E3G

UNFCCC SUBMISSION September 2025

THE BAKU TO BELÉM ROADMAP TO $1.3 TRILLION

ELEMENTS FOR CONSIDERATION

E3G

This submission sets out E3G's views on the actions and actors that should be considered in the Baku to Belem Roadmap to $1.3T to 2035.

In order to reach $1.3 trillion in climate finance flowing into developing countries by 2035, structural transformation of the global financial system is required. So are bigger, better public financial institutions. To achieve both, action is needed in the short term: governments must find creative ways to unlock greater flows of public finance while setting out on a path to implement the reforms required to make private finance flow at the volume needed.

In the annexed policy briefing, ***Getting on the Path to $1.3 Trillion***, E3G sets out 10 building blocks across four key issue areas where action is necessary to achieve scale: 1) freeing up fiscal space in developing countries; 2) regulatory approaches to mobilising private capital; 3) creating a more effective delivery architecture for international finance; and, 4) increasing the scale of mobilisation via public levers. Improved multilateral engagement on climate finance is an important enabler of action across all four categories.

These building blocks are designed as initial steps that can be taken within the next 1-2 years to get on the path to $1.3 trillion by 2035. Not all of the actions identified by E3G can or should be delivered through the Baku to Belem Roadmap, but it should aspire to set out a vision for how to mobilise $1.3 trillion over the next decade and where to focus attention in the immediate term to do so. Progress against the Roadmap should be trackable, to assess consistency with the goal and provide accountability. This should build on existing processes and be part of an efficient, effective and transparent modality within the UNFCCC for monitoring the provision of support, the mobilisation of finance and the consistency of finance flows with the goals of the Paris Agreement.

E3G

There is a need to both rebuild political confidence in the provision of climate finance and prioritise actions that can have the greatest impact today. In addition to organizing the many actions necessary to achieve $1.3 trillion into a coherent framework for the next decade, the Roadmap can make high-impact near-term recommendations and calls to action. For instance, the Roadmap can:

1. Call on providers of climate finance to increase the deployment and effectiveness of public finance instruments to de-risk wider investment flows. This could include a specific call to scale up risk absorbing instruments such as guarantees – for instance, **seeking to triple the use of such instruments from all climate finance providers** with the ability to do so (as has already been set out as an aim of MIGA).
2. Call on MDBs to **safeguard the alignment of their lending with climate goals during upcoming strategy updates**, while continuing to pursue bigger, better, and more effective banks in line with the G20 Roadmap.
3. Call for **new or renewed climate finance pledges from bilateral climate finance donors that include specific adaptation targets** in order to provide predictability in the delivery of the $300 billion, and a foundation for the mobilisation of the $1.3 trillion. Many existing donors' pledges are expiring this year or next, and further clarity would be welcome from emerging donors on their voluntary contributions.
4. Call on finance regulators to **set mandatory requirements and expectations for private sector firms to disclose climate risks and to conduct climate transition planning.** Greater climate-related information is a necessary condition for a regulatory regime that can ensure financial stability, including by addressing climate-related financial risks.
5. Call on IMF shareholders to **ensure that the Low-Income Debt Sustainability Analysis co-developed with the World Bank evolves to fully reflect climate and nature-related risks and recognise risk management**, including by accounting for fiscal savings from resilience investments, making use of a new high-resilience financing scenario, and extending the projection timeline to better account for climate vulnerability. An important next step is to agree which countries will test the revised methodology, demonstrating its debt management benefits.

These ideas and others are laid out in the summary table below, and detailed in full in the annexed report.

Summary of recommendations

Freeing up fiscal space in developing countries

1. Finance ministries should take concrete steps towards easing debt burdens for developing and climate-vulnerable countries	Make use of the full range of available debt instruments within existing frameworks. Build on the IMF's Global Sovereign Debt Roundtable to shorten negotiation periods for debt restructuring. Make legislative changes in jurisdictions governing sovereign debt to shift incentives away from minority holdout.
2. Major economies should collaborate to increase fiscal space in developing countries and to protect developing countries from climate-related macro shocks and liquidity constraints	Noting this may be challenging in the short term, IMF shareholders should prepare for the next SDR issuance and work with central banks to pilot SDR recycling through MDBs. Governments should scale up the availability of insurance tools and invest in research to increase the availability of climate risk data. IMF shareholders should ensure the Low-Income Debt Sustainability Analysis fully incorporates climate and nature risks and incentivises resilient investment.

Regulatory approaches to mobilising private capital

3. Central banks and supervisors should accelerate actions to fully recognise and address climate risks	Step up co-operation on capacity building for scenario analysis to enable central banks in developing countries to better map risks. Ensure appropriate calibration of risk weightings to the risk profile and characteristics of climate-aligned / misaligned assets and of risk-sharing tools and mechanisms.
4. Financial regulators have a strong role to play in setting investment conditions for private investors	Finance regulators set mandatory requirements for climate risk disclosure and climate transition planning, aligning with both the Paris goals and relevant national pathways. National regulators, governments, and MDBs should communicate to credit rating agencies their expectation for climate risk and risk management to be adequately integrated into credit risk rating methodologies and support initiatives to improve data. Countries with ambitious climate goals should lead on investment treaty reform, at minimum removing investment protection offered to fossil fuel investments.

Creating a more effective delivery architecture for international finance

5. Climate finance providers should act more coherently to support developing countries in establishing the right policy and regulatory frameworks to attract high-quality international support and investment	Deliver against 5–10 of the highest quality and most mature country platform proposals by COP30. Increase focus on capacity building in developing countries to adopt and respond to new regulatory norms, including deeper work with regulators and finance ministries. Support the development of publicly available sectoral investment plans, and streamline delivery of support for national planning to reduce duplication.
6. Governments should lead a drive to radically improve collaboration and effectiveness in delivery of public development finance	Reduce duplication between funds; implement the G20 recommendations to ensure coherence and harmonisation in vertical climate and environmental funds and only establish new funds exceptionally. Make major improvements to donor co-ordination, including a dedicated dialogue to improve senior engagement in strategy development to reduce gaps and duplication.

Increasing the scale of mobilisation via public levers

7. Providers of climate finance should increase the deployment and effectiveness of public finance instruments to de-risk wider investment flows	Drastically increase the use of public-backed risk absorbing instruments, with a focus on expanding the use of guarantees to de-risk capital-intensive investments. Expand the use of mechanisms that bring forward investment, including asset recycling approaches in climate funds and securitisation schemes in MDBs. Focus blended finance efforts on pooling scarce resources into large, existing funds.
8. Shareholders should continue to pursue bigger, better and more effective multilateral development banks	Implement cost-free measures to boost MDBs, including enhanced callable capital at the World Bank. Expand the use of public and private hybrid capital to increase climate financing at MDBs. Build coalitions to safeguard MDB climate alignment through upcoming strategy updates.
9. Climate finance providers should work towards the restoration of international support budgets, including through the identification of new sources of concessional finance	Unlock new sources of finance, focused on supporting the IMO shipping levy, re-allocation of CBAM revenues, and support for the Global Solidarity Levies Taskforce. Build mechanisms for collaborating with new donors, including via IFIs and country platforms. Work to rebuild political support for international co-operation, with donors in the meantime coming forward with new climate finance pledges by COP30.

Multilateral engagement on climate finance

10. Governments should ensure there is an appropriate space to advance multilateral cooperation on climate finance	Preserve an effective multilateral space for engagement on climate finance, using the next year to develop a proposal to build coherence under future G20 presidencies. Update and streamline the international understanding of the role of the UNFCCC process for finance, improving coherence between political and technical negotiations.

Additionally, it is particularly important that the Roadmap sets out a path for scaled up investment in adaptation, both by prioritizing concessional and grant-based finance and by removing barriers to private sector investment. This should in particular set out how to increase finance to the most vulnerable countries and tackle barriers of access to finance. E3G recently published a briefing on **Bridging the Finance Gap for Adaptation** with a dedicated set of recommendations relevant to the Roadmap, suggesting that the Roadmap should:

1. Highlight the need for quality improvements in public finance, including through more **programmatic approaches**.
2. Call on governments, MDBs, CSOs, and the private sector itself to **improve data collection and reporting on private finance mobilisation for adaptation**.
3. Call on first movers implementing solidarity levies to **direct a portion of revenue to adaptation in developing countries**.
4. Endorse the **inclusion of high-quality climate resilient debt clauses in lending to developing countries**.

E3G

About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**

E3G

ANNEX: GETTING ON THE PATH TO $1.3 TRILLION

E3G

REPORT JUNE 2025

GETTING ON THE PATH TO $1.3 TRILLION

STEPS FOR SCALING CLIMATE FINANCE TO DEVELOPING COUNTRIES

ROB MOORE, KATE LEVICK, SALVATORE SERRAVALLE, LILY HARTZELL, FAITH HAMMOND, DANNY SCULL, EUNJUNG LEE, CLAIRE PERALDI DECITRE

E3G

About E3G

E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.
www.e3g.org

Berlin
Neue Promenade 6
Berlin, 10178
Germany
+49 (0)30 2887 3405

Brussels
Rue du Commerce 72
Brussels, 1040
Belgium

London
4 Valentine Place
London SE1 8QH
United Kingdom
+44 (0)20 7038 7370

Washington
1800 M Street NW
Suite 530 South
Washington DC, 20036
United States
+1 202 466 0573

Copyright

Cover image
Photo by Sebastian Palomino via Pexels

E3G

REPORT JUNE 2025

GETTING ON THE PATH TO $1.3 TRILLION

STEPS FOR SCALING CLIMATE FINANCE TO DEVELOPING COUNTRIES

ROB MOORE, KATE LEVICK, SALVATORE SERRAVALLE, LILY HARTZELL, FAITH HAMMOND, DANNY SCULL, EUNJUNG LEE, CLAIRE PERALDI DECITRE

E3G

Acknowledgements

We gratefully acknowledge review and inputs to this report provided by a wide number of colleagues at E3G, including Kaysie Brown, Ronan Palmer, Viktor Ahlgren, Melanie Uhlrich, Laura Sabogal Reyes, Charley Roberts, Franklin Steves and Ellie Belton.

This report has also benefited from insights from a wide range of esteemed colleagues, some of whom have contributed feedback directly and others who have shared insights and analysis that have informed its preparation. These include, among others, experts at the Green Finance Institute, Boston University Global Development Policy Center, Centre for Global Development, FinDevLab, Brookings Institute, IDB, Concito, Finance in Common, ODI, WRI, NRDC, EDF, iCS, Talanoa, SAIIA, Think Equal, and the Grantham Institute. We are also appreciative of the input of a number of unnamed colleagues from government ministries across a range of regions, and to expert staff of international financial institutions.

Finally, we are grateful to the Climate Policy Initiative for sharing their insights from their forthcoming report on the Global Landscape of Climate Finance 2025.

E3G

CONTENTS

E3G

EXECUTIVE SUMMARY

Six months ago, following three years of negotiations, governments agreed to scale up climate finance into developing countries to $1.3 trillion per year by 2035. An already challenging outlook has now grown more complex, and the range of required levers more diverse, but climate capital is needed more than ever. This report sets out how governments can act now to get on the pathway to the $1.3 trillion goal.

Getting back on track will require a long-term vision which combines structural reform to the global financial system with more effective and entrepreneurial use of public financial institutions. This will take time, decisive action, political leadership and unprecedented strategic engagement from a broad coalition of governments and institutions. Together, the Azerbaijani and Brazilian COP presidencies have the task, through their Baku to Belém Roadmap, to build momentum on the long-term vision for achieving the $1.3 trillion goal.

In the meantime, we also urgently need specific measures that can respond to today's challenging context and shift finance now. Governments must find new and better ways to unlock and use public resources, as well as implementing reforms to allow private finance to flow at scale.

This report sets out both a series of building blocks for the long-term challenge of reaching the 2035 goal, and recommendations for actions that can be achieved in the much shorter term to get on that path. We focus on what is needed to drive international finance *into* developing countries, in line with the Baku to Belém Roadmap. The setting of ambitious Nationally Determined Contributions (NDCs) and the mobilisation of domestic resources are pre-requisites and equally important for reaching investment levels needed for climate, growth and development in line with the Paris Agreement's goal of aligning all finance flows with low-emission, climate resilient development.

E3G

Our recommendations cover the following areas:

> **Freeing up fiscal space in developing countries.** All involved actors, including creditors, can take a range of steps to improve management of sovereign debt distress. The IMF could issue new Special Drawing Rights (SDRs) and developed economies can recycle their unused SDRs. The IMF and World Bank should better integrate climate and nature risk into the Low-Income Debt Sustainability Analysis, and a range of tools can help to protect developing countries from climate-related economic shocks.

> **Implementing targeted regulatory reforms to mobilise private capital.** We suggest a range of measures including integrating climate risk and resilience into prudential regulation and credit ratings to better direct private capital. Governments should build out the climate finance information architecture, and reform the international legal framework of investment treaties that currently protects cross-border fossil fuel investments.

> **Creating a more effective delivery architecture for international finance.** This includes setting ambitious pro-growth climate goals supported with accessible plans and policy predictability, support to build the capacity to implement these plans, and measures to make the delivery ecosystem more effective – through both in-country mechanisms like country platforms and major improvements to the coherence of capacity building support.

