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Increasing Climate Investment in Developing Countries

Proposals for the Baku to Belém Roadmap to 1.3T

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Executive summary

Developing countries are highly vulnerable to the effects of climate change, although they have lower historical and current per capita greenhouse gas (GHG) emissions than developed countries. While strong climate action is, therefore, an imperative in the Global South, it also represents a major growth and development opportunity. Climate investment can enhance productivity, innovation and economic growth, whereas delayed climate action can heighten the negative consequences for the economy (OECD/UNDP 2025, IMF 2022). The Independent High-Level Expert Group on Climate Finance (IHLEG) estimates that developing countries, excluding China, will require USD 3.2 trillion per year by 2035 in investments for climate action and nature, of which USD 1.3 trillion per year will need to be sourced internationally (Bhattacharya et al. 2024).

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Emerging market and developing economies (EMDEs) excluding China account for a quarter of the global gross domestic product (GDP). However, less than 15 per cent of the global annual climate finance flows reach these countries (World Bank 2024). The need to increase climate finance flows to these countries is often brought up at intergovernmental platforms, particularly the United Nations Framework Convention on Climate Change's annual Conference of the Parties (COP). COP29 in Baku, Azerbaijan, was dubbed the "Finance COP" as a new goal pertaining to climate finance for developing countries—to be provided and mobilised by developed countries—was foremost on the agenda. This goal, known as the new collective quantified goal (NCQG), will replace the existing target of USD 100 billion per year, which is applicable until 2025.

The climate finance outcome delivered by COP29 was widely seen as inadequate. On the one hand, it recognises the need for USD 1.3 trillion per year by 2035. On the other hand, it qualifies that "all actors" are to work towards meeting this overall target (UNFCCC. n.d.-a). It further stipulates that developed countries will only be "taking the lead" in mobilising USD 300 billion per year by 2035 (UNFCCC. n.d.-a). This effectively places considerable onus on developing countries to mobilise resources for achieving their climate goals. The outcome text also specifies that "all climate-related outflows from and climate-related finance mobilised by multilateral development banks" will be included in the promised USD 300 billion per year by 2035 (UNFCCC. n.d.-a). This differs from the computation of the previous target of USD 100 billion, in which only multilateral development bank (MDB) public capital flows attributable to developed countries and the private capital they mobilised were counted. Thus, the USD 300 billion commitment is not even strictly comparable to the previous USD 100 billion target.

This climate finance deal was struck against the backdrop of shifting global priorities linked to broader geopolitical developments. Heads of state from countries responsible for over 70 per cent of global GHG emissions did not attend COP29 (Prasad and Manimaran 2024). This was followed by an announcement by the United States of America of its intention to withdraw from the Paris Agreement (The White House 2025). Subsequently, some large emerging economies were reportedly reconsidering their participation in the Paris Agreement (Lakshmi, Mariska, and Mooney 2025; Mooney and Nugent 2025). As some developed countries slash aid budgets and reconsider their participation in international organisations and treaties, concerns have grown over the flow of development finance in general, and climate finance in particular, through bilateral and multilateral agencies and development banks (Fitch Ratings 2025; Sheldrick 2025).

> Servicing elevated levels of sovereign debt has reduced the fiscal headroom for investments in development, including climate action, in many developing countries.

Despite the unsatisfactory outcome on climate finance at COP29, there does appear to be a recognition of the need for a higher level of ambition and a commitment to work towards it. This is reflected in the launch of the Baku to Belém Roadmap to 1.3T, a work programme that endeavours to identify the broad sets of actions needed to scale up international climate finance flows to developing countries to USD 1.3 trillion per year by 2035. The development of a credible roadmap for delivering climate finance to developing countries is critical to reduce uncertainty arising from the outcome of the previous COP. This assumes greater urgency as the Baku to Belém Roadmap to 1.3T is slated for release just before COP30.

Any climate investment roadmap for developing countries should not be viewed in isolation. This is because developing countries need to concurrently pursue their development goals through economic growth and social sector expenditure along with climate action, but many of them are not well-positioned to do so. While these countries, in general, have underdeveloped financial systems relative to developed countries, many also have higher fiscal deficits, and some have unsustainable public debt. Servicing elevated levels of sovereign debt has reduced the fiscal headroom for investments in development, including climate action, in many developing countries. Around 3.4 billion people live in countries that spend more on interest payments than on either health or education, which crowds out public investment (UNCTAD 2025a).

Besides fiscal headroom constraints, the cost of capital for climate-related investments in developing countries is much higher than in developed countries. This stems from risks perceived by investors pertaining to investing in these countries, compounded by those associated with investments in climate-related sectors. A major portion of these risks generally pertains to country risks—those associated with macro or economy-wide factors—and are reflected in sovereign credit ratings. These may be further compounded by sector- and project-specific factors, that is, risks pertaining to investments in particular climate-related sectors. Often, there is a gap between perceived risks and real ones with information gaps leading to increased risk

perceptions (Ghosh and Harihar 2021). Some studies indicate that biases against developing countries could influence credit ratings assessments, which may contribute to elevated costs of capital (Tennant, Tracey and King 2020; UNCTAD 2025b). Because of these circumstances, developing countries often lack the means and incentives to undertake climate action in the absence of external financial support from developed countries.

Climate is a global commons, and each unit of GHG emissions or its abatement anywhere has the same effect on the average global GHG concentration and, in turn, on average global temperatures (though the warming and its effects are not evenly distributed). Developing countries host some of the most renewable energy resource-rich sites in the world (United Nations 2023) and are often characterised by deployment at lower capital expenditure per megawatt (IEA n.d.-a). If low-cost capital from developed countries can be paired with the rich resources of developing countries, it may be possible to advance global decarbonisation at lower mitigation costs. Thus, financing climate action in developing countries could even be viewed as a strategic choice to accelerate global climate action and should be an important part of the global multilateral agenda. This is particularly because developing countries are expected to drive global consumption of energy and materials in the future for their developmental needs; thus, climate action in developing countries is critical for the success of global climate action (Bond et al. 2021).

Given the urgent need for credible steps to financially support climate action in developing countries, this policy brief suggests ways to maximise the delivery of climate finance and increase climate investment in these countries. As climate negotiators attempt to develop a credible pathway towards mobilising adequate and affordable finance for developing countries in the form of the Baku to Belém Roadmap to 1.3T, the solutions proposed in this policy brief are designed to inform this challenging task.

These solutions entail interventions at various levels. We recommend the following six-point approach to maximise climate finance flows in developing countries.

> The high cost of capital of climate-related investments in developing countries stems from perceptions of risks associated with investing in these countries, compounded by those pertaining to investments in climate-related sectors.

