

# Finance for climate action: Scaling up investment for climate and development

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# A critical moment in time

- A moment of **great risk and great opportunity**. One path leads to attractive growth and development, the other to great difficulties and indeed destruction.
- **EMDCs are under great pressure and face risk of a lost decade for development**. We are off track on virtually all SDGs and ill prepared for the major demographic transitions ahead.
- At the same time the **urgency and opportunity of tackling climate change** is becoming ever clearer.
- **Equally urgent challenge to protect and restore nature**.
- Acting on climate and nature is not a cost but rather an **opportunity to unlock new and better forms of growth**.
- **A major push on investment and innovation** can drive a sustainable recovery and make a breakthrough on both development goals and climate.
- Seizing that opportunity will **require a clear strategic direction, strong and purposive policies, a massive scaling up and shift in investment and the mobilization of the right finance, at the right cost, at the right scale**.
- **Restoring trust: delivering on the \$100 billion commitment and immediate priorities**.

# Investment and spending priorities for climate action and sustainable development

While the investment push is needed across the full spectrum of the sustainable development goals, the key investment and spending priorities to ramp up climate action and deliver on the related sustainable development goals are:



**Transformation of energy systems:** major and rapid scale up of renewable energy; complementary public infrastructure; energy efficiency and transformation of demand; just transitions; curb methane emissions.



**Respond to the growing vulnerability of developing countries** to climate change: both more frequent and damaging extreme events and the effects of “slow onset” especially on heat, precipitation and water. This will mean much better mechanisms to deal with loss and damage as well as greatly accelerating the investments in adaptation and resilience.



**Investing in sustainable agriculture and natural capital**, which will be key to mitigation, adaptation and development. We must also ensure that we begin to restore right away the damage that we have done to our natural capital in terms of degraded land, deforestation, and damage to our water supply and oceans.

The climate and the biodiversity crises are deeply intertwined: they share common drivers, and each global challenge can worsen the other. As such, they must be addressed together.

# Investment must scale up by several points of GDP

Investment/spending needs per year for sustainable development and climate action for EMDCs (other than China):

Estimate	2019 US\$ billion	2019 % GDP	2030 US\$ billion	2030 % GDP	Gap (2030 minus 2019) <sup>1</sup> US\$ billion	Gap (2030 minus 2019) <sup>1</sup> % GDP
SDG-related investment <sup>2</sup>	2,385	11.3%	5,400	18.2%	3,000	6.9%
Of which climate and related investments <sup>3</sup>	550	2.4%	2,400	7.2%	1,800	4.8%

**Notes:**

1. Gap is defined as difference between estimated investment needs in 2030 and current baseline of investment in 2019.
2. Human capital, sustainable infrastructure (including on the energy transition), adaptation and resilience, AFOLU.
3. Energy transition, adaptation and resilience, AFOLU.

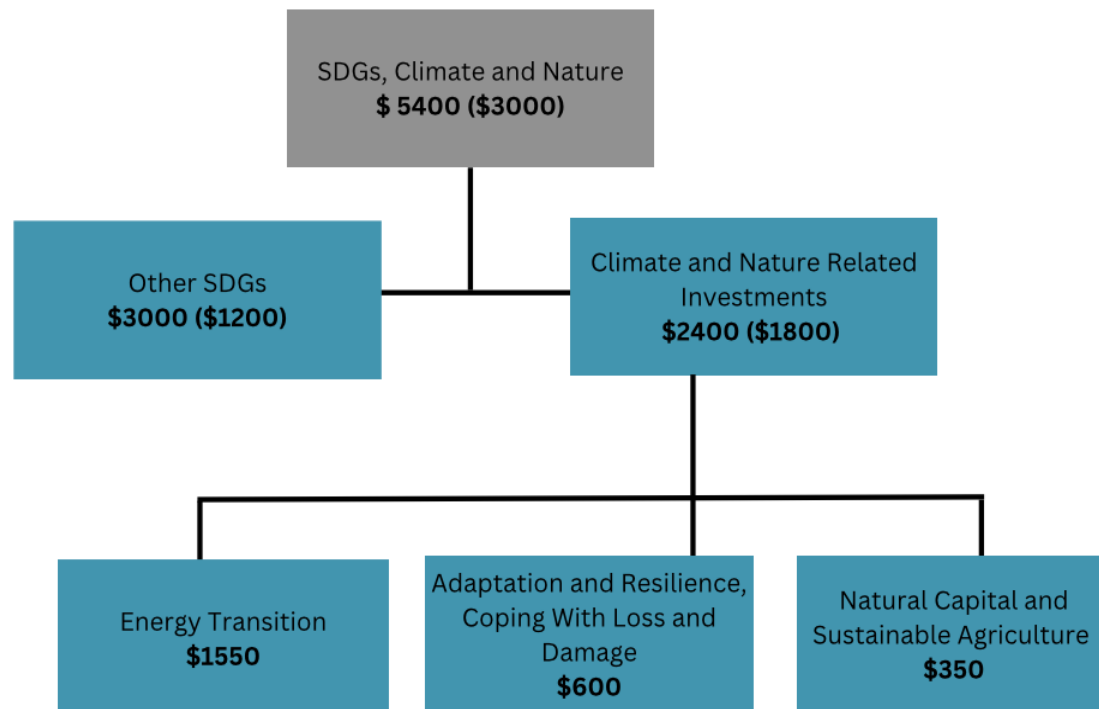
**Source:** Bhattacharya et al. (2022)

