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Strategic Recalibration of Climate Finance:

Maximizing Impact, Managing Disruption

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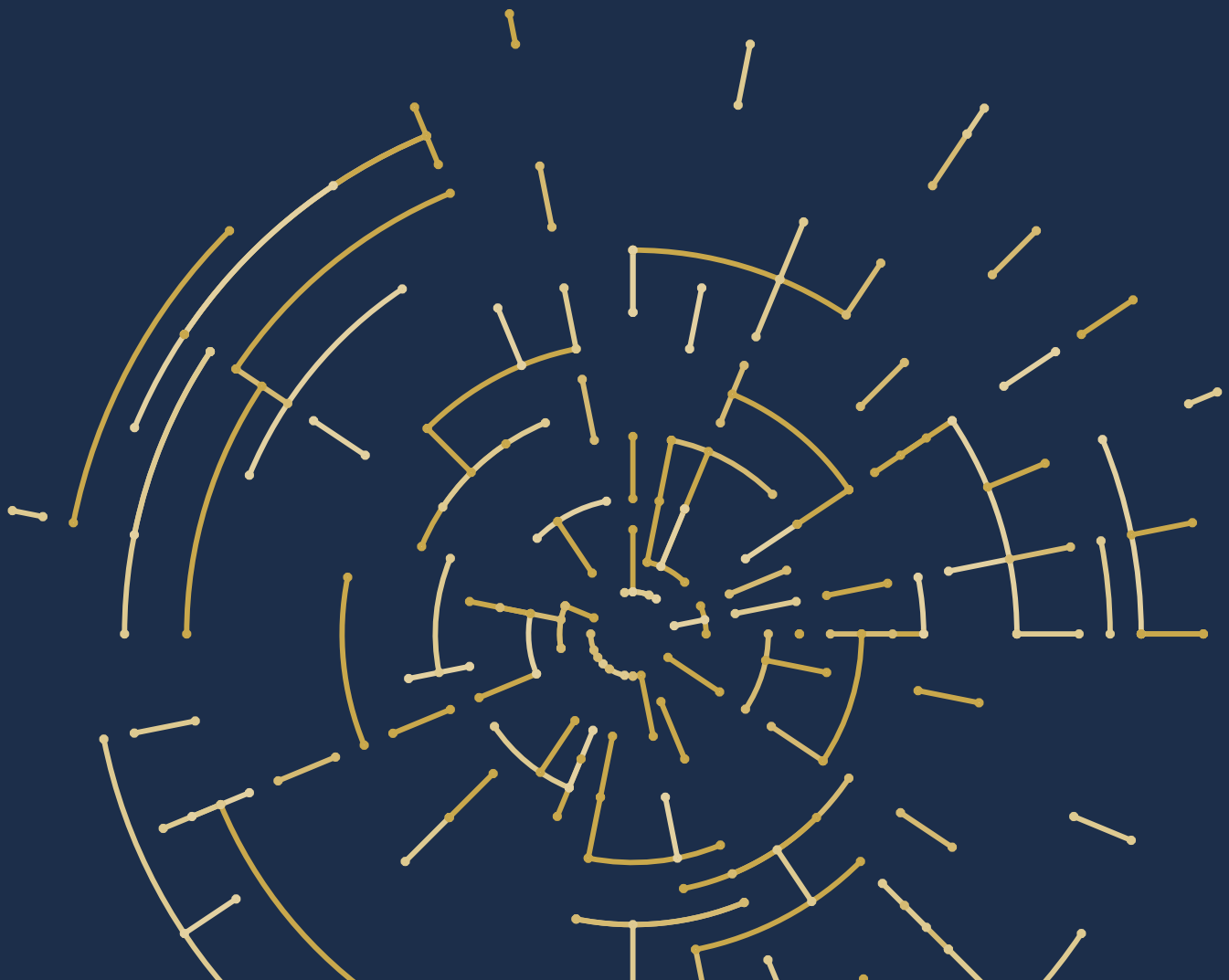

About Us

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

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Introduction

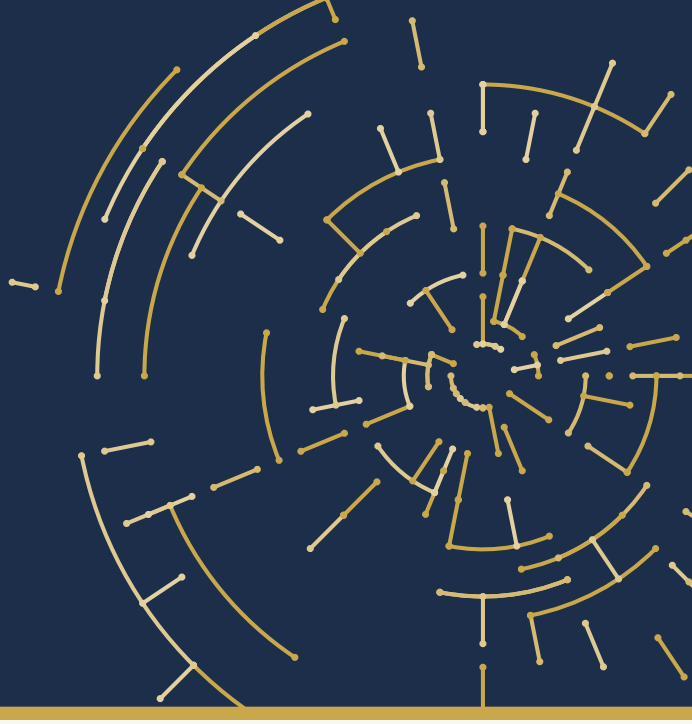
As noted in our 2024 and 2026 strategy decks, new approaches that strike the right balance between public and private investment are critically needed to effectively accelerate climate capital deployment and find the right balance between mitigation, resilience, and adaptation in the next 5–10 years. It is no secret that geoeconomic and technological disruptions are driving up energy demand and straining governments' ability to keep their public funding commitments to foundational international agreements under the Paris Agreement and important follow-on initiatives led by Brazil at the 30th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP30).

Given these shifts, we believe it is important to maximize ways to reassess the New Collective Quantified Goal—known as the Baku Finance Goal—adopted at COP29 in Baku in November 2024. The Baku Finance Goal called for tripling the previous $100 billion global climate finance target established in 2009 to $300 billion annually by 2035. This figure emerged from intense negotiations between developed and developing nations as a compromise: Developed nations committed to leading the mobilization of this amount, while developing nations had sought $1.3 trillion to meet actual climate transition costs.

Currently, the world has achieved approximately one-third of this target: Organisation for Economic Co-operation and Development (OECD) data from 2022 show that developed nations provided $115.9 billion in climate finance.[1] With climate finance growing at roughly 26 percent annually, the $300 billion target appears achievable if the current momentum continues.[2] However, reaching this goal requires more than simply scaling up funding. It demands a fundamental restructuring of how climate finance is allocated and delivered.

Here, we present a realistic model for the optimal distribution of the $300 billion Baku Finance Goal across the three pillars of climate action—mitigation, adaptation, and resilience—and how to leverage the private sector to strive toward achieving the $1.3 trillion required to meet the real cost of an equitable transition across the Global South. We will also discuss how to reframe the use of public funds, considering the current geopolitical environment. The aim is to maximize the climate impact while addressing issues in the current climate finance architecture.

