15 March 2023

GS-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 funding through public, private & alternative sources to help against climate change - both mitigations adaptation

Climate finance - Issue

Today - climate change ⇓ Faster ⇒ needs are increasing. (vs) Delays in channelising funds to address climate change

↓

To bridge this gap → Credit Enhancement Instruments (may help)

Key climate financing Instruments

1. Multilateral development banks → like world bank, Asian development bank

2. International Financial Institutions → International (IFC) financial corporation

United nation - climate financing [Green climate Fund]

Bilateral funding

3. Apart from this - climate investors → '4' Instruments

[Equity loans, guarantees, subordinate debt & grants]

Poor countries - need Large capital

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

But by 2022 → 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 ~~B~~ sustainable projects

2. clean tech instruments → High cost of capital - need for subsidising.

Credit Enhancement

1. Guarantees → can ~~attra~~ crowd-in private capital.

eg: partial credit guarantee (50%) by Multilateral banks on \$1bn debt ⇒ will guarantee → \$50mn to private.

2. Subordinate debt → a guarantee in subordinate debt may attract senior debt investors. ⇒ may increase public capital 2x.

Way forward

Though these are some mechanism, they fully can't replace instruments like loans & equities. Multilateral banks must leverage, ~~few~~ risks and incentivize private sector, otherwise the loss of private capital will be inevitable, provided the public capital is meagre.