SHARM EL SHEIKH

GUIDEBOOK FOR JUST FINANCING

ACTIONABLE AGENDA BY CAPITAL PROVIDER

Source of Capital

Government Finance

Type Of Entity
Governments or public entities, State-owned Enterprises (majority government owned)

Investment Stage
All stages, from early stage/R&D to late stage/fully mature investments (e.g. infrastructure)

Impact
Public goods, often with social, economic, and environmental impacts; Also interested in "crowding in" private capital where possible

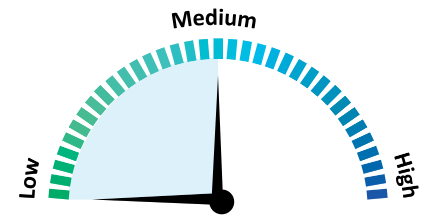
Instrument
Debt, guarantees; sometimes equity/grants. Often "concessional"

Supplier Of Concessional Capital
YES NO

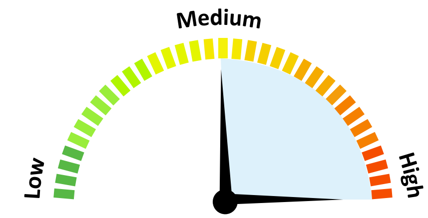
Description

Government and public entities are focused on achieving social and environmental impact, and they have a wide range of tools at their disposal.

Public funding plays a central role in covering certain climate mitigation and adaptation activities that do not have immediate financial returns, but its capacity is limited, and can be constrained particularly in periods of economic contraction or where tax revenues are insufficient. Between 2019 and 2020, public funders spent approximately US$321 billion in climate action, of which US$38 billion was direct flows (domestic and international), primarily in grants. However, in some developing economies, public funders can inadvertently crowd out private investments in a variety of ways. For example, financial regulation limiting pension funds' investment options can result in overallocation to sovereign bonds, leaving little room for investment in other domestic projects.



Relative Return Requirement



Relative Risk Appetite

Recommended Actions By Key Source Of Capital

Because their funding is often concessional, patient and grant based, government funds are important catalysts for private investment, and yet are often inefficiently allocated. Fundamentally, those responsible for allocating the public balance sheets can and should be more strategic in their approach to allocate public capital, and in doing so can focus on Just Financing and climate outcomes. Some suggestions for what this actor can do more of to enhance Just Financing outcomes include:

- For all climate investments: integrate measures and tools that increase public and private climate finance flows to investments that support (and were needed, prioritize) the low-carbon and climate resilience transition of the most vulnerable communities and countries.
- For climate investments that are commercial: public capital should always avoid funding commercially viable projects under preferential terms which may result in distorting the market.
- For climate investments that have near-term potential to be commercial, but where investors have higher-than-normal perception of risk, small amounts of public capital (in the form of guarantees, or direct lending) should be used to mobilize private capital to address perceived risks and mobilize private climate finance.
- For climate investments that have long-term potential to be commercial, and where there is both high perception of risk, and high actual risk (e.g., technology risk), public capital should be used to address perceived and real risks of other investors as a mechanism to mobilize and "crowd-in" private capital into such investments.
- For climate investments with low/no potential for long term commercialization, and where there is a high climate impact (mitigation and/or adaptation), public capital should prioritize and fully fund projects that will have significant positive Just Financing climate outcomes for communities, cities and citizens. Such projects should receive a larger proportion of public funding than investments that have the potential to mobilize private capital.