

Investment Dialogue: Where Private Capital Meets Subnational Climate Solutions

Shaping a Resilient Future: Unleashing Finance
at the Subnational Level



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Shaping a Resilient Future: Unleashing Finance at the Subnational Level

Introduction

The gap between subnational climate ambition and access to finance is one of the most pressing challenges for implementing climate action

Held during **London Climate Action Week 2026** at Scotland House, the investment dialogue "Where Capital Meets Regional Climate Solutions" brought together subnational governments, international financial institutions, private sector financiers, including banks, pension funds, equity funds, private foundations, operators and insurance providers, philanthropic organisations and technical experts. **Co-organised by Regions4 and the Under2 Coalition**, in partnership with ECF, the Sustainable Finance Observatory (SFO), and UNEP, the dialogue responded to the growing recognition that achieving global climate goals depends on strengthening the capacity of subnational governments to access and deploy climate finance at the local level. Experts discussed how public and private actors can accelerate and channel investment in climate action at the regional and local levels.

This Brief for Action synthesises the key messages and recommendations that emerged from two interactive dialogues. **The barriers, priorities and recommendations presented here reflect the shared views of participants and were broadly endorsed throughout the discussions.**

Key Summary Messages

- Make climate finance demand-driven.
- Capital is available globally, but access remains uneven.
- Investment readiness (not just capital) is the constraint.
- Subnational development banks are critical intermediaries.
- Financial innovation can unlock private capital at scale.
- Adaptation finance requires a different model.
- Scaling climate finance requires stronger partnerships and investment pipelines.

Background

Subnational governments (states, provinces, and regions) are responsible for delivering much of the world's climate action, across energy, transport, buildings, waste, water and land use. **Yet the finance is not following.** Limited investment readiness, fragmented pipelines, small project sizes, high transaction costs and weak private sector engagement continue to constrain capital flows. These barriers are well known. What is needed now is a structured response.

By acknowledging these challenges, the dialogue was convened to identify a response that translated the financing needs of states and regions into credible, investment-ready opportunities.



Key Summary Messages

Participants across both dialogues converged on a consistent set of priorities:

- **Make climate finance demand-driven.** Investing at the subnational level is not only about financing individual projects; it is about accelerating systemic transformation across territories aligning with regional adaptation plans and priorities.
- **Capital is available globally, but access remains uneven.** Less than 5% of the estimated US\$480 trillion in global financial assets are located in low and middle-income countries, excluding China (UNCDF; Financial Stability Board). Yet bankable projects can attract finance even in challenging markets. The challenge is therefore not simply the availability of capital, but the ability to structure, aggregate and connect subnational investment opportunities with the sources of finance best suited to their risk, return and impact profiles.
- **Investment readiness (not just capital) is the constraint.** Bankability is created, not inherent: it requires financial engineering, aggregation, and stronger governance, institutional capacity and regulatory clarity, and better data to address perceived, not just actual, risk.
- **Subnational development banks are critical intermediaries.** State- and region-owned development banks can play an important role in expanding access to investment and reducing transaction costs. These institutions can help structure project pipelines, address currency risks, and enable access to finance where subnational governments face legal or eligibility constraints. Where available, sovereign guarantees can provide an important additional layer of de-risking, although national governments face fiscal and borrowing constraints that limit their availability.
- **Financial innovation can unlock private capital at scale.** Mechanisms such as the [Green Guarantee Group](#) and proposals like [IDFC's Catalytic Capital Repository](#) illustrate how guarantees can cover specific risks and de-risk investments, helping to mobilise private capital and support blended finance structures.

