

# Investing in Climate for Growth and Development

## THE CASE FOR ENHANCED NDCs

### KEY MESSAGES

#### Governments are at an inflection point in addressing climate change

**Climate action has gained momentum over the past decade, driving real economic opportunities.** Today, 87% of the global economy is covered by net-zero targets, with governments, regions, cities, and companies adopting mitigation policies.<sup>1</sup> Clean energy markets have rapidly expanded, fuelled first by policy and then market demand. Clean energy now attracts twice the investment of fossil fuels, delivering affordable climate solutions, innovation, jobs, and growth.<sup>2</sup> The world economy is making progress towards decoupling emissions from growth: from 2015 to 2022, global GDP grew by 22%, while emissions grew by only 7%, with over 40 countries increasing GDP while cutting emissions.

**However, current efforts are not keeping pace with rising risks.** Global greenhouse gas concentrations and climate change-related risks continue to rise. In 2024, global CO<sub>2</sub> emissions hit a new record, and the planet crossed a 1.5°C global mean warming for the first year. The impacts of climate change are no longer a distant threat; they are already disrupting communities, ecosystems and economies worldwide. Current actions remain insufficient to achieve the goals of the Paris Agreement. Higher ambition and more effective implementation of climate action is needed to keep the Paris Agreement's goals within reach.

**Accelerated climate action is needed to secure prosperity.** Climate action is losing momentum. Mounting economic uncertainty, geopolitical tensions and rising public debts are shifting priorities and straining government budgets, particularly for climate. While new and more ambitious climate plans, known as Nationally Determined Contributions (NDCs), were due by 10 February 2025, only 19 countries had submitted updated NDCs by that date. Any slowdown in climate action risks delaying much-needed investments, weakening economic resilience and increasing climate damages. The cost of insufficient action is clear: it could threaten future development, economic stability, and long-term prosperity.

**New OECD-UNDP analysis provides evidence that higher climate ambition is not only achievable, it also makes economic sense, even in the near term.** The 2025 NDC cycle is an opportunity to build collaborative approaches around climate, development and growth priorities, broaden and strengthen ownership of development-enhancing mitigation strategies, and inform effective investment plans and strategies to mobilise public and private sources of finance to deliver action.

1. OECD (2024), The Climate Action Monitor 2024, OECD Publishing, Paris, <https://doi.org/10.1787/787786f6-en>.

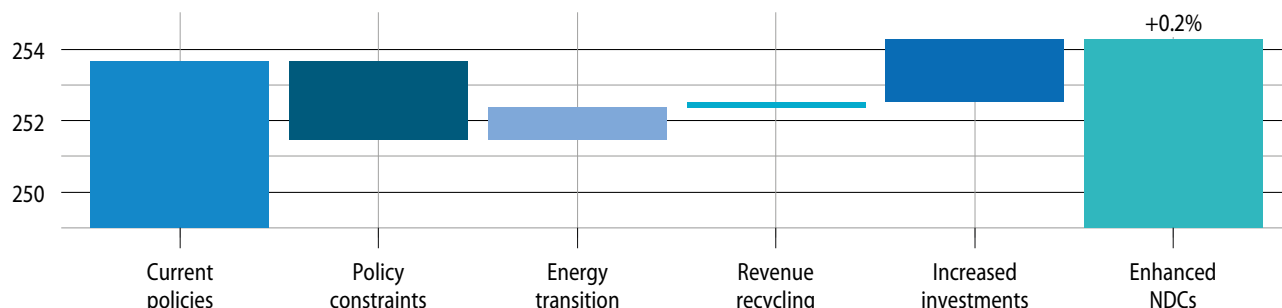
2. IEA (2024), *World Energy Investment 2024*, International Energy Agency, Paris

### KEY FINDINGS: The economic case for accelerated climate action

- **Well-designed climate policies can deliver stronger economic growth than business-as-usual pathways.**
  - **Accelerated climate action does not hinder economic growth**, it provides economic gains. Under an *Enhanced NDCs scenario* aligned with the Paris Agreement, global GDP in 2040 would be 0.2% higher than under the *Current Policies Scenario* (Figure 1). This corresponds to the current GDP of Sweden.
  - **A low-carbon economy is a more efficient economy.** Today, the world emits 0.34kg of CO<sub>2</sub>-equivalent per dollar of economic output. Under an *Enhanced NDC scenario* emission intensity would drop by more than half to 0.14 kg by 2040.
  - **Investing in clean energy and energy efficiency increases productivity and innovation**, balancing the economic impact of policy constraints on prices and consumption. Reinvesting carbon revenues can further boost GDP while ensuring a just transition and securing public support for climate policies.
  - **Policy uncertainty weakens investment and slows growth.** Unclear policies risk delaying private investments and reducing GDP by 0.75% as early as 2030. NDCs provide policy certainty, giving markets the confidence to mobilise resources toward sustainable growth.

