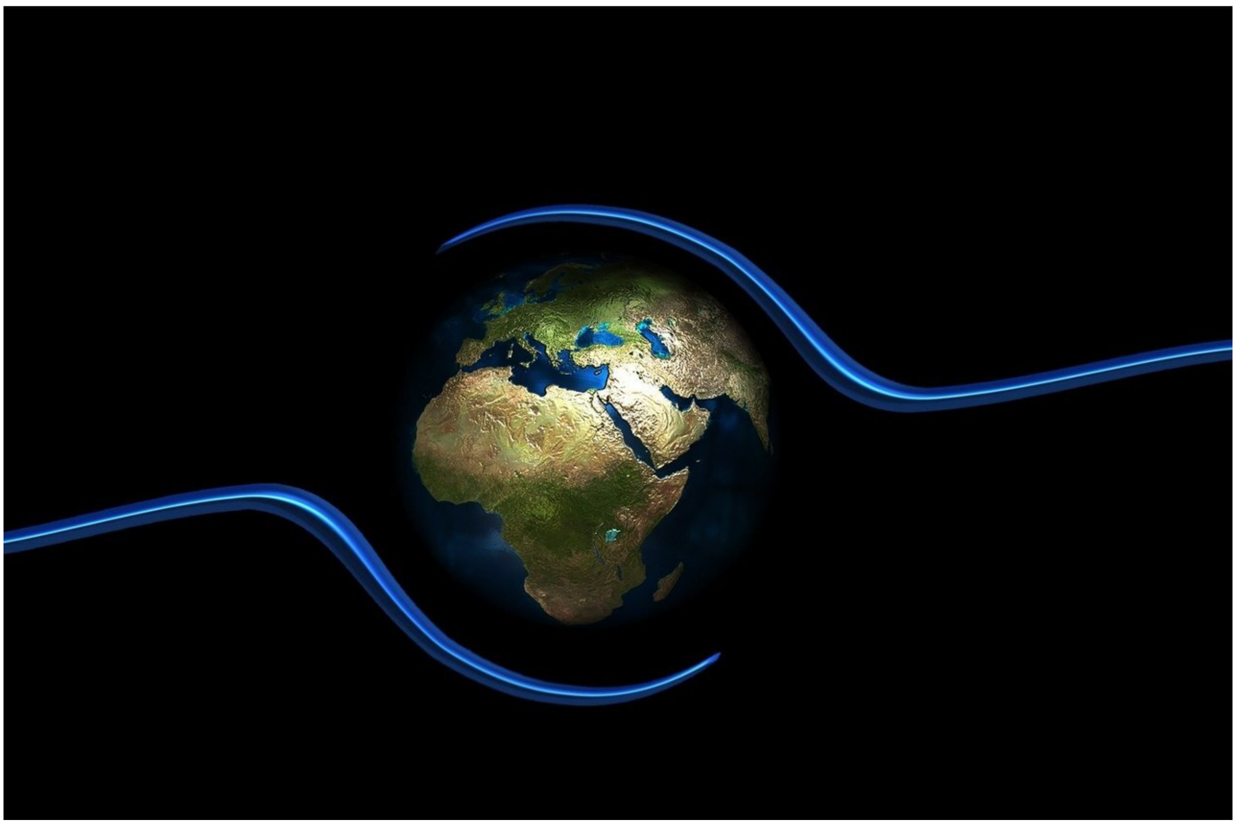
Green Climate Fund fails to strengthen private sector engagement, finds study

November 27 2023, by Bianca Schröder



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The Green Climate Fund (GCF) is the world's largest dedicated multilateral climate fund, and aims to support climate mitigation and adaptation efforts in developing countries. Mobilizing financial resources from the private sector is an important priority for the donor countries backing the GCF. However, so far the GCF has underperformed in this respect.

According to a *Climate Policy* study by Thomas Kalinowski (Ewha Womans University, Seoul, and Research Institute for Sustainability—Helmholtz Center Potsdam) this is due to numerous shortcomings in the GCF's strategy. The Green Climate Fund was established in 2010 under the UN Framework Convention on Climate Change (UNFCCC).

It currently administers some 200 projects with a total value of USD 40 billion, of which the private sector accounts for only a small share. This is due to a number of reasons, as Thomas Kalinowski explains, "This shortfall in private sector engagement is largely driven by the perception that investments are unlikely to be profitable. There is a lack of attractive business models, especially when it comes to climate adaptation, and investments in particularly vulnerable countries in the Global South are considered excessively risky."

An exception to this is the renewable energy sector, where private sector engagement with the GCF is concentrated. According to Kalinowski, this suggests that private climate financing from the Global North is unlikely to play a decisive role in enabling the paradigm shift towards sustainable development in the Global South. In light of this, public funding for development cooperation should not be reduced.

Private sector projects are financed from public funds

In September 2022, the Green Climate Fund had 47 approved private sector projects (out of a total of 207 projects). Five of these 47 projects had lapsed and were no longer under implementation, which is a much higher rate of failure compared to the public sector, where only two of 160 projects failed. This leaves 42 private sector projects, with a volume of USD 16.9 billion, out of a total of USD 40.2 billion in GCF funds. This means that 21% of all projects and 42% of all project funds are allocated to private sector projects.

This is not the full picture, however, as Kalinowski's analysis shows. In fact, 22% of the total volume of USD 16.9 billion invested in private sector projects are funds provided by the Green Climate Fund itself. The remainder comes from other, largely public institutions, such as the European Bank for Reconstruction and Development (EBRD) and other regional or national development banks.

"In other words, a large proportion of the Green Climate Fund's project financing for the private sector does not come from the private sector, but from public sources," explains the political scientist.

Short-term profit interests vs. long-term transformation

More important than the quantity of private projects, however, is their quality. Kalinowski highlights the urgent need to ensure that private sector projects are compatible with the principles of the GCF and of good development cooperation in general.

"It is critical that climate projects in the Global South are embedded in national development and climate strategies. Efforts to strengthen the involvement of private sector actors and civil society in the Global South, and to improve the broader business environment in recipient countries, are more important than maximizing private capital flows."

If these aspects are not properly considered, the GCF and private climate finance risk adding to the already high external debt burden of countries in the Global South, further destabilizing financial markets and exacerbating economic dependency.

Kalinowski concludes that although renewable energy generation is preferable to the continued exploitation of natural resources, this alone will not provide a pathway to sustainable development in the Global South.

More information: Thomas Kalinowski, The Green Climate Fund and private sector climate finance in the Global South, *Climate Policy* (2023). DOI: 10.1080/14693062.2023.2276857

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