- **Adaptation finance requires a different model.** With around 92% of adaptation finance currently coming from public sources, scaling private investment will depend on monetising avoided costs and co-benefits in order to attract private capital where direct revenues fall short.
- **Scaling climate finance requires stronger partnerships and investment pipelines.** Scaling climate finance requires stronger partnerships and more robust investment pipelines. Closer collaboration among subnational governments, financiers and investors, multilateral development banks, and development finance institutions is essential to develop pipelines of bankable subnational projects. This collaboration should strengthen the capacity of subnational governments to design, review, and adapt projects from the outset to align with investors' requirements, and accelerate the delivery of climate finance to the communities that need it most.

A key solution: the Finance Accelerator for States and Regions (FASTR)

Led by Regions4 and the Under2 Coalition with the Sustainable Finance Observatory (SFO), FASTR responds directly to identified financing constraints by improving the bankability of subnational climate projects and unlocking public and private finance.

Its focus on supporting subnational projects designing bankability models, including through project aggregation and derisking to support investment readiness and connect projects with appropriate sources of finance.

Insights from the dialogue will further strengthen the FASTR model, ensuring it reflects practical barriers facing states and regions. Participants recognised FASTR as a concrete pathway from shared diagnosis to coordinated action, with potential to strengthen pipelines, mobilise capital and accelerate implementation.





Dialogue 1

Setting Conditions for Subnational Climate Investment

The first dialogue explored the conditions needed to mobilise private capital for subnational climate projects, bringing together perspectives from regional governments, private financiers, philanthropic organisations and sustainable finance experts. Discussions highlighted that closing the subnational climate finance gap demands stronger institutional capacity, investment-ready project pipelines and financing mechanisms that respond to the realities of regions and states.

From Climate Ambition to Investment Readiness

Setting the scene, the **European Climate Foundation** highlighted the need to shift climate finance from a predominantly supply-driven approach towards one that begins with regional needs, priorities and long-term development strategies. Rather than designing projects around available funding, regions should identify their climate and development priorities first, establish coherent investment pathways and then mobilise the most appropriate financing instruments.

Participants agreed that regions are uniquely positioned to translate national climate ambitions into concrete investment opportunities:

“

Acting as an intermediary between national governments and municipalities, subnational governments can coordinate stakeholders, consolidate project pipelines and align climate action with broader economic development objectives.

”

This strategic role enables regions to create the institutional foundations necessary to attract both public and private investment.

Creating Conditions for Private Investment

Building on this framing, **Pegasus Capital Advisors** outlined the conditions that private investors consider when assessing subnational climate investments. Participants emphasised that investor confidence depends not only on the quality of individual projects, but also on the broader enabling environment.

Key measures were identified to support long-term infrastructure investment and investor confidence:

- Strong local government and community buy-in,
- Political continuity and credible public counterparts;
- Transparent regulatory frameworks;
- Capacity to borrow of state and region;

From the regional government perspective, both the **Government of Catalonia** and the **Government of Minas Gerais** stressed the importance of creating stable institutional environments capable of fostering long-term collaboration between governments, investors and local stakeholders.

The State of Minas Gerais has developed a replicable financing model that combines the state-owned development bank, BDMG. BDMG operates as a self-financing public institution with commercial discipline and a public mandate. While the State provides strategic direction, the BDMG manages its own operations, funding, and lending activities by mobilising domestic, multilateral, and international capital. BDMG helps prepare and finance projects through due diligence, long-term financing, and risk-sharing mechanisms, thereby attracting private investment. It also serves as Minas Gerais' official PPP and concession structuring agency.



Strengthening governance, improving coordination across levels of government and maintaining consistent policy frameworks are critical to translating climate ambitions into investable opportunities.

Participants also noted that many barriers to private investment are linked to perceived rather than actual risk. Improving transparency, strengthening institutional capacity and demonstrating successful investment experiences were identified as important steps towards reducing this perception gap and encouraging greater private sector participation in subnational climate finance.

Rethinking Bankability

Discussions also challenged traditional definitions of "bankability". **The European Climate Foundation** noted that not all climate projects should be expected to generate commercial returns or attract private finance under conventional market conditions. Instead, participants stressed the importance of distinguishing between projects that can become commercially viable and those that will continue to require concessional finance, guarantees or grant funding because of the public benefits they deliver, notably when looking at adaptation projects.

