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# A New Era for Investment, Finance and Internationalism: Action Now to Deliver a Sustainable, Resilient and Inclusive Future

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# Introduction



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- We are living in an age of extremes, of crisis, of despair, but also of opportunity. This is an age of war; of food and energy shocks that combined with the COVID-19 pandemic cast a dark shadow over lives and livelihoods; of a continued slide towards climate catastrophe; and of deep inequalities, interwoven with these crises. And yet we have experienced a long period of prosperity and poverty reduction, with technological advances promising solutions to humanity that were unthinkable just one generation ago. And rarely has the world as a whole come together as in these past few years to chart a profoundly new course, anchored in the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement of 2015, and reinforced by COP26 in Glasgow in November 2021.
- It is also true that reality still falls far short of the rhetoric. But there is a growing understanding that many of the crises came from and have exacerbated forces and trends in our societies and economies that were becoming unsustainable, and that we must tackle the basic structural problems and “build back better” – and in so doing find a new and more attractive form of growth and development.
- The wars and hardening geopolitical divisions we are witnessing have roots in geography and history. But they also underscore the precious opportunity to act together in a spirit of internationalism on objectives that are widely shared. International cooperation will be pivotal to achieving climate goals and sustainable, resilient development. Climate action should also be seen as a key part of the energy security agenda in which most countries, in the Global South as well as the Global North, have a shared and overwhelming interest. In a fractured world, the climate agenda represents an important area in which countries can collaborate. Through the Intergovernmental Panel on Climate Change (IPCC) and the Conferences of the Parties (COPs) of the United Nations Framework Convention on Climate Change (UNFCCC), nations have shown a remarkable ability to come together on the science and the imperative to act.
- The direction is clear and the need for action is urgent. The challenge is to recover and rebuild from global shocks in a way that creates sustained growth and transforms our economies, tackling the social and ecological stresses and imbalances of the current economic model. This is the growth story of the 21st century: full of discovery, innovation and investment; a more prosperous, more healthy, more productive and more creative economy, driven by a process of collaboration that fosters inclusiveness rather than fragmentation. The private sector will be centre stage – across the world, investment is 80–90% private. We must build on the momentum that began at the World Economic Forum Annual Meeting in Davos in January 2020 and saw the private sector commit at rapidly increasing scale to sustainability, responsibility and net-zero emissions.
- We are not arguing for a programme of investment in health and education in this note, but would insist on its importance. Health and education are central to any serious understanding of a good society and the meaning of development – as set out, for example, in the SDGs.

1

# Three priorities for the way forward



Over the past two decades, the global economy and political landscape have become increasingly volatile, while we have failed to address long-term societal and environmental challenges. The integrated nature of the global economy has encouraged growth and provided opportunities for a larger share of the world population, but it has also amplified crises (financial, political, health and environmental) that originated in different

parts of the world. We need to build long-term resilience and learn how to react better to shock as an integrated, multistakeholder, economic and political community. The need to move to a new growth model that better aligns with societal and environmental objectives has never been more urgent, as the world grapples with increased inequality and polarization and accelerating environmental degradation.

## 1.1 Navigating through current global shocks and ensuring long-term resilience

The COVID-19 vaccine roll-out has been one of the most successful public-private partnerships in human history. But the impact of the pandemic continues and is unacceptably skewed against lower-income countries. It remains vital to achieve global vaccination targets. The key is to enable countries, above all through COVAX,<sup>1</sup> to tackle

the problem of vaccine delivery on the massive and global scale required. Rich countries and donors must significantly step up their efforts. Investing in high rates of vaccination is likely to show spectacular rates of return for the global economy and humanity.

### BOX 1 Vaccine policy is economic policy

Economic recovery requires tackling COVID-19 and we have learned that, to succeed against the virus anywhere we must get it under control everywhere. Vaccine policy is also social policy. The pandemic has not only devastated human lives but also shaken the foundations of our economic model and exacerbated some of its pathologies. Both billionaire incomes and poverty have increased, racial and gender inequalities in labour markets have deepened, and educational losses will leave lasting scars among the disadvantaged who have not been able to become more digitally connected.

Global energy and food shocks are creating a humanitarian crisis, especially in developing countries, and threatening the fragile recovery from the pandemic. Both markets were already fragile due to demand-supply imbalances and disruptions from the pandemic, but the Russian invasion of Ukraine and associated supply disruptions and sanctions are hugely exacerbating the challenges. In the longer term, climate action is perfectly aligned with both greater resilience of food systems, where climate extremes are a growing threat, and the

energy security agenda. In the short term, though, there are only limited options. In terms of energy, an efficiency drive, some redirection of supply, investment in storage and an accelerated shift to renewables can provide a measure of relief.<sup>2</sup> For food, global stocks are high, and it is crucial that countries keep trading. None of these solutions can fully avert the damage and the suffering. Above all, therefore, these crises underline the global importance of acting urgently to bring the war to an end.

