



Investing in Climate, Investing in Growth



Executive summary

Achieving a growth path that is resilient, inclusive and sustainable is one of the top policy priorities of our time. Governments around the world are facing the triple imperatives of reinvigorating growth while improving livelihoods and urgently tackling climate change, in line with the goals of the Paris Agreement. This report argues that boosting economic growth, improving productivity and reducing inequalities need not come at the expense of locking the world into a high-emissions future. It is the quality of growth that matters.

With the right policies and incentives in place – notably strong fiscal and structural reform combined with coherent climate policy – governments can generate growth that will significantly reduce the risks of climate change, while also providing near-term economic, employment and health benefits. Such a climate-compatible policy package can increase long-run GDP by up to 2.8% on average across the G20 in 2050 relative to a continuation of current policies, across developed and emerging economies. If the positive impacts of avoiding climate damage are also taken into account, the net effect on GDP in 2050 rises to nearly 5%.

Investment in modern, smart and clean infrastructure in the next decade is a critical factor for sustainable economic growth, especially as infrastructure generally has suffered from chronic underinvestment since before the financial crisis. The report estimates that USD 6.3 trillion of investment in infrastructure is required annually on average between 2016 and 2030 to meet development needs globally. An additional USD 0.6 trillion a year over the same period will make these investments climate compatible, a relatively small increase considering the short and long-term gains in terms of growth, productivity and well-being. The additional investment cost is likely to be offset over time by fuel savings resulting from low-emission technologies and infrastructure.

Furthermore, the current fiscal environment provides a window of opportunity to take action now. Low interest rates have increased fiscal space in many countries and, where there is less fiscal space, opportunities exist to optimise the tax and spending mix to align stronger economic growth with inclusive, low-emission, resilient development. Well-aligned climate, fiscal and investment policies will further maximise the impact of public spending to leverage private investment.

Finance will be a key factor: capital must be mobilised from both public and private sources, supported by a variety of financial instruments tuned for low-emission, climate-resilient infrastructure. Public financial institutions need to be geared for the transition, while the financial system itself should take greater steps to correctly value and incorporate climate-related risks. Development banks and finance institutions – multilateral, bilateral and national – all have a critical role to play here too, not only using their balance sheets to amplify available resources, but also developing green finance in partner countries, including through policy and capacity building support.



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Getting the fundamental climate policies right is essential to aligning incentives. There is a need to accelerate the reform of inefficient fossil fuel subsidies and broaden the carbon pricing base, focusing on tracking the impact and sharing policy experiences. Making greater use of public procurement to invest in low-emission infrastructure can trigger industrial and business model innovation through the creation of lead markets.

At the same time, we must recognise that sustainable growth also means inclusive growth. Coherent climate and investment policies, effective fiscal and structural policy settings and reforms must work together to facilitate the transition of exposed businesses and households, particularly in vulnerable regions and communities. Early planning for the transition is essential if societies are to avoid stranded assets in fossil-fuel-intensive industries and stranded communities alongside them.

Looking beyond energy production and use, developments in agriculture, forestry and other land-use sectors will enable scaling up the pace of the transformation needed elsewhere in the economy. Current stocks of carbon in tropical forests and other ecosystems need to be protected and their ability to act as carbon sinks enhanced wherever possible. Research and development needs to be significantly strengthened and followed by rapid demonstration and diffusion of technological breakthroughs that will reduce and eliminate greenhouse gas emissions from energy, industry and transport, and improve agricultural yields and crop resilience. In addition, the feasibility to deploy “negative emissions” at scale remains both a major uncertainty, despite being an important feature of most scenarios consistent with the Paris Agreement’s goals.

Finally, international co-operation remains fundamental to managing climate risks. Countries’ current contributions to emissions reduction beyond 2020 are not consistent with the Paris temperature goal, and need to be scaled up rapidly. Support for action in developing countries will be important, not just for mitigation but also to improve the resilience and adaptive capacity of countries facing the greatest climate challenges. Climate impacts will grow, even if we achieve the Paris temperature goal. We need flexible and forward-looking decision-making to increase resilience in the face of these risks. Managing the interdependences between climate, food security and biodiversity goals will be critical to achieving the Sustainable Development Goals and long-term robust growth.