The Current State



The Imbalance Problem

The existing climate finance system suffers from inefficiencies that undermine its potential to make a tangible impact on the lives of those currently living at the sharp end of climate change, who disproportionately live in less-developed economies that have contributed the least to global warming. For example, Sub-Saharan Africa contributes less than 4 percent of global emissions, but climate change is already stripping 5–15 percent off annual GDP growth from countries in the region due to agricultural failure.[3]

According to the Carbon Policy Initiative, in 2024, approximately 60 percent of climate finance flowed into mitigation projects, 28 percent to adaptation, and just 12 percent into resilience and cross-cutting initiatives.[4] This distribution reflects the fact that, amid rising post-pandemic financial pressures on governments in the Global North (e.g., defense and health-care spending) and the growing political strength of climate skepticism, there is less public-sector finance available for climate projects, particularly in developing countries. The OECD has calculated that foreign aid fell by 9 percent globally in 2024, and reductions announced in 2025 are likely to cause a further 9–17 percent decline.[5]

Climate change mitigation has been prioritized over adaptation and resilience as private-sector investors increasingly see opportunities to finance revenue-generating renewable energy developments. The energy-intensive demands of AI have exacerbated this trend.

While it is almost impossible to estimate how much energy the AI revolution will require—the data just aren't there—Goldman Sachs now expects global power demand from both AI and non-AI data centers to grow by 175 percent by 2030 compared to 2023 levels.[6] Given that the carbon intensity of electricity used by data centers is 48 percent higher than the US average,[7] because they cannot rely on intermittent energy sources, there is a huge opportunity for investors in this space to decarbonize this technology.

As we will examine, resilience projects, including nature-based solutions, are increasingly investable. However, adaptation projects, such as sea walls or flood defenses, which generate no direct financial returns but provide benefits to local communities and, indirectly, support economic growth and development, have had to compete for shrinking public financing and remain underfunded. New efforts to monetize avoided costs and address the insurance crisis are also underway.[8]

Consequently, there is a "yawning gap in adaptation finance for developing countries" that is "putting lives, livelihoods and entire economies at risk."[9] The mathematics are stark: Even achieving the Glasgow Climate Pact goal of doubling adaptation finance to $38 billion by 2025 would only have reduced the adaptation finance gap of $187–359 billion per year by approximately 5 percent.

Geographically, the distribution of climate finance is equally problematic. Asia-Pacific receives roughly 45 percent of funding, largely concentrated in middle-income countries such as India, the Philippines, and Vietnam, where investments are perceived as safer for lenders. Despite being the most climate-vulnerable continent, Africa receives only 20 percent of this funding.[10] Small Island Developing States (SIDS) receive even less in absolute terms, despite having the highest per capita need.[11]

Perhaps most troubling is the loan-versus-grant problem. According to the OECD, approximately 72 percent of international climate finance from 2016 to 2020 took the form of loans, with three-quarters of loans from multilateral development banks (MBDs) being nonconcessional.[12] This debt-heavy approach saddles the most affected countries with financial burdens they cannot afford, risking debt crises. Only 25–30 percent of international climate finance comes in the form of grants, which are mostly reserved for adaptation projects in the poorest nations.[13]

As a result, the climate-related debt burden for the world's least-developed countries increased 24-fold from $900 million in 2009 to $21 billion in 2022.[14] Analysis by the International Institute for Environment and Development shows that the 44 least-developed countries spend twice as much servicing debts as they receive in climate finance.[15] As a result, many developing countries must choose between long-term survival and paying short-term debts to creditors. For a look at solutions to the climate debt challenge, see "Debt and Climate Change: The New Playbook" by Matthew Aleshire.

In addition, governments are not effectively mobilizing private capital due to scant resources. Currently, every public dollar spent only crowds in 38 cents of private capital.[16] Public money is also currently being wasted on activities that private markets could fund profitably, crowding out funding for less bankable, but essential, adaptation projects in the poorest countries.[17] The United Nations Environment Programme's *Adaptation Gap Report 2025* estimates that the private sector could provide around $50 billion per year for adaptation if backed by targeted policy action and blended finance solutions, and yet this potential remains largely untapped.[18]

As such, we need to find a way to flip this dynamic. Scarce public funding should act as a de-risker rather than direct project finance, using guarantees and first-loss protection to mobilize private capital for every public dollar. Currently, this multiplier effect is barely functioning. Optimizing climate finance requires more innovative solutions and reevaluating how public money is used to mobilize private-sector capital, particularly in the challenging adaptation space.

Not All Funding Is Equal: The Role of Predevelopment and De-Risking

In addition to the imbalanced distribution of capital, we also need to pay attention to the distinction between commercial capital that follows proven investment opportunities and catalytic capital that helps to create investable pipelines. For a project to progress from initial concept to grid-connected reality in Southeast Asia or Africa, it must navigate the "valley of death"—the high-risk predevelopment phase in which commercial banks are reluctant to lend due to unquantifiable risks and uncertain returns. This bottleneck, recognized by the World Bank Group and the International Coalition for Sustainable Infrastructure, may be the single greatest constraint on climate finance deployment in the Global South, yet it remains chronically underfunded despite offering the highest leverage potential within the climate finance architecture.[19]

To catalyze markets effectively, policymakers must deploy a specific sequence of funding types, each serving a distinct purpose along the project development timeline. Research and development grants function as the innovation engine, with public funding directed toward developing technologies such as long-duration energy storage or next-generation geothermal systems that are essential to the 2030 project pipeline but carry risks too high for commercial investors.[20]

Technology subsidies bridge the "green premium" through temporary price supports, exemplified by the United States' 45V tax credit for hydrogen production, or early-stage carbon capture and storage subsidies emerging across the Association of Southeast Asian Nations (ASEAN). These supports render nascent technologies cost-competitive with fossil fuel alternatives until economies of scale drive down unit costs naturally. Concessional loans serve as a scaling tool, providing below-market-rate debt that enables projects to, for example, maintain affordable electricity tariffs for end users while still delivering acceptable returns to equity investors, creating the economic conditions for rapid deployment.[21] Finally, policy-led funding for grid infrastructure and enabling regulatory environments direct private capital into specific investment corridors such as ASEAN power grids by systematically removing structural barriers to market entry.[22]

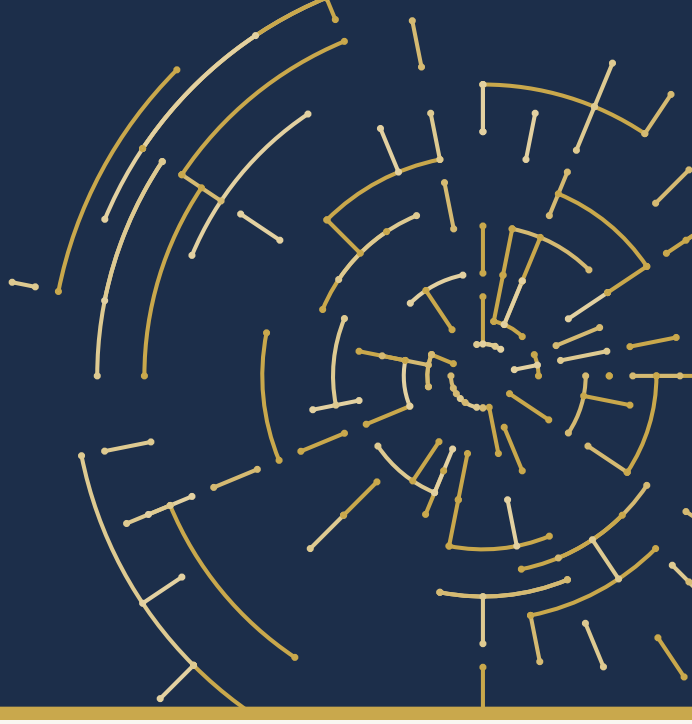
Predevelopment finance is often described as "the 10 percent that unlocks the 90 percent," yet it remains dramatically undersupplied relative to its catalytic impact.[23] The predevelopment phase—which includes feasibility studies, environmental permitting, site preparation, and legal structuring—typically consumes between 5 percent and 10 percent of a project's total budget. Yet it carries 100 percent of the execution risk, creating a fundamental mismatch between risk and capital availability.[24]

