The right capital in the right place at the right time can take climate impact beyond 'net zero'

Since COP26 was gaveled to a close earlier this month, a flurry of hot takes and deeply considered critiques have interrogated Mark Carney's statement that "over $130 trillion of private capital is committed to transforming the economy for net-zero."

The figure Carney cited, the total pool of capital considered part of his Glasgow Financial Alliance for Net Zero, or GFANZ, is almost too big to be believed: 1,300 times larger than the yet-to-be-fulfilled Paris Agreement climate finance pledge and fully 40% larger than global GDP this year.

From U.N. Secretary-General António Guterres, who declared net-zero targets suffer from "a deficit of credibility and a surplus of confusion," to Greta Thunberg, who decried the UK-hosted summit as so much "blah blah blah," the eye-popping number is causing genuine concern.

Some of that concern warranted.

But the hour is late; rather than sitting on the sidelines either celebrating or castigating, we must do the hard work of actively holding financial institutions to their word, and of making sure aspirations become reality. We must build on the significant post-Glasgow momentum across the financial system, channeling both capital and commitment to their highest and best uses in service of the grand global challenge of deep decarbonization.

Here is one simple—but by no means easy—place to start:

Net zero financing pledges must be brought forward in time for them to matter, through real near-term investments that accelerate the decarbonization of energy infrastructure in the real economy, within the next five years.

This means massive, immediate deployments of new clean energy, yes. But it also means targeted and highly strategic investments that fast-track the retirement of the world's huge fleet of fossil plants and pipelines, starting with coal, but covering much oil and gas infrastructure, too.

Critically, this investment capital must be targeted not only in time but also in space, focusing on the precise geographies and markets that matter most to shifting the future trajectory of global emissions.

Carbon lock-out

Certain projects and companies, operating in specific geographies, will have an *exponentially greater impact* than others on emissions reductions between now and 2050.

For example, a single solar-plus-storage project built in Southern California in 2022 will not do much on the margin to shift the US emissions pathway to 2030 or 2050. But that same project could catalyze systemic changes in Cambodia, with positive spillover effects across the fast-growing, still-coal-dependent Southeast Asian region that might avoid significant carbon lock-in over the coming decades. A strategic investment in Cambodian solar-plus-storage, made at the right time and place in close coordination with the right partners, could potentially prevent the construction of new coal plants that are still in development, or hasten the retirement of existing fossil infrastructure.

Likewise, an early investment in an Indian electric-vehicle charging infrastructure company, or a South African clean energy project development firm, operating in alignment with those governments' Nationally Determined Contributions, could prove out new business models and generate policymaker buy in. That could lock in early wins for zero carbon energy, disincentivizing fossil power and making it much easier to take subsequent steps down the decarbonization pathway.

Energy system tipping points

In many markets, it doesn't take much to tip the balance towards net zero. Small shifts can have big ripple effects, spurring a country to turn decisively away from current high-carbon energy. Such shifts can accelerate a zero-carbon development pathway by demonstrating the attractiveness of renewable, resilient energy infrastructure for other investors and develop a homegrown market for renewable project development. That can build a domestic political constituency for zero carbon energy.

It is therefore critical that private capital is directed to these *energy system tipping points*, and not just to undifferentiated "green" assets, with utmost speed and deliberation.

Several nascent initiatives launched at Glasgow offer a powerful model for targeted climate finance interventions, at scale, that embody the "right place, right time, right capital" formula. The Asian Development Bank's Energy Transition Mechanism aims to accelerate the early retirement of Southeast Asian coal assets by engineering bespoke, fit-for-purpose, financial products that work for Southeast Asian asset owners, development finance institutions, private investors and government officials.

Likewise, South Africa's Just Energy Transition Partnership, announced together with France, Germany, the U.K. and U.S., along with the E.U., will bring a wide range of financial resources to bear to support a politically fraught process that will enable coal-dependent workers, and indeed the entire South African economy, to speed up that country's transition to a zero-carbon energy system.

Climate-adjusted returns

Notably, both of these projects are led by public sector actors and have been capitalized primarily by public sources of capital. We applaud this leadership. But the only way we can move quickly enough on the path to net zero is if private investors follow suit. The good news is that near-term, high-value investments that can catalyze energy system tipping points need not wait for trillions of dollars to be mobilized. Such deals can be struck right now, with a tiny fraction of the capital committed to GFANZ.

The times require both public and private financial institutions to design, launch, and invest in many more vehicles that maximize *climate-adjusted returns* first, and *risk-adjusted returns second*. This shift won't come easy. To get there, we may well need much more efficient collaboration between the private and public sectors, blending capital with divergent financial interests but intentional, convergent, and carefully constructed climate impact goals.

But even without blended finance, we expect to see more private investors seeking deals with exceptional climate-adjusted returns in the months and years ahead. Indeed, if the climate emergency doesn't scramble the received wisdom on risks and returns, forcing a rethinking of our hidebound frameworks for capital-formation, we don't know what will.

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