Annual finance for climate action surpasses USD 1 trillion, but far from levels needed to avoid devastating future losses

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EXPERTS
Barbara Buchner (https://www.climatepolicyinitiative.org/people/barbara-buchner/)

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- *Current climate finance reaches all-time high, but is only about 1% of global GDP*
- *It must increase by at least five-fold annually by 2030 to avoid the worst impacts of climate change*
- *Future growth will need to come largely from private sources; 51% of climate finance still comes from public sources*
- *Renewable energy and transport continue to attract the vast majority (73%) of mitigation investment; agriculture and industry, the next-largest sources of emissions, receive disproportionately little (less than 4% combined) of total mitigation finance*
- *Geographic distribution is also uneven: the ten countries most affected by climate change between 2000 and 2019 received less than 2% of total climate finance*

London, 2 November 2023 – Climate finance is vital to combat the climate crisis. A new study (https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/) shows that annual climate finance flows surpassed USD 1 trillion for the first time in 2021, six years after the Paris Agreement was adopted in 2015. However, flows must increase by at least five-fold annually by 2030 to avoid the worst impacts of climate change.

Climate Policy Initiative (CPI)'s Global Landscape of Climate Finance 2023 (https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/), the most comprehensive overview of global climate-related primary investment, shows that average annual flows in 2021/2022 reached almost USD 1.3 trillion, doubling compared to 2019/2020 levels. Some of this (about 28% of the increase) is due to better data availability and other methodological improvements, a positive sign that more and higher quality climate finance data is being compiled, tagged, and made publicly available.

"While crossing the 1 trillion dollar threshold is undeniably good news, it is important to emphasize that this represents just 1% of global GDP," said Dr. Barbara Buchner (https://www.climatepolicyinitiative.org/people/barbara-buchner/), Global Managing Director at CPI. “All actors must accelerate investments now to significantly reduce future economic and social costs, but it’s not just about costs – there are immense opportunities for businesses to pursue low-carbon and climate-resilient pathways.”

The longer we delay reaching total climate investment needs, the higher the costs will be, both to mitigate global temperature rises and to deal with their impacts. Research shows that the cumulative costs of climate change under current policy and investment levels could exceed more than 10 times the estimated investment needs to stay within a 1.5C degree global temperature increase. While data and methodology on estimating future losses are still rudimentary, they are forming a picture that clarifies the economic imperative to invest now.

The Global Landscape of Climate Finance 2023, which includes data from 2021-2022, breaks down climate finance by use, geography, and source.

The vast majority of tracked climate finance continues to flow towards activities for mitigation, and in particular to renewable energy and low-carbon transport, sectors which are often perceived as less risky by investors.

While adaptation finance reached an all-time high of USD 63 billion, growing 28% from USD 49 billion in 2019/2020, it still falls far short of estimated needs of USD 212 billion per year by 2030 for developing countries alone. The public sector continues to provide almost all of adaptation finance.

Developed economies continue to mobilize most climate finance, primarily from private sources. The US and Canada, Western Europe, and East Asia and the Pacific account for a combined 84% of total climate finance. These regions also significantly outpace others in mobilizing domestic sources, which are critical to achieving scale. Less than 3% of the global total of climate finance went to the least developed countries, despite being some of the most vulnerable countries and regions to the impact of climate change.

Private actors provided 49% of total climate finance, averaging USD 625 billion. As with mobilizing domestic sources of finance, developed economies are much more successful at mobilizing private finance than emerging economies.

To mobilize capital at the scale required, there is a need to increase both the quantity of climate finance and to improve its quality by focusing on using resources more effectively. To this end, CPI proposes the following priorities: financial system transformation; bridging climate and development needs; strengthening domestic action; and improving action on data.

Learn more by downloading the Global Landscape of Climate Finance 2023 here (https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/) or registering for the webinar on Thursday, 9 November here (https://www.climatepolicyinitiative.org/event/webinar-global-landscape-of-climate-finance-2023/).

Note to editors: As part of a broader effort to understand the integrity of net zero, on 13 November 2023 CPI will launch a web tool that provides a comprehensive view of how major financial institutions—public and private—are progressing towards net zero. The Net Zero Finance Tracker will allow users to identify financial sector progress—and gaps—on climate-positive and high-emissions activities at a global, regional, sectoral, and entity level.

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