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Grantham Institute



Background briefing

**Spotlight on COP29:
scaling up private
climate finance in
developing countries**

2024

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Key points

- Scaling up climate finance for developing countries will be at the forefront of discussions at the next annual climate talks, COP29.
- Most investments in climate solutions are concentrated in developed countries, with only a small proportion reaching least developed and developing countries.
- While investments in climate mitigation and adaptation are growing, a significant gap remains between current finance and what is needed to meet Paris Agreement goals.
- Mobilising private finance, alongside scaling up public finance, is essential to closing this funding gap and ensuring that finance reaches those most in need.
- Boosting private investments in developing countries requires: a coordinated effort between public and private sectors; supportive policies; diverse financial instruments; and stronger engagement from international financial institutions.

COP29 – the next of the UN’s annual climate conferences, soon to take place in Azerbaijan – has been labelled the “[finance COP](#)”, given its focus on bridging the gap between current financial flows and the investments needed to achieve global climate goals. Climate finance can take many forms, including grants, loans and investments in developed and developing countries, which can come from the public or private sector. This briefing paper examines specifically how to scale up private finance in developing countries to close the climate finance gap.

Issues on the table

One central aim at the COP will be to reach an [agreement](#) on a **New Collective Quantified Goal on Climate Finance (NCQG)** to support developing countries in combating climate change. Developed countries [initially committed](#) to mobilising \$100bn annually by 2020, a pledge [extended](#) until 2025 under the Paris Agreement. It is anticipated that a new goal exceeding this amount will be agreed. However, [discussions](#) are ongoing regarding the exact figure and how to balance funding for mitigation (preventing climate change), adaptation (tackling its impacts), and loss and damage (addressing unavoidable harms caused by rising temperatures, even after mitigation and adaptation). There is also [debate](#) about which countries should contribute to the NCQG, which financial instruments (e.g., loans vs. grants) will be used, and whether it should focus exclusively on public finance or include private finance as well.

Other issues highlighted by the [COP29 President-Designate](#) include efforts to double **adaptation finance** by 2025, progress on operationalising **the Loss and Damage Fund**, and ways to enhance the role of **multilateral financial institutions** such as the World Bank in scaling up and simplifying access to climate finance.

It is also expected that there will be further efforts to increase the overall scale of climate finance towards developing countries, including through initiatives such as [ALTERRA](#) and [GFANZ](#).

Climate finance: current state and future needs

Current levels of climate finance are insufficient to deliver on the Paris Agreement goals. An additional problem is that climate finance is unevenly distributed across regions, sectors, and types of climate action, as revealed in [the Climate Policy Initiative report](#) on the global landscape of climate finance for 2021-2022. Key issues include:

- While total global climate finance approached nearly \$1.3tn in 2021-2022, most climate investment is concentrated in developed countries, with under 3% of the global total reaching least developed countries (LDCs) and 15% directed to emerging markets and developing economies (EMDEs), excluding China.
- Climate mitigation received 91% of the funding, while adaptation finance was limited, totalling \$63bn, nearly all of which came from the public sector.
- Most mitigation finance targeted energy and transport, leaving action to tackle other high-emitting sectors like agriculture underfunded.

In 2022 developed countries, for the first time, [exceeded the \\$100bn](#) annual target for supporting developing regions, but there have been criticisms of the quality of finance, with much of it being provided in the form of loans.

Estimated future [climate finance requirements](#) range from over \$5.4tn to \$11.7tn annually until 2030. [Investment required](#) in EMDEs (excluding China), is around \$2.4tn per year by 2030, with private finance needed to contribute at least \$1tn annually. For comparison, in 2021-2022, only [\\$179bn](#) in both public and private finance flowed to or within EMDEs.

All this points to the pressing need to scale up all sources of climate finance going forward.

Scaling up private climate finance: challenges and solutions

Addressing investment barriers in EMDCs is key to closing the climate finance gap. In addition to the general investment challenges and risks in these regions, climate-related investments face specific challenges:

- The scarcity of [high-quality investable projects](#).
- The high cost of capital which, for instance, for [utility-scale solar photovoltaic \(PV\)](#) projects in developing countries can be more than twice as high as in developed countries, driven by both real and perceived risks in developing economies.
- Absence of robust carbon pricing, and continued fossil fuel subsidies, hindering green investments.
- A lack of [reliable data](#), [transparent disclosures](#), and [standardised taxonomies](#) to guide investments, all of which create uncertainty for investors.

