# Transition finance and transition progress: Needs for net zero

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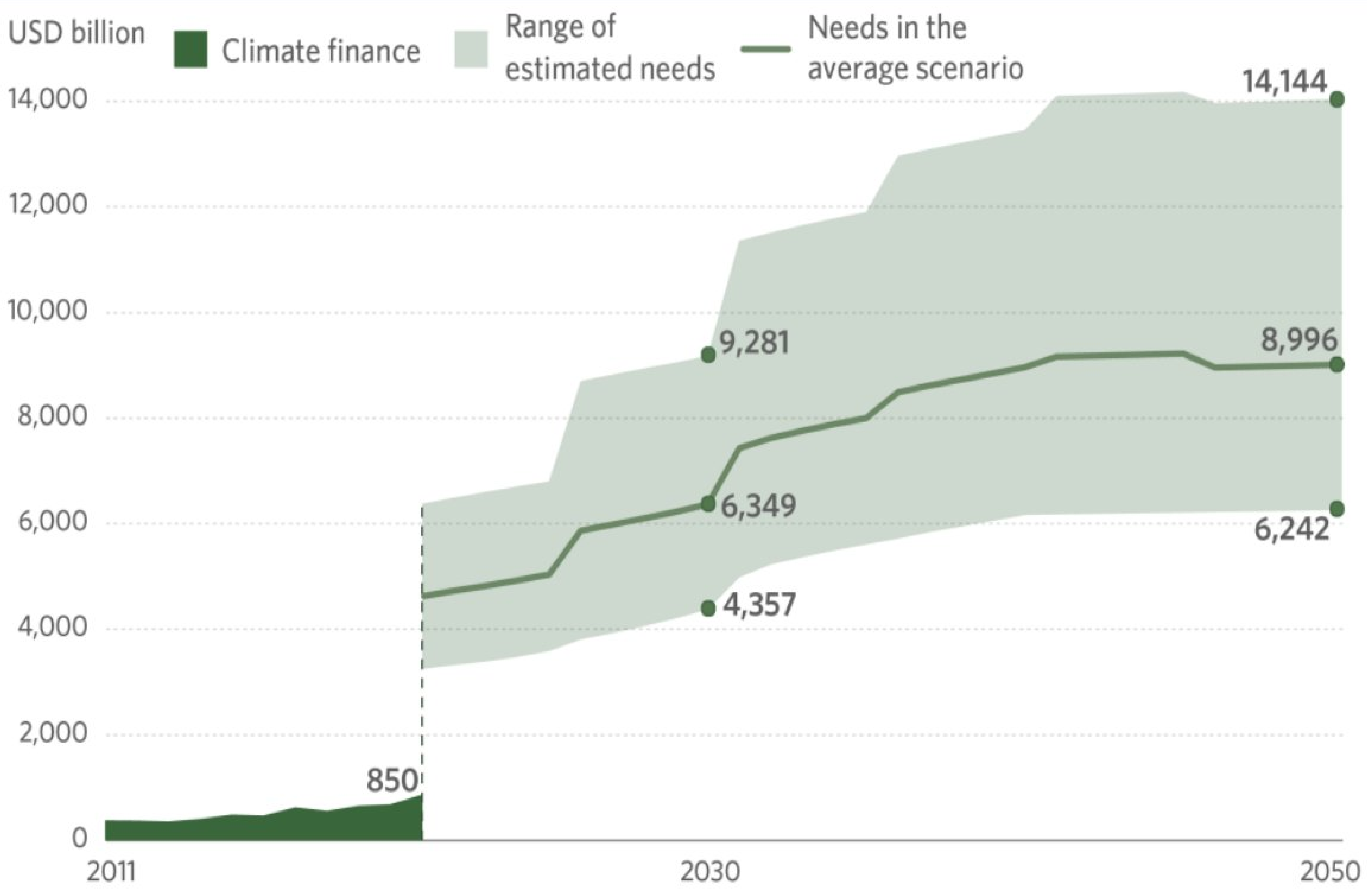
# What are our forecasted climate finance needs?