The discussion further highlighted that bankability is not an inherent characteristic of a project, but can be developed through an appropriate combination of concessional resources and financial engineering. The objective is to structure projects to achieve an acceptable risk, return and impact profile, taking into account their specific characteristics and local context.

Participants identified a range of financial engineering techniques, including:

- Risk-sharing and credit-enhancement mechanisms such as guarantees, aggregation, intermediation, project and structured finance, and the monetisation of avoided costs and co-benefits, can be used to structure financing and improve project viability.

Some of these mechanisms rely on concessional resources to absorb or share risks that commercial capital cannot take on alone. This makes the strategic deployment of scarce concessional finance critical to maximising private capital mobilisation.



These techniques can, in turn, support blended-finance approaches that combine public and private sources of capital and help crowd in private investment.

The appropriate financial-engineering approach will depend on the characteristics of each project: revenue-generating mitigation investments may benefit from approaches such as structured finance and risk differentiation, while adaptation projects may require mechanisms such as the monetisation of avoided costs and co-benefits to capture their broader economic and societal value.

Alongside capital, technical assistance provides the support needed to strengthen institutional capacity, develop project studies and expertise, and provide financial-engineering support to improve project bankability.

Scaling through Aggregation and Financial Intermediation

A recurring message throughout the dialogue was that one of the principal barriers to investment is project scale and ticket size. **Pegasus Capital Advisors** observed that many regional and municipal climate initiatives are too small to justify the transaction costs associated with private investment or multilateral financing, despite their significant climate and development impacts.

As a result, three priority actions were highlighted:

1. Aggregating projects into larger investment portfolios;
2. Establishing dedicated financing platforms and investment plans;
3. Supporting financial engineering and intermediary capacity to aggregate projects and increase ticket size.

Aggregation can reduce transaction costs and create investment opportunities at a scale more suitable for institutional investors. However, aggregating multiple projects across localities into a single financing structure requires financial engineering expertise, as projects may have different risk, return and impact profiles and operate within different local enabling environments. This role can be supported by financial institutions specialised financial-engineering advisers and other intermediary institutions.

The Sustainable Finance Observatory (SFO) presented bankability as a project's ability to attract financing. It is built around three key dimensions: risk, return, and impact. Financiers also need confidence in the economic, regulatory, institutional, and environmental conditions that will support the successful implementation of a project over time.

Financial engineering combines techniques such as de-risking, intermediation, aggregation, project and structured finance, co-financing, the monetisation of avoided losses and co-benefits to design a bankability model suited to the specific characteristics of a project and its local context.

SFO is a partner of the FASTR initiative co-led with Regions4 and the Under2 Coalition. This initiative brings a critical innovation by making financial engineering expertise directly available to subnational projects—expertise that has traditionally remained concentrated within financial institutions. By doing so, it addresses a major market failure on the demand side through assessing the bankability potential of a much larger pipeline of subnational projects that would otherwise remain invisible to private investors.

Participants recognised that FASTR's financial engineering approach directly addresses the aggregation and bankability gaps they had identified as the primary constraints on subnational climate investment. Greater financial engineering advisory into project preparation and financing frameworks can improve market confidence while supporting the replication of successful financing models across regions.

The Government of Minas Gerais illustrated the potential of regional development banks to act as financial intermediaries between international financiers and local beneficiaries.

By aggregating smaller municipal projects, providing technical assistance and applying standardised financing procedures, regional financial institutions can bridge the gap between local climate needs and international sources of capital.

Participants agreed that strengthening collaboration between multilateral development banks and established subnational financial institutions represents a significant opportunity to accelerate investment while expanding access to climate finance for smaller municipalities.

Key Messages from Dialogue 1

The dialogue highlighted several priorities for strengthening subnational climate investment.

