IIGCC

Making NDCs investable – the investor perspective

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Executive Summary

As countries start developing their new **Nationally Determined Contributions (NDCs)** due in early 2025, private finance has a critical role to play to support the implementation of ambitious climate goals.

Recognising the need to accelerate the net zero transition, over 500 institutional investors managing assets exceeding $70 trillion[1] have individually committed to achieving net zero portfolio emissions by 2050 or sooner. Investors' portfolios are impacted by countries' transitions to a net-zero economy, either as 'universal owners' holding globally diversified portfolios or as investors in companies that operate in globally integrated value chains. In fulfilling their fiduciary duty to manage risk and return and protect the long-term value of their assets, investors are increasingly considering countries' climate targets as part of their macro investment strategy, integrating them into asset allocation, risk management, and capital deployment strategies.

NDCs can be a useful tool for investors to assess countries' long-term climate ambition; however, in their current form, NDCs vary significantly in quality and detail across countries, and often lack sufficient information on policy implementation to effectively guide investment decision-making. Beyond assessing long term decarbonisation targets, investors are looking to identify the country's technological and sectoral opportunities and learn about the policy landscape to better understand the forward-looking implications for meeting their stated targets.

In their updated NDCs, countries have the chance to develop more comprehensive and credible documents that attract further long term private investment, by helping investors to better understand the policy landscape, assess investment risks and opportunities, and facilitate engagement to support implementation.

IIGCC has worked closely with investor members of the NDC thematic working group to identify key recommendations for countries preparing their updated NDCs.

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Investor views on how to develop 'investable' NDCs	
1	Provide more granular detail on the **sectoral pathways and underlying macroeconomic context in a country.**
2	**Quantify investment needs** and prepare financing strategies alongside NDCs, to help investors identify long term investment opportunities.
3	Set out **supporting policy and regulatory frameworks** to achieve NDC targets, to help give investors confidence that a decarbonisation plan is credible.
4	**Strengthen governance and the stakeholder engagement process** around NDC development and implementation, to ensure a regular and open dialogue with key stakeholders involved.
5	Enhance global **harmonisation and consistency across NDCs** to facilitate the collection and analysis of consistent information for investment decision-making.

1 IIGCC estimates based on Net Zero Asset Managers (NZAM) and Paris Aligned Asset Owners (PAAO) initiatives.

Introduction

NDCs today

The Paris Agreement requires countries to put forward new national climate plans, known as NDCs, every five years. These set out their commitments to pursue emissions reductions efforts domestically that contribute to global efforts to limit dangerous climate change impacts. However, to date, implementation has been slow and hampered by the lack of financial resources needed to achieve the targets.

As the urgency of the climate crisis continues to grow, the next round of NDCs due in early 2025 represent a crucial moment to focus on ensuring NDCs become clear vehicles to attract finance from multiple sources, particularly from private finance.

Whilst NDCs are a useful starting point for investors, and the private sector more broadly, to assess countries' overall decarbonisation trajectories, their "investability" remains difficult to assess as NDCs often:

- Vary significantly in **quality and granularity** of information, lacking critical information and credible implementation strategies that can support investment decision-making.
- Do not have full **sectoral coverage** and use **different metrics** to establish targets.[2]
- Are often **submitted late**, thereby weakening their usefulness in timely investment decisions.
- Lack or are not aligned with other **complementary documents** and plans, such as Long Term Low-Emission Development Strategies (LT-LEDS), National Adaptation Plans (NAPs), National Biodiversity Strategies and Action Plans (NBSAPs), as well as with a financial needs assessment for the implementation of these.

The mutual opportunity

Enhanced NDCs will benefit both countries and investors. On the one hand, countries can attract the finance needed to achieve their climate and development goals, beyond public finance sources. On the other hand, investors can gain a better understanding of the policy landscape and investment potential across different sectors, to inform effective asset allocation and risk management.

Crucially, NDCs could open formal spaces for engagement and dialogue between countries and the finance sector, including institutional investors, to address investment barriers and systemic risks and to co-develop investment opportunities that align with the country's climate goals leveraging multiple sources of finance (e.g. through lending, project finance, capital markets, etc.).

2 See IIGCC's Sovereign Bonds and Country Pathways paper, for a discussion around country production of territorial emissions view versus the consumption emissions view and why this matters.

