DI Analyse

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Unlocking the potential of private climate finance is key to achieve the green transition in developing countries

2024 is the year of climate finance, in which a new, collective goal for climate finance from developed countries to developing countries will be decided at COP29. In order to meet the rising demands for climate action in developing countries, a rapid mobilisation of climate finance is needed. Here, the private sector plays a crucial role, but many barriers impede the flow of private climate finance. It is time to look at possible solutions to address these barriers.

The year of climate finance

The primary objective of this year's COP will be to establish a new goal for climate finance to developing countries

The road from the UN Climate Change Conference COP28 in Dubai to COP30 in Belém is under construction, and COP29 in Baku will be a crucial midway point to determine whether the countries of the world will manage to mobilise the necessary finance to keep us within the temperature goals of the Paris Agreement. At COP29 in Baku, countries are expected to negotiate and sign a new collective quantified goal on climate finance (NCQG). This goal will replace the existing one that was set at COP15 in Copenhagen, where developed countries agreed to mobilise USD 100 billion per year to developing countries. Besides determining the NCQG, countries need to decide who will deliver the promised climate finance and implement transparent processes to track the mobilisation of climate finance (World Resources Institute, 2024).

The analysis will focus on the role of private climate finance

This analysis focuses on the role of the private sector in mobilising climate finance for developing countries, and any mention of private climate finance in this analysis will be in the context of finance mobilised by

developed countries for developing countries. According to World Economic Forum, the private sector manages more than USD 210 trillion in assets, far surpassing any public institutions, and consequently has the potential to play a pivotal role in the green transition of developing countries (World Economic Forum, 2024). The analysis highlights key trends in private finance and covers barriers and solutions to mobilise more private climate finance for developing countries.

Why should companies care about mobilising climate finance?

Companies engaging in climate projects can have multiple benefits

There are several reasons why companies should care about mobilising climate finance to developing countries. Table 1 highlights six of the key reasons.

Table 1: Reasons for financing climate projects

1.	Assuming responsibility for society and the environment will strengthen corporate reputation and brand value.
2.	Danish companies have the skills to develop, supply, and export green solutions. With the right institutional and legislative framework, Danish companies can contribute to the development and green transition of developing countries.
3.	Climate finance initiatives in developing countries can increase the attractiveness of these markets and stimulate further investments.
4.	Recognising the need for climate mitigation and adaptation projects can positively influence long-term financial performance and create environmental synergies that enhance local development and stability.
5.	Engaging in multistakeholder partnerships to mobilise climate finance can help strengthen trust between societal actors, which can spur further cross-sectoral cooperation and ensure local relevance of projects.
6	Companies are increasingly expected to take responsibility for their scope 3 emissions. Engaging with and strengthening local communities through investments can support companies' management of their supply chain emissions.

Developing countries

Developing countries face significant underfunding in relation to their green transition efforts

According to a 2023 report from the Independent High-Level Expert Group on Climate Finance (IHLEG), more than 90 pct. of the global increase in investments in clean energy since 2021 has materialised in developed countries and China. Likewise, 80 pct. of investment in nature occurs in developed countries and China, although the developing

countries account for an estimated 90 pct. of the investment opportunity in restoring and protecting nature. The IHLEG concludes that around USD 2.4 trillion in investments in developing countries per year will be needed by 2030 to secure a just energy transition, adaptation, resilience, loss and damage, and nature conservation. This is four times the current level.

Furthermore, the report emphasises the crucial role of the private sector in mobilising climate finance. According to IHLEG, the private sector needs to increase investments in developing countries by more than 15 times compared to 2023 to achieve the goals of the Paris Agreement (IHLEG, 2023).

