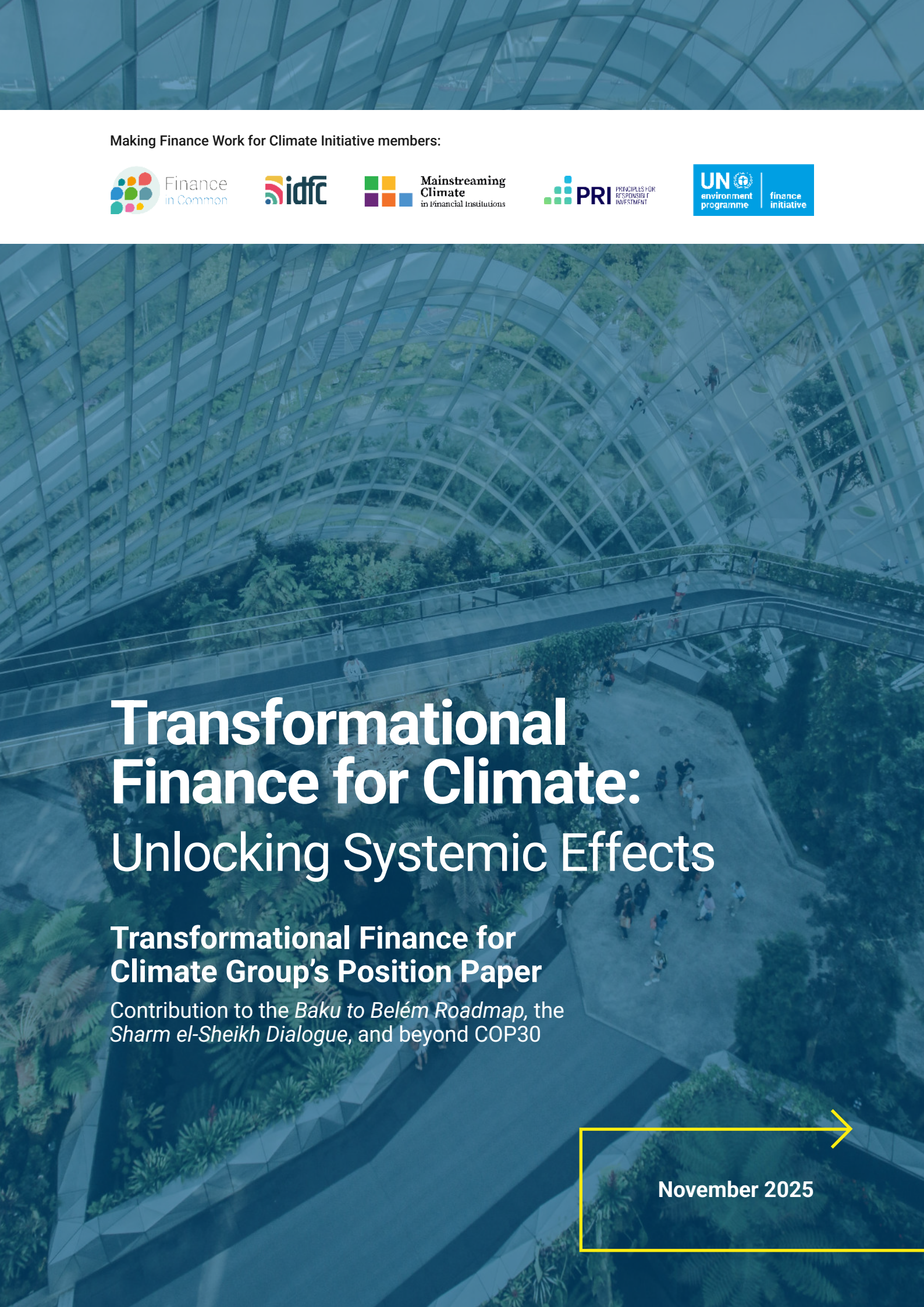
Making Finance Work for Climate Initiative members:



Transformational Finance for Climate: Unlocking Systemic Effects

Transformational Finance for Climate Group's Position Paper

Contribution to the *Baku to Belém Roadmap*, the *Sharm el-Sheikh Dialogue*, and beyond COP30

November 2025

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Executive summary

Transformational Finance for Climate Group



The Group's proposed position paper

- **Calls for the promotion and characterization of Transformational Finance for Climate**
- **Outlines pathways for defining and putting transformational finance for climate into practice**
- **Aims to amplify the collective voice of financial actors in unlocking finance that generates systemic effects through joint approaches**
- **Contributes to multilateral processes: the *Baku to Belém Roadmap* and *Sharm el-Sheikh Dialogue***

Rethinking finance for climate. Globally, finance for climate is still too often fragmented, short-term, and project-based. To deliver the scale of change the Paris Agreement envisions—including the *Baku to Belém Roadmap* target of USD 1.3 trillion a year by 2035—and contribute to the Sharm el-Sheikh dialogue, systemic approaches are essential.

A collective voice for systemic change. The Transformational Finance for Climate Group (Group) is part of the Making Finance Work for Climate Initiative launched in 2024,[1] with the shared understanding of transformational finance as high-quality investments that accelerate the transition in a manner that is country-driven, low-emission, climate-resilient, and just. It brings together the collective voice of public development banks, institutional investors, commercial banks and climate funds, representing thousands of financial institutions across developed and developing markets, in a whole-of-financial sector approach. The Group outlines foundations and a shared theory of change for a more strategic and impactful use of finance, addressing systemic barriers and leveraging catalytic opportunities.

Turning theory into action. Building on existing experience and analysis, the Group outlines practical pathways for implementation. Financial institutions can drive economic transitions by advancing enabling reforms, facilitating stakeholder transitions, fostering

1 Making Finance Work for Climate (2024): Position Paper

innovation, and strengthening capacity. Together, these levers reduce structural risks, mobilize capital at scale, and redirect finance where it is needed most.

Inputs to multilateral processes. The Group's collaborative approach comes in support of ongoing multilateral processes such as the Sharm el-Sheikh Dialogue and the *Baku to Belém Roadmap* and complements the COP30 Circle of Finance Ministers' Report by presenting how the global financial system can deliver just, inclusive, and resilient climate transitions, while helping shape a more coherent and durable global framework for transformational finance.

The road ahead. The Group will continue advancing the transformational finance for climate agenda, contributing to its characterization and implementation and helping public and private actors deliver tangible systemic change across economies and communities. It will support the New Collective Quantified Goal (NCQG) and the *Baku to Belém Roadmap*, and the work of the Standing Committee on Finance (SCF), fostering collaboration across the financial system to shape the next generation of the global finance-for-climate architecture.

Key insights: Transformational Finance for Climate

Moving beyond isolated projects to long-term, strategic finance for systemic effects.

Adaptation is urgent and must be made investable, alongside mitigation.

Enabling environments, policies, and incentives shape markets and unlock scale, and must be supported.

