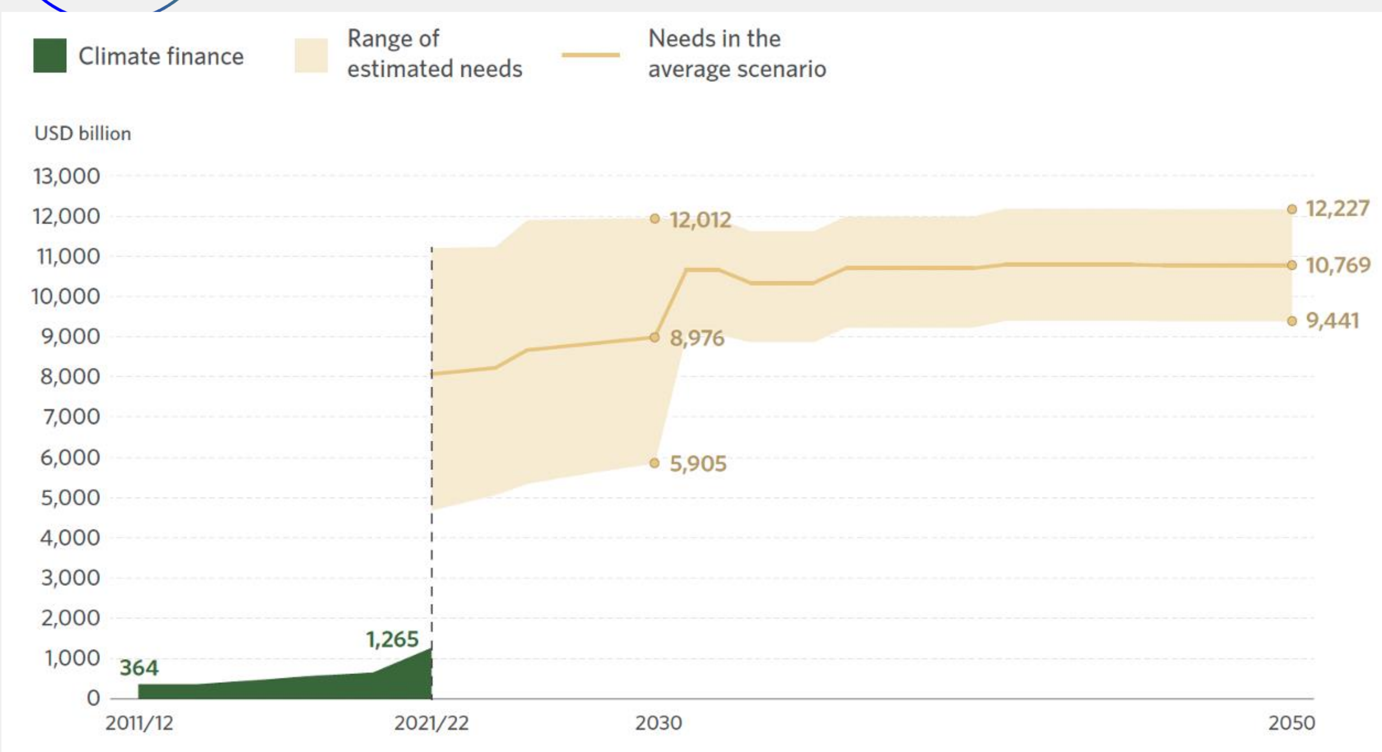
Technical & policy segment

Assessing climate financing strategies

1. The Climate Finance Gap



Source: Climate Policy Initiative (2023). Global Landscape of Climate Finance 2023.

Ambition gap: Though countries have increased their mitigation ambition, current NDCs would reduce global GHG emissions by just 11%.