## 1.2 Tackling inequality and insecurity through new, more inclusive economic models

Rising inequality within countries and a growing sense of precariousness have been social megatrends since well before the pandemic. Social mobility has been declining and income inequality increasing from one generation to the next.<sup>3</sup> The vast majority of employees in developed and developing markets fear losing their job.<sup>4</sup> In many countries, rising old-age dependency ratios reinforce the sense of uncertainty, and large

numbers of young people are coming into labour markets with very limited opportunities. There has been a societal split: between those, better educated and better off, for whom the system is working and who trust it, and those for whom it isn't and who don't. "Erosion of social cohesion" is the risk that has worsened the most according to the World Economic Forum's Global Risks Perceptions Survey 2022.<sup>5</sup>

Societies – with governments, business and civil society all called upon to act – must tackle the sources of inequality and insecurity.<sup>6</sup> They should seek to: rebuild a social contract through lifelong learning models, protecting people rather than jobs and rebalancing the burden of the care economy; level access to education

and health; reassess the progressivity of fiscal policies; and follow through on the stakeholder approach to business, based on the watershed “Davos Manifesto” on “The Universal Purpose of a Company in the Fourth Industrial Revolution”, launched at the 50th World Economic Forum in 2020.<sup>7</sup>

## 1.3 Embarking on an urgent transformation towards greener, more attractive growth

Climate change is real and increasingly tangible and, thankfully, the debate is no longer about the science. COP26 in Glasgow forged a common understanding that global warming must be kept below 1.5°C. It created momentum around goals and targets, with 90% of global emissions now covered by mid-century net-zero targets.<sup>8</sup> Glasgow brought sectoral initiatives and innovation-focused “breakthroughs”; it fully embraced the importance of adaptation, resilience and biodiversity; it took a step closer to meeting climate finance commitments; and, especially, it saw financial institutions coming through in a big way in terms of alignment with net-zero goals.

Target-setting has much further to go, but most importantly it now needs to connect with near-term action to be credible. That is where we must shift the terms of the debate. Climate-related targets sketch

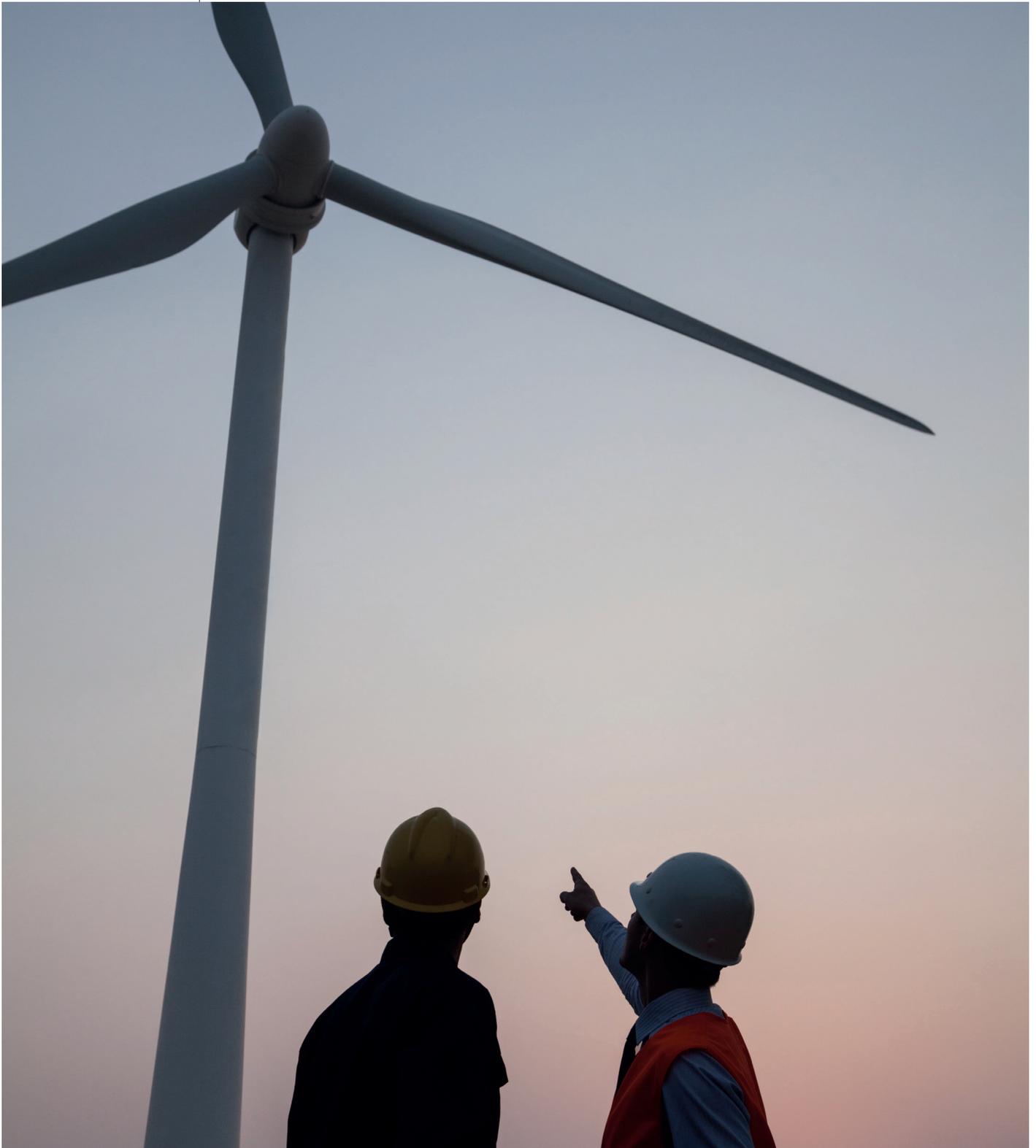
out the vision behind a new growth model. Not obligation but opportunity, not costs but capital.

Progress across these three priorities can be achieved by focusing on investment, innovation and multilateral and national policies.

