# The Presidency's Summary

On 11 July, the **Venice International Conference on Climate Change** convened major global actors, including G20 Ministers and Governors, to discuss policies and actions to achieve the Paris Agreement goals. The Conference was organized by the Italian Ministry of Finance and the Bank of Italy with the support of staff from the International Monetary Fund (IMF), the World Bank Group (WBG), the Financial Stability Board (FSB) and the COP26 Private Finance Hub.

Staff from these institutions led four informal working groups in charge of delivering **ad hoc input papers** to frame the discussion at the Conference[1]. The first two papers provided the basis for the discussion in the morning session on 'Global policies and climate change', while the latter two set the scene for the afternoon session on 'Finance and climate change'.

## *Global policies and Climate change*

The Conference began with a keynote speech by Nobel laureate **William Nordhaus**, who noticed very limited improvement in decarbonization and pointed out three factors that are currently hampering climate action: (1) the price of carbon remains too low (there should be a more than tenfold increase, according to conservative estimates) and only covers a portion of global emissions; (2) public investment in research and development for low-carbon technologies is insufficient; and (3) non-binding international agreements leave room for free riding and vacillating behaviour that hampers concrete action to reduce greenhouse gas (GHG) emissions. As a consequence, international agreements have so far failed to fulfil their promises in terms of GHG reductions. To overcome this environmental standoff, Professor Nordhaus suggested that countries willing to commit to concrete policies could set up a 'climate club'. Members of the club agree on a common target carbon price (for example starting from $10 per ton of $CO_2$ and increasing it over time), and on a tariff for non-participants that have lower carbon prices, thus creating a self-enforcing mechanism while encouraging others to join or implement concrete steps to reduce the carbon footprint of their produce.

**Kristalina Georgieva,** Managing Director of the **IMF,** highlighted that a just transition should build on a comprehensive strategy, based on three key pillars: market-based signals (especially a

[1] The input papers dealt with: (i) the most effective policy mix and productive green investments to promote a global just transition towards resource-efficient and competitive economies, led by staff from the IMF; (ii) the role of Multilateral Development Banks (MDBs) in supporting the climate transition in emerging markets and developing economies, led by the WBG; (iii) coordinated action to promote globally comparable, high-quality and auditable standards for climate-related financial disclosure, led by the FSB Secretariat; and (iv) policies to address market barriers and to introduce effective incentives for aligning private financial flows and business models with the Paris Agreement objectives, led by the COP26 Private Finance Hub.

robust price on carbon), green investments, and targeted policies to mitigate the adverse impact of the transition on vulnerable groups. Green investments, especially those in sustainable infrastructure and innovative low-carbon technologies, are key to spurring economic recovery and paving the way for sustainable and resilient growth. Yet green investments alone are not enough. Carbon pricing instruments can effectively incentivize low-carbon production and consumption, while raising public revenues to finance green investments. Ms Georgieva encouraged countries to coordinate carbon prices, emphasizing the crucial role of the G20 Finance Track in advancing global cooperation in this area. A starting point could be the introduction of an international carbon price floor, differentiated according to different stages of development. She also pointed out that the carbon price floor does not have to be a tax. Some countries may prefer other measures that achieve the same outcome, such as emission trading or combinations of feebates/regulations at the sectoral level.
The G20 could commit to a regular stocktaking of carbon pricing measures across countries to assess whether the level of implicit and explicit carbon prices is compatible with net-zero goals.

**David Malpass**, President of the **World Bank Group**, focused his intervention on the importance of (i) integrating climate and development, (ii) a country-based, data-driven approach to prioritize climate change mitigation and adaptation, and (iii) changing fiscal incentives in taxes and subsidies to support climate action. Mr Malpass also noted the need to help emerging markets and developing economies (EMDEs) with the preparation and implementation of long-term low greenhouse gas emission development strategies (LTS), and the importance of deepening our understanding of the barriers to large-scale private investment in climate projects.

Participants in the morning panel discussion agreed that a more comprehensive approach is needed to shape successful strategies towards decarbonization, ranging from the use of fiscal policy instruments to the development of long-term strategies that can inform public and private efforts to align investments with the goals of the Paris Agreement and the need to **actively engage the private sector in country-specific climate solutions**. Several speakers supported the key role of appropriate **carbon pricing** in curbing emissions within a reasonable timeframe. The political viability of these instruments relies on striking the right balance between ambition, fairness and enhanced coordination, while factoring in political and economic constraints, above all those faced by EMDEs. Participants also concurred that **reinforced public-private cooperation** can be instrumental in boosting investments in sustainable infrastructure and innovative technologies. Designing robust methodologies is particularly important in order to accelerate and monitor their alignment process. Some speakers invited MDBs to increase their climate ambition by setting **higher targets and credible timelines for climate finance**. The key role of the **Sustainable Finance Working Group** (SFWG) as a forum via which to advance the G20's work on climate policies was mentioned by many speakers.

### *Finance and Climate change*

Representatives from the public and private sectors highlighted the need to scale up **private investments** significantly to provide the large volume of resources needed for the transition towards net-zero economies and societies. To this end, public policies should be designed to encourage the private sector to invest in **innovative and green technologies** and to align business models with sustainability, climate, and biodiversity protection goals.

Within their mandates, **central banks** can support the transition towards a sustainable economic model by ensuring that stress tests, scenario analyses and supervisory practices consider climaterelated risks. Furthermore, they can pursue portfolio differentiation for the part of their bond holdings not linked to monetary policies to achieve a better balance between risks and returns as well as to further integrate climate change considerations into their operations.

**Randal K. Quarles,** the **FSB Chair,** highlighted that access to high-quality, consistent, reliable and comparable climate-related data, including entity-level disclosures, is instrumental for better managing financial risks stemming from climate change (both physical and transition risks) as well as for understanding investment opportunities. Alongside this, well-aligned regulatory and supervisory frameworks will help in identifying and managing climate-related financial risks. To this end, the FSB Roadmap aims at coordinating growing international initiatives for addressing climaterelated financial risks, including steps and timeframes for their implementation. In synergy with this, the SFWG is developing a multi-year G20 Roadmap on Sustainable Finance that will be broader in scope, mutually reinforcing and complementary with that of the FSB.

**Mark Carney**, who in his capacity as UN Special Envoy for Climate Action and Finance is leading the **COP26 Private Finance Hub**, stressed the essential role of the private financial sector to ensure an effective alignment with the goals set out in the Paris Agreement, given the sheer amount of resources required to fulfil the commitments within a reasonable timeframe. In April 2021, financial institutions representing $70 trillion of assets joined the Glasgow Financial Alliance for Net Zero, to align ambitions and actions with a pathway for achieving net-zero emissions by 2050. Given the specific constraints faced by EMDEs, MDBs are key to speeding up the flow of private finance to them for climate-related action, thereby creating a credible pipeline of investable mitigation and adaption projects. Several speakers also pointed out that MDBs are critical for creating an enabling, de-risked environment for private investments in EMDEs.

Participants agreed that the adoption and implementation of clear and common baseline **disclosure standards**, as well as improving **access to climate data,** is essential to foster private sector engagement. They welcomed the initiatives presented by the FSB and the COP26 Private Finance Hub and recalled the pivotal role of the SFWG in addressing these critical issues.