

Climate finance for green growth

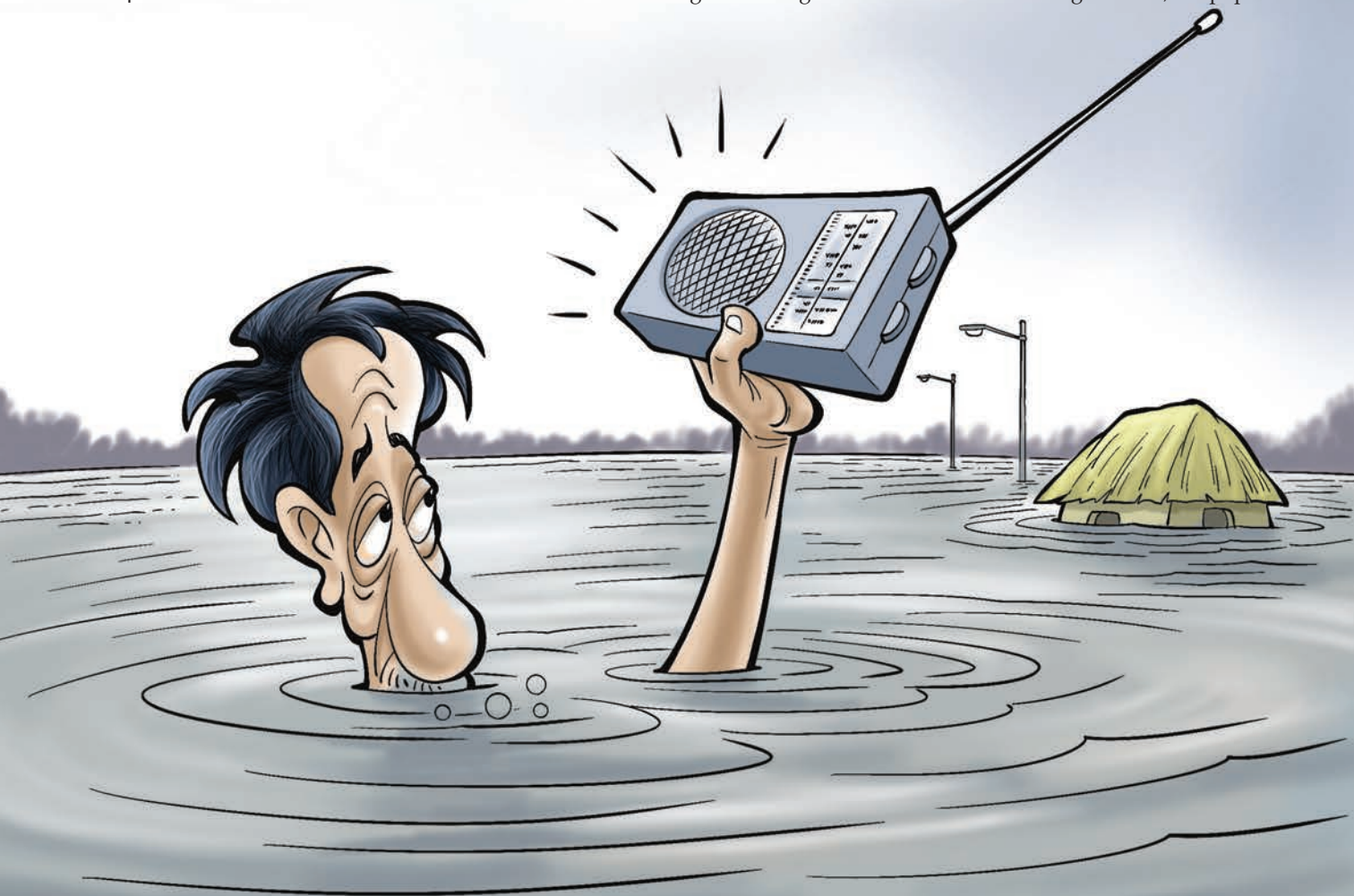
Even as climate aid falls short of pledges, blended finance has emerged as a crucial financing mechanism for sustainable development.

