



CVF
V20
CLIMATE
VULNERABLE
FORUM
VULNERABLE
TWENTY
GROUP



Bridgetown
Initiative

The Resilience Effect: 10 Super Levers to Catalyse Finance in Climate-Vulnerable Countries

with thanks to the Government of Norway



Contents

Foreword	4
Call to action	5
Acknowledgements	7
Key messages	8
Context	13
Ten “super levers” to unlock climate finance in V20 countries	20
Critical enablers: fair governance, effective institutions and supportive domestic economic policy	27
“Super lever” deep-dives	29
Lever 1: Strengthen country platforms	30
Lever 2: Unlock carbon markets at scale	34
Lever 3: Rechannel Special Drawing Rights (SDRs)	39
Lever 4: Implement solidarity levies	45
Lever 5: Repurpose harmful subsidies	50
Lever 6: Reform capital adequacy rules	54
Lever 7: Set ambitious private capital mobilisation mandates for MDBs	59
Lever 8: Scale local currency solutions	63
Lever 9: Increase affordability of sovereign insurance	68
Lever 10: Update macroeconomic frameworks by integrating climate & nature	73
The way forward	79
Appendix	82

Foreword



The 70 countries and 1.7 billion people represented by the Climate Vulnerable Forum-V20 Group (CVF-V20) are on the frontlines of the climate crisis: battling rising sea levels, extreme heat, prolonged drought and unprecedented flooding alongside growing debt burdens and macro/geopolitical. These forces not only threaten ecosystems, they destabilise economies, making it harder to adapt, respond, recover and thrive in this new reality.

But this is not an unwinnable battle. It requires smart investment and long-term capacity to implement plans for climate resilience and prosperity. It also requires structural rule-changes to reform an unfair and inefficient financial system, which currently creates major disincentives to investment - especially in nature and adaptation.

There is enough capital in the world to finance climate action, including in V20 countries, yet global progress in taking action and investing in solutions is slow and political will is in short supply. We need to be laser-focused to find the most powerful solutions and unlock the capital needed to build resilience. This report offers a shortlist: ten priority actions - or “super levers” - which could unlock an additional **\$210 billion** a year by 2030 in V20 countries while helping avoid up to \$100 billion in annual economic losses linked to the climate crisis and nature degradation.

Each super lever is designed to trigger cascading effects across the financial system, amplifying its collective impact to accelerate climate investment, strengthen institutional structures and shift incentives. Together, they represent an interconnected, ambitious but achievable roadmap for systemic change, building on the leadership and innovation of initiatives like the CVF-V20, Bridgetown Initiative, UNFCCC, Independent High Level Expert Group on Climate Finance, G20 and many more.

As Secretary General of the Climate Vulnerable Forum and proud citizen of a small island state, I stand in solidarity with other nations facing similar challenges, as we seek not just to survive, but to thrive in a world reshaped by climate change. We are not passive in the face of crisis and are united in our commitment to climate resilience, but we cannot do it alone. That is why we have developed this report calling for ten bold, immediate actions to overcome barriers to investment, unlock and optimise existing capital in the system and improve the quality of climate finance to build more resilient communities, economies and ecosystems.

The solutions are clear, the benefits are undeniable and the time to act is now.

President Mohamed Nasheed

Secretary General, Climate Vulnerable Forum V20

“

The proposed ten “super levers” could unlock \$210 billion annually by 2030 for V20 countries, while preventing \$100 billion in economic losses each year.

”

Call to action



Failing to take climate action will cost the global economy trillions of dollars: devastating lives and livelihoods, destabilising supply chains, destroying food and energy security and increasing inequalities, especially for women and other vulnerable groups. Even as the cost of climate inaction keeps growing, the global financial system remains largely unchanged, financing high-carbon industries and often penalising countries for investing in adaptation and resilience.

Availability of capital remains a major barrier to scaling both mitigation and adaptation efforts in climate-vulnerable countries. Growing debt burdens deprive us of fiscal space to invest in our own adaptation needs; gaping insurance gaps exacerbate these challenges while the cost of capital prevents investment in rapid decarbonisation which would generate tremendous savings that we can then redeploy to social services and to modernise our infrastructure so it becomes more resilient and inclusive.

As a small island developing state and the current chair of the Climate Vulnerable Forum and V20 finance ministers (CVF-V20), Barbados can speak from experience about a financial system which is not fit for purpose. CVF-V20 members represents more than a fifth of the global population who contribute less than 4% of current global emissions and are disproportionately impacted by the climate crisis. We urgently need more courageous leadership like that of our Prime Minister Mia Mottley – the architect of the Bridgetown Initiative and one of the strongest voices demanding climate-related finance sector reforms. As the Prime Minister’s sherpa for the CVF-V20, I call on the world’s leaders to be laser-focused on mobilising the capital needed to build resilience in climate-vulnerable economies as laid out in this report – whether by unlocking new sources of funding or reforming the financial system to reduce barriers to investment.

Of course, financing adaptation and resilience has been misunderstood, undervalued and underfunded for decades. Let me be clear: if we fail on adaptation we pay the price in lives lost in frontline communities. This is not an issue that can continue to be ignored or marginalised. And it requires us to be clearer on who we should be supporting to build resilience and which sectors should be prioritised.

First, we should recognise that the drivers of our macroeconomic stability are micro, small and medium-sized enterprises (MSMEs) and ensure they are part of climate finance solutions. MSMEs are the nature of business and private capital in CVF economies. They serve as our growth engines, contributing up to 80% of our collective GDP and constituting more than 70% of all businesses, powering export revenues and accounting for up to 90% of employment. We cannot continue to ignore MSMEs if we are truly serious about global climate-sensitive economic transformation and sustainable development.

Second, we must prioritise sectors and ecosystems which are critical for adaptation and resilience. A great example is the blue economy: our oceans are vital to both small island developing states and large coastal nations; they require dedicated capital to support sustainable development and economic and ecosystem resilience. Over 1 billion people rely on coral reefs for economic activities while the world relies on them to maintain ecological stability, food security and physical resilience. Yet the funding gap for this critical ecosystem will continue to grow unless we make nature a climate finance priority.

Finally, we must take a more holistic approach to deploying climate finance. Climate shocks don't hit in isolation—they collide with existing vulnerabilities in our economies and financial systems, amplifying risks and threatening financial stability through multiple cascading channels. We have the power and responsibility to generate and integrate gender-responsive outcomes across sectors—ensuring electrified transport creates more modern jobs for women, advancing electricity and decentralised energy to reduce the burden of carrying water and exposure to indoor air pollution, and embedding gender equity in climate and biodiversity programs. These efforts must be underpinned by targeted investments in education, training, and capacity acceleration programs for girls and women. The gender lens in prosperity programs also helps address inequality especially when inclusivity is central to economic and development strategies.

I urge global and local leaders to come together to shape a robust package of support around our collective prosperity agenda—one that keeps our shared outcomes firmly in sight. We must drive transformation through just reforms, scale impact through ambitious projects, and unlock cascading benefits that create lasting change. We look forward to working together on dedicated capital support and towards the reform of the international financial architecture to ensure a better deal for the world's most climate-vulnerable economies.

H.E. Elizabeth Thompson

Ambassador Extraordinary & Plenipotentiary Climate Change, Small Island States SIDS & Law of the Sea, CVF-V20 Presidency Sherpa

Acknowledgements

This report was commissioned by the Climate Vulnerable Forum-Vulnerable 20 Group (CVF-V20) and the Bridgetown Initiative. It builds on the CVF-V20 materials over the last decade as documented in the regular CVF-V20 communiqués and the Bridgetown Initiative, including the Bridgetown 3.0 document.

This report was authored by Betty Wang, Jeroen Huisman and Pippi Durie, with contributions from Alexandra Philips, Harris Rahman, Guido Schmidt-Traub, Jesse Hoffman, Joshua Chipman, Katherine Stodulka, Maaïke Witteveen, Rad Sappany, Scarlett Benson, Veerle Haagh and Zoe Greindl (Systemiq, leveraging the network of the Blended Finance Taskforce).

We are deeply grateful to the stakeholders who generously shared their knowledge and perspectives during the development of this paper, and the broader community of advocates and institutions whose work is also consolidated and referenced. We would like to extend our sincere thanks to the following individuals and organisations for their contributions: Aarish Shariff (Associate Director, Climate Fund Managers); Aaron Baum (Policy and Communications Manager, Resilient Water Accelerator); Abena Takiwaa Asamoah-Okyere (Technical Advisor, Ghana Finance Minister's Office); Barbara Buchner (Global Managing Director, Climate Policy Initiative); Courtney Lowrance (Head of Durable Finance, The Nature Conservancy); Dr Ana Gonzalez Pelaez (Head of Adaptation and Loss & Damage, Howdens); Ekaterina Gratcheva (Advisor, Monetary and Capital Markets, IMF); Ekhosuehi Iyehen (Secretary General, Insurance Development Forum); Farhana Yamin (Visiting Professor, Director and Senior Advisor, Various orgs); Francis Fick (Programme Officer South Africa JET, African Climate Foundation); Friederike Röder (Director, Global Solidarity Levies Task Force); Geneva Oliverie (Development Specialist, Caribbean Policy Development Centre); Germain Laigle (Senior Advisor, Environment and Climate Change Canada); Holly Roberts-Harry (Climate Risk and Resilience Solutions, Howdens); Iva Detelinova (Senior Advisor, African Climate Foundation); Jacinda Njike (Managing Director, Ambition Loop); Joe Tyrrell (Manager, Children's Investment Fund Foundation (CIFF)); Laurence Opie (Climate Specialist, The Development Guarantee Group); Marilou Jane Uy (Non-Resident Senior Fellow, Global Development Policy Center); Pepukaye Bardouille (Director, Bridgetown Initiative); Per Pharo (Director, Norad); Sara Jane Ahmed (Managing Director and V20 Finance Advisor); Sarah Conway (Director Disaster Risk Finance, Willis Towers Watson); Selin Kumbaraci (Analyst, World Bank); Viktoria Seifert (Director Disaster Risk Finance, Willis Towers Watson); Wale Shonibare (Director, African Development Bank, AfDB); Yame Nkgowe (Trustee and Executive Director, Africa Place and Equity City Foundation). Thanks also go to Climate Policy Initiative – Baysa Naran and Matthew Price – for providing data for this report; to the Government of Norway for its support; and to the CVF, V20 finance ministers and the Bridgetown Initiative for their leadership across this agenda.

