

Raising ambition and accelerating delivery of climate finance

Third report of
the Independent
High-Level Expert Group
on Climate Finance

Executive summary

November 2024

The **Independent High Level Expert Group (IHLEG) on Climate Finance** has been supporting the deliberations on the climate finance agenda under successive COP Presidencies since COP26. This independent group was tasked to help develop and put forward policy options and recommendations to encourage and enable the public and private investment and finance necessary for delivery of the commitments, ambition, initiatives and targets of the UNFCCC Paris Agreement, reinforced by the Glasgow Climate Pact, the Sharm el-Sheikh agenda, and the COP28 Global Climate Finance Framework. This document summarises the third report of the Group.

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For the full report and list of contributors, visit www.lse.ac.uk/granthaminstitute/publication/raising-ambition-and-accelerating-delivery-of-climate-finance

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1. Investment imperative and opportunity

The world faces an unprecedented investment imperative and opportunity. The transition to clean, low-carbon energy, building resilience to the impacts of climate change, coping with loss and damage, protecting nature and biodiversity, and ensuring a just transition, require a rapid step-up in investment in all countries.

The needs and opportunities are especially significant in emerging markets and developing countries (EMDCs) other than China: they are the countries that will account for the largest share of the increase in investments needed for a global energy transition, they are the most vulnerable to climate impacts, and they are home to the vast preponderance of the world's nature and biodiversity resources.

We estimate that the global projected investment requirement for climate action is around \$6.3–6.7 trillion per year by 2030, of which \$2.7–2.8 trillion is in advanced economies, \$1.3–\$1.4 trillion in China, and \$2.3–2.5 trillion in EMDCs other than China.¹ These latter countries will account for almost 45% of the average incremental investment needs from now to 2030 but they have been falling behind, especially Sub-Saharan Africa. For 2035, we estimate global investment requirements for climate action to be around \$7–8.1 trillion per year, with advanced economies needing \$2.6–3.1 trillion, China \$1.3–1.5 trillion, and EMDCs other than China requiring \$3.1–3.5 trillion. These needs are our estimations of what is required for delivery on the Paris Agreement, and the investments will also make a vital contribution to sustainable growth and the achievement of the Sustainable Development Goals.

Rapidly falling technology costs especially for solar power, and the huge expansion in supply, notably from China, represent an unprecedented opportunity for developing countries. Africa, for example, accounts for about 60% of the world's best solar resources, but received less than 2% of the investment in clean energy in 2023.

Ramping up climate investments in EMDCs is the only way to reach the Paris Agreement goals of limiting the global temperature increase to well below 2 degrees Celsius and adapting to climate change, and to arrest the accelerating threat to nature and biodiversity. Doing so also represents a huge growth and development opportunity following the investment slowdown in the aftermath of the COVID-19 pandemic.

Our updated analysis indicates that of the projected investment needs of around \$2.4 trillion per year in 2030 for EMDCs other than China, around \$1.6 trillion is for the clean energy transition, \$0.25 trillion for adaptation and resilience, \$0.25 trillion for loss

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1. All figures are provided in US dollars. Numbers may not sum to totals due to rounding.

These are the investment levels that are necessary for delivery on the Paris targets: analytical deductions in relation to our estimates of what is needed, not a 'first bid' in a negotiation.

and damage, \$0.3 trillion for natural capital and sustainable agriculture, and \$0.04 trillion for fostering a just transition. To emphasise, these are the investment levels that are necessary for delivery on the Paris targets. They are analytical deductions in relation to our estimates of what is needed, not a 'first bid' in a negotiation.

Any shortfall in investment before 2030 will place added pressure on the years that follow, creating a steeper and potentially more costly path to climate stability. The less the world achieves now, the more we will need to invest later. Delayed action means we will need to mobilise even larger sums in shorter timeframes to catch up on critical targets. Additionally, investment needs for adaptation and resilience, as well as loss and damage and restoration of nature, will rise sharply as climate and nature risks escalate.

