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# Contribution from the Sustainable Finance Observatory to the Sharm el-Sheikh mitigation ambition and implementation work programme

## In partnership with the Global Clearinghouse for Development Finance

A strong focus should be put on ways to **unlock private capital for climate action at scale** in the Sharm el-Sheikh mitigation ambition and implementation work programme.

Of the US$ 6.2–7.3 trillion of global climate finance required annually, the UNFCCC and IMF estimate that **70–90% is required to come from the private sector.**[1] The new finance goals agreed to by Member States at COP 29 reflect the need for increased private finance, with new annual finance targets of US$ 300 billion provided by developed countries to developing countries and the much larger annual target of US$ 1.3 trillion (both targets include public and private finance).

Despite recent progress[2], there is a consensus on the need to move faster to operationalization and accelerate unlocking private capital at scale.

1. **Unlocking private finance for climate action through scaling up successful business models and instruments for blended finance, risk sharing and credit enhancements mechanisms (focus on art 9).**

To unlock this vast potential of private capital, there is a consensus on the need to **develop risk mitigation instruments, as well as blended finance vehicles mobilizing a mix of public and private finance, resulting in larger pipelines of bankable projects**.[3]

[1] Requirement of 70% finance from the private sector from UNFCCC Race to Zero Campaign, Net Zero Financing Roadmap (2021).
Requirement for private sector finance to reach 80% of total funding in middle-income countries (including China) and 90% (excluding China) from IMF, The Global Financial Stability Report (Washington, D.C.: October 2023), chapter 3, p. 3 This includes regional variations.

[2] See the CPI 2024 Global Landscape of Climate Report: “Between 2018 and 2022, public finance consistently accounted for around 60% of climate finance directed to EMDEs [excluding the least developed countries and China]. However, encouraging signs of increased private sector confidence are emerging in areas that have historically been dominated by public finance. From 2018 to 2022, private finance to EMDEs (ex. LDCs and China), rose from 43% to 47% of total finance.” CPI 2024 Global Landscape of Climate Finance, p. 29
The increasing reliance on private sector finance is reflected in the reported changes in the scale and type of development partner support. A recent analysis reports that commercial financing from MDBs for blended finance grew by 140% in 2023 from US$ 2 billion in 2022 to US$ 4.9 billion in 2023. In contrast, concessional funding from the public sector has been stagnant since 2018, with Official Development Assistance (ODA) totals dropping 45% from 2021 to 2023. See the latest report from Convergence: “The State of Blended Finance 2024,” page 9.

[3] Third report of the Independent High-Level Expert Group (IHELG) on Climate Finance (« Songwe and Stern Report ») November 2024, Raising ambition and accelerating delivery of climate finance

- Sustainable Finance Observatory and the Global Clearinghouse for Development Finance are developing a report aimed at driving a transformative impact on bridging gaps in unlocking the massive potential of private finance to achieve the SDGs and the goals of the Paris Agreement. The paper will set forth a **menu of possible solutions offered to National Governments and Public Development Banks to unlock private capital. This work will map and analyze successful transactions that mobilize private capital, blended finance, and credit enhancements, and showcase enabling structures and business models as well as technical preconditions for success.**

This focus on private capital mobilization will be implemented through differentiated approaches depending on sectors given the variance in cost-recovery models, such as activities related to nature preservation and restoration.

## 2. Aligning private finance flows with the goals of the Paris Agreement through impact assessment (focus on Art 2.1c).

It is also key to strengthen the **impact assessment of private investment beyond climate commitments and alignment of finance instruments.**

The Sustainable Finance Observatory has developed **proven assesment methodologies and tools for financial vehicles** such as **the Impact Potential Assessment Framework (IPAF)** which could be replicated. This methodology enables the rating of financial products based on their impact potential, providing investors with a quantitive metric to optimize the return/risk and impact ratio of their portfolio.

To support the alignment of domestic financial flows, the Sustainable Finance Observatory also supports Low- and Middle-Income Countries in **desiging taxonomies and alignment frameworks** that can be used by national financial and economic actors to scale up investment in climate action.

In parallel of scaling up private investment, such frameowrks are key to assessing the impact of vehicles which can attract private capital (e.g., thematic funds and bonds).

« To meet this challenge, first, the public and private sectors need to strengthen collaboration to develop sectoral investment plans and co-create project pipelines. Second, scaling up and replicating more effective risk-sharing mechanisms and credit enhancement can help improve the availability and reduce the cost of capital in EMDCs. »
« Multilateral Development Banks have embarked on a coordinated programme of reform to implement the agenda of 'better, bigger and more effective MDBs' (....) (based on the following actions): systematic engagement on system reforms and scaling up investment at the country level, including through more proactive engagement in country platforms; expanding lending capacity; and catalysing private finance, including through tapping long-term institutional capital. MDBs must work with host countries and the private sector to reduce and manage risk and bring down the cost of capital. »

**About the Sustainable Finance Observatory and Global DF**

The Sustainable Finance Observatory is an internationally recognized independent nonprofit think tank focusing on mobilising private finance for a sustainable transition. Since 2025, the Sustainable Finance Observatory is the result of a merger between the *"Observatoire de la finance"* set up by the French Economy and Finance Minister to monitor the ESG commitment of the Paris Financial Center (2019), and the international think tank *"2° Investing Initiative – 2DII"*, a pionnier on supporting the investment of private financiers in climate alignment projects and impact investment (2012).

As a non-profit organization, Global Clearinghouse for Development Finance (GlobalDF) is aimed at facilitating the development of bankable investments with capacity-building tools, business models, and credit enhancements, addressing the lack of bankability and public-private coordination failures.

The Sustainable Finance Observatory and Global DF are keen to to support the the co-Presidency of the Sharm el-Sheikh mitigation ambition and implementation work programme by contributing to its technical work on unlocking private capital.