Executive summary

Meeting the Paris Agreement's goals requires a rapid scaling up of financing from all sources – public, private, international and domestic – towards climate action, including in developing countries. Private finance from a range of commercial actors in developed and developing countries is critical to closing the financing gap for investments in climate action, notably in clean energy systems, agriculture, forestry, land-use, adaptation, and resilience. International public climate finance has an important role to play in mobilising such private finance.

In the context of the collective goal of developed countries to mobilise USD 100 billion per year for climate action in developing countries, tracked volumes of private finance mobilised by bilateral and multilateral public finance interventions remain relatively small. In 2021, developed countries provided USD 73.1 billion in international public climate finance through bilateral and multilateral channels, and USD 2.1 billion as export credits; in that same period, only USD 14.4 billion was mobilised from the private sector. The picture is uneven across climate themes, sectors and geographies, as private finance mobilisation has been concentrated in climate mitigation and energy-related activities, and in middle-income countries.

There is considerable scope to improve the effectiveness of public climate finance in mobilising private finance. Loans provided with long maturities continue to be the dominant form of international public climate finance. Meanwhile, across sectors, the volumes mobilised by public providers via existing leveraging and blended finance mechanisms remain low relative to overall public climate finance flows. Scaling up and tailoring the use of mechanisms such as syndicated loans, credit lines, guarantees, and collective investment vehicles, is critical to help improve the risk-return profile of climate-related investment in specific country and sector contexts. Support for structured finance, including project aggregation and securitisation, can help bridge the gap between climate projects in developing countries and capital stocks from investors and financial institutions in developed countries.

Approaches and mechanisms to mobilise private finance need to be tailored to specific sectors, technologies, and geographies. In more mature sectors, including clean energy, the rapidly-improving commercial picture means the scope and potential for private investment has grown. Where that is the case, international public climate finance should evolve to mirror these dynamics. In other areas, including agriculture and forestry, although the scope for commercial investment remains more limited, there are opportunities to deploy climate finance in more innovative ways to mobilise private finance.

Given the growing role of multilateral development banks (MDBs) as providers of international climate finance, their private finance mobilisation potential needs to be tapped. MDB shareholders and management should explore options for strengthening mandates to target private finance mobilisation more explicitly. MDBs should also explore opportunities to expand efforts and financial innovation towards increased mobilisation at both the portfolio as well as at the project and transaction levels, including through wider use of risk transfer mechanisms. A greater focus on private finance mobilisation should be undertaken with a holistic view of broader MDB mandates and objectives to avoid any unintended consequences on wide development priorities, including poverty reduction, health and education. Using public finance more efficiently, for example by de-risking projects rather than financing them in whole, can

in turn free up resources for more support to less commercially viable climate action priorities and wider development priorities, including in low-income countries.

Developing countries need to continue to address persistent institutional and capacity challenges that limit the scope for private finance mobilisation, including with the support of international providers. Investments in climate action need to be complemented by capacity development through technical assistance in support of climate-relevant policy and regulatory reforms, climate mitigation and adaptation project pipeline development, and improvements of wider enabling conditions required to make private finance mobilisation possible. At the same time, more efficient use of public finance in more mature markets and sectors can help free up more concessional forms of climate finance for sectors and geographies where commercial opportunities remain more constrained.

International providers of climate finance – alongside recipient country governments – can take a number of actions to scale up and accelerate the mobilisation of private finance**:**

Action area 1: Tailor project- and country-level interventions to de-risk projects and markets

1. Tailor public finance interventions to reflect the rapidly shifting commercial dynamics in key sectors, including scaling up blended finance and other mobilisation approaches in more mature sectors.
2. Within more mature sectors and markets, reorient loans and other debt instruments towards private finance mobilisation.
3. Scale up the use of guarantees at the project and portfolio levels and enhance providers' institutional capacity to provide guarantees.
4. Provide tailored capacity-building to support improved enabling conditions for investment and the development of project pipelines.
5. Progressively exit projects once they become commercially viable to free up financial resources for new climate change mitigation and adaptation priorities and projects.

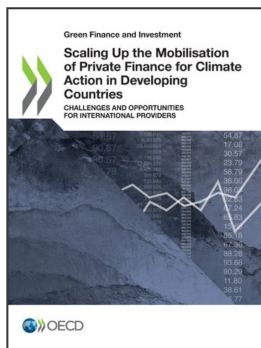
Action area 2: Scale up the use of cross-border financing mechanisms and improve co-ordination to channel global finance

6. Expand the use of public climate finance to support the development of financing structures that crowd-in institutional investment at scale.
7. Strengthen co-ordination and collaboration between bilateral and multilateral climate finance providers, domestic actors, and the private sector.

Action area 3: Enhance international institutions to maximise the mobilisation potential of public climate finance

8. Request clearly defined institutional private finance mobilisation targets from MDBs, while safeguarding development objectives and avoiding unintended consequences.
9. Encourage MDBs to further use or develop risk transfer mechanisms and provide local currency financing.
10. Further improve data disclosure and transparency on accounting methodologies relating to public climate finance and the private finance it mobilises.

These identified actions and the underlying analysis mainly address the mobilisation of private finance for climate change mitigation. The complementary OECD report, *"Scaling up adaptation finance in developing countries: Challenges and opportunities for international providers",* identifies specific actions and options for scaling up adaptation finance in developing countries.



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