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PARIS ALIGNMENT
DEVELOPMENT FINANCE

What is Transformational Finance for Climate and Sustainable Development?

Converging on a Common Definition and a Way Forward for Public Development Banks

> Working Paper

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WRI is a global research organisation that turns big ideas into action at the nexus of environment, economic opportunity and human well-being.

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Natural resources are at the foundation of economic opportunity and human well-being. But today, we are depleting Earth's resources at rates that are not sustainable, endangering economies and people's lives. People depend on clean water, fertile land, healthy forests, and a stable climate. Livable cities and clean energy are essential for a sustainable planet. We must address these urgent, global challenges this decade.

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We work to translate climate objectives into public policies and economic decisions: setting priorities, guiding investments, and designing strategies to reduce dependence on fossil fuels and adapt to climate change.

Our research aims to identify the sector-level levers of the transition, inform public debate on investment needs, and support decision-making that matches the scale of climate challenges. It is grounded in ongoing dialogue with those who design, finance, and implement climate action—from local authorities to the national government, from the European level to international frameworks, as well as with businesses.

Based on scientific rigour, independence, and transparency, our expertise helps strengthen the effectiveness, efficiency, and fairness of climate policies.

I4CE is a public-interest organisation, founded in 2015 by the Caisse des Dépôts and the French Development Agency.

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INTRODUCTION

Supporting climate action and shifting financial flows towards climate solutions will require a transformation of the global financial system. As banks that finance development aims using public resources, public development banks (PDBs) will have an especially important role to play. While climate finance continued to grow in 2023 and 2024 according to the OECD's latest report (OECD, 2026), the unprecedented decline in official development assistance flows since then (a 23% decrease in 2025), has left a wider gap and the need to ensure that the public finance that remains is used efficiently and effectively.

PDBs come in various types and sizes. Multilateral development banks (MDBs) are PDBs that are funded by multiple governments, while national development banks (NDBs) are linked to one government. In total, there are more than 550 PDBs around the world (PKU & AFD, 2026). Although they vary in mandate, governance, and scale, PDBs provide valuable public resources that need to be used to greatest impact to help countries meet their development and climate goals.

Transformational finance aims to address systemic barriers, improve enabling conditions for climate-related investments, and drive change beyond a single transaction. This means supporting wholesale change in key sectors like energy, transport, heavy industry, and agriculture. This kind of holistic thinking will require shifting investment allocation frameworks towards systemic, long-term, country-driven transitions aligned with the Paris Agreement (see Box 1)[1].

This expert note outlines some of the barriers and opportunities for PDBs in embracing and implementing the idea of transformational finance and strategically deploying investments to deliver transformational outcomes. It reviews existing definitions for transformational finance used by different multilateral actors. Based on this, it proposes a common definition of transformational finance to help guide investment decisions. In addition, this note highlights some of the opportunities and barriers facing PDBs in channelling transformational finance and in tracking its outcomes. It showcases examples of transformational finance, and highlights lessons learned in implementation.

1. We see the notion of transformational change in specific sectors as well. Researchers find, for example, that transforming cities means creating change over extended timeframes, spanning multiple sectors and institutional domains, and enduring across political administrations (Frantzeskaki et al. 2017; Mahendra et al. 2021).

BOX 1: WHY IS TRANSFORMATIONAL FINANCE NEEDED TO SUPPORT ALIGNMENT WITH THE PARIS AGREEMENT?

Investment for system-wide change is needed to uphold global finance commitments agreed to under the United Nations Framework Convention on Climate Change (UNFCCC). Current pledges fall short of the scale of climate action needed. Although global climate finance flows reached $1.9 trillion in 2023, just 17% of it went to emerging markets and developing economies (EMDEs), excluding China. We are still far away from reaching the $1.3 trillion annually for developing countries that Parties committed to strive towards at COP29. Most climate finance has been concentrated in a few large economies and sectors. The most vulnerable regions, like least developed countries (LDCs) remain chronically underfunded, struggle to access private capital, and face significant debt burden (CPI 2026).

The Paris Agreement talks about both shifting funds to developing nations (Article 9) and aligning all investments with the Paris Agreement (Article 2.1c). Both these goals require the right kind of finance to help reform policies, share risks and incentivise investments in mitigation and adaptation, in line with country-led priorities. When this type of finance allows long-term, structural change that helps lift foundational barriers to the transition while managing trade-offs across economic, environmental and social dimensions, it is transformational.