A positive agenda is required, centred around a *big push* on investments, innovation and policy frameworks (both national and global) that align markets with the just transition that we need to move to net zero while creating rising living standards and more inclusive societies. A new institutional and collaborative architecture for global action, public and private, will be necessary to underpin this transition and unlock financing that enables the right kinds of investment in all countries and industries – thus realizing this new form of growth.

2

# The centrality of investment, innovation and policy



The future of people and the planet will be shaped by the capital investments made over the next 10–20 years. We need capital that can drive clean, green, job-rich and much healthier growth than what came before. At the macro level, this is about investment and finance – and supportive policies; at the micro level, it is about industrial and firm-level innovation and transformation. Much of the fundamental structural change we need lies in transforming the key systems of energy, transport,

industry, cities and land. The transition to a more inclusive and sustainable economic system and the associated shifts are indeed opening very large markets.<sup>9</sup> All require combinations of institutional change, standards and regulation, design and good policy. We are fortunate that the world is currently experiencing such powerful revolutions in digital and artificial intelligence (AI) as they offer immense opportunities to manage these systems in new ways.

## 2.1 Investment in the right kind of capital and infrastructure

The focus of fiscal policy during the pandemic has understandably been on health and economic rescue. Now, with energy and food shocks, governments will once again direct support to consumers. But the focus must soon shift decisively towards economic recovery led by investment rather than the rebound of consumption. Though both call on public resources and debt, recovery should be driven by investment, stimulating a broader private-sector response; it is the most sustainable way to achieve fiscal stability over time, through growth that is strong and sustained, and not at risk of faltering. While there are legitimate concerns about the inflationary impact of fiscal stimulus, it would be wrong to target public investment when price pressures are the result of tensions between supply-side bottlenecks and consumption spending. It will be critical to set frameworks for medium-term fiscal sustainability, but the time for discretionary fiscal tightening and consolidation is when the motor of private investment and the private economy is comfortably running, generating jobs and tax revenues.

For the green agenda, we have top-down and bottom-up estimates of the investment needs – short- and long-term, public and private – that are remarkably consistent.<sup>10</sup> These should go hand in hand with investment in people and human capital.<sup>11</sup>

Investment ratios today are far too low – in the private as well as the public sector. They have declined sharply in advanced countries over decades, down 4.5 percentage points as a share of gross domestic product (GDP) between the 1970s and 2010s; and in emerging markets and developing countries (excluding China) they have reduced by over 2 percentage points since the Global Financial Crisis in 2008. To drive the low-carbon transformation and promote productivity and strong and sustainable economic growth, global investment must increase by around 2–3% of GDP per year above pre-pandemic levels, during this decade and beyond, primarily in the private sector.

Investments that propel economic transformation should not be misperceived as costs; they will not only drive a better environment but also productivity and private opportunity. The evidence shows that returns virtually across the board will be high, but without these investments, sustained and sustainable recovery and growth will not be realized. For example, for the energy sector, SYSTEMIQ<sup>12</sup> estimates that to transform electricity generation, storage and distribution networks, the global investment requirement will be in the range of \$1.5–1.6 trillion per annum, mostly from private sources. These are investments for development and growth and the increment associated with low-carbon trajectories is relatively modest.

BOX 2 | **Climate benefits and co-benefits of clean energy and transport investments**

Many sustainable investments can be implemented rapidly and have significant other co-benefits, including job creation (see Table 1).

- The implications of different temperature scenarios have been described starkly by the IPCC in its Fifth Assessment Report; some results are summarized in Table 2.
- Beyond their climate impacts, sustainable investments create more jobs per \$1 million of investment than unsustainable investments and can create “quality” jobs with the right kinds of policy in place. Jaeger et al. (2021)<sup>13</sup> indicate that investing \$1 million in building efficiency, solar photovoltaic (PV) and mass transit creates respectively, 2.8, 1.5 and 1.4 times as many jobs as investing \$1 million in fossil-era alternatives.
- Perhaps most striking (and severely under-reported) are the health benefits of climate investments. By improving air quality, such investments save lives and disproportionately benefit low-income countries and low-income people. Recent estimates of air pollution from fossil fuels – ambient and indoor – suggest as many as 8.7 million premature deaths in 2018, in the context of world deaths of around 57 million a year (Vohra et al., 2021).<sup>14</sup> Women are particularly affected, as they are 40% more exposed than men to indoor air pollution (Romanello et al., 2021).<sup>15</sup> The Lancet Commission on Pollution and Health (2018)<sup>16</sup> estimates the amount that people would be willing to pay to avoid premature death due to pollution-related disease, largely from fossil fuel-combustion, to be 6.2% of global economic output.

TABLE 1 | **Co-benefits of climate action**

Co-benefits from climate action – for illustration, not comprehensive					
Policy goal	Details/actions	Health	Economic	Social	Resilience
<b>Energy use</b>					
Shift to renewable energy use	E.g. encourage switch to renewable energy use for industry and households	Significant health benefits from reduced particles in the air, especially when replacing coal power plants and indoor wood or coal stoves	Reduction in energy bills; reduction in dependence on fossil fuels can provide stable foundations for business and households to budget their energy expenditure		Resilience to future energy price increases and overheating; reduces vulnerability to wider geopolitical events; improves energy security and reliance on energy imports; reduces risk of conflict over access to resources
<b>Transport</b>					
Discourage private cars from city centres and encourage car-sharing	E.g. congestion charges, parking levies	Health benefits linked to improved air quality: reduction in premature deaths and diseases	Improvements in productivity from reduced congestion and improved health	Reduced congestion can improve quality of public transport services	Reduction in dependence on fossil fuels and protection from potential price increases
Encourage shift to EVs	E.g. invest in EV charging stations, replace existing public transport fleet with EVs, licensing regulation for taxis and other vehicles	Health benefits linked to improved air quality (see above)	Improvements in productivity from reduced congestion and improved health		Reduction in dependence on fossil fuels and protection from potential price increases

