Private finance and blended finance in climate finance - problems and solutions

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Overview

UNFCCC

- Paris agreement
  - Article 2
  - Article 9
- Common but differentiated responsibilities
  - ICJ
  - Bonn 2026
- New collective quantified goal
  - Previous climate finance goal of $100 bn per annum under billions to trillions
  - 2025 - increased to $300 bn p.a driven in the main by developed countries
  - $1.3 trn by 2035 - Baku to Belem roadmap.

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International financial architecture

Bretton Woods Institutions

- Set up pre-UN
- Ownership and representation skewed - based on historical development and capital contributions
- Debt
- Conditionalities
- MDBs and DFIs were set up to channel private savings to public goods, now turned around to minimise public investment and de-risk private asset accumulation
- Encouragement by IFIs of market-led climate investment shrinks space for fiscal and policy sovereignty and for countries to determine their own development paths
- Shift to private finance moves decision making power further away from these
  - private regulatory forums, standard-setting bodies in the EU, and credit rating agencies — no control or recourse

Private finance

- Exacerbates extraction
  - Profit seeking through guarantees and user fees
  - Public to private goods - Wall Street Consensus
- Real risk that transitions will be shallow and costly
- Often reliant on crowding in mechanisms and existing financial markets - foreign currency, ratings, etc.

De-risking - what does it mean

- Attractive to government in an environment of austerity, high living costs and competing demands
- Making investment more attractive to the private sector
  - Government loosening regulations or cutting red-tape
  - Guaranteeing loans and profit share

- **BUT**
  - De-risks the investment for the private financier and not the government, communities affected or future generations
  - Increases costs of providing socially beneficial goods and services
  - Can exacerbate debt
  - Can be issues for national and international settlement agreements
  - Maintains status quo of inequality, financialisation, and existing market structure
  - The pool of attractive investments is a very small portion of the overall required structural transformation.

Are there solutions?

- Regulating private finance to minimise social, fiscal, and climate risks if projects fail or capital exits
    - Financial and climate vulnerability are more and more interlinked
- Currently sovereign debt workout mechanisms are not as well developed as domestic bankruptcy regimes
    - More work needs to be done here either through a UN Convention or by amending the G20 framework to ensure predictability and timeous workouts
    - Borrower’s club initiatives to counter the creditor groups like Paris Club
    - Legislative jurisdiction - New York, London, etc
    - Climate-related pause clauses
- MDBs and DFIs discourage domestic regulation of capital and investment under the guise of de-risking - East Asia

Are there solutions?

- Initiatives like the UN Tax Convention are paramount to reduce IFFs and enable countries the ability to leverage tax systems and reduce reliance on debt
  - This will also mean that initiatives on polluter pays taxes and the removal of fossil fuel subsidies can be fully explored
- Monetary policy needs to be interrogated and redrawn under mandates of maintaining stability through climate risks and green structural transformation
  - Differentiated interest rates
  - Prescribed assets
  - Mandatory disclosures of transition plans
- Financial sector regulation and stability
  - Green Finance Taxonomies
  - Stress-testing
  - Differentiated capital reserve requirements

Are there solutions?

- DFI’s
  - Move away from self-sustaining model
  - Better representation on Boards
  - Capitalisation through fiscal and monetary policy initiatives
  - Longer-term, riskier, socially beneficial investments
  - Reinstating climate finance requirements for MDBs

Conclusion

- 2026 holds many competing agendas
  - A changing multilateral space
  - Multipolarity in the global economy with uncertainty and risk
  - Increased conflict and cost of living

- Paramount that countries', and peoples' domestic goals are not misplaced, silenced or ignored
- Existing levels of finance, and instruments are failing to meet expectations and requirements.

- PPPs, blended finance and private investment need multiple safeguards in place
  - Transparency of costs, full parliamentary oversight of guarantees, risks, and user costs
  - Investment in local economies guaranteed rather than outsourcing
  - BUT who delivers them? And what recourse exists?
- Also need to consider private finance within the entire financial system. Cannot be looked at in isolation as the financialization of the climate transition affects government policy sovereignty, the perpetuation of colonial and imperial extraction models.

Thank you!

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