Collective action makes transformation possible.

- **Transformational finance goes beyond isolated projects.** It is long-term, strategic, and aligned with national priorities and the Paris Agreement. By addressing structural barriers and activating key levers of change, it seeks to shift entire systems and deliver lasting, economy-wide transformations for both decarbonization and resilience.
- **Adaptation is integral to this shift:** as climate impacts intensify, investment in resilient infrastructure, water systems, and climate-smart agriculture must rise, especially across the Global South. Transformational finance can make such projects bankable and investable—turning necessity into opportunity and ensuring adaptation and mitigation progress together.
- **To achieve scale, enabling environments, policies, and incentives must send clear signals to markets.** When fiscal, economic, and regulatory frameworks reward low-emission and climate-resilient choices, capital follows. Transformational finance supports the design and deployment of such frameworks—including coherent policies, sustainable finance taxonomies, disclosure standards, and incentives that create investor confidence and a level playing field.
- **Strong frameworks alone are not enough.** Translating ambition into tangible results requires collective action across the financial system. Governments—particularly ministries of finance—set fiscal and regulatory direction, while public development banks (PDBs) act as agents of systemic change, bridging domestic needs with global priorities, supporting policies, taking early risks, and crowding in private capital. Alongside vertical climate and environment funds, they channel concessional finance, de-risk investment, and strengthen institutional capacity. Private investors mobilize capital at scale, seeking long-term value and supporting a just transition. Working together through joint approaches, these actors can help translate climate ambition into investable, systemic transformation.

Key action: Incentivize and mainstream Transformational Finance for Climate frameworks into the global architecture

The Transformational Finance for Climate Group advocates for the:

- **Launch of a global dialogue on the characterization of Transformational Finance for Climate**, for example, under the COP processes or the NCQG, to consolidate, pilot, and promote a common set of guiding principles. The objective of this dialogue is to promote transformational finance for climate interventions based on their country relevance, systemic ambition, and durability. It should also help identify actionable levers to drive long-term transformation. To this end, it could draw on existing experience as well as research from leading think tanks, ensuring the approach is both evidence-based and policy-relevant.
- **Promotion of a global adoption** of shared definitions and frameworks for transformational finance for climate (e.g. via NCQG, SCF, Global Stocktake (GST), and COP30/31).
- **Integration and implementation of these transformational principles across the finance-for-climate architecture**, including through NCQG reporting, SCF reports, PDBs and other financial institutions' strategies and activities.

Justification: The multilateral actions above could lay the foundation for a collaborative framework on transformational finance for climate by establishing shared definitions, methodologies, and incentives. This coherence is essential to guide institutions, align public and private efforts, and embed transformational principles across the global finance architecture. In particular, the characterization of transformational finance is an essential step to enable PDBs to act as agents of change, including through evolutions of their mandates, governance or resources, to prioritize mobilization, innovation, and transparency, ensuring finance is deployed strategically and efficiently, aligned with national strategies and NDCs, and to crowd in private finance in a structural manner.

Outcomes: The actions aim to facilitate greater consistency, transparency, and accountability in finance flows, with concessional and public resources increasingly channelled toward country-led, system-level interventions. Strengthened institutional capacity to assess and reward transformational potential of finance, fostering trust, policy alignment and catalytic investments that deliver lasting, scalable change beyond project-level results.

Next steps: Delivering the outcomes requires coordinated action across the financial system:

- **Operationalize actions listed above** through joint approaches linking public (including concessional) and private finance across countries and sectors.
- **Support country-led identification** of systemic and transformational investment priorities.
- **Ensure transparency** through accessible data on risk-return profiles.
- **Foster coordinated public-private collaboration**, for example via country platforms.

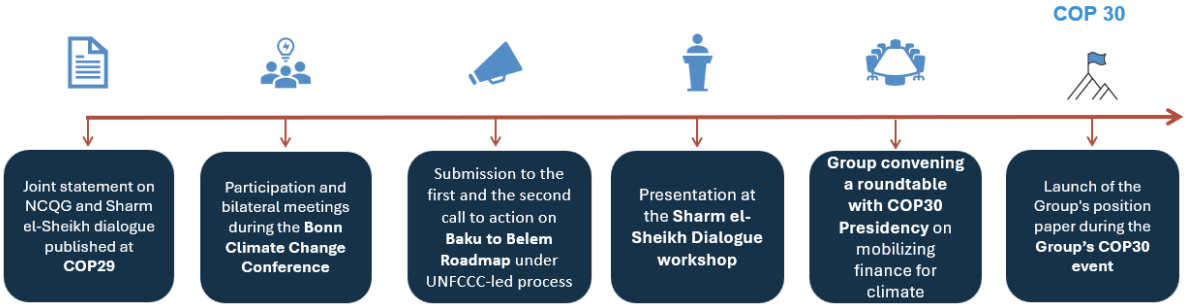
Transformational Finance for Climate Group

The Transformational Finance for Climate Group (Group): Formed as an action from the Making Finance Work for Climate Initiative launched at COP29, the Group brings together thousands of leading public and private financial actors from developed and developing countries, representing more than 40% of global financial assets. Members include the International Development Finance Club (IDFC), the Finance in Common System (FiCS) General Secretariat, United Nations Environment Programme Finance Initiative (UNEP FI), the Principles for Responsible Investment (PRI), and the Mainstreaming Climate in Financial Institutions Initiative.

Partnerships across the financial system: The Group also works closely with key partners such as the GCF, as well as the Network for Greening the Financial System (NGFS), NZAOA, and the Net-Zero Export Credit Agencies Alliance (NZECA), making it a unique platform for coordinated action and consolidated input into global finance processes.

Supporting global processes: The Group actively contributes to different COP and multilateral processes such as the NCQG and the *Baku to Belém Roadmap*, and the Sharm el-Sheikh Dialogue, through policy engagement, joint publications, and participation in corresponding events. Its earlier COP29 NCQG and Sharm el-Sheikh dialogue joint statement and ongoing work ahead of COP30 has helped align key actors and initiatives behind a common vision for transformational finance for climate.

Transformational Finance for Climate Group:
Advancing the Baku to Belem Roadmap and Sharm el-Sheikh Dialogue



About this position paper on Transformational Finance for Climate

This position paper presents the Group's contribution to the *Baku to Belém Roadmap*, the *Sharm el-Sheikh Dialogue*, and COP30 and subsequent deliberations. It calls for a systems-level approach that relies on the identification and characterization of Transformational Finance for Climate, along with considerations on volumes of climate finance to deliver optimized, country-driven effects aligned with national priorities and the Paris Agreement. Building on the Group's COP29 joint statement, it draws on research from WRI, I4CE, and CPI.

The paper outlines how public and private actors—from development banks and multilateral funds to institutional investors and commercial banks—can collaborate to deliver Transformational Finance for Climate to accelerate climate action including by reorienting and mobilizing financial flows for climate.