The investor view: NDCs as private finance catalysers

How are investors currently using NDCs?

NDCs can be useful tools to provide a broad picture of a country's climate and development pathway, to help investors evaluate the business environment, current market opportunities from the transition and the investment potential in specific sectors.

However, due to critical information and data gaps, investors mainly refer to NDCs to inform the assessment of a country's long term target and how its overall climate ambition aligns with their own climate targets. Typically, NDC data is used in the context of net zero investment methodologies and tools, particularly in the case of sovereign bond risk assessment (e.g. ASCOR, CAT, CCPI).

Overall, investors find that NDCs lack crucial details that could meaningfully inform their decision making. This includes supporting sectoral policies (already in place and planned), risk mitigation mechanisms (i.e. how to address a country's physical and financial risks from climate change and the low-carbon transition), as well as more clarity on the underlying assumptions and dependencies that informed the target setting (e.g. clear definition of baseline and business as usual scenarios used).

What critical information should NDCs include to help inform private investment decisions?

1 Provide more granular detail on the sectoral pathways and macroeconomic context

Climate targets and policies are shaped by a country's economic context, skills and capabilities, and their natural resources. Providing more information supports investors' decision-making by indicating the country's willingness (i.e., how ambitious the targets are, considering resources available) and their ability to meet these targets given the sectoral and macroeconomic implications.

NDCs could serve as a credible source of information by providing investors with nuanced insights into the specific circumstances that shape a country's climate and development objectives, and how its commitments and targets respond to local needs. Investors seek to identify technological and sectoral opportunities and risks across a globally diversified portfolio. Therefore, countries that are able to provide more details on the economic implications of the chosen sectoral pathways will be able to attract further long term private investments.

1.1 Sectoral context and targets

Whilst economy-wide emissions reduction targets define a country's overall climate ambition and trajectory, investors would benefit from a more granular view of **sectoral decarbonisation pathways** that show the specific emissions reduction trajectory expected in each sector, including land-use change.

Sectoral pathways and targets provide a credible signal to investors on what the transition will look like in key economic sectors, thus informing the assessment of capital allocation needed in a sector to achieve conditional and unconditional targets. This is particularly significant as each country may choose to prioritise different sectors. For example, a country with a relatively small economy and a large forested area may decide to pursue enhancement of carbon sinks rather than primarily addressing industrial emissions.

Additionally, **fair share considerations** are an important aspect that complement many investors' assessment of a country's climate ambition, as recommended by the Net Zero Investment Framework's (NZIF) updated target setting guidance for sovereign bonds. Some net zero models or carbon-budget allocation pathways fail to explicitly account for fair-share principles and lack the granularity at country and sectoral level. Therefore, sectoral pathways provide an opportunity for both developed and developing countries to consistently incorporate fair share principles into target setting, thereby enhancing the credibility of a country's goals. For example, timelines for coal phase-out may depend on a country's historic contributions to global emissions economic development needs.

Finally, pathways that explicitly consider the **integration between climate and nature/ biodiversity** are of particular interest and value to investors. Ensuring a more integrated climate and nature policy by aligning National Biodiversity Strategies and Action Plans (NBSAPs) and NDCs – by cross-referencing targets and measures in both plans – can help to identify areas for investments that offer significant co-benefits (e.g. Nature Based Solutions, ecosystem-based adaptation, food systems/ sustainable agriculture, deforestation).

1.2 Macroeconomic context

In addition to the sectoral detail, NDCs could also include an overview of how a country's broader macroeconomic context impacts target setting and how it is expected to evolve through the transition. This would strengthen the credibility of targets and support the case for private investment. In particular, investors would benefit from additional details on:

- Country energy resource mix, including renewable energy potential and related industries
- Natural resource endowment, including critical minerals for the transition
- Stage of market development (e.g. expected demand for net zero technologies and products)
- Energy sector dependencies, and how these are tracked and managed
- Fiscal constraints and forward-looking fiscal strategy (e.g. taxation, subsidies, etc.)
- Expected foreign direct investment
- Reliance of targets on Carbon Capture and Storage (CCS) and other unproven or not yet commercially viable emission removal technologies
- Current capacity and gaps for NDC implementation, including skills, technological ability and penetration of those technologies

For example, when assessing developing economies that are heavily reliant on energy exports, investors will look for short, medium, and long term plans that mitigate the impacts of the low-carbon transition on their trade revenues, as well as on employment, with a particular focus on just transition considerations. Similarly, countries with limited renewable energy potential will have to clearly set out alternative pathways for decarbonisation that ensure energy security. In contrast, developed economies that rely on fossil fuel imports may be expected to transition more quickly based on their larger financial and technological means.