This ramp-up of investment can unlock the growth story of the 21st century and yield huge avoided costs and co-benefits (versus the costs of inaction) while generating very large savings. The avoided costs (such as adverse impacts on productivity and health, damages to assets, and loss of biodiversity) and co-benefits of climate action (such as increased productivity, improved ecosystem services and strengthened social stability) could amount to about 15–18% of global GDP in 2030. In addition, financial savings from a shift to a low-carbon economy could be as much as 11–18% of global GDP—coming, for example, from reduced investments, consumption and imports of fossil fuels, and fewer environmentally harmful subsidies. These benefits and savings will depend on the pace of the transition and accrue over time. The challenge, therefore, is to foster the enabling conditions for the ramp-up of investments and mobilise finance of the right scale, of the right kind and at an affordable cost.

2. Criticality and structure of finance

The large and rapid scale-up of finance to support a big investment push can only be achieved by harnessing all pools of finance. For each strand, it is important to pursue ambitious targets consistent with the investment goals but based on credible pathways to delivery. The approach must utilise the comparative strengths of each strand in financing the different types of investment. And it will be important to tap the synergies from the different strands of finance to enhance leveraging power and bring down risks and the cost of capital.

Domestic resources, which currently account for around 70% of climate finance, can reasonably finance \$1.4 trillion per year of the total investment need of \$2.4 trillion by 2030 and \$1.9 trillion of the total investment need of \$3.2 trillion by 2035. The role of the private sector will be much more important than in the past, given the changing nature of investment.

External finance from all sources, international public and private along with others, will need to cover \$1 trillion per year of the total investment need by 2030 and around \$1.3 trillion by 2035. We argue that cross-border private finance can meet about half of these needs given the changing nature of investment

opportunities. This would imply a 15- to 18-fold increase on current levels. Given their important direct and catalytic role, the IHLEG and the G20-mandated Independent Expert Group (IEG) on multilateral development bank (MDB) reform have argued that financing from MDBs needs to triple by 2030. Bilateral climate finance from advanced economies, which currently amounts to \$43 billion per year, needs to double or more, given the central role that it plays in building trust and financing the most difficult needs.

Building a climate finance system that meets the test of both scale and quality requires shifting beyond a traditional focus on mobilising funding to prioritising impact and systemic change. This means scaling up climate finance to be accessible, predictable, affordable and transparent, rooted in justice and inclusion. Resources must be distributed equitably, historical responsibilities acknowledged, and marginalised communities included in decisions. Increased attention to gender equality is crucial for climate finance that effectively addresses the differing constraints and opportunities for men and women. Agreement and implementation of Article 2.1(c) of the Paris Agreement can greatly bolster the effectiveness of the climate finance system.

Different sorts of investment need different sources of finance and thus the composition of the different sources of the \$1 trillion per year in external finance by 2030 is of great importance, and so too is the cost of capital. For example, private finance will be the main source of investment in infrastructure for renewable energy generation. Thus the \$1 trillion in external finance for EMDCs other than China is much broader in scope than the commitment by developed countries at COP16 in 2010 to mobilise \$100 billion per year by 2020 for developing countries. The figures presented in this report imply a more than fourfold increase in total climate finance and a more than sixfold increase in external finance by 2030.

Non-traditional financing sources can play an important role in closing the financing gap. There is tremendous potential for expanding South-South cooperation between EMDCs on climate finance. Non-conventional sources of concessional finance will also need to be pursued, including voluntary carbon markets, use of special drawing rights (SDRs), solidarity levies on internationally-polluting activities, other international taxes, debt swaps and private philanthropy. This could raise around \$150 billion in additional revenues by 2030.

A fit-for-purpose climate finance agenda has important implications for the New Collective Quantified Goal on Climate Finance (NCQG). Agreement on the NCQG is a matter for the Parties. With its overall external finance of \$1 trillion per annum to EMDCs other than China by 2030, and its basic elements of private, MDB, bilateral and other concessional flows, this framework provides the key conceptual and practical set of numbers for climate finance, and can inform discussions about the NCQG. These numbers come from a transparent and deductive analysis of the finance required for the investments that will be necessary for delivery on the crucial temperature and climate-resilience targets of the Paris Agreement.

