



ORDINARY SHARES INITIAL PUBLIC OFFERINGS  
 NON-RECOURSE BANKS SPECIAL-PURPOSE-VEHICLE  
 PROJECT FINANCE USE OF PROCEEDS PORTFOLIOS  
 CORPORATE BONDS LISTED  
 LOANS PROJECT BONDS CORPORATE LOANS  
 SECURITY DEBT STOCK EXCHANGES SAVINGS  
 RETURN SOVEREIGN BONDS  
 LIQUIDITY PREFERENCE SHARES  
 INSTITUTIONAL INVESTORS  
 TENURE ASSETS  
 BENCHMARK ON-BALANCE SHEET  
 MUNICIPAL BONDS  
 SENIORITY PERPETUITY  
 CACAREX AN ANGEL CAPITAL  
 DIVERSIFICATION  
 VENTURE CAPITAL MEZZA  
 SOVEREIGN WEALTH  
 ASSET MANAGERS  
 EAST DEVELOPED COUNTRIES  
 RENEWABLE ENERGY  
 LARGE-SCALE PRICE ON CARBON  
 ON-GRID / OFF-GRID PPAs  
 ADAPTATION ESCOS STANDARDS  
 URBAN DEVELOPING COUNTRIES  
 REDD+ EMERGING ECONOMIES  
 AFForestation FEED-IN-TARIFFS  
 LEAN DEVELOPING COUNTRIES  
 MITIGATION SMALL-SCALE FOSSIL FUELS  
 ENERGY EFFICIENCY

# DEMISTIFYING PRIVATE CLIMATE FINANCE

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**UNEP Finance Initiative**  
 Changing finance, financing change

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UNEP **Finance Initiative**  
Changing finance, financing change

# DEMYSTIFYING PRIVATE CLIMATE FINANCE

What is private finance? Where and how does it connect with climate change mitigation and adaptation? And how can it be mobilised by public actors?

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First of a series of UNEP FI contributions to the multilateral negotiations on climate finance, the Green Climate Fund (GCF), and its Private Sector Facility (PSF)

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## FOREWORD FROM UNEP FINANCE INITIATIVE

As we enter 2015, world governments are markedly intensifying their efforts to jointly achieve a global agreement on climate change in time for the Conference of the Parties 21 to be held in Paris. And for the first in a long time there is reason for all of us to be cautiously optimistic that those efforts might indeed lead to fruition, and to an inflection point in multilateralism's ability to effectively tackle what many agree is the defining global challenge of our times.

Recent agreement between China and the United States, the two largest greenhouse gas emitters of the world, on the importance of global decarbonisation as well as on these two countries' responsibility to take a leading role, is one reason for optimism. So is the current determination among rich countries to adequately capitalise the Green Climate Fund with a view of supporting poorer countries to embark on 'climate-compatible' development paths. It is no exaggeration that success in Paris will largely depend on progress and agreement on the issue of climate finance; and the prospect of mobilising it at the required pace and scale.

It is precisely in this arena where another perhaps less symbolic but equally encouraging observation can be made: there is – now probably more than ever before – a shared understanding in the climate process that tackling climate change will not be possible without major mobilization, or a 're-channelling' rather, of private finance. The underlying rationale is simple: tackling climate change requires economic transformation, meaning a transformation of common business practices in the private sector, which requires unprecedented private investment, which in turn can only be financed privately.

What is noteworthy is that by no means does this make the role of public finance any less important. For long the misconception of a rivalry between public and private finance has inhibited progress in these discussions. Mobilising at-scale private finance requires bold public action, be it of a regulatory, legislative, and/or jurisdictional nature. All public action, in turn, requires public investment and public finance. So the more public finance there is, the better; but, of course, public finance will always be scarce.

Therefore, the central question in the negotiations should be how best scarce public financial means can be used to achieve the greatest possible mitigation and adaptation impact. In other words: how can most mitigation and adaptation investment be unlocked with each unit of available public finance?

Finding answers to this question is what UNEP Finance Initiative's *Demystifying* series aims to contribute to, and our main point is that doing so is far from trivial. There is indeed no silver bullet for the mobilisation of private climate finance. Too numerous and varied are the project, technology, and infrastructure types required for climate change mitigation and adaptation. They range from micro-scale roof-top solar voltaic installations to large-scale offshore wind parks; from the restoration of ecosystems such as mangrove systems to the climate-proofing of large man-made infrastructure. And not only does the nature of project and technology types vary; so do the contexts within which they are needed – which range from rural, largely agriculture-based areas in least developed countries to some of the largest urban and industrial centres in some of the largest emerging economies. Equally varied is, furthermore, the private financial landscape spanning everything from micro-finance institutions, over domestic banks to large infrastructure financiers and institutional investors.


With so much complexity it is easy to get confused and 'misted'. In response, this report aims, firstly, to increase policy-makers' and climate negotiators' understanding of the essentials of private finance. More importantly, it suggests and introduces a generic logic and approach – a sequence of questions – that climate negotiators and policy-makers should follow when debating, and ultimately designing, the public interventions required for the unlocking of at-scale private climate finance.

This report is only the start: future issues in this series will see greater focus and the application of this logic to a set of climate change activities where most demystification seems to be needed, in particular sustainable land-use including REDD+ as well as adaptation.



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