A fit-for-purpose climate finance framework

Relevant findings from the Independent High-Level Expert Group on Climate Finance

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EMDEs (other than China) are being left behind

While global climate efforts are increasing, EMDEs are facing obstacles in every critical aspect of the transition. Climate finance is concentrated in developed economies and China (with only 14% going to EMDEs other than China) and it is primarily delivered in the form of debt.

The energy transition

Developed economies and China **attracted over 90% of the increase in clean energy investment** since 2021 (IEA, 2023b).

Adaptation and resilience

- Estimates of adaptation costs/needs in developing countries **are now around 10-18 times as much** as international public adaptation finance flows (UNEP, 2023)
- Finance commitments for adaptation **dropped by 15%** in 2021 (UNEP, 2023b).

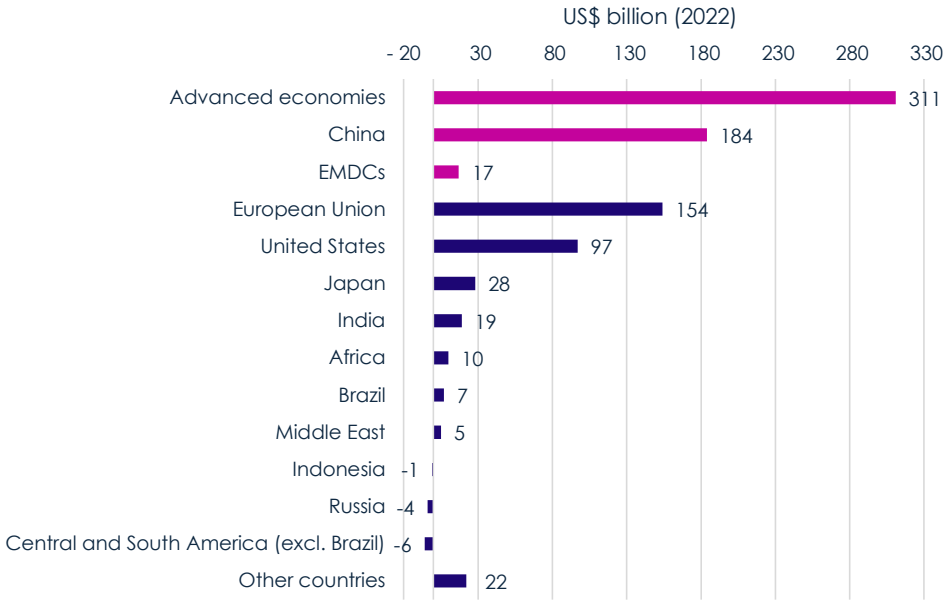
Loss and damage

Funding pledged for loss and damage (just over $700 million at COP28) **is less than 0.2% of the estimated needs** by 2030 (CISL, 2023).

Nature

Close to **80% of global nature finance flows originate from and are directed to developed economies**, while EMDEs account for 90% of the investment opportunity in nature conservation and restoration (Turner et al., 2021).