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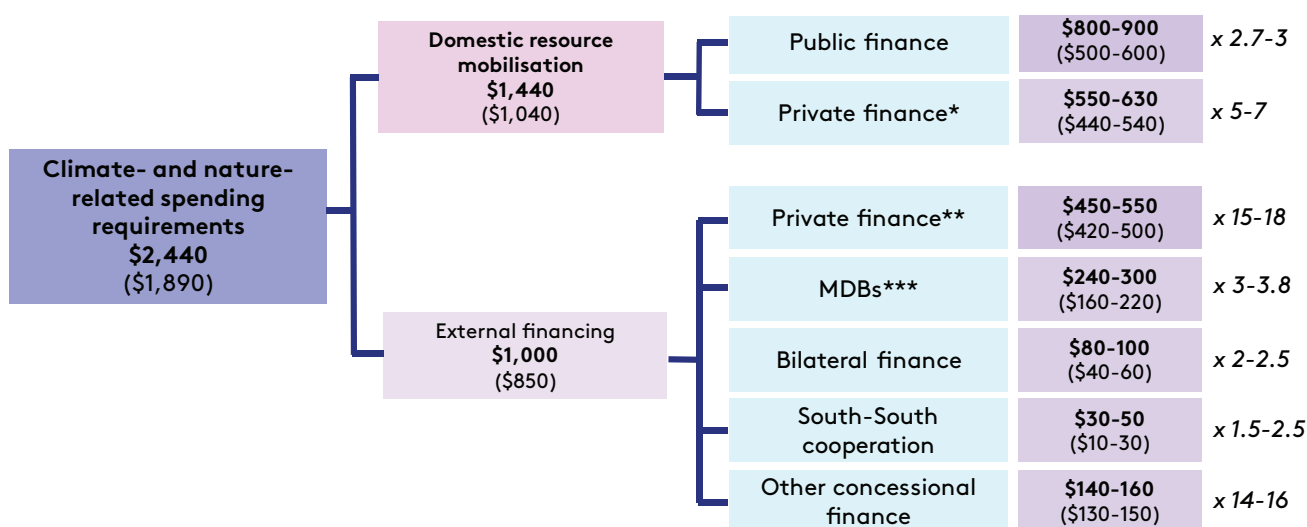
Without these investments in EMDCs other than China, the world will fail to achieve those goals. To deliver on the \$1 trillion of external finance, ambitious but credible targets will be required for the different strands, recognising the need for synergies and leverage to achieve scale and effectiveness. The tripling of MDB finance, for example, is crucial to scaling up private finance and reducing the cost of capital. This framework and the key elements within it should be the main focus of the NCQG.

Within this larger framework, advanced economies need to demonstrate a credible commitment, including through the NCQG, to provide and mobilise the finance needed for climate action in developing countries. This would entail a tripling of the \$100 billion annual commitment made at COP16 for 2020, and reaffirmed and extended to 2025 at COP21 in 2015. Other stakeholders also need to come forward with ambitious commitments, including the MDBs, the private sector, and developing countries that are in a position to provide support. Indeed, cooperation between developing countries ('South–South cooperation') is already making a significant contribution and there is great scope for enhanced support and financing from leading developing countries.

3. Accelerating the delivery of the climate finance action agenda

Momentum has been building on the climate finance agenda since COP26. COP26, COP27 and COP28 all made climate finance a central priority. The Global Climate Finance Framework launched by the UAE COP28 Presidency in 2023 and supported by the IHLEG set out an action agenda to deliver on adequate, accessible and affordable climate finance that has been endorsed by an important

Mobilising the necessary financing for EMDCs other than China (\$ billion per year by 2030, increment from current in parentheses)



Notes: *Includes household savings. **A significant proportion of this private finance would be directly and indirectly catalysed by MDBs, other development finance institutions and bilateral finance. ***Includes multilateral climate funds.

coalition of world leaders. COP29 and COP30 will be crucial in taking forward this climate finance agenda, with a need to agree on the NCQG, launch a new round of ambitious nationally determined contributions (NDCs) in 2025, and accelerate the implementation of the agenda set out in the Global Climate Finance Framework.

Climate finance now features prominently in all key international discussions, including the UN, the G20, the international finance institutions (IFIs) and the private sector. The Brazilian G20 Presidency launched a special initiative this year, TF-Clima, to bring together different stakeholders and build support for an action agenda on climate. The Network for Greening the Financial System (NGFS), which has enlarged to 141 members comprising central banks and regulators, and the Coalition of Finance Ministers for Climate Action, which now comprises finance ministries from 95 countries, have become important networks to build consensus and ambition on the climate action agenda. Several other coalitions have also emerged to identify and pursue priorities for action, including the Bridgetown Initiative (with Bridgetown 3.0 launched in September 2024), the Paris Pact for People and the Planet (4P, with a permanent secretariat now established at the OECD), the Nairobi Declaration of the Africa Climate Summit, and the V20 with its action agenda.

