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EXECUTIVE SUMMARY

Strategic Recalibration of Climate Finance:

Maximizing Impact, Managing Disruption

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The Challenge

The global community is at a strategic inflection point in the race to meet ambitious climate, sustainability, energy transition, and adaptation goals. A successful global transition to a sustainable and climate-resilient economy will require unlocking trillions in private capital—particularly to help vulnerable populations. However, the current climate finance architecture suffers from fundamental inefficiencies that undermine its potential impact and leaves vulnerable populations in the Global South severely underserved. At the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP), strong efforts were made by COP30 President Andre Aranha Correa do Lago in calling for a new focus on implementation given the limitations of multi-decade consensus negotiations and the launch of new tools like the new Global Implementation Accelerator.[1]

But we need to go further to ensure that public- and private-sector investment strategies are deployed in the most impactful way possible.

The $300 billion Baku Finance Goal, adopted at COP29 in November 2024, represents a critical mechanism for scaling up global climate finance—tripling the previous $100 billion target while falling short of the $1.3 trillion that developing nations require for an equitable climate transition.

Currently, mitigation projects absorb 60 percent of available funding, adaptation receives 28 percent, and resilience just 12 percent. Geographically, Asia-Pacific receives 45 percent of climate finance, but Africa—the most climate-vulnerable continent—receives only 20 percent. Perhaps most troublingly, 72 percent of international climate finance takes the form of loans rather than grants, with least-developed countries now spending twice as much servicing climate-related debt as they receive in new finance.

Meanwhile, every public dollar invested mobilizes only 38 cents of private capital.[2] And as foreign aid has declined nearly 20 percent since 2024 because developed nations are prioritizing domestic spending and defense requirements, there is a fundamental shortfall in available financing for new, low-carbon infrastructure. Those financing needs are increasingly being met by China and other middle powers in the Global South, including the Arabian Gulf.

The Solution: A Strategic Reallocation Framework

This paper presents a pragmatic model for optimal distribution of the $300 billion public core across three pillars: mitigation ($120 billion, or 40 percent), adaptation ($90 billion, or 30 percent), and resilience and nature ($90 billion, or 30 percent). The framework targets pillar-specific private capital mobilization ratios of 1:5.1 for mitigation, 1:0.7 for adaptation, and 1:2.5 for resilience, shifting from today's inadequate 1:0.4 overall leverage. This strategic reallocation recognizes that, although renewable energy projects can attract commercial finance once operational, the critical bottleneck lies in predevelopment and technology. This phase encompasses feasibility studies, permitting, and legal structuring—which consume 5–10 percent of project budgets yet carry 100 percent of execution risk. Every dollar of public predevelopment funding unlocks $20–$50 in downstream private investment, representing the highest leverage point in the climate finance architecture.

Key Recommendations

Public Capital Transformation

In the current geopolitical environment, developed nations need to recalibrate their role from traditional donors to strategic guarantors in order to mobilize the $1.3 trillion of climate finance required annually. These countries should leverage their investment-grade credit ratings rather than deplete scarce budgets that are, necessarily, being redirected to defense and health care. A $1 billion guarantee requires only 5–10 percent to be set aside as a buffer under Group of Seven accounting frameworks, whereas a $1 billion grant would create an immediate deficit. Remaining aid budgets should concentrate on catalytic interventions—foreign exchange liquidity facilities, power purchase agreement insurance, and predevelopment finance—rather than directly funding commercially viable projects. Other key sources of catalytic public capital could include shifting $1 trillion or more in annual subsidies for mature technologies (e.g., oil and gas, wind, solar, and nuclear) to local community resilience projects and creating a pool of blended capital to help nations restructure sovereign debt to scale up sustainable investing and unlock nature-based country assets.

Harnessing South–South Finance

Emerging South–South financial flows—from China or Gulf Cooperation Council sovereign wealth funds deploying patient capital into African infrastructure to Singapore's green finance hub channeling Chinese technology into Association of Southeast Asian Nations markets—have shifted from periphery to core. These flows offer multiplier effects that overstretched multilateral development banks and politically constrained Western donors cannot deliver alone. The New Development Bank's local-currency lending and Brazil's BNDES are creating pan-Amazonian investment vehicles that demonstrate practical mechanisms already operational.

Geographic Priorities

In our model, Southeast Asia receives the largest allocation—$310 billion—reflecting coal-retirement imperatives and exceptional private capital absorption capacity driven by corporate power purchase agreements with technology giants pursuing net-zero commitments. With the highest proportion of concessional finance for adaptation needs, Sub-Saharan Africa requires $240 billion. Latin America's $220 billion focuses on nature-based solutions, with public capital establishing biodiversity credit price floors to attract institutional investors. Small Island Developing States (SIDS) and the Vulnerable Twenty (V20) Group nations operate under fundamentally different principles requiring debt-for-climate swaps and parametric insurance, as loss and damage remain noncommercial.

By separating SIDS and the V20—both structured around debt-for-climate swaps and country platforms—we can ensure that commercial logic does not abandon those facing existential climate threats.

Investor Innovation

Traditional government-led approaches cannot single-handedly mobilize $1.3 trillion annually. New asset-owner alliances that bring together pension funds, sovereign wealth funds, and insurance companies can codevelop standardized investment vehicles, share due diligence costs, and aggregate smaller projects into institutional-scale opportunities. Following COP30 in Brazil, an investor-focused *Brazil and Beyond* roadmap should translate political commitments into actionable investment frameworks that identify specific asset classes and risk-mitigation mechanisms required to unlock institutional capital.

The Path Forward

Achieving the $1.3 trillion target demands intellectual honesty: Not every adaptation project is bankable, nor should it be. Sea walls protecting vulnerable communities will never generate investor returns. Success requires deploying the full spectrum of financial instruments—from pure grants through blended finance to fully commercial equity—matched appropriately to each project's risk–return reality, rather than forcing commercial logic onto noncommercial problems.

The technical solutions exist, capital is theoretically available, and institutional frameworks are largely in place. What remains uncertain is political will—whether developed nations will embrace the guarantor model, whether multilateral development banks will prioritize de-risking over their credit ratings, and whether the global community will honor the moral imperative to direct adaptation finance toward those who contributed least to the crisis but suffer most from its consequences. The framework presented here offers a realistic pathway, but only if we commit to structural reforms and coordinated action required to make climate finance finally work for those who need it most.

Click here or scan the QR code to view the full report.

Endnotes

1. "Twelfth Letter from the President, COP30 Brazil," COP30 Brazil, January 27, 2026, https://cop30.br/en/brazilian-presidency/letters-from-the-president/twelfth-letter-from-the-president.
2. Natalia Alayza et al., "Multilateral Development Bank Climate Finance: The Good, Bad and the Urgent," World Resources Institute, November 14, 2024, https://www.wri.org/insights/mdb-climate-finance-2023.