# CLIMATE FINANCE AND THE TRANSITION TO NET ZERO

**The Glasgow Climate Pact, made at the United Nations COP26 summit last year, marked the start of a two year process. The aim is to agree a post 2025 goal to replace the existing target to mobilise at least US$ 100 billion of climate finance a year to developing countries**

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As the global community agrees this new target, it's worth bearing in mind the current state of play in the private sector. The Glasgow Financial Alliance for Net Zero saw over 450 firms across 45 countries, representing US$ 130 trillion of private capital, committing to Net Zero portfolios by 2050.

While the commitments of individual asset managers towards this shift across their portfolios is important, an estimated US$ 100 trillion is needed for a global transition to Net Zero over the next three decades. The bulk of this is needed for sustainable infrastructure in emerging and developing economies – where significant capital expenditure is needed over the coming decade to get the assets in place.

## The climate crisis

The climate crisis is one of the greatest threats we face and time is running out. The Intergovernmental Panel on Climate Change's latest report, released in February, warns that the world has a "brief and rapidly closing" window to address and adapt to climate change. What's more, it says the risks if we fail to address the crisis are greater than originally thought.

We know that businesses in the markets where we invest are already impacted by the climate crisis. Nearly half of respondents to our Emerging Economies Climate Report 2021 said they have experienced an extreme weather event that has affected their businesses and, I think pointedly, 94 per cent of respondents said that the international community has a duty to support emerging economies respond to climate change.

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Yet according to the Climate Policy Initiative, only a fraction of the capital needed to meet the challenge has been committed. And while total climate finance has steadily increased over the past ten years, capital commitments have now stalled. The increase in annual climate finance flows between 2017/2018 and 2019/2020 was only 10 per cent compared to previous periods, when it grew more than 24 per cent.

The scale of the necessary investment is undoubtedly daunting and emerging market investment often falls outside of investor strategies. However, most projects required for Net Zero have a positive risk-return profile. This means that for investors with a low risk appetite and those who are new to climate finance there are attractive routes for investment. The overall picture is one of huge opportunity for private investors. At the same time, there is increasing recognition of the impact potential when private and public finance is brought together to tackle the climate crisis.

## The role of DFIs

COP26 was the first time we have seen a focus on the role of development finance institutions (DFIs) as partners for mobilising this scale of investment. Likewise, Glasgow Pact recognises the importance for increasing private finance for adaptation.

