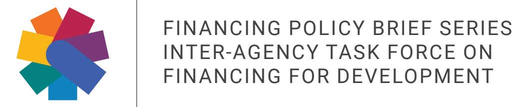


INNOVATIVE APPROACHES TO MOBILIZING CLIMATE FINANCE

Summary

This policy brief explores innovative approaches to mobilizing climate finance, focusing on both public and private sector contributions. It highlights the urgent need for scalable finance solutions, given global economic volatility and rising debt levels in developing countries. Key solutions include unlocking alternative funding sources, leveraging debt restructuring, scaling blended finance, and utilizing innovative financial instruments. The Green Climate Fund (GCF) plays a critical role in catalyzing such investments and driving climate action, particularly in support of the most vulnerable.

Key messages

Urgent Need for Scalable Climate Finance: Global economic volatility, rising debt levels, and limited access to affordable financing in developing countries highlight the critical need for innovative approaches to close the climate finance gap. Mobilizing both public and private capital at scale and speed is essential to achieving the Paris Agreement and Sustainable Development Goals (SDGs).

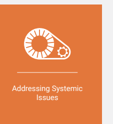
Constraints on Traditional Sources of Funding: As all countries face economic constraints, traditional public funding is increasingly under pressure. New strategies are needed to diversify and expand funding sources.

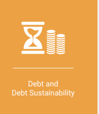
Creating Fiscal Space Through Multiple Avenues: Countries burdened with high debt must have access to options like Debt-for-Climate Swaps (DFCS), debt restructuring, and targeted relief to free up resources for climate adaptation and mitigation projects.

Alternative sources and Innovative Financial Instruments to Attract Private Investment: Scaling up blended finance, guarantees, and risk-sharing mechanisms is critical to de-risk climate projects and attract substantial private sector investment. Unlocking alternative sources such as carbon markets, philanthropic contributions, and international taxation will further bridge the funding gap.

Green Climate Fund as a catalyst: The GCF is uniquely positioned to operationalize and scale innovative financial instruments due to its capacity to take on higher-risk projects and its focus on underserved frontier markets. The GCF drives private and public capital for climate action in developing countries, especially the most vulnerable.

RELEVANT ACTION AREAS





ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at: https://financing.desa.un.org/iatf/report/financing-policy-brief-series

Problem statement

The challenges of mobilizing adequate climate and development finance are increasingly complex. Global economic volatility, driven by high inflation, rising interest rates, and geopolitical tensions, has created an unstable financial environment, particularly for developing countries. These nations are grappling with high levels of public debt, constrained fiscal space, and limited access to affordable financing. Further lending is less attractive for developing countries, despite the growing need for climate financing. At the same time, the financing capacities of many developed countries remain constrained by the economic shocks of the past decade, including the global financial crisis, COVID-19 pandemic, and sustained inflationary pressures. The macro challenges have limited their ability to expand the scale of concessional finance and contributions to development assistance.

The investment gap, particularly in climate-resilient infrastructure, remains vast. Bridgetown Initiative 3.0 notes that an additional $3 trillion annually will be required to achieve the SDGs, including at least $1.8 trillion in climate and nature investments. Despite the Cancun commitment to mobilize USD 100 billion annually for climate finance by 2020, actual flows remained less until 2022, and the allocation of funds has been significantly skewed towards mitigation rather than adaptation. This leaves the most vulnerable without the necessary resources to protect their populations from the impacts of climate change, exacerbating their exposure to extreme weather events, food insecurity, and displacement. Closing this gap is critical to safeguarding development gains and ensuring resilience in the face of escalating climate risks.

The international financial architecture, as it currently stands, is ill-equipped to address these challenges. Short-term financial incentive, combined with the underpricing of climate risks, result in inadequate capital flows toward sustainable investments in resilient infrastructure and adaptation. Developing countries, in particular, face significant barriers in accessing finance, including unfavorable credit ratings linked to ongoing debt challenges, underdeveloped financial markets, and a limited influence in global financial governance. International development cooperation has been limited by slow progress in fulfilling financial commitments and a lack of coordinated efforts among international financial institutions. The fragmented international financial architecture, with insufficient alignment between climate finance mechanisms and development finance, hampers global efforts to meet the SDGs and respond effectively to the climate crisis. This fragmentation not only delays critical investments but also undermines the ability to scale up climate adaptation and mitigation efforts, particularly in the most vulnerable countries.

Despite the growing recognition of innovative financing instruments – such as blended finance, guarantees, and risk-sharing mechanisms – these tools remain underutilized. New sources of funds, such as carbon markets, philanthropic contributions, and international taxation, have not been fully tapped. Barriers include insufficient institutional capacity, risk aversion, and a lack of standardized frameworks for deploying these instruments and sources at scale. As a result, opportunities to leverage private sector investment and enhance the efficiency of climate finance delivery are often missed, further constraining the flow of much-needed resources to the most vulnerable.