1. Develop enabling policy environments and financial systems for climate-related investments in developing countries

As a first step, developing countries must create enabling investment environments that facilitate both domestic and cross-border capital flows. These include sectoral policies for transition (e.g., in sectors such as power, transport and industry), which address sector-specific bottlenecks in the flow of capital and cross-cutting policies (e.g., taxonomies, standards, and disclosures), which facilitate the linking of capital with credible investment opportunities. Further, financial supervisors could institute mechanisms for greening the financial system, including pricing climate risk into the flow of capital, to enhance the attractiveness of climate-related investments (e.g., disclosures on climate-related financial risks for financial institutions, green monetary policy, concessions in financial institution capital requirements for holding green assets). Large emerging economies that have made headway in climate action may take the lead in sharing their experiences with developing countries that are in the initial stages.

2. Free up fiscal space in developing countries and optimise public expenditure for achieving the SDGs, including climate action

Near-term and structural solutions for indebtedness are critical to prevent debt repayment from crowding out developmental expenditure, including on climate action. Debt-for-climate and debt-for-nature swaps, based on a common framework for pricing carbon emissions and valuing natural capital, could help provide immediate debt relief. Rolling over sovereign debt at lower interest rates and longer tenures of repayment could be considered in some cases, but debt restructuring with principal reductions may be necessary if debtor countries cannot continue to service debt without compromising their economic recovery and long-term development.

Programmes supported by the International Monetary Fund under its Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST) as well as the G20 Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI) could play a key role in addressing the structural issues causing indebtedness. Normalising debt service pauses in cases of external shocks, such as climate-related disasters, could be a complementary measure. Further, SDG-aligned budgeting

for public financial management could help orient public spending towards development, including climate action.

3. Leverage South-South cooperation and South-led multilateralism to enhance climate finance flows to developing countries

With the COP29 climate finance deal placing considerable onus on developing countries to mobilise finance themselves, cooperation between these countries could be an important lever.

Emerging international finance hubs outside the Global North, such as the Gujarat International Finance Tec-City International Financial Services Centre (GIFT-IFSC) in India and existing and upcoming international financial services centres in Kigali (Rwanda) and Viet Nam, can be developed to service countries beyond their immediate jurisdictions. Regional development banks, including newer ones such as the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), could serve as anchors by helping establish regional green banks/green finance platforms in these international financial centres to mobilise both regional and international capital and direct them to green investments. These green banks could play a key role in creating viable investment pipelines for channelling international capital by aggregating and de-risking projects across developing countries. Green banks could also help build the capacity of developing countries to access international public capital by providing project preparation services.

These emerging finance hubs, in conjunction with enabling environments, could also encourage investors from one developing country to invest in other developing countries' markets. Cross-investments in local currencies (BRICS 2025) could enhance their suitability for funding climate-related investments in developing countries.

> Incremental costs of climate insurance–stemming from worsening climate impacts–should be covered by a common global pool of capital to reduce costs for developing countries.

4. For climate adaptation, enhance the availability of international public capital, largely on concessional terms, across developing countries

Adaptation has historically been a financially underserved sector and needs to be funded by public capital—mostly concessional or grant-based. The endeavour should be to strike a better balance between funding adaptation and mitigation in international climate finance flows, with a greater emphasis on concessionality in the flows for adaptation. These funds may also be used to provide superior insurance cushions against climate risks to build resilience. While the geographical distribution of these risks is non-uniform, with developing countries particularly vulnerable, incremental insurance costs—stemming from worsening climate impacts—should be covered by a common global pool of capital to reduce costs for developing countries. In this context, proposals such as the Global Resilience Reserve Fund (GRRF), that are predicated on pooling risks across vulnerable regions to lower the cost of insurance for individual regions and are to be capitalised by global reserve assets such as Special Drawing Rights (SDRs), could offer viable solutions.

The scaled-up international public capital for adaptation should come from developed countries, consistent with the principles of common but differentiated responsibilities and respective capabilities (CBDR-RC) and equity. The fact that they have a legal obligation to do so was underscored by the International Court of Justice's advisory opinion on the Obligations of States in respect of Climate Change (International Court of Justice 2025).

5. For climate mitigation, deploy international public capital in a targeted manner for maximum impact and supplement with innovative sources of financing

In contrast to the approach for adaptation, where the endeavour should be to support all developing countries, a more targeted approach may be adopted for mitigation. This targeted approach should focus on developing countries that lie at the intersection of high energy requirements and high clean energy potential. Overall, the objective should be to maximise decarbonisation outcomes per dollar of international public capital.

Public capital should be deployed to strategically underwrite macro and sectoral risks and crowd in private capital. Addressing macro or country risks (such as political or currency risks) through guarantees could lower the cost of capital and facilitate global climate mitigation at lower costs. This could be achieved by guarantees by multilateral institutions, such as the World Bank Group's Multilateral Investment and Guarantee Agency (MIGA) or other institutions backed by international public capital (e.g., The Currency Exchange Fund, GuarantCo) that offer guarantees against commercial currency risk (currency hedging). In addition, funding proposed de-risking instruments, such as the Global Clean Investment Risk Mitigation Mechanism (GCI-RMM), which tackle both country-specific and sectoral risks could be another option. International public capital from MDBs could be used to fund guarantees. Once the existing headroom at MDBs is exhausted, callable capital, to the extent not used in capital adequacy determinations of MDBs, could be utilised to fund such guarantees.

The enhanced clean energy deployment in the targeted countries could accelerate decarbonisation beyond what was factored into their nationally determined contributions. In such cases, excess mitigation outcomes may be exported, which, in turn, would generate additional revenue for climate action in host countries as well as help buyer countries advance their climate objectives. Accelerated decarbonisation in such countries could also facilitate the strategic relocation of energy-intensive industrial activities, thereby enabling the geographical diversification of key industrial supply chains.

International public capital may also be used to strategically fund high-impact sectoral de-risking instruments, with interventions prioritised based on the amount of private capital mobilisation achievable. If capital is still insufficient relative to financing needs, innovative sources of financing, such as international carbon markets, solidarity levies (with due considerations of proportionality applicable to developing countries), rechannelled special drawing rights (SDRs), and philanthropic capital, should be leveraged.

> Excess mitigation outcomes in the targeted countries may be exported, generating revenues for host countries and helping buyer countries advance climate goals.

