Dansk Industri

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II Whitepaper: Strategies to scale private and blended climate finance for a just green transition

The urgency for mobilising climate finance has never been greater. At COP29, participating nations set ambitious goals for transferring climate finance from developed to developing countries. COP30 in Brazil will be critical in transforming these commitments into actionable steps that align with the Paris Agreement objectives. We have the pledges; now it is imperative to implement the right financial mechanisms to facilitate the flow of climate finance.

The private sector plays a pivotal role in achieving these targets, yet substantial barriers to unlocking private climate finance remain. During London Climate Action Week, a roundtable convened high-level stakeholders to explore strategies for increasing private climate finance mobilization. This whitepaper synthesises insights and recommendations from the roundtable, presenting strategies to effectively mobilise climate finance for meaningful climate action and a just green transition.

It serves as a supplementary document to the previously published whitepaper private climate finance released post Climate Week in New York last year: I Whitepaper on private climate finance.

1. Define, integrate, and scale private and blended climate finance

To effectively measure private climate finance, establishing a clear definition is essential. It is imperative to recognise that climate risk is inherently a financial risk, necessitating better integration of climate considerations into mainstream financial decision-making rather than treating them as niche concerns. Impact and good returns can be complementary rather than opposites, but this requires a shift towards longer-term horizons and the liberty for institutions to explore strategic allocation of portions of their portfolios.

Blended climate finance has so far not achieved the scale required, largely due to structural inadequacies, complexity, lack of exit strategies, difficulties in securing catalytic capital, and challenges relating to governance and transparency. It is crucial to rethink how blended finance mechanisms are structured and deployed to attract private investment.

Case: Nordic collaboration at its best: IMCA

The Investment Mobilisation Collaboration Alliance (IMCA) is an example of a successful multistakeholder initiative linking Nordic countries, development banks, and private investors through a central Secretariat operated by the World Climate Foundation.

IMCA enables countries to pool public development funding to de-risk and attract private capital into emerging and developing markets, demonstrating the power of collaborative finance and crowding-in. This approach has already mobilised hundreds of millions of USD in private investment, directing capital to underfunded regions and sectors. Since its launch at COP28 in 2023, IMCA has initiated three innovative finance windows, with a fourth set to launch at COP30:

- The BFET window supports climate mitigation in JET-P countries
- The AFW focuses on climate adaptation
- The GVCA promotes localisation and sustainability in Africa’s energy transition value chains
- The new Adaptation Finance Window for Africa set to launch soon.

IMCA stands out as a model initiative that scales climate finance by coordinating donor funding, co-developing blended finance windows, and facilitating dialogue between donors and private investors. IMCA engages with diverse stakeholders in the development of its funding windows, from governments and DFIs to asset managers and asset owners, fostering inclusive partnerships that reflect both development priorities and investor expectations. In a shifting geopolitical landscape, IMCA demonstrates how public-private partnerships in climate finance can act as a stabilising force, supporting economic resilience and climate goals in vulnerable regions.

2. Embrace and engage diverse stakeholders

The current flow of private climate finance is insufficient to meet the burgeoning demand driven by rapid temperature increases, extreme weather events, and other climate changes. To address this, it is essential to broaden our approach and remain open to a diverse range of stakeholders, each contributing unique resources, expertise, and knowledge that can enhance the mobilisation of private climate finance.

The public sector plays a crucial role in creating the framework that enables private investments in the green transition. Political will and stable framework conditions are essential to ensure market credibility and long-term investments. Public institutions can contribute by establishing an effective regulatory environment, supported by clear targets, transparent processes, and robust energy infrastructures, such as grid expansion. Strengthened public-private partnerships and close dialogue between policymakers and businesses are vital to maintaining momentum in climate action and building trust in the long-term framework for the green transition.

Additionally, other stakeholders play a crucial role. NGOs and local communities can act as the boots on the ground, maintaining a focused overview of investment needs where private climate finance is most required. Asset managers offer valuable insights into how investor needs can be better met through structured pipelines, risk-aligned investments, and enhanced resilience in climate finance systems.

In addition to strengthen the social and equity dimensions of climate finance further, a dedicated Just Transition Finance Window could be established to strategically link capital mobilisation with social safeguards, job creation, re-skilling, women’s economic empowerment, and community-level resilience. This initiative can provide significant value by offering investors clearer social KPIs alongside climate metrics, thereby enhancing impact measurement. Furthermore, it opens up investable opportunities in labour-intensive sectors such as renewable energy manufacturing, sustainable agriculture, and local infrastructure. By channelling concessional or blended capital into funds that collaborate with municipal authorities, cooperatives, and SMEs, it ensures local ownership and promotes sustainable community development.

3. Utilise private climate finance as a stabilising tool in a changing world

The tectonic plates are shifting in geopolitics, creating new risks and uncertainties. Private climate finance can address these challenges by boosting economic development, reducing climate risks, and building bridges between developed and developing countries. Climate finance is pivotal because its impact spans the entire financial system, and thus, climate risk must be integrated into sovereign bonds, commodities, and asset management.

However, the flow of private climate finance to developing countries remains hindered by regional disparities, geopolitical tensions, and limited capital access. Investors face mandates demanding clear justification for perceived risks. Therefore, it is essential to develop strategies that ensure risk-adjusted returns, improve data quality, and enhance transparency and accountability. To further address these issues, there is a need to innovate market models, redefine assets, explore new capital allocation strategies, and leverage bottom-up approaches reflecting local needs. Improved credit ratings, cashflow projections, and robust risk models will also be critical to catalysing the flow of private climate finance.

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4. Carbon credits as a potential tool in mobilising private climate finance

Carbon credits may, under the right conditions, serve as one possible tool to mobilise private climate finance and support cost-effective climate action across borders. They have the potential to enable climate projects, often in developing countries, to be financed by stronger economies. They need, however, to be high-quality international credits rooted in credible frameworks and clear rules to ensure transparency, measurable impact, and to avoid risks of misuse. Further development of robust international standards and tools – for instance under the UN framework – will be important for building trust among businesses and investors. Only with strong governance and transparency can carbon credits play a supportive and trusted role in financing climate solutions.

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