**The growth and structural change agendas in EMDCs will already entail substantial energy investment. Savings from avoided investments in fossil fuels in EMDCs dwarf additional climate investment needs.**

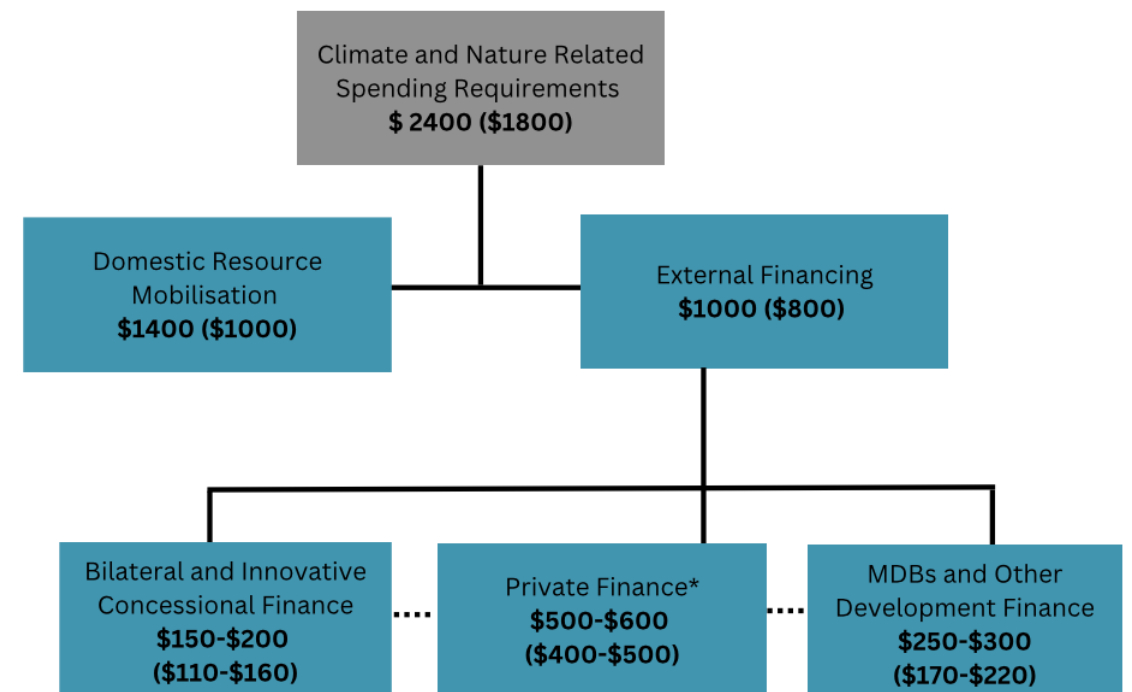
**Investment requirements in natural capital, adaptation and resilience, and spending on loss and damage will be additional.**

# An additional \$1 trillion per year is needed in external finance from different sources

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



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 approach to finance: scale, urgency and options

- The scale of the investments needed in EMDCs over the next five years and beyond will require a debt and financing strategy that:
  - ✓ **tackles festering debt difficulties**, especially those of poor and vulnerable countries.
  - ✓ leads to a major expansion and **revamp of both domestic and international finance, public and private**.
- A more holistic, comprehensive strategy is needed to deliver bigger, better and faster climate finance. An overall financing strategy must utilize the **complementary strengths** of different pools of finance and to reduce the cost of capital rather than simply focusing on the aggregate number.



It must embody a **holistic and comprehensive approach** to climate finance.