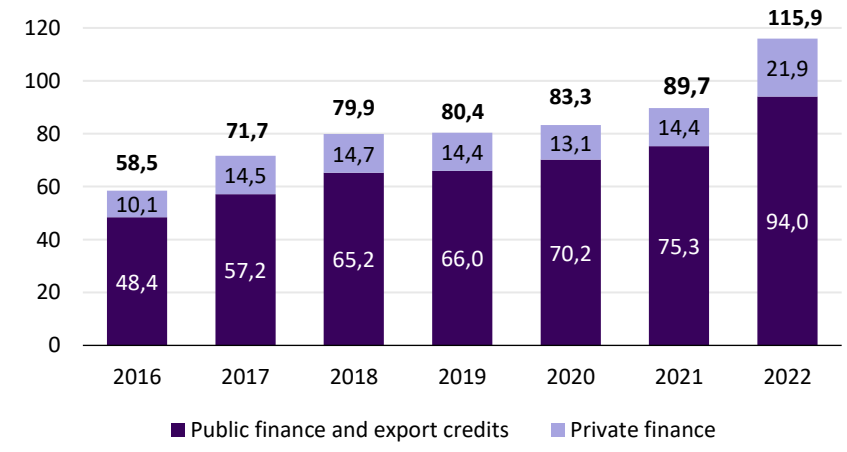
Mobilisation of climate finance

In 2022, developed countries finally mobilised more than USD 100 billion…

At COP15 in 2009, the negotiating parties agreed that developed countries should each year mobilise USD 100 billion in climate finance by 2020 to be invested in developing countries. As Figure 1 shows, this obligation was first fulfilled in 2022.

Figure 1: Climate finance to developing countries

The annual climate finance mobilised by developed countries to developing countries broken down by sectors.



Source: OECD, 2024

… and 22 pct. was provided by private sources

In 2022, private finance represented only 22 pct. of the total climate finance mobilised for developing countries by developed countries. Nonetheless, this was a 52-pct. increase from 2021. This shows that the

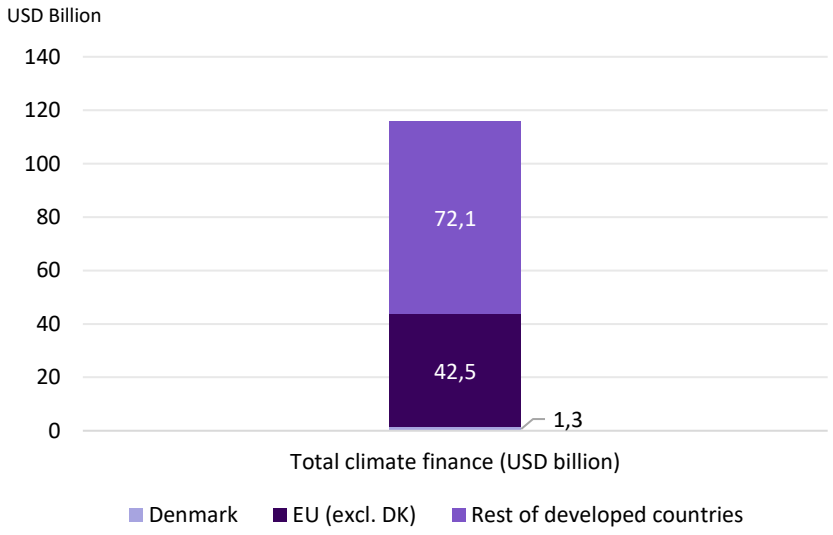
role of the private sector is turning increasingly imperative in mobilising climate finance for developing countries. Reaching the USD 100 billion goal is an important accomplishment and shows a collective willingness to act and take responsibility for the global climate crisis. Now, the world looks to COP29 as the arena to set even more ambitious targets that meet the needs of developing countries.

In absolute terms, Denmark's mobilisation of climate finance is modest…

Figure 2 shows that Denmark is a small fish in a big pond in the global mobilisation of climate finance.

Figure 2: Climate finance in 2022

The climate finance mobilised by developed countries to developing countries broken down by geographical units in 2022.



Note: China and India are not defined as developed countries by the OECD and thus they are not included in this graph.