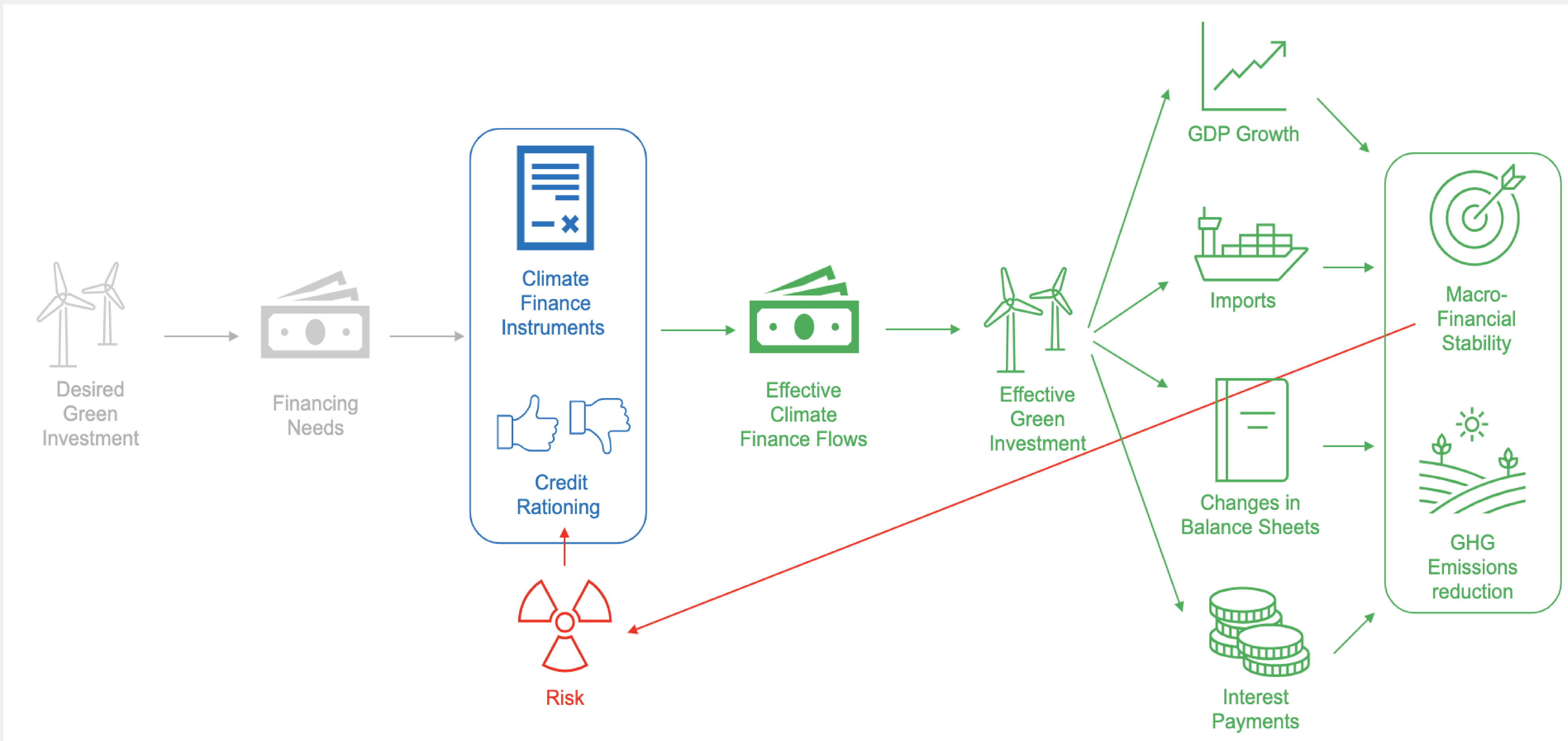
Financing gap: Despite recent progress in climate finance, we are still far from the required investments consistent with a Net Zero Emission Trajectory.

2. Multiple factors explain the gaps

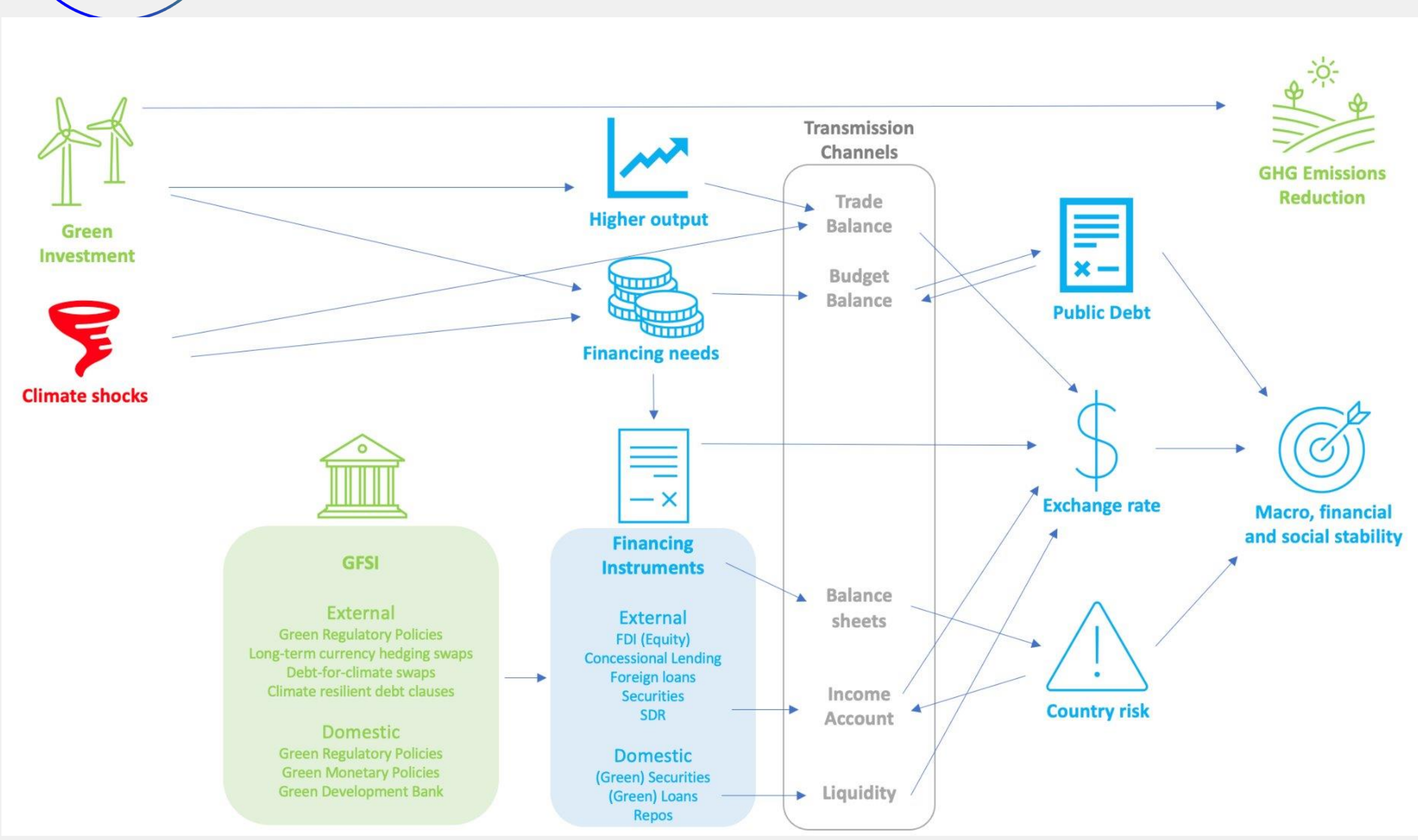
The transition can be delayed by **credit rationing.**