The Baku to Belém Roadmap to $1.3 trillion, presented at COP30, lays out the importance of PDBs and a transformational approach to finance. It argues that the focus needs to shift from the high-level analytical and policy frameworks for transformational finance to the messy reality of practical implementation. It highlights the need for a systemic multidimensional approach across five priority financial action areas and five thematic priorities, as detailed in Table 1 below:

TABLE 1: THE BAKU TO BELÉM ROADMAP'S MULTIDIMENSIONAL APPROACH

FINANCIAL ACTION AREAS	Replenishing concessional finance	Rebalancing fiscal space and debt sustainability	Rechannelling transformative private finance (including overcoming cost of capital constraints)	Revamping national policy coordination and capacity for scaled climate portfolios	Reshaping global financial systems and structures for equitable capital flows (including prudential regulations and credit ratings)
THEMATIC AREAS	Adaptation as well as loss and damage	Clean energy access and transitions	Nature	Agriculture and food systems	Just transitions

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I. WHAT ARE THE EXISTING DEFINITIONS OF TRANSFORMATIONAL FINANCE?

Today, multilateral finance organisations (including PDBs and other public multilateral climate finance institutions) have varied definitions of what they consider transformational finance. These definitions help guide investment decisions to various degrees. Table 2 provides an overview of the definitions used by five key providers of public climate finance that have the mandate to support developing countries overcome barriers to transitioning to resilient and low-emissions economies.

TABLE 2: TRANSFORMATIONAL FINANCE IN MULTILATERAL ORGANISATIONS AND INITIATIVES

ORGANISATION(S)	CONCEPTUALISATION OF TRANSFORMATIONAL FINANCE
WORLD BANK GROUP	> **Transformational activities:** Programmed according to countries' **long-term low-emissions and climate-resilient development strategies,** these activities should drive systemic change through **enabling policy and environments addressing barriers to transformation,** while also ensuring **a just transition.** (WB 2020)
CLIMATE INVESTMENT FUNDS	> **Transformational change:** Fundamental change in systems relevant to climate action with large-scale positive impacts that shift and accelerate the trajectory of progress toward climate-neutral, inclusive, resilient, and sustainable development pathways. > **Five dimensions of transformational change:** • **Relevance:** Alignment with goals and context through time • **Systemic change:** Fundamental shifts in system structures and functions • **Speed:** Accelerated impacts to achieve the appropriate speed of change • **Scale:** Contextually large-scale transformational processes and impacts • **Adaptive sustainability:** The robustness, resilience, and adaptiveness of change > **Five goals of transformational climate finance:** • **Climate neutrality:** Should aim for net-zero greenhouse gas emissions while preventing other negative environmental impacts • **Inclusivity:** **Must include all affected individuals**, ensuring that marginalised populations—who face disproportionate impacts and offer valuable insights—are prioritised to enhance justice and efficiency • **Equity:** Should address power dynamics and intersectional factors, such as gender, race, ethnicity, caste, and socioeconomic status, to mitigate differential impacts of climate change and associated climate action • **Resilience:** Should not only enable recovery from shocks (e.g., storms, floods) but also anticipate future risks and **support pathways for long-term adaptation and regeneration** • **Sustainable development pathways:** Should align with SDGs, fostering inclusive, equitable, and resilient human systems within healthy, productive ecosystems (CIF 2023)

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GREEN CLIMATE FUND	> **Transformational change:** Structural change that alters the interplay of institutional, cultural, technological, economic, and ecological dimensions of a given system, with **replicability**, scale, and **sustainability** as key aspects to appreciate investments' achievement of impact. (MCFs 2025)
GLOBAL ENVIRONMENT FACILITY	> **Transformational interventions:** Engagements that help achieve deep, systemic, and sustainable change with large-scale impact in an area of major environmental concern. > **Transformational change requires:** • **Radical change:** Importance of ambitious objectives that **address systemic bottlenecks and market distortions** to achieve deep, fundamental change • **Collective effort:** Coordinated multiple interventions that address different parts of a system • **Systemic undertaking:** Taking a **systems perspective** on the underlying drivers of change • **Integrated programming:** With theories of change that analyse root causes and articulate clear pathways for scaling interventions • **Catalytic effects:** Mainstreaming, demonstration, **replication**, and catalytic approaches to sustain impact • **Irrelevance of size:** Importance of strategic design, execution, and scalability over project scale (MCFs 2025)
"MAKING FINANCE WORK FOR CLIMATE" INITIATIVE[2]	• **Transformational finance for climate:** Finance aiming at the **sustainable transformation of entire systems** and/or catalytic effects on mobilising and reorienting larger financial flows (e.g. from the private but also the public sector), **in line with country climate priorities and longer-term pathways**. It can also ramp up the effects of climate finance and accelerate the Paris alignment of all capital and financial flows, where: • **Climate finance:** Finance that generates positive climate impacts (e.g. as jointly defined and tracked by the multilateral development banks (MDBs) and the International Development Finance Club (IDFC) for mitigation and adaptation, and/or as reported by the Standing Committee on Finance within the United Nations Framework Convention on Climate Change (UNFCCC)). • **Paris-aligned finance:** Finance that is consistent with countries' differentiated low greenhouse gas (GHG) emissions and climate-resilient pathways, including corresponding transition processes and plans, and with the goals of the Paris Agreement, in the context of sustainable development. (Making Finance Work for Climate 2024)