Private equity investors and commercial banks typically wait until projects reach shovel-ready status with all permits secured, grid connection agreements signed, and engineering designs finalized before committing capital. As a result, if the public core fails to fund the initial $10 million required for a wind farm's permitting and design work, the $90 million in private debt and equity that could finance construction will never materialize.[25]

In our model, every dollar of public predevelopment funding is estimated to unlock between $20 and $50 in downstream private investment, representing the highest leverage point in the entire Baku Finance Goal and suggesting that even modest reallocations of public capital toward this critical phase could dramatically accelerate overall climate finance deployment.[26] By recognizing that not all funding serves the same

purpose and that catalytic predevelopment capital creates the conditions for commercial capital to follow, the climate finance architecture can shift from perpetually chasing bankable projects toward systematically manufacturing them at the scale required to meet the $1.3 trillion target.[27]

Constructing an Optimal Distribution Framework for Climate Finance



So, if the current system isn't working, how can we make it work? Key issues to keep in mind—and ones we also attempt to unpack—are how to ensure that public capital is used wisely to de-risk projects and what the private sector can do to ensure that deal flow isn't driven solely by public subsidies but also by private innovation.

We can start with the legal basis being the Baku Finance Goal. This core target exists within a broader global ambition to scale total public and private climate finance to $1.3 trillion per year.

The most compelling and comprehensive analysis for how to reconfigure climate finance has been the 2024/2025 reports of the Independent High-Level Expert Group (IHLEG), led by Vera Songwe, Nicholas Stern, and Amar Bhattacharya, which argue that public funds must be redirected from mature mitigation projects toward underfunded adaptation and resilience pillars to meet the Sustainable Development Goals.[28] Furthermore, the figures for nature-based resilience align with the Baku to Belém Roadmap and Brazil's Tropical Forest Forever Facility. Finally, the model incorporates the MDBs' commitment to provide $120 billion by 2030, representing a critical 40 percent anchor of the total $300 billion core goal.[29]

This model is conservatively designed to be achievable by working within the current public policy realities for mobilizing the necessary $1.3 trillion. For example, we do not assume that there will be a global reversal of oil, gas, and other subsidies to mature energy technologies, which the International Monetary Fund estimated to be at least $725 billion globally in 2025.[30] Nor do we assume that there will be a substantial shift in investor behavior that would drive a fundamental reallocation of capital toward climate projects through improved data-sharing and transparency.

The proposed allocations in Table 1 are meant to help break down the large strategic concepts into smaller, achievable goals and unpack where commercial capital solutions and public funding for existential threats facing frontline communities make sense, or not.

Table 1. Baku Finance Allocation Model

Pillar	Public "Core" ($300 billion)	Private Mobilization Target	Total Impact ($1.3 trillion)	Financial Instrument Focus
Mitigation	$120 billion	$615 billion	$735 billion (56 percent)	• Equity • De-risking, green bonds • Foreign exchange liquidity facilities
Adaptation	$90 billion	$60 billion	$150 billion (11.5 percent)	• Grants • Concessional loans
Resilience and Nature	$90 billion	$225 billion	$315 billion (24 percent)	• Carbon and biodiversity credits
Loss and Damage Fund	Voluntary and extra	Insurance-led	$100 billion (estimated) (9 percent)	• Levies • Parametric insurance

Note: At least 20 percent of the above recommended funding levels should be allocated for deal flow and de-risking, as well as predevelopment funds to ensure maximum catalytic leverage.

Source: Milken Institute (2026)

Pillar-by-Pillar Analysis

Mitigation: The Multiplier Effect

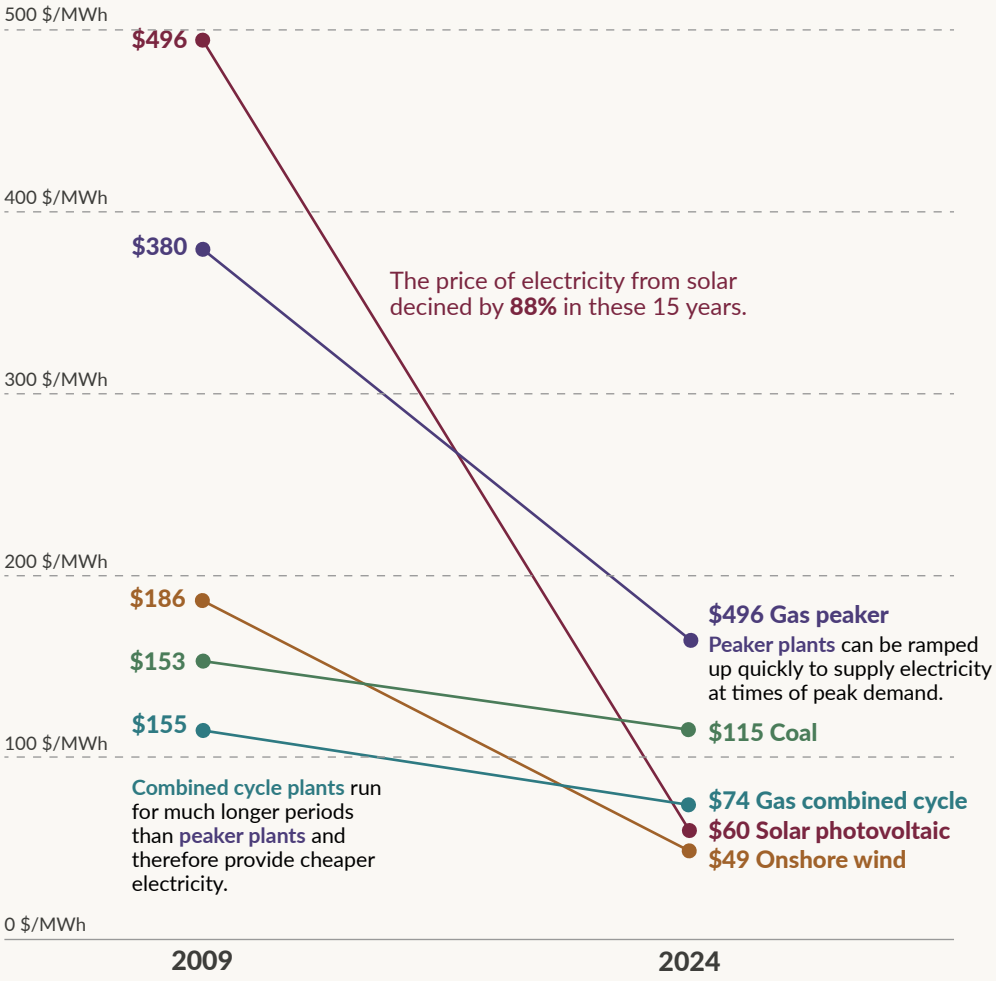
The impact of mitigation investment is broad but indirect. However, it has the potential to be transformational. Decarbonizing global energy systems not only helps slow the buildup of carbon in the atmosphere but also catalyzes new industrial sectors and technologies, creates green jobs, reduces air pollution mortality, and enables industrial transformation and economic growth, rather than deindustrialization. However, its benefits are diffuse and long-term, requiring years or decades to fully materialize.