While the insights and feedback provided have greatly enriched this report, any errors or omissions remain the responsibility of the authors.





Key messages

We are living through another year of records. A year when hurricanes, floods, droughts and landslides have destroyed lives and property all over the world; a year when prolonged drought and heat stress have fuelled food crises, conflict and migration. The ten biggest climate-related disasters in 2024 cost more than \$200 billion – an annual bill which is becoming the new normal.

While these disasters have hit countries and communities all over the world, some are disproportionately affected, particularly the V20, a group of 70 countries highly vulnerable to the climate crisis, with limited historical responsibility and significant structural barriers to financing activities which would help build physical and economic resilience in the face of increasing volatility.

Collectively, estimates suggest that the V20 needs \$490 billion a year in climate finance by 2030¹. But V20 countries face compounding challenges in mobilising this investment, including rising disaster recovery costs, constrained fiscal capacity and limited access to affordable capital and climate finance. Currently, at least a quarter of V20 countries are in or at high risk of debt distress.

“

V20 countries face a \$490 billion annual climate finance need, exacerbated by the rising costs of climate disasters and systemic barriers to accessing affordable finance.

”

Meanwhile, the rules of the financial system often prevent the right kind of investment in adaptation, resilience and other global public goods – despite being one of the most effective ways to drive green growth and reduce the increasing costs of climate change. We need a fairer way to foot the bill and clear mechanisms to unlock new capital for climate action in the V20. Addressing the inequalities of a flawed financial system will require coordinated and bold action. Global solidarity is urgently needed to drive meaningful change by optimising the use of existing resources and identifying new sources of capital for climate solutions. Additionally, ineffective regulations must be reformed to establish a long-term shift in incentives, fostering a financial system that is more efficient, equitable, and locally focused.

In a world where political cycles are short, identifying the highest priority actions has never been more important. That is why this report identifies ten interconnected “super levers” within the global financial system that could collectively unlock the provision of an additional \$210 billion of affordable climate finance annually to V20 countries and help avoid economic losses of up to \$100 billion. These levers mobilise resources and create a self-reinforcing cycle, building momentum over five years. They trigger systemic multiplier effects to address immediate and long-term finance needs across four interconnected categories (see Figure 1).



Source: Aljazeera

¹ Please see appendix for method, sources and assumptions.

Figure 1: Ten super levers to catalyse finance for climate-vulnerable countries



The ten super levers are described briefly below with more detail in the following chapters. By strengthening country-led implementation, unlocking new sources of capital in the system, shifting incentives to remove barriers to investment and sharing risk more effectively, these ten interventions could catalyse billions of dollars of fit-for-purpose finance for V20 countries to support climate action and sustainable development. The prize is worth the political effort needed to make this a reality.



10 super levers

Country-led implementation: ensuring demand-driven, inclusive and high-quality deployment of climate finance

- 1 **Strengthening country platforms**, like “Climate Prosperity Plans”, can create the foundation for action and must include funding support for country-led implementation mechanisms, helping V20 countries define and deliver clear national strategies and unlock different types of capital with lower transaction costs and more responsive outcomes.
- 2 **Scaling carbon markets** through high-integrity project development and standardisation could expand nature and climate investment pipelines. This would also provide governments with increased revenue, particularly for nature-based solutions, mitigation and resilience, whilst aligning emissions reductions with national priorities.

These first two levers establish the frameworks and mechanisms for V20 countries to create the conditions to mobilise and deploy climate finance at the scale and speed required – ensuring more equitable benefit-sharing with lower transaction costs.

New sources of capital: harnessing underutilised channels for climate finance

- 3 **Rechannelling Special Drawing Rights (SDRs)** will unlock underutilised international reserves, redirecting them into concessional finance streams to support the most vulnerable economies.
- 4 **Implementing solidarity levies** from high-polluting sectors such as shipping and aviation generating substantial and predictable resources for climate finance.

These two levers focus on pools of potential capital that are currently underutilised to deliver more concessional, equitable and impactful funding for climate mitigation, adaptation and sustainable development.

Shifting incentives: Transforming economic signals to remove barriers to investment

- 5 **Repurposing harmful subsidies**, such as for fossil fuels, toward climate- and nature-positive investments could fundamentally reset market incentives.
- 6 **Reforming capital adequacy rules** in banking regulations (like Basel III) could lower the cost of capital for infrastructure projects in emerging markets, reducing a major barrier to investment and unlocking large volumes of finance for green projects.

These levers realign financial incentives, encouraging climate- and nature-positive investments while reducing reliance on harmful, extractive activities.

Effective risk-sharing: optimising de-risking mechanisms to catalyse new investment

- 7 **Setting ambitious private capital mobilisation** for multilateral development banks (with appropriate safeguards) would systematically ensure financing is catalytic, scaling the role of MDBs as drivers for private investment.
- 8 **Expanding local currency solutions** would help deepen local financial markets and lower sovereign currency risk exposure. Scaling tools such as foreign exchange (FX) hedging and local currency guarantees and bonds can help mobilise domestic capital and reduce FX risk, reducing a major barrier to investment.
- 9 **Increasing affordability of sovereign disaster risk insurance** by subsidising insurance premiums, scaling risk pools and ensuring products are fit-for-purpose would improve resilience by incentivising investment in adaptation, minimising disaster recovery times and ultimately reducing losses.

These levers focus on enhancing the effectiveness and accessibility of existing derisking mechanisms to unlock high quality climate and nature finance.

Country-led implementation: strengthening incentives to invest in climate and nature

- 10 **Integrating climate & nature into macroeconomic frameworks** could incentivise investments that protect natural capital and increase resilience.

The final lever closes the circle, strengthening national strategies and creating a financial system that rewards and supports sustainable investments. Together, the ten levers form a cohesive roadmap, driving systemic change and helping to unlock the scale, quality, and pace of climate and nature finance needed for V20 countries.



The ten super levers work together to overcome existing barriers. V20 countries face a compounding cycle of climate vulnerability and rising debt burdens, constraining the ability of countries to invest in resilience. Limited access to affordable finance exacerbates these challenges, leaving critical needs such as disaster risk reduction, resilient infrastructure, and economic diversification unmet. Additionally, limited institutional capacity to access financial markets hinder the mobilisation and effective use of climate finance. The ten super levers work to directly address these barriers by unlocking grant and concessional finance, attracting private capital, strengthening domestic markets and building institutional capacity. These drive investments in climate mitigation and adaptation, and funding for the increasing costs of loss and damage.

The effectiveness of these super levers depends on the foundations of fair and inclusive global governance, strong domestic institutions, and coherent economic policies, which together can address existing inequalities in climate finance and build trust. Enhancing representation in global decision-making bodies, alongside strengthening local institutions and implementing consistent economic policies, will help align financial flows with the needs of climate-vulnerable countries and ensure tangible benefits reach people and communities.

Addressing the climate crisis and nature loss is a matter of survival for V20 countries and a first-order human development priority. Therefore, the solutions outlined in this report also advance Sustainable Development Goals (SDGs), including poverty alleviation, food security, health and economic resilience. While designed with the V20 in mind, these measures would significantly benefit all emerging markets and developing countries (EMDCs). No single lever is a silver bullet, but their combined implementation could unlock significant financial flows that are essential to support urgent climate action.

This is a critical moment to move beyond discussions and deliver concrete actions. The proposed interventions build on the invaluable contributions, analysis, and advocacy of numerous stakeholders who have laid the groundwork to advance meaningful climate finance solutions. Together, the ten super levers provide a decisive roadmap for unlocking substantial and affordable climate finance in the near term while driving systemic transformation within the global financial system. Despite political and macroeconomic constraints, by leveraging collective momentum we can accelerate essential climate finance flows at the pace and scale required to the most affected nations.

Context

The top ten hottest years on record have happened in the last decade². In 2024 alone, Hurricane Beryl wreaked destruction throughout the Caribbean, the US and Mexico; typhoon Yagi was one of worst disasters in Southeast Asia's history; unprecedented flooding has taken its toll across every region including Brazil, the Middle East, Kenya, Tanzania, India, Pakistan, China and Spain; terrible droughts affected countries in Southern Africa and threatened the livelihoods of indigenous people in South America; California continues to battle wildfires; and landslides have devastated Papua New Guinea. The ten most expensive climate-related disasters collectively cost over \$200 billion and over two thousand lives³.

Meanwhile, almost half of all people live in countries that spend more on servicing sovereign debt obligations than they spend on health or education, let alone adaptation to climate change. With roughly \$400 billion a year going to interest payments (about double the financing need for adaptation), emerging markets and developing economies increasingly face an impossible choice between servicing debt obligations and meeting peoples' needs. Countries which lack the fiscal space to invest in climate adaptation and other SDGs end up paying the price after a natural disaster or other climate-related shock for which they have no historical responsibility.

² World Meteorological Organisation, "[Climate change impacts grip globe in 2024](#)", (Dec 2024)

³ Christian Aid, "[Counting the Cost 2024: A Year of Climate Breakdown](#)", (2024); UNICEF, "[Almost 1 Million People in Kenya, Burundi, Tanzania, and Somalia Affected as Unprecedented Heavy Rains Continue to Wreak Havoc in Eastern Africa](#)", accessed on 30/12/2024

⁴ \$406bn in 2023; World Bank, "[International Debt Report 2024](#)", (2024)

While these disasters have hit countries and communities all over the world, some are disproportionately affected, particularly the V20, a group of 70 countries highly vulnerable to the climate crisis (Figure 2). The V20 have already warmed to mean temperatures far beyond optimal levels for economic growth and have lost 20% of their GDP on average in the last 20 years⁵. Despite contributing only around 4% to global emissions in 2023 (with 21% of the world’s population)⁶, the V20 is home to a large proportion of people at highest risk from climate change and with the lowest capacity to adapt (Figure 3).