- Adaptation investments (measures to protect privately owned buildings from flooding, for example) being viewed as [high-risk](#) because of low returns to investors, difficulty in monetising benefits, and the long-term nature of many adaptation projects.

While much of the debate at COP29 will focus on public climate finance, effectively addressing these challenges will be essential to stimulate private investments and will be an important dimension of the negotiations. Here we discuss a range of measures that are expected to play a key role in unlocking private climate finance.

(1) Ambitious national climate plans

Governments need to demonstrate their commitment to climate goals through improved Nationally Determined Contributions (NDCs) and [clear implementation strategies](#), signalling to private investors to align their investments with the net-zero transition. [Ambitious adaptation finance commitments](#) can also boost private investments in climate resilience.

(2) Implementing policy and regulatory reform in developing countries

National level policy and regulatory reforms could help to incentivise private climate finance through:

- Developing [investment programmes](#) for specific projects (a renewable energy development, for example).
- Implementing policies to [initiate transition in key sectors](#) like energy and agriculture through policy combinations including carbon pricing, direct investments, and subsidies.
- Aligning financial systems with climate goals through regulations that mandate climate risk assessment, management, and disclosure.
- Addressing both explicit and implicit fossil fuel subsidies, which reached about [\\$7tn in 2022](#), making it difficult for clean energy to compete.
- Improving transparency, data, and standardisation related to climate change mitigation and adaptation.
- Introducing ‘just transition’ policies such as retraining for workers in high carbon sectors, to address the social impacts of the net zero transition and enhance risk assessment and management.

(3) Addressing debt burdens

Many EMDEs face significant debt burdens, limiting their ability to invest in climate projects and thus attract private capital. Between 2011 and 2022, [market-rate loans](#) were the dominant climate finance tool, exacerbating debt challenges and increasing vulnerability. [Debt relief mechanisms](#) and innovative tools like [debt-for-climate swaps](#) — where debt relief is exchanged for commitments to invest in climate projects — can provide viable solutions.

(4) Shifting investments towards clean alternatives and resilience

In addition to Government action, investors and financial institutions have an important role to play. While over [\\$1.7tn](#) was invested in clean energy in 2023 (compared to \$1tn in fossil fuels), some analyses indicate that [banks](#) continue to provide significant support to fossil fuels.

Investors and financial institutions should establish net-zero plans, manage climate-related risks, and ensure transparency. [Integrating climate adaptation into financial systems](#) is also crucial, requiring clear definitions of what constitutes adaptation and resilience finance, improved risk disclosure, and better tracking. Private investors [should also commit](#) to gradually increasing investments in EMDEs.

(5) Utilising a wider array of financial instruments

Concessional finance, which provides favourable terms like below-market rates and extended repayment periods, can attract private investments (as exemplified by the [World Bank's support for a solar plant in Uzbekistan](#)), reducing risks and encouraging private involvement.

Scaling up [blended finance](#) to combine public and private funds, as well as other instruments such as [guarantees](#) and [insurance](#), can improve returns and lower risks for private investors. Innovative tools like [resilience bonds](#) (a subcategory of green bonds designed to raise capital for climate-resilient investments) might also leverage private investment in climate-resilient projects.

Financing instruments like [green, social, sustainable, and sustainability-linked bonds](#) are also effective at mobilising private capital at scale and attracting institutional investors.

(6) Enhancing the role of international financial institutions

Finally, international financial institutions can boost private finance, by lowering capital costs and de-risking investments. In 2022, [multilateral development banks \(MDBs\)](#) mobilised only \$17bn in private finance, compared to \$80.6bn in their own climate-related lending in EMDCs.

To catalyse investment opportunities and private finance, MDBs should [implement a series of reforms](#), including adopting innovative risk-sharing tools, establishing mobilisation targets, and reforming their strategies for leveraging private capital.

Conclusion

Given the levels of climate finance and investment needed in developing countries, scaling up private climate finance, in addition to public finance, is vital to deliver the transition. To achieve this, ambitious commitments to climate goals must be supported by feasible implementation plans, clear policy frameworks, and stronger incentives for private sector participation.

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