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BEHIND THE SMOKESCREEN AROUND PRIVATE CLIMATE FINANCE

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At the COP27 U.N. Climate Summit, in Sharm el-Sheikh, Egypt | Photo Credit: AP

Over the last few years, developed countries have insisted upon two points on the issue of climate finance. First, they maintain that their commitment to reaching the target of [$100 billion in climate finance a year] for developing countries, first promised in 2009, is close to being met. Second, they view the mobilisation of private finance as the critical component of climate finance henceforth. [John Kerry, the U.S. Special Presidential Envoy for Climate Change], and Mark Carney, the current UN Special Envoy on Climate Action and Finance and former Governor of the Bank of England, are the leading proponents of this view.

On several occasions, Mr. Kerry has said that the private sector can find solutions to climate change by funding the trillions needed for a global transition to clean energy. Mr. Carney has called for turning billions in public capital into trillions in private capital by scaling blended finance, catalysing stand-alone private capital flows, and building new markets. For developing countries to shape their policies based on these optimistic views is clearly challenging. How should developing countries respond to this?

Shortly before the ongoing [27th Conference of the Parties (COP)] of the UN Framework Convention on Climate Change (UNFCCC) began in Egypt on November 6, 2022, the UNFCCC Standing Committee on Finance (SCF) released a report on the progress made by developed countries towards achieving the goal of mobilising $100 billion per year. The report makes two things clear — while estimates vary, it is widely accepted that the $100 billion goal has not been achieved in 2020, and an earlier effort to mobilise private finance by the developed countries has met with comprehensive failure. The SCF report relied mainly on the Organisation for Economic Co-operation and Development (OECD) and Oxfam reports for aggregate climate finance trends. The OECD report claims that developed countries have mobilised $83.3 billion in climate finance in 2020 ($68.3 billion in public finance, $13.1 billion in mobilised private finance and $1.9 billion in export credits). The latest Oxfam report challenges this figure with the claim that the actual value of the OECD-claimed climate assistance of $83.3 billion is only around $21–$24.5 billion. The Oxfam values are much lower as it discounts for the climate relevance of reported funds (that is funds actually targetting climate action) and grant equivalence (rather than cash face value). The OECD reports have also been criticised for the lack of transparency of information on mobilised private finance.

In 2016, based on OECD analysis, the developed countries issued a "Roadmap to USD100 billion", with forward-looking projections of climate finance in 2020. The road map indicated that developed countries were on track to meet the goal by 2020, projecting that public finance would reach $67 billion while the remaining $33 billion would be provided by private finance under the assumption that mobilisation rates increased. The OECD 2020 data, however, shows that the mobilisation of private climate finance has underperformed against the expectations of developed countries falling short by 60 percentage points, $13.1 billion in 2020 against $33 billion in the road map. The SCF report notes that it is unclear to what extent this was due to a lower-than-expected potential to mobilise private finance or to the relatively lower proportion of projects with mobilisation potential in the overall climate finance portfolio.

Developing countries have for a long time insisted that a significant portion of climate finance should come from public funds as private finance will not address their needs and priorities especially related to adaptation. Climate finance already remains skewed towards mitigation and flows towards bankable projects with clear revenue streams. Adaptation is unlikely to offer commercially profitable opportunities for private financiers. Vulnerable, debt-ridden and low-income countries with poor credit ratings needing adaptation finance the most, find it challenging to access private finance.

Following the dismal failure to meet the $100 billion goal, developed countries pushed the target year for achieving it to 2025 from 2020. Last year, at COP26 (Glasgow), developed countries came up with a Climate Finance Delivery Plan (CFDP) to meet the goal, again using the OECD report accounting framework and the 2016 road map, claiming this time that the goal would be met in 2023. The SCF report notes that when comparing the OECD-reported data for 2020 to the scenarios in the CFDP, while the aggregate total $83.3 billion matches the low-end scenario for 2021, the mobilised private finance had fallen short by 6% compared to the scenario estimate. Further, in this scenario, both public and private finance segments would need to grow a further 21%-22% to meet the 2023 low-end estimate of $101 billion. Whether this is possible is doubtful. Between 2019-20, mobilised private finance, as reported by the OECD, had in reality fallen by 9%.

Despite the attention-grabbing headlines in the media pushing private finance, the CFDP Progress Report released two weeks ago has a very different story to tell. It notes that "mobilizing private climate finance has proven to be challenging, and particularly limited for adaptation". Further, although many developed countries and multilateral development banks have emphasised the importance of private finance mobilised in their climate finance strategies, including by de-risking and creating enabling environments, "these efforts have not yielded results at the scale required to tap into the significant potential for investments by the private sector and deliver on developed countries climate ambition".

There are further assumptions in the CFDP scenarios that need to be laid bare. It assumes a private-public finance mobilisation ratio starting from 0.21 (0.21 unit of mobilised private finance per unit of public climate finance) in 2021 and ending with 0.177 in 2025, with the share of activities with low mobilisation potential rising from 30% in 2021 to 50% in 2025. This implies that the composition of public climate finance portfolios will progressively change towards a larger share of activities with low to no private finance mobilisation potential; this includes finance for adaptation, and capacity building, as grants, for least developed and small island developing countries. Thus, in these scenarios, financing the urgent adaptation needs of developing countries is pushed further into the future.

Therefore, addressing the urgent climate finance needs of developing countries cannot be left to the mercy of false promises of trillions of U.S. dollars in mobilised private climate finance. Many activities needing financing may have little or perhaps even no direct mobilisation potential. The

SCF report has rightly concluded that the mobilisation of private finance as a means of achieving the $100 billion goal, should not come at the expense of, or involve a trade-off 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, especially in the face of growing challenges due to extreme weather, food and energy crises.

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