



2025 Policy Bulletin: Climate Finance for Development

Empowering the Ecosystem of Public Development Banks

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¹ The opinions and views presented are of the authors alone and do not necessarily represent opinions and views of the World Resources Institute or NewClimate Institute.

ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices around the world in Brazil, India, Indonesia, the South Africa, United Kingdom, and the United States.

www.climatepolicyinitiative.org

ABOUT E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

www.e3g.org

ABOUT GERMANWATCH

Following the motto of Observing. Analysing. Acting. Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their world-wide consequences. The situation of marginalised people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

www.germanwatch.org

ABOUT THE INSTITUTE FOR CLIMATE ECONOMICS (I4CE)

The Institute for Climate Economics (I4CE) is a non-profit research organization that provides independent policy analysis on climate change mitigation and adaptation. We promote climate policies that are effective, efficient, and socially fair. Our experts engage with national and local governments, the EU, international financial institutions, civil society organizations, and the media.

www.i4ce.org

ABOUT THE PUBLIC BANKING PROJECT

The Public Banking Project, McMaster University, has three core aims: to provide theoretically informed and empirically rich understandings; to strengthen the interface between public banking scholars, policymakers, practitioners, and communities; and to train a new generation of public banking scholars.

www.publicbanking.mcmaster.ca

BULLETIN OVERVIEW

2025 is a pivotal year for the interlocking global agendas of climate and sustainable development, highlighted by major convenings such as the 5th Finance in Common Summit (FiCS), the 4th International Conference on Financing for Development (FfD4), the G20 Summit under South Africa's presidency, and the UNFCCC COP30. Public development banks (PDBs) will feature prominently across these events, given their integral role in implementing these critical agendas through financial support and stakeholder mobilization.

This policy bulletin summarizes recent research on how PDBs' contribution to low-emissions and climate-resilient development can be accelerated and scaled to make progress toward the global agenda for sustainable development. Bolstering domestic markets and sourcing local finance is key to addressing the availability and the delivered cost of capital, as well as to reaching decarbonization, adaptation, and sustainability goals. To transition to just, net zero, and climate-resilient economies, a bottom-up approach will significantly accelerate change and effectiveness. Countries and domestic institutions need to be involved at the onset of reforms, to ensure ownership and alignment.

In particular, this bulletin synthesizes key findings across publications from our respective organizations to provide PDBs, shareholder governments, and other relevant stakeholders with actionable recommendations across the following topics:

- [Operationalizing Paris Alignment and Impact Measurement](#)
- ["Public-Public" Collaborations for Climate Finance](#)
- [Mobilizing Private Finance to Meet Climate Investment Gaps](#)
- [Building Platforms for Just Transition and Sustainable Development](#)
- [Financing the Energy Transition](#)
- [Other Emerging Themes \(e.g., nature finance, carbon markets, digital technology\)](#)

On an ongoing basis, this document will be updated as a reference point for evidence-based discussions on each of these topics, bringing together practitioners, policymakers, investors, and the broader research community to coordinate activities and develop solutions around common understanding and objectives.

OPERATIONALIZING PARIS ALIGNMENT AND IMPACT MEASUREMENT

KEY FINDINGS

Global uptake of Paris alignment commitments has struggled to make headwind in emerging markets and developing economies (EMDEs), despite being widely recognized as both urgent and necessary.

- Recent tracking of PDB climate ambition indicates that only a minority of PDBs have explicitly committed to Paris alignment, and that the adoption rate of new climate commitments among PDBs has slowed since 2022 ([CPI 2024](#)).
- While providing support to individual financial institutions to align with the Paris Agreement is key, voluntary approaches will not be sufficient to align financial systems in developing countries ([I4CE & NewClimate Institute 2023](#)).

- While recent years have seen significant progress across important aspects of Paris alignment among members of the joint reporting multilateral development bank (MDB) group, in some cases, bilateral development finance institutions (DFIs) have exhibited leading approaches of their own, albeit faced with notably different operating contexts and constraints ([E3G ongoing](#)).

Paris alignment methodology development among PDBs varies widely, based on individual PDB contexts and in the absence of global criteria. While this individual development better accounts for national needs, it has also led to financing gaps, particularly around adaptation and a just transition.