Regardless, mitigation investment deserves the largest absolute allocation of capital in the model. It is not only essential to decarbonize the energy system but also has the greatest potential to leverage private capital, thus freeing limited public capital for noncommercial climate projects. Largely due to Chinese industrial policy, the cost of renewable energy has declined by over 80 percent in the last decade, making it the cheapest form of new power generation (see Figure 1).[31] That affordability means these projects are commercially viable without heavy subsidies—and the most obvious choice for developing economies that need to generate more power.[32]

As a result, the mitigation piece of the funding puzzle is the most straightforward to address. The optimal distribution recognizes this by allocating only 15 percent of mitigation funding to public sources, which should be focused on catalytic action. For example, funding the development of climate "deep tech" could be a game changer for reducing carbon emissions or de-risking challenging, high-impact projects by providing foreign exchange (FX) hedging and first-loss finance tranches.

Figure 1. The Price of Electricity from New Power Plants, 2009–2024

How did the price of electricity from new power plans change over the last 15 years?
Electricity prices are expressed in "levelized costs of energy" (LCOE). LCOE captures the cost of building the power plant itself as well as the ongoing costs for fuel and operating the power plant over its lifetime.



Note: Data reflects unsubsidized costs, expressed in constant 2023 US$. This means costs are adjusted for inflation.
Source: Milken Institute (2026), adapted from Our World in Data (2025)

Adaptation: The Equity Imperative

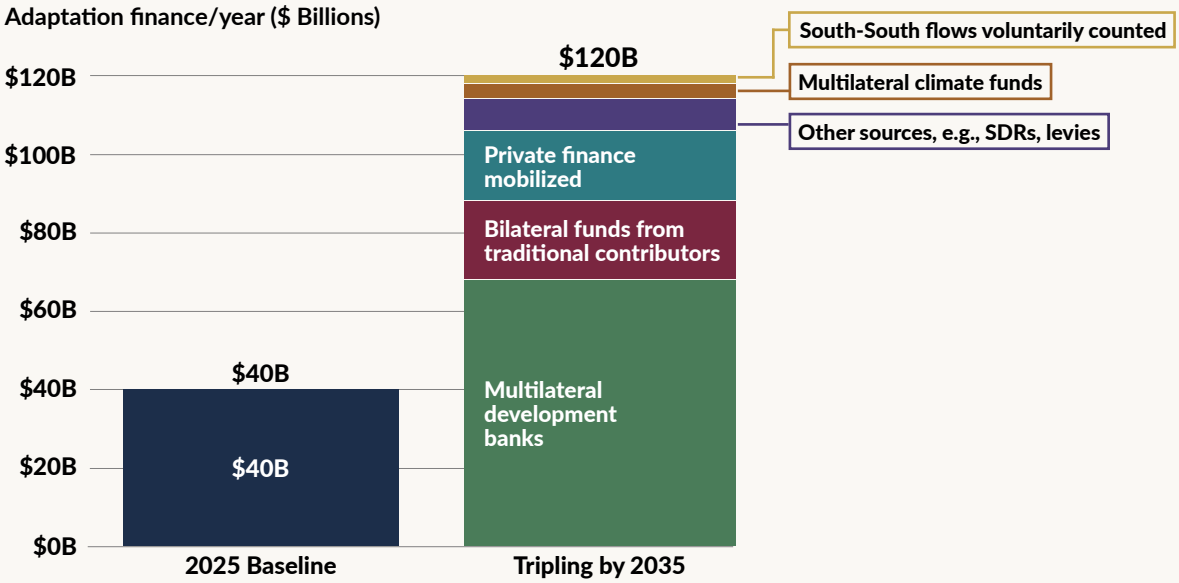
Adaptation requires the highest proportion of public funding in our allocation model—70 percent—because it addresses immediate human experience and rarely generates direct revenue. A sea wall protects a community but produces no cash flow to repay investors. Drought-resistant seeds benefit smallholder farmers in developing countries but do not create tradable commodities. Flood defenses protect homes but lack a revenue stream.

However, the impact of adaptation projects is immediate and measurable. Every dollar invested yields $2–$10 in economic benefits by preventing disaster costs.[33] Unlike mitigation's diffuse global benefits, adaptation projects' impacts are hyperlocal and tangible and, thus, it is often easier for public officials to get funding for them.

The 70–30 public–private split for adaptation proposed in the model reflects a more nuanced understanding of this pillar than current practice acknowledges. The rationale for this split is that three-quarters of the adaptation activities identified in national plans are pure public goods (e.g., flood defenses) with no direct revenue model. Consequently, public concessional finance has to remain the dominant driver of the development of these assets, as private finance for adaptation currently accounts for only about $5 billion per year, or less than 10 percent of total flows.[34] Moreover, the IHLEG's 2025 *Delivering an Integrated Climate Finance Agenda in Support of the Baku to Belém Roadmap to 1.3T* report identifies the concessional requirements for adaptation financing by noting that adaptation will continue to "rely on concessional or grant-based funding."[35]

However, not all climate adaptation projects are unbankable, and there are still opportunities for private-sector investors in the adaptation space. The World Resources Institute's analysis suggests that to meet the Baku Finance Goal's $120 billion adaptation target by 2035, private finance mobilization in this pillar must grow significantly to roughly $18 billion by then (see Figure 2).[36]

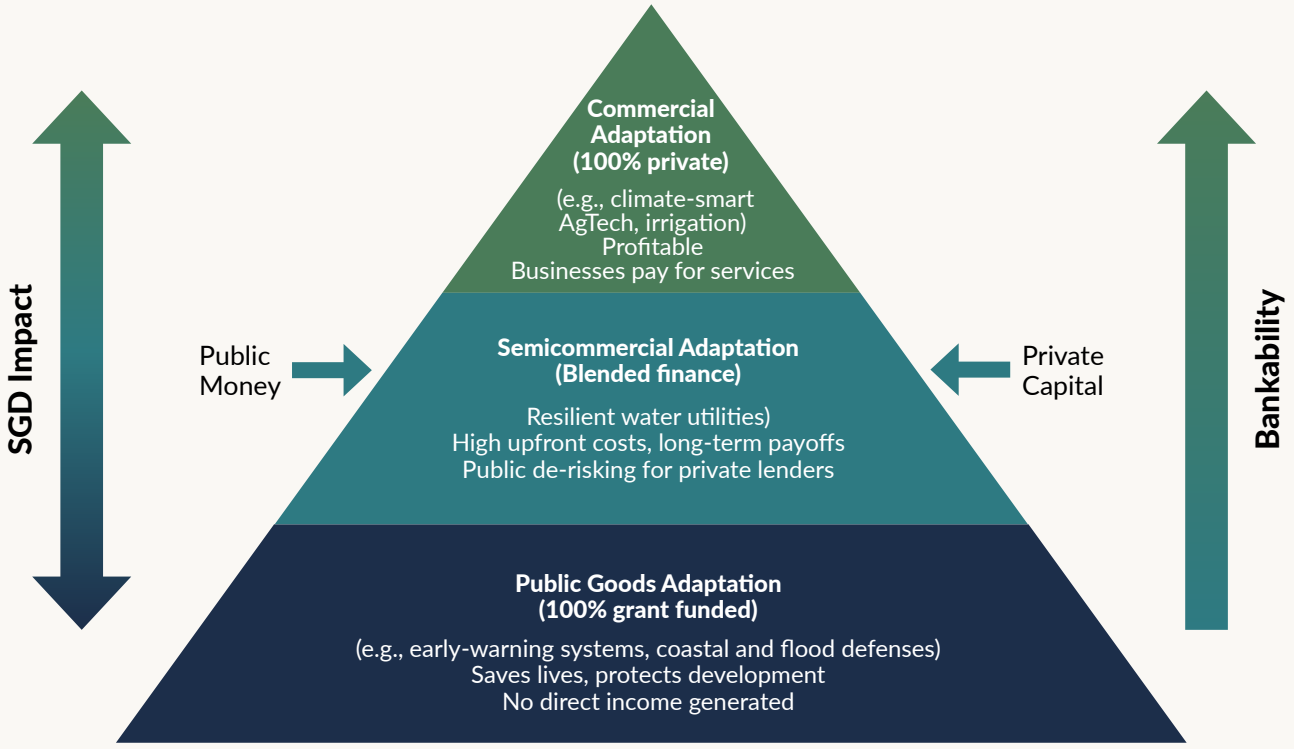
Figure 2. One Option for Reaching $120 Billion in Adaptation Finance by 2035