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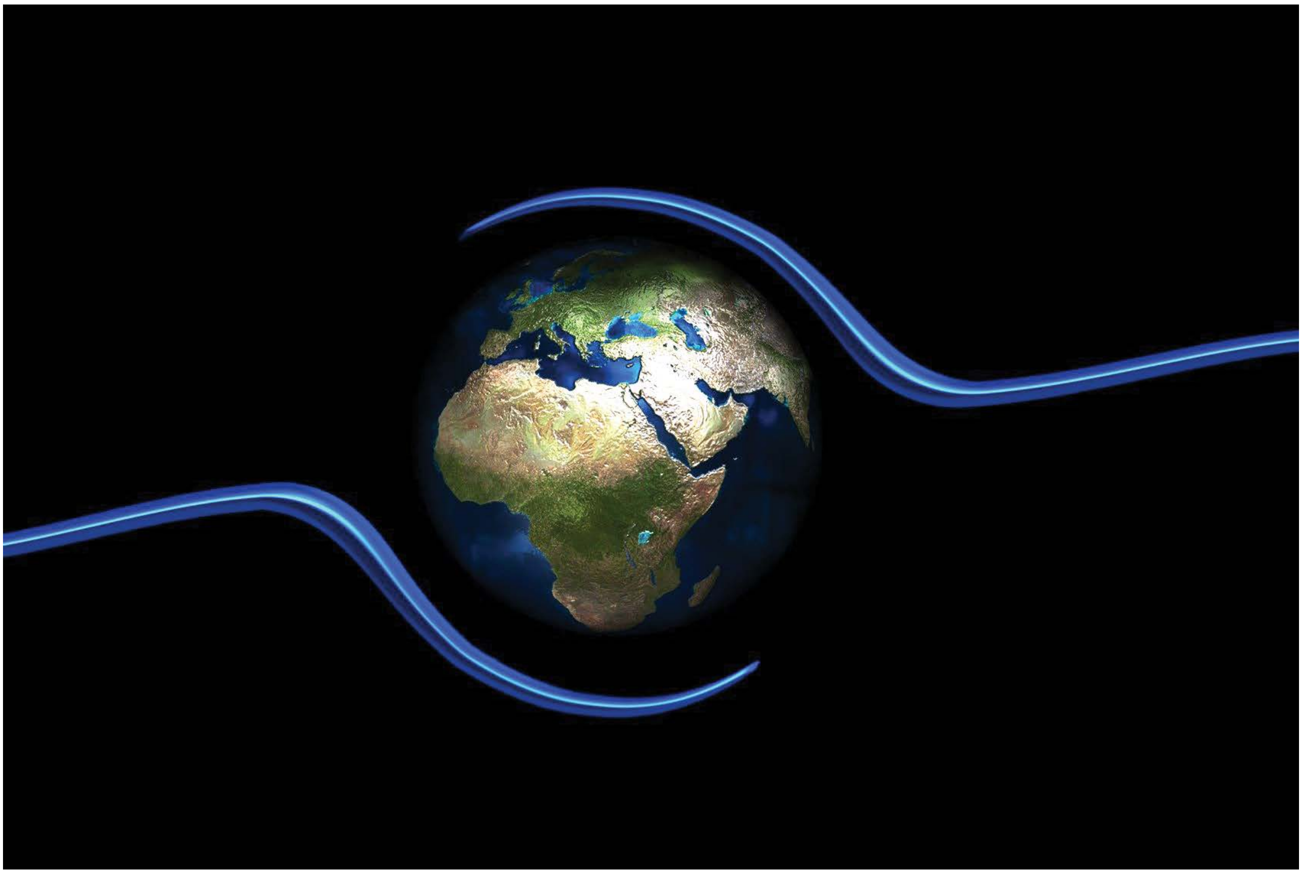
As the UK Government's DFI and impact investor, CDC (soon to be British International Investment) is a long-term investor in climate finance. Tackling the climate crisis is at the heart of our new five-year strategy, with a commitment that 30 per cent of our annual investments will be into climate finance.

And at COP26 we announced our plan to invest over £3 billion to support emerging economies in Africa and Asia to tackle the climate crisis. This includes our ambition to invest £1 billion in climate finance in India. These commitments make us one of the largest climate finance investors in Africa and the countries where we invest in Asia, representing an important part of the UK's climate finance contribution.



But we know that DFIs alone cannot meet the scale of the crisis. It is urgent to ensure a significant portion of the US$ 130 trillion committed to Net Zero, is directed into the assets that will decarbonise key sectors. So we are joining partnerships such as the flagship South Africa Just Energy Transition Partnership that was launched in Glasgow, committing US$ 8.5 billion to support South Africa's transition away from coal over the next 20 years. It will see development and private finance actors bring together complementary financing resources to accelerate the phasing out of coal phase out and a just transition to cleaner energy.

Partnerships can also propel innovative thinking, such as accessing new sources of concessional resource for blended finance solutions, tapping into the carbon market and bringing much needed technical assistance. All this will help bridge the financing gap to accelerate the transition out of fossil fuels and carbon intensive sectors, into utility and distributed renewable energy, battery storage, green hydrogen and electromobility solutions. This is why we partnered with the Global Energy Alliance for People and Planet, which aims to mobilise US$ 100 billion of climate finance over the next 10 years.

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I am proud of the work we have done to date to build partnerships and commit substantial capital to meeting the climate crisis, but there is much more to do. The next few months and years are critical if we are to address the causes and mitigate or adapt to the impacts of climate change. ■