## Needs will vary based on assumptions in the scenario including economic growth, population, technological development, and financial variables

Climate finance in IPCC 1.5 C scenarios



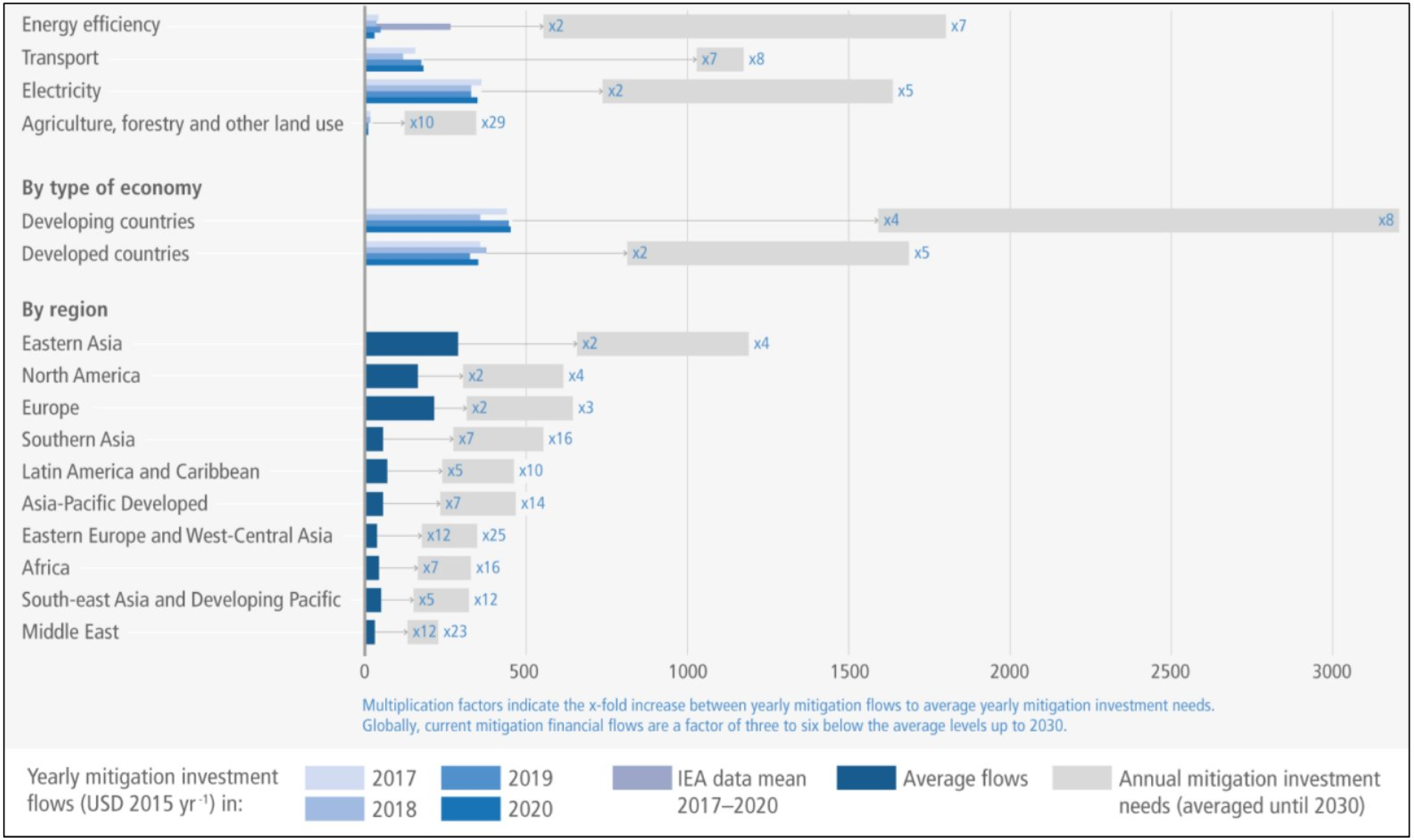

- **At least USD 4.3 trillion in annual finance flows or a 20% year-on-year increase by 2030 is required** to avoid the worst impacts of climate change.
- Despite the seemingly dramatic scale of the funding gap, it represents less than 5% of global GDP.[3]
- Moreover, **this increase would not be based solely on new, additional sources of finance.**
- Aligning finance with a 1.5C path would demand to cut the financing of high emissions activities and some resources to be reallocated to climate finance.