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2. The "Making Finance Work for Climate" initiative includes different financial actors as founding members: the International Development Finance Club (public development banks), the United Nations Environment Programme's Finance Initiative (private financial institutions), Mainstreaming Climate in Financial Institutions Initiative (public and private financial institutions) and Principles for Responsible Investment (institutional investors).

Other definitions related to transformational finance

Other nomenclatures referring to financial flows or activities share similar objectives to those of transformational finance and can be useful to consider when defining transformational finance as a quality dimension to financial flows, including:

- **Climate finance:** pursues mitigation and adaptation objectives (e.g., financing a utility-scale solar plant). However, it is not necessarily transformational if it does not change the broader enabling environment or contribute to long-term structural change.
- **Catalytic finance:** primarily mobilises or redirects investment by reducing risk or demonstrating new approaches (e.g., a guarantee that mobilises private investment into a new market may be catalytic without being transformational if it does not remove underlying structural barriers).
- **Finance with systemic effects:** changes the underlying policy, institutional, regulatory, or market conditions that shape investment decisions (e.g., financing regulatory reforms or market mechanisms that improve how a sector functions, without necessarily placing that reform within a broader long-term transition strategy).
- **Transformational finance:** builds on these elements to support long-term structural change aligned with country transition pathways, ultimately changing how sectors, or even economies, function over time (e.g., a coordinated package of policy reform, institutional strengthening, technical assistance, and financing that permanently shifts investment patterns in a sector).

Catalytic finance and transition finance may contribute to transformational outcomes and greater quality of climate finance when they also allow long-term, structural change that helps lift foundational barriers to the transition, while managing trade-offs across sustainability dimensions.

In addition, some organisations may consider finance to be transformational when contributing to the quality of climate finance. For instance, CPI addresses transformational change within broader discussions on climate finance quality, which they define as "the degree to which climate finance is expected to deliver sustained transformational change—at the market and system levels—toward low-emission, climate-resilient and equitable economies" (CPI, 2025). According to CPI, the transformational potential of public climate finance can be assessed based on ten key dimensions: accessibility; affordability; co-benefits; commercial viability; coordination and partnerships; enabling environment; equity and justice; mobilisation; ownership; and programmatic approaches (CPI, 2025).

II. THREE ELEMENTS FOR A STANDARDISED DEFINITION

Despite many shared concepts of what transformational finance is, there is no standardised operational definition. A more unified understanding of the transformation concept could potentially help ease collaboration between institutions, improve focus and impact, and allow joint pursuit of a common goal.

We find significant overlap between organisations' current definitions of transformational finance. Definitions diverge however in how they consider speed and scale in driving transformation, with some highlighting the importance of large-scale transformational processes while others favour strategic design and scalability over project scale. Most definitions reviewed included the following three elements: long-term, sustainable, and systemic. We therefore propose these as the **three necessary elements of transformational finance**.

1. **Long-term relevance:** Aligns with country-owned pathways towards low-emission, climate-resilient development — i.e., long-term strategies (LTS), national development plans, and other domestic planning initiatives accelerating the implementation of the Paris Agreement's objectives, including the growing number of country platforms;

2. **Systemic impact:** Removes foundational barriers within policy, institutional and market structures to drive cross-sectoral changes and innovation, while ensuring resilience to future risks and replicability; and

3. **Sustainability:** Ensures the impact is long-lasting through equitable management of trade-offs across economic, environmental and social dimensions, through lasting stakeholder engagement.