- Where PDBs have started to implement Paris alignment, they have used a number of different project- and portfolio-level benchmarks to assess alignment ([CPI & I4CE 2024](#)). Alignment cannot be assessed by any single indicator and is an ongoing process that requires support from PDB governance structures and shareholders.
- When PDBs align with the Paris Agreement, they are supporting commitments made by their shareholders — i.e., governments — to achieve climate adaptation and mitigation goals in a fair and just manner that underpins these countries' social contracts ([E3G, Germanwatch, I4CE, & NewClimate Institute 2024](#)).
- MDBs and NDBs often differ in their approaches to Paris alignment. These differences can be attributed to variation in three key areas; (1) political economy and governance; (2) public finance mandates; and (3) institutional capacity and expertise ([CPI & E3G 2023](#)).
- MDBs' Joint Reports on Climate Finance show that while the delivery of more international public climate finance is promising, finance for adaptation is lagging, there remains a dearth of information about how much is still being invested in fossil fuels, and the characteristics and terms of the financing for climate purposes are also crucial ([WRI 2024](#); previous versions 2016-2023).
- A review of MDBs' methodologies found that they still focus more on doing no harm than on proactively supporting the transformation. Methodological gaps relating to activities with corporate counterparties and financial intermediaries lead to a risk of misalignment of such investments. Additionally, the MDBs' list of activities considered universally aligned with the mitigation goals of the Paris Agreement needs revision and just transition considerations are not sufficiently mainstreamed in Paris alignment methodologies ([Germanwatch 2024](#)).

Governance and transparency still have room for improvement across all actor types.

- MDBs do not consistently publish all Paris alignment assessments of sovereign projects, falling short on transparency and accountability ([Germanwatch 2024](#)).
- Current practices and procedures for risk screening in policy-based operations are not suited to prevent policy actions from undermining government capability to promote long-term macro-fiscal stability and a just transition to climate neutrality by 2050 ([WRI, Germanwatch, & NewClimate Institute 2022](#)).

RECOMMENDATIONS

For convening & engagement towards collective Paris alignment:

1. PDBs need to consider their investments from the standpoint of systematic alignment, engaging with shareholders, sovereign clients, financial intermediaries and corporates, other PDBs, and civil society to identify opportunities to address greenhouse gas (GHG) emissions and improve climate resilience,

whilst managing financial risks – physical and transition – associated with climate change, ensuring that engagement informs country dialogue process and programmatic work.

2. Specifically, PDBs should leverage external engagement strategies, particularly counterparty-based approaches, to support their counterparties' Paris alignment, further driving transformative action beyond the scope of their direct financing activities.
3. MDBs should scale up proactive exchanges on best practices for climate mainstreaming at the institutional level. This should include engaging with the wider PDB ecosystem (such as through regional networks) to share lessons learned, as well as to draw on practical experience and expertise from institutions closer to local contexts and with different operational approaches. As a specific facilitation method, MDBs should introduce a phased technical assistance approach and contribute to the development of a public, searchable database of available technical assistance programmes and support, leveraging existing platforms (e.g., the [Global Capacity Building Coalition](#), [IDFC](#), and [FiCS](#)) for maximizing engagement.

For Paris alignment methodology development:

4. It is key to provide Paris alignment methodologies with sufficient weight in PDBs' governance structures to facilitate mainstreaming and necessary internal changes, as well as an authoritative backbone to support Paris-aligned financing decisions.
5. Public development institutions—both MDBs and the wider PDB universe—should focus beyond climate finance flows to a wider Paris alignment approach, which not only operationalizes the “do no harm” principle but also seeks to maximize ambition for climate action. This includes incorporating national climate plans and global climate goals into investment decisions to account for both national needs and global climate goals or directly supporting implementation programs with policy-based operations.

For governance and transparency:

6. PDBs should disclose their full Paris alignment assessments and results. They should agree on a coherent joint standard for publishing such assessments and Paris alignment methodologies should include a minimum commitment to public disclosure.

“PUBLIC-PUBLIC” COLLABORATIONS FOR CLIMATE FINANCE

KEY FINDINGS

Partnerships between PDBs and other public sector entities show promise but still face substantial hurdles that impede scaling and impact.

- NDBs have a track record of collaborating with MDBs to access climate finance and increase their capacity. MDBs and NDBs have both financial and technical assistance collaborations (public-public collaborations), which are guided by mutual benefits. A key aspect of financial collaboration for global South NDBs is gaining access to hard currencies via MDBs and bilateral DFIs. These collaborations are highly cost- and risk- sensitive; as such, cost-benefit calculations are paramount for the NDBs ([Marois et al. 2025](#)).
- On collaboration to finance adaptation between MDBs/DFIs and NDBs, MDBs, and DFIs face challenges including differing adaptation definitions, complex fund applications, and ticket size misalignment.

NDBs struggle with limited capacity to track adaptation finance, a weak pipeline of bankable projects, perceived low returns of such projects, and local currency risk ([CPI 2024](#)).