By collaboratively identifying the most actionable levers for scaling finance and its efficiency for climate outcomes, the paper comes in support of multilateral processes such as the *Sharm el-Sheikh Dialogue* and *Baku to Belém Roadmap*. It complements the *COP30 Circle of Finance Ministers' Report* by presenting an integrated perspective to improving the quality and quantity of finance for both mitigation and adaptation, showing how financial actors can support and accompany coordinated policy, fiscal, regulatory, and institutional action, and laying the groundwork for a coherent, inclusive, and durable global framework for transformational finance.

1. Moving from needs to finance flows for climate

Moving from needs to finance flows for climate

- **Off track:** The net zero, climate-resilient transition is slipping behind.
- **Skewed flows:** Of USD 1.9 trillion in 2023, developing countries saw only 10%.
- **Stuck gears:** Structural barriers still blunt the effectiveness and fairness of finance for climate.
- **Proof it can scale:** MDBs hit a record USD 137 billion in 2024.
- **The solution:** Transformational Finance for Climate to turn ambition into system-wide results.

Despite mounting evidence of accelerating climate impacts—from intensifying extreme weather to growing adaptation challenges—the global transition to a net-zero, climate-resilient economy remains off track. A persistent gap between current national pledges and the scale of action required to meet the Paris Agreement's 1.5°C goal places the world on a trajectory of 2.5–2.9°C warming by century's end.[2] This shortfall underscores not only the urgency of accelerated action, but also the need for a new approach to financing for climate action: one that prioritizes structural, long-term transformation over incremental gains. Although falling technology costs have lowered some barriers, they cannot replace the need for strategic, front-loaded investment in system-wide change.

While global climate finance flows reached USD 1.9 trillion in 2023, the vast majority was concentrated in advanced economies. In contrast, developing countries—where needs are most acute—received just USD 196 billion, of which only USD 46 billion was allocated to adaptation—far below estimated requirements.[3] Moreover, most institutional investors' portfolios in emerging markets remain highly concentrated in a few large economies and a few sectors, with a small share of the investment reaching lower-income developing countries, let alone Least Developed Countries and Small Island Developing States.[4] Additionally, current financing mechanisms often focus on short-term, project-level results rather than enabling long-term, structural, economy-wide transformation.

Several critical challenges continue to constrain the effectiveness and equity of finance for climate. Vulnerable and underserved regions remain chronically underfunded, facing persistent barriers to accessing both public and private capital. Financial flows often

2 Climate Action Tracker (2024): 2100 Warming Projections: Emissions and expected warming based on pledges and current policies

3 Climate Policy Institute (2025): Understanding the Quality of Climate Finance

4 ODI Global (2024): Reassessing the potential for European institutional investment in emerging markets and developing economies

remain misaligned with national pathways for development, including low-carbon and resilient development. Substantial volumes are directed toward activities that are incompatible with these pathways—or worse, that risk locking in a future that is high-emission, transition risk-prone, and vulnerable. Addressing these systemic shortfalls requires a shift toward enabling frameworks for the right kind of investment and corresponding finance. This includes reforming policies, strengthening risk-sharing mechanisms, and creating investment incentives that make country and Paris-aligned activities structurally more attractive than non-aligned ones, especially in emerging and developing economies.

Mobilization is possible, as evidenced by multilateral development banks (MDBs) reaching a record USD 137 billion in climate finance in 2024.[5] The challenge now is to build on this momentum by balancing mitigation and adaptation, ensuring resources are strategically used and reach the most vulnerable, following through on the political direction set by the FFD4 Sevilla Commitment.

Transformational Finance for Climate offers a path forward. This type of climate finance focuses on the quality, strategic deployment, and systemic effects of capital-aligned with country-led priorities. It can bridge mitigation and adaptation, catalyze private investment, and build resilience at scale. This integrated, high-impact approach is essential to closing the implementation gap and delivering an orderly and just transition.[6] The *Baku to Belém Roadmap* and *Sharm el-Sheikh Dialogue* and their follow-up present a timely opportunity to incentivize and unlock high-quality, transformational finance for climate and accelerate its contribution to the goals of the Paris Agreement.

5 EIB (2025): Multilateral development banks hit record $137 billion in climate finance to drive sustainable development worldwide

6 The 6th IPCC assessment and NCQG decision paragraph 4: "Notes the findings of the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, including the urgency of climate action; that finance, technology and international cooperation are critical enablers for accelerated climate action; that if climate goals are to be achieved, both adaptation and mitigation financing would need to be increased manyfold; and that there is sufficient global capital to close the global investment gap but there are barriers to redirecting capital to climate action, and that governments, through public funding and clear signals to investors, are key in reducing these barriers".

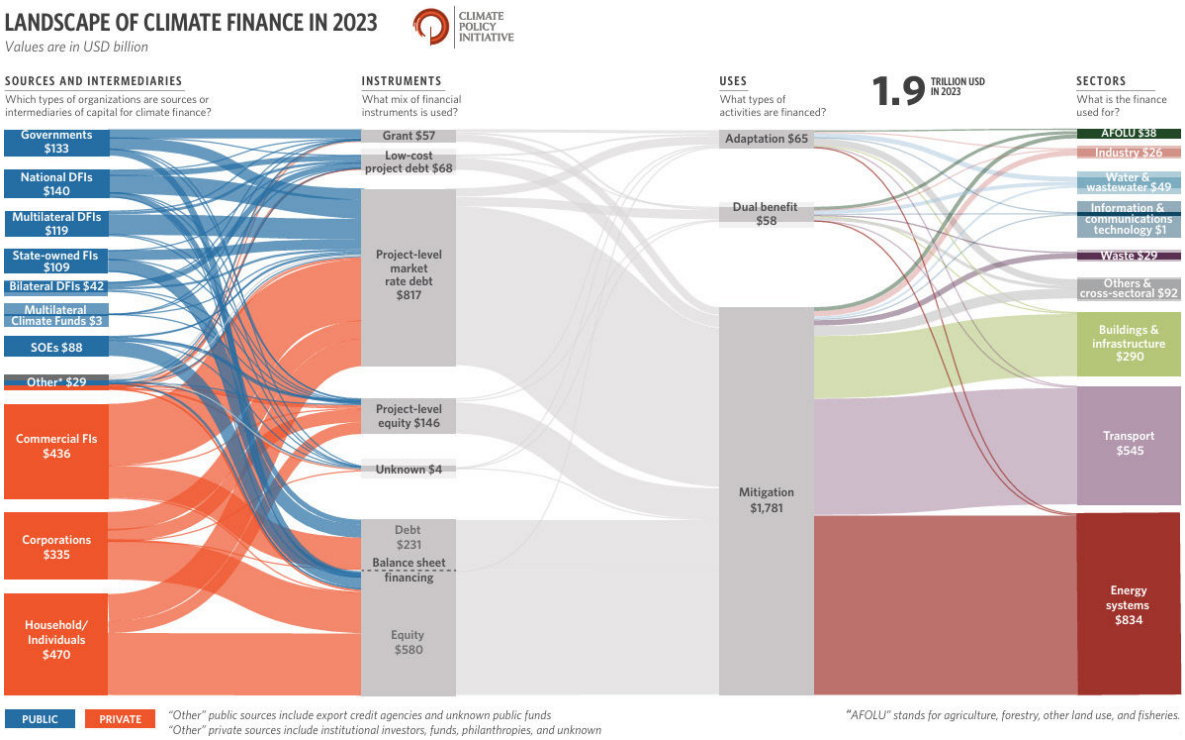


Figure 1: Landscape of climate flows in 2023 (CPI 2023[7])