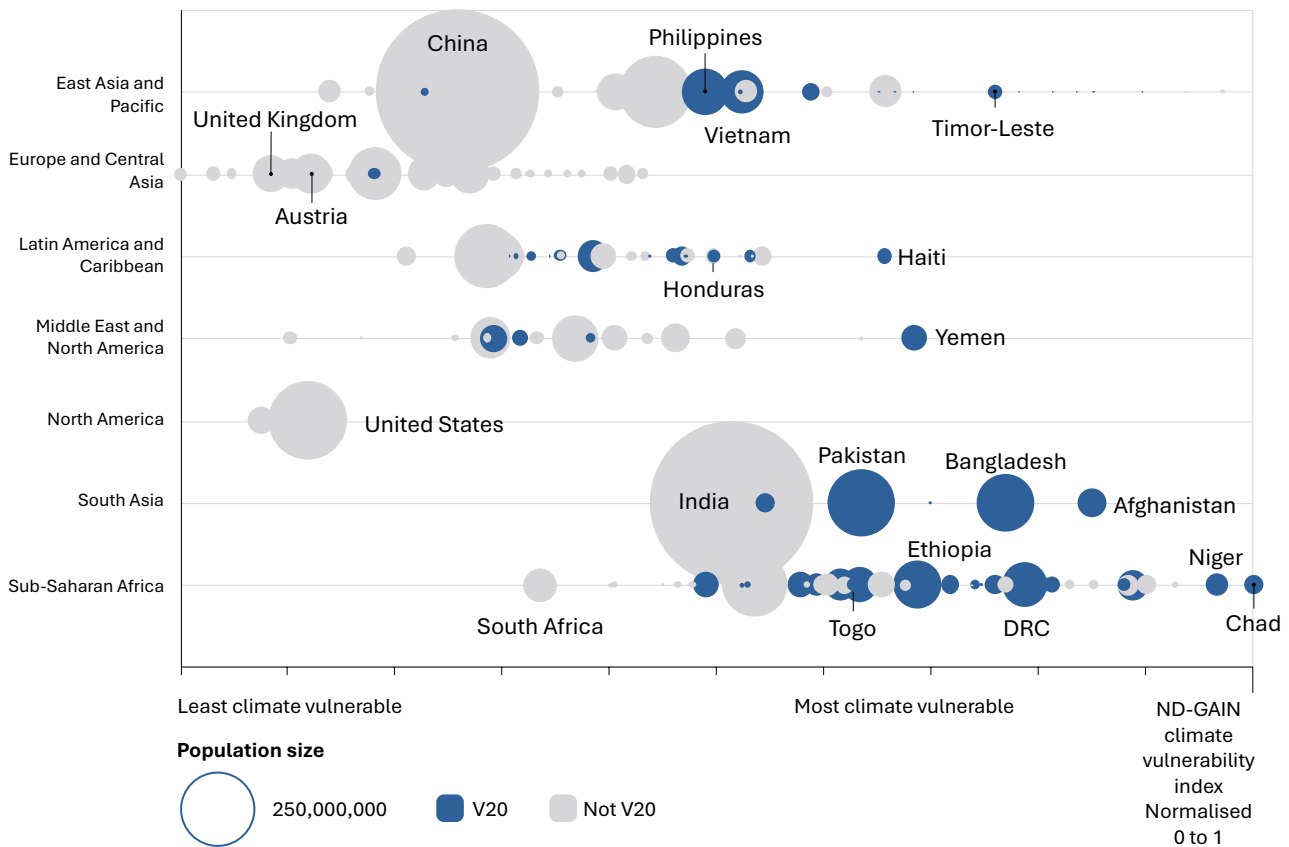
Figure 2: The V20 group represents the 70 nations that are amongst the most vulnerable to the impacts of the climate crisis



⁵ V20, “Climate Vulnerable Economies Loss Report”, (2022)

⁶ Systemiq analysis. Annual emissions data from Our World in Data, “Annual CO₂ emissions”, accessed on 30/12/2024; V20 emissions for 2023 calculated as 1.5GtCO₂, note that land-use change in not included in the data.

Figure 3: Climate vulnerability scores (ND-GAIN) by country and region⁷



“
The V20 have already lost 20% of their GDP over the past 20 years due to climate impacts, despite contributing only 4% of global emissions.
”

There is enough capital in the world to finance climate action, including in V20 countries, yet global progress in taking action and investing in solutions is slow. Annually, global GDP is \$100 trillion, total assets under management are \$128 trillion, and inefficient subsidies exceed \$7 trillion per year. There is clearly enough finance in the world⁸. Bridging the substantial gap between current climate finance flows and the estimated \$2.4 trillion needed annually for EMDCs requires an action agenda⁹. While global climate finance targets have been revised, they remain insufficient to meet the scale of investment required to address the growing challenges of climate-induced vulnerabilities. Addressing this gap is an opportunity to drive development by building resilient infrastructure, improving education and health systems, bolstering social protection systems, and fostering private sector growth – all of which are critical for creating jobs and climate-resilient economies. Achieving this vision demands more than financial resources, it requires bold political will and systemic change.

⁷ Systemiq analysis; Data from the University of Notre Dame, “[Notre Dame Global Adaptation Country Index \(ND-GAIN\)](#)”, (2024). The NDGAIN score measures a country’s vulnerability and its readiness to adapt. To measure vulnerability the index looks at a country’s exposure, sensitivity and capacity to adapt, including measures for food, water, health, ecosystem service, human habitat and infrastructure. The Global NDGAIN scores have been normalised between 0 and 1. Population data for 2023 from World Bank Development Indicators.

⁸ Thinking Ahead Institute, “[The World’s Largest Asset Managers-2024](#)”, (2024); World Bank Development Indicators, “[Gross Fixed Capital Formation \(% of GDP\)](#)”, accessed on 30/12/2024; World Bank, “[Detox Development: Repurposing Environmentally Harmful Subsidies](#)”, (June 2023)

⁹ Bhattacharya A, Songwe V, Stern N, Soubeyran E, “[Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance](#)”, (2024)

This report identifies ten priority actions within the financial system that have the potential to unlock an additional \$210 billion annually for climate-vulnerable countries by 2030, while also helping to minimise losses to GDP of up to \$100 billion¹⁰.

This investment is critical for mitigating the worst impacts of the climate crisis and preventing irreversible damage to ecosystems. These actions focus on both immediate climate finance needs and long-term structural reforms to increase the total amount of finance, unlock sources of grant and concessional capital and balance the climate investment priorities for mitigation and adaptation. Although this report references the potential outcomes for V20 countries, the interventions would significantly benefit all EMDCs.

For the V20, the need for urgent action is even greater.

Environmental risks exacerbate economic challenges, including rising debt burdens from disaster recovery, which further constrain capacity to spend on climate action. However, accelerating access to fit-for-purpose climate finance can transform these vulnerabilities into opportunities for sustainable development:

- a. Reducing the vicious cycle between debt vulnerability and climate vulnerability:** Higher climate vulnerability and higher debt service payments are directly correlated in V20 countries, and 25% of countries are in or at high risk of debt distress¹¹. This means that mobilising debt-free and concessional finance – including through the use of innovative financial instruments like debt for nature swaps – can help reduce borrowing costs. They can alleviate fiscal pressure, unlock resources for investments in mitigation and adaptation for economic growth, and address loss and damage.
- b. Investing in resilience and sustainable development:** Affordable climate finance can unlock opportunities for the V20 to build resilience against climate impacts whilst driving broader sustainable development. Proactive investments in disaster risk reduction and resilience-building can mitigate the significant costs of climate-related damages, which are projected to reach \$70-\$260 billion annually by 2030 in the V20¹². Resilient infrastructure not only reduces losses from natural disasters but also safeguards critical supply chains and enhances economic stability. This is particularly vital for many V20 economies which are heavily reliant on commodity exports and are also net importers of food. Simultaneously, 70% of the V20 countries are in the low and lower-middle income groups (Figure 4). Therefore climate finance must address broader development needs, such as energy access and security, infrastructure, health systems, and education. By addressing both immediate climate risks and

¹⁰ Please see appendix for method, sources and assumptions.

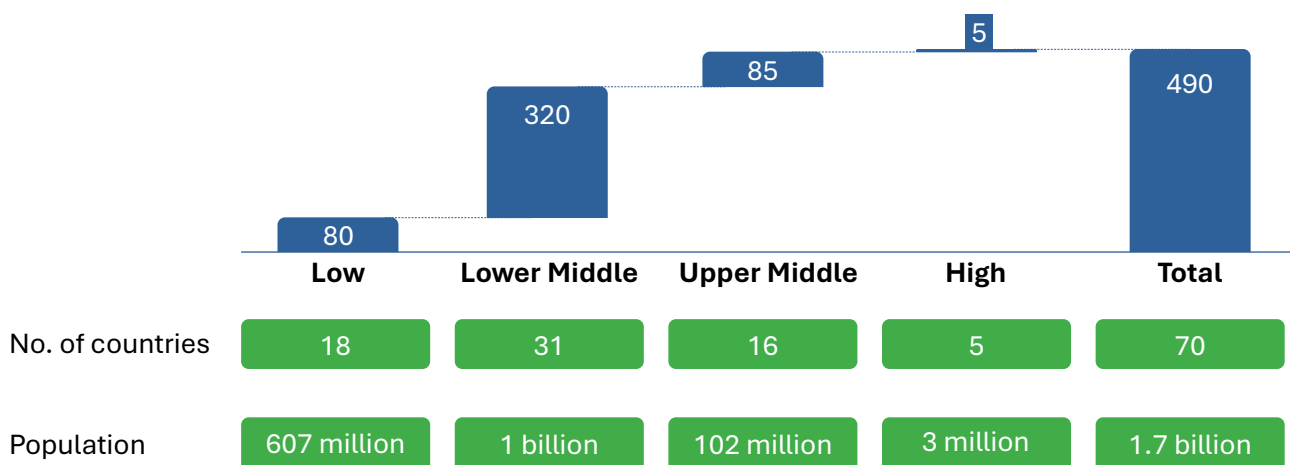
¹¹ Bhandary R, Marins N, “[V20 Debt Review](#)”, (2024)

¹² Systemiq analysis based on loss and damage estimates by region, please see appendix for calculation method; Data from Markandya, González Eguino “[Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review](#)”, (2019)

long-term development needs, these investments reduce vulnerabilities, support economic diversification, and build sustainable growth.