Policy goal	Details/actions	Health	Economic	Social	Resilience
Encourage cycling and walking	E.g. building of cycle lanes, cycle-to-work schemes, building of pedestrian zones	Health benefits linked to improved air quality (see above); mental and physical health benefits from exercise for individuals	Reduction in public health costs from reduction in air pollution and associated health benefits; improvements in productivity	Reduces inequalities between those who can and cannot afford a car	Reduction in dependence on fossil fuels and protection from potential price increases
<b>Buildings</b>					
Improve energy efficiency	E.g. enforce minimum energy efficiency standards, subsidies to encourage retrofits	Reduced ill health through cold homes, increased well-being from access to warmer and more comfortable homes	Savings on fuel bills, especially for energy importers; improvements in productivity from improved health; improvements in housing affordability thanks to reduced cost of repairs	Reduced fuel poverty; improved social mobility through improvements in ability to study at home; protection from vulnerability to energy price increases	Resilience to future energy price increases and overheating; reduces vulnerability to wider geopolitical events; improves energy security and reliance on energy imports; reduces risk of conflict over access to resources
<b>Green spaces and land use</b>					
Increase tree cover and green spaces		Improves air quality; improves mental health and well-being	Increases house values; reduces risk of disruption in economic activity from flooding	Provision of a public good to those not able to afford properties with a garden; benefits to vulnerable groups from heat stress (including elderly and children)	Reduces risks of flooding; contribution to protection of biodiversity
<b>Diet</b>					
Alignment with WHO recommended diet	E.g. incentives for reduction in meat intake and shift to plant-based diet	Improvements in individuals' health and increase in life expectancy/ reduction in premature mortality rate	Reduction of spending on public health		

TABLE 2 | Impact of climate change at different levels of warming

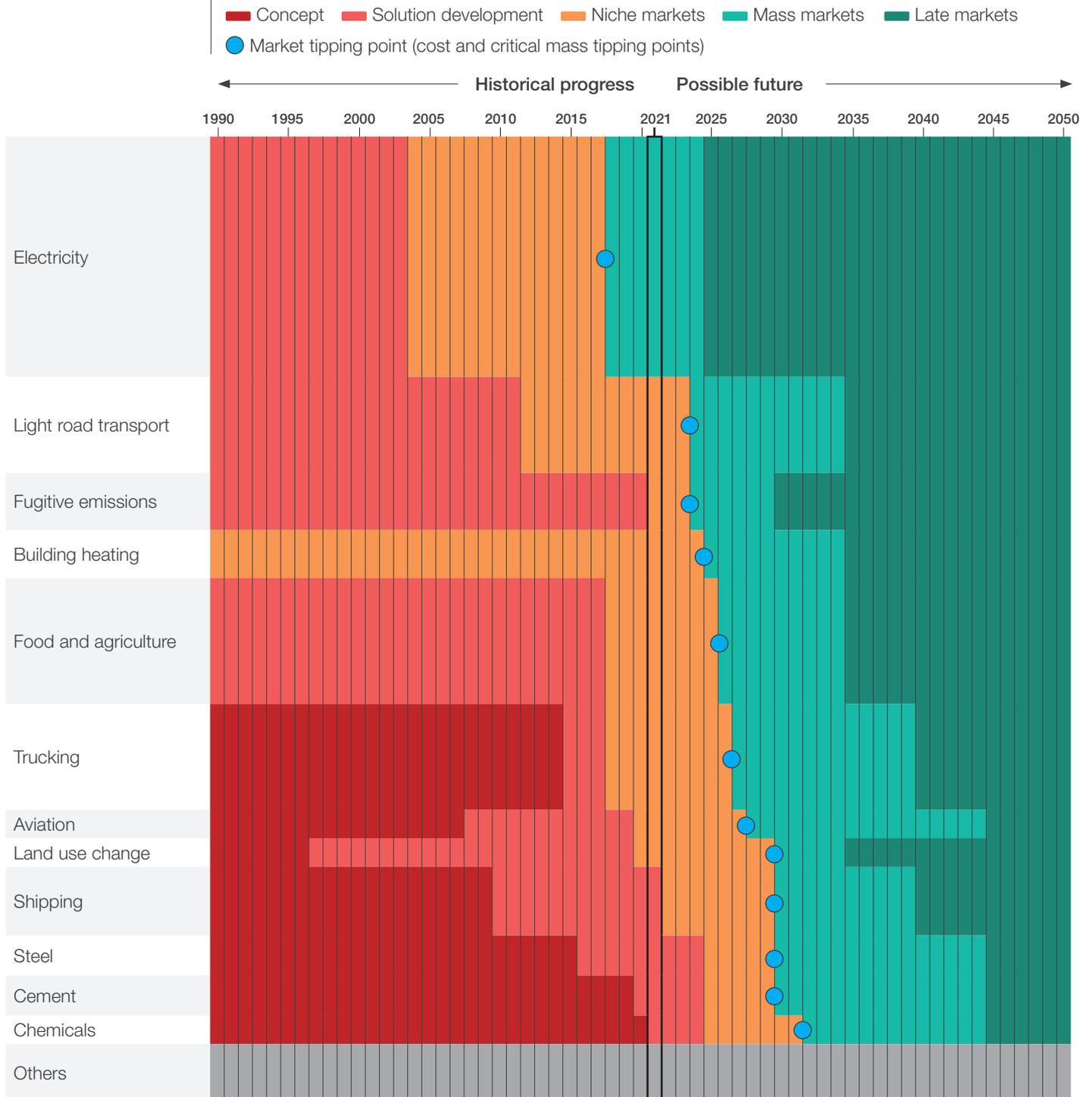
Impacts	1.5°C	2°C	4°C	Sources
Food systems	10-year agricultural and ecological droughts in drying regions will likely occur every 5 years (range 2–10)	10-year agricultural and ecological droughts in drying regions will likely occur every 4 years (range 1.7–7.7)	10-year agricultural and ecological droughts in drying regions will likely occur every 2.4 years (range 1.4–5.9)	IPCC (2021) <sup>17</sup>
	32–36 million people exposed to lower yields	330–396 million people exposed to lower yields	Not covered	Roy et al. (2018) <sup>18</sup>
Ecosystems	70–90% of coral reefs at risk from bleaching	99% of coral reefs at risk from bleaching	Not covered	Roy et al. (2018) <sup>19</sup>
Water scarcity	496 (range 103–1,159) million people exposed and vulnerable to water stress	586 (range 115–1,347) million people exposed and vulnerable to water stress	Not covered	Roy et al. (2018) <sup>20</sup>
Health	50-year extreme temperature event will likely occur every 5.8 years (range 4.7–11.6)	50-year extreme temperature event will likely occur every 3.6 years (range 3–7.2)	50-year extreme temperature event will likely occur every 1.3 years (range 1.2–1.8)	IPCC (2021) <sup>21</sup>
	14% of global population exposed to severe heat at least once every 5 years	37% of global population exposed to severe heat at least once every 5 years	Not covered	Dosio et al. (2018) <sup>22</sup>