2 Quantify investment needs and prepare financing strategies alongside NDCs

It is critical for investors that NDC targets are matched by concrete financing strategies. Costing the investment needs to implement NDCs is an essential step toward identifying which sources of finance can meet those needs. This will provide a strong signal to investors on the key opportunities for private finance.

Quantifying the needs to implement NDCs helps investors identify opportunities for private financing and for co-developing opportunities with other stakeholders, such as multilateral and development finance entities that can help de-risk investment opportunities. Investors need to understand:

- The **costs of the transition** in each sector and across sectors, with an opportunity to place increased emphasis on adaptation and resilience, nature and just transition.
- The **sources of finance** that are expected to be mobilised in each sector e.g. public, private – including any plans to tap into the international capital markets – aid/concessional finance.
- The **financial instruments** that are available and, in particular, those that are specifically linked to the delivery of climate targets (e.g. through use-of-proceeds and performance metrics) including sovereign bonds, sustainability-linked bonds, blended finance, public-private partnerships (e.g. through government guarantee facilities), grants, funds, innovative instruments, etc.

3 Set out supporting policy and regulatory frameworks to achieve NDC targets

To strengthen the credibility of their climate plans and provide investors with confidence in their ability to achieve these targets, countries should include detailed information on the policies and regulatory levers that will support the implementation of their climate plans.

NDCs should explicitly set out the overarching policy framework that underpins emissions reduction targets (e.g. climate change legislation) and supports the creation of an enabling environment for investment. They should also include:

- **Sectoral policy roadmaps** – Providing details on key policy and regulatory actions (e.g. standards, obligations, subsidies including removal of fossil fuel subsidies, fiscal incentives, skills/capacity building, etc.) that will support the achievement of the targets, both interim and long term, in each sector. There should also be a particular focus on priority sectors for the country (e.g. hard-to-abate, export industries, sectors with large employment rates).
- **Wider economic reforms** – Including plans for wider policy actions to strengthen the broader macroeconomic environment, particularly efforts to address specific barriers to investments (e.g. strengthening governance, financial regulation, etc.).
- **Carbon pricing mechanisms** – Clarifying plans for developing and implementing a carbon pricing regime in the country (e.g. carbon taxes, trading schemes) would help investors better assess long term risks and opportunities, particularly in the context of increased global focus on carbon border adjustment mechanisms and carbon trading partnerships.
- **Defined KPIs and monitoring mechanisms** – Establishing clear impact metrics to give an indication of the real economy implications of the planned sectoral targets and policies (e.g. # houses upgraded for energy efficiency, # EVs in public transport, # GW of solar/wind additions, phased retirement of coal power plants). These should be accompanied by transparent monitoring and accountability mechanisms within government that ensure effective delivery.

4 Strengthen governance and stakeholder engagement processes around NDC development and implementation

To improve engagement with investors, countries should enhance governance structures and consultation processes for NDC development and implementation. Clearly outlining the roles and responsibilities of different government departments in relation to climate commitments would support this.

A **whole-of-government approach** to developing and implementing NDCs would strengthen institutional arrangements and ensure there is broad support for the climate plan across all government departments. This crucially increases investor confidence in the long term stability and deliverability of the plan.

Additionally, stakeholder engagement processes can further be improved by formalising routes to consulting on NDCs with other relevant stakeholders, including investors.

Key actions include:

- Clarifying **roles and responsibilities** of key government departments involved in the process to increase accountability.
- Improving **coordination across relevant departments** and transparency of decision-making (including measures to understand and manage distributional impacts).
- Establishing a **comprehensive and transparent stakeholder engagement** process in the development of NDCs, to create formal opportunities and/or a defined platform to discuss investment barriers and financing opportunities.

5 Enhance global harmonisation and consistency across NDCs

Greater international harmonisation and consistency across NDCs – particularly around data, the scope of the information included and the metrics used – can help investors make more effective investment decisions by facilitating information processing, and enabling transparency and comparability.