Policy solutions

1. **Scaling Blended Finance and Leveraging Guarantees to De-Risk Private Investment**

   The infrastructure investment gap, particularly in developing economies, demands innovative financial instruments that can attract private capital. Blended finance, which combines concessional public funding with private sector investment, helps de-risk climate projects in high-risk markets. Tools like guarantees, sustainability-linked loans, and climate-resilient bonds can further enhance private sector involvement. Tailoring these financial instruments to the needs of low-income countries will help channel much-needed private capital into both climate mitigation and adaptation projects, narrowing the infrastructure gap and accelerating development.

2. **Leveraging Debt Restructuring to Create Fiscal Space for Climate Action**

   Developing countries with high public debt and constrained fiscal space need innovative solutions to free up resources for climate investments. Debt-for-Climate Swaps (DFCS) offer an effective way for

countries to redirect debt repayments into climate projects, while debt restructuring and targeted debt relief such as Climate Resilient Debt Clauses can help them manage existing debt burdens more effectively. By partnering with multilateral banks and international donors, these options can create much-needed fiscal space for climate action, ensuring countries can invest in resilience and adaptation without worsening their debt positions.

3. **Innovating Risk Management and Insurance Solutions**

   Climate-vulnerable developing nations face heightened risks that often deter private investment. Expanding risk-sharing mechanisms and sovereign climate insurance initiatives such as the Global Shield can strengthen protection against climate and disaster related risks for the most vulnerable. Catastrophe bonds and regional risk pools can also be deployed to provide rapid payouts following extreme weather events, offering countries financial protection without further straining their fiscal positions. These tools not only mitigate the financial risks associated with climate change but also incentivize private investors to participate in climate projects, knowing that risks are shared.

4. **Unlocking New and Alternative Sources of Climate Finance**

   Tapping into innovative sources of finance is essential to close the funding gap. Carbon markets, carbon pricing, and carbon taxes can generate significant revenue to support climate projects. Reallocation of SDRs, including through MDBs and the IMF Resilience and Sustainability Trust, and new capital market mechanisms could bolster resources for the most vulnerable. Introducing global solidarity levies on high-emission sectors such as aviation and shipping would provide a steady stream of funding, part of which can and should be directed towards the most vulnerable. Additionally, philanthropic contributions and private sector investments can be better coordinated to support large-scale climate initiatives. By mobilizing these underutilized sources, countries can diversify the funding pools that are available to accelerate climate action.

5. **Strengthening Global Financial Governance to Align with Climate Goals**

   Systemic reforms to the global financial architecture can support the mobilization of climate finance at scale. Integrating climate risk into financial regulations, adjusting credit rating methodologies to account for climate vulnerabilities, and reforming global financial governance to give developing countries a stronger voice are all necessary steps. All international development financing institutions should adopt climate-aligned metrics for decision-making, ensuring that financial flows are directed towards sustainable and resilient development, and responsiveness to the needs of the most vulnerable.

6. **Optimizing the International Financial Architecture**

   Ensuring the international financial architecture is fit for purpose, supporting access to climate finance, reducing fragmentation, enhancing transparency and strengthening country ownership. This could accelerate the delivery of funds, providing clearer and more efficient avenues for developing countries to access the capital needed for climate objectives and transition.

Specific recommendations for FFD4

1. **Strengthen the Implementation of Global Climate Finance Reforms:** In line with the need to reform the global financial system, the outcome document should emphasize the importance of supporting and accelerating the implementation of global climate finance reforms. This should include urging all countries to advance the New Collective Quantified Goals for climate finance identified under the UNFCCC process and support complementarity and coherence among the Multilateral Climate Funds. The document should call for stronger international cooperation to fulfill climate finance commitments, improve transparency and accountability in the delivery of funds, and ensure that financial flows are directed toward both mitigation and adaptation efforts in line with the Paris Agreement.

2. **Strengthen and Scale Up Existing Climate Finance Mechanisms and Unlock new (alternative) sources:** To close the financing gap for SDG and climate investments, the outcome document should prioritize scaling up existing mechanisms, encouraging increasing pledges to the GCF, as well as tapping new and alternative sources of finance such as carbon markets, taxes on high emission sectors, and philanthropic contributions. This should build on the recommendations of the Global Solidarities Levies Taskforce, led by the European Climate Foundation.

3. **Encourage the Use of Innovative Financial Instruments:** The outcome document should call for the scaling up of innovative financial instruments—such as blended finance, guarantees, and risk-sharing mechanisms—to unlock private sector investment and de-risk climate projects. The GCF is uniquely positioned to operationalize and scale these instruments due to its institutional capacity and expertise to deploy these tools effectively, its mandate to accept higher levels of risk, its ability to catalyze co-investment, and its focus on frontier markets. By leveraging the GCF's risk appetite and willingness to innovate, the global climate finance ecosystem can mobilize significant new flows of finance, ensuring resources are directed to both mitigation and adaptation efforts in developing countries.