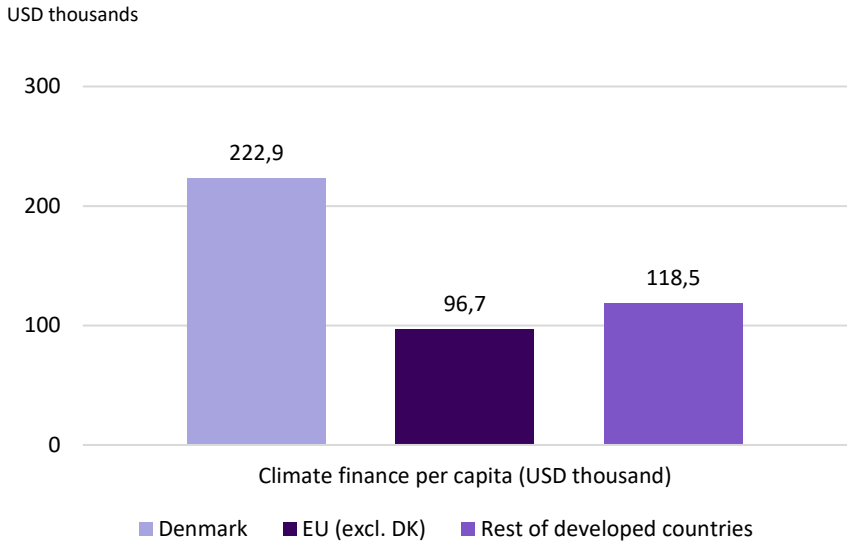
Source: Energistyrelsen, 2024; OECD, 2024; EUCO, 2024

… but when considering climate finance per capita, it reflects that Denmark is a global leader

However, as figure 3 shows, Denmark mobilises significantly more climate finance per capita than the EU average. Denmark has contributed with more than USD 1.3 billion in 2022 from both public and private financial sources (Energistyrelsen, 2024). Around 25 pct. of the Danish mobilised climate finance comes from private sources, primarily Danish pension funds.

Figure 3: Climate finance in 2022

The climate financing mobilised by developed countries to developing countries broken down geographical units and converted to per capita.



Source: Energistyrelsen, 2024; OECD, 2024; EUCO, 2024

A need to increase focus on adaptation finance

In 2022, only 16 pct. of total climate finance for developing countries went to adaptation finance

As the consequences of climate change become increasingly present and less a question of 'the far future', adaptation efforts subsequently become increasingly imperative. Up till now, private climate finance has been concentrated in climate mitigation efforts, and private climate finance for adaptation efforts only amounted to 16 pct. of the total private climate finance mobilised in 2022 (CPI, 2023 & OECD, 2024). One possible explanation for the underemphasis on adaptation projects might be that adaptation projects are perceived as riskier than mitigation projects due to the uncertainty of climate impacts (World Resource Institute, 2023).

COP26 raised awareness for the importance of climate adaption finance

As part of the outcome from COP26 in Glasgow, developed countries are urged to double their climate adaptation finance to developing countries by 2025 compared to 2019 levels. Since 2019, there has been a notable increase in climate adaptation finance, with funding rising from approximately USD 20 billion in 2019 to more than USD 32 billion in 2022 (OECD, 2024). This significant growth aligns with the goal to double adaptation finance by 2025.

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Main sources of private climate finance

Sources and trends in private climate finance

Table 2 summarises some of the sources that can be used to mobilise more private climate finance.

Table 2: Sources and trends in private climate finance

Green bonds	Bonds that are specifically aimed at financing projects, which address issues regarding climate change, nature, or biodiversity. Ørsted has issued blue bonds, which are aimed at improving ocean health and marine biodiversity.
Payments for ecosystem services	Arrangements through which beneficiaries of environmental services, such as watershed protection and forest conservation, reward landowners with subsidies or market payments for providing these services.
Collaborating with development finance institutions	Danish companies with the expertise and technology for specific climate projects can engage with financial institutions that focus on projects in developing countries. These financial institutions, such as the Danish-managed fund IFU, provide venture capital, which helps minimise risks of investing in developing countries.
Co-financing models for climate adaptation	Local climate adaptation projects address some of the central risks of climate change, such as flooding and heatwaves, which can have significant financial consequences. Collaborating with local authorities can lower the risk of the investment.
Sustainability linked finance models	These models may involve financial loans from banks, where the terms of the loan are dependent on meeting specific sustainability targets.
Climate credits	Measurable emission reductions from a climate mitigation project, where the purchaser of a climate credit owns the credit representing a specific amount of avoided GHG emissions.
Guarantees and grants	A guarantor commits to fulfilling the obligations, such as loan repayments, undertaken by the borrower if the borrower is unable to meet those obligations. Grants are non-repayable funds, that can help kick-start climate projects in developing countries. EIFO, a Danish financial institution, offers grants for Danish companies wanting to invest in green projects.