## 2.2 Innovation and systems transformation

The Paris Agreement had a pivotal role in providing long-term direction for companies wishing to invest and innovate; it created the conditions for industries to move towards tipping points at which low-carbon technologies can outcompete high-carbon businesses.<sup>23</sup> The potential is immense: by 2030, low-carbon solutions could be competitive

in sectors accounting for nearly three-quarters of emissions, compared to one-quarter today (electricity) and no sectors only five years ago (Figure 1). The manufacturing of renewables, clean fuel and storage solutions will by 2050 match the size of the global oil market today – but offer far more jobs and skills.<sup>24</sup>

FIGURE 1 Low-carbon solution maturity



Note: section sized according to 2019/20 emissions impact

Source: SYSTEMIQ, "The Paris Effect – COP26: How Tipping Points Can Accelerate and Deliver a Prosperous Net Zero Economy", November 2021

Despite the progress and the potential, the speed of change is much too slow: it must accelerate. Measured against the International Energy Agency (IEA)'s net-zero path, the deployment of low-carbon technology is well off track. Almost half of the annual CO<sub>2</sub> emissions reductions required to reach net zero by 2050 will come from technologies that are currently in the prototype or demonstration phase. The next 10 years will be crucial to bring key new technologies to market in time – solutions such as advanced batteries, green hydrogen, sustainable bioenergy, and carbon capture, utilization and storage (CCUS).

There needs to be a large increase in research and development (R&D) for clean technologies, both public and private. Yet the share, for example, of public energy R&D spending relative to GDP in Organisation for Economic Co-operation and Development (OECD) countries has been flat over the past decade and remains far below many other areas. Corporate R&D spending on clean energy is less than one-tenth of total corporate R&D. Public-sector support and partnership is absolutely crucial for technologies that face high upfront costs and uncertain returns – examples of such initiatives are Mission Innovation, the International Solar Alliance and the World Economic

Forum's Climate Action Platform.<sup>25</sup> The Breakthrough Agenda,<sup>26</sup> launched at COP26, brings together governments and businesses to accelerate the development and deployment of clean technologies and drive down costs by 2030, so that "clean is cheaper" across a whole range of activities (including hydrogen and steel).

Innovation and the development of new technologies should also be geared towards solving societal challenges. In the health space, public and private structures have long been in place to provide long-term, directed funding to tackle specific health challenges.<sup>27</sup> The COVID-19 pandemic has highlighted the importance of patient investment in new technologies such as mRNA vaccines, and has shown how governments can successfully catalyse public-private operations to speed up the development and roll-out of new health solutions. The potential to develop and adopt a set of dedicated technologies that provide solutions to specific societal challenges remains, however, largely untapped. A dedicated agenda, national agencies and international coalitions would need to support tech efforts with specific application to (among others) education, care, social mobility, employment and inclusion.

## 2.3 New policy frameworks for investments, innovation and a just transition

A *big push* on investments and innovation requires supportive policy. Implementing a price on carbon is central to an efficient mechanism for shifting production and consumption towards lower-carbon sources. Carbon pricing has been adopted by a growing number of jurisdictions and endorsed by companies and industry bodies. While they typically lack ambition with respect to coverage and prices, some carbon markets, especially the EU, have in recent years witnessed a sharp rise. Apart from pricing, rapid changes in the use of coal and petrol will require regulatory action to promote the pace and scale needed and to avoid unacceptably steep price hikes. For coal, COP26 marked a step forward, with the parties committing to "phasing down unabated coal" under the Glasgow Climate Pact.