Source: CPI

# How much are we falling short in different sectors and regions?

## Transition finance flows and needs by sector and region

**By type:** **Actual yearly flows compared to average annual needs (billion USD 2015 yr[1]):**

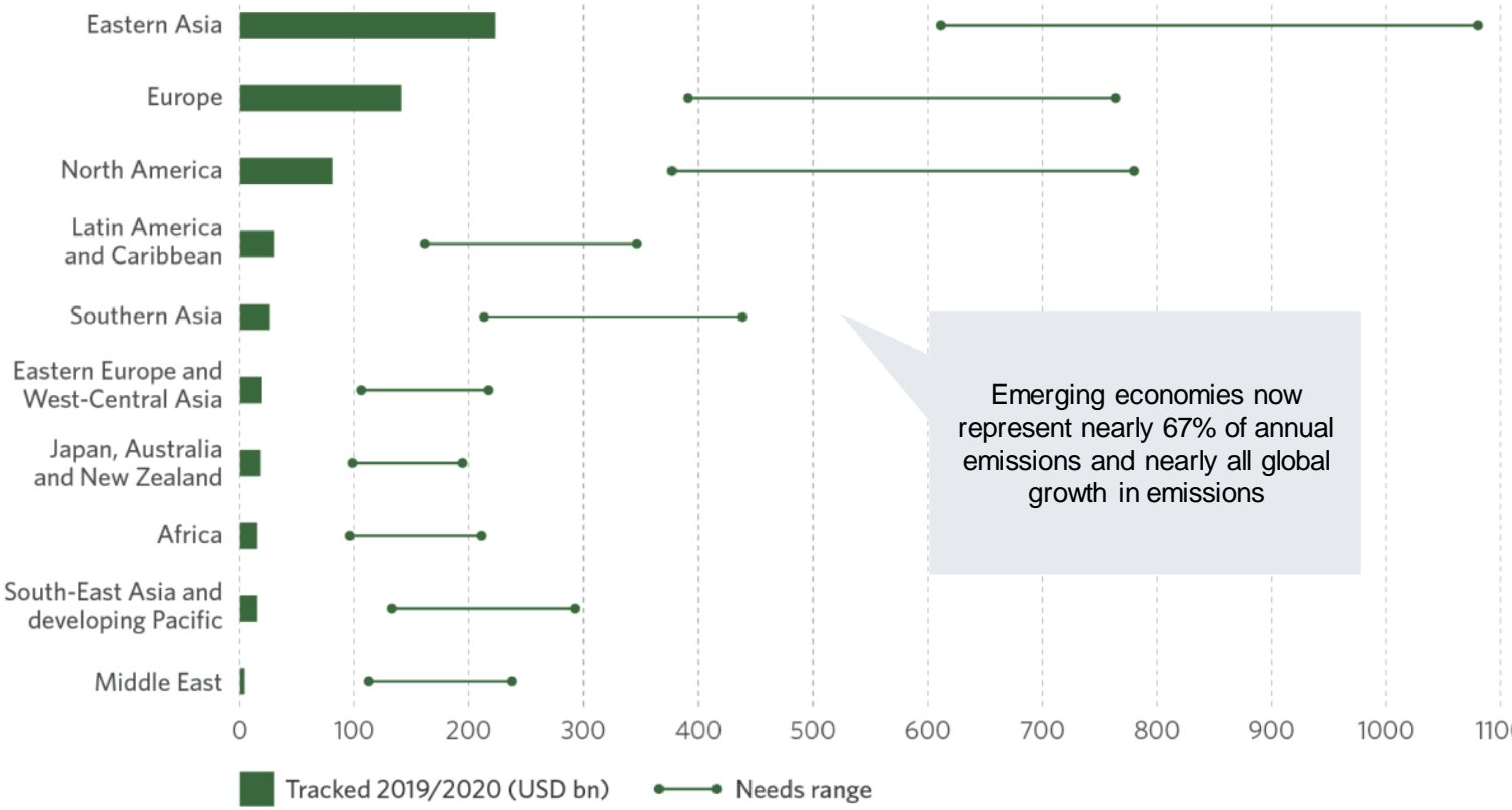



Source: IPCC (2022), Figure 15.4.

# Why does regional climate finance matter so much?

## Climate finance is falling short in every region but is especially needed to ensure a low-carbon transition and climate resilience in emerging economies