6. Bolster the role of development finance institutions (DFIs) in building investable project pipelines and delivering finance, with a focus on channelling private-sector capital

Funding adaptation and mitigation, as elucidated in points 4 and 5, requires enhancing the capacities of DFIs at all levels – domestic, bilateral, and multilateral. Domestic DFIs in developing countries have first-hand knowledge of local financing opportunities, bottlenecks and potential solutions. By partnering with bilateral and multilateral DFIs, they could facilitate the development of investable project pipelines to enhance the flow of international capital. Domestic DFIs must be integrated into any country or regional platforms developed or supported by MDBs for delivering climate finance.

Developed countries can demonstrate their commitment to supporting climate action in developing countries by scaling up finance flows from their respective bilateral DFIs, besides helping bolster multilateral DFI capacity. MDBs and vertical climate and environmental funds (VCEFs) are two important categories of multilateral DFIs. *The G20 Roadmap towards Better, Bigger and More Effective MDBs*, developed under the Brazilian presidency, calls for greater MDB interoperability and cofinancing with VCEFs (G20 2024).

The Independent Expert Group, constituted by India's G20 presidency, and the G20 Roadmap have proposed various options for expanding headroom for lending and investment at MDBs. These include balance sheet optimisation, recapitalisation, rechannelling of unused SDRs from MDB shareholders (countries) to support MDB lending and tapping non-government investors for funding support. Given that levers involving MDB shareholders are often subject to the vagaries of geopolitical developments, MDBs could consider focusing on attracting capital from private investors. For this purpose, MDBs could consider partnering with private capital to create ring-fenced funds managed by the former and funded by the latter.

1. Introduction

Climate change is an existential threat, particularly for developing countries. Although their historical and current per capita greenhouse gas (GHG) emissions are much lower than those of developed countries, developing countries are more vulnerable to the effects of climate change (BRICS 2025). While this translates into a significant need for climate action in developing countries, climate initiatives also represent a major development and growth opportunity. Investing in clean energy technologies can increase productivity and innovation, which can help drive economic gains (OECD/UNDP 2025). Further, as investing in climate mitigation and adaptation often entails investment in infrastructure, it can have positive spillovers on the wider economy (Singh, Dutt, and Sidhu 2020). Moreover, while climate action can unlock economic benefits, delayed climate action in pursuit of the same climate goals could heighten negative consequences for the economy (IMF 2023).

Emerging market and developing economies (EMDEs) excluding China account for a quarter of the global gross domestic product (GDP). However, less than 15 per cent of the global annual climate finance flows reach these countries (World Bank 2024). The need to increase climate finance flows to developing countries is often brought up at intergovernmental forums. The twenty-ninth United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP29), held in Baku, Azerbaijan, was dubbed the “Finance COP” as its primary focus was mobilising funding for climate action in developing countries. Specifically, formulating the New Collective Quantified Goal (NCQG), a target for the provision and mobilisation of climate finance for developing countries from 2026 onwards, was high on the agenda. The NCQG will replace the previous target of USD 100 billion per year, which was originally supposed to be met by 2020 and was reportedly achieved two years behind schedule in 2022 – though independent observers question the methodology adopted by the Organisation for Economic Co-operation and Development (OECD) in reporting the climate finance flows, and therefore, the actual amount of climate finance delivered (Kowalzig et al. 2024). The USD 100 billion per year target was subsequently also made applicable through to 2025.

The climate finance deal finally delivered by COP29 was widely viewed as underwhelming (Ainger, Rathi, and Cang 2024; Harris and Klein 2024; Sinha 2024; UNFCCC 2025). On the one hand, it recognises the need for USD 1.3 trillion by 2035. On the other hand, it qualifies that “all actors” are to work towards meeting the overall target of USD 1.3 trillion per year by 2035. It further stipulates that developed countries will only be “taking the lead” in mobilising USD 300 billion per year (UNFCCC.n.d.-a). This effectively places considerable onus on developing countries to mobilise resources for achieving their climate goals (UNFCCC. n.d.-a).

As a result, there is considerable uncertainty regarding the availability of adequate external climate finance for developing countries.

The NCQG outcome text also notes that "all climate-related outflows from and climate-related finance mobilised by multilateral development banks" will count towards the USD 300 billion goal (UNFCCC n.d.-a). This is a departure from the methodology adopted for measuring progress towards the previous USD 100 billion target, which included multilateral development bank (MDB) public capital flows attributable to developed countries and the private capital they mobilised but not all MDB climate-related outflows and the finance that they mobilise (OECD 2024). Thus, the constituent flows of the USD 300 billion target are not comparable to those of the USD 100 billion goal, further undermining the commitment by developed countries.

This climate finance deal was struck against the backdrop of shifting global priorities linked to broader geopolitical developments. In this context, the absence of the heads of state of countries responsible for over 70 per cent of global GHG emissions at COP29 was noteworthy (Prasad and Manimaran 2024). Early in 2025, the United States of America announced its intention to withdraw from the Paris Agreement (The White House 2025). Subsequently, some large emerging economies were reportedly reconsidering their participation in the Paris Agreement (Lakshmi, Mariska, and Mooney 2025; Mooney and Nugent 2025). Further, cuts to aid budgets and a review of participation in international organisations (such as development banks) by some developed countries have raised concerns regarding the availability of development finance (Fitch Ratings 2025; Sheldrick 2025).

Meanwhile, the climate crisis continues to worsen, as evidenced by the rising severity and frequency of extreme-weather events (United Nations n.d.-a). Recent instances of monthly and annual temperatures exceeding pre-industrial levels by 1.5°C signal the impending breach of the long-term 1.5°C global average temperature increase threshold (United Nations n.d.-b). Combating climate change remains an existential challenge, particularly for developing countries, which need to concurrently focus on development and climate action. Many developing countries have high fiscal deficits and some have unsustainable public debt. The COVID-19 pandemic, the consequent supply chain crisis and the tightening of global monetary policy to combat high inflationary pressures have reduced fiscal headroom in developing countries for investing in the Sustainable Development Goals (SDGs) (Dutt et al. 2024; UNCTAD 2025c). Around 3.4 billion people live in countries that spend more on interest payments than on either health or education, which crowds out public investment (UNCTAD 2025a). International climate finance is thus critical for enabling climate action in these countries.

The path forward requires interventions at various levels: creating conducive policy environments, generating fiscal space and optimising public expenditure towards meeting the Sustainable Development Goals (SDGs) (including climate action), leveraging international public finance to crowd in private finance, and reforming the international financial architecture to better finance measures to combat global challenges in developing countries (including climate change).

