



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](#)



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