Fahmida Khatun and
Foqoruddin Al Kabir

Given the increasing concern around climate change and environmental degradation, green growth policies have taken centre stage.¹ These policies stress the importance of transitioning away from traditional manufacturing methods and consumer behaviour towards sustainable practices that prioritize environmental conservation. To achieve this goal, it is critical to leverage technological

advancements that can facilitate the shift towards cleaner manufacturing processes, especially in developing countries.²

As societies strive for technological advancement, the costs of research and development escalate, putting pressure on a nation's fiscal resources. In response to mounting concerns about climate change and environmental degradation, the pop-



ularity of green growth policies has surged. However, the transition from carbon-heavy industrial practices to cleaner alternatives demands a substantial amount of funding.

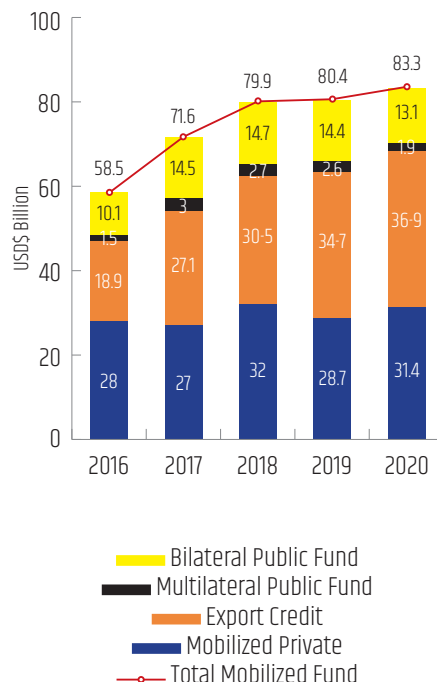
Developing countries often rely on aid from developed nations to support their growth, but this aid is often limited and comes with strict conditions. Despite the pressing need for climate financing in developing countries, the mobilization of funds has fallen short of the targeted goal of US\$100 billion per year. In 2020, US\$83.3 billion was mobilized by developed countries for developing countries, which marked a 4 percent increase from 2019. However, this still fell short of the target of US\$100 billion per year by US\$16.7 billion.³ Unfortunately, financing for adaptation, which is critical for developing countries, has taken a backseat to mitigation finance. In fact, mitigation finance accounted for 58 percent of total climate finance in 2020.

Global climate finance

Currently, the total pledged climate fund (only project basis fund) is US\$46.74 billion in the world from 2003 to 2022. Around US\$40.96 billion was deposited in the fund, which is 87 percent of total fund pledged. The disbursement of climate fund is quite low (37.84 percent) compared to approved climate fund of US\$30.31 billion in the world till February 2023.⁴ However, considering bilateral public funds, multilateral public funds, export credits, and mobilized private funds, US\$83.3 billion was provided and mobilised by developed countries for climate action in developing countries in 2020 (Figure 1).⁵

Considering the thematic areas of climate fund in the total pledged climate fund (only project basis fund), the multiple foci theme (covering both adaptation and mitigation) holds the largest share of total climate fund—57.83 percent of total pledged climate fund. Only 11.78 percent of total climate fund is pledged for adaptation theme and 30.38 percent of total climate fund is pledged for mitigation theme.

Figure 1 Total climate finance provided and mobilized (US\$ Billion)



Source: Climate Finance Provided and Mobilized by Developed Countries in 2016-2020: Insights from Disaggregated Analysis by OECD.