Despite the unsatisfactory outcome on climate finance at COP29, there appears to be a recognition of the need for a higher level of ambition and a commitment to work towards it. This is reflected in the launch of the Baku to Belém Roadmap to 1.3T, a work programme that endeavours to identify the broad set of actions needed to scale up climate finance flows to USD 1.3 trillion by 2035 (UNFCCC n.d.-b). From the perspective of advancing developing country climate action, this policy brief will examine how best to maximise climate finance flows in developing countries. The endeavour will be to propose solutions based on existing commitments and proposals pertaining to climate and development (instead of introducing altogether new proposals) to facilitate uptake. These proposals are designed to inform the development of the Baku to Belém Roadmap to 1.3T.

This policy brief will start by contextualising why financing developing country climate action is important for global climate action. It will then examine climate finance needs of developing countries and the current state of external climate finance flows to these countries. The brief will then outline the challenges that need to be addressed to accelerate flows to developing countries, before specifying some solutions that can help maximise climate finance flows to these countries.

> The terms of the COP29 climate finance deal effectively place considerable onus on developing countries to mobilise resources for achieving their climate goals.

2. Why decarbonisation in developing countries should be supported as a global commons

There are several compelling reasons why developed countries should support the financing of climate action in developing countries. It is consistent with the principles of equity and common but differentiated responsibilities and respective capabilities (CBDR-RC), which underpin UNFCCC climate negotiations (Dutt et al. 2024). Developing countries also have underdeveloped domestic financial systems and face higher costs of capital relative to developed countries (Dutt et al. 2024). Given their competing developmental priorities and limited capacity to finance climate action, developing countries do not have the means or incentive to act on climate in the absence of adequate external support in the form of finance and technology.

At the same time, the world will not reach its climate goals without climate action in developing countries. Going forward, these countries are expected to account for most of the incremental annual consumption of energy and materials globally for their developmental needs (Bond et al. 2021). If their energy mix does not change, these countries are expected to contribute significantly to global emissions growth in the coming decades. Thus, financing climate action in these countries is necessary for the success of global climate action (IEA n.d.-b). It could also be a smart strategic choice to optimise outcomes from international climate finance deployed, as elaborated in the following lines.

The climate is a global public good (Leo and Singh 2022). The emissions of each country contribute cumulatively to an increase in average GHG concentration and, in turn, to a rise in the average global temperature (Grasso 2004). In the same vein, emissions abatement in any part of the world can have a similar effect in countering global warming, on average.

There is considerable global heterogeneity in terms of clean energy resource availability. Developing countries host some of the most resource-rich sites in the world, particularly for solar energy (United Nations 2023). Further, the capital expenditure per megawatt of renewable energy projects is much lower in some developing countries than in developed countries (IEA n.d.-a). These advantages can help the world realise decarbonisation at lower costs if the challenges associated with climate investments in developing countries are addressed. This opportunity for advancing global decarbonisation at lower costs by deploying clean energy in developing countries could itself be viewed as a global commons to tackle the collective problem of climate change.

> Developing countries host some of the world's most renewable energy resource-rich sites.

3. The major challenges that constrain climate investment in developing countries

Climate investment in developing countries may be constrained by challenges facing climate finance flows from developed to developing countries and factors limiting the ability of developing countries themselves to invest. Many developing countries lack a robust project pipeline (OECD 2023; UNESCAP 2023). However, assuming that a pipeline of projects exists, risk perceptions arising from a variety of sources could elevate the cost of capital such that projects can only be executed at prohibitively high prices (Persaud 2022). Besides, servicing high levels of sovereign indebtedness limits the fiscal space for developing countries to take climate action (UNCTAD 2025a). These challenges are discussed in detail in the following lines.

3.1 High cost of capital

The costs of capital for prominent clean energy technologies in EMDEs are, on average, roughly twice those in developed countries (IEA 2024). This is due to the risks perceived by investors with respect to investing in these economies and technologies (UNFCCC 2025). These risks could stem from macro or economy-wide factors, such as the rule of law, political stability, and currency risk, or sector- and project-specific factors, such as land acquisition risk, evacuation risk, and off-taker risk in the case of renewable energy investments (UNFCCC 2025). Often, information gaps exist which elevate perceived risks above real ones (Ghosh and Harihar 2021). Table 1 presents a comparison of the costs of capital of utility-scale solar photovoltaic (PV) projects in select developed countries with those in select emerging economies.

While conducive sectoral policies can minimise sector-specific risks, economy-wide risks may give rise to considerable differences in the cost of capital. This is a reflection of the sovereign credit ratings assigned to countries, which in turn affect their government borrowing costs. Some studies indicate that biases against developing countries could influence credit ratings assessments, which may contribute to elevated costs of capital (Tennant, Tracey and King 2020; UNCTAD 2025b). There have been calls for an overhaul of ratings systems so that they may be better suited for rating the sovereign debt of developing countries (LiveMint 2025; Pontifical Academy of Social Sciences 2025).

Comparing government borrowing costs across countries is one way to assess the extent to which economy-wide factors create differences in the costs of capital for private-sector investments. This is because private-sector costs of capital are calculated as government borrowing costs plus a premium (Table 2).

Elevated costs of capital lead to elevated costs of transformation to a low-carbon and climate-resilient economy. Lowering the cost of capital could be one way to accelerate the flow of climate finance.

3.2 Elevated levels of sovereign debt and limited fiscal space

Several developing countries have elevated levels of sovereign debt. Increased public spending to counter the effects of the COVID-19 pandemic, the subsequent supply chain and cost-of-living crises and consequently, the tightening of global monetary policy to counter inflationary pressures, have contributed to the debt burden (UNCTAD 2025c). The external debt of developing countries stood at USD 11.4 trillion in 2023, which amounted to ~99 per cent of their export earnings (UNCTAD 2025d).

High levels of sovereign debt constrain the ability of governments to spend on development, including climate action (UNFCCC 2025b). This is evident if one considers that 61 developing countries spend more than 10 per cent of their government revenues on net interest payments and that 3.4 billion people live in countries whose net interest payments are higher than their spending on either education or health (UNCTAD 2025a). As of March 2025, 68 countries were at varying stages of risk of external debt distress (IMF 2025). Providing some form of debt relief is essential to enable these countries to take more effective climate action while concurrently working on addressing the structural factors that lead to elevated indebtedness.

Table 1. Comparison of the costs of capital of utility-scale solar PV projects (in %) between developed (Europe and USA) and emerging economies in 2021

Europe	USA	China	Brazil	India	Indonesia	Mexico	South Africa
4.0	4.3	4.9	13.1	9.9	10.1	9.7	10.0

Source: IEA.n.d.-a "Cost of Capital Observatory: Tools and Analysis." Accessed July 24, 2025. https://www.iea.org/reports/cost-of-capital-observatory/tools-and-analysis.

Note: The figures mentioned in the table refer to the midpoint of ranges included in the Cost of Capital Observatory.