- c. Deepening markets and financial institutions:** Strengthening local financial systems and facilitating private participation in resilience investments is key. Increasing risk capital is fundamental for growth in the V20. Risk-sharing mechanisms and blended finance models (at project or portfolio level) can attract private capital, both internationally and domestically, deepen local markets and increase access to capital for climate mitigation and adaptation investments.
- d. Delivering institutional capacity for climate action:** Ensuring adequate institutional capacity is crucial to prevent the underutilisation or misallocation of climate finance, and also to ensure country ownership. Effective delivery mechanisms are essential to assist V20 countries in designing and implementing climate prosperity and investment plans. Done well, they will help to diversify economies, and reinforce resilient infrastructure, renewable energy, and sustainable agriculture.
- e. Expanding market access:** Better access for the V20 to trade and capital markets (and developing value-add sectors) can help diversify economies, reduce dependence on volatile commodity markets and reduce the export of raw materials to unlock new revenue streams. Improving trade conditions (as well as gaining economic competitiveness through achieving net zero) is a critical way to drive sustainable economic growth in the V20.

Figure 4: V20 climate investment need by income group (\$bn per year)¹³

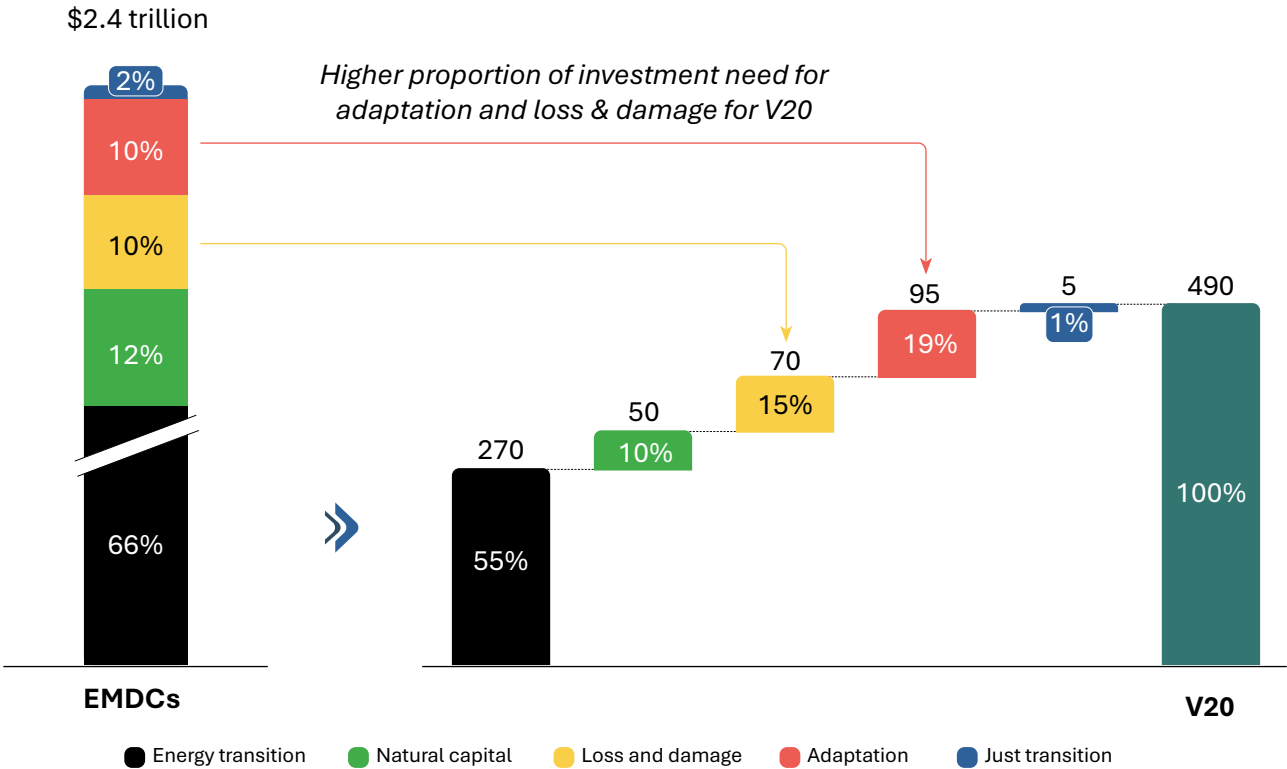


¹³ Systemiq analysis; Please see appendix for method, sources and assumptions for estimation of \$490 billion climate investment need; Population data from World Bank Development Indicators and using World Bank income classifications (Low income ≤\$1,135 GNI per capita; Lower Middle \$1,136-4,465; Upper Middle \$4,466-13,845; High >\$13,845)

Climate finance needs for V20 countries

V20 countries need \$490bn in annual investment for climate mitigation, adaptation and loss and damage (Figure 5). This figure is the portion of the \$2.4 trillion climate finance requirement for Emerging Markets and Developing Countries (EMDCs) estimated for the 70 V20 countries¹⁴. It covers investments in a just energy transition, adaptation and resilience (A&R), loss and damage (L&D), and the conservation and restoration of nature. Due to V20 countries' unique climate vulnerabilities, relative capital needs for A&R and L&D are expected to be generally higher than other EMDCs. UNEP finds that countries on average will need to spend ~1% of GDP on adaptation measures. In Small Island Developing States (SIDS) and Least Developed Countries (LDCs), the latter of which accounts for 70% of V20 countries (see Figure 4)¹⁶, this is estimated at 2-3%¹⁵. These figures drive the higher estimated finance need for the V20. Estimates of loss and damage by region also indicate V20 countries may incur significantly higher costs compared to EMDCs on average per capita¹⁷.

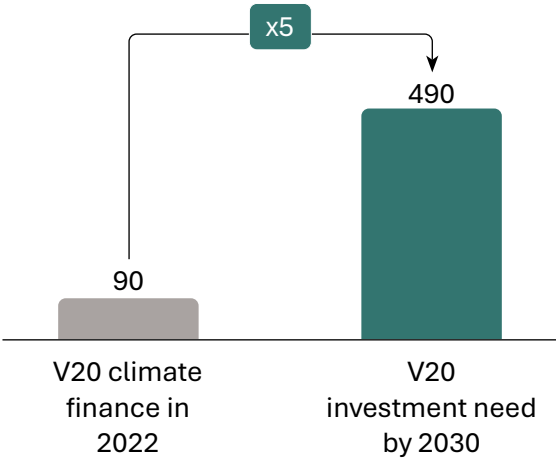
Figure 5: Estimated annual climate finance for EMDCs (excluding China) and the V20 by 2030 (\$bn)¹³



¹⁴ Please see appendix for method, sources and assumptions
¹⁵ UNEP, "Adaptation Gap Report", (2024)
¹⁶ UNEP, "Adaptation Gap Report", (2023)
¹⁷ Note that regional loss and damage estimates involve inherent levels of uncertainty.

Delivering this \$490 billion requires a more than five times scale up of current climate finance flows from a range of sources¹⁸. Of the ~\$90 billion invested in the V20 in 2022 (Figure 6), ~66% was from public sources and ~29% from domestic private sources¹⁹. International private finance currently makes up only 3% of the total and therefore needs to increase by up to 26x to meet the expected requirement¹⁹. Other new concessional sources of finance aside from those provided by Multilateral Development Banks (MDBs) also require a larger scale up of 14-16x⁹. These additional concessional sources are expected to be the primary sources for funding loss and damage, adaptation and resilience. They are vital to the V20.

Figure 6: Estimated 2022 finance flows to the V20 versus estimated investment need by 2030 (\$bn)



Providing appropriate types of finance, including adequate concessional capital, will require expanding current mechanisms and enabling new sources of finance. The next section describes the mechanisms - new and existing - and changes to underlying incentive structures that could contribute more than half of the V20 requirement with sufficient amounts of concessional capital.



¹⁸ Please see annex for full information on source; data from Climate Policy Initiative, “Global Landscape of Climate Finance 2024”, (2024)
¹⁹ Based on 18% from private international sources; data from Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024)



Ten “super levers” to unlock climate finance in V20 countries

Ten priority actions, termed “super-levers”, across the financial system could unlock an additional \$210 billion of fit-for-purpose climate finance in V20 countries annually by 2030 while also helping to minimise losses to GDP of up to \$100 billion by 2030²⁰. These super levers are targeted but broad reaching – they include a better use of existing spending as well as identifying new sources of capital which could be used for climate solutions. They tackle rules that are not fit-for-purpose and they look at the quality and deployment of capital in an increasingly climate-vulnerable and unstable world. Taken together, they should help countries create and implement national investment plans for climate and nature as well as spark a major redeployment of existing capital through a long-term shift in incentives. They should also trigger a cascade of positive spillover effects that support a more efficient, equitable financial system that mobilises new investment and strengthens domestic markets.

²⁰ Please see appendix for method, sources and assumptions

What are super levers?

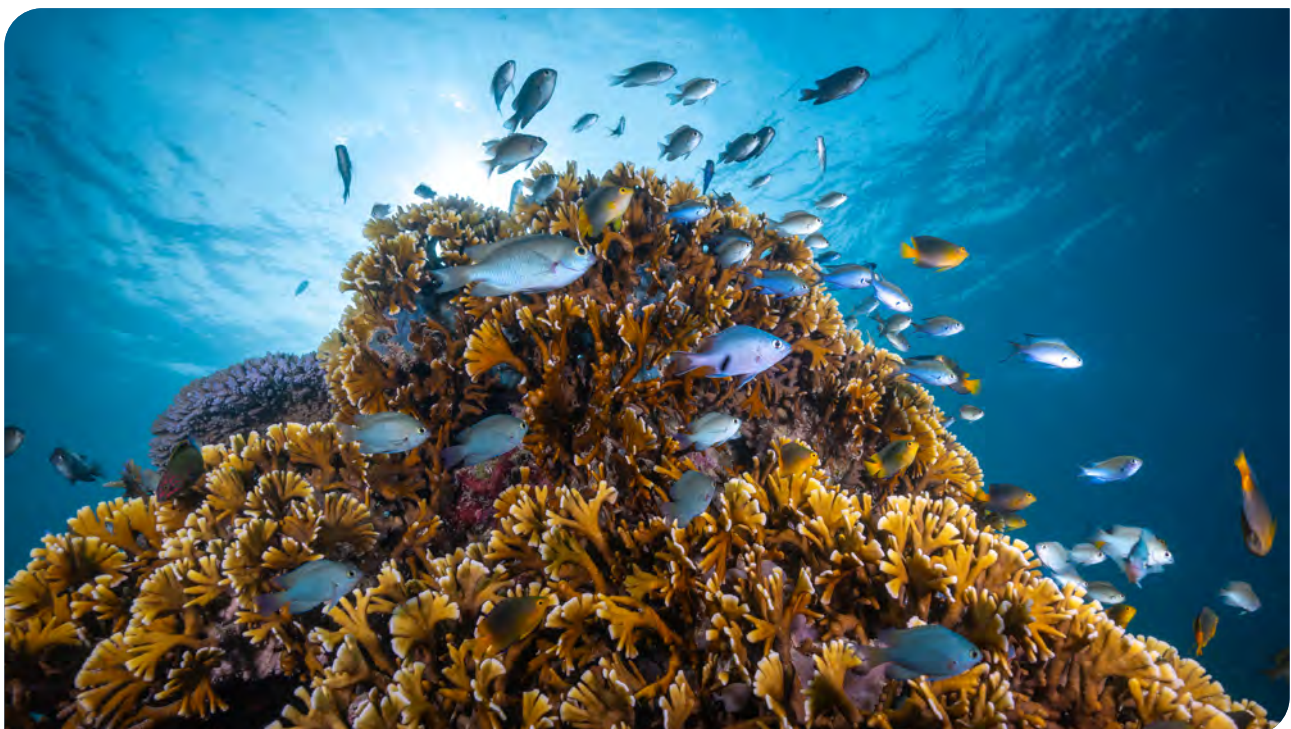
“
Implementing the ten super levers could mobilise an additional \$210 billion annually in climate finance and create cascading systemic benefits.”