Source: World Resources Institute (2025)

Due to the complexity of the return profile of adaptation projects, the funding needs to follow a pyramid structure (see Figure 3).

Figure 3. Strategic Calibration of Public and Private Funding for Adaptation



Source: Milken Institute (2026)

- At the base, purely public goods like early-warning systems and coastal and flood defenses require 100 percent noncommercial public funding. These projects save lives and protect development gains but generate no income.
- In the middle tier, semi-commercial adaptations such as resilient water utilities and climate-smart cold storage can attract blended finance, thereby de-risking the project for private lenders.
- At the top, commercial adaptation, such as climate-smart agricultural technology and solar-powered irrigation, can secure private investment because farmers and businesses will pay for services that boost their productivity.

The critical policy consideration for adaptation is recognizing the adaptation gap and ensuring that grant-based funding is available for the most vulnerable nations. For example, while Africa receives 20 percent of climate finance, much of this flows to large-scale energy projects rather than the adaptation and agricultural resilience the continent most urgently needs. The optimal distribution would allocate significantly more grant-based adaptation funding to Sub-Saharan Africa and other highly vulnerable regions, such as SIDS.

Resilience and Nature-Based Solutions: The System Stabilizers

Resilience represents the most innovative frontier in climate finance. Unlike mitigation and adaptation, resilience builds system-wide capacity to absorb shocks. The 70 percent allocation to private funding reflects a growing recognition of resilience's unique bankability, but it is still ambitious.

First, there is the need to standardize nature-based solutions for scale. Some asset managers are starting to treat natural habitats such as forests, peatlands, and mangroves as long-term infrastructure assets. Global asset managers such as Ardian, AXA Investment Management, and HSBC Asset Management through its joint venture with Pollination, Climate Asset Management, are increasingly treating nature-based solutions as institutional-grade infrastructure, attracted by the long-term, inflation-indexed cash flows that biological assets can provide. To make these projects achieve infrastructure-like returns, asset managers are aggregating multiple projects across different continents into diversified funds of over $100 million to increase their impact and attractiveness to investors, enabling large asset owners who are "nature-curious" a pathway to enter the space. They then use a stacking model to turn one project into multiple revenue streams.

The model's anchor is high-integrity carbon credits. By selling verified carbon removals to corporations on long-term off-take contracts—such as how a wind farm sells electricity to a utility—they lock in a base price for more than 20 years.

The second potential revenue stream comes from biodiversity credits, a relatively new innovation. These are units sold to companies that need to meet nature-positive regulations (e.g., the UK's Biodiversity Net Gain). The third is revenues from selling the project's natural commodities, such as timber, nuts, or rubber. And finally, resilience payments are service fees insurers or local governments pay to projects that prevent flooding or coastal erosion, which is less expensive than building a concrete wall.

The “infrastructure-ization” of nature into a series of asset classes has only become possible due to new measurement, reporting, and verification (MRV) technology, such as AI and satellite monitoring, that help projects to verify their climate impact through better reporting and verification systems, which de-risks the project and reduces greenwashing allegations.

Nature-based solutions are only one part of the resilience pillar. Engineered and technological measures are also key to making economies more resilient to climate change. These projects encompass hard infrastructure and sophisticated digital systems designed to protect critical assets from climate shocks. Because they offer commercial risk-return profiles by generating predictable, inflation-indexed revenue streams from user fees, municipal service contracts, or availability payments, these projects can be attractive to investors.

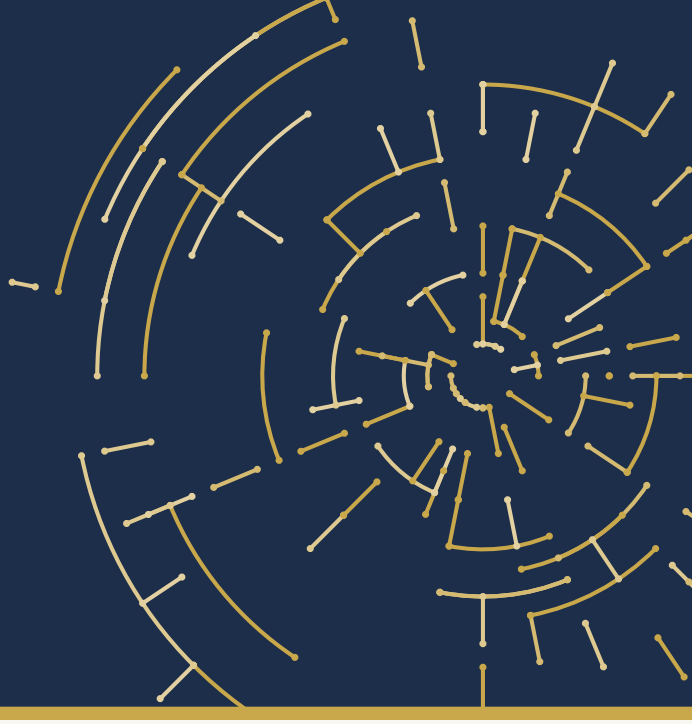
First, engineered hard infrastructure comprises physical defenses built to withstand extreme weather events, often representing the most expensive but most dependable form of protection for urban assets. Examples include sponge city technology, which designs urban environments to prevent flooding and sewer system overload during storms and heavy rains, and heat-resilient transport infrastructure, which helps maintain supply chain operations during increasingly severe heat waves. These physical resilience assets appeal to infrastructure investors in emerging markets because they mirror proven business models such as water utilities and toll roads. Crucially, MDBs are scaling up first-loss guarantees and other de-risking instruments for climate resilience infrastructure, dramatically improving the risk-adjusted returns for private capital.

Secondly, digital and predictive resilience have transformed climate adaptation into a data-driven science, creating projects particularly attractive to private technology investors due to their scalability. For example, the development of digital twins for cities or forests enables planners and managers to simulate the impact of extreme weather events. Digital resilience investments use software-as-a-service business models to generate capital. Smart grid and microgrid projects present particularly attractive opportunities because they combine infrastructure returns through long-term power purchase agreements and capacity payments with technology premiums. These projects often secure take-or-pay contracts from anchor tenants such as hospitals, data centers, or industrial facilities that cannot tolerate power interruptions.

Finally, climate-smart industrial and agricultural technology aim to maintain productivity in increasingly hostile environmental conditions. Examples of this technology include bio-engineered crops, circular water systems, and resilient housing designed to withstand extreme weather events.