7 Climate Policy Institute (2025): Understanding the Quality of Climate Finance

2. Efficient deployment of finance for climate: Transformational approach

Transformational Finance for Climate…

- **targets systemic barriers** that hinder, and catalytic levers that enable, the transformation of economic and financial systems towards low-emission and climate-resilient development.
- **drives change that extends beyond individual projects**, influencing systems, sectors, and communities.
- **anchors interventions in national contexts and alignment with the Paris Agreement**, ensuring long-term relevance, sustainability, and systemic impact.
- **operates across multiple levers**, advancing enabling environment reforms and policy measures, facilitating public and private transitions, fostering innovation, and building capacity to mainstream best practices.
- **delivers durable, system-wide transformation**, even if measurable outcomes take time to emerge.
- **underpins the scaling of both mitigation and adaptation efforts** across economies.

A. Transformational Finance for Climate: Theory of change

Transformational finance for climate aims to address systemic barriers that prevent—and catalytic levers that can enable—the transformation of economic and financial systems to achieve low-emission, just, and climate-resilient development. It aims to accelerate change by creating the enabling conditions needed to mobilize and redirect public and private finance in line with country priorities and the goals of the Paris Agreement—ensuring transitions are lasting, inclusive, and resilient.[8]

Transformational climate interventions have a potential to drive change beyond a single project, transaction or programme: they aim to trigger shifts in markets, institutions, policies, and behaviors over the medium to long term.

The key attributes of transformational finance for climate interventions should be firmly grounded in country contexts and aligned with the goals of the Paris Agreement. They should generate systemic effects, such as being scalable and replicable, unlocking structural barriers, and delivering cross-cutting or large-scale impacts. They should also be durable, demonstrating resilience within the political economy, advancing equity and

8 Cf. the Group's joint statement on transformational finance for climate published at COP29, November 2025

justice, and adopting comprehensive, inclusive approaches. Existing definitions for transformational finance coalesce around the three following attributes:

- **Long-term relevance**: aligns with country-owned pathways for low-emission, climate-resilient development, i.e., long-term strategies (LTS), national development plans, and other domestic planning documents,
- **Systemic impact**: removes foundational barriers within policy, institutional and market structures to drive cross-sectoral changes and innovation, while ensuring resilience to future physical or transition risks, and
- **Sustainability**: ensures the equitable management of trade-offs across economic, environmental, and social dimensions, through lasting stakeholder engagement.[9]

In practice, transformational finance can be deployed across multiple levers and dimensions:

- **Advancing enabling environment reforms and measures** (e.g. sectoral strategies and public policies at large, and regulatory environments—particularly as relating to investments) leading to, among others, the mobilization of capital at scale,
- **Facilitating public and private stakeholders' transitions,**
- **Innovation and introduction/deployment of new technologies and approaches,**
- **Capacity building** and mainstreaming of best practices.

The catalytic role of public development banks (PDBs) as agents of change is critical to those efforts, given their mandates to support whole-of-economy development and ability to support governments and national strategies, build bridges between governments and the private sector, between domestic and international agendas, between global liquidity and microeconomic solutions, and between short-term and longer-term priorities. Beyond PDBs, transformational finance concerns all financial actors, public and private, local, and international, according to their mandates and specific added value. These stakeholders' improved coordination and joint deployment are critical to the mobilization and redirection of investment and to the success of transitions at large.

While transformational finance will take time to yield measurable outcomes, its strength lies in enabling long-term, systemic change. This high-quality finance supports interventions that reshape policies, markets, and investment decisions in ways that are durable and far-reaching. For example, a transformational finance intervention that would accompany a reform of fossil fuel subsidies in favour of renewable energy may not shift the electricity mix overnight—given infrastructure lifecycles and investment timelines—but it can trigger immediate changes in investor confidence and capital allocation. These shifts lay the groundwork for sustained emissions reductions and resilient development.[10]

9 WRI, I4CE, forthcoming publication

10 Climate Policy Initiative: Understanding the Quality of Climate Finance

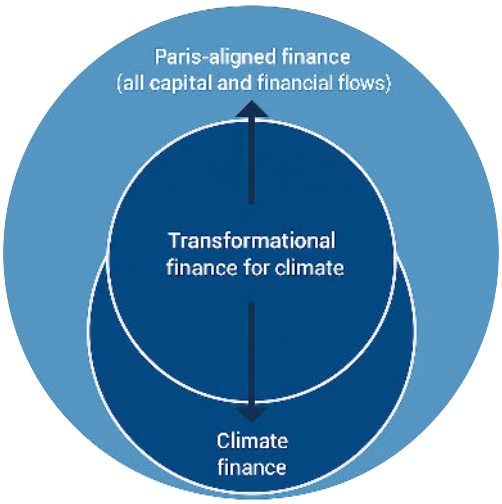


Figure 2: Transformational Finance for Climate, to ramp up the effects of finance for climate and accelerate the Paris alignment of financial flows

Transformational finance provides the systemic foundation for scaling both mitigation and adaptation efforts. By reforming policies, markets, and financial flows, it creates the enabling conditions for public and private investment to align with low-emission and climate-resilient development pathways. Despite being underfunded, adaptation offers major investment opportunities in resilient infrastructure, agriculture, and water systems. Yet private finance naturally flows away from risk, making it essential to anchor adaptation and resilience (A&R) investments as viable opportunities through clear policy signals, taxonomies, and predictable regulatory frameworks. Integrating physical climate risks into credit and investment decisions can strengthen portfolio resilience and reveal new markets, while governments can crowd in private capital through blended finance, risk-sharing tools, and access to climate-risk data treated as a public good. Strong coordination, transparency, and capacity-building will ensure A&R investments not only protect economies but also drive inclusive, just, and lasting transformation. Providing support to all of the above activities is the ultimate raison d'être of Transformational Finance for Climate.

A. Implementing transformational finance for climate: Case studies

To accelerate finance for climate, stakeholders must replicate and scale proven models that deliver systemic, long-term impact. As illustrated in Figure 2, three exemplary initiatives in EMDEs showcase how the strategic deployment of public and private capital can reshape financing ecosystems.

