK Municipality
Mark	Davis	CEO	Capterio
Emile	de Ganay	Associate Consultant	onepoint5
Mohamad	El Lahsm	Regional Business Development Manager	INTERNATIONAL DEVELOPMENT COMPANY LLC
Patricia	Espinosa Cantellano	Founding Partner and CEO	onepoint5
Alexandre	Eykerman	Managing Director	Wartsila Gulf FZE
Laura	Fleming	CEO UK&IE	Hitachi Energy
Simon	Gage	CEO	Edinburgh Science
Tatyana	Gerber	Business Transformation & Strategic Vision I Governance I ESG I Sustainability I Enacting Meaningful Change through Innovation	Credit Suisse
Pilar	Gogorza	Senior Marketing Manager Sustainability	Google
Jemima	Gordon-Duff	Deputy Director - International Climate Change Division	Scottish Government
Julia	Hauser	Deputy Head Paying Agent Services	ISP Group
Rita	Hausken	Ceo - founder	Shestainability
Jonathan	Holyoak	Net Zero Programme Director	AtkinsRealis
Adam	Hosking	Global Director - Water Resources & Resilience	Jacobs
Lolita	Jackson	Executive Director of Sustainable Cities	Sustainable Development Capital LLP
Basel	Jmean	Head of Sales MENA and Caspian	Wood Mackenzie
Kyle	Johnson	Associate	Schmidt Futures

Name	Surname	Job Title	Organisation
Clea	Kaske-Kuck	Director of Partnerships and Stakeholder Engagement	WBCSD
Steven	Knell	Vice President, Power & Renewables Consulting	Wood Mackenzie
Polina	Kozel	Marketing and Communications Director	Foundation Combat Climate Change
Viv	Lebbon	PR Manager	Wood Mackenzie
Claude	Letourneau	President & CEO	Svante
Stephanie	Maia	Climate Engagement Manager	Edinburgh Science
Aamir	Malik	Senior Vice President	Wood Mackenzie
Ieva	Matiukaite	Development Officer	Edinburgh Science
Aderiana	Mbandi	Global Lead, Waste	Climate Champions
Mohd Hafidz	Md Samsudi	Senior Manager, Strategy, Policy & Regulations	PETRONAS
Heather	McGregor	Provost and Vice Principle, Heriot-Watt University, Dubai	Heriot-Watt University
Miriam	Medel Garcia	Director, Strategy and Climate Policy	Onepoint5
Chris	Midgley	SVP – The Executive Office	ADNOC
Claude	Mourey	Director - Hydrogen and Low Carbon Fuels	Wood Mackenzie
Paula	Murphy	CMO	RES
Steen	Nielsen	SVP Power & Renewables	Wood Mackenzie Ltd
Patrick	Roland	CEO	CEG Investments Ltd.
David	Rumble	Chief Financial Officer	Levidian
Andy	Samuel	Strategic Advisor	X-Academy
Hannah	Schlesinger Brodie	Director of Development and Marketing	Edinburgh Science
Chris	Seiple	Vice Chairperson	Wood Mackenzie
Alisha	Shaparia	Private Office for Nigel Topping @ COP28 / Student	Harvard University
Peter	Shaw	Director - Wealth Planning	Globaleye
Lekha	Sridhar	Research and Special Projects Lead	WattTime
Mohamed Alimou	Sultan	Africa Regional Lead	Global Methane Hub
Nigel	Topping	UN Climate Change High-Level Champion at COP26, Member UK CCC, NED	UKIB
Erika Alitzel	Verspecht	Senior Associate	onepoint5
Harrison	Weston-Cottrell	Videographer	The Podcast Guys Ltd
Scott	Wilson	Executive Director	Robertson Group
Helen	Zhang	Director	Schmidt Futures

About Edinburgh Science Climate Co-Labs

Edinburgh Science's Climate Co-Lab is a series of round table events which bring together senior leaders from across all sectors to tackle difficult questions relating to the climate emergency. Many of the leaders that we convene might not usually find themselves in the same room as one another and as such the round tables prove invaluable for forging new connections, seeding new partnerships and making innovative solutions into a reality.

Following two or three powerful provocations from subject-matter experts, participants are all invited to have their input into a round-table discussion. Each event is chaired by an inspiring leader who ensures that delegates put their ideas on the table and who dynamically steers the conversation toward a beneficial conclusion rounding off with a few possible action points. The Co-Lab also provides ample networking opportunities, helping to catalyse the net zero transition through inspiring and connecting the people who can deliver it.

Edinburgh Science began delivering these events in April 2019 after awarding the prestigious Edinburgh Medal to Christiana Figueres - the acclaimed Costa Rican Diplomat, instrumental in bringing about the Paris Climate Agreement. We organised a round table on that day, with leaders of business, public sector, third sector and higher education present. They were challenged by Christiana to collaborate, to act, to not wait for anyone to give them permission and to use the opportunity that presented itself for positive change.

This optimistic ethos is what has driven these events ever since, with delegates finding immense value in them, due to the diverse invite list and facilitated discussion format. Notes from all previous Climate Co-Lab events can be found at edinburghscience.co.uk.

About Wood Mackenzie

Wood Mackenzie is the global insight business for renewables, energy and natural resources. Driven by data. Powered by people. In the middle of an energy revolution, businesses and governments need reliable and actionable insight to lead the transition to a sustainable future. That's why we cover the entire supply chain with unparalleled breadth and depth, backed by over 50 years' experience in natural resources. Today, our team of over 2,000 experts operate across 30 global locations, inspiring customers' decisions through real-time analytics, consultancy, events and thought leadership. Together, we deliver the insight they need to separate risk from opportunity and make bold decisions when it matters most.

Find out more at woodmac.com

About The Energy Gang

The chair of this event, Ed Crooks hosts the podcast The Energy Gang, Wood Mackenzie's bi-weekly digest on energy, cleantech, the environment, latest industry topics and news. You can keep up-to-date with expert evaluation on the pledges, discussions and debates around energy transition and finance and listen-in to the key issues discussed within this Co-Lab by catching The Energy Gang podcast on Spotify, Apple or wherever you get your podcasts.

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