- From 2015 to 2022, MDBs provided around USD 7 billion to NDBs in the form of loans, grants, and technical assistance, which was then utilized to fund climate projects in EMDEs ([CPI & E3G 2023](#)). This figure is small relative to total MDB finance over the period, and further collaboration between MDBs and NDBs appears to have been impeded by barriers related to political economy and governance, policy mandates, and institutional capacity and expertise.

RECOMMENDATIONS

For structuring partnerships between PDBs:

1. MDBs should look to partner with NDBs to progress on their own climate finance and sustainable development objectives, with the latter acting as a local intermediary and facilitating project pipeline development. That is, MDBs should proactively develop tailored cooperation offers catering for the varied and, in some cases, sector-specific mandates of NDBs. If NDBs do not have any climate-related policies or strategies, and respective state regulation is absent, MDB cooperation can start with capacity building support to identify Paris-aligned projects.
2. MDBs, multilateral climate funds, and their governing boards must significantly expand low-risk, affordable, genuinely concessional, and transparent climate financing and grant funding to NDBs. NDB access to highly concessional MDB and multilateral climate financing and grants needs to be delivered faster and under less restrictive conditions.
3. To specifically address collaboration barriers on adaptation finance, PDBs should leverage blended finance expertise to bolster the adaptation business case and support regional development banks as adaptation hubs. PDBs of all sizes and jurisdictions should jointly develop complementary adaptation taxonomies to reach a shared understanding of eligible projects, promote the development of country platform approaches, and enhance capacity-building and knowledge-sharing initiatives on adaptation finance.
4. MDBs and bilateral DFIs need to rethink technical assistance (financial and non-financial) to make it fit-for-purpose for the domestic financing of green and just transitions vis-à-vis specific national contexts. That is, public-public collaborations need to be flexible, oriented toward fostering better MDB-NDB relations, and sensitive to local conditions.

For PDB collaboration with other public entities:

5. PDBs should develop climate-focused engagement and capacity building strategies with relevant governmental agencies to foster the integration of climate considerations into national regulation and supervision. This would contribute to creating a supportive enabling environment, and could be operationalized through policy-based loans, including a technical assistance offering.
6. MDBs can offer support to partner governments where NDBs are in the process of updating mandates towards Paris alignment, to better utilize NDBs' potential as important actors in the country's climate transformation. This would enable partner countries to 1) ensure coherence with national climate goals, 2) make use of NDBs' ability to reach their specific target groups for the climate transformation, and 3) facilitate NDBs' climate-related cooperation with MDBs.

For accelerating UNFCCC implementation:

7. Acting as both PDB shareholders and UN member states, national governments should call on both NDBs and MDBs to foster a global PDB ecosystem grounded in accountable public-public collaborations. To address systemic challenges such as climate change, key stakeholders from governments, economic and financial institutions, and the broader climate community must make mutually reinforcing contributions, because effective solutions require the resources, perspectives, and expertise of all sides—to ultimately decide on shared goals and effective means of achievement.
8. When countries integrate commitments from Nationally Determined Contributions (NDCs) and Long-term Strategies (LTSs) into core economic/development and sectoral planning, policy, and financing (including through country platforms), NDBs should have a role to (1) help identify enabling, policy and institutional reforms, and (2) develop investible pipelines. MDBs can support this role through capacity building if needed. Specifically, to support the achievement of NDC and LTS objectives, NDBs need to take responsibility for building a more substantive pipeline of commercially attractive climate and just transition projects.

MOBILIZING PRIVATE FINANCE TO MEET CLIMATE INVESTMENT GAPS

KEY FINDINGS

PDBs have the tools to massively accelerate private capital flows to close current climate finance shortfalls, particularly in EMDEs.

- Guarantees can play a key role in mobilizing private capital for the climate transition, particularly in EMDEs. Despite their potential to leverage significantly more investment for climate projects than other financial instruments, guarantees remain underutilized due to structural barriers such as complex application processes, limited technical assistance, high costs, misaligned timelines, and insufficient stakeholder collaboration ([CPI 2024](#)).
- MDBs can mitigate risks both at the portfolio level by shifting it to private investors and at the project level by sharing it with private investors. At the project level, MDBs' policies and financial tools can help manage political and regulatory risks. These measures can significantly enhance the risk-return profile of climate projects and bring additional private capital and expertise ([WRI 2023](#)).