There was also a commitment to financially support a just transition away from coal in South Africa and towards a new growth approach. The move to a net-zero economy must be, and must be seen to be, *just*, fair and inclusive, contributing to a decline in inequality and ensuring that the benefits and opportunities of the shift are shared widely, while helping those most affected by economic losses. Taking appropriate actions to support a just transition will lead to greater social acceptance of the necessary socioeconomic transformations. It will also be important to tackle inequalities between countries, and particularly to ensure that low-income and fragile states are not left behind.

3

# A new global and collaborative architecture for green development financing post-Glasgow



There can be no *big push* on investment and innovation, and therefore no sustainable recovery and net-zero pathway, without supportive finance. Public finance must lead the way, with the macroeconomic framework, including the fiscal stance, accommodating a significant increase in investments and – crucially – international financial collaboration to enable a global response. But the financing challenge exceeds fiscal capacity by far, and the private sector will have to contribute most of the finance for the new capital stock, as it did for the old. A major advance at COP26 was that private finance stepped up in a big way, organized under the umbrella of the Glasgow Financial Alliance for Net Zero (GFANZ).<sup>28</sup> This continued and accelerated a

movement started in previous years in which the World Economic Forum Annual Meeting of January 2020 played a critical role. International financial institutions must be ready for the major scaling up that this investment imperative demands. This point was made powerfully by US Secretary of the Treasury Janet Yellen before and at the spring meetings of the International Monetary Foundation (IMF) and World Bank.<sup>29</sup>

Finance is a challenge within our grasp. But we need to carry the Glasgow momentum forward with urgency. The 2022 Annual Meeting comes at the right time, and gathers the right people, to provide that impetus.

## 3.1 Country platforms

Obstacles to greater investment vary by country and sector but tend to divide into policy and institutional hurdles, a lack of project development capacity (especially for infrastructure) and the absence of reliable channels for large-scale finance. Action is required at all three levels, and, in view of the accelerated timeline, it is crucial to give common overall direction to these efforts at the country level. Specifically, countries and businesses need to set short- to medium-term climate targets and operational plans across sectors and systems that are aligned with longer-term goals for net zero. In the case of countries, this means raising their ambition in the next round of nationally determined contributions (NDCs) that are expected to be submitted ahead of COP27 in November 2022 in Egypt. The climate targets should be operationalized in detailed transition plans.

Country mobilization platforms – proposed in Glasgow and building on a prior G20 initiative<sup>30</sup> – would provide a focal point and could prove especially valuable for coordinating finance in emerging markets and developing countries. The G20 leadership by Indonesia and India is very timely as these are important economies that have embarked on their green transition, and their strategy can influence other emerging markets and developing economies (EMDEs). Country platforms would involve all relevant stakeholders, public and private, domestic and external. At the core must be the aim of creating common expectations that underpin investment and form a basis for policy and institutional changes, project development plans and financing programmes. Financing models would bring together intermediaries, long-term investors and international public finance, including development banks, and might offer risk mitigation and sharing that can be replicated and taken to scale.

### BOX 3 The Just Energy Transition Partnership

The Just Energy Transition Partnership with South Africa announced at COP26 by the leaders of South Africa, France, Germany, the UK and the US, along with the European Union, can serve as a prototype country platform; it is owned by all key stakeholders in South Africa and can now secure the requisite support from the international community. Some \$8 billion in official finance has been earmarked in support of the partnership. A structured global partnership can support similar platforms in other countries.

## 3.2 Fostering private finance for sustainable investment

Private finance must contribute to the necessary scaling up and help shift the composition of investments to align them with a net-zero path. The creation of GFANZ has brought us much closer to these goals. By COP26, 450 institutions from across the financial sector and collectively

managing more than \$130 trillion in financial assets had joined the alliance and pledged to forge a net-zero path. They now need to develop their tools and capabilities, and for this they require support from regulators and the public sector.

On the supply side, the regulatory public framework and architecture of the financial system should continue to refine and align taxonomies;<sup>31</sup> harmonize and mainstream the tools to assess climate risk into broader risk management frameworks; and provide common methods and standards on carbon footprints, disclosures, climate scenarios and transition plans. The recently announced creation of the International Sustainability Standards Board (ISSB) under the International Financial Reporting Standards (IFRS) Foundation constitutes a good start towards this standardization.

On the demand side, availability of instruments at scale will be critical. To channel capital markets and institutional investors into climate finance, in both advanced and emerging markets, there is a need to address issues of size, risk and complexity. On their own, typical climate assets are too small for market finance. Risk might need to be buffered – for instance, with blended finance – to become investment-grade. And assets need to be standard and transparent from a legal, financial and an environmental, social and governance (ESG) angle.<sup>32</sup>

There are promising developments and initiatives that deserve full support. These include the market for emerging-market green and sustainability bonds, which could grow much faster through cooperation among policy-makers; technical support for capital markets authorities and issuers;

and the adoption of green frameworks aligned with leading standards. In addition, the FAST-Infra Initiative, a joint venture established by HSBC, the International Finance Corporation (IFC), the OECD, Generation IV International Forum (GIF)<sup>33</sup> and the Climate Policy Initiative (CPI),<sup>34</sup> is developing a label for sustainable infrastructure, which could be transformative for the market, and a technology-enabled platform to facilitate information and the distribution of loans.