#### FIGURE 1. Enhanced NDCs can increase global GDP in the near term

Decomposition of changes in global GDP (2021 USD purchasing power parity) between the Current Policies and Enhanced NDCs scenarios in 2040



Source: OECD ENV-Linkages model, with inputs from the NIGEM and IEA's GCEM models.

- **The economic case for climate ambition gets even stronger in the long run, particularly when factoring in avoided climate damages.**
  - By reducing the risk of climate-induced events, an *Enhanced NDC scenario* could **prevent significant economic losses and increase global GDP** by up to 3% by 2050 and up to 13% by 2100.
  - **Actual benefits could be even greater**, as uncertain current estimates do not fully account for the economic and social consequences of the increased likelihood of crossing tipping points, such as melting ice sheets or reversing circulation patterns in the ocean.

- **Climate action delivers far-reaching benefits beyond GDP growth.** Aligning NDCs with national development priorities, can maximise their impact, advancing climate action while driving progress on health, energy security and access, and poverty reduction.
  - **Climate action and development strategies are mutually reinforcing**, driving sustainable growth while safeguarding the environment. The analysis shows that integrating climate and development-enhancing policies into NDCs could help one in five people in extreme poverty escape the poverty trap by 2050.<sup>3</sup>
  - If investments in the energy transitions are complemented by specific measures that deliver on food security, basic services access and governance reforms, **nine out of ten low-human development countries could significantly improve their development outcomes** by 2050, lifting 175 million additional people out of extreme poverty<sup>4</sup> while strengthening resilience and energy equity.
  - **Stronger climate policies can also deliver health benefits.** In 2019, fossil fuel combustion contributed to 4.2 million premature deaths from outdoor air pollution, with 89% of those deaths occurring in low- and middle-income countries.<sup>5</sup> Investing in clean energy, low-emission transport and better urban planning would reduce pollution at its source and substantially improve air quality.

**Putting people at the core of climate strategies is essential to secure a just and equitable transition and to build public support.** While the net social benefits of Enhanced NDCs are clear, some communities and sectors will need support to navigate the transition. Regions historically reliant on fossil fuel industries will face economic adjustments, but previous industrial transitions, such as the decline of coal mining in Europe or the shift to automation in manufacturing, show that, with appropriate supportive policies, disruption can lead to long-term innovation, new industries and economic renewal. Addressing negative impacts by investing in reskilling, economic diversification, and just transition policies, are an opportunity for governments to build more resilient communities.

### LESSONS LEARNED: Strategic approaches for effective implementation of NDCs

The NDCs due in 2025 are an opportunity to capture the synergies between climate and growth. **But to unlock their full potential, they must be ambitious, implementable and investable**, broadening ownership, mobilising finance and generating benefits for the economy and people. In preparing and implementing their new NDCs, governments could focus on five priorities:

- 1. Build high-level political ownership.** Engaging the centre of governments alongside key ministries and departments, can ensure the mandate, resources, and buy-in needed for effective implementation, and build accountability for NDC delivery across government. Ministries of Finance play a central role in embedding climate targets into national and sectoral planning, fiscal policies, and budgetary processes.
- 2. Align NDCs with national development priorities for maximum impact.** NDCs should not be stand-alone commitments. Integrating climate ambitions into national and subnational development strategies, economic planning, and sectoral policies can ensure policy coherence, and maximise the synergies between climate, economic and social progress.