“Super levers” are intervention points in the financial system that could trigger a **positive cascade** of actions²¹. These cascades could have a multiplier effect on climate finance because they change rules or reinforce other financial system changes to accelerate affordable climate finance for V20 countries at scale.

In addition to the **volume** and **speed** of climate finance, the levers have been chosen because of the quality of finance they could unlock. These levers aim to **build markets**, creating systemic changes and strengthening local real economic and financial sectors. The levers are also **demand-driven**, with clear country leadership, thereby responding to the needs, opportunities and unique climate finance objectives of V20 countries.

These super levers have been grounded in the priorities set out by the CVF-V20, Bridgetown Initiative, Independent High-Level Expert Group on Climate Finance (IHLEG), the G20 Independent Expert Group (IEG) Triple Agenda, Blended Finance Taskforce, Global Solidarity Levies Task Force, Center for Economic and Policy Research, Task Force on Climate, Development and the IMF, the Center for Global Development and many others.

The ten “super levers” aim to address both the immediate climate finance needs of V20 countries and necessary long-term structural changes (Figure 7). These include enabling **country-led implementation** for V20 countries to absorb and deploy climate finance effectively, **utilising new sources of capital** to generate climate finance, **shifting incentives** to transform economic signals for sustainable development, **improving risk-sharing** of tools and institutions that already exist, and further strengthening country leadership by creating long-term incentives in macroeconomic frameworks. The ten levers, although not silver bullets on their own, together represent a cohesive package that reinforces itself and holds the potential to tip climate and nature finance onto a sustainable pathway for the V20.



²¹ Systemiq, “The Breakthrough Effect”, (2023)

Ten super levers to catalyse climate finance for climate vulnerable countries

Country-led implementation: ensuring demand-driven, inclusive and high-quality deployment of climate finance

- 1 **Strengthening country platforms**, like “Climate Prosperity Plans”, can create the foundation for action and must include funding support for country-led implementation mechanisms, helping V20 countries define and deliver clear national strategies and unlock different types of capital with lower transaction costs and more responsive outcomes.
- 2 **Scaling carbon markets** through high-integrity project development and standardisation could expand nature and climate investment pipelines. This would also provide governments with increased revenue, particularly for nature-based solutions, mitigation and resilience, whilst aligning emissions reductions with national priorities.

These first two levers establish the frameworks and mechanisms for V20 countries to create the conditions to mobilise and deploy climate finance at the scale and speed required – ensuring more equitable benefit-sharing with lower transaction costs.

New sources of capital: harnessing underutilised channels for climate finance

- 3 **Rechannelling Special Drawing Rights (SDRs)** will unlock underutilised international reserves, redirecting them into concessional finance streams to support the most vulnerable economies.
- 4 **Implementing solidarity levies** from high-polluting sectors such as shipping and aviation, generating substantial and predictable resources for climate finance.

These two levers focus on pools of potential capital that are currently underutilised to deliver more concessional, equitable and impactful funding for climate mitigation, adaptation and sustainable development.

Shifting incentives: Transforming economic signals to remove barriers to investment

- 5 **Repurposing harmful subsidies**, such as for fossil fuels, toward climate- and nature-positive investments could fundamentally reset market incentives.
- 6 **Reforming capital adequacy rules** in banking regulations (like Basel III) could lower the cost of capital for infrastructure projects in emerging markets, reducing a major barrier to investment and unlocking large volumes of finance for green projects.

These levers realign financial incentives, encouraging climate- and nature-positive investments while reducing reliance on harmful, extractive activities.

Effective risk-sharing: optimising de-risking mechanisms to catalyse new investment

- 7 **Setting ambitious private capital mobilisation mandates** for multilateral development banks (with appropriate safeguards) would systematically ensure financing is catalytic, scaling the role of MDBs as catalysts for private investment.
- 8 **Expanding local currency solutions** would help deepen local financial markets and lower sovereign currency risk exposure. Scaling tools such as foreign exchange (FX) hedging and local currency guarantees and bonds can help mobilise domestic capital and reduce FX risk, reducing a major barrier to investment.
- 9 **Increasing affordability of sovereign disaster risk insurance** by subsidising insurance premiums, scaling risk pools and ensuring products are fit-for-purpose would improve resilience by incentivising investment in adaptation, minimising disaster recovery times and ultimately reducing losses.

These levers focus on enhancing the effectiveness and accessibility of existing derisking mechanisms to unlock high quality climate and nature finance.

Country-led implementation: strengthening incentives to invest in climate and nature

- 10 **Integrating climate & nature into macroeconomic frameworks** could incentivise investments that protect natural capital and increase resilience.

The final lever closes the circle, strengthening national strategies and creating a financial system that rewards and supports sustainable investments. Together, the ten levers form a cohesive roadmap, driving systemic change and helping to unlock the scale, quality, and pace of climate and nature finance needed for V20 countries as well as protecting global public goods.

Figure 7: Each of the 10 super levers have direct multiplier effects to accelerate more and better climate finance in V20 countries, and reinforce each other

- Support political agreement with strong multi-stakeholder coordination
- Strengthen enabling policy environment and pipeline development
- Channel philanthropic funding to accelerate & deepen the impact
- Mobilise private finance using public support

1

- Increase adaptation support by MDBs or DFIs based on a country’s debt carrying capacity, and debt relief based on increasing resilience
- Increase incentives for governments to invest in adaptation
- Potentially a blueprint for others (incl. credit rating agencies) to make similar changes

10

- Develop V20 domestic insurance markets
- Enhance fiscal resilience
- Support implementation of effective country platforms
- Encourage private-sector investment in adaptation and resilience

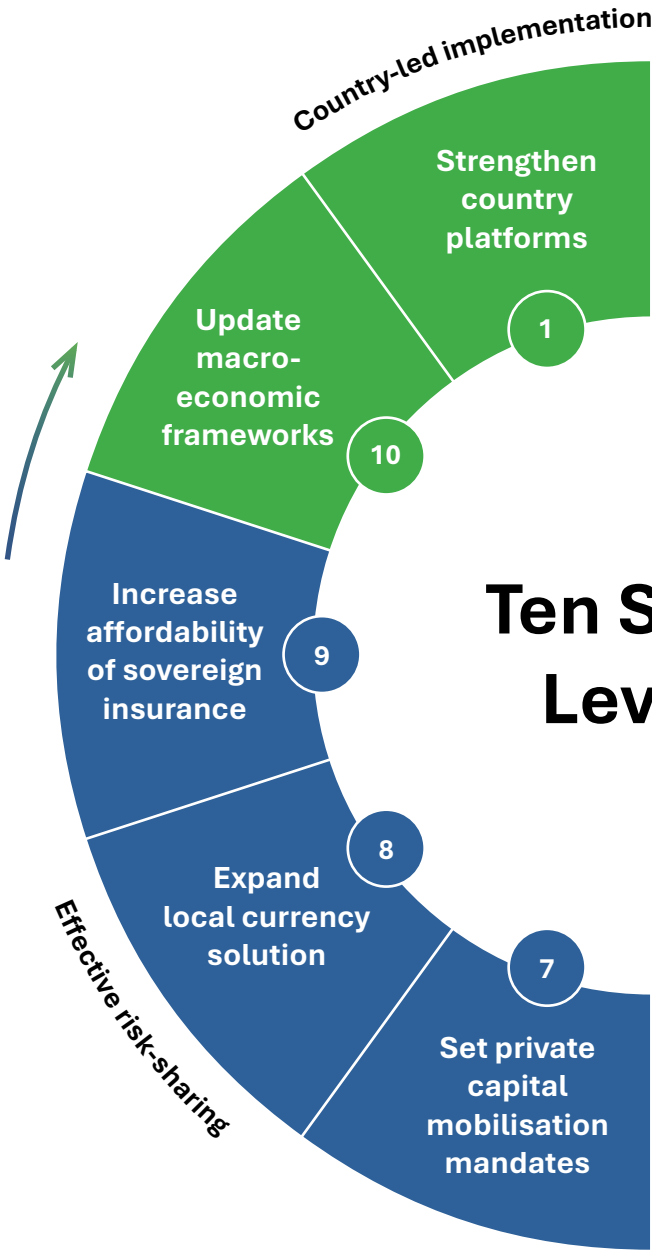
9

- Mobilise international private investment
- Mobilise domestic private investment, building local domestic financial capacity
- Reduce FX risk to V20 sovereigns