> **Increasing the scale of finance mobilised through international public finance.** This includes both finding a continued path to scale up multilateral development bank (MDB) finance despite current constraint while increasing the use of risk-absorbing instruments like guarantees, and charting a political and fiscal path to the restoration of public budgets. The latter will require both restoration of political confidence to provide conventional support and the tapping of new sources of finance such as levies and carbon border adjustment mechanisms (CBAMs). This must be alongside the phasing out and redirecting of finance to high-emissions economic activities.

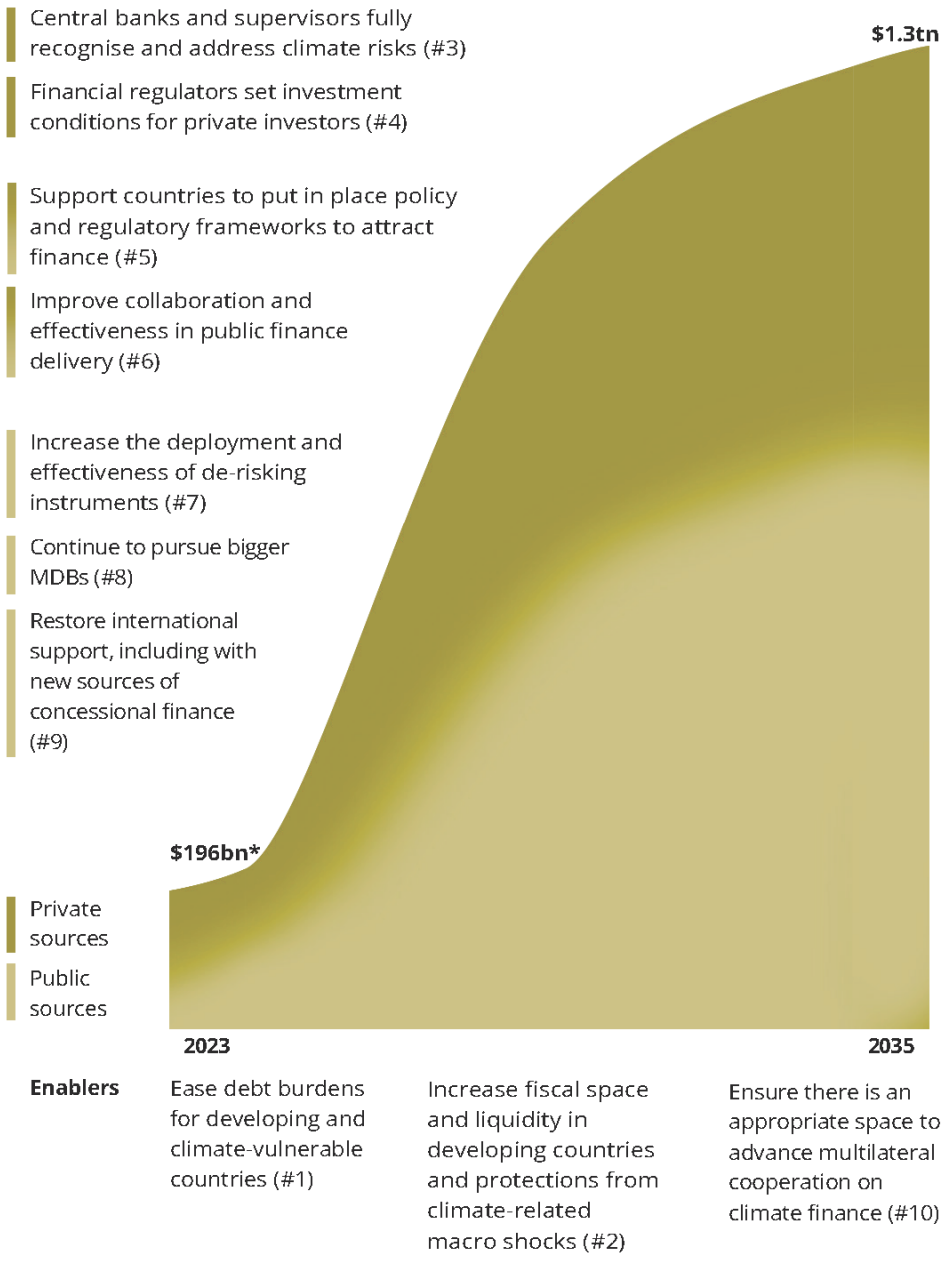
To ensure collective action and overcome the risk of inertia, high-level leadership and ensuring the right space for multilateral action will also be key.

There has been a tendency within governments to narrow down priorities to act on only one or two areas at a time. But the financing challenge is interconnected and the solutions interdependent: failure to act in any area will lead to a greater need to act elsewhere.

E3G

A pathway to *$1.3 trillion* per year

Ten building blocks for scaling up finance into developing countries over the next decade



* Climate Policy Initiative, June 2025, Climate Finance Landscape 2025, (forthcoming report)

Summary of recommendations

Freeing up fiscal space in developing countries

1. Finance ministries should take concrete steps towards easing debt burdens for developing and climate-vulnerable countries	Make use of the full range of available debt instruments within existing frameworks. Build on the IMF's Global Sovereign Debt Roundtable to shorten negotiation periods for debt restructuring. Make legislative changes in jurisdictions governing sovereign debt to shift incentives away from minority holdout.
2. Major economies should collaborate to increase fiscal space in developing countries and to protect developing countries from climate-related macro shocks and liquidity constraints	Noting this may be challenging in the short term, IMF shareholders should prepare for the next SDR issuance and work with central banks to pilot SDR recycling through MDBs. Governments should scale up the availability of insurance tools and invest in research to increase the availability of climate risk data. IMF shareholders should ensure the Low-Income Debt Sustainability Analysis fully incorporates climate and nature risks and incentivises resilient investment.

Regulatory approaches to mobilising private capital

3. Central banks and supervisors should accelerate actions to fully recognise and address climate risks	Step up co-operation on capacity building for scenario analysis to enable central banks in developing countries to better map risks. Ensure appropriate calibration of risk weightings to the risk profile and characteristics of climate-aligned / misaligned assets and of risk-sharing tools and mechanisms.
4. Financial regulators have a strong role to play in setting investment conditions for private investors	Finance regulators set mandatory requirements for climate risk disclosure and climate transition planning, aligning with both the Paris goals and relevant national pathways. National regulators, governments, and MDBs should communicate to credit rating agencies their expectation for climate risk and risk management to be adequately integrated into credit risk rating methodologies and support initiatives to improve data. Countries with ambitious climate goals should lead on investment treaty reform, at minimum removing investment protection offered to fossil fuel investments.

Creating a more effective delivery architecture for international finance

5. Climate finance providers should act more coherently to support developing countries in establishing the right policy and regulatory frameworks to attract high-quality international support and investment	Deliver against 5–10 of the highest quality and most mature country platform proposals by COP30. Increase focus on capacity building in developing countries to adopt and respond to new regulatory norms, including deeper work with regulators and finance ministries. Support the development of publicly available sectoral investment plans, and streamline delivery of support for national planning to reduce duplication.
6. Governments should lead a drive to radically improve collaboration and effectiveness in delivery of public development finance	Reduce duplication between funds; implement the G20 recommendations to ensure coherence and harmonisation in vertical climate and environmental funds and only establish new funds exceptionally. Make major improvements to donor co-ordination, including a dedicated dialogue to improve senior engagement in strategy development to reduce gaps and duplication.

Increasing the scale of mobilisation via public levers

7. Providers of climate finance should increase the deployment and effectiveness of public finance instruments to de-risk wider investment flows	Drastically increase the use of public-backed risk absorbing instruments, with a focus on expanding the use of guarantees to de-risk capital-intensive investments. Expand the use of mechanisms that bring forward investment, including asset recycling approaches in climate funds and securitisation schemes in MDBs. Focus blended finance efforts on pooling scarce resources into large, existing funds.
8. Shareholders should continue to pursue bigger, better and more effective multilateral development banks	Implement cost-free measures to boost MDBs, including enhanced callable capital at the World Bank. Expand the use of public and private hybrid capital to increase climate financing at MDBs. Build coalitions to safeguard MDB climate alignment through upcoming strategy updates.
9. Climate finance providers should work towards the restoration of international support budgets, including through the identification of new sources of concessional finance	Unlock new sources of finance, focused on supporting the IMO shipping levy, re-allocation of CBAM revenues, and support for the Global Solidarity Levies Taskforce. Build mechanisms for collaborating with new donors, including via IFIs and country platforms. Work to rebuild political support for international co-operation, with donors in the meantime coming forward with new climate finance pledges by COP30.

Multilateral engagement on climate finance

10. Governments should ensure there is an appropriate space to advance multilateral cooperation on climate finance	Preserve an effective multilateral space for engagement on climate finance, using the next year to develop a proposal to build coherence under future G20 presidencies. Update and streamline the international understanding of the role of the UNFCCC process for finance, improving coherence between political and technical negotiations.

E3G

CONTEXT

Climate investment is an opportunity, and failing to invest a major risk

Scaling up public and private investment into developing countries is not just critical for climate transition, adaptation and resilience. It is a major opportunity to ensure sustainable development, economic growth, international security and financial stability.

The risks of not acting are well established. The IPCC's latest synthesis report found that around 3.5 billion people already live in contexts highly vulnerable to climate change – while emissions, and climate impacts, continue to rise.[1] The severity of climate risks also presents severe challenges to the financial sector and to the global economy, which are currently not sufficiently taken into account in investment and financial regulatory norms. More risk aversion is not a solution – only a radical scaling and redistribution of global investment can mitigate global climate risks.

Multilateralism can pave the way for systemic action

Despite an abundance of available capital and a clear case for investing in the transition, finance flows are not growing quickly enough, reaching just $196 billion in 2023 in emerging markets and developing economies, out of $1.9 trillion globally.[2] Finance for climate adaptation is particularly challenged. Core factors contributing to insufficient finance flows include challenges to fiscal space caused by historically high debt levels, investor uncertainty exacerbated by both climate-specific and long-standing macro-critical factors such as geopolitics and conflict, and challenges in delivering public investment effectively and at scale.

These global issues require global solutions, put forward with decisiveness, political leadership and ambition. There have been many examples of domain-specific technical and regulatory financial innovations for climate around the

[1] IPCC, 2023, **AR5 Synthesis Report: Climate Change 2023 – Summary for policymakers**

[2] Climate Policy Initiative, June 2025, Global Landscape of Climate Finance 2025 (forthcoming report)

world in recent years. In some cases, the same efforts are now facing considerable opposition and backlash.

Only now are these issues starting to be elevated holistically to the multilateral level. The goal to channel $1.3 trillion per year by 2035 to developing countries, agreed at COP29 in Baku, reflects expert assessments of the level of international finance needed. This year the Baku to Belém Roadmap provides an opportunity to re-imagine a shared vision for change, responding to development budget cuts and divided politics, and building on the partial progress that has been made in the G20 in recent years.

Countries in this multilateral space must plan the systemic changes needed to the way that finance works. In all areas of decarbonisation and climate action a combination of enhanced public, private and systemic action is required. For example, while energy projects can be attractive to the market due to their scalability and clear revenue models, this is so far less the case in developing countries. For example, the IEA estimates that public utilities will need to be responsible for 80% of the grid investment in Africa in 2030.[3] Conversely, adaptation and nature projects – despite yielding multiple benefits and in some cases significant overall returns – struggle to attract private investment everywhere.

While the outlook is tough, international public finance will need to continue to play a major role. There is increasing evidence that, in general, international support benefits both provider and recipient. As well as decarbonisation and development gains, support for climate finance will buttress multilateralism at a time of high geopolitical risk, create interconnected supply chains and jobs in economically entwined countries, and bolster resilience through mitigating climate risks. For private investors, the necessity of building clean infrastructure and economies in developing countries provides a vast growth opportunity. Scaling public finance and uncovering new sources, and making major improvements in the way finance is used and delivered, is crucial.

Action is required by leaders on many fronts, starting with a range of steps set out in this paper.

[3] IEA, 2023, **Financing Clean Energy in Africa**

E3G

Domestic resources also remain crucial

Beyond the international investment challenge covered in this report, a further estimated $1.9 trillion per year is needed in domestic resource mobilisation for climate transition within developing countries over the same timescale.[4] This is also crucial to scaling up external investment. Developing countries cannot easily take on new debt, even at a concessional level, unless they have sufficient economic stability and fiscal space at the domestic level to enable repayments. If these conditions are not in place they may find it difficult to attract inward investment from private sources, due to concerns about both risk and return.

The Baku to Belém Roadmap to $1.3 Trillion

The Baku to Belém Roadmap mandated in the New Collective Quantified Goal on climate finance (NCQG) decision at COP29 has an important role to play in setting out a pathway to achieve $1.3 trillion per year. The Roadmap can help drive action by setting out the concrete steps that need to be taken and making the political case for their achievement. Following development cuts and in the context of tense geopolitics it is a major opportunity for climate-progressive countries to work together to restore confidence and set out a plan for reform. While we do not anticipate the Roadmap to be a negotiated text, it should be welcomed in a decision at COP30 in a manner that ensures its relevance over the next decade both in the UN Framework Convention on Climate Change (UNFCCC) and beyond.

To achieve long-term impact the Roadmap should aim to:

1. **Establish a credible and politically compelling pathway.** Identifying sources of finance and the means to unlock them. In many cases, such as issues of fiscal space or the implementation of levies, this will mean identifying how and in what venue outside the UNFCCC a solution can be carried forward.
2. **Stimulate enhanced action in the immediate term.** While the Roadmap should speak to actions to be taken throughout the decade, it should focus on short-term measures that can build confidence and catalyse future action. This could include the range of measures outlined in this report.

[4] Independent High-Level Expert Group on Climate Finance, November 2024, **Raising ambition and accelerating delivery of climate finance**

E3G

3. **Provide accountability.** The Roadmap should be trackable so that the UNFCCC can ensure global progress towards the $1.3 trillion goal, including enhancing the monitoring of international climate finance flows.

Part of the reform required to finance climate action is the creation of cross-governmental architecture at the jurisdictional level, and of multilateral space where countries can work together to get the necessary investment to where it is needed. This will not be achieved in a single one-year process. The Roadmap should therefore build on previous finance reform discussions in other fora and inject vigour and urgency into their next iterations.

Sectoral approaches

While this report and its recommendations focus on international climate finance in general, in practice approaches vary by both sector and geography. This box provides a high-level breakdown of the key differences facing three major areas of climate finance: energy, adaptation and nature.

Energy transition

The energy transition has the highest gross investment needs of all climate finance challenges, and has also been the most successful in mobilising finance to date, although with uneven distribution and primarily in developed economies. Key specific challenges for attracting finance will depend on the maturity of the subsector, the wider economic context, and (especially in relation to energy infrastructure) strategic policy coherence at jurisdictional level. Understanding of how Paris-aligned transition pathways differ by geography are a key common challenge facing private and development finance where greater collaboration within and between countries could enhance investor certainty.

International support will continue to be needed at scale for energy, including to support global public goods in emerging markets where it is critical to continue to provide financial incentives (for instance, to accelerate coal phase-out). Multilateral development banks (MDBs) and vertical climate funds are well placed to support this. Bilateral support is likely to focus on capacity building (especially for system aspects such as

energy planning and grid integration), de-risking measures which can lower cost of capital, and direct investment (especially in more nascent areas of deep decarbonisation and industry).

There will also be a continued need to align public finance and fossil fuel subsidies with climate goals. International initiatives like the Clean Energy Transition Partnership (CETP) present a pathway toto free up public funds and mobilise finance for the transition by redirecting international public finance from fossil fuels and towards clean energy deployment

Adaptation

Research indicates that every $1 invested in adaptation yields more than $10.50 in benefits over 10 years.[5] Alignment of investment flows with adaptation and resilience can be enabled through regulatory reforms and policy action to incentivise investors to manage climate risks. But even where there are viable business models, the perception that adaptation yields no or low returns, a lack of understanding in the private sector, and limited data have posed major barriers to private sector investment.

Concessional and grant-based finance is particularly critical for adaptation and, despite recent growth, is chronically underfunded.[6] Against needs estimated at $187–359 billion per year,[7] CPI estimates that trackable adaptation finance flows to emerging markets and developing economies totalled $40 billion in 2023.[8] This gap will need to be addressed with a mix of public and private capital, from external and domestic sources, requiring creative approaches and dedicated attention across the board. This should include increased use of blended finance models for adaptation (particularly given that adaptation finance confers a mix of public and private benefits).

Adaptation finance projects – which are more disbursed, context-specific and often smaller – often pose particular challenges for delivery and are especially impacted by access concerns. Working more closely with local actors like national development banks will be particularly important. As climate finance providers (including both governments and MDBs) update

[5] WRI, May 2025, **Strengthening the Investment Case for Climate Adaptation: A Triple Dividend Approach**

[6] AfDB, ADB, AIIB, CEB, EBRD, EIB, IDB, IDB Invest, IDB, NDB, WB, September 2024, **2023 Joint Report on Multilateral Development Banks Climate Finance**

[7] UNEP, November 2024, **Adaptation Gap Report 2024**

[8] Climate Policy Initiative, 2025, Global Landscape of Climate Finance 2025 (forthcoming report)

their climate finance strategies, there is an opportunity to pivot their approach to setting adaptation finance targets to better focus on impacts. A recent E3G briefing sets out more detailed thinking on the specific challenge facing adaptation finance.[9]

Nature and biodiversity

Addressing the funding gap for nature and biodiversity is critical for both climate and wider environmental protection. Approaches to nature-based solutions are at an earlier stage than for climate in general, with current activities focusing mainly on building the evidence base and forging standards. Approaches are complicated by the context specificity of many nature challenges, such as biodiversity, which make the task of designing scalable standardised metrics more difficult.

In the private sector many leading firms are considering nature-related risks and opportunities but this practice is not yet mainstream. Increasing levels of attention have been paid to nature-related financial risks, for example by the Network of Central Banks and Financial Regulators for Greening the Financial System (NGFS) which established a dedicated taskforce in 2022.[10] The market-led Taskforce for Nature-related Financial Disclosures (TNFD) was launched in 2021 to support standardisation of market data, receiving global endorsements from the G7, G20 and other influential leaders and publishing key outputs in 2023.[11] Consumer-focused regulations, such as those being developed in Europe, can also play a role.

There remains a cross-cutting need to increase international support for activities that address both climate and nature challenges. Solutions will require new business and financing models that can offer sustainable revenues for natural protection: while carbon markets can continue to play a role, they will only ever be a partial solution. As a priority, support for monitoring, reporting and verification (MRV) can help enable access to sustainable finance markets and build trust in nature-based credits. Many major MDBs also do not have up-to-date strategies for aligning their activities with global nature and biodiversity outcomes, which should be addressed within or beyond forthcoming climate strategy updates.

[9] E3G, June 2025, **Bridging the Finance Gap for Adaptation**

[10] See NGFS website: **https://www.ngfs.net/en/what-we-do/nature-related-risks**

[11] See TNFD website: **https://tnfd.global/about/history/**

E3G

BUILDING BLOCKS FOR ACHIEVING $1.3 TRILLION

The remainder of this report breaks down the challenges and opportunities of mobilising climate finance into developing countries into ten “building blocks”. For each building block, we have outlined both a general need to act and specific suggested activities that can credibly be achieved in the short term (i.e. over the next 12–18 months) to materially accelerate progress.

In many instances the current political, fiscal and macro-economic outlook is suboptimal for achieving the most ambitious outcomes as rapidly as we would like. We have attempted to calibrate the ambition of our recommendations based on our own analysis and following extensive discussions with policymakers, independent experts and other stakeholders. Across all building blocks, where there is an opportunity to go further and faster than suggested by our recommendations, this should be pursued.

Our building blocks begin with measures that are more macro-economic or systemic in nature, concluding with the role of international public finance and multilateral diplomacy. This is not due to a belief that one area is more important than the other, but due to a belief that where it is possible to secure climate finance mobilisation and sustainable development outcomes through systemic change this should be the priority, freeing up scarce public resources for other challenges.

Freeing up fiscal space in developing countries

Developing economies are caught in what is often referred to as the “climate debt trap”, where debt burdens limit investment into climate adaptation, and climate vulnerabilities in turn exacerbate debt burdens.[12]

Against a challenging backdrop of global economic shocks, reduced fiscal space in developing countries limits their capacity to undertake climate action, especially where climate investment entails higher capital cost or substantial public funding.

[12] Expert Review on Debt, Nature and Climate, 2024, **Tackling the Vicious Circle (Interim Report)**

In the short term, debt-related liquidity pressures limit investment and hinder public spending, causing "silent development defaults" for developing countries.[13] In the medium and long term, the "climate debt trap" creates macro-critical risks to developing countries' balances of payments and economic stability.[14]

Conscious of today's complex situation, finance ministries can play a key role in leading and coordination solutions, including by:

> Improving debt restructuring processes to speed recovery and allow sufficient fiscal space to invest in climate and development.

> Providing direct support to those facing debt pressures by creating and recycling IMF Special Drawing Rights.

> Leveraging targeted financial tools for vulnerable developing countries that combine easing debt pressures and building climate resilience, ultimately reducing macro risks.

> Incorporating climate and nature-related risks and opportunities into IMF surveillance.

Improving debt restructuring processes

Sovereign debt pressures – largely from debt servicing – are sharply rising, greatly reducing fiscal space in developing economies,[15] and threatening fiscal sustainability.[16] As the central mechanism to resolve sovereign debt distress, the G20 Common Framework for Debt Treatments has and can further evolve to deliver more timely and effective restructuring processes, crucial to countries' recovery.

Some potential areas for action include:

> Formalising efforts by the IMF to shorten negotiation periods for restructurings by pursuing simultaneous negotiations between creditor types

[13] International Institute for Environment and Development, 2025, **Online webinar: Breaking the debt burden: How to unlock finance for climate and nature**

[14] Network for Greening the Financial System, 2024, **Acute physical impacts from climate change and monetary policy**

[15] IMF, 2025, **Debt Vulnerabilities And Financing Challenges In Emerging Markets And Developing Economies—An Overview Of Key Data** and IMF, 2025, **The 4th Financing for Development Conference-Contribution of the IMF to the International Financing for Development Agenda**

[16] Dabla-Norris, E., & Furceri, D., 2025, **Debt is Higher and Rising Faster in 80 Percent of Global Economy**, IMF Blog

– with claw back clauses for bilateral creditors – building on ongoing work with the Global Sovereign Debt Roundtable.[17]

> Jurisdictions whose legal systems typically govern sovereign debt contracts (e.g. United Kingdom, New York) could make legislative changes which shift incentives away from minority holdout and avoid legal action that would provide private creditors with better terms than multilateral development banks (MDBs) or bilateral creditors. Suspending or lowering debt servicing for borrower countries embarking on a debt restructuring may also shift incentives away from holdouts, promoting timely restructuring.

> To foster greater trust between creditors, the IMF could offer a set of standardised methodologies for comparability of treatment, mindful of considerations across the different creditor groups,[18] and promote dialogue and transparency between debtors and creditor groups.

> Restructurings could ensure that sufficient space is included in restructured debt levels for country-specific development and resilience needs. Restructuring frameworks could also include country-led climate policies that will reduce future risks.

IMF Special Drawing Rights

SDRs are interest-bearing international reserve assets created by the IMF to supplement other reserve assets of member countries. A general SDR allocation is commonly understood to free up fiscal space, especially during a crisis. SDRs are allocated to IMF members according to their IMF quota shares.

The last general allocation of SDRs (456.5 billion, equivalent to about USD $650 billion) was implemented in 2021 as part of the global response to the COVID-19 pandemic and helped economies to navigate the crisis more smoothly. A new general allocation of SDRs in the near term would be highly effective for reducing sovereign debt vulnerability and financial stress, if sufficient political support for this action could be secured.

High-income countries can channel previously issued SDRs which they have not used to IMF trusts as a way to support low-income countries. Since 2020, SDR channelling of $56 billion by 30 countries has supported interest-free loans to 57 countries through the Poverty Reduction and Growth Trust (PRGT), while

[17] Global Sovereign Debt Roundtable, 2025 **Sovereign Debt Restructuring: A Playbook for Country Authorities**

[18] Ibid.

channelling of $47 billion by 23 countries has supported the operations of the Resilience and Sustainability Trust (RST), which delivers affordable financing to help vulnerable countries tackle long-term challenges including climate change.

IMF shareholders could also build preparedness for potential future crises by stating under what global economic conditions they would make a next new issuance of SDRs, including how such an issuance could be distributed fairly to support global economic resilience by shoring up fiscal space in the most vulnerable countries, e.g. as part of the future evolution of the PRGT and RST.

Another way for high-income countries to recycle unused SDRs is to allocate them to MDBs as "hybrid capital". This is the most cost-efficient use of SDRs for finance mobilisation, given the high leveraging capability of the MDBs. Pilot programs proposed by the African Development Bank (AfDB) and Inter-American Development Bank (IDB) would use SDRs for hybrid capital, which offers the opportunity to multiply the overall value of financing by a factor of four. For example, the proposal by the AfDB has an estimated impact of creating $80 billion in headroom from only $20 billion in recycled SDRs. Unfortunately, the AfDB trial has not yet moved forward, due to lack of donor commitments.

Easing liquidity pressures and reducing macro risk

Liquidity pressures both tighten fiscal space and reduce the impact of MDB finance, as debt servicing pressures divert additional finance away from climate-aligned development.[19] Given the "climate debt trap" and interlinked vulnerabilities,[20] strong coordination is required between MDBs, bilateral and private actors to apply holistic tools that reduce macro risks and place countries back on track for long-term stability.

Such co-ordination could include:

> Utilising climate-resilient debt clauses, catastrophe bonds, and insurance pools within lending agreements.

> Coordinating pro-growth strategies that pause bilateral debt servicing in exchange for accountable country-led domestic resource mobilisation programs.[21]

[19] Finance for Development Lab, 2024, **An Updated Bridge Proposal**

[20] Chamon et al., 2022, **Debt-for-Climate Swaps: Analysis, Design, and Implementation**, IMF publication

[21] Finance for Development Lab, 2024, **An Updated Bridge Proposal**

E3G

> Implementing clear eligibility criteria[22] for country-led debt swaps (debt-for-nature, debt-for-climate, debt-for-resilience) and buy-backs, leveraging MDB or regional development bank guarantees.

> As discussed further below, utilising climate-resilient debt clauses, catastrophe bonds and insurance pools within lending agreements.

The countries with the lowest level of economic development are also at greater risk of suffering losses and damage as a result of climate change. Climate risks related to physical impacts are particularly challenging for Small Island Developing States (SIDS) and small coastal states, which suffered the top ten worst economic losses from single disaster events between 2000 and 2019 as a percentage of GDP. Climate-related shocks can have a strong adverse impact on fiscal space in developing countries, and contribute to the "climate-debt nexus". They also present an increasing risk to global financial stability.

A wide array of tools has been developed and trialled to address this challenge; rapid scaling of these efforts is now needed. Such measures include, for example:

> Use of **climate-resilient debt clauses** to enable suspension of debt repayments on a cost-neutral basis so when severe impacts occur, they are already made available to climate-vulnerable borrowers by e.g. UK Export Finance and the European Bank for Reconstruction and Development.

> **Nature and climate-related debt swaps** have been used to support debt restructuring for some climate-vulnerable states already. International agreement on eligibility criteria would help to scale up their use.

> **Innovative insurance instruments** addressing natural catastrophe risks. This could include parametric insurance programs which offer rapid predetermined payouts when specific events occur that pass pre-agreed thresholds. These programs are being successfully tailored for the agricultural sector, as well as for households and small and medium-sized enterprises. Parametric products, the growing market for private and sovereign natural catastrophe bonds, and use of re-insurance markets are increasingly relied upon to extend social safety nets.

[22] Peraldi et al., 2025, **Addressing Debt Distress in Developing Countries – A Blueprint for Debt-for-Climate-Resilience Swaps**

Countries and market actors are working together in a range of ways, and this momentum should continue to be accelerated and scaled up. The G7/V20 Global Shield against Climate Risks[23] seeks to support "risk layering" at the national level across sovereign risk pools, catastrophe bonds, public asset insurance, credit-based risk financing, government reserves and contingency funds. The new partnership of the Insurance Development Partnership and the Bridgetown Initiative reflect imperatives to more deeply integrate insurance into resiliency plans.[24]

The success of these efforts depends on a common factor – public availability of scientific data relating to climate risks and hazards. Global platforms for such data are useful. Access to locally based climate information, however, has the potential to act as a force multiplier. It can improve risk assessments, provide a basis for more varied and tailored insurance products and markets, and be incorporated into local planning and adaptation projects. Governments should ensure that they are investing adequately in the creation and dissemination of such data, particularly in developing countries where data quality and availability have to date sometimes been limited or insufficiently granular.[25]

Incorporating climate and nature into risk surveillance

The IMF conducts routine surveillance of countries' policies and financial health, informing lending decisions and influencing market access. Yet IMF surveillance tools do not yet fully recognise in a cohesive manner the substantial and increasingly well understood macro-critical nature of climate and nature-related risks.[26] Without adequate understanding of the macro-critical risks these issues pose to countries' stability and growth potential, decision makers are improperly informed, and subsequent policy choices may be inadequate.

The Low-Income Country Debt Sustainability Analysis (LIC-DSA), co-developed with the World Bank, determines the access, nature and scope of concessional finance for low-income countries. To better account for new macro-critical risks and enable effective risk management, the IMF's LIC-DSA should:

[23] Global Shield against Climate Risks. Website: **globalshield.org**

[24] Insurance Development Forum, 2025, Press release

[25] Verschuur, J. et al., 2025, **Climate adaptation finance: From paper commitments to climate risk reduction**

[26] Expert Review on Debt, Nature and Climate, 2024, **Tackling the Vicious Circle (No. Interim Report)**

E3G

- Improve and formalise climate stress tests in bilateral and multilateral surveillance of countries' policies, and their implications for balances of payments and financial stability.
- Make greater use of different environmental and financing scenarios, including an early and ambitious scenario with investments in resilience, nature protection and benefits from avoided emissions.
- Account for the likely fiscal savings and greater economic stability associated with pre-arranged disaster risk financing, investments in resilience and other climate actions.
- Extend the projection timeline over a longer period to better account for medium- to long-term climate vulnerability that threatens countries' balances of payments and stability.

Regulatory approaches to mobilising private capital

The impact of physical and transition risks on financial asset values, credit markets and overall economic performance can be very substantial for lower income countries, where climate vulnerabilities are more acute and institutional capacity is developing.[27]

Public finance institutions play a crucial role in providing technical assistance and capacity building, including through policy-based lending, to support green finance market development in developing countries. This work can build on the already significant progress made by many developing country central banks and finance ministries with respect to taxonomies and progressive use of monetary policy tools.

The majority (78%) of international finance for emerging markets and developing countries came from public sources in 2023, with just $42 billion from the private sector.[28] Adjusting the rules of the financial system to unblock and facilitate financial flows to developing countries for climate is an endeavour that requires all countries to work together, using a range of finance-related multilateral forums which are not formally linked to the UNFCCC process but are fundamentally important to the achievement of global climate goals.

[27] Financial Stability Board, January 2025, **Assessment of Climate-related Vulnerabilities**

[28] Climate Policy Initiative, June 2025, Global Landscape of Climate Finance 2025 (forthcoming report)

Further work is needed across four key areas:

> Continued work by central banks and supervisors to integrate climate considerations into monetary and prudential decision making at both the international and national level.

> Further developing the global climate information architecture, including climate disclosures, transition plans, and taxonomies.

> Reforms to credit rating methodologies to adequately recognise climate vulnerability while minimising barriers to investment in climate solutions.

> Transforming the international legal framework of more than 2,600 investment treaties in force, which hinders mobilising cross-border investments into clean energy by protecting investments in fossil fuel infrastructure.[29]

Enhanced recognition of climate risks by central banks and supervisors

Global financial stability cannot be achieved unless climate risks are fully recognised.[30] Failure to do this may have unintended consequences for climate finance and particularly for developing countries.[31] Despite current challenges in the political environment, central banks and supervisors can and should act multilaterally to keep momentum on the integration of climate risk into their frameworks.

Over the last ten years, central banks and financial regulators have made significant progress on this integration, but there is still work to do.[32] Orthodoxy regarding the application of market neutrality, a focus on short-term supervisory time horizons, and reliance on historical data means that these frameworks can still in practice provide indirect subsidisation and sectoral biases in favour of fossil fuel activities and overstate the risk associated with clean energy investment.

[29] UN Trade and Development (UNCTAD), 2024**, International investment agreements trends: the increasing dichotomy between new and old treaties**, IIA Issues Note #2, p.2

[30] IMF, 2023, **Benefits of Accelerating the Climate Transition Outweigh the Costs**. IMF analysis shows that current policies would result in a global 7% drag on GDP by 2050 in comparison to an orderly transition scenario.

[31] See for example: Heinen, Khadan and Strobl, 2019, **The Price Impact of Extreme Weather in Developing Countries**; Financial Stability Board, 2025, **Assessment of Climate-related Vulnerabilities: Analytical framework and toolkit;** Parker, 2018, **The Impact of Disasters on Inflation**

[32] NGFS, 2024, **Synthesis report on the greening of the financial system**

Regulatory frameworks need to address the specific context of developing countries, including their vulnerabilities to climate change, short-term needs for investment in resilience and adaptation, and the medium- to long-term economic impacts of the failure to transition. To better align regulatory frameworks with climate realities, supervisors and central banks can take action on several fronts.

Firstly, **cross-border cooperation** between supervisors and central banks to support capacity building on scenario analysis, to support effective risk mapping. Better understanding of risk can result in stronger policy frameworks for effective market signalling and local market development,[33] and the development of early warning systems to identify emerging vulnerabilities and areas for investment or advanced policy action.[34] This in turn can support the development and application of other tools in the central bank and regulatory toolkit, as well as building investor confidence in sovereign transition plans.

Secondly, **reviewing risk weightings for climate investments and for innovative climate financing**. There is developing evidence that green infrastructure assets in developing countries attract lower default rates despite the relatively higher capital charges applied under prudential regulation,[35] including through co-lending arrangements.[36] Beyond this, greater alignment is needed between the risk perception of green investments in developing countries made through risk-sharing mechanisms, such as blended finance or using tools like guarantees, versus their actual risk profile. This would be supported by our recommendations for improving data availability and the climate information architecture.

Central banks and supervisors should therefore support international standard-setting bodies such as the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) to undertake a review of risk weights, as part of the ongoing assessment of capital requirements and their adequate calibration to the risk profile and characteristics of green infrastructure assets in developing

[33] See for example: Coalition of Finance Ministers, 2025, **A Global Survey of Ministers of Finance**,work by the Brazil Central Bank on drought and severe rainfall referenced in their **2023** and **2024** reports on Social, Environmental and Climate-related Risks and Opportunities;ECB, 2025, **The European Economy is not Drought-Proof**; and the NGFS Synthesis report reference above.

[34] See for example: Alessi (ECB) et al., 2014, **Comparing different Early Warning Systems**; Moody's, 2024, **The Road to Banking Resiliency and Adaptation: Early Warning Systems and Scenario Analysis**; and the **Climate Risk and Early Warning Systems Initiative**.

[35] World Bank, 2025, **Financial performance of infrastructure investment** and World Bank, 2025, **Infrastructure Monitor 2024**. EBA, 2022, **analysis** of the application of an Infrastructure supporting factor.

[36] OECD, **De-risking institutional investment in green infrastructure**, progress update 2021. See p15 on development of secondary market.

countries, in particular. This should include analysis of the implications and challenges of incorporating climate risk into capital requirements.[37]

Similarly, to support effective use of risk-sharing instruments for climate finance, central banks and supervisors should work with regulators and the BCBS to issue clarifying guidance on the treatment of public and private risk-sharing instruments, supported by disclosure by the Global Emerging Markets Risk Database Consortium (GEMs) and by industry initiatives to share data on default and recovery rates by instrument and transaction type.[38]

Strengthening the global climate information architecture

The IMF has identified a pressing global objective to strengthen the international "climate information architecture" to support the transition to a low-carbon and climate resilient economy.[39] The climate information architecture is shaped and enabled by a combination of standards, frameworks and disclosure requirements which are most frequently applied to private sector firms, although they also have many potential use cases in the public sphere. These range from sovereign bond issuance, alignment with wider regulatory approaches, fiscal and monetary policies, to taxonomy thresholds and definitions, and building national capacity to measure green and sustainable financial flows.

Disclosure by firms of climate risks and opportunities, targets, metrics and governance has been standardised by the International Sustainability Standards Board (ISSB), whose IFRS S1 and S2 sustainability disclosure standards are now in the process of adoption by countries around the world. Transition planning, and the disclosure of transition plans, is addressed by IFRS S2 and has also been shaped by international frameworks.[40] The IFRS conducts substantial capacity building efforts around disclosures, and in addition some developing countries are engaged with the International Platform for Transition Plans which acts as a peer learning and capacity building forum.

[37] Results of an impact assessment of the changes proposed to the overall Solvency ratio with respect to triggering wholesale reallocations and thereby instigating systemic financial risks. See European Insurance and Occupational Pensions Authority (EOIPA), November 2024, **Prudential Treatment of Sustainability Risks**, p.62

[38] See **GEMs Database Consortium** and IIF, March 2025, **Lifting Prudential Barriers to Mobilizing Private Capital for Development Finance**

[39] IMF, World Bank, OECD, September 2023, **Activating Alignment: Applying the G20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation**

[40] These include the 2024 Principles produced by the G20 Sustainable Finance Working Group, and by leading market frameworks published by the Transition Plan Taskforce and the Glasgow Finance Alliance for Net Zero.

E3G

Taxonomies have been widely adopted by developing countries and can be an important enabler in the development of a pipeline of investable projects, providing investors with useful guidance. Nevertheless, the NGFS has highlighted that whilst almost all advanced economies have some sort of sustainable finance taxonomy or framework in place, this is the case for less than a third of developing economies.[41] International standardisation has been elusive – countries take different approaches to the breadth of environmental coverage and diverge between "green" approaches that identify end-goal economic activities, and "transition" climate taxonomies that identify transitional principles or activities.

Efforts are underway at the international level to increase interoperability of taxonomies in a way that is targeted, useful and science-based.[42] Doing so would increase the ability of developing countries to attract international financial investment into climate and wider sustainability goals, particularly from the private sector.

While convergence on standards and frameworks for climate information architecture is highly beneficial, generating useful climate finance information at the scale required by investors requires regulation, which is the only route to ensuring consistent and universal disclosures. Financial regulators should set mandatory requirements and expectations at the jurisdictional level for private sector firms to disclose climate risks and to conduct climate transition planning in line with the goals of the Paris Agreement as well as relevant national and sectoral plans and pathways, drawing on relevant international principles, frameworks and guidance.

Building climate-smart credit rating agencies

Credit ratings are a key determinant of the cost of capital for climate investments. While some work is being done by credit ratings agencies (CRAs) to incorporate climate risks and better assess the policy environment within developing countries, more is needed to ensure that climate vulnerability and resilience created through risk management and transition planning approaches are fully reflected.

[41] Network for Greening the Financial System, 2024, **Synthesis Report on Greening the Financial System, Insights for financial actors in advanced and emerging economies**

[42] These include the Multi-Jurisdiction Common Ground Taxonomy, the Singapore-Asia Taxonomy, and the COP29 Presidency's Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies, among others.

E3G

Sovereign ratings act as a ceiling for corporate ratings of firms based in that jurisdiction. Regulators and international standard setters for CRAs should ensure that they are building on forthcoming and improved "climate-smart" debt sustainability analyses produced by the IMF and World Bank, and should require CRAs to extend the time horizons of their ratings. This allows for a longer-term assessment of growth prospects and policy developments which can better account for the benefits of economic diversification or other resilience-building policies. In support of this, governments and financial institutions can provide support to industry-wide data sharing initiatives, which provide more granular data availability on asset performance in developing countries.

Similarly, MDBs can have an important role to play in encouraging and supporting CRAs to address climate risk and risk management. As MDBs rely on credit ratings when issuing their own debt, these changes would also potentially support increased leverage of MDB capital for climate goals.

Internationally recognised CRAs are not currently providing sufficient support to enable bridging the gap between international finance and national opportunities, particularly in relation to foreign exchange risk. Governments and market actors should encourage and build on work being done to offer ratings that include the risk mitigating benefits of local currency guarantors and funds investing in local currency assets.[43]

Reforming investment treaties

Investment treaties with investor–state dispute settlements (ISDS) provisions allow foreign investors to challenge government measures they believe undermine their business interests before international arbitration tribunals. Although originally designed to protect foreign investors from extreme state interventions, the ISDS mechanism has been increasingly used to challenge legitimate public policies, such as climate mitigation and adaptation measures.

Most investment treaties do not differentiate investments based on climate impact, offering the same protection benefits to fossil fuel investments and clean energy investments, at no cost.[44] This means that fossil fuel investors are

[43] See OECD, 2025, **Unlocking local currency financing in emerging markets and developing economies. What role can donors, development finance institutions and multilateral development banks play?**, p.56

[44] OECD, 2025, **Methods to algin investment treaty benefits for energy investment with the Paris Agreement and net zero (Note by the Secretariat)**, pp. 3–5

shielded from transition risks, receiving protection akin to state-backed insurance.[45]

Most of the 2,600 treaties currently in force globally benefit fossil fuel investments and other investments harmful to climate in this way, which distorts cross-border investment decisions. This is problematic for developing countries, where international private finance is particularly important to meet their climate financing needs. Yet, the role of investment treaties has been largely overlooked in climate finance discussions.

As a part of wider efforts to direct cross-border investment flows to support developing countries to finance their climate needs, both capital exporting and importing states need to review their approach to ISDS and make substantial reforms. Due to its protection of fossil fuels, the EU and 11 European countries, including the UK, have left or decided to leave the Energy Charter Treaty, the most invoked investment treaty globally. However, this decision has not been translated into broader efforts to address the vast network of investment treaties.

The most straightforward way to reform the system would be to terminate existing treaties and exclude ISDS in future treaties. Instead, states could carve out fossil fuel-related investments or climate measures from the coverage of investment treaties to specifically deal with the risks that ISDS poses to climate finance and climate action.

Reforming investment treaties with ISDS would help facilitate cross-border investments into developing countries to finance their net zero ambitions by lifting a barrier that has benefited fossil fuel interests. In addition, it could potentially unlock host states' capacity to finance climate needs, by removing the possibility of large compensation awards from ISDS claims straining host state's fiscal space.[46]

[45] OECD, 2022, **Investment treaties and climate change: The Alignment of finance flows under the Paris Agreement (Background note)**

[46] According to the UN Trade and Development (UNCTAD), in the last decade, the average amount claimed was $1.1 billion and in cases decided in favour of the investor the average amount awarded was $385 million. See UNCTAD, 2024, **Facts and Figures on Investor–State Dispute Settlement Cases**, IIA Issues Note #3, p. 5

E3G

Creating a more effective delivery architecture for international finance

To best attract international investment, NDCs (or other national plans, covering both mitigation and adaptation) need to be supported by policies and strategies that make them operational. Investment strategies that provide detail to donors and financial institutions on specific funding opportunities are critical to securing international support and investment. Despite this, analysis suggests that only 16 countries have published economy-wide financing or investment strategies to support their current NDC.[47]

Multiple plans by multiple agencies may be duplicative – covering the same sector or geographic area – using resources inefficiently as well as creating confusion for both policymakers and investors over which plan to follow and risking a capacity drain on recipient countries.

An immense number of initiatives have sprung up to support countries in developing such plans and strategies. These include dedicated support windows under UNFCCC funds such as the Green Climate Fund (GCF) and Global Environment Facility (GEF), the NDC Partnership, and a range of initiatives from MDBs both jointly and individually. While there are many examples of initiatives working together, collectively the delivery landscape towards these plans remains a fragmented mosaic. Initiatives vary in how well they collaborate with others, the level of deep climate expertise involved, and sway over key decision makers in governments.

As donors cut budgets and make decisions on where to prioritise on-ground presence, there is a stronger need for those providing support to collaborate, avoid duplication, increase harmonisation, share information and work to their comparative strengths. This applies to:

> **The development of plans and policy measures**. This requires deep, long-term peer exchanges, skill-shares and capacity building from international financial institutions (IFIs), international standard setting bodies and bilateral partners who have experience in implementation. This covers areas including climate legislation, governance, policy planning, data, fiscal planning and financial regulation.

[47] OECD, UNDP, 2025, **Investing in Climate for Growth and Development.**

E3G

> **The development of project pipelines.** There is a widely acknowledged shortfall in this area, which requires a significant amount of on-the-ground work to convert plans into real projects. Increased support for local actors such as national development banks could play a significant role. Direct involvement of MDBs, development finance institutions (DFIs) and the private sector at an early stage is also key.

The international community – and funders in particular – have a critical role to play in ensuring this more co-ordinated and collaborative focus. Country platforms (see box following this section) offer a nexus for developing such plans while ensuring national ownership, but a parallel push from donors towards delivery partners to double down on collaboration is also needed.

Combined with increased delivery through country platforms, action in these areas could add up to a more streamlined and effective delivery architecture. While not a substitute for reduced concessional finance, this could at least mitigate *some* of the harm caused by cuts to official development assistance (ODA) budgets:

> Provider governments, as the core funders of the vast majority of planning initiatives and the shareholders of MDBs and vertical climate and environmental funds (VCEFs), have the power to resolve disjointed delivery caused by insufficient high-level dialogue at the level of portfolio development. This could include major providers of climate finance holding regular dialogues at a sufficiently senior level to understand which donors are active where, and to jointly set priorities.

> Providers could also address the broad lack of strategic and upstream co-ordination, including as a large number of country donors (including the UK, Germany, Canada and the European Commission) actively consider their multi-year climate finance strategies. This will be particularly important as many climate-progressive countries seek closer collaboration in the context of geopolitical challenges.

> Issues of governance also need to be addressed, implementing domestic policy frameworks to attract private capital. This could include expanding the use of “one-stop shops” which provide long-term policy support.

E3G

Country platforms

Over recent years, political attention has been focused on the design and delivery of country platforms. A large number of countries have expressed interest, and numerous platforms, at different levels of maturity, are being developed with the aim of securing investment. Some of the more mature current proposals relate to Brazil, Colombia, Egypt, Türkiye and Senegal.

Implemented well, platforms can ensure that delivery is more country responsive and create stronger mechanisms for ensuring coherence in support and visibility to domestic and international investors.[48] Given the criticality of country ownership, local actors like national development banks (NDBs) play a critical role in supporting national governments to develop and implement country platforms. This can include working with a relevant MDB or climate fund among a wider effective support architecture to bridge the gap between planning and investment.

To harness momentum ahead of COP30 (and beyond) it is critical that the next wave of country platforms lay the groundwork for a responsive, coherent and scalable delivery model. To do so, donors must proactively engage with and seek to match the ambition of candidate countries. Discussions around support need to crystallise into concrete mechanisms and initiatives that respond to and meet the challenges expressed by countries developing platforms.

Where systemic or common gaps exist across platforms – such as for "fast start" finance for early platform development, in the generation of sectoral investment plans, or in the need for risk absorption mechanisms like guarantees – donors should consider how to service these as part a wider effort to build coherence in the climate finance architecture.

Beyond national planning, there is a need to optimise coherence and efficiency more generally within the VCEFs – like the GCF, the GEF, the Climate Investment Funds (CIFs), the Fund for Responding to Loss and Damage (FRLD) and the Adaptation Fund (AF). This should aim firstly to enhance and simplify access to concessional climate finance. Secondly, it should ensure these critical funds help

[48] E3G, July 2023, **Next generation country platforms**

underpin and plug into a more coherent and effective wider architecture. Recent G20 Sustainable Finance Working Group recommendations provide a useful set of options for how to streamline existing funds and improve harmonisation, and should be fully implemented by each fund.[49]

Specifically, the boards should prioritise:

> Joint capacity building efforts, including the creation of a single readiness facility. Funds should also adopt a more purposeful approach to building the capacity of direct access entities from SIDS and LDCs, creating a pipeline approach that starts with the AF and GEF before working up to accreditation at the GCF.

> Developing and formalising data sharing and knowledge exchange among the funds to coordinate process reform, share best practices, and work jointly towards greater efficiency.

> Harmonising systems for measurement and reporting to reduce burden on recipient countries, including through common IT solutions.

Additionally, there has been a history of bilateral finance delivery decisions being made in isolation or to enable announcements at summits rather than to respond to recipient needs. One report estimated that there were over 130 climate trust funds at the MDBs in 2017, a number that likely has not decreased much given there are rarely incentives to close down a funding window even if new contributions are minimal.[50]

Donors should work with both each other and funds to instil a more disciplined approach that ensures each fund is working to its respective strengths, funnels money into existing pools and minimises proliferation, implementing a high threshold that any new fund must be filling a gap that no existing mechanism can. This should include discussions at the level of climate finance strategy and portfolio development, which rarely happen between major donors, and will be all the more important to mitigate negative impacts of cuts to funding as governments consider which countries to retain a continued presence in. Beyond generally improving transparency and co-ordination, dialogues could inform decisions on where to maintain specialist personnel on the ground (particularly

[49] Independent High-Level Expert Group Review of the Vertical Climate and Environment Funds (G20), October 2024, **Accelerating Sustainable Finance for Emerging Markets and Developing Economies**

[50] GiZ, June 2020, **Climate Change-related Trust Funds and the Multilateral Development Banks**

E3G

where they share general development partnerships, as recently agreed between the UK and EU) and consideration of pooling of funds.

Increasing the scale of mobilisation via public levers

Any credible pathway for reaching the $1.3 trillion goal will also require an increase in absolute levels of public finance – from concessional and non-concessional sources. This must build on the shifts outlined in the previous section to pave the way to a more conducive regulatory and fiscal environment and to create a more effective delivery architecture. The following measures will need to be delivered for international public investment to play its critical role in the scaling of finance flows into developing countries:

> **Continuing on a pathway to bigger, better multilateral development banks**. MDBs are the most cost-effective way to channel public finance. In the context of cuts to aid budgets they will be all the more important to reach scale. While the politics of capitalisation and MDB boards have become more challenging, there remain major inroads that can be made to increase both the scale and impact of MDB climate investments.

> **Increasing the deployment and effectiveness of public finance instruments to de-risk wider investment flows**. Public finance instruments like guarantees can be used increasingly as a tool for absorbing risk and reducing the cost of capital in fiscally constrained countries. Public finance institutions can also do more to move on mature assets rather than sitting on them to maturity.

> **Restoring and increasing the supply of concessional and grant-based capital**, which the IHLEG found needs to double by 2030 to meet the Paris goals.[51] This will take political leadership, even with constraints on public budgets resulting from isolationist policies, conflict and intersecting crises. But donors must find creative ways to scale up their provision of finance to avoid spiralling costs and unmitigated climate impacts in the medium term.

At the same time, available sources of concessional finance should be deployed both efficiently and effectively. To maximise efficiency, concessional finance needs to be spent strategically to promote public goods, develop nascent technology and markets, or maximise leverage of private finance.

[51] Independent High-Level Expert Group on Climate Finance, November 2024, **Raising ambition and accelerating delivery of climate finance**, p. 22

Furthermore, DFI institutions – bilateral or multilateral – must improve the rate at which they mobilise private capital, as well as their ability to promote risk-sharing of investments into developing countries. Taken together, this suite of solutions can push climate finance beyond existing flows and make significant progress toward closing the climate investment gap.

Building bigger, better multilateral development banks

The leveraging abilities of MDBs mean they are able to amplify public finance contributions. An individual dollar in shareholder capital leads to four dollars in additional lending; more innovative instruments, such as guarantees and hybrid capital, can turn this into a six- or eight-fold increase.[52] As budget cuts begin to impact funding decisions, donor governments should strongly consider prioritising spending for MDBs that have a good track record on results and setting out compelling plans to increase effectiveness in delivery.

Decisions by many donors to protect replenishments of the International Development Association (IDA) – the world's biggest source of adaptation finance – suggests that the need to protect multilateral financial institutions is widely acknowledged. The next major test this year will be the replenishment of the African Development Fund, the African Development Bank's concessional lending arm and a critical provider of concessional support to an increasingly indebted and climate-vulnerable continent.

MDBs have been the biggest providers of international public climate finance, and at COP29 forecast that their lending to developing countries (for the most part based on current policies and capital availability) would reach $120 billion by 2030, with a further $65 billion delivered through greater mobilisation. This showed institutional leadership and helped secure the new global climate finance goal, but remained short of the core aim of recent efforts – consistent with both IHLEG assessments and outlined in G20 reports on Bigger, Better MDBs – to triple lending levels to nearly $400 billion by 2030. Such a scale up could yield around $200 billion in climate finance.[53]

The pathway to tripling MDB lending reflects widespread acknowledgement that MDBs are sitting on capital and could make better use of their balance sheets through a series of efficiency measures such as those outlined through the G20

[52] World Bank Group, 19 April 2024, **New financing tools receive major funding boost**

[53] G20, 2024, **G20 Roadmap Towards Bigger, Better, and More Effective MDBs**

endorsed Capital Adequacy Framework (CAF) review recommendations.[54] These include recalibrating risk models, enhancing internal processes, and engaging credit rating agencies to better account for some of the distinct features of MDBs (such as callable capital) through rating methodologies. None of the above measures would require new shareholder contributions.

Reaching the full potential of the MDBs will also require new capital to further increase lending capacity, maintain levels of concessional finance and ensure that lending terms are attractive to borrowing countries. If CAF reforms are implemented fully, only tens of billions in additional capital would be required to sufficiently scale lending,[55] alongside other means of providing support such as re-channelling of SDRs.

Recent political developments – in particular cuts to aid budgets and uncertainty over positioning of the US administration relating to IFIs – have made the previously envisaged pathway to tripling more challenging (including due to a need to secure board-wide deals for new capital and governance arrangements). But there remain measures that can be carried forward in the short term to increase the impact of MDBs on climate finance. These include:

Advancing balance sheet optimisation measures that can increase the size of MDBs with minimal need for new resources.

> Some of these measures – such as better accounting for special features of MDBs in CRA assessments and recalibrating hyper-conservative equity-to-loan (ETL) ratios can yield immediate impact: the Asian Development Bank (ADB) recently unlocked $10 billion per year, and the World Bank freed up $7 billion annually by adjusting its ETL floor from 20% to 18%.[56] All major MDBs could make similar adjustments without risking downgrades, as affirmed in recent ratings analyses from CRAs.

> Also among the measures considered to have the highest potential is greater recognition of callable capital – a form of contingent liability backed by sovereign shareholders – as part of MDBs' usable capital base. Current accounting practices currently exclude this from lending calculations, and its

[54] Expert Panel tasked with the Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks, 2022, **Boosting MDBs' investing capacity**

[55] G20, 2024, **G20 Roadmap Towards Bigger, Better, and More Effective MDBs**

[56] World Bank Group, October 2024, **World Bank Group Announces New Financing, Adjusts Pricing Terms**

E3G

partial incorporation could expand lending capacity significantly.[57] Given recent political developments are likely to give rise to doubts that all shareholders would pay up in the unlikely event such capital being called upon, shareholders should consider measures that can provide greater assurance in order to free up lending capacity. An immediate measure (which would only require a subset of shareholders to implement) is the use of "enhanced callable capital". At the World Bank, this could generate up to $25 billion in new lending annually through minor adjustments to the treatment of a modest share of callable capital (e.g. 15%) that would not impact its treatment on shareholder balance sheets.

Using innovative measures to inject capital now, while charting a longer-term path to fuller capitalisation.

> Alongside further CAF measures, MDB general capital increases (GCIs) are among the most cost-effective means of boosting development, climate finance and international co-operation. GCIs require agreement from both financial and governance teams across the boards of MDBs. In the current politics and as governments contend with trade-offs arising from development cuts, the short-term outlook for a GCI across the World Bank Group appears diminished. Shareholders may also wish to continue to review how climate policies and broader dynamics across institutions evolve before deciding where to prioritise efforts in the coming years (with regional development banks – from European-led institutions like EBRD and EIB, to institutions with alternate shareholdings such as the AIIB and NDB – providing alternative avenues). The G20 Roadmap on Bigger, Better MDBs, calls for a framework to regularly assess capital adequacy of MDBs, and a transparent and comparable process for implementing this could help inform such decisions by shareholders.[58]

> While considering these options, there are more ad-hoc tools that MDBs and their shareholders can use to inject capital today. In particular, **hybrid capital** has a huge amount of untapped potential to increase lending capacity. Hybrid capital is structured as subordinate debt but with equity-like characteristics. It qualifies as new capital on MDB balance sheets without requiring a GCI. It can be mobilised from both public and private sector sources, and has huge scale potential: one of the major CRAs has suggested they are content for MDBs to raise hybrid capital up to around 33% of their

[57] C. Humphrey, C. McHugh, E. White and B. Getzel, April 2024, **Maximising the developmental impact of MDB callable capital**

[58] G20, 2024, **G20 Roadmap Towards Bigger, Better, and More Effective MDBs**

overall equity,[59] with high leveraging potential meaning that around $60 billion per year in hybrid capital could translate to over $300 billion in increased MDB lending capacity.[60] Further, shareholders are theoretically able to both preference hybrid capital for particular uses (including climate and related sectors) *and* use hybrid capital injections as a downpayment on a future GCI (which could be helpful for countries seeking to manage turbulent development budgets in the coming years). A major expansion of hybrid capital from both public and private sectors offers a clear short-term route to inject capital.

> **Sovereign guarantees** also offer opportunities for expansion, though with a greater reliance on shareholder financial support. The UK's "Room to Run" guarantee enabled the ADB to unlock up to $2 billion in additional lending – a tenfold leveraging effect with minimal fiscal outlay. The World Bank's portfolio guarantee platform aims to convert $11 billion in pledges is expected to unlock $70 billion in lending over a decade. Similar structures can be replicated and deployed across the MDB system.

Maintaining MDBs' climate ambition and driving further progress through upcoming strategy refreshes**.** As outlined through E3G's Public Bank Tracker Matrix,[61] a huge amount of progress has been made in aligning the portfolios of the MDBs with climate goals.

2025 will be a critical year for protecting this progress and ensuring the MDB system continues to contribute towards a climate-safe planet. There are several strategic inflection points. In Europe, 2025 will see the update of EBRD's Green Energy Transition approach, while the EIB will update its Climate Bank Roadmap. Taken jointly with the EU considering its future budget and the role of the Global Gateway, both offer an opportunity to set out how European institutions are responding to development cuts and supporting efforts to promote green and resilient growth, especially in the European neighbourhood. The AfDB and IDB's Climate Change Action Plans – which have guided their pioneering regional work – also expire at the end of 2025, while the IsDB will publish a Green Sustainability Strategy in 2026.

These updates will also offer the chance for MDBs to revise and evolve climate finance targets (with COP29's $120 billion forecast based largely on existing

[59] Standard & Poor's, 2023, **African Development Bank's Proposed Inaugural Hybrid Notes Rated 'AA-'**

[60] Center for Global Development, March 2024, **One Small Step for the AfDB, One Giant Leap for all MDBs**

[61] E3G, Public Bank Climate Tracker Matrix, webpage: **https://www.e3g.org/mdb-matrix/**

E3G

policies). This should in particular include a review of how target-setting for adaptation could be enhanced to place a greater focus on impact and quality rather than adaptation as a percentage of overall climate finance.

Finally, the World Bank's Climate Change Action Plan (CCAP) has been extended for one year, providing a degree of short-term certainty regarding its climate policies. Looking to next year, there is an opportunity to better integrate the Bank's work across global public goods – including nature and biodiversity – through a *Liveable Planet Action Plan* to set out how it will fulfil its new vision statement. More immediately, the Bank is reviewing its energy policy, which will need to reconcile suggestions by its leadership that it will take a more agnostic approach to energy sources with its longstanding commitments to align its portfolio with the Paris Agreement that are supported by the majority of its board. It will be important that the Bank does not go backwards on its fossil policies – especially for coal and upstream and midstream gas. And at the same time, major contributors should engage lower income countries to better understand at a higher political level potential solutions to energy access and security challenges. This will ultimately rely on clear, Paris-aligned long-term strategies, and the Bank is well placed to support the development of these and the sharing of them with the wider transition finance community.

Navigating all of these challenges will require close collaboration between new alliances, in particular to form coalitions among climate-progressive shareholders across the Global North and Global South. As well as headline climate targets, this opens up the opportunity for practical dialogue on how the MDB system can play a greater role in supporting a response to some of the concerns limiting client country demand for climate finance. These include responding to debt concerns by supporting the mobilisation of concessional finance and the use of longer-tenure loans; ensuring there are incentives to "go green" and for other public goods by scaling mechanisms like the World Bank's Financial Framework for Incentives (FFI), responding to challenges over access to finance and helping to broker wider investment through country platforms. Many of these are dealt with elsewhere in this report, though recommendations based on analysis of individual banks can be found through the E3G Public Bank Tracker Matrix.[62]

[62] E3G, Public Bank Climate Tracker Matrix, webpage: **https://www.e3g.org/mdb-matrix/**

E3G

Increasing the deployment and effectiveness of public finance instruments to de-risk wider investment flows

Reductions in the volume of concessional finance mean that providers of public climate finance need to become more effective at mobilising the private sector. This means the development finance system playing a greater role as an absorber of risk and in supporting solutions which lower capital costs.

While there are some cases of individual initiatives succeeding in mobilising the private sector at scale, in general private finance mobilisation rates from public climate finance have not increased over time. The need for a shift in approach is reflected in the NCQG, which for the first time via the $1.3 trillion goal recognises the need for measures to indirectly mobilise private finance.

Central to this challenge is the effective deployment and **scaling of blended finance instruments**. While overall levels of blended finance have grown over time, the ratio of private finance mobilised per dollar of public finance spent has remained stagnant. Many of the factors limiting greater success relate to macro-economic, policy or regulatory hurdles covered elsewhere in this briefing. Lack of consistent data availability also contributes (including failure to resolve confidentiality challenges in order to make blended finance data from initiatives like the GEMS database public). The critical step to truly scale blended finance – creating standardised instruments that can be replicated in highly divergent contexts – is heavily reliant on the resolution of these challenges.

While there is a continued need to experiment with new models of financial innovation to uncover scalable solutions or tackle bespoke financing challenges – such as through CPI's Global Innovation Lab – there is also a pressing need to move to scale with known, simple tools. While these wider challenges persist, **large pooled funds offer the best potential to do this given their intrinsic ability to generate scale, centralise knowledge and navigate complexity**. Donors should therefore strongly consider pooling concessional funds – either using the vertical climate funds or dedicated facilities like the ICF Frontier Opportunities Fund – with an emphasis on early-stage de-risking and long-term investment (e.g. in equity) and avoiding further fragmentation of the landscape caused by the creation of multiple single-donor funds. Such funds could work in concert with existing DFI partnerships like the International Development Finance Club (IDFC) or the Association of European Finance Initiatives (EDFI), and also work closely with those countries seeking to advance country platforms in the short term.

Moving beyond the broad challenges of blended finance, **guarantees** are increasingly recognised as a means by which public instruments can help support private finance at scale. While widely used in domestic contexts, guarantees have to date played only a minor role in international climate finance.

This is changing on a number of fronts. The World Bank Group aims to triple MIGA – its risk insurance arm – by 2030. The EU is increasingly using guarantees under the European Fund for Sustainable Development Plus (EFSD+) in tandem with direct investment through its Global Gateway. The German government convenes a wide range of shareholders through the Green Guarantee Group. And national development banks are increasingly seeing the potential for guarantees to play a role in freeing up their balance sheets, including through work undertaken through the IDFC. Conversely, the US was previously a major source of guarantees for climate finance, particularly in Africa through its Power Africa programme – and reductions in US support pose both an opportunity and a gap in the region.[63]

Guarantees offer particular value for the energy transition given that many energy projects are essentially safe investments but are capital intensive and located in regions facing high costs of capital. They are particularly cost-effective where private risk perceptions – among both investors and CRAs – may not align with actual project performance, as is suspected in many developing countries including in Africa (which has recently sought to tackle this issue through the launch of its own regional CRA). While very context specific, independent analysis has also demonstrated that in many cases minor tweaks to how guarantee instruments are operationalised or accounted for can significantly increase the scope for guarantees with no or very minor impact on donor government balance sheets.[64]

There is a clear opportunity and groundswell of momentum for guarantees to play a greater role, at relatively low cost to donors and with potentially great gains to beneficiaries facing high capital costs. To take this forward:

> Specific avenues can be explored as donors refresh their climate strategies – notably in the EU (given its existing EFSD+ programme) and the UK (given the City of London's leading insurance expertise and the government's experience supporting MDB guarantees).

[63] Center for Global Development, February 2025 **What we're losing: Energy, Growth and Power Africa**

[64] CETEX, June 2025, **What's next for international climate spending in the UK under the new fiscal rules?**

E3G

> Given the high capital cost but relatively safe nature of energy investments, MIGA should prioritise green energy guarantees as it seeks to triple lending.

> Conveners such as IDFC and the Global Clean Power Alliance (GCPA) could also take up delivery of green guarantees as a core mission aim, with a view to showing meaningful progress by COP30.

Finally, an additional more recent trend has been the use of models which do more to **sweat the existing assets of public finance institutions**. This includes:

> Approaches which allow existing climate funds to use existing assets to raise **green bonds**, which bring forward additional investment. This has been piloted by the CIFs through the Clean Technology Fund's Capital Markets Mechanism (CCMM), which raised $500 million through a bond-issuance that was six-times over-subscribed.[65] This model has clear scale potential and could be replicated both within the CIFs and in other funds such as the GCF.

> Models which see MDBs and other DFIs use **securitisation and originate-to-share models to aggregate assets and sell them on to private investors**, freeing up their own balance sheets or local capital for re-investment. Following the launch of its Originate to Distribute Model, the IDB has recently highlighted a model which would see it work to securitise mature and safe investments and on-sell to institutional investors (for instance in Europe). This is a highly scalable model, and it is difficult to put an upward limit on its potential. But its success will rely on appropriate incentives for local institutions to sell on profit-making assets, an assurance regime that institutional investors are comfortable with, and additional resources to service additional administrative costs, all of which require adjustments to business models, incentives and some degree of transaction cost. Other banks have proposed such models, for instance through the IFC Warehouse Enabled Securitisation Programme.

> The Tropical Forests Forever Facility (TFFF), highlighted by the COP30 Presidency as a major potential COP outcome, also includes a financing model that would rely on income from an investment portfolio. This would, however, require seed funding from donor governments and philanthropy.

[65] Climate Investment Funds, 14 January 2025, **CIF Capital Markets Mechanism (CCMM) makes historic debut with inaugural $500 million bond**

E3G

Restoring and increasing concessional finance through a wide range of levers

While ODA will never be sufficient in of itself to drive the transition, there is a clear need to restore the base of concessional finance. Even with ambitious action across systemic and policy levers, dedicated resources are necessary for capacity building, risk absorption, catalysing wider investments and supporting activities that do not return profit. This is true across nature, energy and adaptation, though the type of support needed (and when) varies for each.

Recent cuts to development budgets have hampered confidence and, beyond their impact on climate action, will have profound impacts on lives, livelihoods, and stability. At the time of writing cuts of up to $31 billion been made to aid budgets of major donors, exacerbating the geopolitical divide between North and South.[66] This is despite ever stronger evidence that international support – even without factoring in the immense global good and political benefits of climate finance – offers benefits to both the provider and the recipient.

Progress can be made in three key areas:

Tapping into novel sources of finance

Even before recent aid cuts, for many years a range of measures have been proposed to channel finance currently flowing to polluting activities towards international climate finance. These range from financial transactions and wealth taxes, through to fossil fuel subsidy reforms and specific levies on polluting activities. Carbon markets may also play a role, though with compliance markets including the transfer of emissions reductions to developed countries and voluntary carbon markets declining in size despite greater alignment between integrity standards, it is clear that greater public incentives are needed to ensure finance mobilised by them is truly additional.

Following years of stagnation in turning talk into action, the Global Solidarity Levies Taskforce was launched at COP28 and will set out its findings ahead of COP30. This will provide a litmus test for whether countries have the political will to drive progress on this issue, with the Taskforce taking an inclusive approach which allows countries to participate even if they have reservations about some of the proposed measures. Many consensus-based international processes will face challenges in reaching agreement, and coalitions of climate-progressive governments will need to work together to drive through reforms in such bodies or to pilot such instruments among a coalition of the willing.

[66] Donor Tracker, May 2025, **The Budget Cuts Tracker**

There are two specific areas that should see a renewed focus in order to make material progress this year:

> Implementation of the IMO Shipping Levy and design of the Net Zero Fund, which is expected to generate $10 billion per year. While largely focussed on in-sector measures, the fund does include provisions to support capacity building efforts as well as to mitigate impacts on vulnerable states. Discussions on the fund will continue in October 2025, which if all goes as planned is expected to distribute funds beginning in 2030.[67]

> Carbon Border Adjustment Mechanisms being introduced in the EU and UK. There is a clear rationale for these mechanisms (intended to prevent industrial carbon leakage and to incentivise decarbonisation) to be treated separately from general taxation, given they are imposed on exporters. Short-term revenues are limited (for the EU estimated at €1.5 billion by 2028), but not immaterial given how scarce concessional finance is likely to be for deep mitigation measures. Using revenues for supporting decarbonisation in affected regions could ease diplomatic and trade tensions and underpin efforts to build green industrial partnerships.

Building coalitions with new and emerging providers

The world has changed drastically since the development of a number of norms that have defined international negotiations on climate finance, starting with the adoption of the UNFCCC in 1992. Both wealth and emissions are less geographically concentrated. Large emerging markets have embarked on international investment and development programmes which in many cases dwarf the finance of longstanding donors. China, for instance, delivered an estimated average of $3 billion per year in climate-related finance to developing countries in recent years, making it the sixth largest contributor without accounting for finance that is not publicly trackable.[68] South Korea is the tenth largest GCF donor, having pledged $600 million.[69] Saudi Arabia has provided a $100 million development loan to Grenada for climate-smart infrastructure.[70] The last two COP Presidencies – the UAE and Azerbaijan – both sought to establish public–private funds aimed at mobilising private finance.

[67] IMO, April 2025, **IMO approves net-zero regulations for global shipping**

[68] E3G & ODI Global, May 2025, **A Work in Progress: China's climate-related finance to developing countries**

[69] NRDC, March 2025, **Green Climate Fund Pledges Tracker**

[70] SFD, October 2023, **Saudi Fund for Development Signs First $100 Million Development Loan Agreement to Establish a Climate Smart Infrastructure Project in Grenada**

E3G

Given that these countries also have a strong interest in both the global clean economy and global resilience, these trends will continue. It is reasonable that countries with comparable wealth and emissions are partners in the delivery of climate finance. Achieving this in practice will require a step-change in diplomatic engagement in climate finance delivery, breaking down historic divides between Western "donors" and others. This is all the more important in a time of unpredictable politics, and requires the acknowledgement of climate change as an issue that requires long-term collaboration that can withstand geopolitical turbulence.

Operationally, this means new contributors being welcomed into longstanding dialogues and shared funds as equal partners, donor co-ordination "reaching across the aisle" beyond conventional coalitions, deeper diplomatic engagement at the boards of IFIs, and the development of collective strategies to mobilise finance for country plans. MDBs not dominated by Western shareholdings – such as AIIB and IsDB – can be key in catalysing this shift, as can the deployment of country driven models which enable recipients to engage with multiple possible sources of investment and support.

Rebuilding political confidence among traditional providers in the case for international support

Despite challenging fiscal constraints, the case for international climate finance is overwhelming. Supporting growth in international finance is highly cost-effective in reducing emissions, critical for protecting development gains and essential for maintaining buy-in to global action that underpins security and stability. Donors should come forward with clear strategies and commitments for maintaining and increasing climate finance in the coming years ahead of COP30, and Brazil should help build this expectation and create the appropriate political moments for announcements from key donors.

As part of this, there will be a need to reinforce political confidence in the mutual benefits of international co-operation. Building a strong track record of results and case studies that demonstrate success is also critical. As will demonstrating that partnerships aimed at enhancing development outcomes will build closer relationships between countries.

A case in point is support for green industrialisation, where support can reduce emissions, create local green jobs and build links in the interconnected supply chains of the global clean economy. Such partnerships between economically

E3G

entwined regions (for instance, via the EU Global Gateway in the EU neighbourhood) can increase mutual prosperity.

Provided this sits alongside a drive to increase transparency and collaboration outlined in the previous section, countries should therefore look to couple their capital support with deep multi-year capacity building partnerships, which can significantly deepen wider economic and trade relations. This is skill- and people-intensive and requires flexible, multi-year budgets, but can significantly increase effectiveness at no additional financial cost.

It is likely that – reflective of the wide range of public finance levers needed to meet the needs of the transition – future climate finance pledges will make use of a wider range of instruments than ODA alone: also encompassing tools including debt-relief instruments, guarantees, export credit agencies and the work of public finance institutions like DFIs.

To ensure quality of finance, enable comparability between donors and build trust, it will be important that in setting out future climate finance pledges, governments are clear within any climate finance pledge that encompasses these overall strategies how much of their climate finance is being funded through genuinely new, grant-based resources. This would align with the approach taken by some existing donors, such as Germany's approach of having a clear budget allocation for climate finance as well as a "public mobilisation" target.

Multilateral engagement on climate finance

Climate finance has become an increasingly systemic issue over the last decade, resulting in multilateral negotiations expanding beyond the UNFCCC into a wide range of other fora. This has included evolution under the G20 of working groups including the Sustainable Finance Working Group and the International Financial Architecture Working Group. These have provided specialist channels, in addition to the welcome incorporation of climate issues into other areas of traditional economic diplomacy including financial regulation, fiscal policy, environment, development, security and trade.

This is on top of a range of more technical or practitioner-focused fora like the NGFS, Finance in Common and Coalition of Finance Ministers for Climate Action. Finally, increased attention to climate finance has developed in increasingly influential multilateral settings beyond the G7 and G20 such as BRICS summits and the V20.

E3G

Recognising the cross-cutting nature of climate and finance, the 2024 Brazilian G20 Presidency established the Taskforce on CLIMA, which brought together finance and leader tracks and enabled the G20 to reflect whole-of-government exchanges on climate. This same spirit has been carried forward by the incoming Brazilian COP30 Presidency, who are undertaking engagement across ministries as they develop the Baku to Belém Roadmap.

To be most impactful, multilateral diplomacy must combine technical expertise with those able to make decisions to enact change. The G20 will remain a key setting for these, especially following a broadening of its membership through the incorporation of the African Union. Safeguarding the future of G20 working groups is therefore key.

Given the current politics of climate in many multilateral contexts, countries should consider how to safeguard the future of G20 work, or strategies for accelerating political and technical progress in other fora. This could also provide an opportunity to take stock after the proliferation of climate finance diplomatic venues to ensure they are as effective and non-duplicative as possible, and to strengthen both coherence and effectiveness of work beyond the G20.

One option could be for the South African G20 Presidency in 2025 – in collaboration with the Brazilian COP30 Presidency – to commission a stocktake of multilateral initiatives working in climate finance with a view to enhancing effectiveness, which could report into the G20 Presidency in 2027 following the US. This would both safeguard G20 work and provide a vehicle for the COP30 Presidency's work on the Baku to Belém Roadmap to feedback into the G20. It would also help build a common understanding among finance and other ministries on the division of labour between fora, potential gaps and duplications, and how non-finance and finance-tracks intersect.

Meanwhile, the UNFCCC has struggled to adapt to a much broader scope on finance across the technical and political tracks. It has been accused of not having the reach to finance ministries to address core underlying challenges regarding the scale of and access to public climate finance for developing countries, while also not having the authority to speak to many fundamental issues limiting finance such as debt and prudential regulation.

If the UNFCCC is to play its full role in building momentum to achieve the goals of the Paris Agreement, it must play to its strengths in mobilising finance. Building on its role on mitigation, this could include a greater focus on building high-level

momentum for collective goals, monitoring finance flows, and ensuring an inclusive multilateral space especially for climate-vulnerable countries. This could include a greater focus on leader level pressure to spur action and exchange on priorities, with technical negotiations more focussed on operational matters (including relating to climate funds), peer exchange, transparency, accountability and real efforts to attract finance under the action agenda.

There is an immediate opportunity to take this forward as part of wider efforts to modernise the COP process, with the culmination of the Sharm el-Sheikh Dialogue on Article 2.1c and the delivery of the Roadmap both occurring at COP30.

E3G

RECOMMENDATIONS

Achieving the $1.3 trillion goal will take time. But the world cannot wait. Major transformations begin with initial actions. We propose the recommendations below as first steps – achievable in the next 1–2 years – which can be delivered with a critical mass of governments and financial institutions even in the challenging current political and economic context.

For each recommendation, we have outlined the broad "building block" on which action is needed and provided tangible, implementable measures. Together, these measures can accelerate progress in getting the financial system on the right course to achieve climate-safe economic prosperity by mid-century. Achieving this is a critical component of any safe and prosperous vision for the future.

Our recommendations run from systemic measures that will take time, such as co-ordinated international action on fiscal space and prudential regulation, through to targeted measures that can be implemented immediately, such as jurisdictional regulatory interventions or measures which use public finance more effectively.

Freeing up fiscal space in developing countries

1. Finance ministries should take concrete steps towards easing debt burdens for developing and climate-vulnerable countries

Without addressing high global debt burdens it will not be possible to scale up climate finance at the pace and scale required.

Means of making progress in the short term include:

a. Within existing frameworks, creditors should make use of the full range of available debt instruments, such as debt swaps, debt buy-back or debt pause clauses.

b. Negotiation periods for debt restructuring could be shortened by pursuing simultaneous negotiations between creditor types with clawback clauses for bilateral creditors, building on the IMF's ongoing work with the Global Sovereign Debt Roundtable. The IMF could also provide support by offering standardised methodologies for comparability of treatment of creditors.

E3G

c. Jurisdictions whose legal systems typically govern sovereign debt contracts (e.g. UK, New York) could make legislative changes which shift incentives away from minority holdout and avoid legal action that would provide private creditors with better terms than public creditors.

2. Major economies should collaborate to increase fiscal space in developing countries and to protect developing countries from climate-related macro shocks and liquidity constraints

These actions make it more feasible for developing countries to invest in climate goals.

Means of making progress in the short term include:

a. A new SDR issuance would be impactful but may not be immediately politically feasible. IMF shareholders should consider and communicate the economic conditions under which they could make their next new issuance of SDRs, including how such an issuance could be distributed fairly to support global economic resilience by shoring up fiscal space in the most vulnerable countries, e.g. as part of the future evolution of the RST and PRGT. In addition, IMF shareholders should work with MDB shareholders and central banks to quickly launch pilot schemes hosted by MDBs which re-channel existing SDRs into hybrid capital that can be used to leverage private investment. Such schemes should be tested now so that they could potentially be scaled up in the event of a future issuance.

b. Governments should focus efforts on scaling up the availability of tools which can provide protection to developing countries against climate-related macro risks and liquidity constraints, e.g. climate-resilient debt clauses, clear eligibility criteria for nature and climate-related debt swaps, parametric insurance and catastrophe bonds. In addition, they should invest in enabling worldwide global public availability of climate risk data. Collaboration can take place through existing initiatives such as the G7/V20 Global Shield initiative,[71] and the strategic partnership between the Insurance Development Partnership and the Bridgetown Initiative,[72] as well as in new partnerships and coalitions.

[71] See **Global Shield website** for more information: globalshield.org

[72] Insurance Development Forum, June 2025, **Press release: Insurance Development Forum and Bridgetown Initiative announce strategic partnership to drive deeper integration of insurance into climate, development and resilience finance frameworks**

E3G

c. IMF shareholders can work to ensure that the Low-Income Debt Sustainability Analysis co-developed with the World Bank evolves to fully reflect climate- and nature-related risks and recognise risk management, including by accounting for fiscal savings from resilience investments, making use of a new high-resilience financing scenario, and extending the projection timeline over a longer period to better account for climate vulnerability. An important next step will be to agree which countries will test the revised methodology, demonstrating its benefits for debt management.

Regulatory approaches to mobilising private capital

3. Central banks and supervisors should accelerate actions to fully recognise and address climate risks

Financial stability cannot be achieved unless climate risks are fully recognised. Failure to do this may have unintended consequences for mobilising finance to climate goals. Central banks and supervisors should not always wait for full international consensus before taking leading actions.

Means of making progress in the short term include:

a. Central banks and supervisors can step up international cooperation to support capacity building on scenario analysis. This will enable central banks in developing countries to better map the risks they are exposed to and the trade-offs inherent in applying different policy tools. Increased collaboration can take place through the consultative groups supporting both the FSB and BCBS, as well as bilaterally (e.g. through work done in relation to memorandums of understanding) and through the NGFS.

b. Central banks and supervisors can act together or individually to further address climate-related risks and opportunities by ensuring appropriate calibration of risk weightings to the risk profile and characteristics of climate aligned/misaligned assets, and of risk-sharing tools and mechanisms such as blended finance and guarantees. This will help to reduce short-term sectoral biases which favour high-emitting economic activities.

E3G

4. Financial regulators have a strong role to play in setting investment conditions for private investors

The rules of the financial system set expectations and incentives for private sector firms and are a powerful lever to drive change.

Means of making progress in the short term include:

a. Finance regulators should set mandatory requirements and expectations at the jurisdictional level for private sector firms to disclose climate risks and to conduct climate transition planning in line with the goals of the Paris Agreement as well as relevant national and sectoral plans and pathways, drawing on relevant international principles, frameworks and guidance. Regulators should also support efforts to increase interoperability and science-based convergence of green and transition taxonomies.

b. International standard setters, regulators, governments and MDBs should urgently communicate to credit ratings agencies their expectation for climate risk and risk management to be adequately integrated into methodologies, including by taking account of "climate-smart" debt analysis by the IMF and World Bank, and by extending the time horizon covered by their ratings. They should also build on work being done to offer ratings for local currency guarantors and funds investing in local currency assets, and support industry collaboration to share data on asset performance in developing countries.

c. Countries with ambitious climate goals should lead on investment treaty reform, aligning these treaties with broader efforts to mobilise climate finance. For reform measures to have a meaningful impact on facilitating Paris-aligned investment flows and accelerating climate action, states should consider terminating existing treaties and excluding ISDS in future treaties or at minimum removing investment protection offered to fossil fuel investments.

Creating a more effective delivery architecture for international finance

5. Climate finance providers should act more coherently to support developing countries in establishing the right policy and regulatory frameworks to attract high-quality international support and investment.

While plans must be defined and delivered at the national level with local ownership, there are immediate actions the international community can take to support coherence and build capacity.

E3G

Means of making progress in the short term include:

a. Focusing on accelerating impactful delivery against a small number of country platforms, delivering 5–10 high-quality platforms by COP30. Focusing on delivery of a small number of the most mature platforms can enable better delivery and pave the way for a longer-term agenda to normalise country platforms as a core means for delivering climate finance. This should include dedicated support and extension of credit lines to national development banks to best enable them to deliver on local priorities.

b. Building capacity and capabilities to adopt and respond to new regulatory norms for sustainable finance, including disclosures, taxonomies, and transition plans, in order to help developing countries access private investment – including capacity building support to finance ministries, regulators and central banks. This could be through initiatives such as the IFRS Partnership Framework for capacity building, the Capacity-Building Alliance of Sustainable Finance, and the International Transition Plan Network. Development finance providers should increase their focus on building upstream policy frameworks which support inward investment for climate goals through dedicated capacity building support to central banks, regulators and finance ministries. Increased and co-ordinated support for MRV, in particular, offers the potential of a triple dividend in supporting countries meet sustainable finance requirements, track emissions and potentially access high integrity carbon markets.

c. Supporting the development of instruments that can provide investors with clarity and confidence in long-term policy direction. This should include the development of detailed sectoral investment plans, with an emphasis on these plans being made public and accessible to international investors, and capacity support for the development of cross-government co-ordination structures and climate councils. This should also include rationalisation of initiatives developing sectoral plans, to reduce the risk that multiple versions of national transition plans have the perverse effect of increasing rather than reducing investor uncertainty.

6. Governments should lead a drive to radically improve collaboration and effectiveness in delivery of public development finance

The reduction in public development funding means it is all the more important that the climate finance delivery architecture is more effective and efficient. A step change in collaboration and prioritisation will be critical in mitigating the impact of budget cuts.

E3G

Means of making progress in the short term include:

a. Reducing duplication and redundancy in the climate finance architecture through improved coherence and harmonisation of the VCEFs, fully implementing and building on G20 recommendations. The CIFs should continue to push programmatic approaches in frontier areas like industrial decarbonisation, while the major UNFCCC funds should be kept at a credible level. Beyond that, donors should resist the urge to establish new mechanisms unless there is an exceptional value case and seek to wind down dormant funds.

b. Drastically improving upstream donor co-ordination, particularly to ensure national planning, data and pipeline creation efforts are coherent and knowledge outputs are shared among the donor and delivery community rather than retained within organisations. This could include the establishment of a high-level dialogue or co-ordination mechanism among key donors, delivery partners and international financial institutions to make the allocation of scarce resources more strategic and to increase accountability between funders and major delivery partners like the MDBs and vertical climate funds.

Increasing the scale of mobilisation via public levers

7. Providers of climate finance should increase the deployment and effectiveness of public finance instruments to de-risk wider investment flows

With the direct provision of concessional and grant-based resources under severe threat, where possible the international public finance system should pivot towards a greater role in risk absorption, helping to crowd in private sector investment which is lacking due to risk perception and high costs of capital. This can in turn free up more grant-based resources for where they are most needed.

Means of making progress in the short term include:

a. Drastically increasing the use of public-backed risk absorbing instruments, including scaling up guarantees. There are specific opportunities through the planned tripling of MIGA and the evolution of the European Union's EFSD+, while other MDBs and sovereign funders could also expand the use of a range of sovereign and non-sovereign guarantees. These could be particularly valuable where they can reduce the cost of capital at no or low cost to donors, particular where relatively safe investments in developing countries

face disproportionately high risk perception (for instance, energy investments in emerging markets).

b. Making much wider use of capital recycling mechanisms, building on the success of the CIF's CCMM model, to use existing assets to bring forward green investment at a time of urgent need. This model is scalable and could be replicated in other large climate funds, including the GCF. A similar approach to raising funding based on future revenues is central to the proposed TFFF.[73] Within the MDB context, current proposals from the Inter-American Development Bank would add to growing examples of MDBs securitising performing assets in developing countries and selling them as safe investments to institutional investors, who in turn recycle the proceeds into further investments. Scaling up such models has immense scale potential to bring forward investment at low or no cost to donors, especially in revenue-generating sustainable infrastructure.[74]

c. While accelerating work to remove regulatory and standardisation barriers limiting the success of blended finance at scale, funders should focus effort on pooling resources into larger funds in order to maximise learning and economies of scale.

8. Shareholders should continue to pursue bigger, better and more effective multilateral development banks

Reductions in the supply of new finance will make the leveraging ability of the MDBs all the more important. They are the most cost-effective means for reaching scale in international public finance. The G20 Roadmap towards Bigger, Better and More Effective MDBs provides a blueprint for achieving a tripling of MDB lending, which will require both new capital and an increase in measures to optimise MDB balance sheets.

Means of making progress in the short term include:

a. Implementing cost-free measures that can provide an immediate boost to MDB lending. Notably through under-utilised balance sheet efficiency measures such as converting a small share of their callable capital into "enhanced callable capital (ECC)", which could immediately boost lending by $25 billion per year, and pursuing similar mechanisms at other institutions.

[73] Tropical Forest Forever Facility – About TFFF, **https://tfff.earth/about-tfff/**

[74] Inter-American Development Bank, 13 March 2025, **A Baku to Belem Roadmap to '1.3' and Beyond**

E3G

b. Finding means of injecting new capital which taps into a wider range of financing sources and avoids the need for collective negotiations. In particular, increased use of hybrid capital (provided by both governments who have available capital and private sector sources) could significantly increase MDB climate finance forecasts beyond the $120 billion provision commitment made at COP29.

c. Building coalitions to safeguard alignment of MDBs with climate goals through upcoming strategy updates at major MDBs, with the EIB, EBRD, AfDB and World Bank Group all going through climate strategy refreshes in the next two years.

9. Climate finance providers should work towards the restoration of international support budgets, including through the identification of new sources of concessional finance

Unprecedented cuts to public budgets for international development will inevitably have an adverse impact on climate action. While there is much that can still be done to engender systemic change and make the most of remaining funds, the need to increase concessional resources will remain imperative.

Means of making progress in the short term include:

a. Raising new sources of finance, including working through the IMO to ensure the planned net zero levy is implemented on time and delivers concessional finance to vulnerable countries. Governments implementing CBAMs – which given their nature should be distinct from general taxation – should strongly consider allocating revenues towards climate finance for developing countries for mitigation. Finally, governments considering individual measures should seek to join and support the work of the Global Solidarity Levies Taskforce, ahead of it reporting by COP30.

b. Continuing to broaden the base of climate finance contributors, learning from the success of the 21st IDA replenishment and building on the political acknowledgement at COP29 that a wider range of contributors will contribute to the NCQG. This should include a practical focus, for instance bringing new partners into donor co-ordination through the boards of the IFIs and climate funds and via collaboration on country platforms.

c. Working to rebuild political confidence in international co-operation and restore budgets. Whilst there remains both a moral and economic case for supporting development, building broad political support at a time of backlash may include highlighting the importance of building out

development partnerships between regions with entwined interests and greater demonstration of mutual benefit. Donors in a position to do so should set out climate finance pledges urgently, being clear about the levels of new budgetary resources that will be allocated. The Brazil COP30 Presidency could consider how to best build political momentum for their announcements and others' in the lead up to and at COP30 in Belém.

Multilateral engagement on climate finance

10. Governments should ensure there is an appropriate space to advance multilateral cooperation on climate finance

Climate change is a global challenge which requires effective multilateral processes. The G20 has emerged as a crucial forum for international norm-setting, but the positioning of the incoming US Presidency has brought into question the future of some of its key working groups. The increasing acknowledgement of broader finance issues by the UNFCCC has also raised questions over the ability of the international climate negotiations process to contend with financing challenges beyond its traditional remit.

Means of making progress in the short term include:

a. Efforts should be made to both preserve a space for structured multilateral engagement and to ensure that discussions are undertaken by those able to take decisions (including finance ministries and leaders). To enable this, the South Africa G20 Presidency could, as an outcome of this year's SFWG, initiate a stocktake on the coherence of multi-lateral initiatives working on sustainable finance (looking across relevant G20 working groups, work under the UNFCCC such as the Baku to Belém Roadmap, and voluntary initiatives such as the Coalition of Finance Ministers for Climate Action). This could provide recommendations to a inform a future G20 Presidency on how to most effectively structure technical and political work, following the US Presidency in 2026.

b. Co-create an updated and streamlined international understanding of the role of the UNFCCC process on finance, with a focus on monitoring finance flows, ensuring accountability and building political momentum. The UNFCCC process cannot determine international financial reforms (for instance on debt or prudential regulation). But these areas are critical for delivering the Paris Agreement and it is clearly in the interest of the international community for COP meetings to help build momentum on them. The Baku to Belém Roadmap and culmination of the Sharm el-Sheikh dialogue at COP30

provide an optimal moment to rationalise agenda under the UNFCCC and ensure fit-for-purpose discussions moving forwards. Leader-level moments at COP can be used to exert political pressure to make and deliver on commitments, with technical negotiations focussed on transparency and operational matters such as those related to the UNFCCC climate funds.