COP31 BUSINESS FORUM

Climate Finance and Investments
Working Group Paper

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Trillions of dollars of additional investment is required annually to support both the transition to a net-zero economy and the growing need for climate resilience and adaptation. However, many climate-related projects continue to struggle to attract private investment due to barriers relating to project bankability, risk allocation, market infrastructure, regulatory certainty, and data availability. At the same time, the physical impacts of climate change are becoming increasingly economically material. The Climate Finance and Investments Working Group (Working Group) has identified that addressing these challenges requires moving beyond the creation of new commitments towards the practical implementation of solutions that convert climate ambition into financeable and scalable investments.

Momentum is building behind efforts to mobilize private capital for climate outcomes

Governments, development finance institutions (DFIs), financial institutions and corporates are increasingly implementing innovative approaches to support climate investment. Public-private partnerships, blended-finance structures, climate-risk sharing mechanisms, carbon-market initiatives and resilience financing programs are demonstrating that both mitigation and adaptation investments can be scaled when supported by appropriate policy frameworks and enabling conditions.

Policy interventions can help accelerate what is already working

The Working Group has identified three interconnected policy support recommendations addressing the principal barriers constraining climate investment. The recommendations build upon climate-finance discussions from previous COPs and support the three priority themes of de-risking private capital, scaling carbon markets, and climate resilience, adaptation and loss-and-damage financing.

Recommendation 1:
Create an integrated framework for investment-ready climate projects

Recommendation 2:
Improve the treatment, prioritization and recognition of climate-related assets and transactions across prudential, accounting and regulatory frameworks

Recommendation 3:
Establish interoperable asset-level climate mitigation and resilience data frameworks linked to financial outcomes

The importance of these recommendations is illustrated through three participant identified case studies, demonstrating how targeted public risk-sharing, layered insurance mechanisms and common asset-level resilience information can accelerate implementation and mobilize private investment at scale.

01

De-risking Private Capital

Addressing the climate crisis and transitioning to a low carbon economy will require trillions of dollars of investment over the next two decades. Public resources alone cannot meet the scale of capital required. The critical challenge and opportunity, therefore, is to mobilize private capital alongside public investment using public finance to create the incentives and risk sharing mechanisms needed to crowd in private capital at scale. Emerging markets and developing economies require approximately US$2.4 trillion of climate investment annually by 2030, including around US$1 trillion from private sources. In 2023, international private climate finance to emerging markets and developing economies reached US$36 billion, less than 4% of the level required from private sources.

The investment constraint

Despite substantial pools of long-term capital held by financial institutions, factors such as political and regulatory uncertainty, foreign exchange risks, fragmented project pipelines, difficult to navigate local permitting requirements, limited market data, underdeveloped financial markets, and high transaction costs increase the cost of capital and deter private investment. As a result, strengthening project suitability and financing readiness, deepening financial markets, improving connections between projects and investors, and expanding the availability of effective de-risking mechanisms are critical to mobilizing private climate finance, particularly in emerging markets and developing economies.

From individual transactions to investable markets

These constraints are interdependent, a guarantee cannot compensate for a shortage of viable projects, while project preparation has limited value if investors cannot access appropriate local-currency financing or if regulatory conditions remain uncertain. Public intervention therefore needs to be matched to the specific constraint preventing investment.
De-risking has an important role in addressing these constraints. Guarantees, political-risk insurance, subordinated finance, first-loss capital and other risk-sharing mechanisms can improve the risk-return profile of investments where specific risks cannot be efficiently absorbed by private investors. However, financial instruments are only one component of an investable market. The effectiveness of public intervention also depends on project preparation, data, local financial markets and a sufficiently predictable policy and delivery environment.

02

Scaling Carbon Markets

Carbon pricing was introduced as a mechanism to create a financial incentive to reduce greenhouse-gas emissions and channel finance towards emissions reductions and removals. Despite this overarching objective, fragmented policies, inconsistent methodologies, uncertain legal and accounting treatment, and limited market transparency continue to constrain financial institutions' confidence and investment.

Regulatory carbon-pricing mechanisms are expanding but remain incomplete. As of 2026 there are 87 direct carbon-pricing policies operating globally covering approximately 29% of global greenhouse-gas emissions and generating more than US$107 billion in public revenue during 2025. In parallel, voluntary carbon markets continue to play an important financing role, despite recent decline in transaction value with the reported value of voluntary carbon-market transactions at US$535 million in 2024, down from more than US$2 billion in 2021. Overall market demand is increasingly moving towards longer-term procurement with announced carbon-credit offtake agreements exceeding US$7 billion in the first half of 2025. This indicates prospective buyer demand, although announced agreements should not be equated with completed payments or delivered credits.

The market-development challenge

Scaling carbon markets requires more than increasing the supply of credits. Well-functioning markets need predictable demand, consistent and interoperable methodologies, independent verification, transparent registries, clear ownership and transfer rules, and greater certainty regarding legal, tax, accounting and regulatory treatment, including Article 6 authorisation and corresponding adjustments. These foundations are necessary to address concerns regarding credit quality, additionality, permanence, double counting and greenwashing, while enabling buyers and financial institutions to assess permitted use, pricing and delivery risk.