Annual investment needs through 2030 to decarbonize economies

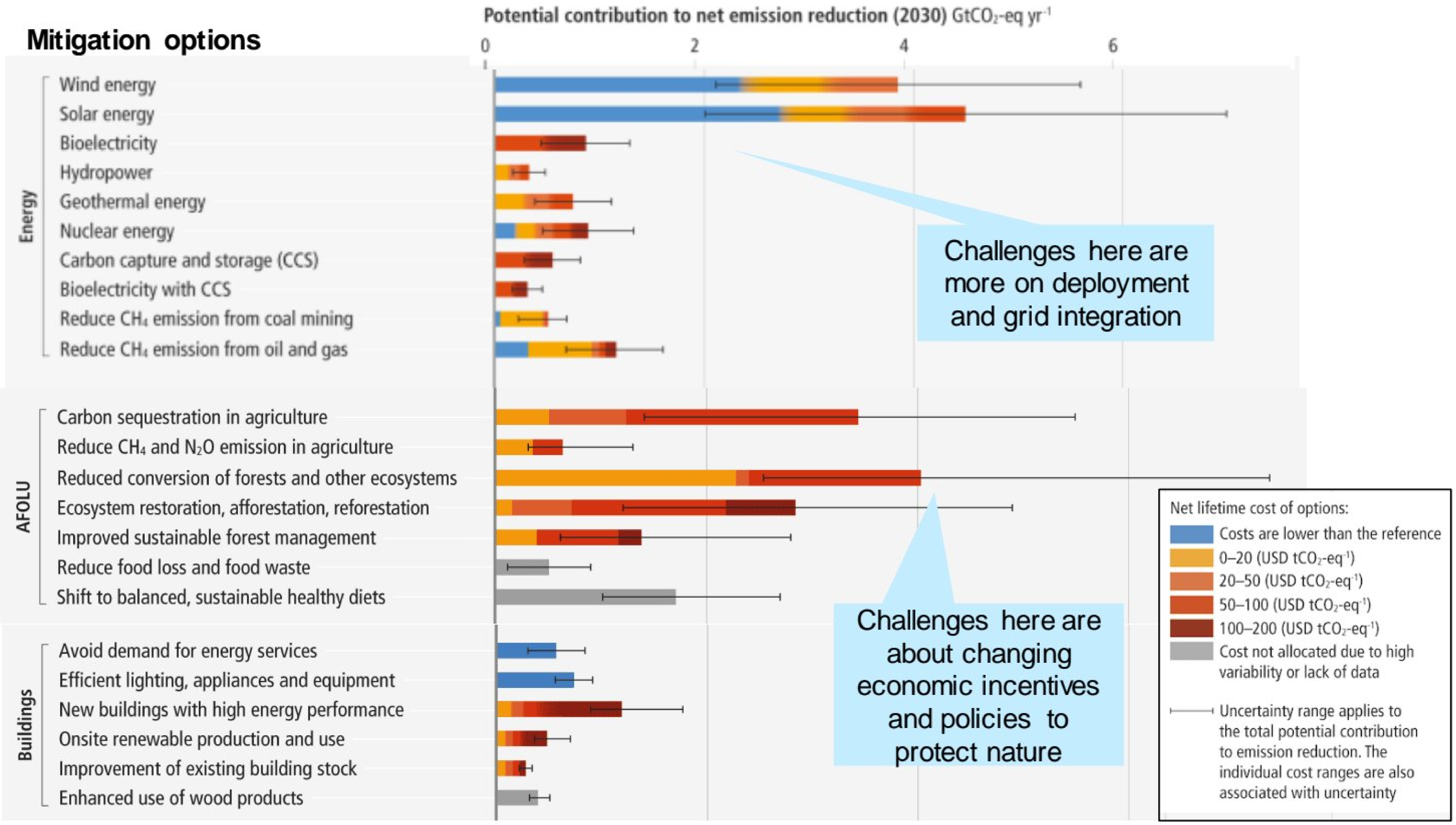



Emerging economies now represent nearly 67% of annual emissions and nearly all global growth in emissions

Source: CPI