Table 2. Comparison of government borrowing costs of the largest Non–Annex I economies in Africa, South America, and Asia with those of the United States of America

Region and country	10-year sovereign bond yield (%)	Multiple of US 10-year bond yield
Africa		
South Africa	10.54	2.3×
Egypt	22.22	4.9×
Algeria	NA	—
Nigeria	19.84	4.4×
Morocco	2.81	0.6×
South America		
Brazil	13.87	3.1×
Argentina	NA	—
Colombia	12.31	2.7×
Chile	5.76	1.3×
Peru	6.55	1.4×
Asia		
China	1.68	0.4×
India	6.36	1.4×
South Korea	2.73	0.6×
Indonesia	7.03	1.6×
Saudi Arabia	4.87	1.1×

Sources: For all countries (except Saudi Arabia): Investing.com. "Investing.com India – Financial News, Shares and Quotes." Accessed May 15, 2025. https://in.investing.com/. For Saudi Arabia: London Stock Exchange Group. "FTSE Saudi Arabian Government Bond Index." Accessed July 27, 2025.

Notes: U.S. 10-year bond yield on 14 May 2025 = 4.54%. Ten-year bond yield data were not readily available for Algeria and Argentina. NA = not applicable.

4. Climate finance needs of developing countries

The Independent High-Level Expert Group on Climate Finance (IHLEG), constituted by the COP26 and COP27 presidencies and the United Nations Climate Change High-Level Champions, estimated that developing countries excluding China require USD 1 trillion and USD 1.3 trillion per year of external finance for climate- and nature-related investments by the years 2030 and 2035, respectively (Bhattacharya et al. 2024) (Table 3). The IHLEG's estimates include financing requirements for investments in mitigation, adaptation, loss and damage and nature. Interestingly, the same amount of USD 1.3 trillion per year of external finance was demanded by developing countries at COP29—though not necessarily by the year 2035 (some proposals required this limit to be reached earlier) and with a narrower scope (excluding loss and damage, and nature initiatives). It is worth noting, however, that while the focus of negotiations at COP is on external climate finance, the bulk (~60 per cent) of the annual investment requirements of developing countries will have to be met by domestic sources (Table 3). Further, the IHLEG projects that while finance flows from both public and private sources (including household savings) are necessary, it is investment from private sources that would need to be sharply increased (five to seven times by 2030 from the present levels) (Bhattacharya et al. 2024). Therefore, a portion of both domestic and international public capital would be needed to help address the bottlenecks in the flow of domestic private capital.

Table 3. Annual climate- and nature-related investment requirements in developing countries excluding China

Year	Total investment*	Domestic sources*	External sources*
2030	2.4	1.4	1.0
2035	3.2	1.9	1.3

* USD trillion

Source: Bhattacharya Amar, Vera Songwe, Eleonore Soubeyran, and Nicholas Stern. 2024. Raising Ambition and Accelerating Delivery of Climate Finance. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.

5. Why the new deal could be inadequate

The exact phrasing of the outcome text pertaining to developed countries' contributions on the NCQG reads as follows (UNFCCC n.d.-a);

Reaffirms, in this context, Article 9 of the Paris Agreement and decides to set a goal, in extension of the goal referred to in paragraph 53 of decision 1/CP.21, with developed country Parties taking the lead, of at least USD 300 billion per year by 2035 for developing country Parties for climate action:

- From a wide variety of sources, public and private, bilateral and multilateral, including alternative sources;
- In the context of meaningful and ambitious mitigation and adaptation action, and transparency in implementation;
- Recognising the voluntary intention of Parties to count all climate-related outflows from and climate-related finance mobilised by multilateral development banks towards achievement of the goal set forth in this paragraph;

The phrasing of the outcome text offers considerable flexibility to developed countries in providing and/or mobilising finance for developing countries; that is, there are many ways in which "at least USD 300 billion per year" may be delivered. While the text does not explicitly cap developed country contributions at USD 300 billion, what could these figures translate into based on historical performance?

The USD 100 billion per year goal was reportedly achieved in 2022 (OECD 2024), though developing countries and observers have questioned the methodological robustness of the computation and therefore the validity of the reported figures. For example, Oxfam, in its *Climate Finance Shadow Report*, 2024, asserts that the real value of the climate-specific support provided by developed countries is USD 27.9–34.9 billion, as against the OECD figure of USD 115.9 billion (Kowalzig et al. 2024). Nonetheless, even if one were to take the OECD figure at face value, the climate finance delivery has been underwhelming (Tables 4 and 5).

Table 4. Source-wise public climate finance (in USD billion) reportedly provided by developed countries

Source	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bilateral public finance	22.5	23.1	25.9	28	27	32	28.7	31.4	34.5	41
MDBs	13	18	14.4	15.7	23.8	26.7	30.5	33.2	34.3	46.9
Multilateral climate funds plus others	2.5	2.4	1.8	3.2	3.4	3.8	4.1	3.7	4.4	3.7
Total	**38**	**43.5**	**42.1**	**46.9**	**54.2**	**62.5**	**63.3**	**68.3**	**73.2**	**91.6**

Source: OECD. 2024. "Climate Finance Provided and Mobilised by Developed Countries in 2013–2022." https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/05/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_8031029a/19150727-en.pdf.

Table 5. Source-wise private climate finance (in USD billion) reportedly mobilised by public climate finance from developed countries

Source	2016	2017	2018	2019	2020	2021	2022
Bilateral public finance	5.2	4	3.8	5.8	5.1	5.6	9.2
MDBs	4.5	10.3	9.9	6.9	6.7	7	10.7
Multilateral climate funds	0.4	0.2	1	1.7	1.4	1.8	2
Total	**10.1**	**14.5**	**14.7**	**14.4**	**13.2**	**14.4**	**21.9**

Source: OECD. 2024. "Climate Finance Provided and Mobilised by Developed Countries in 2013–2022." https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/05/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_8031029a/19150727-en.pdf.

Based on Tables 4 and 5, over the last five years of reporting (2018–2022), USD 358.9 billion in public climate finance reportedly mobilised USD 78.6 billion in private finance, or roughly 22 per cent of public capital flows. This perhaps indicates that private capital mobilisation has historically not been a priority for these bilateral and multilateral funds and MDBs. If such mobilisation multiples were to apply to future flows, even if developed countries were to provide the entire USD 300 billion in public climate finance flows, overall flows, including private finance mobilisation, would fall considerably short of the USD 1.3 trillion requirement. One of the reasons for the low historical private-sector mobilisation is that existing business models of MDBs—which account for nearly half the public finance reported in this five-year

period—are predicated on maintaining high credit ratings to ensure access to low-cost capital. This constrains the capacities of these organisations to mobilise private-sector capital through de-risking (Moss 2025).