The role of regulatory and voluntary markets

Regulatory and voluntary markets should not be viewed as competing mechanisms. Regulatory markets can provide dependable policy-backed demand, while high-integrity voluntary markets can finance activities not yet fully covered by compliance systems. Scaling these markets will require an integrated architecture combining predictable demand, environmental integrity, legal certainty, transparent information and financing structures capable of supporting projects through development and delivery.

03

Climate Resilience, Adaptation & Loss-and-Damage Financing

The financial consequences of physical climate risk are increasing in scale, frequency and economic significance. Climate-related events such as floods, wildfires and severe storms are causing substantial damage to assets, disrupting operations, undermining productivity, impairing infrastructure and weakening supply chains. These impacts extend beyond affected communities to investors, lenders, insurers and asset owners through declining asset values, reduced revenues, increased risk exposure and insurance availability. For example, Munich Re reported in January 2026 that floods, wildfires and severe convective storms accounted for almost all insured natural-disaster losses in 2025. Together, these “non-peak perils” caused US$166 billion in total losses, of which US$98 billion was insured.

While climate adaptation can significantly reduce future losses, a substantial financing gap remains. At the same time, there is a separate and growing funding challenge associated with climate-related loss-and-damage, where impacts either cannot be prevented or have already occurred. Addressing both challenges is critical to creating a climate finance ecosystem for physical risk.



Why the financing gap persists

Adaptation and loss-and-damage investments face a range of structural barriers that limit their attractiveness to private capital. Unlike mitigation projects, the benefits of adaptation often take the form of avoided future losses, enhanced resilience, or wider public benefits rather than direct, predictable revenue streams. These benefits are frequently dispersed across communities, governments and businesses, meaning that investors may not be able to capture sufficient returns from the capital they provide. At the same time, many adaptation projects are small, location-specific and lack the characteristics of investable assets, with adaptation priorities often presented as policy objectives or development needs rather than structured transactions with defined sponsors, cash flows, contracts and risk-allocation frameworks.

These challenges are compounded by data and market constraints. Financial institutions often lack the physical-risk data, loss estimates, resilience metrics and impact measurement frameworks needed to assess projects, price risk and demonstrate outcomes. High perceived risks, uncertain or delayed returns, and long payback periods can place many adaptation investments outside commercial investment mandates. Similar challenges exist for loss-and-damage financing, where insurance and capital-market risk transfer mechanisms are generally effective only for clearly defined and modelled risks. Coverage may be unavailable or unaffordable, while slow-onset events, recurring climate impacts, systemic shocks and non-economic losses often fall outside the scope of insurable risks, leaving significant protection gaps.

Recommendations in detail: Cross cutting policy recommendations

Policy Recommendation 1: Create an integrated framework for investment-ready climate projects

- National governments and intergovernmental agencies should establish integrated project-preparation facilities that convert climate priorities into projects capable of reaching an appropriate financing decision.

- Public institutions and MDBs should provide targeted anchor investment to projects identified through the preparation facility where credible projects require an initial commitment to reach financial close and attract private capital.

- Development banks and financial institutions should establish warehousing and aggregation mechanisms that connect smaller climate investments with institutional capital.

Climate priorities often fail to reach financing because there is no coordinated pathway for converting national climate plans into technically credible, financially viable, capital ready projects. Further, project-preparation support, public and multilateral development bank investment, and aggregation mechanisms frequently operate separately, leaving projects without a clear route from initial concept to financing and implementation. The World Bank and the International Finance Corporation, working with other MDBs, UNDP, climate funds and financial institutions, should develop and maintain a common Prepare-to-Finance Climate Framework for adoption by national governments. The framework should connect project preparation, financial due diligence with appropriate public, concessional and commercial capital, and establish repeatable routes through which smaller climate investments can reach institutional investors.

This recommendation should build on and complement existing initiatives and standards, including the UNFCCC Needs-based Finance Project, and include reference to complementary climate finance objectives such as 'The Just Transition'. The Project already supports developing countries in assessing climate-finance needs and barriers, developing Climate Finance Access and Mobilization Strategies, and translating national priorities into project pipelines. The proposed Prepare-to-Finance Climate Framework would strengthen and extend this approach by providing a consistent finance-focused pathway from project identification through to investment decisions.

Case: Building resilience into the UK's innovation economy: Lloyds Banking Group and National Wealth Fund Higher Education Retrofit Program

Lloyds Banking Group and the National Wealth Fund have launched a financing initiative intended to unlock up to £500 million of lending for the retrofit and decarbonisation of university estates across the United Kingdom. Under the arrangement, Lloyds Banking Group will provide up to £500 million of lending, supported by up to £350 million of financial guarantees from the National Wealth Fund. The programme has the potential to modernise up to 300 campus buildings through energy-efficiency improvements, low-carbon heating and related estate upgrades.

