

# Climate Finance and the Role of Green Banks

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Further to the Paris Agreement, a legally binding international treaty on climate change adopted by one hundred and ninety-six (196) parties at the UN Climate Change Conference in Paris, on 12th December 2015 (COP21), countries and their institutional Banks have begun committing more financing to climate friendly projects. Article 9 of the Paris Agreement reaffirms that developed countries should take the lead in providing financial assistance to countries that are less endowed and more vulnerable, since climate finance is significant in mitigating the risk of emissions.



In 2021/2022, according to the Climate Policy Initiative (CPI), the average annual flow of climate finance reached \$1.3 Trillion. Estimates suggest that climate finance needs to grow at least fivefold annually by 2030 to effectively combat climate change. The average needed could rise to \$8.1 Trillion - \$9 Trillion per year until 2030. As highlighted by Carnegie Endowment for International Peace in a November 2023 paper,<sup>1</sup> public and private energy finance to Africa from countries in the Group of Twenty (G20) and multilateral development banks (MDBs) from 2012 to 2021 totaled \$345.76 Billion, most of which went to projects with gas/liquefied natural gas (LNG), mixed fossil fuels, and solar energy sources. Presently, there seems to have been a shift in investment, with Banks financing even more renewable/clean energy projects.

Overall, Banks extended US\$583 Billion in green bonds and loans in 2023<sup>2</sup> In Europe, both the European Central Bank and the region's top banking authority, the European Banking Authority (EBA) have made it clear to the finance industry to speed up its green transition. Lenders in Europe now face the threat of fines and higher capital requirements if they mismanage climate exposures, and in response, many Banks are imposing explicit restrictions on fossil finance.<sup>3</sup>



The introduction of Green Banks is one of the endeavors by Non-Governmental Organizations and Public Institutions to make the financing of green projects more attractive to investors. Green Banks are financial institutions that are specifically designed to accelerate the transition to clean energy and fight climate change. Green Banks achieve this by using innovative financing techniques to de-risk and attract private capital to clean energy projects. Green banks use public funds to attract private investment into clean energy projects. Examples of these Banks include Australia Clean Energy Finance Corporation, Green Finance Organization (Japan), Malaysian Green Technology Corporation (GreenTech Malaysia), Connecticut Green Bank, Hawaii Green Infrastructure Authority, Climate Investment Fund, the African Green Bank, as supported by the African Green Finance Facility Fund (AG3F) (developed by the African Development Bank), etc. As reported in February 2024, Connecticut Green Bank for instance, announced that \$50 Million would be committed to solar projects built on or near businesses, towns and schools, and has delivered over one hundred (100) operating solar projects, with a combined capacity of 25MW.<sup>4</sup>



Green Banks are a useful tool in climate financing. As they promptly investment in renewable energy projects, there is more potential for expertise and the development of novel methods of making these projects more financially sustainable. It is noteworthy that Africa is not getting the funding it needs. The continent receives annual climate finance of only 11% of what it needs - \$30 Billion, compared to its estimated annual need of \$277 Billion.<sup>5</sup> There is need for a more attractive regulatory environment in Africa and for more developed countries to fulfill their commitment under the Paris Agreement by assisting in financing the green projects of developing countries.

1. [Who Finances Energy Projects in Africa? - Carnegie Endowment for International Peace](#)
2. [World's biggest banks made \\$4 billion on green debt in 2023, beating fossil fuel earnings | The Straits Times](#)
3. *ibid*
4. <https://www.pv-tech.org/connecticut-green-bank-more-than-doubles-funding-for-commercial-scale-solar-projects-to-us110-million/>
5. <https://devinit.org/blog/africa-contribute-benefit-decide-on-financing-climate-crisis/>