Rationing results from **perceived risks** (currency. sovereign, project, etc.)

While some of these risks are country and project Specific, others are macro-financial, hence endogenous to the dynamics of the transition.

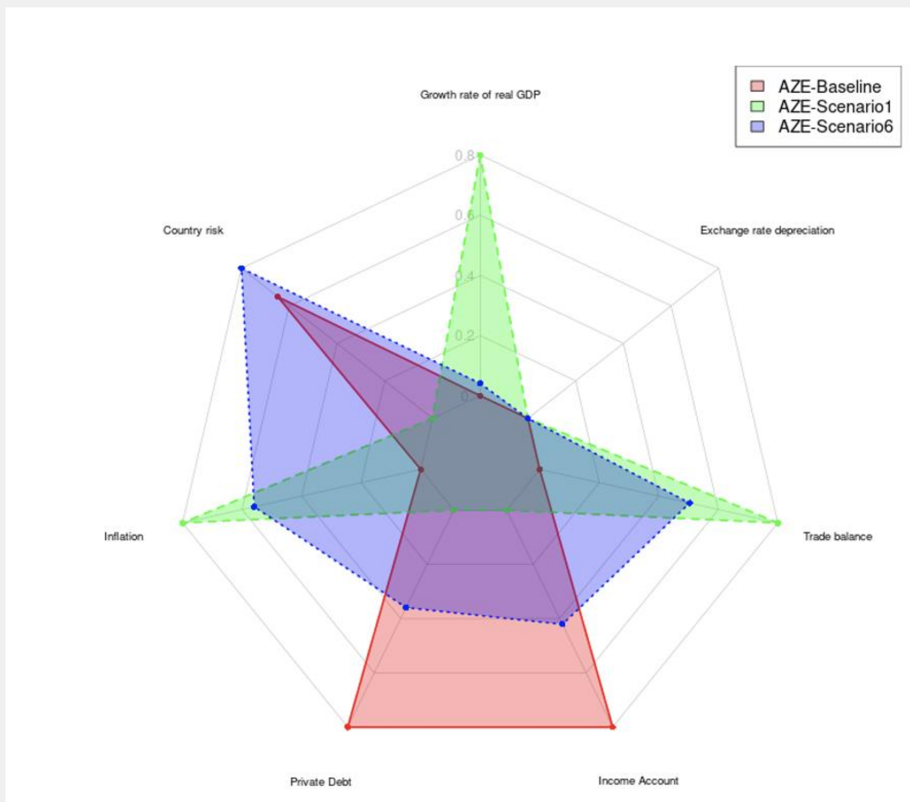


3. Transmission Channels in EMDEs



Even when projects are successfully funded, the low-carbon transition poses significant macro-financial challenges.

If these challenges are not effectively managed, they could lead to heightened risks and potential crises, undermining both financial stability and the transition itself.



4. FSMAT: A tool to test alternative financing strategies for mitigation and adaptation

The Financial Sector and Mitigation and Adaptation Tool (FSMAT) is jointly developed between the World Bank and AFD. Contact us here if you want to know more about it: svaldecantoshalp@worldbank.org

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