

## **Bretton Woods Committee: Climate Finance Project Team (CFPT) Concept Note December 2, 2022**

### **I. Background**

Capital is sometimes allocated erroneously, but it is never invested by accident. Investors deploy capital based on their own preferences regarding risk, return, and desired impact. In the fight against climate change, some sectors such as electric vehicles and renewable energy are attractive for investors, who see opportunities in developed and emerging markets.

But investors are, nonetheless, staying away from some critical elements of the required response to the climate challenge. To bring transformational financial resources to the climate fight, we must understand *why* this is occurring and how multilateral financial institutions can re-shape climate finance.

Start with **adaptation**, which is critical to lives and livelihoods, and where there is a strong investment need. The World Resources Institute found that investing \$1.8 trillion globally in five areas this decade – early warning systems, climate-resilient infrastructure, improved dryland agriculture, mangrove protection, and resilient water resources – could generate \$7.1 trillion in total net benefits.

The UN estimates that developing countries currently need \$70 billion per year for adaptation; and by the end of the decade, they will need \$140 billion to \$300 billion per year. But, on the whole, developing countries are seeing only a fraction of the capital needed to combat the effects of climate change.

At COP 15 in Copenhagen 12 years ago, rich countries promised to channel \$100 billion per year to poorer countries by 2020 for both **adaptation and mitigation**. The closest they got was \$80 billion in 2019, but even that is miniscule compared to the trillions needed.

Multilateral Development Banks (MDBs) have an important role to play in marshalling capital to fight climate change; however, they cannot close the gap on their own. The latest [Joint Report on MDB's Climate Finance](#) (October 2022) found that, in 2021, \$50.7 billion in MDB climate finance went to low- and middle-income economies; \$33.1 billion, or 65%, of this total was for climate change mitigation finance and \$17.6 billion or 35% was for climate change adaptation finance. Looking at this from another perspective, the multilateral development banks reported \$41.1 billion of their climate finance as being directed to public recipients in 2021 and \$10.5 billion for private recipients in low-and middle-income economies.

The report also shows that MDB climate finance investments in low-and middle-income economies are supported by a total of \$43.6 billion in climate co-finance, with 66% in mitigation activities and 34% in adaptation activities. Seventy percent of climate co-finance in low- and middle-income economies came from public sources and 30% from private sources.

## II. CFPT Approach

The Bretton Woods Committee's Climate Finance Project Team (CFPT) will bring together leading experts with experience across the private and multilateral sectors to answer the following question:

*“What steps are needed to unlock the flow of private capital to those sectors and regions that are most critical to climate action, but which face severe investment shortfalls?”*

The focus of the CFPT will be on the need for climate finance of low income and emerging economies, in line with the BWC mandate.

It will look at decision making by allocators and managers of capital in the global investment pool - the OECD has calculated that the global holdings of pension funds, insurance contracts, and other vehicles combined is more than \$50 trillion.

It will also take as its starting point the state of play internationally following the Egyptian hosted COP27 and Indonesian hosted G20 Summit, both of which took place in November 2022. In the months leading up to the 2023 World Bank Group-IMF Spring Meetings, and towards the G7 summit in May, and the next COP in November, the CFPT will organize the following:

**1. Three short papers detailing the specific challenge that needs to be addressed and the CFPT's approach to generating actionable ideas to scale climate finance, as follows:**

- The role of the MDBs
- The International Financial System
- Debt Distress and the Role of China

**2. Three virtual meetings with the working group to discuss the briefs topics in detail:**

a. The role of MDBs

How have the MDBs performed to date in the provision of public climate finance when set against the overall need?

How can the MDB contribution – either direct, or indirect (through leveraging of private flows or other routes) – most effectively be enhanced?

How does – and should – the role of the MDBs fit with other institutions providing public climate finance internationally, such as the Green Climate Fund (GCF) and the IMF's new Resilience and Sustainability Trust?

How should the expanding climate-related role of the MDBs be incorporated along-side continuing fulfilment of their traditional activities?

b. The role of the wider international economic system

What changes are needed in the broader international economic system – both public and private – in order to meet the climate finance need in low income and emerging economies?

What role do *other* parts of the International Economic Architecture (i.e., IMF, FSB, WTO, OECD, FATF etc) need to play in supporting the goal of raising green finance (either in conjunction with the MDBs or independently)?

What additional steps do the private sector parts of the international economic system need to take in support of this effort – e.g., ratings agencies, accountants etc, alongside private banks and the MDBs?

c. Debt Distress and the role of China

How does rising debt distress in low income and emerging economies interact with the need for vastly increased climate finance in a number of the same countries?

What are the options for jointly addressing debt distress and lack of climate finance?

Given China's critical role on both tackling debt distress and addressing the need for climate finance in developing countries, how should the G7 seek to engage China?