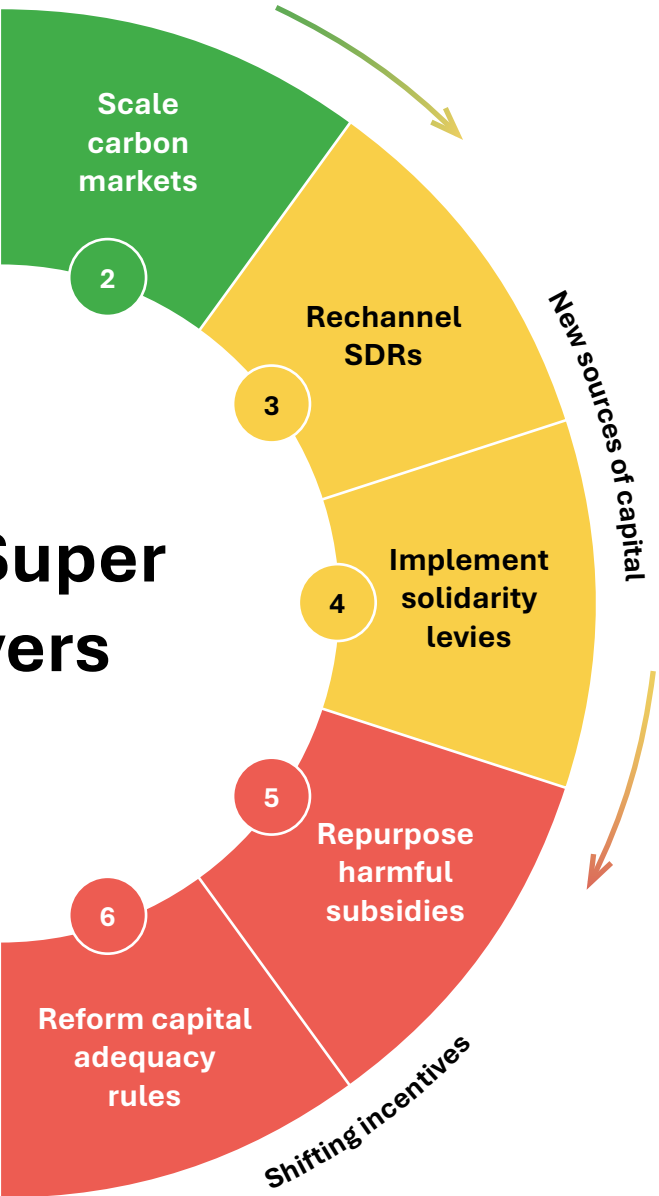
8

- Mobilise international & domestic private investment
- Build local domestic financial capacity
- Accelerate MDB reforms to increase MDB lending capacity

7



Ten Super Levers



- 2
- Increase mitigation and adaptation investments through new concessional sources of finance
 - Grow pipeline of climate and nature investments
 - Create fiscal space when carbon revenues flow to government

- 3
- Increase availability of highly concessional finance
 - Increase MDB lending capacity
 - Attract private capital through increased capacity of MDBs

- 4
- Stimulate decarbonisation of high-emitting industries
 - Generate funds for catalytic financial mechanisms e.g. insurance

- 5
- Accelerate development & adoption of low-carbon tech
 - Increase government fiscal space to invest in green sectors
 - Increase climate finance grants
 - Mobilise private finance if repurposed catalytically

- 6
- Increase lending at a lower cost of capital by banks in EMDEs, through more accurate risk weightings
 - Increase green infrastructure investments in EMDEs

Table 1: The amount of finance unlocked by the “super levers” in V20 countries annually

Ten “super levers”		Finance per yr to the V20 ²²
Country-led implementation	1. Strengthen country platforms: Implement robust country platforms with well-funded delivery units to structure climate strategies and investment plans	Facilitates unlocking finance from the below levers
	2. Scale carbon markets: Unlock carbon markets at scale with high integrity project development and standardisation	\$20 bn additional
New sources of capital	3. Rechannel SDRs: Make additional capital available for climate action by rechanneling SDRs through IMF and MDBs	\$35 bn additional
	4. Implement solidarity levies: Introduce levies on high-emitting sectors like aviation and shipping to create predictable funding streams for climate action	\$50-150 bn additional
Shifting incentives	5. Repurpose harmful subsidies: Re-deploy subsidies which increase climate vulnerability to go to climate-positive sectors	\$30 bn additional
	6. Reform capital adequacy rules: Update banking regulations to lower the cost of capital for green projects in emerging markets, removing barriers to investment	*
Effective risk-sharing	7. Set private capital mobilisation mandates for MDBs: Introduce private capital mobilisation targets (with appropriate safeguards) for development finance institutions	\$20 bn additional
	8. Expand local currency solutions: Scale affordable FX hedging and local currency instruments like bonds and guarantees	\$5 bn additional
	9. Improve access to affordable insurance: Subsidise sovereign climate/disaster risk insurance	\$10 bn avoided losses
Country-led implementation	10. Update macroeconomic frameworks: Integrate nature and climate into assessment of country stability	Contributes to minimising global GDP losses of \$90 bn from nature protection

Ten super levers could catalyse \$210 billion of additional finance to V20 countries
+
Contribute up to \$100 billion of avoided losses

* No amount estimated – in-depth analysis required from actors

²² Figures are specific to the V20, unless specified. Note that all of the super levers could have similar effects on other EMDCs.

Individually, any one of these super levers has the potential to unlock critical climate finance in V20 countries (Table 1), which is particularly important given that decision-makers often have limited bandwidth and must focus on the highest-priority interventions. While the figures are specific to the V20, the effects of all of the super levers will be applicable to other developing countries and therefore likely to be higher overall. No single lever offers a comprehensive solution to the complex challenges of mobilising climate finance and channelling it effectively. However, the value of these actions lies not only in the amount of finance they can mobilise but also in the quality of that finance, such as its affordability, accessibility, and the non-financial benefits it brings to local communities. Taken together, these levers have a synergistic potential to accelerate one another, making them strong priority actions for a credible green transition pathway.





Critical enablers: fair governance, effective institutions and supportive domestic economic policy

Fair and inclusive governance, supported by effective institutions and domestic economic policies, are the foundation for unlocking the potential of the “super levers”. This will help to ensure that the additional capital is deployed efficiently and in a demand-driven, inclusive and responsive way to meet the needs of V20 countries.



Fair governance and institutional reform are foundational, as V20 countries hold just 6.7% of IMF voting power despite representing 21% of the global population.



Globally, addressing the structural imbalances in international financial governance is critical to ensure that climate finance flows are responsive to the urgent needs of V20 countries. The current financial system disproportionately benefits wealthier nations, as evidenced by persistent net outflows from developing economies, which are expected to reach ~\$50 billion in 2024²³, and the concentration of decision-making power in institutions such as the IMF, World Bank and WTO. Representation of V20 countries in these institutions remains inadequate, with a collective voice amounting to 6.7%²⁴ of voting power at the IMF despite representing 21%²⁵ of the global population. Fair governance builds trust and also ensures that climate finance flows are responsive to the needs of countries. Currently, spending on adaptation accounts for less than 10% of global climate finance²⁶. Only a small fraction reaches the communities on the frontlines of climate impacts. The absence of fair representation limits the ability of V20 countries to deliver policies that address the realities faced by the world’s most climate-vulnerable nations.

Similarly, the super levers will be more effective when coupled with better domestic institutions and economic policy environments to ensure the rapid and effective deployment of climate finance and to give confidence to additional investors. This requires a holistic approach to institutional capacity-building, including the development of robust governance structures, transparent accountability mechanisms, and targeted policy frameworks that align with climate goals²⁷. Tools such as country platforms play a critical role by fostering durable political agreements for transformation, guiding macroeconomic forecasting and policy-making and strengthening institutional arrangements to deliver comprehensive, long-term planning. Additionally, long-term policy, effective public-private partnerships and targeted financial instruments can help to mobilise significant volumes of capital that are fit for purpose and tailored to local contexts.

Fair and inclusive governance, effective institutions, and sound domestic economic policies are essential foundations for unlocking the potential of the ten super levers. Addressing structural imbalances in international financial governance ensures climate finance flows are equitable, responsive, and impactful, while robust domestic institutions and policy environments enhance the efficient and transformative deployment of mobilised capital. Together, these enablers ensure finance is responsive to V20 needs and deployed most effectively. These foundational elements underpin the effective implementation of the ten priority actions – or “super-levers” – examined in detail in the following sections.

²³ UNCTAD, “G20 3rd Finance Minister and Central Banks Meeting - Session V: Capital flows, global debt and MDBs reform”, (2024)

²⁴ IMF, “IMF Members’ Quotas and Voting Power, and IMF Board of Governors”, (Dec 2024)

²⁵ Systemiq analysis finds total V20 population as 1.766 billion to the nearest million; Data from World Bank Development Indicators, “Population”, accessed on 24/10/2024

²⁶ Climate Policy Initiative, “Global Landscape of Climate Finance 2024”, 2024

²⁷ Blended Finance Taskforce, “Better Accountability, Better Finance”, (Sep 2023)

“Super lever” deep-dives

This section delves deeper into each of the ten super levers, including their direct impacts and cascade effects, progress, actors and key actions needed to realise their potential. Some, such as solidarity levies or MDB mobilisation mandates, have garnered political will and are already seeing momentum. Others, like updating capital adequacy rules, are more complex and warrant additional research to identify the full set of reform actions. This report seeks to chart a pathway for implementation, highlighting both immediate actions that can be taken now and those that have longer-term catalytic potential.