The transformational potential of PDB activities will need to be sought and assessed from the onset, but their full effects will often not be fully known until long after the investment is made. A standardised operational definition would make it easier to design transformational projects, compare investments and impacts across financial institutions, and to measure results that all could agree are transformational. A lack of agreement on what investments qualify and how to take stock of results can hinder transparency and accountability by making metrics less comparable.

III. HURDLES IN TRACKING TRANSFORMATIONAL OUTCOMES

Beyond the lack of a standardised operational definition, measuring and attributing the results of transformational finance projects can be challenging. Long time horizons, complex system interactions, limited data availability and institutional capacity, and lack of stakeholder engagement make it difficult to track such outcomes.

1. TIME HORIZON

Transformational outcomes manifest over long-term time horizons. The instigator of the change may be sudden, but the impact is long-term. Often PDBs stop monitoring an investment's impact before the full extent of the results are known. Systemic change is also nonlinear by definition and often interacts with endogenous variables like institutional, political or social factors which are difficult to quantify, and difficult to disentangle from one another. Building on lessons learned from past climate finance programmes and literature can provide historical trends and feedback loops to inform the next generation of investments that can help generate transformational impact going forward.

2. DATA AVAILABILITY

Robust tracking methods often require extensive familiarity with specific cases, comprehensive data collection and iterative validation. Many institutions, although deeply embedded in a given country context and knowledgeable of local specificities (CPI & E3G, 2023), lack the analytical capabilities, staffing or systems to implement nonlinear theories of change, mixed-methods evaluation or to track system-level metrics. Ongoing efforts to mainstream climate risk considerations in financial decision-making processes may also support systematic data collection for climate-related physical impacts and risks, climate-resilient pathways and transformational finance. These efforts should integrate policy and socioeconomic goals and reference points from the start and can build on the relative methodological maturity in the financial sector regarding low-emissions pathways. Harmonising data across public and private actors, to the extent meaningful, enhances knowledge generation on financing transformation towards pre-determined targets.

3. STAKEHOLDER ENGAGEMENT

Effectively tracking systemic change often requires engagement with diverse actors, including local institutions and communities to work towards a common understanding of what should be considered transformational. For accuracy, information on actual impact of investments on populations will need to come from the people themselves to reflect recipient-oriented priorities instead of donor-driven indicators. But participatory processes are resource-intensive, politically complex, and difficult to institutionalise, which may require additional and dedicated capacity.

IV. EXAMPLES OF TRANSFORMATIONAL INVESTMENTS

Despite the challenges in monitoring transformational finance, there is evidence that transformational investments have already taken place. The examples below illustrate how three different public financial institutions, a bilateral development finance institution engaging with the private sector (British International Investment – BII) in Box 2, a multilateral development bank (the Inter-American Development Bank – IDB) in Box 3, and a bilateral development bank mainly engaging with governments and public institutions (Agence française de développement – AFD) in Box 4, have contributed in their own way to transformational outcomes. Their experience also illustrates how a financial institution can further commit to transformational finance through the operationalisation of institutional commitments towards transformational outcomes, long-term country support to drive regulatory reforms and address systemic challenges, and dedicated facilities to increase private investment mobilisation in climate finance in EMDEs. Each of the following examples highlights how PDBs have already strived towards at least two of the three attributes of transformational finance. They illustrate how PDBs can similarly target systemic impact while adjusting to different contexts, in order to support long-term cross-sectoral changes that are resilient to future risks.

BOX 2: **UNLOCKING INSURANCE CAPITAL WITH BII FOR SYSTEMIC CHANGE**

British International Investment (BII) is the United Kingdom's development finance institution. It has recently launched its 2026-2031 strategy, with a strong focus on investments achieving a multiplier effect contributing to market transformation in sectors such as financial services, industry, power, trade, and digital infrastructure, and through partnerships with other capital managers. BII aims to support the development of businesses that have the potential to achieve what it calls transformational outcomes (BIIa).

An example of how it supports transformational climate impact in financial services is its £100 million mobilisation facility aiming to increase climate investments in emerging markets, with the goal of attracting a further $250 million from insurers (BIIb). Insurers heavily weight their investments towards bonds, and are subject to strict regulations on both capital and liquidity requirements. However, global assets are in the tens of trillions (BlackRock). Attracting and aligning insurance capital with net zero and climate goals is considered a major opportunity (WEF). To make the fund palatable to insurance investors, BII anchors a junior and senior equity tranche. While retaining upside for BII, this "enables the Senior Notes tranche to achieve an investment-grade rating and deliver fixed cash flows to insurance company investors." BlueOrchard, a leading global impact investment manager, was selected to provide anchor investment through senior loans to banks, microfinance providers and other financial intermediaries providing climate finance to small and medium enterprises (SMEs) in emerging markets. It is targeting a financial close of more than $250 million for the fund, to be known as the BlueOrchard Climate Action Mobilisation Fund. The initiative holds promise for shifting insurance capital, with results to be seen in coming years.