- **In Colombia**, the transformation of the national development bank (Bancóldex) towards stronger sustainability—in terms of governance, strategy, and operations—serves as a key lever for integrating climate and nature considerations across the country's SME and broader business sectors. This effort is supported by the French development agency (AFD).
- **In Brazil,** the Climate and Ecological Transformation Investment Platform (BIP) directly engages private sector actors to align large-scale investment flows with national climate transition and adaptation priorities as part of a coordinated and holistic approach to overcome barriers and highlight solutions to attract investment.

- **The Scaling4Impact (S4I)** risk transfer structure offloaded USD 1 billion in risk from a multilateral development bank (MDB) to private investors, establishing a replicable model for de-risking and capital mobilization at scale.

Colombia
Agence française de développement, AFD USD 100 million + EUR 1 million Technical Assistance

Enhanced governance & sustainability strategy

- Credit line for Colombian SMEs tied to matrix of objectives with 30 triggers on climate, biodiversity and gender
- Technical assistance for enhanced, impact assessment, staff training, and support to client companies

The Bank, a major financer of SMEs and the business sector, is supported by AFD in its transformation towards sustainability in terms of governance, strategy, policies and risk management approaches. This reinforces its ability to finance ambitious Climate and Nature programs on a systemic level. Targets include: increased green lending, methods to analyze Paris alignment, programs for Colombian companies to adjust to increasing environmental standards for exports, and the launch of financial and non-financial products specifically focused on gender.

Brazil Climate and Ecological Transformation Investment Platform
Green Climate Fund ~USD 1 million

Expanding investments in the ecological transformation
The Platform supports climate transition and adaptation plans in eight key sectors:

- With 16 confirmed projects and USD 22.6 billion of potential investments,
- Connecting projects to an extensive network of financial institutions,
- Aligning them with other government programs and plans, and
- Making sure they bring other benefits such as improved quality of life.

GCF's Readiness Grant supported the Platform by removing key barriers, such as insufficient governance and institutional capacity of the secretariat of the Investment Platform and a lack of diversification of funding sources and innovative climate financial mechanisms, as well as through helping increase direct private sector engagement.

Scaling4Impact (S4I)
Inter-American Development Bank (IDB) USD 1 billion synthetic risk transfer (SRT)

First-ever SRT between private investors and an Americas-based MDB

- IDB Invest laid off risks of USD 1 billion to private investors.
- This represents just over 100 loans in 10 sectors and 20 countries.
- Newmarket Capital acted as lead mezzanine investor
- A second tranche was insured by AXA XL and AXIS.
- This freed up USD 500 million for new projects at IDB Invest.

The significance of S4I is larger than its immediate impact.
It serves as a model for future MDB-private sector partnerships by laying the groundwork of creating a replicable innovative blended finance approach. Moreover, it provides investors with new access to EMDEs exposure, using the local expertise and long-standing relationships built by MDBs.

Figure 3: Examples of Transformational Finance for Climate

These examples underscore a key takeaway: Regardless of variations in structure or funding partners, targeted financial innovation combined with strong public-private collaboration consistently delivers transformational results when embedded in local systems and long-term strategies.

3. From isolated projects to systemic mobilization: Key actors driving transformational finance for climate

Key actors driving Transformational Finance for Climate

Scale of ambition: Mobilizing USD 6.3–6.7 trillion annually by 2030 is essential to meet global climate goals.

Shared responsibility: Achieving this transformation requires a whole-of-government approach—no single institution can deliver it alone.

Public finance: Deploying capital through public development banks, vertical funds, and export credit agencies can drive systemic change via targeted instruments and strategic partnerships.

Private finance: Leveraging investment from private investors and banks embeds resilience and just transition goals into mainstream financial practice.

Enabling environments: Ministries of Finance play a pivotal role—their fiscal, regulatory, and policy decisions shape incentives and align capital flows with the Paris Agreement's objectives.

Collaborative dialogue: Strengthening coordination between investors, governments, and PDBs helps identify the right instruments, capital stacks, and enabling conditions to mobilize finance effectively.

Meeting global climate goals will require USD 6.3–6.7 trillion annually by 2030, according to the High-Level Expert Group on Climate Finance—a scale far beyond what public finance can provide alone. Private capital is therefore indispensable. Mobilizing it at scale is critical to financing the transition, particularly as public resources face tightening fiscal constraints. Public and private actors must combine their strengths—policy alignment, concessional finance, risk management, and market innovation—to unlock investment at systemic scale.

No single institution can achieve this transformation in isolation. Public finance must set direction, establish enabling conditions, and crowd in private investment, while private investors and banks bring scale, innovation, and execution capacity. Global initiatives such as the Finance in Common System (FiCS) and the International Development Finance Club (IDFC) help bridge these communities and enable more coherent, catalytic action across markets.

To unlock capital effectively, it is essential to understand investor motivations and constraints,including risk-return expectations, regulatory requirements, and institutional mandates. Regular dialogue between investors, governments, and PDBs can help identify the right mix of instruments, capital stacks, and enabling conditions. Governments and PDBs, both domestic and international, play a pivotal role in linking institutional investors to national priorities and designing frameworks and pipelines that translate ambition into investable opportunities.

This section outlines the key actors and mechanisms that can unlock finance for low carbon and resilient development. It highlights the role of public development banks, vertical funds, and export credit agencies in driving systemic change through targeted instruments and strategic partnerships, and how private investors and banks can act in this context and reinforce this transformation by integrating long-term resilience and just-transition objectives into mainstream investment practice. Together, these actors form the backbone of a global financial ecosystem capable of delivering transformation at scale.

A. Public finance

1. Public development banks

By focusing on addressing the different needs and contexts of the areas where they operate, based on long-term decarbonization and resilience strategies in line with the goals of the Paris Agreement, PDBs can be important transformational drivers, including for the mobilization of financial resources at the scale and pace required. PDBs have joined forces under FiCS to fully seize their potential. PDBs' key role was also recently highlighted in the Outcome document of the Fourth International Conference on Financing for Development (FFD4). There are several ways in which PDBs can act as agents of change:

- **Based on their mandate, positioning, dedicated resources, and experience, PDBs can identify and address systemic barriers and levers.** Operating under mandates to help realize government-led development pathways, they go beyond financing infrastructure and assets to strengthen local enabling environments. This includes providing technical assistance and cooperation on capacity building, long-term low-carbon, just, and resilient development planning, and related regulatory, fiscal, sectoral, and trade policies. In some cases, they also provide substantial policy-based loans that help unlock reforms and processes. By playing this role, PDBs help remove structural market barriers and seize catalytic opportunities for transforming economic systems, while accounting for climate-related risks.
- **In parallel, PDBs can strategically deploy instruments that enhance private sector participation, such as risk-sharing mechanisms, guarantees, and insurance-linked products.** Through early and continuous collaboration with private finance providers, they can co-create and test investment vehicles tailored to the needs of institutional investors.[11]

11 NGFS (2025): Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies

- **Leveraging their deep understanding of local contexts and financial markets, PDBs are also well placed to work with domestic banks and investors to securitize climate investment portfolios, de-risk them, and bring them into global financial systems as investment-grade assets for institutional investors.** ReInvest+, launched by the Inter-American Development Bank Group, illustrates how PDBs can support local banks in issuing investment-grade, hard-currency securities for institutional buyers. Another example is the proposed Global Guarantee Platform—an AAA/AA+ facility developed by IDFC, FiCS, and Multilateral Investment Guarantee Agency (MIGA)—aimed at doubling the number of PDBs accessing capital markets and catalyzing private investment, with pilot transactions expected from 2026.