Relying solely on external financing is not a sustainable strategy for EMDEs. It is crucial that these initiatives are directed at domestic capital markets and at reaching local investors in the project countries, not only at international markets. This is often overlooked in the current debate. Specific steps include ensuring that capital-market regulations support long-term infrastructure investments (e.g. through prudential and investment regulations) and capacity-building to support diversification into infrastructure and related asset classes. Successful case studies in which domestic capital markets have been leveraged for sustainable investment include Kenya, where the first domestic local African pension funds investment consortium, the Kenya Pension Funds Investment Consortium (KEPFIC), has been created to invest in infrastructure and housing projects. Developing climate and nature projects at scale will also require harnessing domestic commercial and development banks.

### 3.3 The critical role of official finance

Most advanced economies have the fiscal space to implement an investment-led stimulus and growth programme. Many emerging-market and low-income countries do not have the necessary market access – many entered this crisis with high debt and limited resources. Yet only a shared, global recovery can be truly vigorous and sustained – and ethically acceptable. There is an urgent need for international support to tackle financial constraints to recovery, especially in nations with the lowest-income but also in vulnerable middle-income countries – by making full use of the G20 Common Framework for Debt Treatments, including fair burden-sharing by the private sector; channelling a significant proportion of the \$650 billion one-off special drawing right (SDR) allocation to those that need it the most; and increased financing by multilateral development banks (MDBs), including through the recent International Development Association (IDA) replenishment. Perceived country risk can make the cost of capital prohibitive.

Domestic resource mobilization, largely taxes, will have to contribute significantly to incremental finance in emerging markets and developing countries. Nevertheless, international financial collaboration will be critical in enabling net-zero

transformation and investment. There is a need to grow at all levels:

- **Deliver on the \$100 billion.** Developed countries committed during COP15, in 2009, to mobilize \$100 billion a year by 2020 to support climate action in developing countries. This commitment, formalized at COP16 and reaffirmed in the Paris Agreement 2015, reflected the importance of climate justice and was a foundation of global trust and cooperation around climate action. That spirit applies with equal or greater force today. Donors collectively fell short of the goal in 2020, but there is an opportunity to step up and deliver in 2022.
- **Further increase bilateral finance.** There is no credible route to meeting the Paris goals without there being a further significant increase in international public climate finance in the coming years. Under a stretch scenario<sup>35</sup> for funding from all sources, donors should double bilateral climate finance from its 2018 level to \$60 billion by 2025. Concessional finance from bilateral donors is central to international climate priorities, including adaptation and resilience, nature and biodiversity, support for

low-income and vulnerable countries – and for a just transition. It is also critical to scaling up and leveraging other pools of climate finance.

- **Step up financing of multilateral concessional funds.** These funds have an important catalytic and leveraging role. The funds that operate under the climate convention – notably the Green Climate Fund (GCF), the Global Environment Facility (GEF), which is in the midst of a replenishment, and the Adaptation Fund<sup>36</sup> – are of special significance. The replenishment of the International Development Association in December has been hugely welcome, given that it is the largest source of funding for climate action in low-income countries.<sup>37</sup>
- **Boost financing by MDBs.** Under the stretch scenario,<sup>38</sup> MDBs will need to triple their climate-related lending from 2018 levels by 2025. MDBs

plus regional and national development finance institutions need to use all of their instruments at this moment of crisis to greatly expand their support for green recovery and sustained transformation in developing countries, encompassing both large emitters and low-income and climate-vulnerable countries.<sup>39</sup> MDBs can help countries to unlock investments, and increase the flow and lower the cost of capital by reducing, managing and sharing risk. All means must be explored to increase the scale of financing, including the review of capital adequacy methodologies<sup>40</sup> by the task force established by the G20, more effective use of lending capacity and further steps on balance sheet optimization. Shareholders must also be prepared to support proactive capital increases and alleviate specific lending constraints – for example, to large borrowers – to ensure that ambitious climate transition programmes are not blocked because of a lack of financing.

## 3.4 Philanthropy

There is significant potential to scale up philanthropic capital allocated to tackling the climate crisis. The motivations are straightforward: climate risks are most intense among the vulnerable communities on which philanthropic causes focus. Philanthropic organizations have a higher tolerance for

investment risks and losses compared to profit-oriented private financial institutions or even development finance institutions. These features make them particularly well equipped to provide finance for activities that lack market support, such as adaptation and resilience. They can reach parts that other sources cannot.

### BOX 4 The Global Energy Alliance for People and Planet

A demonstration of the power of philanthropic partnership is the Global Energy Alliance for People and Planet (GEAPP)<sup>41</sup> that was launched at COP26 and brings together philanthropic institutions, development finance institutions and country partners. Its aim is to accelerate investment in green energy transitions and renewable power solutions in developing and emerging economies worldwide. Over the next decade, the Alliance aims to unlock \$100 billion in public and private capital to enhance energy access (reaching 1 billion people with reliable, renewable energy); tackle climate change (avoiding and averting 4 billion tons of carbon emissions); and create jobs (creating, enabling or improving 150 million jobs).

## 3.5 Voluntary carbon markets

Voluntary carbon markets (VCMs) can be an effective tool in meeting the Paris Agreement goals, and their feasibility has been enhanced by agreement on Article 6 of the Paris accord in Glasgow. By helping deliver finance to projects that demonstrate innovative ways of reducing emissions footprints, they can also drive early investment in green technologies that would otherwise lack access to finance. As VCMs are more widely accepted as an essential part of the road to net zero, efforts should focus on the most effective and credible ways to scale up the market, governed

by high integrity standards. This will be particularly crucial given past scepticism in the market, which has held back demand.