Climate change adaptation refers to taking appropriate action to prevent or minimize the damage it can cause, or taking advantage of opportunities that may arise from the anticipated adverse effects of climate change. Mitigation means making the impacts of climate change less severe by preventing or reducing the emission of greenhouse gases (GHG) into the atmosphere. Among the total disbursed climate fund, the share of multiple foci theme is 45.40 percent, the share of mitigation theme is 34.13 percent and the share of adaptation theme is 20.47 percent. Considering the number of projects approved, 26.54 percent was for adaptation and 19.75 percent was for mitigation. Although a larger share of projects was for adaptation, the share of adaptation fund was less than that of mitigation fund.

On the other hand, from bilateral public fund, multilateral public fund, export credits, and private fund mo-

bilized by developed countries for developing countries from 2016 to 2020, a large amount of fund (67 percent) was mobilized for mitigation and only 24 percent was mobilized for adaptation. From the export credit for climate change-related fund, 98 percent of the fund was mobilized for mitigation and from the mobilized private fund, 86 percent was mobilized for mitigation theme by developed countries for developing countries. Such numbers also indicate that the mitigation fund has more business opportunity than the adaptation fund.⁶

The least developed countries (LDCs) receive 21 percent of total climate fund. Considering the thematic areas, LDCs' share of total approved global adaptation fund is 48.77 percent. LDCs' share of multiple foci fund and mitigation fund is 16.43 percent and 12.80 percent respectively. Figure 2 presents the LDCs' share of approved global climate fund in different thematic areas.

LDCs in Sub Saharan Africa receive the highest share (14.06 percent) of global climate fund among all LDCs. South Asia stands second as LDCs in this region receive 3.87 percent of total climate fund, while LDCs in East Asia and Pacific receive 3.13 percent of total climate fund (Figure 3). The overall trend of climate fund in the world reveals a substantial financing gap in the world. Moreover, developing countries, particularly LDCs, require a large amount of financing towards adaptation efforts than mitigation efforts since LDCs are less responsible for global emissions but these countries are suffering the most from climate change.⁷

Closing the climate finance gap through blended finance

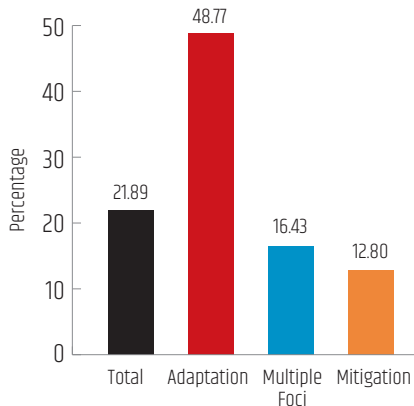
Blended finance has emerged as a promising source of funds to bridge the climate finance gap, given the significant amount required for climate mitigation and adaptation. Blended finance is defined as the strategic use of development finance for the mobilization of commercial capital towards sustainable development in developing countries.⁸ Over the last

decade, the blended finance market has experienced robust growth due to its socio-economic benefits, particularly in developing countries. From 2010 to 2021, the global blended finance market reached US\$109.6 billion, with a majority of closed transactions in developing countries, primarily in Sub-Saharan Africa and South Asia.⁹

Blended finance has played a crucial role in promoting socio-economic development in these regions, as seen in the case of green growth in three Sub-Saharan African nations. The energy and agriculture sectors have been the primary recipients of blended financing, accounting for 35 percent and 28 percent of all transactions, respectively.¹⁰ These sectors are essential for green growth in developing countries, especially the LDCs. Financial services and infrastructure industries have also received significant blended financing, contributing to the seamless transition to greener production and consumption and attracting foreign investment flow.

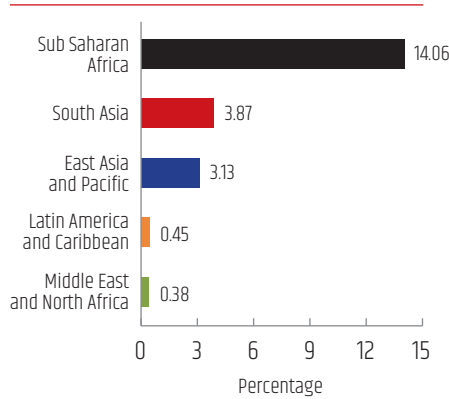
The blended finance mechanism has mobilized approximately US\$105 billion in aggregate financing, with almost half of the transactions focusing on climate-related issues.¹¹ In LDCs, blended finance can be used in agribusiness, clean energy financing, climate adaptation, and waste

Figure 2 LDCs' share of approved global climate finance receipts in different thematic areas



Source: Climate Funds Update (February 2023).