It is also worth noting that developed countries directly contributed only around 47 per cent of the public climate finance provided in this five-year period, which is less than the contributions from all the multilateral sources attributed to them (Table 4). This perhaps indicates developed countries' reluctance to fund climate action in developing countries. Further, as the NCQG decision text specifies "all climate-related outflows from and climate-related finance mobilised by multilateral development banks" count, the constituents of the proposed USD 300 billion target are not strictly comparable to those of the previous USD 100 billion goal. Thus, developed countries have not actually tripled their annual commitment, which the nominal tripling of the target seems to imply.

Given this landscape of climate finance, what can be done to mobilise finance to bridge the gap between existing commitments and the requirements of developing countries?

6. Solutions

The path forward requires interventions at various levels. We recommend the following six-point approach to maximise climate finance flows in developing countries.

6.1 Develop enabling policy environments and financial systems for climate-related investments in developing countries

While achieving developing countries' climate goals will require considerable resource mobilisation from both domestic and international sources (Section 4), an enabling investment environment is a prerequisite for capital to flow at scale from either of these sources. Therefore, as a first step, developing countries need to take concrete steps to provide enabling environments that facilitate both domestic and cross-border capital flows.

Developing an enabling environment for climate finance requires a concerted effort spanning multiple dimensions. Key components of such a conducive environment include the following:

- Sectoral policies for transition (e.g., in sectors such as power, transport, and industry) that address sector-specific bottlenecks in the flow of capital
- Cross-cutting policies (e.g., taxonomies, standards and disclosures) that facilitate the linking of capital with credible investment opportunities in climate action or sustainability
- Greening of the financial system (e.g., green monetary policies and concessions in capital requirements for green assets), including by integrating climate risk considerations in capital flows

Peer-to-peer learning could play a key role in enabling climate action (UNFCCC 2025). Emerging economies that have made considerable headway in climate action, such as India, may take the lead in sharing their experiences with countries that are in the initial stages of developing climate policies. Such emerging economies could consider setting up centres of excellence to facilitate capacity building for policymakers and regulators from other developing countries.

6.2 Free up fiscal space in developing countries and optimise public expenditure for achieving the SDGs, including climate action

As servicing sovereign debt crowds out developmental expenditure in many countries in the Global South, providing debt relief is essential to enable countries to redirect public expenditure towards development (UNCTAD 2025a). This has two facets: (a) providing immediate debt relief and (b) addressing the underlying structural problems causing indebtedness.

Debt-for-climate and debt-for-nature swaps, based on a common framework for pricing carbon emissions and valuing natural capital, are important levers for providing immediate debt relief and freeing up fiscal space (Pontifical Academy of Social Sciences 2025; UNDP 2023). Rolling over sovereign debt at lower interest rates and longer tenures of repayment could be considered in some cases, but debt restructuring with principal reductions may be necessary if debtor countries cannot continue to service debt without compromising their economic recovery and long-term development (Pontifical Academy of Social Sciences 2025). However, debt relief measures do not necessarily address

the underlying structural problems that cause indebtedness. International Monetary Fund programmes under the Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST) could play a key role in addressing these structural issues and help build resilience against future shocks (IMF n.d.-a, n.d.-b). Debt servicing pauses in case of external shocks, such as climate-related disasters, could be a complementary measure to safeguard against fiscal vulnerability (Mallucci 2022; United Nations Secretary-General's Expert Group on Debt 2025).

Developing countries must also align public spending with SDG outcomes. This entails prioritising climate action, public health, primary education, water and sanitation, pollution reduction, social protection, safety nets, and so on from the perspective of public expenditure. In this context, it may be useful to consider SDG-aligned budgeting for public financial management. Public resources for climate action could be enhanced through carbon taxation and domestic emissions trading schemes.

6.3 Leverage South-South cooperation and South-led multilateralism to enhance climate finance flows to developing countries

South-South cooperation could facilitate higher climate finance flows in the developing world. This can be achieved by (i) developing emerging international finance hubs in developing countries as conduits of climate finance to the Global South, (ii) leveraging newer development banks such as the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) and (iii) cross-investment by developing countries in each other's markets.

Develop emerging international finance hubs in developing countries as conduits of climate finance to the Global South by leveraging regional development banks

> Addressing sovereign indebtedness to free up fiscal space for climate action has two facets: (a) providing immediate debt relief and (b) addressing the underlying structural problems.

Emerging international finance hubs outside the Global North (such as the Gujarat International Finance Tec-City International Financial Services Centre (GIFT-IFSC) in India and existing and upcoming international financial services centres in Kigali, in Rwanda, and Viet Nam) can be developed to service countries beyond their immediate jurisdictions. GIFT-IFSC, in particular, aspires to be a sustainable finance hub for the Global South (PIB 2024). Regional development banks, including newer development banks such as the NDB and the AIIB, can anchor regional green banks/green finance platforms in these international financial centres to mobilise regional and international capital toward green investments. In this context, India could consider setting up its proposed National Green Financing Institution (NITI Aayog 2025) in GIFT-IFSC to eventually serve jurisdictions beyond India.

These green banks could play a crucial role in creating viable investment pipelines for international capital. They could help developing countries access finance from vertical climate and environmental funds (VCEFs) (e.g., Global Environment Facility, Green Climate Fund, Climate Investment Funds, and Adaptation Fund) and MDBs by providing project preparation services. Further, green banks could help identify and aggregate projects across developing countries to create portfolios of sizes suitable for large institutional investors. Lastly, de-risking these portfolios could help create attractive investment propositions for international investors.

To boost their lending and de-risking capacities, these institutions could consider accepting capital contributions from philanthropies, multilateral and bilateral financial institutions, as well as governments.

Climate cross-investment in the Global South

The development of enabling environments and the facilitating role of emerging finance hubs would not only help attract international capital from the Global North but could also encourage investors in developing countries to invest in each other's markets. Encouraging these cross-investments in local currencies (BRICS 2025) could enhance their suitability for funding climate-related investments in developing countries.

6.4 For climate adaptation, enhance the availability of international public capital, largely on concessional terms, across developing countries

As developing countries are highly vulnerable to the adverse impacts of increasingly frequent and intense extreme-weather events, there is an urgent need to scale up adaptation funding across the developing world. This scaled up international public capital for adaptation should come from developed countries. These countries have historically underperformed on their commitments and must now uphold the principles of common but differentiated responsibilities and respective capabilities (CBDR-RC) and equity. The fact that they have a legal obligation to do so was underscored by the International Court of Justice's advisory opinion on the Obligations of States in respect of Climate Change (International Court of Justice 2025).