The program illustrates how a targeted public guarantee can support private lending to a hard-to-abate segment of the built environment. By reducing the financing and capital constraints associated with long-term university retrofit projects, the guarantee enables Lloyds Banking Group to offer longer-tenor and more flexible financing intended to make eligible investments more viable. The model combines public risk-sharing with the origination and distribution capacity of a commercial bank, while leaving universities responsible for identifying and implementing qualifying estate improvements. This case study primarily supports **Recommendation 1: Create an integrated framework for investment-ready climate projects,** demonstrating how targeted public risk-sharing can enable a commercial lender to provide longer-term and more flexible finance for a portfolio of climate investments.

Policy Recommendation 2: Improve the treatment, prioritization and recognition of climate-related assets across prudential, accounting and regulatory frameworks

- Financial regulators should issue dedicated guidance or 'Frequently Asked Questions' regarding capital treatment of climate-related investments and lending.

- Improve recognition of climate-related credit enhancement mechanisms and other risk mitigants within the capital framework.

- Improve the integration of climate adaptation measures within the prudential frameworks.

Significant progress has been made over the last decade in integrating climate considerations into financial regulation, supervision and reporting. However, prudential, regulatory and accounting frameworks do not consistently recognize the characteristics of climate-related assets, investments and risk mitigants. As a result, many climate-aligned and climate-resilient investments continue to be assessed through frameworks that were not designed to capture their specific risk profiles, performance characteristics or contribution to long-term resilience. This can lead to misaligned risk assessments, which can disincentivize private capital providing the required climate finance. Any reform should remain risk-based, evidence-led and consistent with financial-stability objectives. Recognition should reflect demonstrated changes in underlying financial risk and should not arise solely from a climate or sustainability designation.

Implementation should also consider connectivity between prudential, accounting and sustainability-related financial reporting requirements while respecting their distinct objectives and established international standards. Where climate-related risks, opportunities, risk mitigants or resilience investments are financially material, Financial Institutions should be able to recognize anticipated financial benefits without creating duplicative reporting requirements.

Policy Recommendation 3: Establish interoperable asset-level climate mitigation and resilience data frameworks linked to financial outcomes

- Establish an interoperable framework for recording and verifying asset-level mitigation, climate risk and resilience measures.

- Governments and financial institutions should establish pathways through which verified climate performance can inform risk-based financial and fiscal decisions.

Financial institutions and public authorities often lack consistent asset-level information showing which climate mitigation and resilience measures have been implemented, whether those measures have been independently verified and how they affect emissions, resource use, expected losses, financial risk and asset valuation. This prevents asset owners from demonstrating the value of climate-related improvements and limits informed decision-making by insurers, lenders, investors and governments.

International Finance Organizations, working with UNEP Finance Initiative, relevant standards bodies and financial institutions, should develop and maintain an interoperable framework with two connected functions. First, it should create a common evidence base for recording and verifying asset-level climate performance and physical risk reduction. Second, participating financial institutions and public authorities should establish how that verified information will be considered within their own risk, financing and public-support decisions. This framework could build on the UN Climate Change's 'Climate Data Hub' to include asset-level mitigation and adaptation data to support financial risk and opportunity assessment.

Case: TARSİM: Public-Private Agricultural Risk Sharing

TARSİM is Türkiye's national public-private agricultural insurance system, established to provide financial protection against climate- and weather-related risks affecting the agricultural sector. The scheme combines government premium support, private insurance providers, a central agricultural insurance pool and domestic and international reinsurance markets to protect farmers and agricultural assets from losses arising from drought, frost, hail, storms, excessive rainfall and floods.

The program demonstrates how public and private capital can be combined to address risks that are difficult for individual farmers or insurers to absorb independently. By pooling risk at a national level and layering private insurance, reinsurance and sovereign support, TARSİM expands the availability and affordability of agricultural insurance while maintaining market participation. TARSİM offers relevant lessons for **Recommendations 1: Create an integrated framework for investment ready climate projects and Recommendation 3: Establish interoperable asset-level climate mitigation and resilience data frameworks linked to financial outcomes,** particularly on public-private risk sharing and the operational importance of exposure and loss data, without directly constituting an investment-ready climate-project pipeline or an interoperable asset-level climate-data framework.



Case: Building Resilience Index: Creating a Common Evidence Base for Resilient Buildings

The Building Resilience Index, or BRI, is a web-based hazard-mapping and resilience-assessment framework developed by the International Finance Corporation. It helps developers, financial institutions, insurers and governments identify location-specific natural hazards, assess measures that strengthen buildings' physical integrity and operational continuity, and disclose resilience through a standardised rating. BRI is intended to create a common language for building resilience across property owners, developers, lenders, investors, insurers and public authorities. Its wider ecosystem includes collaborations with a large insurer on insurance and underwriting applications, Marsh8 and Aon9 on integrating resilience into risk and client decision-making, and Bureau Veritas10 on independent verification.

This case study primarily supports **Recommendation 3: Establish interoperable asset-level climate mitigation and resilience data frameworks linked to financial outcomes.** It demonstrates how structured asset-level hazard information, resilience measures and independent verification can provide a common evidence base for insurance, lending, investment and public-policy decisions.

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