LUXEMBOURG

YURIKO BACKES

Minister of Finance

Bio

Before her appointment as Minister of Finance in January 2022, Yuriko Backes held positions at the Permanent Representation of Luxembourg to the UN in New York and to the European Union in Brussels. From 2008 to 2010, Ms. Backes was deputy head of the Directorate of International Economic Relations in Luxembourg and became diplomatic advisor and Sherpa to Prime Ministers Jean-Claude Juncker and Xavier Bettel. She subsequently served as representative of the European Commission in Luxembourg, before serving as marshal of the Grand-Ducal Court. She holds a degree from the London School of Economics and Master's degrees from the School of Oriental and African Studies and from the College of Europe.

Blending the climate finance gap

Africa is the continent that produces the least greenhouse gas emissions, yet it remains the most vulnerable to climate change. Regrettably, often the most vulnerable groups bear the brunt of climate change, notably women. The increasing impact of global warming calls for a drastic reduction in carbon emissions. The financing needs to achieve climate goals are colossal. Current global spending on climate finance is estimated at USD630 billion[1]. However, Africa alone needs nearly USD3 trillion by 2030 to meet its Nationally Determined Contributions[2].

Blended finance and co-financing schemes can efficiently channel trillions of untapped private sector resources to address climate needs. However, uncertainty and risk perception remain the main barriers to participating in funding initiatives. Usually, perceived risks in emerging markets are higher than the actual risks. Unfortunately, many climate finance initiatives do not mobilize sufficient private capital. If they do, it comes at the expense of disproportionate returns.

De-risking climate finance is a collective effort. Governments, development institutions and civil society must play a role in raising awareness among the private sector. Equally, development and financial institutions have the responsibility to identify, measure and mitigate these risks based on sound risk assessments built on reliable data. Public policies must guarantee the availability of such information. Financial instruments can also serve to de-risk investments. For instance, layered (first-loss) investments or risk sharing and transfer mechanisms offer efficient means to mitigate the private sector's risk exposure, at relatively low cost for both the private and public sectors.

"Skin in the game" co-financing

Among the multilateral development banks, the African Development Bank Group has been at the forefront of such risk-mitigating instruments. I commend the Bank for the recent launch of innovative initiatives that leverage private sector capital while acting as a catalyst for investments in Africa. Luxembourg supports the Group's work aimed at improving the bankability of projects, thereby promoting private sector engagement. I encourage the Bank to further promote climate finance projects, especially those having a positive impact on gender-equality and vulnerable populations.

Luxembourg is committed to crowding in the private sector to address Africa's needs. We proudly support the Bank's Africa Digital Financial Inclusion Facility, which builds inclusive sustainable financial frameworks in Africa, while crowding in the public and private sector beneficiaries through "skin in the game" co-financing. We are fully aware of the potential of capital markets to mobilize private capital. For this reason, we support the development of capital markets through the Capital Markets Development Trust Fund. Finally, leveraging Luxembourg's long-standing expertise in blended finance, we recently launched a layered investment fund dedicated to climate investments in emerging markets. Through this innovative vehicle, our Government provides first-loss capital of EUR 25 million to attract European private sector funding to finance climate needs.

[1] IMF, Mobilizing Private Climate Financing in Emerging Market and Developing Economies, Ananthakrishnan Prasad, Elena Loukoianova, Alan Xiaochen Feng, and William Oman, IMF Staff Climate Note 2022/007, July 2022.
[2] Reuters, Get the blend right' and we can unlock trillions in finance for Global South, say experts, Angeli Mehta, 16 January 2023.