Adaptation, a historically financially underserved sector, needs to be funded largely by public capital, preferably concessional or grant-based finance (BRICS 2025; UNFCCC 2025). This is evident in view of the general absence of revenue streams and/or business cases for adaptation solutions. International public capital should be optimised to ensure a better balance between adaptation and mitigation end uses, with a greater emphasis on concessional funding in the case of adaptation. These funds may also be used to provide superior insurance cushions against climate risks to build resilience. While the geographical distribution of climate risks is non-uniform, with developing countries particularly vulnerable, incremental insurance costs—stemming from worsening climate impacts—should be covered by a common global pool of capital to reduce costs for developing countries. In this context, proposals such as the Global Resilience Reserve Fund (GRRF), that are predicated on pooling risks across vulnerable regions to lower the cost of insurance for individual regions and are to be capitalised by global reserve assets such as Special Drawing Rights (SDRs), could offer viable solutions (Ghosh 2023).

> Regional development banks can anchor green banks in international financial centres to mobilise regional and international capital toward climate-related investments.

6.5 For climate mitigation, deploy international public capital in a targeted manner for maximum impact and supplement with innovative sources of financing

In contrast to the approach for adaptation, where the aim should be to support all developing countries, a more targeted approach may be adopted for mitigation. This is because global emissions are not spread evenly but are concentrated in a few large economies. For example, the top 10 emitters account for around three-fifths of current global emissions (Climate Watch n.d.). The same applies to Non–Annex I countries, the recipients of climate finance under the UNFCCC, as the top 10 emitters account for ~70 per cent of current overall Non–Annex I emissions (Climate Watch n.d.). This targeted approach to mitigation should focus on developing countries that lie at the intersection of high energy requirements and high clean energy potential. Overall, the objective should be to maximise decarbonisation outcomes per dollar of international public capital.

As the availability of public capital for financially underserved adaptation initiatives needs to be increased, in the case of mitigation, international public capital should be deployed to strategically underwrite macro and sectoral risks and crowd in private capital, instead of directly lending to projects, to make the most efficient use of public capital. In case public capital is still insufficient relative to needs, non-conventional sources of financing, such as carbon markets, solidarity levies (with due considerations of proportionality), rechannelling of special drawing rights (SDRs), and philanthropic capital, should be tapped.

Macro-level de-risking

As discussed in Section 2, pairing developed country costs of capital with resource-rich sites in developing countries could advance global emissions mitigation at lower costs. This requires the mitigation of risks associated with climate investments in developing countries. While project- and sector-specific risks may be addressed through sectoral policies and sectoral de-risking, economy-wide or country risks, such as political or currency risks, cannot be addressed by sectoral interventions.

Country risks are typically addressed by guarantees provided by entities from outside the country. Specialised agencies such as the World Bank Group's Multilateral Investment and Guarantee Agency (MIGA) offer guarantees against political instability, expropriation, and non-commercial currency risks (currency inconvertibility). MIGA's operations also have a dedicated focus on the green economy (MIGA 2024). Other institutions backed by international public capital (e.g., The Currency Exchange Fund, GuarantCo) offer guarantees against commercial currency risk (currency hedging), besides facilitating credit enhancement. One guarantee mechanism proposed by the Council on Energy, Environment and Water, the Global Clean Investment Risk Mitigation Mechanism (GCI-RMM), envisions the provision of guarantees for both country-related (political and currency) and sectoral (off-taker) risks, by pooling clean energy investments across geographies for diversification of risk (Ghosh and Harihar 2021). Funding specific guarantee mechanisms (such as the GCI-RMM) or enhancing the capacities of multilateral guarantee providers could help address country risks, which, in turn, could lower the cost of capital for climate investments in developing countries. International public capital from sources such as MDBs could fund these guarantees to support low-cost climate mitigation. Once the existing headroom at MDBs is exhausted, callable capital, to the extent not factored into capital adequacy determinations of MDBs could be utilised to finance such guarantees.

Enhanced clean energy deployment in the targeted countries could accelerate decarbonisation beyond the business-as-usual level in the host countries. In cases where decarbonisation exceeds the levels anticipated by the nationally determined contributions (NDCs) of the host countries, the excess mitigation outcomes may be exported, which, in turn, could generate additional revenues for climate action and development in the host countries. The export of mitigation outcomes can be accomplished in various ways, depending on the specific circumstances of the host country. Some of these possibilities include (a) exporting electricity through interconnected regional grids (through initiatives such as India's One Sun, One World, One Grid initiative) and (b) producing and exporting low-carbon molecules, such as green hydrogen or green ammonia. Such scenarios could also support ongoing trends in "powershoring," or strategically relocating energy-intensive industrial activities to countries that offer low-cost clean energy with proximity to key inputs, thereby facilitating the geographical diversification of important industrial supply chains (E+ Energy Transition Institute n.d.).

Sector-level de-risking

Besides macro-level de-risking, international public capital could also be used to strategically fund high-impact sectoral de-risking instruments. Interventions may be prioritised based on the extent of private capital mobilisation achievable. For example, in the case of renewable energy (RE) in India, capital flows readily to projects on competitive terms, but existing sources of debt capital (banks and non-bank financial institutions) do not have adequate headroom to fund the entirety of the country's ambitions. However, a subsidised credit enhancement facility could help unlock the domestic debt capital markets and facilitate the refinancing of existing RE loans; this would free up capital for lending to greenfield projects, thereby addressing existing financing constraints. A preliminary analysis indicates that such a facility could enable the refinancing of debt that is around 16 times the magnitude of the grant capital funding it and free up an equivalent amount of capital for lending to fresh projects (Singh, Dutt, and Sidhu 2020). Similar types of high-impact instruments may be considered for capitalisation using international public capital.

Innovative financing approaches

If capital is still insufficient relative to needs, other innovative approaches could be considered to augment the availability of capital. These approaches are described below.

Carbon markets

International carbon markets could be strategically used to boost the viability of projects, particularly those in financially underserved mitigation segments. The sale of carbon credits through either the Article 6 international compliance markets (comprising the centralised 6.4 market mechanism and the decentralised 6.2 mechanism) or the voluntary carbon markets can help generate additional revenues which can boost the viability of financially underserved projects (IETA et al. 2023). However, some questions exist about the environmental integrity of voluntary carbon markets, and these would need to be addressed if voluntary markets are to be used credibly at scale (ICVCM n.d.; VCMI n.d.).

> Callable capital can be utilised to bolster MDB capacity to fund guarantees.