Figure 3 LDCs' share of total climate fund in various regions (World Bank classification)



Source: Climate Funds Update (February 2023).

management. The agriculture sector, in particular, requires both innovation and financing to expand, and blended finance can mobilize additional financing from both public and private sources. Similarly, the promotion of renewable energy can be achieved through blended financing, which can create new jobs in LDCs and help achieve the SDG 7 goal on access to affordable, reliable, sustainable and modern energy for all.

Blended finance can also play a crucial role in bridging the gaps for climate adaptation in LDCs, strengthening partnerships for development goals, and preparing for bankable projects for climate adaptation and mitigation. Therefore, blended finance has emerged as a crucial financing mechanism for sustainable development, with significant potential to contribute to socio-economic development in developing countries while addressing the challenges of climate change. ■

Dr. Khatun is Executive Director at Centre for Policy Dialogue (CPD) and Mr. Al Kabir is Research Associate, CPD.

Notes

¹ Stoknes, P., & Rockström, J. 2018. Redefining green growth within planetary boundaries. *Energy Research & Social Science* 44:41-49. doi: <https://doi.org/10.1016/j.erss.2018.04.030>

Yuan, B., & Xiang, Q. 2018. Environmental regulation, industrial innovation and green development of Chinese manufacturing: Based on an extended CDM model. *Journal of Cleaner Production* 176:895-908. doi: <https://doi.org/10.1016/j.jclepro.2017.12.034>;

Wang, Y., Sun, X., & Guo, X. 2019. Environmental regulation and green productivity growth: Empirical evidence on the Porter Hypothesis from OECD industrial sectors. *Energy Policy* 611-619. doi: <https://doi.org/10.1016/j.enpol.2019.06.016>

² OECD. 2011. *Towards green growth*. Paris, France: OECD. <https://www.oecd.org/greengrowth/48012345.pdf>

World Bank. 2012. *Inclusive green growth: The pathway to sustainable development*. Washington DC: World Bank.

³ OECD. 2022. *Climate Finance Provided and Mobilised by Developed Countries in 2016-2020: Insights from Disaggregated Analysis*. Paris: OECD Publishing. <https://doi.org/10.1787/286dae5d-en>

⁴ Climate Fund Update. 2022. <https://climatefundupdate.org/data-dashboard/#1541245664232-8e27b692-05c8>

⁵ *ibid.* Note 3.

⁶ Benites-Lazaro, L. L., Gremaud, P. A., & Benites, L. A. 2018. Business responsibility regarding climate change in Latin America: an empirical analysis from Clean Development Mechanism (CDM) project developers. *The Extractive Industries and Society* 5(2): 297-306.

Mi, Z., Guan, D., Liu, Z., Liu, J., Vigié, V., Fromer, N., & Wang, Y. 2019. Cities: The core of climate change mitigation. *Journal of Cleaner Production* 207: 582-589.

⁷ Hall, N., & Persson, Å. 2018. Global climate adaptation governance: Why is it not legally binding? *European Journal of International Relations* 24(3): 540-566.

Sovacool, B. K., Linnér, B. O., & Klein, R. J. (2017). Climate change adaptation and the Least Developed Countries Fund (LDCF): Qualitative insights from policy implementation in the Asia-Pacific. *Climatic Change* 140: 209-226.

⁸ Blended Finance definition by OECD. Available here: <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/>

⁹ The State of Blended Finance. 2021. *The State of Blended Finance 2021*. Convergence.

¹⁰ *ibid.*

¹¹ *ibid.*