# Major opportunities for cost-effective decarbonization exist in the growth of solar and wind power

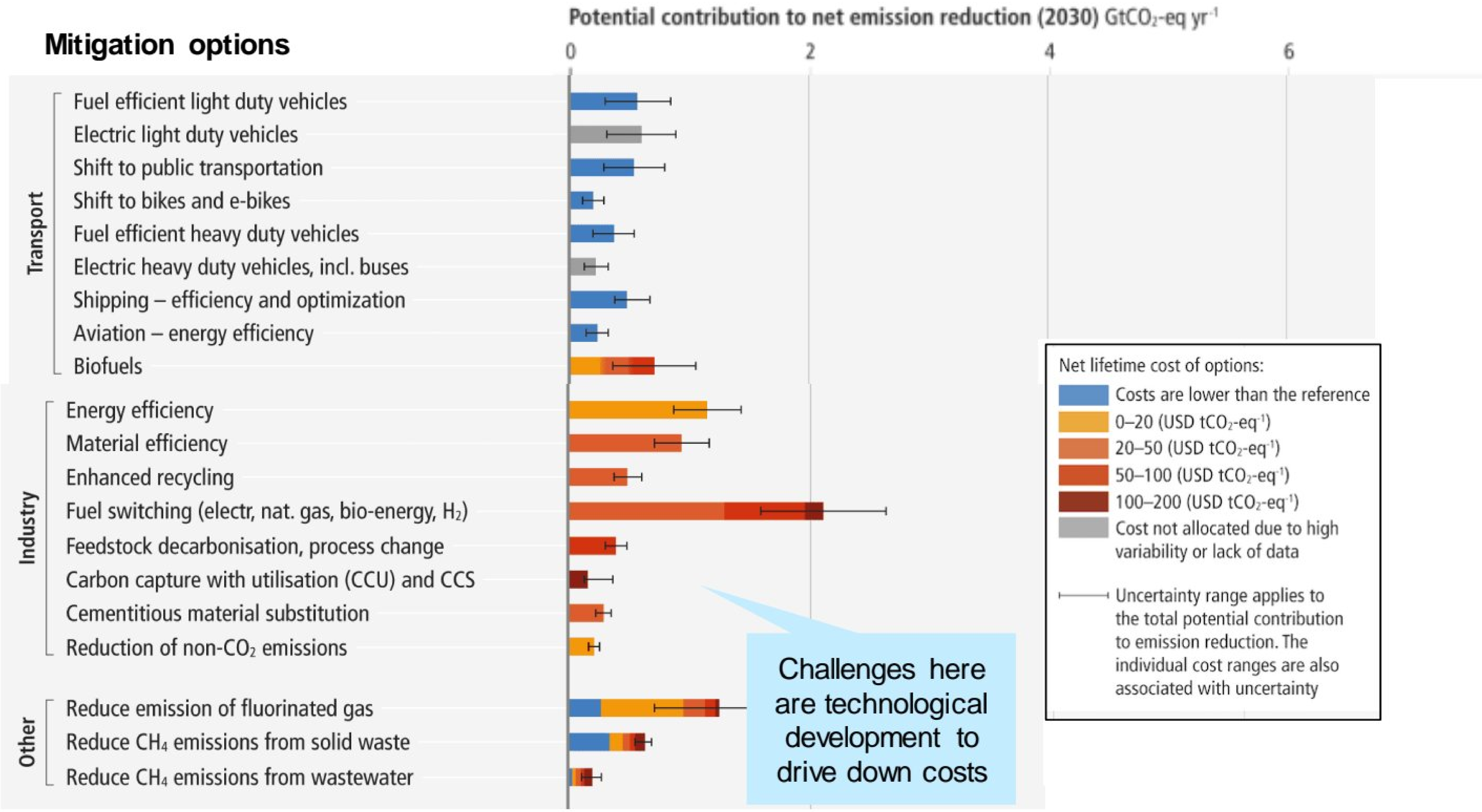
Full decarbonization will demand increased climate financing and technological innovation and economies of scale