Increase in annual clean energy investment, 2019 - 2023

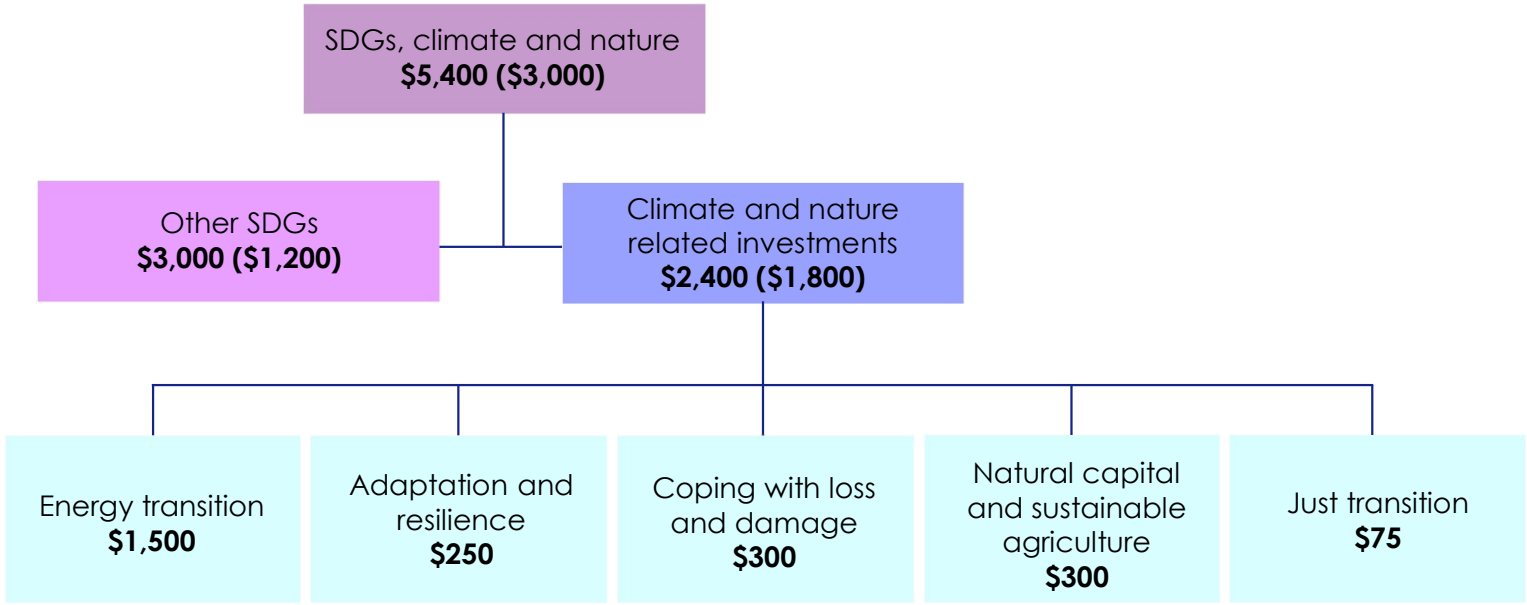


Source: IEA (2023a)

Note: Advanced economies include countries in the OECD regional grouping and Bulgaria, Croatia, Cyprus, Malta and Romania. EMDEs include all other countries (including the selected regions/countries also presented on the graph such as Africa, Brazil, India, etc.) excluding China.

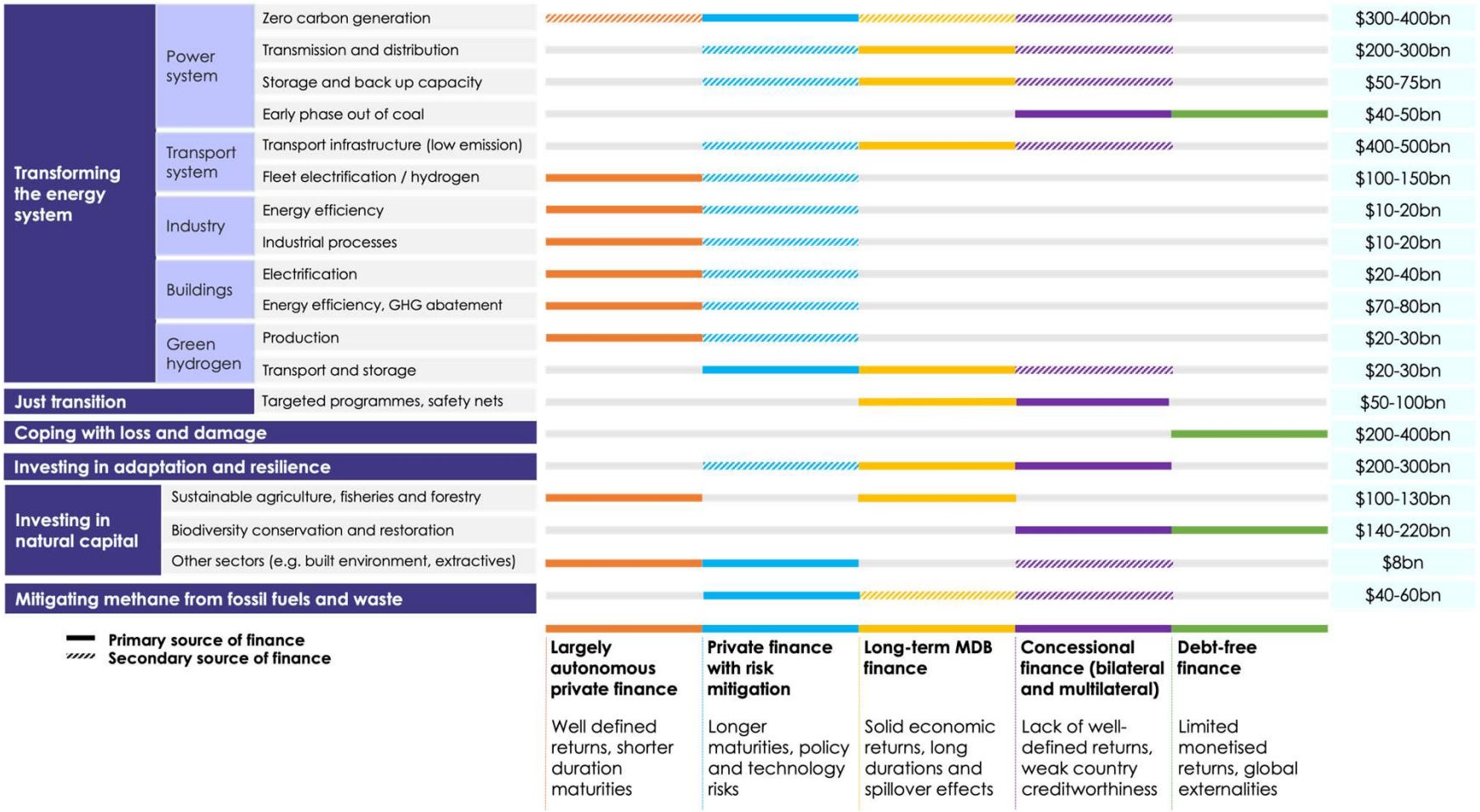
The investment imperative

Investment / Spending Requirements for Climate and Sustainable Development ($ billion per year by 2030, increment from current in parentheses)



Source: G20 IEG Triple Agenda Report, 2023 and Bhattacharya et al, 2023

Matching needs to sources of finance



Notes:
The categories of investment and spending necessary to meet climate and development goals are shown on the left-hand side. For each, we outline the mix of financing needed from external sources to support the related investment and spending priorities.