Once international carbon markets have demonstrated a credible track record, more complex financing arrangements could emerge. One such arrangement could involve factoring prospective carbon credit revenues into loan sizing and pricing for projects, which could potentially result in superior financing terms. Further, beyond unlocking additional revenue streams through the sale of carbon credits, the Article 6.2 mechanism could also offer the possibility of more bespoke arrangements between countries, such as capital expenditure in exchange for carbon credits. Japan's Joint Crediting Mechanism, an arrangement aligned with Article 6.2, allows for the sale of credits in exchange for part funding of the capital investment in projects (Government of Japan, Ministry of the Environment 2024).

Other approaches

Some other options to mobilise finance for climate mitigation include the following:

- Solidarity levies in the form of taxes on aviation (for premium flyers and private jets), levies on fossil fuel extraction or profits, or financial transaction taxes (Global Solidarity Levies Task Force 2025), with due considerations of proportionality, preferably exclusions, applicable to developing countries
- Voluntary rechannelling of unused SDRs from developed countries to developing countries or to MDBs and regional development banks to expand their capital bases (Pontifical Academy of Social Sciences 2025; United Nations Secretary-General's Expert Group on Debt 2025)
- Engagement with private philanthropies to raise capital

> The voluntary rechannelling of unused special drawing rights by developed countries can bolster the capacities of multilateral development banks to lend for climate action.

6.6 Bolster the role of development finance institutions (DFIs) in building investable project pipelines and delivering finance, with a focus on channelling private-sector capital

Funding climate adaptation and mitigation, as described in points 4 and 5, requires enhancing the capacities of DFIs at all levels – domestic, bilateral, and multilateral. These institutions can raise capital at low costs and facilitate the crowding in of private capital.

Domestic and bilateral development finance institutions

Domestic DFIs in developing countries can serve as key players as they have a deep understanding of local financing opportunities, bottlenecks and potential solutions. By partnering with bilateral and multilateral DFIs, they can also help develop investable project pipelines that can facilitate the flow of international capital (United Nations Secretary-General's Expert Group on Debt 2025). These domestic DFIs should be integrated into any country or regional platforms developed or supported by MDBs to deliver climate finance (G20 2024). Developed countries could demonstrate their commitment to supporting climate action in developing countries by scaling up finance flows from their respective bilateral DFIs, besides helping bolster multilateral DFI capacity (discussed below).

Multilateral development finance institutions

Two important categories of multilateral DFIs are MDBs and VCEFs. The *G20 Roadmap towards Better, Bigger and More Effective MDBs*, developed under the Brazilian presidency, calls for greater MDB interoperability and co-financing with VCEFs (G20 2024).

There has been a growing recognition that MDBs need to be strengthened to better equip them to tackle transboundary developmental challenges such as climate change and health. In this context, the Independent Expert Group,

constituted by India's G20 presidency, has made several recommendations for reforming MDBs in its *Triple Agenda* report (Independent Expert Group 2023). The subsequent *G20 Roadmap* provides more detail on how MDBs can be better equipped to meet the challenges of the twenty-first century (G20 2024). These reports propose various options for expanding headroom at MDBs to facilitate lending and investment. These include balance sheet optimisation, recapitalisation, rechannelling of unused SDRs from developed economies to support MDB lending and by tapping non-government investors for funding support. Implementing many of the proposed reform measures would require MDBs to conduct dialogues with other stakeholders. Balance sheet optimisation to incorporate a proportion of callable capital into capital adequacy determinations would require consultations with credit rating agencies as well as shareholders (countries), whereas recapitalisation and rechannelling of SDRs also depends on shareholders' consent. As shareholders' positions may change with geopolitical developments, MDBs must also aim to attract capital from the private sector. In fact, MDBs could consider following the World Bank's lead and make private capital mobilisation a priority, perhaps even making it a key performance indicator (World Bank 2020).

The world's largest asset managers cumulatively have ~USD 130 trillion in assets under management (WTW 2024). Directing a fraction of the capital invested in these assets to climate initiatives in developing countries could go a long way towards bridging the financing gap. Such investors do invest in bonds issued by MDBs and the Triple Agenda report proposes a dedicated mechanism—the Global Challenges Funding Mechanism (GCFM)—to funnel this capital towards MDBs via bonds (Independent Expert Group 2023). However, to significantly alter the status quo, MDBs should consider creating additional avenues, such as ring-fenced funds managed by MDBs that pool in private capital for investment, that is, funded by private investors. Ring-fencing such funds could help them raise capital without MDBs having to enhance their equity capital. To provide further comfort to investors, MDBs could consider (a) offering co-financing opportunities to investors through such funds or (b) de-risking the investment portfolios of these funds. Such structures could give investors access to diversified portfolios, along with the benefits of MDB project selection, governance, and quality assurance processes.

7. Conclusion

The historical underperformance of developed countries in delivering climate finance has hampered climate action in developing countries, given domestic financing constraints due to underdeveloped financial systems, high costs of capital, sovereign indebtedness, and competing developmental priorities. The deal struck at COP29 on the delivery of climate finance to developing countries is widely considered to be inadequate. It reflects the uncertainty pertaining to the availability of international funding for climate action and development in developing countries, both leading up to and subsequent to the climate conference in Baku, amid shifting global priorities linked to broader geopolitical developments. However, the climate crisis will not wait for the world to set its priorities in order—as demonstrated by recent short-term breaches of the 1.5°C temperature increase mark and the increasing frequency and severity of extreme-weather events.

It is impossible to address the climate crisis without supporting climate action in the Global South (where the bulk of the world's population lives), given that developing countries are expected to drive the incremental growth in the global consumption of energy and materials. Several existing proposals have sought to address the multifaceted barriers to enhancing climate finance flows to developing countries—by creating fiscal space and optimising public expenditure towards attaining the SDGs, creating conducive policy environments, leveraging international public finance to crowd in private finance, and reforming the international financial architecture. This policy brief endeavours to refine, prioritise, and package these proposals into a suite of solutions that can help maximise the impact of scarce public monies in facilitating climate action.

The decision to eschew radically new proposals in this policy brief acknowledges wavering enthusiasm among developed countries to support climate action in developing countries. As a result, there is considerable emphasis on fostering cooperation among developing countries in facing climate challenges. As climate negotiators work towards developing the Baku to Belém Roadmap to 1.3T, the proposals in this policy brief could provide some elements of a credible roadmap for mobilising climate finance at scale for developing countries. All stakeholders—from the Global North and the Global South—must come together and offer their support to ensure the success of the *Roadmap*. In the existential fight against climate change, every small contribution helps.

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