- Investment readiness depends on strong governance, institutional capacity and enabling policy environments alongside well-prepared project pipelines meeting financiers risk/return/impact requirements.
- Different climate projects require differentiated financing approaches, blending public and private sources of finance and using financial engineering techniques such as guarantees and aggregation. Given the scarcity of concessional finance, these instruments need to be used strategically to maximise their leverage in mobilising private capital.





Dialogue 2

From Insights to Action: Scaling Subnational Climate Investment

Building on the first dialogue, the roundtable explored how to translate growing private sector financiers' interest into greater flows of finance for subnational climate action. Bringing together regional governments, development finance institutions, commercial investors, insurers, philanthropic organisations and technical partners, participants focused on the practical actions needed to strengthen investment readiness, develop bankable pipelines and mobilise finance at scale.

A clear consensus emerged among participants: unlocking greater investment requires more than increasing the volume of available capital. It depends on improving project preparation, financial engineering, institutional capacity and collaboration, while deploying scarce concessional resources strategically to mobilise additional private capital.

1. The Investment Gap Is Investment Readiness, Not Capital Availability

One of the strongest messages from private financiers was that substantial global private capital for climate investment already exists, but much of it is not reaching low and middle-income countries (LMICs), with less than 5% of global financial assets currently reaching these markets. At the same time, public concessional funding is scarce.

The limiting factor is therefore not simply the availability of capital, but the ability to develop and structure projects that can access available sources of finance and meet investor requirements in terms of scale, governance, risk, financial performance, impact, and the ability to “speak the right language”.

Pegasus Capital Advisors argued that the discussion should move beyond the concept of a “finance gap” towards recognising an **investment readiness opportunity**. Projects rarely become bankable on their own; rather, bankability is created through deliberate financial and institutional preparation.

Participants identified financial engineering including, project aggregation, revenue structuring, blended finance and early investor engagement as the core components of investment readiness.

Financial engineering was highlighted as an important part of project preparation and investment structuring. Preparing projects therefore requires considering how they can be structured to align with investor expectations from the earliest stages of development.

2. Building Bankable Pipelines Through Partnerships

Participants agreed that preparing individual projects is no longer sufficient. Scaling finance requires developing continuous pipelines of investment-ready opportunities supported by long-term partnerships between governments, investors and technical institutions.

Representatives from GIZ, the C40 Cities Finance Facility, l'Institut de la Finance Durable, development finance institutions and private investors, stressed that technical assistance should move beyond producing feasibility studies towards embedding investment planning and financial expertise within government institutions.

Pathways2Resilience (P2R) highlighted its work supporting Resilience investment plans across more than 150 European regions by integrating financial planning directly into public administration systems rather than relying solely on external advisory support, and methodology, consult [here](#).



Participants also emphasised that stronger collaboration is required throughout the investment lifecycle. For this collaboration to become operational and investment-focused, financiers need to be presented with pipelines of projects that have demonstrated their potential for bankability, enabling different actors to engage around concrete investment opportunities. This requires bringing together:

- Subnational governments;
- Commercial banks;
- Pension funds and institutional investors;
- Insurers;
- Multilateral development banks;
- Philanthropic organisations; and
- Technical assistance providers.

Networks such as Regions4 and the Under2 Coalition were recognised as important brokers capable of connecting investment opportunities with financiers and facilitating trusted partnerships.

3. Financial Innovation Can Reduce Risk and Unlock Private Investment

Several participants highlighted that improving investment conditions is often more important than increasing capital supply.

Pegasus Capital Advisors emphasised that projects become investable through stronger financial structuring, project aggregation and appropriate use of concessional finance. They also highlighted the [Green Guarantee Group \(GGG\)](#) as an example of how guarantees involving governments, multilateral development banks and private investors can help improve the risk-return profile of projects selected for investment.