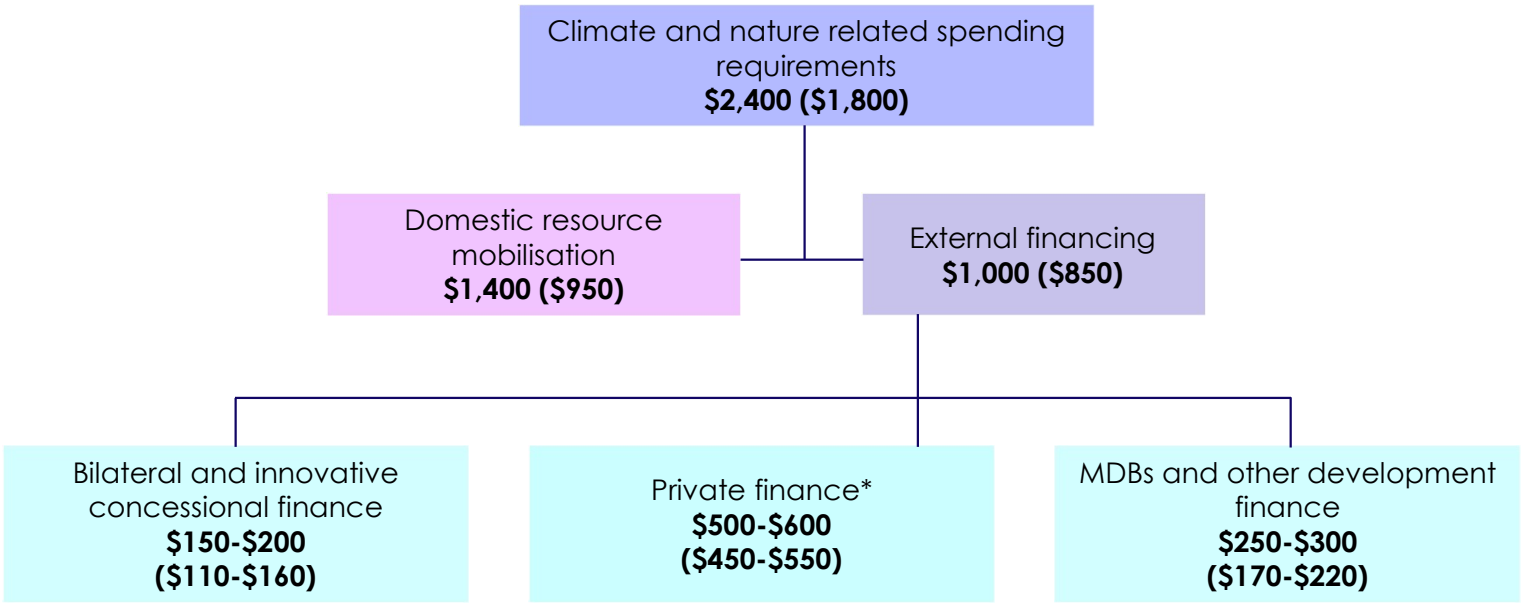
We distinguish between sources that would constitute the primary source of financing for one sector, and those that would play a secondary role.

On the right-hand side we outline the estimated investment and spending requirements by 2030 for each category.

Source: Songwe et al. (2022)

Mobilising the necessary financing

Financing the Green Transition ($ billion per year by 2030, increment from current in parentheses)



Source: Bhattacharya et al., 2023

*More than half of this private finance would be directly and indirectly catalysed by MDBs, other development finance institutions, and bilateral finance.

A new climate finance framework: scale, urgency and options

A framework for a climate finance system that supports climate and development must:

- ✓ **Scale up all sources of finance (domestic and international, public and private) and utilise them more effectively.**
- ✓ **Embody justice and inclusion** (based an equitable distribution of resources, recognising the differential impacts of climate change on countries and communities, and recognising historical responsibilities).

An overall financing strategy is much more than an aggregate number, it must:

Utilise the complementary strengths of different pools of finance to ensure the right scale and kind of finance, particularly in relation to cost of capital and management of risk.

Align all finance with climate goals and the Kunming-Montreal Global Biodiversity Framework where applicable.

Create the necessary partnerships (public-private, domestic-international) to deliver concrete results.

Source: Bhattacharya et al. (2024)

Beyond scaling up, there is also a pressing need to tackle the shortfalls in the quality of finance provided, particularly around managing, reducing and sharing risks. Requires: