Making Global Finance Work for Climate-Resilient Development

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Veredas Dialogue on Article 2.1(c) and Article 9
UNFCCC, Bonn 2026

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The Investment Gap & the Transition Paradox

- Massive climate and SDG investment needs in developing countries.
- Actual private climate finance is only a fraction of needs, particularly for adaptation and resilient energy infrastructure.
- Prudential rules and the global “financial rulebook” shape the cost of capital for the energy transition.
- Core paradox: countries contributing least to emissions face the highest capital costs to finance their transition.

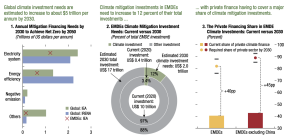


Figure 1: Estimated Climate Investment Needs, IMF Financial Stability Report (2023)

Financial
- High sovereign spreads
- Currency risk
- Limited long-term finance

Regulatory
- Basel III risk weights
- Incomplete climate-risk integration

Institutional
- Weak project pipelines
- Limited technical capacity

International
- Fragmented standards
- Complex climate-finance access

Key message:

Current rules amplify perceived risks instead of reducing actual risks.

Financial Regulations: How It Sees (or Does Not See) Climate Risk

Two paradoxes:

- High capital charges for climate-vulnerable sovereigns (LDCs, SIDS).
- Underpricing of forward-looking climate risk in advanced economies.

Climate risks ...

...influence capital requirements, lending decisions and ultimately the cost of climate finance.

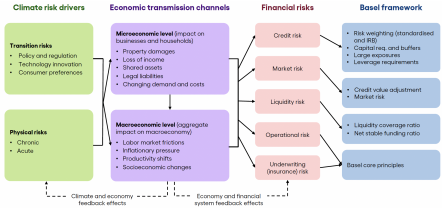


Figure 2: Financial risks, climate drivers, their transmission mechanism and financial regulations

Climate risk	Transmission	Basel III tool
Physical risk	Loan losses, collateral damage	Credit RWAs, provisions
Transition risk	Asset repricing, stranded assets	Market RWAs, stress tests
Liquidity risk	Runs, margin calls	LCR, NSFR
Operational risk	Legal, reputational events	Op-risk capital, Pillar 2

Table 1: Climate-related financial risks, transmission channels and Basel III responses.

Spatial Coverage & Intensity of CRFP Adoption

- 40-country database: high concentration of CRFPs in OECD and some large emerging economies.
- Sparse and fragmented adoption in LDCs and SIDS.
- Misalignment between climate vulnerability and density of climate-related financial regulation.

Binding vs voluntary:

- Only 43% of policies globally are binding
- OECD: more binding requirements in disclosure and prudential domains.
- EM: Green bonds, ESG guidance, credit quotas
- LDCs, SIDS: few policies, mostly donor-backed green bonds and greater reliance on voluntary guidelines.
- LDCs and SIDS often move directly to green bond issuance and allocation rules due to acute financing needs.

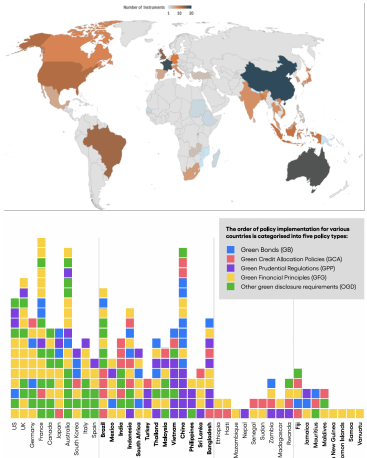


Figure 3: Spatial coverage, total number of CRFPs per country

A Comparative Matrix Across Four Country Groups and Core Findings

- Combine emissions, vulnerability, climate finance inflows and regulatory readiness.
- Strong asymmetry:
  - High emitters with strong regulatory capacity.
  - Low emitters with high vulnerability and limited prudential toolkits.
- Yet Basel risk weights and prudential rules are largely group-neutral.

Three observations emerge:

- Climate vulnerability is highest where regulatory capacity is weakest.
- Cost of capital remains highest where climate investment needs are greatest.
- Current international financial rules do not adequately recognize climate vulnerability or risk mitigation mechanisms.

	Emissions	Vulnerability	Climate finance	Reg. readiness
OECD	High	Low–moderate	Moderate	High
Emerging	High	Moderate	Moderate	Medium
LDCs	Very low	High	Low	Low
SIDS	Very low	Very high	Low/volatile	Low

Table 2: Comparative matrix: emissions, vulnerability, climate finance and regulatory readiness.

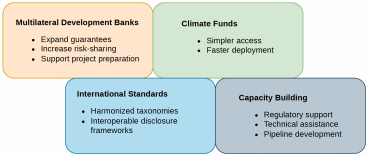
What Regulators, International Cooperation and Private Finance Can Do

Regulators...

1. Integrate climate risk into supervisory frameworks.
2. Expand climate stress testing and scenario analysis.
3. Improve prudential recognition of guarantees and blended finance.
4. Strengthen climate disclosure standards.
5. Align financial stability objectives with transition pathways.

Better risk recognition can lower financing costs without compromising stability.

International Cooperation



Private Finance

The challenge is not mobilizing capital.

One Size Does Not Fit All

- **OECD:**
  - Integrate climate into IRB models and stress tests, deploy BPFs on high-carbon assets.
  - Support cross-border green lending via guarantees and blended vehicles.
- **Emerging economies:**
  - Sectoral RWA adjustments for green sectors and pilot BPFs for coal/oil/gas.
  - Strengthen taxonomies and supervisory capacity.
- **LDCs & SIDS:**
  - Tailored capital relief for green sovereign-backed projects.
  - Heavy use of MDB guarantees and blended finance.
  - Focus on adaptation and resilience infrastructure.

Group	Risk focus	Reg. tool	Key partner
OECD	Transition	BPF, stress tests	BCBS, NGFS
Emerging	Both	Sectoral RWAs	MDBs, DFIs
LDCs	Physical	Capital relief	MDBs, funds
SIDS	Physical	Adaptation focus	MDBs, insurers

A New Climate Finance Compact

Make Risk Visible

Integrate climate risk into financial decision making.

Make Risk Shareable

Scale guarantees, blended finance and MDB participation.

Make Investment Bankable

Build pipelines, institutions and enabling conditions.

Financial stability and climate resilience are complementary objectives.

Climate finance is not constrained by a shortage of global capital.

It is constrained by how risk is perceived, regulated and shared.

Link to the Report: HERE

Thank you for attention !
Questions, comments, and suggestions are very welcome!

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