Resilience projects often overlap with adaptation efforts, so directing private capital toward the resilience pillar ensures that public money is reserved for the most vulnerable, noncommercial initiatives in the adaptation space.

Getting Capital Moving



Although it was not designed to revolutionize climate finance, the proposed model will not be achieved if we stick with business as usual. The current volatile geopolitical situation and the challenging investment environment mean that achieving the full $1.3 trillion funding goal will require changes to the way we think about risk and capital mobilization—including innovation in funding models, particularly in the adaptation and resilience pillars.

Public Capital and Public Subsidies

A powerful first step, as suggested by the Bridgetown Initiative, would be for governments in the Global North to reframe their role as guarantors rather than traditional lenders.[37] With the developed world substantially reducing foreign aid to concentrate on domestic priorities and defense requirements, the conventional donor model is under pressure. The guarantor model offers a solution to the mathematics of global finance by fundamentally shifting public climate support from the expenditure column to the liability side of government budgets.

The logic underpinning this approach is straightforward. For developed countries burdened with high debt levels, substantial defense spending, and growing climate skepticism, a $1 billion grant represents an immediate $1 billion deficit in the current year's budget. Conversely, a $1 billion guarantee constitutes a contingent liability that, under most Group of 7 accounting frameworks, requires only about 5–10 percent of the total value to be set aside as a buffer. This guarantee can effectively de-risk private capital by leveraging the Global North's investment-grade credit ratings as the primary asset, rather than relying on increasingly constrained cash reserves.

For maximum impact, the Global North's remaining aid budget should focus on specific catalytic costs rather than direct project finance, which the private sector could bear. For example, power purchase agreement insurance or FX liquidity facilities to absorb the costs of currency fluctuations—a major risk in many developing countries—could have a powerful de-risking effect and help attract private investors, which are essential in the current cash-constrained conditions.

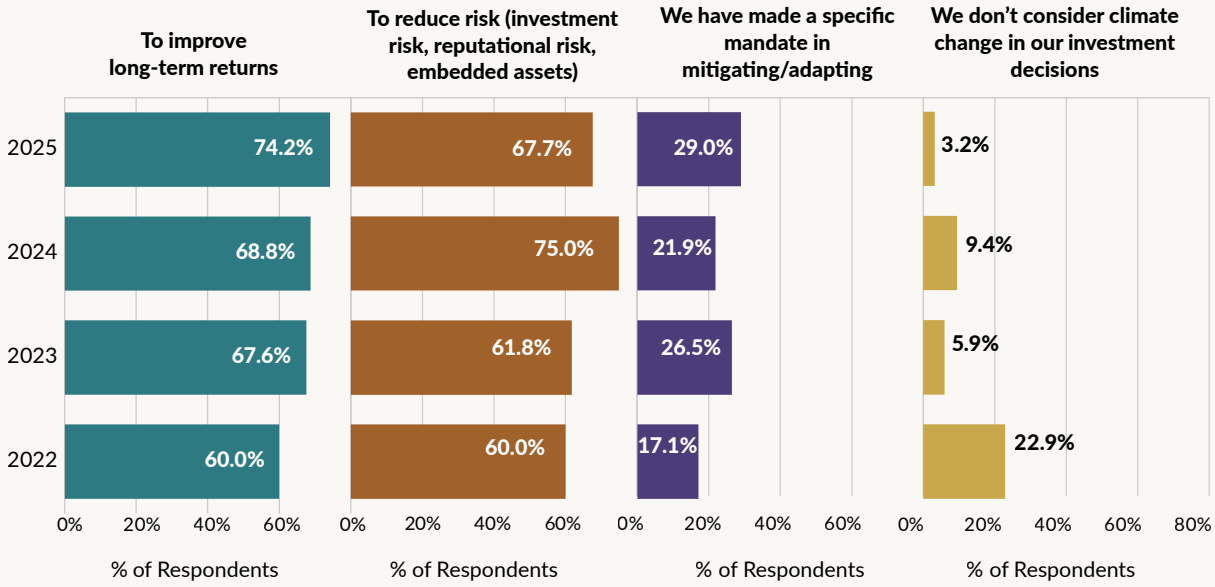
However, guarantees and catalytic spending will not be enough to meet the $1.3 trillion needed to help the Global South through the climate transition. Governments from the Global North need to start thinking of recipient countries as partners, in which both countries share the risks and the rewards. As such, there is space to expand the role of the Global North's national development banks and development finance institutions such as Bpifrance, CDP Equity, FMO, and KfW. In addition to traditional forms of financing, these institutions can provide catalytic first-loss capital that enables international institutional investors and local partners to participate in climate-positive projects, particularly in the adaptation and resilience pillars.

But these institutions need partners. Given the local and tangible nature of adaptation investment's impact, national or local alternative funding sources are well suited to contribute to the capital stack.[38] National development banks (NDBs) are increasingly seen as the more effective boots on the ground for adaptation because they are not as constrained by global credit rating pressures and, by lending in local currency, do not face the FX risk that kills many private-sector adaptation projects. However, NDBs need to focus on both sides of the balance sheet, rather than relying on infrastructure bonds, and be prepared to take equity risk to provide skin in the game to ensure interests align with their investment partners.

For example, on the equity side of the balance sheet, NDBs could partner with more commercially driven, government-backed investors, such as the US International Development Finance Corporation or British International Investment. These institutions can also play a catalytic role, particularly in mitigation projects that are more financially profitable. Because they act like private equity firms but with a government mandate, NBDs can facilitate entry to frontier markets that are less attractive to commercial banks. They can also help attract private capital by creating at-scale platforms for renewable energy and play a key market-making role by backing innovative business models in the climate space that might otherwise be deemed too risky for traditional institutional investors.

In addition, the growing ranks of sovereign wealth funds have the potential to be game-changers for adaptation finance because they do not have the same short-term exit requirements as private equity or the credit-rating concerns of MDBs. With few exceptions, most institutions in this group of long-term investors—the majority of which are based in developing economies—are now being asked to deploy capital domestically to support post-pandemic economic development and diversification. As a result, they can act as cornerstone investors in national infrastructure funds or platforms in the adaptation space, giving other private players the confidence to enter. Moreover, sovereign wealth funds are increasingly seeing addressing climate change as a driver of long-term returns, which makes climate-related projects more attractive to investors (see Figure 4). Similar findings in 2025 among a wider group of major investors confirm growing interest and investment in climate investing for value creation, portfolio risk management, and potentially as a hedge.[39]

Figure 4. Sovereign Wealth Funds' Primary Reason for Considering Climate Change in Investment Decisions



Source: IFSWF-OPSWF Climate Change Survey 2025 (pre-publication)

China is also a climate financing powerhouse, particularly in the Global South. Although a multilateral institution, the Beijing-headquartered Asian Infrastructure Investment Bank (AIIB) has been a leader in financing the energy transition. In 2025, AIIB met its target of allocating 50 percent of its annual financing to climate-related projects, including a $1 billion climate-focused loan to Brazil, which was highlighted as a strategic bridge between the Baku and Belém summits.[40]

Similarly, China's Belt and Road Initiative (BRI) has successfully pivoted from grey to green. In 2025, BRI's renewable energy financing reached $18.3 billion. Chinese private-sector firms are building significant bankable pipelines of wind, solar, and battery storage across 150 partner nations.[41] As such, China plays a major role in providing the technology, capital, and infrastructure needed to turn climate targets into a grid-connected reality across the world.

Although China is playing a leading role in financing the energy transition, the so-called middle powers are also playing a strategic part in helping infrastructure-needy regions in Africa and Central Asia that are looking to leapfrog fossil fuel dependency.