Source: IPCC (2022),

# Different sectors may be easier or harder to reduce emissions in

## Transportation already has multiple cost-effective mitigation options, whereas industry will prove harder




Source: IPCC (2022),

# Tailwinds and headwinds for transition financing

## Geopolitics, economics, technological change, policy choices, and societal action all have influences on the speed and scope of transition finance

### Tailwinds

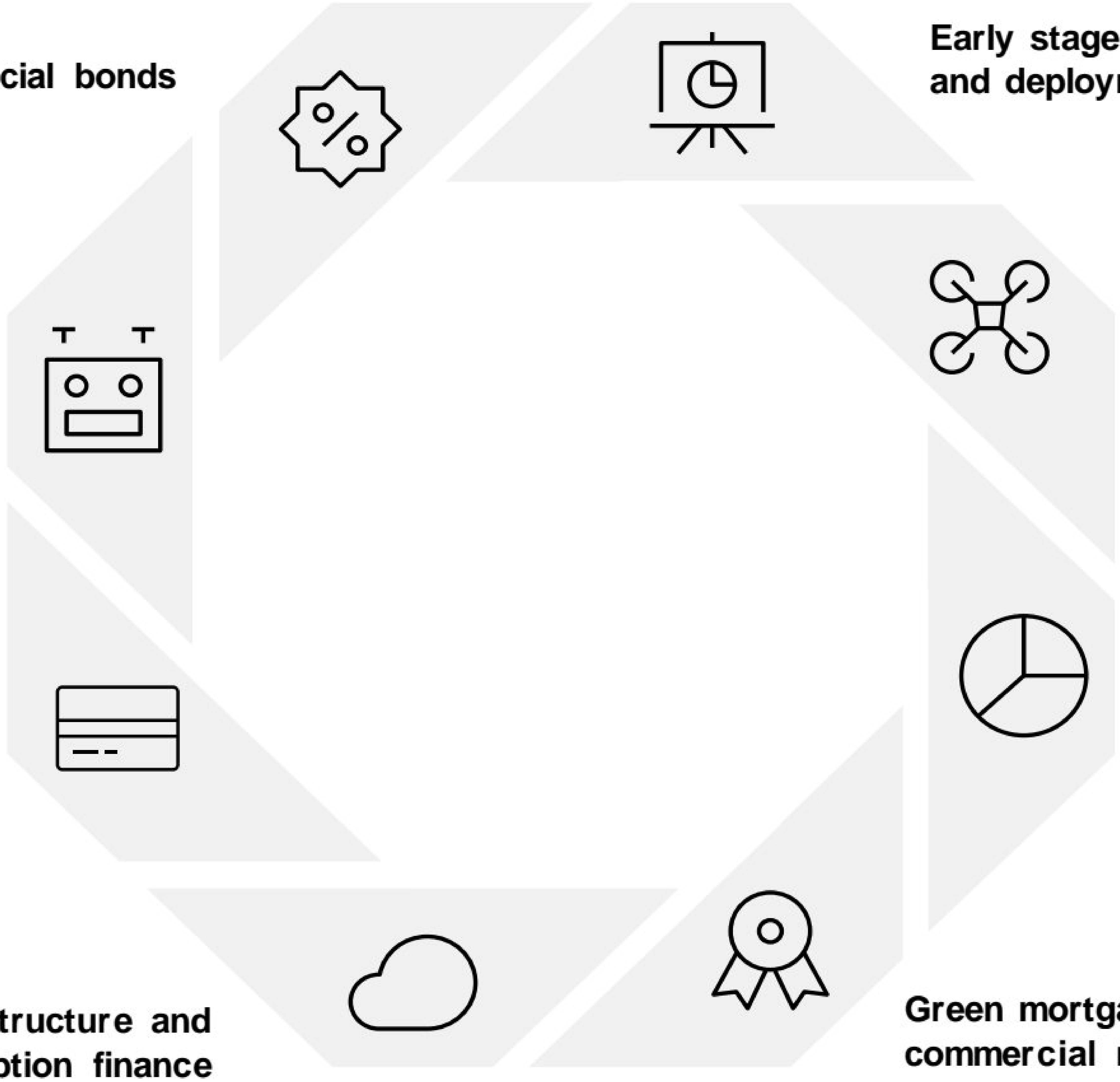
- Transition finance has reached record levels (nearly 1 TN USD) and clean energy finance has achieved parity with fossil fuel investment
- Transition finance remained robust amid COVID and the Russian invasion of Ukraine
- Most financing for the deployment of new generation capacity is directed at low-carbon sources
- Renewable energy systems are already outcompeting fossil fuel assets on cost in many parts of the world
- Continued deployment has led to economies of scale and further cost falls for batteries, solar, wind, and other green technologies