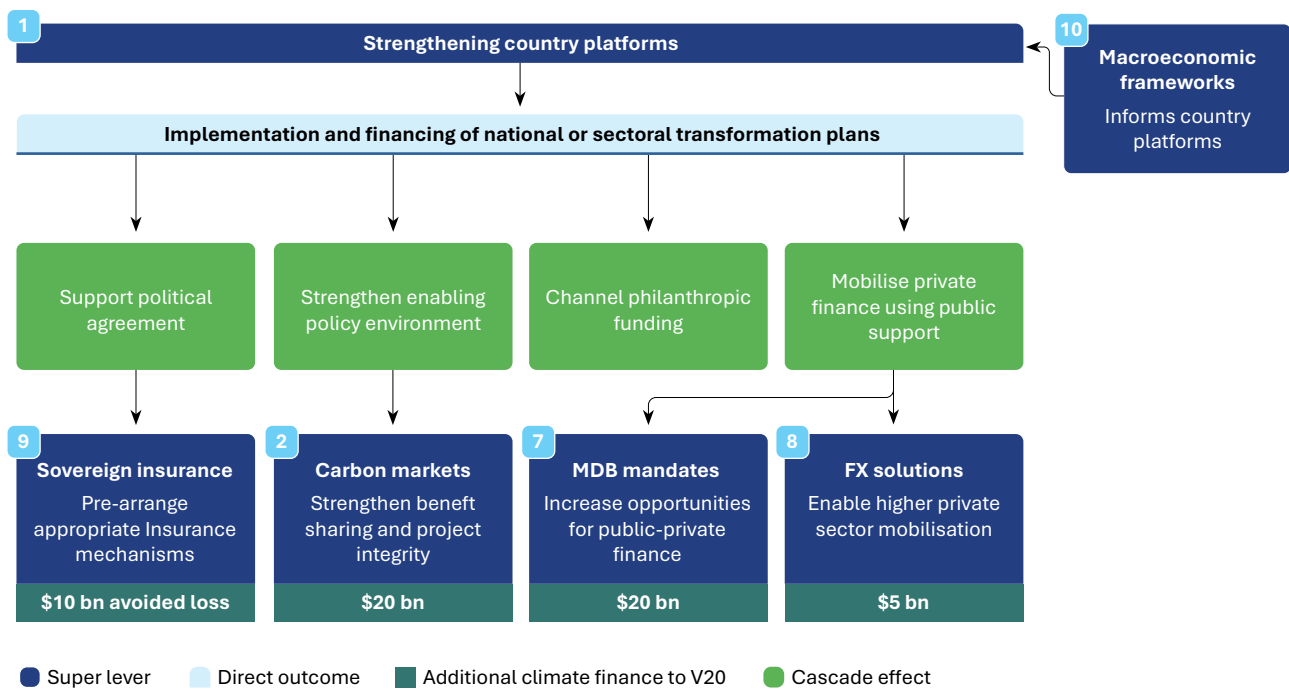


Lever 1: Strengthen country platforms

Country platforms like “Climate Prosperity Plans” or the “Just Energy Transition Partnerships” which are well-resourced and country-led offer a critical pathway to define and deliver clear national strategies and unlock different types of capital more effectively. Strengthening country platforms by providing funding support for medium- to long-term “delivery units” could play a fundamental role in improving the quality of climate finance in a more efficient and equitable way. Done well, country platforms should help align and engage stakeholders, coordinate long-term investment, build project pipelines and support the social licence of national planning and investment. By creating delivery units which can help implement robust national/sectoral plans for resilience and development, this lever helps create the conditions needed to access and deploy the climate finance unlocked by the other levers with lower transaction costs and more equitable benefit-sharing.



Figure 8: Potential cascade effects of strengthening country platforms



Background

Effective “country platforms” are country-led, multi-stakeholder mechanisms designed to implement and finance national or sectoral transformation plans. They serve as an important platform for accelerating development priorities and more recently, climate action, by unlocking both local and global benefits of the transition. Examples of country sector-platforms include the Just Energy Transition Partnerships (JETPs) in South Africa, Indonesia, Senegal and Vietnam. These platforms have supported complex transformations but have faced several challenges. A lack of specific plans and poor stakeholder coordination has undermined political commitments. This has led to misaligned expectations, difficulty translating priorities into projects, and limited private capital flow. Donor funds and concessional capital have also been fragmented and insufficient. These factors are hindering the successful implementation of country platforms.

“
Strengthening platforms like Climate Prosperity Plans could dramatically lower transaction costs and unlock scalable investments.
”

The V20 Climate Prosperity Plans (CPPs) from Bangladesh, Sri Lanka and Ghana and the Barbados Investment Plan for Prosperity & Resilience are examples of evolving country platforms. The Philippines, Pakistan, Bhutan, Madagascar, The Gambia and Haiti are also developing their own CPPs. These plans detail the necessary economy-wide mitigation and adaptation investments needed to optimise the country’s socio-economic outcomes. They outline a pathway for delivery, including specific projects, timelines, and sources of finance. The CPPs incorporate and go beyond the country’s commitment to reduce emissions, articulated in its Nationally Determined Contribution (NDC) as part of the Paris Agreement. The plans have built strong political



consensus and are being used as a tool to engage public and private finance and to set enabling policies with the support of philanthropic funding. But they need targeted funding to support embedded delivery units to ensure that these platforms can drive real implementation and unlock public, private and philanthropic capital where needed.

Direct impact and cascade effect

Country platforms can establish robust political agreement to facilitate the transformation, addressing both domestic and international coordination challenges. Transitioning to green economies requires large sector-wide shifts that will overhaul key sectors, such as energy, mining, manufacturing and agriculture. By following a political agreement process, country platforms can set a clear strategic direction for domestic governments and institutions and provide clear signalling to international financial organisations. They are also referenced for their usefulness for delivering finance to fragile states²⁸. Robust country platforms must be country-led and utilise a strong stakeholder coordination process to reflect country-specific priorities. The use of public money through country platforms can also facilitate additional funding for global public goods²⁹.

Country platforms can enhance institutional frameworks, develop project pipelines and policy, and coordinate implementation. They can be designed to leverage market infrastructure and existing institutions, such as national development banks and other domestic finance institutions. They can facilitate the prioritisation of actions aligned with long-term objectives grounded in technical climate modelling. Therefore, they can help to overcome challenges for governments across departments by simplifying decision-making and governance. Sufficient pipeline, domestic capacity, policy setting and management of implementation will be fundamental to the success country platforms. Therefore, finding the right implementation mechanisms supported by adequate funding is essential.

Country platforms can elevate the visibility of investment needs and help coordinate responses amongst public, private, and philanthropic investors. Reforming macroeconomic frameworks to include climate and nature risks and benefits (see Lever 10) could guide country platform spending towards the highest resilience outcomes. This could help to drive investment decisions and mobilise appropriate capital to expedite the transition and reduce costs. One key optimisation is the allocation of concessional funds at the national level rather than by project. Concessional money through public organisations that have impact mandates – like

²⁸ IEG World Bank Group, “Country platforms in fragile states: A new path for development cooperation”, (Mar 2022)

²⁹ CGDEV, “Country Platforms and Delivery of Global Public Goods”, (Jan 2023)



Multilateral Development Banks (MDBs) and Development Finance Organisations (DFIs) – will be important for the early stages of attracting private capital. In parallel, private investors should commit to building their own capacity, knowledge and expertise to finance climate goals through country platforms.

Philanthropy can also partner with countries to provide long-term, flexible grants to help build and implement country platform “delivery units” (on average, \$5-10 mn grants per delivery unit over ~5 years)³⁰. This would allow time for political consensus and strong technical plans, going beyond the public finance capacity. Philanthropies are well positioned to provide capacity building and technical expertise in transition pathway modelling, consensus building with civil society, pipeline building and engagement with domestic and regional development banks.

Progress and actors

Public, private and philanthropic contributions to country platforms can be scaled further. Many organisations, both private and public, are recognising the potential value and effectiveness of country platforms³¹. The Green Climate Fund has delivered \$630 million to provide capacity building for country platforms and offers up to \$10 million to a country for implementation³². During COP29, MDBs made a joint statement on “Country platforms for Climate Action”, affirming their strategic commitment³³. The alignment across stakeholders and political momentum around country platforms now needs to be translated into scaling finance and implementation efforts.

Conclusion

Country-led country platforms built around V20 priorities can help attract and deploy climate finance, build domestic capacity and strengthen local economies. Targeted funding (e.g. \$5-10m per country) for delivery units will be critical to ensure implementation and help reduce transaction costs and ensure equitable benefit sharing of the capital unlocked through country platforms. Strengthening country platforms is a foundational step to ensure the quality of climate finance unlocked by the other levers in this report, including helping set the strategic direction on carbon markets, designing a just and efficient use of subsidies and taxes, and arranging appropriate insurance mechanisms.

³⁰ Estimate that assumes philanthropy can increase their total contribution to climate finance (and allocate the increase to V20 country platforms) by 0.08% = ~\$700m / \$885bn total philanthropic giving, or 1% of the estimated \$70bn cross border flows

³¹ G20 TF-CLIMA, “The 1.5 Agenda for Governing Global Industrial and Financial Policies in the G20”, (Oct 2024); Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024); CGDEV, “Country Platforms and Delivery of Global Public Goods”, (Jan 2023); E3G, “Country platforms for climate safety and sustainable development”, (2024); G20, World Bank, OECD

³² Green Climate Fund, “Readiness”, accessed on 30/12/2023

³³ World Bank, “Country platforms for Climate Action: MDB Statement of Common Understanding and Way Forward”, accessed 12/11/2024



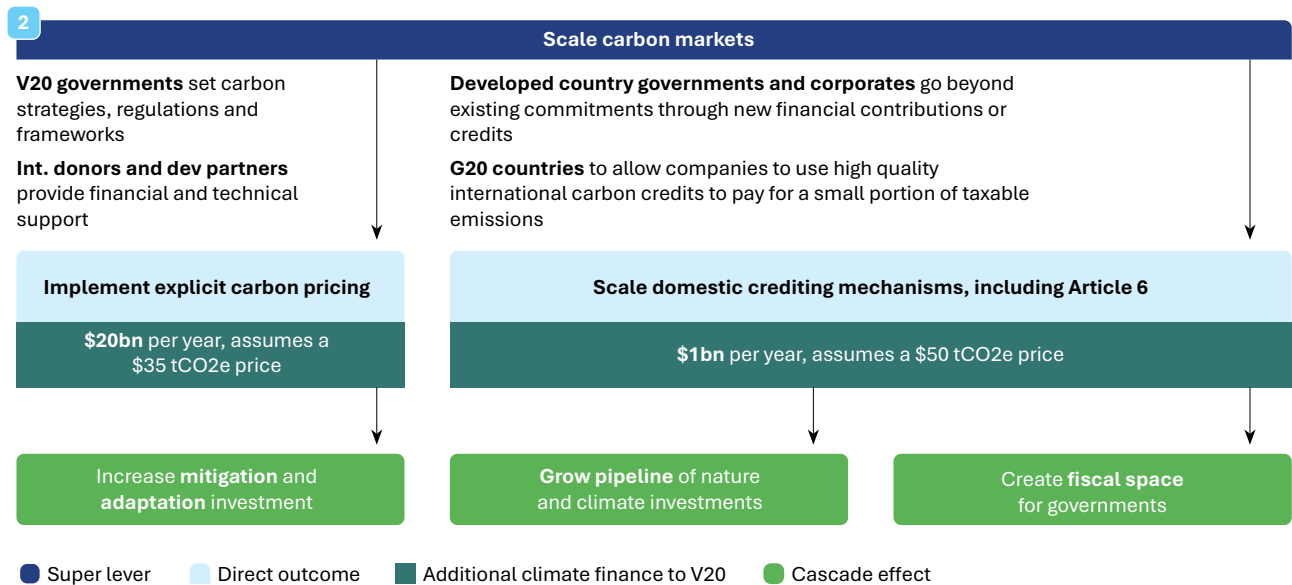
Lever 2: Scale carbon markets

Carbon markets could generate an estimated \$20 billion by 2030 for V20 countries. The right enabling policy environment and benefit-sharing, implementation of explicit carbon pricing, expanding domestic crediting mechanisms and establishing a robust Article 6 mechanism can help unlock carbon markets at scale. Implementing these mechanisms would increase the pipeline of high-integrity nature and climate investments and provide fiscal space for governments through increased revenue. This can enable more investments in mitigation and adaptation, including the protection of Global Public Goods.