3. Based on International Futures integrated global modelling system

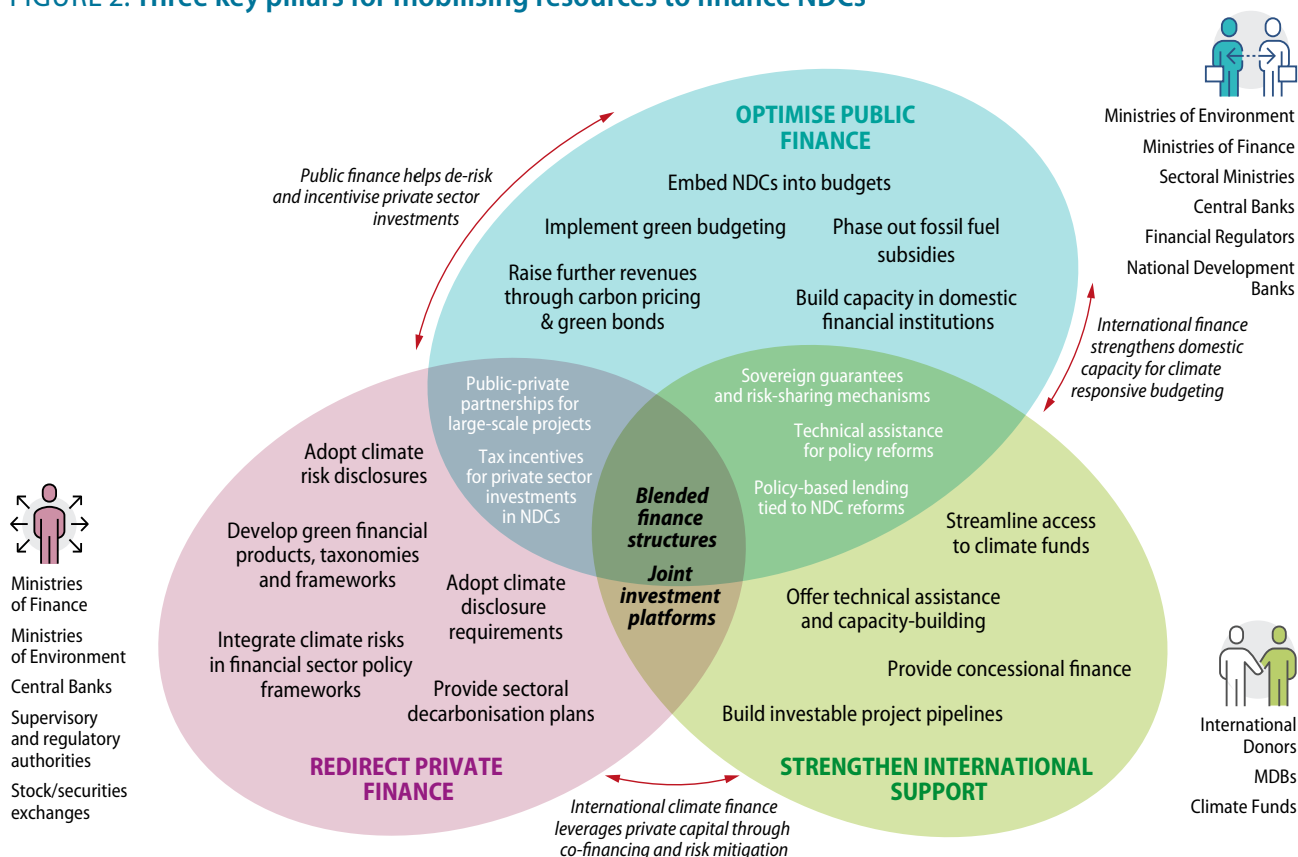
4. Compared to the *Enhanced NDCs* scenario

5. OECD (2021), *The Economic Benefits of Air Quality Improvements in Arctic Council Countries*, OECD Publishing, Paris, <https://doi.org/10.1787/9c46037d-en>.

## Key Messages

- 3. Bring the private sector into NDC design and implementation to unlock investment opportunities.** NDCs can provide clear and stable signals to inform investment decisions by the private sector over the next decade. Effective private sector engagement in NDC delivery requires robust project pipelines and the right enabling conditions to scale up investments, especially for large-scale NDC-aligned projects. This requires targeted efforts across different fronts, for instance removing obstacles such as lengthy permitting procedures, foreign investment restrictions and restricted access to credit, and deploying de-risking mechanisms such as public guarantees, concessional finance, and first-loss capital to attract private investment.
- 4. Strengthen international and national financial and development finance institutions.** Governments should equip these institutions with the tools, incentives, and expertise to finance NDC implementation. This includes building technical capacity, integrating climate risk into financial regulations, and expanding climate-aligned financial products like green bonds and sustainability-linked loans. Multilateral Development Banks (MDBs) and international climate funds must also simplify access to climate finance to ensure capital reaches countries in need.
- 5. Put affected stakeholders at the centre of climate strategies.** Early and inclusive stakeholder engagement is crucial to understanding and addressing distributional effects of the transition. These consultations can shape the design of effective just and equitable transition plans as an integral part of NDC delivery. Inclusive stakeholder engagement processes also help to strengthen public support and social acceptance for accelerated climate action.

FIGURE 2. Three key pillars for mobilising resources to finance NDCs



Source: Authors



For more information, please visit:

<http://oe.cd/5MC>

The information contained in this document draws on preliminary results from analysis prepared for the forthcoming joint OECD-UNDP publication "Investing in Climate for Growth and Development: The Case for Enhanced NDCs" to be published in May 2025. This project is carried out thanks to the support of the German Federal Foreign Office.