BOX 3: HOW MDBs CAN MOBILISE TRANSFORMATIONAL CAPITAL: THE EXAMPLE OF IDB GROUP IN CHILE'S ENERGY SECTOR

In 2013, less than one percent of Chile's electricity came from solar photovoltaics (OWID), despite the nation's rich solar potential. The Chilean government had implemented policies to encourage renewable energy expansion, but high up-front costs along with a lack of track record, and high perceptions of risk, meant investments remained small (Galeano; Griffith-Jones). That year the Inter-American Development Bank Group (IDB Group) invested in two of the country's first large-scale photovoltaic (PV) solar plants, Pozo Almonte and Calama (Nicaretta). The IDB Group project provided a concessional loan combining IDB Invest ordinary capital with concessional blended finance resources from the Clean Technology Fund and the Canadian Climate Fund for the Private Sector in the Americas to reduce risk to private investors and helped demonstrate the viability of large-scale solar in the country. These projects were followed by additional IDB Group investments in Arica and Los Loros in 2015, further supporting market development. The sector increased rapidly and by 2024 solar PV accounted for nearly a quarter of the country's electricity generation (OWID).

The investment achieved a transformational impact by contributing, along with other market and institutional factors, to reducing real and perceived investment risks at the right place and time, helping kickstart decarbonisation of the country's electricity production.

IDB Group continued to invest in the energy sector in Chile. In 2021-2022, IDB provided $350 million in policy-based loans (direct budgetary support for policy change), for regulatory reform encouraging private sector investment and accelerating the integration of renewables. In 2023-2024, further regulatory signals (e.g. stabilisation in electricity rates) allowed IDB Group to develop bonds to further increase access to finance. According to IDB's self-assessment, the introduced measures reduced investment costs, enhanced service reliability, stabilised energy prices, and improved regulatory standards for evaluating distribution companies (IDB 2022a; IDB 2022b). Policy-based loans in the context of their use at IDB can be viewed as an example of financing instruments that support addressing systemic challenges to sustainable development (MOPAN, 2023).

By combining early risk mitigation with policy support and sustained signals for market development, targeted interventions addressing systemic barriers as illustrated in the case of Chile can help strengthen enabling environments for the energy transition.

BOX 4: **LONG-TERM, INSTITUTIONAL AND OPERATIONAL INTEGRATION OF A "TRANSFORMATIONAL APPROACH" WITHIN A BILATERAL DEVELOPMENT BANK: AFD'S JOURNEY**

AFD's approach provides an example of a long-term, strategic approach to integration of what it calls transformational finance. AFD's journey towards transformational finance began in 2017, as part of a broader reflection on the alignment of all its financing with the goals of the Paris Agreement[3] (AFD, 2017). Its concept of transformational finance was then developed and integrated in AFD's sectoral strategies, setting explicit transformational ambition for its funding to the energy sector, with a focus on public utilities (AFD, 2025a), and on financial institutions. 2025 marked a decisive evolution, with the integration of this approach to transformational finance within AFD Group's 2025-2030 Strategic Orientation Plan. As part of its commitment to become "100% SDG-aligned", the bank has the ambition to "increase the share of its funding directed toward transformational and systemic impacts," which was estimated to be 40% based on a backward-looking assessment of its portfolio in 2024 (AFD, 2025b). This goal was then confirmed and detailed in the Group's 5-year climate and nature roadmap (AFD, 2025c).

Transformational finance has also been integrated into AFD's processes and targets. First, AFD updated its ex-ante sustainable development analysis process to better assess and identify the most significant opportunities for long-term systemic change towards low-emissions and climate-resilient development (AFD, 2025d). An independent evaluation team within AFD assesses the project activities' impact on seven sustainability dimensions covering biodiversity, decarbonisation, resilience, social, gender, economy, and governance aspects. A project is for instance considered +2 on the decarbonisation dimension if it seeks systemic effects (at country, sector, or actor level) on the low-carbon transition, and +3 if, in addition to targeting systemic effects, there are other elements (e.g. social acceptability, political economy, etc.) that comfort the materialisation of expected changes and impacts over the long term. The bank then screens its current portfolio against this criterion to quantify its transformational finance; only projects classified as +2, or +3 (on a scale of -2 to +3) on the decarbonisation and/or resilience dimensions are considered transformational climate finance. This has allowed the bank to set a measurable target: by 2030, at least half of AFD's climate finance should be transformational. In 2025, 59% of AFD's climate finance was considered transformational.

