A fit-for-purpose climate finance framework

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

Amar Bhattacharya

ESCAP Side Event: Accelerating Financing for climate action: Progress across the Asia-Pacific region 25 April, 2024

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).

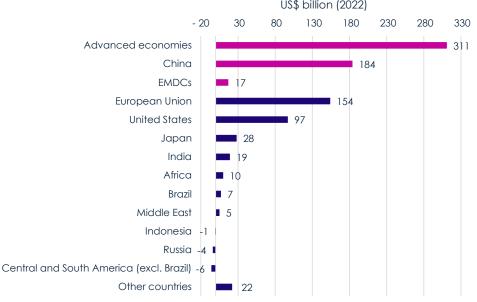
Loss and damage

 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

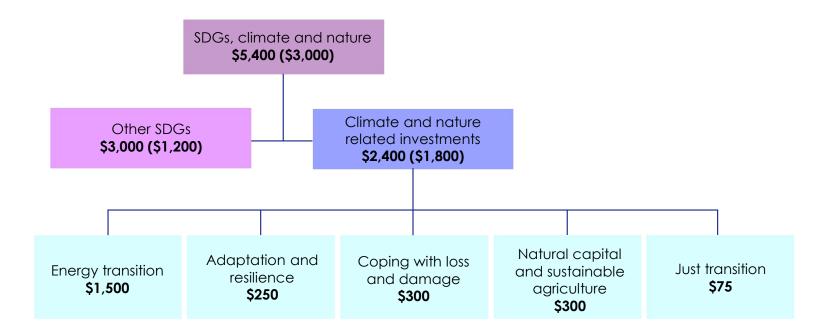


Source: IEA (2023a)

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)



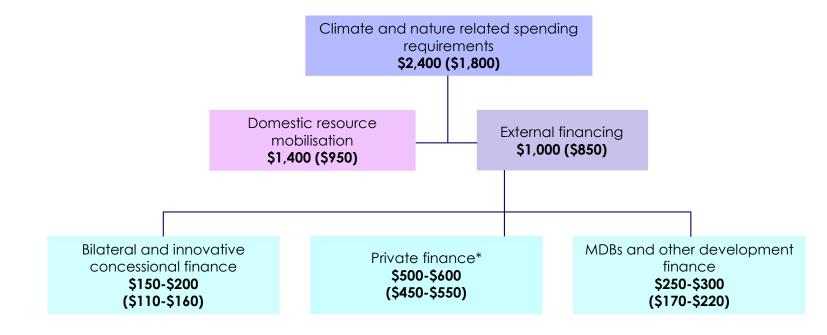
Source: G20 IEG Triple Agenda Report, 2023 and Bhattacharya et al, 2023

Matching needs to sources of finance

	Power system	Zero carbon generation	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			\$300-400bn	
Transforming the energy system		Transmission and distribution					<i>.</i>	\$200-300bn	
		Storage and back up capacity					0	\$50-75bn	Notes:
		Early phase out of coal				7		\$40-50bn	The categories of investment
	Transport system	Transport infrastructure (low emission)		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			»	\$400-500bn	and spending necessary to meet climate and
		Fleet electrification / hydrogen			*			\$100-150bn	development goals are shown
	Industry	Energy efficiency			S			\$10-20bn	on the left-hand side. For each, we outline the mix of financing
		Industrial processes			e			\$10-20bn	needed from external sources
	Buildings	Electrification						\$20-40bn	to support the related
		Energy efficiency, GHG abatement			¢			\$70-80bn	investment and spending priorities.
	Green hydrogen	Production			8			\$20-30bn	
		Transport and storage					4	\$20-30bn	We distinguish between sources that would constitute the
Just transition Targeted programmes, safety nets								\$50-100bn	primary source of financing for
Coping with loss and damage								\$200-400bn	one sector, and those that
Investing in adaptation and resilience							\$200-300bn	would play a secondary role.	
Investing in natural capital	Sustainable agriculture, fisheries and forestry							\$100-130bn	On the right-hand side we
	Biodiversity conservation and restoration							\$140-220bn	outline the estimated investment and spending
	Other sectors (e.g. built environment, extractives)						\$8bn	requirements by 2030 for each	
Mitigating methane from fossil fuels and waste								\$40-60bn	category.
Primary source of finance Secondary source of finance			Largely autonomous private finance	Private finance with risk mitigation	Long-term MDB finance	Concessional finance (bilateral and multilateral)	Debt-free finance		Source: Songwe et al. (2022)
			Well defined returns, shorter duration maturities	Longer maturities, policy and technology risks	Solid economic returns, long durations and spillover effects	Lack of well- defined returns, weak country creditworthiness	Limited monetised returns, global externalities		4

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.



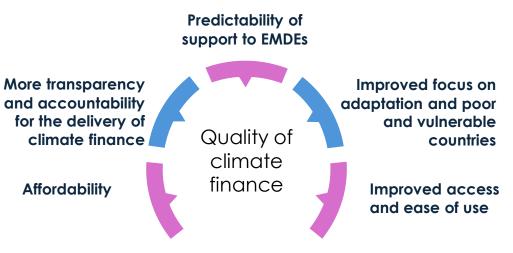
Align all finance with climate goals and the Kunming-Montreal Global Biodiversity Framework where applicable.

•	
TI.	

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:



6