The International Development Finance Club (IDFC) also presented its proposed [Catalytic Capital Repository](#), which aims to improve transparency around available concessional finance and facilitate better matching with investment opportunities.

Insurance actors such as Howden highlighted their growing role in making climate risk measurable and investable.

Using the Glasgow city case, Howden demonstrated how insurance tools can:

- Quantify climate risk exposure
- Map vulnerabilities at city/regional scale
- Support adaptation planning through risk monetisation
- Improve governance frameworks for resilience



Insurance was framed as a bridge between physical risk and financial decision-making, especially for adaptation projects.

4. Regional Experiences Demonstrate Scalable Solutions

Although regional governments face different institutional contexts, several examples demonstrated how innovative financing models can successfully mobilise investment.

Minas Gerais (Brazil) illustrated the value of aggregation by coordinating investment across more than 850 municipalities. Through its state development bank (BDMG), the state has mobilised approximately US\$500 million for green investments over the past three years by bundling municipal projects - including electric buses, waste management and methane reduction initiatives- into larger investment programmes supported by international partners such as the European Investment Bank.



Catalonia (Spain) presented its experience using regional climate funds, public-private partnerships and shared-risk financing mechanisms to accelerate climate investment while improving project implementation.

Cross River State (Nigeria) highlighted both the opportunities and constraints facing many regions, including its credit worthiness. Despite significant renewable energy potential, limited fiscal autonomy and restricted borrowing powers continue to constrain investment. Nevertheless, the state is developing a pipeline of bankable small hydropower projects through stronger project preparation and institutional support.

The province of Córdoba (Argentina) demonstrated the growing investment potential of forestry, ecosystem services and nature-based solutions while emphasising the need for stronger valuation methodologies, financial infrastructure and institutional capacity to attract private investment.

These examples illustrated that successful financing models can be replicated when supported by effective governance, aggregation and strong institutional partnerships.

5. Adaptation Finance Requires Different Investment Approaches

Participants agreed that adaptation presents fundamentally different financing challenges from mitigation investments. While renewable energy and other mitigation projects often generate predictable revenues, adaptation projects frequently produce value through avoided losses, resilience benefits and ecosystem services that are more difficult to monetise.

Public finance currently represents the large majority of adaptation finance, accounting for around 92%, while available public concessional resources remain insufficient to meet adaptation investment needs. This creates a need to move beyond reliance on public concessional finance and mobilise greater volumes of private capital.

Consequently, scaling adaptation finance will require:

- Wider application of avoided-loss methodologies;
- Recognition of health, productivity and ecosystem co-benefits;
- Greater mobilisation of private capital alongside public finance, through financial engineering and innovative financial structures tailored to resilience investments;
- Enabling regulatory frameworks that create investable markets.

UNEP called for moving beyond narratives focused solely on climate risk towards actively building markets for resilience, including heat adaptation and nature-based solutions. RMI similarly emphasised that land-use planning, permitting systems and regulatory frameworks are essential components of investment readiness.

Key Messages from Dialogue 2

The roundtable identified several priorities for accelerating subnational climate investment:

- The principal constraint is not capital availability but the supply of investment-ready projects.
- Bankability is created through financial engineering, project aggregation and sustained technical support rather than existing as an inherent project characteristic.
- Strengthening institutional capacity within subnational governments is as important as project preparation itself.
- Public-private partnerships, blended finance, guarantees and catalytic capital can significantly improve investment conditions and mobilise private finance. In order to mobilise these instruments, projects must demonstrate their bankability potential.
- Adaptation finance requires distinct valuation methodologies and financing models that recognise resilience, avoided losses and ecosystem services.
- Stronger collaboration across governments, investors, development partners and technical institutions is essential for developing scalable investment pipelines.



Recommendations

The discussions highlighted that unlocking greater climate finance for states and regions requires coordinated action across governments, development finance institutions, private investors and technical partners. The following recommendations build on the priorities identified throughout the dialogue and provide a practical agenda for strengthening subnational climate investment. The following recommendations build directly on priorities identified and endorsed by participants throughout both dialogues.