Whilst NDCs should remain country-led and be tailored to the unique domestic context, priorities, and needs and challenges of each country, global harmonisation of NDC **formats** can support comparability across countries and help investors process information.

In particular, convergence of data provided would be beneficial on the following elements:

- Comprehensiveness of **GHG emissions**, striving for economy-wide targets covering all GHG emissions and key sectors.
- Consistency in **target setting** across:
  - Timeframes – including both long term and interim targets.
  - Metrics – preferably using absolute emissions reductions.
  - Sectors – including sector-specific targets/sub-targets.
- **Alignment with LT-LEDS and NAPs** to demonstrate a credible country pathway to achieving the Paris Agreement goals.
- Publication of consumption, as well as production-based emissions.[3]

3 See IIGCC's Sovereign Bonds and Country Pathways paper, for a discussion around country production of territorial emissions view vs. consumption-emissions view and why this matters.

Conclusion

NDCs are the key mechanism for countries to demonstrate their contribution towards achieving the global goals of the Paris Agreement by outlining their domestic emissions reduction commitments. They play a critical role in aligning a country's energy transition with investors' macro strategies (e.g. asset allocation, risk management and capital deployment strategies). However, current NDCs fail to provide crucial information that would help attract the finance needed for the transition.

To make the next round of NDCs more "investable", investors expect to see more comprehensive and consistent documents that provide details on countries' economic context and the sectoral trajectory of their transition.

Implementing the key recommendations set out in this paper would result in a number of benefits for countries, investors and wider stakeholders. These include:

- **Enhanced communication** between government and stakeholders, including investors, on climate goals and related opportunities.
- **Strengthened credibility** of climate plans by clearly articulating the link between required sectoral emissions reduction efforts and contribution to overarching national climate goals.
- Ensuring that **targets and commitments are fully embedded into a national climate and economic strategy**, with tailored pathways that take into account the specific economic, social, and environmental needs and priorities of each country.
- **Clear identification of investment and economic opportunities** by setting out links between sectoral pathways and economic development in key sectors, including job creation, enhanced competitiveness, etc.
- **Robust assessment and mitigation of climate and financial risks** by creating a shared understanding of key dependencies to enable the transition in critical sectors, such as the energy sector.
- **Providing clarity to different finance actors on how they can contribute to the transition** i.e. setting out financing opportunities relevant for different types of investors, banks, MDBs and other public/development banks, as well as wider needs for capacity-building, technology transfer and international collaboration.

Annex: How investors currently assess country climate development – Key resources:

- **Sectoral pathways**
  - Global sectoral decarbonisation pathways, are provided for some material sectors by One Earth Climate Model (OECM), TPI sectoral decarbonisation pathways, SBTi sector pathways, IRENA World Energy Transitions Outlook 2023: 1.5C scenario, IIGCC Climate Investment Roadmap, and others.
  - Similarly, chapter 3 of IIGCC's Sovereign Bonds and Country Pathways paper, we discuss some of the regional and country pathways that investors currently use as benchmarks to assess country decarbonisation progress and future needs.
  - These efforts are stemming from top-down integrated assessment models and/or carbon budget allocation. There remains a need for country-owned and country-led decarbonisation pathways that can bring greater sectoral and regional granularity and nuance.
- **IRENA's Renewable Energy Roadmaps (REmap)** program determines the potential for countries, regions and the world to scale up renewables. REmap assesses renewable energy potential assembled from the bottom-up, starting with country analyses done in collaboration with country experts, and then aggregating these results to arrive at a global picture.
- **The World Bank's Country Climate and Development Reports (CCDRs).** In 2021, the World Bank Group introduced the Country Climate and Development Reports (CCDRs), a diagnostic tool to evaluate how countries can attain their development objectives while addressing climate change challenges. The World Bank Group is implementing this diagnostic across all countries it operates in, with reports already available for 42 economies.
- **Climatescope by BloombergNEF.** Climatescope by BloombergNEF is an online market assessment tool, report, and index that evaluates the readiness of countries for energy transition investments. It offers in-depth analyses of how surveyed markets are advancing the energy transition, providing snapshots of current clean energy policy and financial conditions that can facilitate future capital deployment and project development.