RECOMMENDATIONS

For growing investment-ready project pipelines:

1. MDBs should increasingly consider financial de-risking mechanisms at the portfolio level. They should help transform entire sectors by addressing risks across projects within a sector, rather than focusing solely on individual assets (a “wholesale” vs. “retail” approach). Leveraging local knowledge, networks, and investors is key to this approach.
2. MDBs, bilateral DFIs, and regional PDBs should lead efforts to increase data accessibility and transparency, such as the Global Emerging Markets ([GEMs](#)) Risk Database consortium, by broadening access to more granular credit and default probability data. This will streamline project and program design, assessment, and decision-making processes.

3. PDB guarantors should simplify eligibility and reporting requirements across similarly structured guarantee products. They should also establish and/or expand technical assistance facilities to support local actors developing bankable climate projects. PDBs should also reduce the cost of obtaining and implementing guarantees: In the short term this could include cost-sharing, fee-subsidies, or donor-funded facilities. It will also be important to structure guarantees to align with extended project lifespans and to increase collaboration between private and public sectors.

BUILDING PLATFORMS FOR JUST TRANSITION AND SUSTAINABLE DEVELOPMENT

KEY FINDINGS

As country platforms emerge into actionable frameworks, PDBs have a large role to play in both establishing guidance and leading implementation.

- The next generation of country platforms (CPs) represent a critical opportunity for a revamped model for delivering climate-positive growth and development outcomes at the country level. To fulfil their potential, CPs must be both context-specific and anchored in a set of core principles. If designed well, they can enhance country-level collaboration across the full range of national and international development and climate actors, improve access to all forms of finance, and ultimately serve as a key implementation mechanism for national planning ([E3G 2024](#)).
- PDBs play a vital role in supporting countries in crafting Paris-aligned, long-term, low-emission development strategies that enable fossil fuel phase-out ([NewClimate Institute & I4CE 2024](#)).
- For example, South Africa’s Presidential Climate Commission initiated its country platform development process with an emphasis on collaboration between numerous stakeholders—both within and outside the government ([WRI 2022](#)). The resulting Just Transition Framework outlines a clear pathway for mobilizing finance for a national-scale just transition, leveraging multiple sources of support, which include both domestic and donor PDBs ([WRI 2024](#)).

RECOMMENDATIONS

For supporting platform development and implementation:

1. PDBs should assist countries in defining Paris-aligned long-term low-emissions development strategies and national energy plans and support governments in building capacity to plan and implement early retirement initiatives. They can also facilitate knowledge-sharing platforms that enable stakeholders, including country governments and PDBs, to exchange best practices for implementing a just transition strategy.
2. NDBs should participate in both the upstream and downstream structuring of country platforms (CPs) to support national ownership and policy coherence. These institutions bring significant value-add such as local knowledge, and this helps to align international goals with national investment priorities, project origination, local currency financing, and domestic private capital mobilization.
3. Both MDBs and bilateral PDBs should aim to support country-level climate ambition through financial, technical, and policy support. In the context of CPs, they should collaborate and utilize their convening

power to provide financial resources, deploy innovative mechanisms that can unlock private investment, and serve as a knowledge hub to facilitate coherence and exchange of lessons learned across the PDB ecosystem. While existing instruments and policies can help to increase both public and private finance for climate action, identifying and leveraging the right tools remains a challenge. The [Paying for Paris Resource Hub](#) bridges this gap with information and real-world testimonials on the strategies available to countries to achieve their climate finance goals.

FINANCING THE ENERGY TRANSITION

KEY FINDINGS

Facilitation of the energy transition intersects with PDBs' broader mandate of delivering finance for sustainable development.

- PDBs support key energy sector stakeholders in overcoming transition barriers. However, in developing financing vehicles for transition they must carefully navigate the associated risks, which could delay coal phase-out or create perverse incentives that undermine progress toward a low-emission future ([NewClimate Institute & I4CE 2024](#)).

In some contexts, this means taking an active role in managing the private and social costs of shifting to low-carbon energy sources.

- In coal-dependent, resource-strapped nations, retiring fossil fuels without harming communities or economies is not just a complex social and political challenge; it is also a financial one. These countries need more financing and alternative energy solutions, while at the same time, many have young coal fleets and new plants still under development. These plants are expected to operate for decades and risk becoming “stranded assets” if they retire early ([WRI, 2023](#)).

Finally, PDBs can catalyze adoption of energy transition technologies via targeted financing programs and market building.