Finally, AFD's transformational journey can also be reflected in some of the projects it finances. The bank has developed a comprehensive grant-based offer to support the development of low-emissions and climate-resilient pathways, with a focus on adaptation and long-term strategies through its "Facilité 2050" and "Adapt'Action" technical assistance facilities. AFD has also developed transformational credit lines to support financial institutions in their structural transformation. In 2024, it provided a "pro-climate" credit line to the Development Bank of Latin America and the Caribbean (CAF), enabling technical assistance, strategic dialogue, and financial support for the bank's structural transformation (CAF, 2024). The credit line supports the achievement of objectives measured through indicators related to CAF's sustainable finance strategy, with a focus on climate change adaptation and biodiversity. Supporting CAF's transformation into a green bank through technical assistance and strategic dialogue contributes to supporting systemic impact at the regional level through CAF's long-term engagement with other financial actors in Latin America and the Caribbean.

3. « In mobilising these international "climate" funds, the Group will prioritise programmatic and large-scale approaches, strong complementarity in terms of instruments between AFD and Proparco, and a broader range of justifications for the use of grants and subsidies provided by these international resources, linked to the impact on countries' climate transition, the transformational effect on stakeholders, and the costs of the transition »

V. EMERGING CONSIDERATIONS FOR MAKING FINANCE TRANSFORMATIONAL

Examples like the ones above provide some lessons about how PDBs can best engage in transformational finance:

- **Support enabling environments through grants and technical assistance:** Continue providing technical assistance and support to strengthen local enabling environments i.e. regulatory frameworks and policies, including fiscal, sectoral, and trade policies and effective distribution of financial resources – the Brazilian Development Bank (BNDES) for instance has supported the development of a sustainable finance taxonomy in Brazil and hosts the country's country platform to mobilise finance for climate action.

- **Build overall capacity, knowledge and planning within the institutions (including to monitor outcomes of transformational finance):** Several development banks already engage in these efforts such as *Agence française de développement* (AFD), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the International Finance Corporation (IFC), among others (NewClimate Institute & I4CE, 2023; I4CE, 2025).

- **Systematically consider how available financial instruments can be targeted towards transformational outcomes:** Instruments such as Paris-aligned policy-based finance, results-based finance, equity finance, as well as risk-sharing, guarantees, and instruments enhancing access to insurance, have the potential to contribute to the transformation of local financial and economic systems over the long term when designed with such intent. We recommend all relevant institutions assess how they can better design their programmes and activities to support transformational impact – for example, the West African Development Bank (BOAD) launched a "shock-resilient loans" programme combining a subsidised loan offer with a parametric insurance product to support long-term climate resilience in its member countries. If it is replicated over time and followed by systemic changes, it would have all three elements necessary to be considered transformational finance.

- **Encourage uptake within the private sector:** In addition to creating an enabling environment for private investments, PDBs should use their convening power to encourage private financial institutions to integrate notions of transformation into corporate indicators and standards. They could, for instance, support private financial institutions in integrating transformational criteria into co-financing agreements or sustainability-linked loan covenants.

CONCLUSION

The common definition of transformational finance identified here – that transformational finance supports long-term, structural change that breaks down foundational barriers to the transition while managing trade-offs across economic, environmental and social dimensions – can enable PDBs and other financial institutions to commit to invest in ways that will drive greater climate and sustainable development outcomes. But to reach this potential, ensuring interventions are prioritised based on their anticipated impact early on will be key. Developing well-defined indicators to meaningfully measure progress towards targeted outcomes and to identify opportunities for increased dialogue and coordination between development actors will also contribute to better targeting transformational outcomes.

To gain acceptance and traction across the financial sector, it will be important to build on lessons learned from multilateral financial actors such as multilateral climate funds as they engage in programmes targeting systemic shifts, policy reforms, and breaking down sectoral barriers to long-term decarbonisation and climate resilience while addressing short-term financing needs. This will help identify the most significant obstacles to implementing transformational finance and producing the systemic changes needed to reach climate objectives and the sustainable development goals. A range of financial institutions and other stakeholders have already gained experience illuminating a path forward. If other institutions try out similar strategies, and their early results are evaluated, we will obtain lessons for all.

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