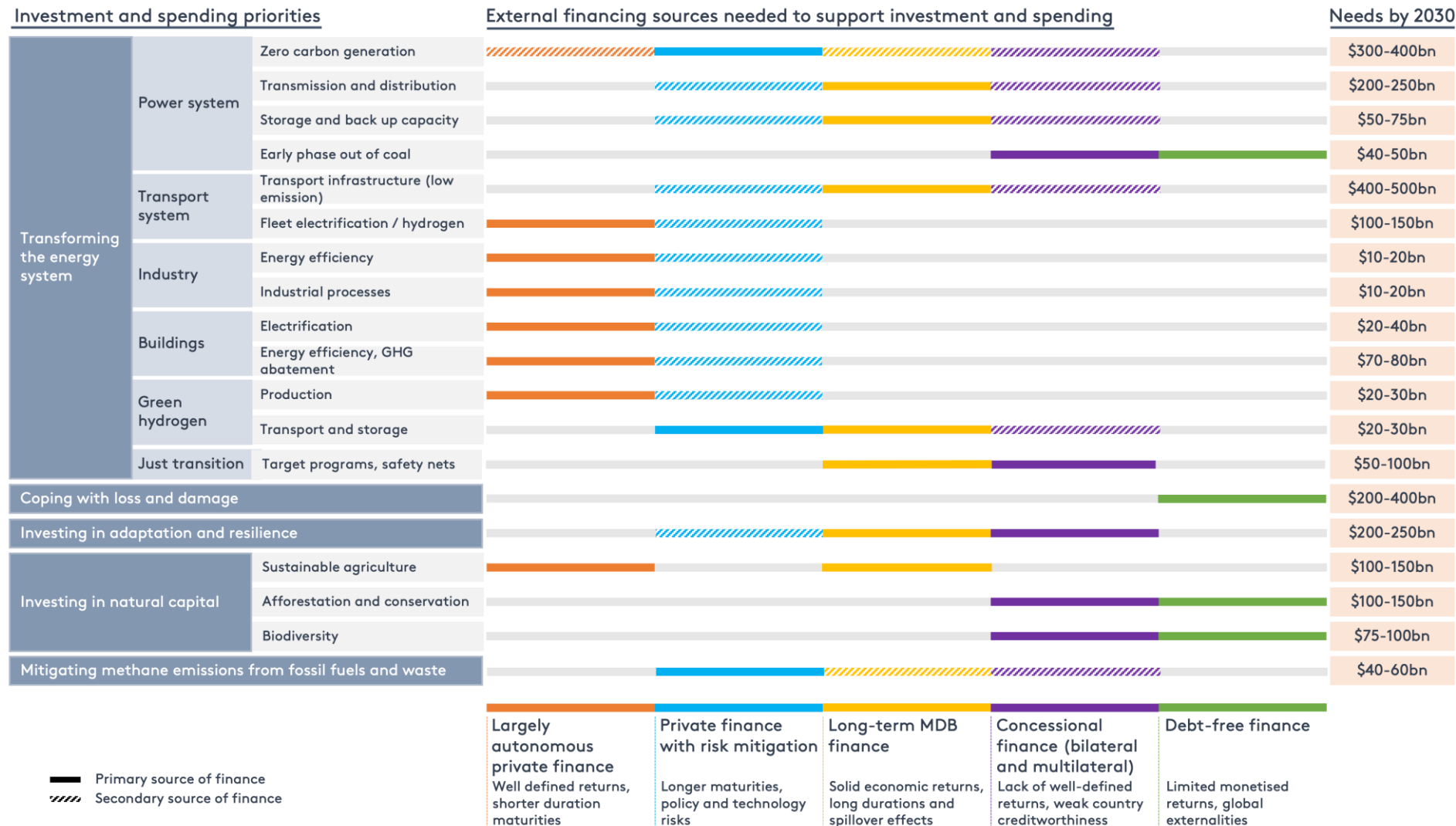
It must **align all finance with sustainability, including climate goals**, in line with Article 2.1 c.



It must **create the necessary partnerships** to deliver concrete results.

# An additional \$1 trillion per year is needed in external finance from different sources

External financing sources for investment and spending priorities for climate action and related development goals



## 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)

# Key pillars of the new approach for inclusive climate finance

- Tackling **debt and fiscal constraints**
- Translating investment opportunities to reality: **unlocking ambitious investment programs**
- **Domestic resource mobilization**: foundational to expansion and sustainability
- Creating a **new highway for private finance**
- A MDB System that delivers on climate action: **“The Triple Agenda” on MDB Reform**
- Delivering on and expanding options on **concessional and debt-free finance**
- **Quality of climate finance**: access, affordability and transparency
- **Aligning all finance** with climate and sustainable development (Article 2.1c)