2. Vertical climate funds

Vertical climate funds (VCEFs) such as the GCF, Global Environment Facility (GEF), Adaptation Fund (AF), and Climate Investment Funds (CIF) have a critical role to play in mobilising finance for climate at scale toward the USD 1.3 trillion, in particular through two strategic approaches, which offer significant potential to driving large-scale, systemic investments:

- **First, by strategically using concessional finance to de-risk other players.** Thanks to their often-higher risk tolerance than other financial actors and a flexible suite of financial instruments, vertical funds are able to de-risk other institutions and mobilize capital at scale, acting as first-movers in emerging and frontier markets (example: Project GAIA).[12]
- **Second, by prioritising programmatic, country-driven approaches, like country platforms.** VCEFs are increasingly shifting toward programmatic approaches that align finance with national priorities, strengthen institutional ecosystems, and enable more coordinated investment (example: country platforms in Brazil[13]).
- **Crucially, these strategies should be implemented with a parallel focus on mobilising adaptation finance and supporting the most climate-vulnerable countries.** While AF is dedicated exclusively to adaptation, GCF operates under a mandate to balance the allocation of resources between adaptation and mitigation, with 58% of GCF's approved portfolio in grant equivalent terms is for adaptation and 42% for mitigation.[14] Similarly, the Global Environment Facility (GEF) supports adaptation projects in Least Developed Countries and Small Island Developing States, having mobilized over USD 14 billion for these vulnerable regions.[15]

12 GCF's USD 152.5 million equity investment in Project GAIA helped mobilize nearly USD 1.5 billion in additional financing toward a blended finance platform that provides long-term loans in 19 of the world's most climate-vulnerable countries, with 70% of its portfolio investments allocated towards adaptation.

13 For example, the GCF is advancing this through its support for country platforms—including in Brazil and the Caribbean—helping to align large-scale finance behind national mitigation and adaptation goals. GCF's grant-based Readiness Programme, with more than USD 650 million approved, is playing a particularly catalytic role by enabling countries to establish the governance structures required and build the local capacity needed to effectively coordinate multiple donors, build strong project pipelines in priority sectors and remove structural roadblocks to investment.

14 GCF has additionally set a floor for a minimum of 50% of its adaptation finance to go to LDCs, SIDS, and African States, who now receive 68% of its adaptation funding.

15 Global Environment Facility: Climate Change Adaptation

3. International trade agencies

- **Export credit agencies (ECAs) and export-import (ExIm) banks are public entities or private companies that act on behalf of a government promoting international trade.** For example, they can make first-of-a-kind or capital-intensive climate solutions financially viable or support deployment of proven clean technologies at emerging markets in markets where commercial capital is scarce or risk-averse.
- **Scaling-up of ECAs support to transition, including in emerging economies, can be accelerated by further policy alignment and transparency,** e.g. through the development of clear and investable NDCs for emerging markets, common work on technological aspects of transition, stronger capital backing and innovative risk-sharing mechanisms, e.g. with PDBs and climate funds, increased transparency, and standardized methodologies.

B. Private finance

1. Investors

Investors are essential partners in unlocking the financial flows required to confront the global climate crisis. Facing mounting financial risks from the wildfires, extreme weather events, and infrastructure damage caused by climate change, asset owners see clear opportunities for improved returns in a low-carbon economy. Although stranded-asset risks may not feature prominently in daily investment decisions, most asset owners operate with long-term liability horizons and aim to ensure asset resilience and value retention over the next decade or more. A smooth transition to a low-carbon economy is better for portfolios over the long term: it is in line with asset owners' responsibility toward their beneficiaries, stimulates economic growth, job creation, and human capital development, and has the potential to reduce inequalities within and between countries. These are all key tenets of ensuring a just transition.

The following points summarize key elements of the NZAOA's second submission to the *Baku to Belém Roadmap* to USD 1.3 trillion:[16]

- **Investors expect policymakers to rapidly scale catalytic capital and remove friction that deters private investors in the short term (by 2028): increase publicly backed catalytic funds, simplify application and reporting requirements, and standardize blended-finance vehicles and risk-sharing instruments to cut transaction costs and time-to-market.** They also support practical steps to grow bankable project pipelines, such as more technical assistance, earlier private-sector engagement in project preparation, and grant-funded project development, to ensure investors find investible opportunities that meet institutional hurdle rates. To amplify impact immediately, investors encourages PDBs to prioritize private capital mobilization, so public funds de-risk and crowd in far larger private flows. It is however important to note that most institutional investors' EMDE exposure is through public markets and only few are directly involved in project finance.

16 unfccc.int/sites/default/files/resource/BB1.3T_NZAOA_Sept.pdf

- **For the medium-to-long term, investors supports systemic policy and institutional reforms that change incentives at scale: governments should adopt clear national and sectoral transition plans (giving investors stable demand signals), implement the Global Stocktake/UAE Consensus measures (e.g., rapid renewables scale-up, coal phase-down, fossil-fuel subsidy phase-out), and align domestic policies with NDCs to shift perceptions of future profitability and unlock sustained flows to EMDEs.** They encourage PDBs to modernize governance and business models, increase their private-mobilization ratios (targeting much higher leverage than today) and harmonize risk definitions and disclosure so rating agencies and investors see lower, more predictable risk in emerging-market climate projects. Together, these reforms aim to make climate investments commercially viable at scale and to redirect multilateral and public finance in general towards catalytic, long-term instruments.

- **Across all time horizons investors emphasizes cross-cutting enablers: better data transparency and reporting to improve credit assessment; regulatory reform to remove prudential disincentives to long-dated, illiquid climate investments; and higher quality, programmatic finance for climate that is country-aligned, predictable, and inclusive of adaptation and just transition outcomes.** They highlight practical initiatives, such as SCALED's effort to promote the use of standardized, ready-to-deploy, blended-finance vehicles and templates, plus more harmonized guarantee designs and frameworks used by MDBs/PDBs, that would reduce incubation time, lower transaction costs, and make blended finance replicable. Finally, investors stress leveraging the whole financial system (insurers, pension funds, PDBs and governments) in coordinated architectures so public instruments catalyze private capital rather than simply substituting it.