It is important to recognize that the different sources of finance are complementary and will often be most effective in combination. Scaling up one does not substitute for the others.

# Conclusion: an agenda

The central theme of this paper is the need to act jointly, urgently and at scale to create a new approach to growth and development. We have little time, both because economies are living through multiple shocks and because the crucial direction in which we need to head in the long term starts with the capital that must be put in place today. Delay is dangerous. Within this theme, there are three priorities: 1) for overcoming the crises in the short term; 2) to lay the tracks for a more inclusive model of prosperity; and 3) for economic transformation to enable sustainable, strong and resilient growth. At the core, there is a need for a *big push* on investment, innovation and finance. There is a clear action agenda, comprising: acting together, social action, economic action and finance action. These frame our conclusions.

## Acting together

Internationalism and public-private collaboration, based on an understanding of mutual risk and opportunity and shared humanity, have never been more critical than at this time of deepening global division. The **returns if we act together are immense**, in terms of expectations for investment and the economies of scale and discovery. The prize of a new, more attractive growth model for the 21st century goes far beyond simple gains from trade.

To establish and deliver a strong, and indeed necessary, agenda for recovery and sustainable, resilient, inclusive growth, actors must work together across international structures, geographies, sectors and the public and private spheres to drive progress. In view of the scale and urgency of the agenda, it is crucial to give common overall direction to these efforts globally and at the country level.

## Social action

The need to act is comprehensive; it is social as well as economic and ecological. **Inequities and insecurity, in food, health, climate and incomes, can and must be tackled.** The current food and energy crises require immediate action to rebalance demand and supply with a view to protecting the most vulnerable. All must act to overcome the COVID-19 pandemic by vaccinating the world by the end of 2022, with a focus on building delivery systems, in addition to financing supplies – with rich countries carrying a special responsibility.

In the medium term, countries must act to build social cohesion by tackling sources of inequity, such as unequal access to public services and fiscal regressiveness, and sources of insecurity,

such as the lack of sufficient care services and the different types of demographic pressures in several countries, from both ageing and young people joining labour markets. The delivery of the SDGs will require strong and sustained investment in health and education in the coming decade, including in light of the damage to both sectors caused by the pandemic. There must be a **just transition** away from fossil fuels, particularly in emerging markets and developing countries. Low-income countries and low-income people are the most vulnerable and have contributed the least to climate change – they require climate justice and international support.

## Economic action

*Macro and debt.* The recovery and the new growth story will be driven by investment, and public financing should be fully leveraged and oriented towards this goal. **Sound public finances will be built on the back of growth;** growth will come from investment and innovation; these will, in turn, come from clear expectations and clear policies. For many of the lowest-income countries, debt will be a major constraint, particularly in light of the pandemic, and strengthened international action on debt will be critical to their investment and recovery.

*Policies, institutions, country platforms.* Investment and innovation depend on a clear sense of direction and expectations about revenue streams, and about risks and costs. That is why **clear and credible policies – especially on carbon pricing, the elimination of fossil fuel subsidies and the phasing out of coal** – as well as sound institutions and governance, organized around country platforms, will be central to fostering and realizing the investment. **Infrastructure will be at the core** and while much can be privately funded, the public sector must play its part in investments as well as policies and institutions. Strong examples are now necessary in both emerging markets and developing countries.

*Private-sector delivery for recovery and the new economy.* The **private sector** has in the past two or three years (e.g. World Economic Forum Davos, January 2020; Glasgow COP26, November 2021) shown **leadership and commitment to the new forms of investment, innovation and growth.** GFANZ is a powerful example. The World Economic Forum-GFANZ alliance and other private-sector coalitions should now work urgently and actively to deliver the investment and finance needed. They can and should play a key role in building country platforms, working with the country governments that will create them and with development banks.

## Finance action

*Combining different forms of complementary finance on the scale necessary for EMDEs.* The extra investment needed is in the trillions of dollars and so, too, will be the necessary financing. The different sources of finance have different roles to play in managing risk and in environmental and social change. The key elements of the external flows will be the following, but we must remember that domestic public finances and domestic development banks, as well as domestic private finance, are of similar importance to international finance for EMDEs

- **Private sector:** quantitatively much the biggest but dependent on good policies, country platforms and risk management
- **Bilateral official flows:** of special importance for concessionary finance; climate finance from these sources should double in 2018–2025
- **Multilateral agencies:** while the sums are smaller than for MDBs, institutions such as the GCF and the GEF can be extremely valuable in mobilizing others

- **MDBs:** the MDBs play a key role in supporting the development of country platforms and policies and in providing finance to manage, reduce and share risk. Their climate finance should triple in 2018–2025. Shareholders should insist on this expansion, but also stand behind them in support of risk-taking, including growing their capital base
- **Philanthropy:** philanthropy does not create new indebtedness and has the flexibility to innovate and help in the management of risk
- **Voluntary carbon markets:** again, these do not create new indebtedness

Combining these six financing sources, in the context of policies and platforms to foster investment, could launch the world on a new course of development. This is now in our hands. Acting at scale is urgent, but it is feasible, and can deliver extraordinary returns.

# Contributors

The views expressed in this briefing do not necessarily represent the views of the World Economic Forum nor those of its Members and Partners. This briefing is a contribution to the World Economic Forum's insight and interaction activities and is published to elicit comments and further debate.

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