Case: Carlsberg and climate finance

Approximately four out of five people lack access to safely managed water in rural areas of Cambodia. Carlsberg has entered into a new partnership with the social enterprise TapEffect to bring safe drinking water to thousands of Cambodians in need. By the end of 2025, the project is expected to deliver 7 million litres of water per month, which corresponds to about 25% of the water needed to replenish the consumption at Carlsberg's brewery in Sihanoukville.

Barriers and solutions

Lack of investor confidence

Lack of investor confidence in specific climate adaptation technologies and methods: Enhancing investor confidence requires improved data and evidence regarding the effectiveness of specific adaptive methods. Today, corruption remains a barrier to mobilising climate finance, and thus cooperation with local stakeholders will need to be strengthened to build capacity for civil society organisations to monitor climate finance projects (Transparency International, 2024). Additionally, global standards for climate adaptation methods are necessary to enhance transparency and accountability in adaptation projects. One solution is to set clear government targets for adaptation needs and establish a regulatory framework that can stimulate future investments from the private sector.

Lack of companies disclosing long-term risks

Lack of corporations that are measuring and disclosing climate risks and plans: Companies need to make comprehensive assessments of both the physical risks posed by climate change and the transitional risks associated with shifting to a low-carbon economy. This requires that companies extend their investment horizons beyond the short term to align with the future climate risk assessments and climate goals of the Paris Agreement. Improved data and methods to measure climate risks in developing countries will be needed to do so.

Lack of collaboration between stakeholders

Lack of coordinating efforts by public institutions that bring together potential stakeholders: Governments and international organisations must coordinate private finance initiatives by bringing together companies and private financial institutions that could benefit from climate mitigation and adaptation projects. This includes the mapping of

and engaging with potential private buyers and other local community stakeholders that have an interest in the climate projects. Furthermore, there needs to be a centralised organisation that can promote specific projects with clear environmental benefits. Within mature sectors, public institutions need to reorient loan and other debt instruments towards private finance mobilisation. This can contribute to making energy projects with high up-front costs commercially viable (OECD, 2024).

Limitations with blended finance models

Limitations with the blended finance models of adaptation projects: Blended finance models need to accurately reflect the commercial dynamics of key sectors, primarily aiming to mitigate risks associated with investments in adaptation projects, which are often less commercially viable. Additionally, there should be a comprehensive valuation of adaptation projects that accounts for their environmental co-benefits. Currently, these co-benefits are often bundled together, which fails to fully recognize their individual contributions and value. Establishing a standardised framework for valuing the adaptation and mitigation projects and their environmental benefits is essential. Such frameworks could potentially encourage private investments in carbon credits, helping companies in achieving their climate and environmental goals.

In addition, there is a need for diverse stakeholder involvement when dealing with projects in developing countries. Multistakeholder partnerships, including civil society, can ensure that projects are inclusive and equitable, catering to the needs of vulnerable communities. Civil society organisations bring local knowledge and advocacy, helping to align financial models with on-the-ground realities (DanChurchAid 2022). Without their involvement, blended finance projects risk being top-down, potentially overlooking social and environmental aspects crucial for sustainable outcomes.

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Table 3: Summing up the solutions to mobilise more climate finance

1. Setting clear government targets for adaptation needs and establishing a regulatory framework which can stimulate future investments from the private sector.
2. Improving methods and data to track private climate finance in developing countries.
3. Supporting blended climate models, i.e. through establishing a standardized framework for valuing adaptation and mitigation projects and their environmental benefits.
4. Engaging in multistakeholder partnerships to reduce risks associated with investing in climate projects and facilitate knowledge sharing.

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