2. Banks

Banks play a pivotal and multifaceted role in supporting and spurring on the global economy's transition to a net-zero future in their role as intermediators between savers and real economy companies, providers of risk management solutions and facilitators of capital markets activities. Platforms such as the Principles for Responsible Banking (PRB) provide strong signalling, showcasing leading methodologies and emerging practices, influencing policy and market norms by highlighting banks' approaches, and encouraging peer institutions to raise their ambition levels and approaches.

- **Banks committed to financing net-zero pathways can play a pivotal role in low carbon development and the alignment of financial flows with the goals of the Paris Agreement, while strengthening systemic resilience to climate risks.** To meet these commitments, banks are increasingly directing finance toward climate-aligned investments, helping emerging markets access affordable capital for low-carbon and resilient growth. Many are now developing detailed transition plans to operationalize their commitments and demonstrate coherent strategies for managing climate-related risks and impacts. To strengthen these efforts, banks could complement their corporate metrics with indicators on mitigation, adaptation, and a just and equitable transition—creating incentives to finance adaptation as well as mitigation. Leading institutions are also expanding

their frameworks to integrate nature-related and social dimensions. It is important to recognize that such progress depends heavily on supportive policies and economic incentives; an enabling policy environment remains essential to scale these efforts.

- **Despite being crucial enablers, banks cannot single-handedly drive the systemic transformation required for a net-zero economy**; an increasingly important lever is to support national and supra-national energy and industry policies to create an enabling environment and improve bankability in order to help the real economy to transition at pace.

C. Enabling environments: Turning ambition into investable reality

Delivering finance at scale requires not just joint action between public and private actors, but predictable, coherent enabling environments that make long-term investment viable and attractive. Ministries of Finance are pivotal in creating these conditions. Their fiscal, regulatory, and policy decisions shape the incentives that determine how public and private capital align with Paris Agreement goals. By embedding climate and resilience objectives in national budgeting, fiscal reform, and green investment strategies, they ensure that transformation is country-owned, durable, and aligned with national development priorities. Building these environments means linking NDCs and NAPs to budget and investment systems, and using fiscal tools—such as targeted expenditure, subsidy reform, and investment incentives—to translate national climate commitments into implementable, system-wide action.

A whole-of-government approach is essential. Policies that guide the real economy—energy, trade, agriculture, and industry, to name a few—must reinforce rather than contradict financial and fiscal measures. When climate, economic, and financial strategies are aligned, they send the stable demand signals investors need, unlocking capital and accelerating just and resilient transitions.

1. Role of regulatory and supervisory frameworks

- **Whole-of-government transition frameworks.** Credible NDCs, sectoral transition plans, and fiscal or policy incentives can accelerate decarbonization in the real economy by creating clear, investable demand signals. In EMDEs, these plans must be tailored to national contexts, reflecting not only climate priorities but also broader development goals. Ministries of Finance are the natural coordinators of these frameworks, ensuring consistency between national climate targets, fiscal policy, and macroeconomic management. Through budgetary reforms, fiscal risk assessments, and strategic expenditure planning, they can steer both domestic and international finance toward transformative outcomes.

- **A supportive financial policy environment.** Transition planning mechanisms and sustainable finance taxonomies are becoming essential tools for directing international capital toward EMDE transitions. These tools enable financial institutions and investors to assess whether investments align with both national policies and their own sustainability mandates. However, to maximize their impact, policy makers—particularly in EMDEs—must also review and reform prudential regulatory frameworks to eliminate unintended barriers that discourage long-term investment in illiquid assets such as infrastructure or nature-based solutions.
- **Resilient, risk-based supervisory frameworks**. Central banks and financial regulators play a critical role in ensuring that the transition does not undermine financial stability. By embedding climate-related risks into supervisory mandates, promoting the use of scenario analysis, and setting clear prudential expectations (including transition planning), they can help financial institutions manage physical and transition risks. Platforms such as the NGFS have been instrumental in mainstreaming these practices across jurisdictions.
- **A coherent, predictable, proportionate, and effective regulatory environment is critical to mobilizing finance at scale, particularly in high-emitting and vulnerable sectors.** Fragmented or misaligned regulations risk creating uncertainty, raising compliance burdens, and diluting the effectiveness of sustainability commitments. To support financial institutions in navigating this complex and evolving landscape, UNEP FI's Regulatory Implementation Support Programme (RISP) is a dedicated support resource suite that helps members understand and respond to emerging sustainable finance policies and regulations. RISP strengthens implementation of such policies and regulations by disseminating key insights, sharing best practices and providing a platform for the clarification of application requirements among financial institutions, policymakers, and regulators.[17] Another tool is the PRI's Policy Toolkit on building a sustainable financial system. It identifies a suite of ten policy instruments that financial regulators can deploy, including investor and corporate sustainability responsibilities, accountability and reporting standards, regulatory standards for effective stewardship, service provider sustainability regulations, transition plans, classification instruments such as taxonomies, human rights due diligence, and a wider enabling environment.

17 Such initiatives aid the implementation of sustainable finance frameworks by providing structured guidance on regulatory developments such as: the adoption of IFRS Sustainability Disclosure Standards, European Sustainability Disclosure Standards, ESG Risk Management Guidelines by the European Banking Authority (EBA), or best practices in environmental risk management with the European Central Bank (ECB), among other global regulatory developments. Especially in EMDEs, positive regulatory developments in local capital markets and strong engagement of local investors can act as an important pull signal for international capital.

2. Role of sustainable finance taxonomies

- **Sustainable finance taxonomies are a critical tool for aligning capital allocation with climate and sustainability objectives.** By providing clear definitions of sustainable economic activities, taxonomies enable investors, regulators, and financial institutions to identify and scale up climate-aligned investments, while reducing the risk of greenwashing. As financial markets become increasingly globalized, the interoperability of these taxonomies has become a foundational requirement for consistency, comparability, and the effective mobilization of capital across jurisdictions. Taxonomy interoperability is therefore a key element of the enabling environment for the NCQG,*Baku to Belém Roadmap*, and Art. 2.1.c implementation, supporting cross-border capital flows, and ensuring a coherent approach to sustainable finance globally.
- UNEP FI, UN Principles for Responsible Investment (PRI) and the Climate Bonds Initiative (CBI), as well as The Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies ("The COP29 Roadmap"), have developed the Interoperability Principles for Sustainable Finance Taxonomies. This initiative builds on the roadmap and directly supports the Brazilian COP30 Presidency's 'Super-Taxonomy' efforts to harmonize definitions and facilitate the comparability and scalability of sustainable finance flows across diverse regulatory contexts. Together, these efforts are helping to lay the technical and policy foundations for a more integrated and effective global finance-for-climate architecture.