No discussion of catalytic public funding is complete without addressing the role of technology subsidies for mature technologies. If we want to scale up new technologies and make communities truly resilient, we need public money to lead the way. Historically, oil, gas, and nuclear industries—and even the first generation of solar and wind—did not become global giants on their own. They were built on decades of public support, research, and subsidies, and that same approach should be applied to the next generation of climate solutions.

To meet climate capital deployment goals, oil and gas subsidies need to be scaled back. That money is essentially shielding a sunsetting industry. If we shifted even a small portion of those public funds into

adaptation or resilience financing, we could easily cover the needs of emerging nations and the emergency needs of the Bridgetown Initiative for vulnerable countries and jump-start innovations for breakthrough technologies like long-duration energy storage.

By using public money to handle the high-risk, predevelopment work (e.g., permitting, design, and setup), we can build projects with risk profiles that allow private investors to join in later financing rounds. This approach moves from a system that is constantly hunting for bankable projects to one that systematically creates them at the scale required to meet the $1.3 trillion goal.

Blended Finance

Given public financing constraints, climate finance must shift toward private-sector mobilization. In addition to attracting foreign direct investment (FDI), mobilizing local capital is essential to meeting the $1.3 trillion funding required and to align climate action with national development priorities.

Due to the nature of adaptation assets, and projects in particular, much of their financing will be in the form of blended finance, in which public money or other concessional capital is used to take on certain parts of the capital stack that might not have risk-return characteristics attractive to purely commercial investors. The IHLEG's *Delivering an Integrated Climate Finance Agenda in Support of the Baku to Belém Roadmap to 1.3T* report suggests that MDBs should de-risk investments, opening up sectors to private capital that might not have a purely commercial return profile.[42]

However, this outcome would require these institutions to make dramatic changes to their operations. MDBs and DFIs currently tend to be risk averse, prioritizing their own credit rating over high de-risking.[43] As such, they struggle to mobilize private capital. The International Finance Corporation's *2023 Joint Report on Multilateral Development Climate Finance* revealed that while MDB climate finance reached a record $137 billion in 2024, the amount of private finance mobilized for low- and middle-income economies was only $33 billion.[44]

However, NDBs may be better placed to take this role, and potentially sovereign wealth funds that have a mandate to diversify and develop their local economies. Another option is to leverage philanthropic first-loss capital to protect private investors' investment and de-risk the projects.

Commercial (Private) Capital

The proposed framework is theoretical and presented in terms understood by the policy and environmental finance communities. To attract private capital to climate-related projects, it is important to talk to investors in terms of risk and return and of the business models of the companies, projects, and platforms in which they are investing. Fundamentally, this is a different conversation from the one at the government-to-government level. Private companies and investors will all have different views, targets, and approaches to climate change and carbon emissions. For investors, climate resilience and adaptation investing is about math, not ideology.[45]

In addition, in emerging markets, it is particularly important to focus on dealing with risk perception, particularly for investors from the Global North. Projects and companies must understand investor concerns and work with them to clarify actual risk and return profiles. Where necessary, they provide

mitigation mechanisms—such as currency hedging and guarantees—to ensure that investors can extract hard currency returns on their investments.

Deal Flow Acceleration Through Data Sharing and New Alliances

With countries, companies, and investors around the world pursuing ambitious energy transition and sustainable infrastructure goals, the need for new strategies to accelerate capital deployment and deal flow and lower portfolio risk has never been more urgent.

Given geopolitical challenges, there are new efforts to build an additive, investor-led track of effort to accelerate climate capital because government-led mechanisms for capital deployment by themselves were critical but insufficient to do the job.[46]

In addition to investor alliances, new technologies and protocols are being developed to scale up a data- and deal-sharing project intermediary marketplace and incentivize asset managers with their own projects and platforms to share more information across regions for high-demand and highly replicable projects.

It's All About Geography

To distribute the $1.3 trillion Baku Finance Goal across the Global South, policymakers must carefully balance climate needs that reflect each region's vulnerability to climate impacts with financial opportunities—including the bankability and scalability of investable projects that can attract private capital at commercially viable terms (see Table 2).

Table 2. How to Distribute $1.3 Trillion Across the Globe

Category/Region	Public Core ($300 billion)	Private Mobilization	Total Impact Share ($1.3 trillion)	Instrument Focus
Small Island and Developing States and Vulnerable 20 Countries (V20)	$85 billion	$45 billion	$130 billion	Grants, Loss and Damage Fund, and debt swaps
Southeast Asia	$45 billion	$265 billion	$310 billion	Blended equity, FX hedge
Sub-Saharan Africa	$70 billion	$170 billion	$240 billion	Concessional loans, agriculture resilience
Latin America	$40 billion	$180 billion	$220 billion	Nature credits, green bonds
South Asia	$40 billion	$180 billion	$220 billion	Utility solar and urban adaptation
Middle East and North Africa and Central Asia	$20 billion	$160 billion	$180 billion	Green hydrogen and sovereign wealth

Source: Milken Institute (2026)

Given its reliance on coal-fired power, Southeast Asia has the greatest potential to reduce emissions. Yet the region is one of the most complex global climate finance situations because financing must simultaneously support three contradictory tasks:

- supporting explosive industrial growth, driven by many firms taking a China Plus One approach by moving some of their operations to ASEAN to diversify and make their supply chains more resilient in the face of geopolitical tensions;
- providing support to retire a relatively young fleet of coal-fired power stations; and
- managing the world's fastest-growing energy demand, driven by an AI and data center boom, with technology giants including Google, Microsoft, and Amazon emerging as primary private mobilizers signing massive corporate power purchase agreements for renewable energy to meet net-zero commitments.

However, there are many attractive opportunities for private investors in the climate space. Singapore has established itself as the region's green finance hub and provides sophisticated capital markets infrastructure and expertise. These resources give international firms access to opportunities across the region, even in traditionally less-accessible markets such as Thailand, Vietnam, and Indonesia. The region is also home to a range of state-owned, commercially driven investors such as Temasek Holdings in Singapore and the Indonesian Investment Authority. Both can act as anchor partners for international investors and provide a differentiated deal pipeline.

Sub-Saharan Africa does require a large allocation of public core funding. The region is at the forefront of climate change and requires a greater degree of adaptation financing, which is less commercially attractive. Traditionally, investors from the Global North have perceived the continent as overly risky and the projects as subscale, making private capital mobilization challenging in frontier African markets. However, rising FDI from the Global South into the continent in recent years suggests that these investors perceive expanding opportunities.

Gulf Cooperation Council (GCC) sovereign wealth funds, including the Qatar Investment Authority, and other state-owned investors, such as Masdar and Infinity Power, are catalysts for investment on the continent and function simultaneously as public anchors and private-sector mobilizers. These funds can partner with their local counterparts, which may be willing to accept strategic returns rather than demanding purely commercial dollar-denominated returns, because they finance major renewable energy projects across Africa and Central Asia to secure their own futures as global energy exporters rather than pursuing immediate cash yields.

Latin America and the Caribbean represent a strong potential market for nature-based opportunities. Brazil's hosting of COP30 catalyzed a strategic shift toward resilience and nature conservation, with $60 billion in public capital establishing price floors for biodiversity credits that subsequently attracted over $200 billion in private institutional capital seeking high-quality carbon removal assets for portfolio decarbonization. The high private mobilization targets for Latin America and South Asia are a function of the expansion of the New Development Bank and widespread adoption of local currency financing mechanisms through local development banks. These banks reduce FX risk, thereby significantly lowering the cost of capital and allowing each dollar of public funding to mobilize substantially greater volumes of

private domestic investment.