COP29 in Baku and the G20 Summit in Rio de Janeiro provide an opportune moment to take stock of the climate finance agenda, deliver an ambitious NCQG, and identify priority actions for ramping up progress. In 2025, the Financing for Development conference in June, the G20 agenda under the South African Presidency, and COP30 with its priority goal of a new round of ambitious NDCs must all enable a big push on the necessary investment and its financing.

A big push is required on three priorities: (i) to prepare and implement high-quality investments; (ii) to put in place the necessary macroeconomic and sectoral policy and institutional reforms and tackle the severe constraints facing many countries due to high debt and limited fiscal space; and (iii) to mobilise finance at scale and improve access to affordable capital. These priorities were confirmed at two roundtables convened by the UN Climate Change Executive Secretary in partnership with the IHLEG in 2024, in Bonn and New York, to take stock of and impart momentum to the climate finance action agenda.

The starting point is unlocking climate investment at scale. First, countries must set out well-articulated strategies and transition plans to provide a clear source of direction, including to the private sector. Second, countries must put in place and strengthen institutional structures for translating strategies into tangible investment programmes and project pipelines. Third, countries need to pursue sustained policy and institutional reforms to tackle barriers to investment and incentivise the shift to low-carbon climate-resilient development. Country platforms, led and owned by countries with the involvement of all stakeholders including development finance institutions (DFIs) and the private sector,

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can create the basis for more purposeful and accelerated action to unlock investments and mobilise the financing that is needed. Encouragingly, there is growing momentum behind the adoption and implementation of country platforms. This whole agenda will require stronger and better coordinated efforts to build capacity across all levels of institutions.

Elevated debt and debt servicing burdens, and limited fiscal space, require urgent action. Concerted and innovative approaches are needed, tailored to country circumstances, including faster and better implementation of the Common Framework for Debt Treatments and use of debt swaps where there is scope. Improved access to low-cost finance and improving the terms of existing debt will be key. It is also essential to tackle the vicious cycle between climate and debt vulnerability, particularly in low-income and highly climate-vulnerable middle-income countries. Finally, Debt Sustainability Assessments will need to consider how climate affects financial risks but also how to incorporate the long-term growth and sustainability payoffs from climate action.

An integrated approach to climate finance is needed. While a very large proportion of climate finance will be from the private sector, public domestic resource mobilisation will be foundational. Increasing tax revenues must be the central pillar of domestic resource mobilisation, and there is major scope to raise tax revenues in many EMDCs. Carbon pricing provides tremendous potential to raise revenues during the transition while efficiently providing incentives to reduce carbon emissions, as does the elimination of fossil fuel and other damaging subsidies. All of these efforts to boost public domestic resources will require strong international cooperation that ensures that developing countries get an equitable share of tax revenues and are supported in enhancing their tax collection capacities.

Despite growing momentum, volumes of private capital flowing to EMDCs are still far too low: the challenge is to increase speed as well as scale. To meet this challenge, first, the public and private sectors need to strengthen collaboration to develop sectoral investment plans and co-create project pipelines. Second, scaling up and replicating more effective risk-sharing mechanisms and credit enhancement can help improve the availability and reduce the cost of capital in EMDCs. The cost of capital is significantly higher in EMDCs than in advanced economies and is a significant impediment, especially for clean energy projects. Reducing the cost of capital will require a combination of measures at the international and country levels to diminish both actual and perceived risks.

Revamping the financial system can help create a virtuous cycle for private capital mobilisation in EMDCs. Concerted efforts are needed to strengthen the domestic financial sector in many EMDCs, including capital markets. Tackling supply-side regulatory and incentive barriers to remove legal and organisational constraints to investing in EMDCs, especially for clean energy and green

industrialisation, is a priority task to unlock institutional capital for EMDCs.

