Implications of Private Climate Finance

What is the issue?

Developing countries have been consistently insisting that a significant portion of climate finance should come from public funds as private finance will not address their needs and priorities.

What about the climate finance commitment?

> *Private sector capital for climate finance includes the funding provided by private financial institutions, investors, and companies in climate-friendly projects and financial assets.*

- The **Global Environment Facility (GEF)** has served as an operating entity of the financial mechanism since the United Nations Framework Convention on Climate Change's (UNFCCC), 1994.
- Two special fund are set up and are managed by the GEF
    - The Special Climate Change Fund (SCCF)
    - The Least Developed Countries Fund (LDCF)
- In 2009, at the **COP15 Summit in Copenhagen**, developed countries committed to jointly mobilize 100 billion dollars annually in climate finance by 2020.
- At b, in 2010, Parties established the **Green Climate Fund (GCF)** and later designated it as an operating entity of the financial mechanism.
- The **Adaptation Fund (AF)** was established under the Kyoto Protocol in 2001.
- **The Paris Agreement** reaffirmed the obligations of developed countries, while encouraging voluntary contributions by other Parties.

What is the issue with the climate finance by developed countries?

- **SCF report** - The UNFCCC Standing Committee on Finance (SCF) reports that the 100 billion dollar goal has not been achieved in 2020.
- The SCF report relied mainly on the Organisation for Economic Co-operation and Development (OECD) and Oxfam reports for aggregate climate finance trends.
- **OECD report**- Developed countries have mobilised 83.3 billion dollars in climate finance in 2020.
- **Oxfam report** - The actual value of the OECD-claimed climate assistance is only around 21–24.5 billion dollars.
- Following the dismal failure to meet the 100 billion dollar goal, developed countries pushed the target year for achieving it to 2025 from 2020.
- At COP26 (Glasgow), developed countries came up with a **Climate Finance Delivery Plan (CFDP)** claiming that the goal would be met in 2023.

What are the challenges in private climate finance?

- **Skewed climate finance** - Climate finance remains skewed towards mitigation and flows towards bankable projects with clear revenue plan.
- **Profitability** - Adaptation does not seem to offer commercially profitable opportunities for private financiers.
- **Accessibility** - Vulnerable, debt-ridden and low-income countries with poor credit ratings, find it challenging to access private finance.
- **Result delivery** - The private climate finance efforts have not yielded results at the scale required to tap into the significant potential for investments.
- **Mobilisation potential** - Many activities needing financing may have little or no direct mobilisation potential.

What lies ahead?

- The SCF report has concluded that the mobilisation of private finance should not compromise in addressing the needs of developing countries.
- Grant-based and concessional international public climate finance will continue to play the key role in addressing the needs and the priorities of developing countries.

Public-private partnership for scaling up private climate finance

- **Climate Investment Funds (CIF)** - Established by global leaders in 2008, it is an 8.5 billion dollar multi-donor trust fund that provides support to climate investment in developing and middle-income countries.
- **Multilateral Investment Guarantee Agency (MIGA)** – It is a member of the World Bank Group that provides support for private-sector green investment by leveraging the use of its guarantees.

References

1. The Hindu| Behind the smokescreen around private climate finance
2. IMF| PPP for scaling up private climate financing