For Subnational Governments

States and regions play a central role in creating the enabling conditions for climate investment. A set of priorities to strengthen investment readiness and improve access to finance:

- **Embed investment planning and bankability into climate action from the outset**, using public budgets and concessional resources strategically to strengthen project bankability through measures such as co-financing, offtake agreements, fiscal incentives and other de-risking mechanisms, while creating pathways to mobilise external sources of finance rather than treating financing as a final step.
- **Build investment-ready pipelines, not isolated projects**, by strengthening project preparation and financial engineering, aggregating projects, improving data and metrics, and presenting opportunities in ways that respond to investor requirements and long-term territorial development priorities.
- **Leverage subnational development banks and other intermediary institutions to aggregate and structure projects**, using their financial and technical expertise to bundle smaller municipal initiatives into investment portfolios that reduce transaction costs and achieve sufficient scale.
- **Create stronger partnerships with financiers and technical partners early** in the project cycle, enabling investment opportunities to be co-developed and refined before seeking financing.

For Private financiers

Private financiers have an important role to play not only as providers of capital, but also as strategic partners in shaping investment-ready opportunities and strengthening confidence in subnational markets.

- **Look beyond perceived risks towards long-term investment opportunities**, recognising that many subnational climate investments offer strong risk-adjusted returns when supported by credible governance, appropriate financial structures and robust local partnerships.
- **Support financing models that reflect the diversity of climate investments**, combining commercial finance with blended or innovative approaches where needed, particularly for adaptation, resilience and nature-based solutions that generate broader public value beyond direct financial returns.
- **Work alongside regional governments and intermediary institutions** to broaden portfolios or provide technical assistance to support subnational projects that can be replicated and scaled across territories.



For Finance Institutions and Technical Partners

Development finance institutions, technical partners and climate finance initiatives can play a catalytic role in helping regions translate climate ambition into investment-ready opportunities.

- **Expand technical assistance to include financial engineering, investment structuring and bankability support**, helping regions move from preparing projects to preparing investments.

- **Support aggregation, stronger collaboration across the climate finance ecosystem**, reducing transaction costs while facilitating earlier engagement between subnational governments, development finance institutions and private investors.
- **Scale initiatives such as FASTR** to connect curated pipelines of investment-ready projects with sources of public and private finance, while promoting the replication of successful financing models across regions.



Finance Accelerator for States & Regions (FASTR)

Unlocking Climate Finance for States and Regions

FASTR is being developed to support states and regions in structuring, aggregating and connecting climate projects to finance more effectively, helping transform climate priorities into investment-ready.

The discussions throughout the event reinforced a common conclusion: while states and regions are driving climate action, many projects struggle to meet the requirements needed to attract public and private finance. Participants consistently highlighted: need for stronger project preparation, financial engineering, aggregation mechanisms and earlier engagement between regional governments and investors to bridge the gap between investment demand and investment supply.

These priorities directly informed the presentation of the Finance Accelerator for States and Regions (FASTR), an initiative under development by Regions4 and the Under2 Coalition, in collaboration with the Sustainable Finance Observatory (SFO). FASTR is being designed to develop curated pipelines of subnational climate projects supported through financial engineering and an initial assessment of their bankability potential.

By facilitating earlier engagement between regional governments, development finance institutions and private financiers, the initiative would attempt to strengthen investor confidence, reduce transaction costs and accelerate investment decisions.

By supporting project aggregation, strengthening institutional capacity and promoting the replication of successful financing models, FASTR would aim to respond to many of the priorities identified during both dialogues. Participants recognised the initiative as a potential step towards helping states and regions move from preparing projects to preparing investments, while strengthening the role of subnational governments within the global climate finance architecture.



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Annex 1

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Subnational Governments

Catalonia
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Cross River state
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We act,
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