MDBs have embarked on a coordinated programme of reform to implement the agenda of 'better, bigger and more effective MDBs'. While all MDBs have made progress on the reform agenda, the pace and ambition fall short of what is needed. From the perspective of climate action, there are three areas where progress is not yet sufficient to produce transformative change: systematic engagement on system reforms and scaling up investment at the country level, including through more proactive engagement in country platforms; expanding lending capacity; and catalysing private finance, including through tapping long-term institutional capital. MDBs must work with host countries and the private sector to reduce and manage risk and bring down the cost of capital. They should come forward with a commitment and plan to triple lending capacity by 2030 as part of the NCQG, with each MDB doing its part, which will require shared commitment and leadership from shareholders. Beyond MDBs, an integrated global network of public development banks through the Finance in Common initiative could act as a powerful force for more coherent and effective support for climate action and finance.

While bilateral contributions from developed countries are a small component of total climate financing, they are critical to building trust, meeting some of the more difficult needs, and leveraging other sources of finance. Securing an ambitious IDA21 (the forthcoming 21st replenishment process of the International Development Association) will be vital to supporting climate action in low-income and climate-vulnerable countries. Multilateral climate funds play an important catalytic role in advancing systemic change through partnerships with MDBs, mobilising financing aligned with the Paris Agreement, and building markets. There is an urgent need to secure adequate funding for the Loss and Damage Fund.

The voluntary carbon market (VCM) also has the potential to generate much-needed revenues for priority elements of the transition in EMDCs. The VCM has suffered from major setbacks and poor market sentiment. There are important efforts to provide greater assurance of credit integrity. Parties have reached consensus at COP29 on the standards for Article 6.4 of the Paris Agreement, which can generate new momentum. Further steps being undertaken include creating clearer operational guidelines for the use of carbon credit regulations that support high quality carbon credits and boost voluntary demand; and enabling EMDCs to develop and manage their use of carbon markets. Developing a programmatic approach beyond project-by-project is important for integration into development finance and action.

Given the very large needs for concessional finance, non-conventional sources must be actively pursued. The G20 and the IMF should explore how to tap the substantial potential for voluntary rechanneling from the existing pool of SDRs and modernise the framework to make it less rigid and costly. The IMF and the G20

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should also initiate discussions on the next cycle of SDR issuance as part of a system of regular issuance. There is scope for private philanthropy to further augment the scale of its financing and leverage its strengths to deliver much-needed grant financing with flexibility and agility.

These efforts, however, are unlikely to be sufficient to fill the concessional financing gap, and innovative solutions need to be pursued actively. One such solution is international taxation of high-emitting sectors, which has the potential to raise significant amounts of revenue that could be used to fill the climate financing gap. At COP28, the Global Solidarity Levies Task Force was launched to explore new avenues for international taxation to finance climate action and sustainable development, including the taxation of international shipping, aviation, fossil-fuel levies and a financial transactions tax. It will be important to broaden the coalition of countries and build consensus on proposals that can attract support by COP30.

4. Tracking and monitoring the delivery of the climate action agenda

As the climate finance agenda shifts from outlining the need and pathways for climate finance into delivery, tracking and monitoring systems are critical to accelerating implementation of the climate finance agenda. Tracking and monitoring foster accountability both by shining a spotlight where progress is being made and by highlighting gaps and opportunities to aid prioritisation of future actions.

There is now a reasonably comprehensive structure for tracking climate finance flows, including the UNFCCC's biennial assessment of flows, the OECD's tracking of the delivery of the \$100 billion commitment, and Climate Policy Initiative's (CPI's) Global Landscape on Climate Finance. MDBs also issue an annual joint report on their delivery of climate finance. However, tracking continues to suffer from a lack of a full consensus on what constitutes climate finance and robust data and systematic measurement mechanisms for tracking the action agenda on climate finance have also been scarce. Here, an important new initiative is CPI's Climate Finance Reform Compass, which assesses implementation against milestones.

The IHLEG has prepared two complementary instruments to support improved monitoring in partnership with CPI: a summary of the action agenda priorities, actions and deliverables leading up to COP30 and a State of Delivery report that provides a more rigorous assessment of progress against a composite set of indicators.

Download the full report at
[www.lse.ac.uk/granthaminstitute/publication/
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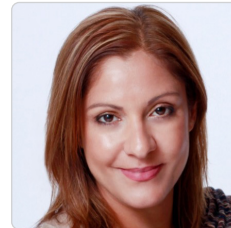
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