### Headwinds

- Rising interest rates make transition finance more expensive
- Windfall profits from high fossil fuel prices have left producers less dependent on financial institutions
- Geopolitical and economic tensions have made coherent international policy coordination harder between actors such as China, the US, and EU
- Limited transition finance is flowing from the developed world to developing economies, and costs can be prohibitive for available capital
- Most new fossil fuel infrastructure is being built in developing economies, where it creates a high risk of fossil fuel lock-in

# What are green opportunities for financial institutions?

## The net-zero transition presents opportunities for innovation across products and markets



- **Green and social bonds**
- **Early stage technology development and deployment**
- **Sustainability-linked loans and bonds**
- **Shifting portfolios into climate-solutions**
- **Green mortgages and green commercial real estate portfolios**
- **Support for infrastructure and adaption finance**
- **Green consumer accounts**
- **ESG related investment funds**

# Are we seeing firms pricing in the transition?

## Climate is beginning to be considered by financial actors in their decision-making processes, but both risks and opportunities have a long way to go to be fully "priced in"

Where evidence

*According to the TCFD 2022 Status Report, **transition risks** are more likely to be priced into financial markets than **physical risk***

**Changes in cost of capital seen in sectors such as coal**

**2/3 of investors report factoring climate risk information into valuations**

**Increasing number of firms are committing to net zero and interim targets**

*However, pricing **does not fully reflect climate risks**, nor has it driven capital fast enough into **low carbon industries and developing economies***

**Too little capital is flowing into low-carbon investments in emerging economies, and costs are too high**

**Financing of fossil fuels remains robust and valuations remain high**

**Limited strength and coordination of government climate policies**

*The TCFD found that 66% of investors were factoring climate risk disclosures into the way they value investments.*

# Thank you for your attention!

If you have any questions about this content or questions on climate and environmental risks, please do not hesitate to reach out!

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