- MDBs and other PDBs can play a key role in de-risking and financing emerging energy transition technologies, such as green hydrogen. The existing MDB climate finance and strategy toolkit can be adapted to not only support the development of a global green hydrogen market, but also to capture sustainable development benefits for producers in the Global South ([NewClimate Institute 2024](#)).
- Many countries in South/Southeast Asia lack the right ingredients to attract clean energy investment: A supportive and predictable policy environment, enabling financial systems, and modern grid infrastructure that can handle renewables. MDBs can help overcome these barriers to help unlock more finance and catalyze the region's clean energy transition ([WRI 2024](#)).
- The Solar Finance Roadmap provides recommendations for mobilizing a massive equitable scale-up of investment in solar energy by 2030, including specific analysis of the role PDBs play in supporting market development. The solution pathways and recommendations in the paper focus on tackling policy and market barriers in all solar market segments, reducing investment risk in developing and emerging economies, and spurring a new level of international collaboration to overcome global investment challenges at scale ([WRI 2022](#)).
- Showcasing innovative PDB support for energy transition, WRI and the EBRD have co-developed a method to quantify physical climate risks for power generation projects at the portfolio level,

the approach is designed to be flexible enough to work with portfolios with different levels of data availability, leverage the latest science in climate and hydrology, and use machine-learning techniques ([WRI 2021](#)).

RECOMMENDATIONS

For strengthening linkages between the energy transition and PDB policy mandates:

1. PDBs should balance their dual mandates of promoting the clean energy transition and championing sustainable development in partner countries. They must lead by example through responsible lending practices that go beyond the “do no harm” principle, emphasizing value creation and fostering lasting development outcomes. Specific actions include: (1) Supporting projects to modernize grids and transmission infrastructure; (2) Reducing investment risks to attract more private finance; (3) Working with governments to enable country-level energy transitions; and (4) Improving international coordination to bolster clean energy investments.

For facilitating equitable fossil fuel phase out:

2. It is crucial that PDBs establish high standards and safeguards to support utilities and independent power producers in retiring coal plants early, minimizing the risk of creating perverse incentives. Their support should focus on transforming utility business models to attract private financing for renewable energy projects.
3. Financing mechanisms should only be used to buy out coal plants owned by independent power producers in jurisdictions where governments have formally committed to phasing out coal, ensuring alignment with long-term decarbonization goals. It is important for PDBs to exercise caution in financing solutions like co-firing, and retrofitting, which do not result in complete emission reductions and shift the focus away from early retirement. They should also carefully approach transition (carbon) credits due to current double counting risks and environmental integrity issues.
4. Case studies on coal retirement and JET-Ps provide evidence that coal-dependent countries need financial assistance. Younger coal fleets pose unique challenges, however, and coal plant ownership must be considered in financing agreements while keeping coal retirement plans on track to support Just Energy Transition. To be successful, therefore, coal retirement plans must be tailored to national contexts, keeping not only political stakeholders in mind but financial ones, too.

For accelerating investment in renewable energy:

5. The Solar Finance Roadmap identifies both near-term actions and broader collaborative efforts to overcome barriers to scaling solar. To address these barriers, governments can act immediately in partnership with commercial and national banks and DFIs to adopt enabling policies and regulations that are conducive to replicating and scaling solar investment. In parallel, DFIs can lead on standardizing and scaling up the provision of blended finance, concessional credit lines, and other risk mitigation instruments to pave the way for private investment.

OTHER EMERGING THEMES

KEY FINDINGS

PDBs have an opportunity to incubate emerging mechanisms for climate investment, such as carbon markets and nature finance.

- Carbon markets have the potential to help mobilize finance for EMDEs, and PDBs can play a crucial role in supporting development of these markets domestically. However, a lack of national capacity and comprehensive development and climate strategies, limited PDB resources and staff time, and demand- and supply-side restrictions limit the market implementation. PDBs of all shapes and sizes can help bridge these gaps and facilitate more efficient and impactful markets (**CPI forthcoming 2025**).
- PDBs can play a pivotal role in increasing the attractiveness of debt-for-climate swaps by providing credit enhancements like guarantees, insurance, and local currency solutions, while also addressing gaps in sovereign and catastrophic risk coverage. They can also support bilateral swaps and subnational debt mechanisms, mobilizing private capital and reducing foreign exchange risks (**CPI forthcoming 2025**).

RECOMMENDATIONS

For developing innovative financial instruments:

1. PDBs can support governments in establishing domestic carbon markets by providing strategic and technical assistance, working with potential suppliers of credits (projects that reduce or avoid emissions), and supporting regulators to improve credit integrity. They can help to reduce risk by piloting innovative (financial) projects that focus on de-risking and leveraging carbon revenues. PDBs can also coordinate between themselves, including working on policy proposals and innovative projects, convening relevant stakeholders, and sharing best practices from previous projects and market implementations.
2. PDBs should prioritize aligning financial products with nature conservation goals, standardizing key performance indicators, and building government capacity through technical, legal, and project management expertise to ensure successful negotiation and implementation of debt-for-climate swaps if these are suitable for the country.