We have separated SIDS and the Vulnerable 20 (V20) nations because their circumstances operate under fundamentally different principles. The loss and damage they have suffered are noncommercial, as investors cannot generate profit from rebuilding destroyed coastlines or compensating communities for irreversible climate impacts. As a result, these countries require a greater proportion of public funding than other regions and should be a primary focus for the United Nations Framework Convention on Climate Change Fund for responding to Loss and Damage. To ensure that this fund is effectively deployed requires some innovation. For example, using debt-for-nature swaps (e.g., green or blue bonds) avoids adding to these countries' debt burden.

Some V20 nations, including Bangladesh, Ghana, and Barbados, have had some success in attracting capital by bundling smaller initiatives into country platforms. By following this example, SIDS could attract capital by scaling projects, which then become more attractive to investors.

Carving out a separate vulnerability stream ensures that these countries receive the public funding they need to survive. Otherwise, public financing will drift naturally toward de-risking private capital in high-growth markets such as Vietnam or Indonesia, perpetuating the adaptation gap for the world's most vulnerable populations.

Conclusion

The $300 billion Baku Finance Goal represents a critical juncture in global climate finance, yet achieving it requires far more than scaling existing mechanisms. As this analysis has demonstrated, the current architecture suffers from fundamental imbalances—mitigation crowds out adaptation, loans burden the most vulnerable with unsustainable debt, and scarce public capital finances commercially viable projects while essential predevelopment financing and adaptation needs remain unmet. At current mobilization rates of just 38 cents of private capital per public dollar, and with foreign aid declining nearly 20 percent since 2024, business as usual will not deliver the $1.3 trillion annually required for an equitable climate transition across the Global South.

The framework presented here offers a pragmatic way forward by strategically reallocating the $300 billion public core committed across mitigation (40 percent), adaptation (30 percent), and resilience (30 percent). The shift from today's average private capital leverage ratio (1:0.4) toward pillar-specific targets—1:5.1 for mitigation, 1:0.7 for adaptation, and 1:2.5 for resilience—requires governments in the Global North to reconceive their role from traditional donors to strategic guarantors and first-loss capital providers, using their credit ratings rather than depleting scarce budgetary resources.

Geography matters profoundly in this equation. We suggest that Southeast Asia receives the largest share of funding to reflect the region's coal-retirement imperative and its capacity to absorb private capital, while Sub-Saharan Africa's $240 billion requires the highest proportion of concessional finance to address existential adaptation needs. Latin America's nature-based opportunity demonstrates how the right policy architecture can transform ecosystem conservation into an investable asset class. 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.

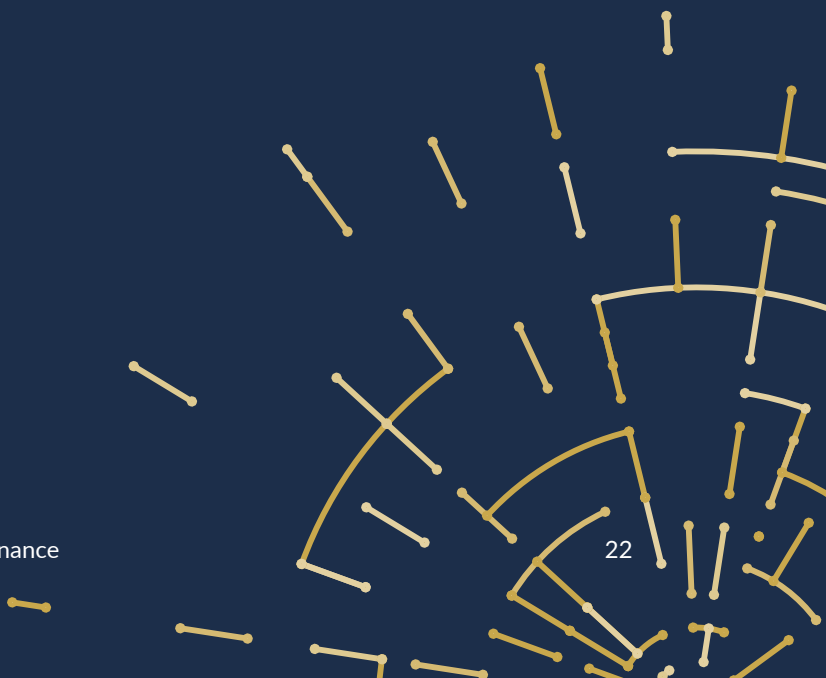
The transformative potential lies in harnessing emerging South–South financial flows that have shifted from the periphery to the core. For example, GCC sovereign wealth funds deploying patient capital into African infrastructure, Singapore's green finance hub channeling Chinese technology into ASEAN markets, Brazil's BNDES creating pan-Amazonian investment vehicles, and the New Development Bank's local currency lending all represent existing practical mechanisms that offer the multiplier effect that overstretched MDBs and politically constrained Western donors can no longer deliver alone.

However, unlocking this potential demands intellectual honesty about what climate finance can achieve. Not every adaptation project is bankable, nor should it be. Sea walls protecting vulnerable communities will never generate investor returns. The $1.3 trillion target becomes achievable only when we deploy 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 next decade will determine whether the Baku Finance Goal becomes a historic turning point or another missed opportunity. The technical solutions exist, the capital is theoretically available, and the institutional frameworks are largely in place. What remains uncertain is political will.

Can developed nations change the way they think about supporting developing economies? Will MBDs prioritize de-risking over credit ratings? Will the global community 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 to $1.3 trillion annually, but only if we commit to the structural reforms and coordinated action required to make climate finance finally work for those who need it most.



The Road Ahead to COP31 and Beyond: A Critical Pivot Moment for Climate Finance

As noted by COP30 President Andre Aranha Correa do Lago in his most recent letter on the decade of climate implementation ahead, a new focus on implementation is critical given the limitations of multi-decade consensus negotiations.[47] 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—as well as new strategies to accelerate climate capital deployment and deal flow.

Achieving a successful energy transition and climate-resilient global economy requires the strategic recalibration of both public and private capital, combined with aligned policy frameworks that enable investment at scale.

Much progress was made on climate finance and deployment at COP30 in Brazil through direct asset owner dialogues with the COP Presidency on November 12, 2025, and with the development of a formal Global Climate Action Agenda structure and the launch of a new Global Implementation Accelerator.

To bolster jurisdictional-led and UN-led deployment strategies, investor-driven, community-led initiatives are emerging to build investable pipelines, overcome barriers, and catalyze innovation. These initiatives can supplement government action, which can be slowed by geopolitical and technological disruptions. Sustainability investing to hedge risks and create value is here to stay. How investors do the work and talk about the work is a different matter.

As governments gather to discuss sustainability and climate-resilience investment strategies at meetings in 2026—including the World Bank Group/International Monetary Fund spring meetings in the United States (April), COP31 in Turkey (November), and the G-20 Meeting in the United States (December)—the voices of investors and companies will be essential to supporting both sound investment strategies and a new narrative as we work together to build a new investor roadmap for Brazil and beyond to accelerate climate capital deployment.

This working paper is meant to spark new thinking about how the public, private, and philanthropic sectors can work together to drive a climate outcomes agenda, measured in dollars delivered and more resilient communities, rather than commitments made and sometimes kept.

For serious investors across the globe, climate mitigation, resilience, and adaptation are not political issues—they are fundamental risk and opportunity considerations. This is simply a math problem.

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