

15 March 2023

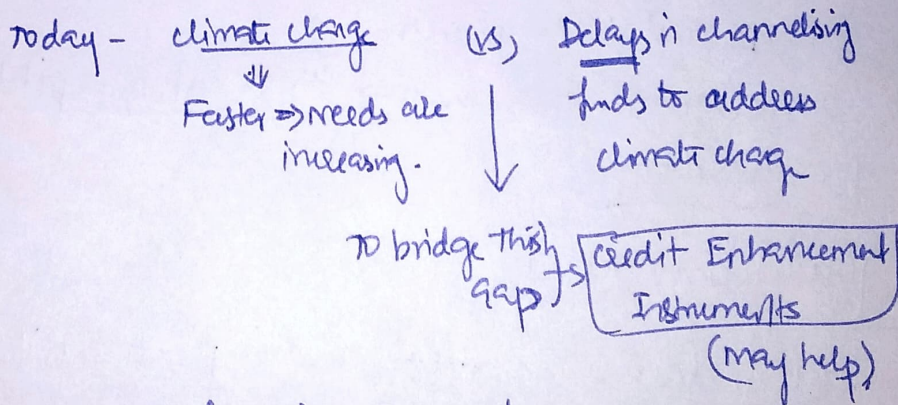
Q5-3) - Environment.

3. In the context of International climate finance, there is a need for large capital by poor countries to combat climate change. ^{Elaborate}

Climate financing is local, national, transnational.

finding through public, private & alternative sources to help against climate change - both mitigation & adaptation

Climate finance - Issue



Key climate financing Instruments

1. Multilateral development banks $\rightarrow$ like world bank, Asian development bank etc.
2. International Financial Institutions $\rightarrow$ International (IFI) financial corporations
United nation - climate financing [Green climate Fund]
Bilateral funding
3. Apart from this - climate investors $\rightarrow$ 4 Instruments
[Equity, Loans, guarantees, subordinate debt & grants]

Poor countries - need large capital

Economists $\rightarrow$ say poor countries need \$2 trillion/yr.
by 2030.

But by 2022 $\rightarrow$ world banks total disbursement only \$88bn.

Thus there is need to unlock private capital.

Challenges - private capital.

1. Risk reduction in long term and patient capital.
for sustainable projects
2. Use tech instruments $\rightarrow$ High cost of capital - need
for subsidising.

Credit Enhancement

1. Guarantees $\rightarrow$ can ~~also~~ crowd-in private capital.
e.g. partial credit guarantee by Multilateral banks on
\$1bn debt $\rightarrow$ will guarantee $\rightarrow$ \$50mn to private.
(GDL)
2. Subordinate debt $\rightarrow$ a guarantee in subordinate
debt may attract senior debt investors $\rightarrow$ may
increase public capital 2x.

Way forward

Though these are some mechanisms, they fully cost
replenish instruments like loans & equities. Multilateral
banks must leverage, partner and incentivize private
sector, otherwise the loss of private capital will be
inevitable, provided the public capital is meagre.