4. From principles to action

The Transformational Finance for Climate Group's position paper makes a clear, urgent case: we must move beyond incremental, project-by-project financing approaches and seek to deploy high-quality, transformational finance that unlocks systemic barriers to- and seizes opportunities for- country-driven low-emission, climate-resilient development. This is required to realize the *Baku to Belém Roadmap*'s ambition of mobilizing USD 1.3 trillion annually by 2035 and achieve the implementation of Article 2.1(c) of the Paris Agreement. The position paper serves to amplify the voice of public and private financial actors across developed and developing markets. It also serves to consolidate collective efforts of those actors, in a whole-of-finance approach, for delivering inclusive, long-term climate transitions that are aligned with the goals of the Paris Agreement.

Turning this vision into reality requires action at multiple levels of the global financial system. The following priorities set out how transformational finance can move from principle to practice—anchoring a shared global framework while building the mechanisms needed to deploy finance effectively across countries and sectors. They outline a dual track of effort: first, mainstreaming transformational finance frameworks within international processes and institutions; and second, operationalizing them through joint approaches that align public, private, and concessional capital in support of national transitions. Together, these actions chart a pathway from global ambition to concrete, scalable impact.

Incentivize and mainstream Transformational Finance for Climate frameworks into the global architecture

The Transformational Finance for Climate Group advocates for the:

- **Launch of a global dialogue on the characterization of Transformational Finance for Climate**, for example, under the COP processes or the NCQG, to consolidate, pilot, and promote a common set of guiding principles. The objective of this dialogue is to promote transformational finance for climate interventions based on their country relevance, systemic ambition, and durability. It should also help identify actionable levers to drive long-term transformation. To this end, it could draw on existing experience as well as research from leading think tanks, ensuring the approach is both evidence-based and policy-relevant.
- **Promotion of a global adoption** of shared definitions and frameworks for transformational finance for climate (e.g. via NCQG, SCF, Global Stocktake (GST), and COP30/31).
- **Integration and implementation of these transformational principles across the finance-for-climate architecture**, including through NCQG reporting, SCF reports, PDBs and other financial institutions' strategies and activities.

Justification: The multilateral actions above could lay the foundation for a collaborative framework on transformational finance for climate by establishing shared definitions, methodologies, and incentives. This coherence is essential to guide institutions, align public and private efforts, and embed transformational principles across the global finance architecture. In particular, the characterization of transformational finance is an essential step to enable PDBs to act as agents of change, including through evolutions of their mandates, governance or resources, to prioritize mobilization, innovation, and transparency, ensuring finance is deployed strategically and efficiently, aligned with national strategies and NDCs, and to crowd in private finance in a structural manner.

Outcomes: The actions aim to facilitate greater consistency, transparency, and accountability in finance flows, with concessional and public resources increasingly channelled toward country-led, system-level interventions. Strengthened institutional capacity to assess and reward transformational potential of finance, fostering trust, policy alignment and catalytic investments that deliver lasting, scalable change beyond project-level results.

Next steps: Delivering the outcomes requires coordinated action across the financial system:

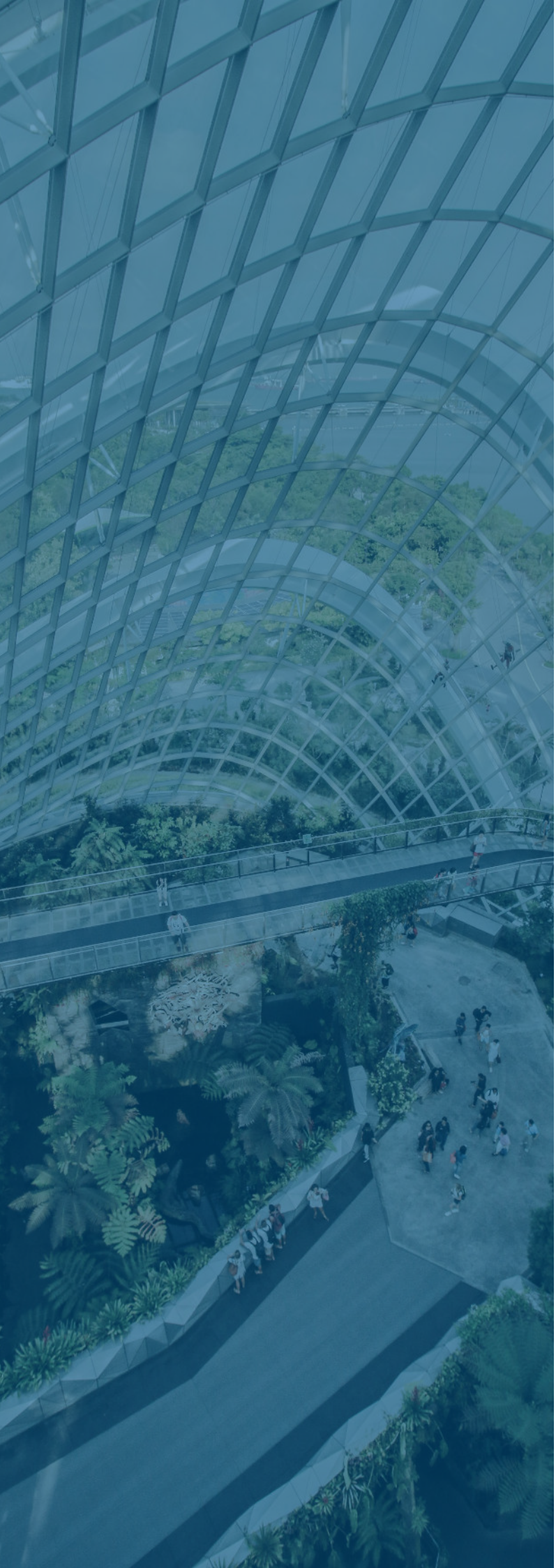
- **Operationalize actions listed above** through joint approaches linking public (including concessional) and private finance across countries and sectors.
- **Support country-led identification** of systemic and transformational investment priorities.
- **Ensure transparency** through accessible data on risk-return profiles.
- **Foster coordinated public-private collaboration**, for example via country platforms.

5. The road ahead

Looking ahead, the Group will continue advancing Transformational Finance for Climate, strategically positioning public and private stakeholders from developing, emerging, and developed markets to promote and implement finance that delivers tangible transformation and resilience across economies and communities.

In doing so, the Group aims to play a pivotal role in supporting among others the implementation of the *Baku to Belém Roadmap*, the implementation of Art. 2.1.c, and the Standing Committee on Finance's work, including its 2028 outcome, ensuring that the perspectives of financial actors worldwide are reflected in shaping the future finance-for-climate architecture.

The Group seeks to amplify the collective voice of financial actors and mobilize a whole-of-financial-sector systemic response to accelerate just, sustainable, and resilient climate transitions. We invite all other interest stakeholders to join this global initiative.



Making Finance Work for
Climate Initiative members:

Finance in Common

idfc

Mainstreaming Climate in Financial Institutions

PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT

UN environment programme | finance initiative