Foreword

Global efforts to tackle climate change are off-track. Without a major, immediate course-correction, the Paris Agreement goal of limiting the global average temperature rise to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C will slip away, with the crossing of climate change tipping points leading to irreversible impacts. Meanwhile, efforts to adapt and build resilience to the impacts of climate change remain inadequate. The challenge is most acute in developing countries, for whom the imperative of climate action is one among several priorities, including wider economic development and poverty alleviation, amidst a complex and difficult global economic backdrop.

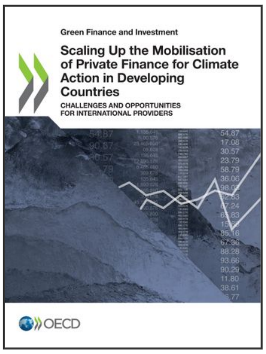
Achieving low greenhouse gas and climate-resilient development in developing countries requires a rapid scaling up of finance from all sources – public, private, international, and domestic – for climate action. International climate finance providers have a key role to play, both in contributing to financing climate mitigation and adaptation activities, as well as in mobilising and helping to catalyse finance from other sources.

At the 15th Conference of the Parties (COP15) of the UNFCCC in Copenhagen in 2009, developed countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in developing countries from a variety of sources, including the private sector. In this context, the effectiveness of international public climate finance in mobilising private finance has been limited: of the USD 89.6 billion provided and mobilised in 2021, only USD 14.4 billion was mobilised from the private sector.

Bilateral agencies, development finance institutions, multilateral development banks and funds need to work together more systematically and in collaboration with beneficiary countries to mobilise and crowd-in private finance. This requires rethinking how climate finance is deployed, scaling up the use of blended finance mechanisms, and adjusting to changing commercial dynamics in individual sectors and geographies. At the same time, capacity building needs to be expanded to support developing countries to improve the conditions for investment, even more so given difficult macroeconomic conditions and constrained fiscal space. Unlocking private investment for climate action also requires collective efforts to address the institutional barriers in the international climate finance architecture that prevent the mainstreaming of private finance mobilisation as a strategic objective.

This report draws on the best-available climate finance data to explore key challenges limiting private finance mobilisation towards climate action, with the aim of identifying actions needed to overcome them. To this end, it presents a set of recommendations that international climate finance providers could take in their climate finance interventions, in deepening international cooperation and mechanisms that crowd-in cross-border finance, in enhancing the mandates and practices of international institutions towards deeper and better co-operation with the private sector, and in supporting beneficiary countries' own actions to improve domestic enabling environments.

Combined with complementary OECD analyses relating to climate finance, this report aims to provide data-driven insights to help inform discussions and deliberations under the UNFCCC and other international processes including the G20, as well as serve as a reference for governmental and public finance entities in the formulation and implementation of their respective strategies, programmes, and actions towards mobilising private finance for climate action.



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