Given the complexity of this super lever, this section describes a number of ways to reach the outcomes of high-integrity compliance and voluntary carbon markets at scale rather than one specific intervention.



Figure 9: Potential cascade from unlocking carbon markets at scale



Background

“
Least Developed Countries (LDCs) could have up to ~\$1 billion in potential domestic crediting opportunities by 2030 at \$50 tCO₂e.
”

Explicit carbon pricing schemes that are set by the government are underutilised in the V20. Currently ~2% of V20 countries have implemented explicit carbon pricing schemes³⁴. Implementation through either an emissions trading scheme (ETS) or carbon taxes has happened in at least 75 countries globally and is under consideration in many others³⁵. These mechanisms are considered fundamental to reducing global emissions and half the revenue from existing schemes have been used to fund climate and nature programmes. Historically, carbon pricing schemes set by governments have commanded higher prices (than the voluntary schemes) of above ~\$50 tCO₂e in many advanced economies. Although carbon pricing schemes are generally considered successful in reducing emissions, the World Bank finds the majority of schemes are not ambitious enough and would need prices of \$63-127tCO₂e to keep global temperatures below 2°C.

Domestic carbon crediting schemes also have high potential for the V20, with opportunities to protect Global Public Goods (GPGs) and to sell credits internationally. Many V20 countries contain extensive primary forests and other natural ecosystems, which can generate income for the country through issuance of carbon credits. In the lowest-income V20 countries’ average energy access is ~40%, presenting further opportunities to generate carbon credits through renewable energy projects³⁷- the UN estimates that Least Developed Countries (LDCs) could have up to ~\$1 billion in potential domestic crediting opportunities by 2030 at \$50/tCO₂e, increasing to ~\$5 billion at \$100/tCO₂e³⁶. However, the potential

³⁴ Colombia is the only V20 country found to have implemented an explicit carbon pricing mechanism; World Bank, “Carbon pricing dashboard”, accessed 10/12/2024

³⁵ World Bank, “State and Trends of Carbon Pricing 2024”, (2024)

³⁶ UNCTAD, “The Least Developed Countries Report 2024”, (Nov 2024)

³⁷ Systemiq analysis; Data from World Bank Development Indicators, “Access to electricity (% of population)”, accessed on 10/10/2024 and using the World Bank income classifications



financial benefits are constrained by a lack of regulation, resulting in uneven benefit-sharing and local exploitation in V20 countries, like Kenya, where efforts have since been made to put carbon markets on a more sustainable footing³⁹.

High transaction costs and a lack of regulations are limiting the potential benefits of domestic crediting. Cost of carbon market infrastructure including regulation, monitoring and verification of emissions can be also key barrier for V20 countries. Measures or crediting systems that lower transaction costs for countries by enabling lower cost monitoring and verification, e.g. use of satellite imagery and/or high integrity programmatic approaches³⁸, may play a key role in scaling. Standardising the data collected across carbon markets through common data models could help to lower transaction costs. A lack of domestic regulation has also contributed to uneven benefit-sharing and local exploitation in V20 countries, like Kenya, where domestic crediting is already more established³⁹. Therefore enabling policy environments, and sufficient domestic institutional capacity, are important to achieving country benefits from credits.

To date carbon markets have not reached scale, mostly due to limited voluntary demand and issues around integrity which have weakened demand. The voluntary market value decreased from nearly \$2 billion in 2021 to \$700 million in 2023 because of reduced demand and market uncertainty⁴⁰. Problems with the quality of credits have persisted, including emissions reductions that are not genuine, inadequate distribution of local revenue, and harmful impacts on communities from poorly managed projects. Market uncertainty has also surrounded the prolonged negotiations on the Article 6 mechanism, a provision from the Paris Agreement that enables countries to collaborate on achieving their Nationally Determined Contributions (NDCs) through carbon trading. These factors have contributed to the average price for credits being \$6.53 tCO₂e equivalent in 2023⁴⁰.

Article 6 can deliver benefits that are strategically aligned to country priorities. Key decisions for Article 6 were agreed at COP29 on allowing countries to trade bilaterally (6.2) and through issuing credits (6.4) via the Paris Agreement Crediting Mechanism (PACM). This was a key turning point after years of ongoing negotiations, although strong critics focus on the potential robustness and weak oversight of bilateral agreements⁴¹. A key strength of Article 6 is the role of governments in validating decisions on carbon and directly receiving climate finance through international cooperation. The mechanism under Article 6 can therefore provide better country-

³⁸ Note that historic issues with programmatic crediting approaches would need to be addressed

³⁹ IFC Review, “[Kenya’s Carbon Markets: The Goose That Lays The Golden Egg?](#)”, (Jan 2024)

⁴⁰ Ecosystem Marketplace, “[State of the Voluntary Carbon Market 2024](#)”, (2024)

⁴¹ Carbon Market Watch, “[COP29: Complex Article 6 rules pave way to unruly carbon markets](#)”, (Nov 2024)



level benefits, which could be aligned with strategic government priorities, than the existing scope of voluntary carbon markets.

Explicit carbon pricing schemes in advanced economies could also support domestic crediting in the V20. The High-Level Commission on Carbon Prices finds that carbon pricing schemes would need to reach prices of \$67-127 tCO₂e to align to a 2 degree scenario³⁵. Advanced economies should collectively lead the way on this higher ambition effort. As a part of this, governments could require a portion of taxed emissions to be paid through high integrity international credits (e.g. potentially similarly to carbon tax approach implemented in Singapore⁴²), therefore supporting demand for domestic crediting in the V20.

Potential levers

Implementing country-level carbon pricing could raise an estimated ~\$20bn for domestic mitigation and adaptation efforts. An emissions trading scheme (ETS) – also called cap and trade – raises money by putting a limit on emissions from polluting industries. The mechanism forces companies polluting beyond their allocation to buy credits, and allows them to trade unused emissions credits on the market. Alternatively, a carbon tax puts a price directly on the use of polluting fuels. This is considered easier to implement, suggesting that it may be more suitable for the V20⁴³. The additional revenue from carbon pricing schemes can help governments pay for other climate priorities and creates better incentives to decarbonise, while also avoiding tariff charges on exports from cross-border mechanisms like the EU’s Cross Border Adjustment Mechanism (CBAM)⁴⁴. The emissions cap or tax can be aligned to the countries’ emissions reduction goals and can allow use of credits to achieve the most cost-effective emissions reductions⁴⁵, therefore also enabling a pipeline of climate investments. However, the potential impact is also limited by the harmony with other subsidies (lever 4 & 5), therefore a coherent country strategy is important (lever 1).

Carbon markets encompass a range of stakeholders and initiatives that can stimulate demand and grow the V20 carbon markets by \$1bn+. A range of stakeholders and policy actions, both local and global, would be necessary to ensure the stability in demand required to provide substantial financing to the V20. Although a single lever to achieve the most significant direct impact and subsequent positive effects remains uncertain, various actions and actors are considered important. V20 governments can contribute to growth by designing comprehensive carbon strategies, underpinned by carbon regulations and frameworks. International

⁴² NCCS, “Carbon Tax”, (2025)

⁴³ IMF, “Carbon Taxes or Emissions Trading Systems?: Instrument Choice and Design”, (July 2022)

⁴⁴ LSE, “The EU has a transformative mechanism to reduce carbon leakage, but challenges loom ahead”, (Nov, 2024); CGDev, “The EU’s Carbon Border Tax: How Can Developing Countries Respond?”, (Nov 2023)

⁴⁵ ICAP, “Offset Credits in Emissions Trading”, (Oct 2023)



donors and development partners could provide financial and technical support to enable the setup of new pricing and crediting schemes. Developed country governments could make significant public finance commitments to V20 climate priorities that goes above and beyond the delivery of their own Nationally Determined Contribution target. G20 countries could allow companies to use high quality international carbon credits to pay for a small portion of their taxable emissions. Corporates can also go beyond delivering on net zero targets within their own value-chain, making additional contributions to climate finance or purchasing credits (while following the highest integrity guidance from the Voluntary Carbon Market Initiative (VCMI), Science-based Targets Initiative (SBTi) and others).

Article 6 could help establish the value of natural capital assets, with potential for debt reductions. Article 6 credits are anticipated to command a higher premium compared to those traded in the current voluntary market and will be standardised under Article 6.4. This could facilitate the assignment of a significant financial value to natural capital in V20 countries. The price discovery process may facilitate the protection of V20’s natural capital assets as a means of repaying existing debts to creditors. This could happen through incorporating credits into existing “debt-for-climate” structures⁴⁵. This approach has potential to reduce debt burdens and enhance fiscal space. Given the necessity for substantial debt reduction and the historical challenges related to robustness and equity in carbon markets, this subject warrants further research.

Conclusion

Carbon markets offer significant potential to raise debt-free financing for V20 countries from mechanisms including explicit carbon pricing, domestic crediting, and the use of the Article 6 mechanism for achieving Nationally Determined Contributions (NDCs). With appropriate policy frameworks and benefit-sharing arrangements, carbon markets could generate an estimated \$20 billion in revenue for V20 countries and serve as a critical tool for protecting Global Public Goods (GPGs). However, the total financial contribution of carbon markets will be dependent on demand enabling prices to go beyond \$50 tCO₂e – developed country governments and corporates have an important role here in contributing to higher demand. Carbon markets could be an important source of concessional finance for the V20, alongside other sources, such as Special Drawing Rights (SDRs) and solidarity taxes as discussed in following chapters.

⁴⁶ Lee & Choi, “Application of Article 6-Linked Debt-for-Climate Swap for the Clean Energy Transition in Africa. Sustainability”, (2024); ESCAP & GGGI, [“Green and Climate Finance Options to Support the Post COVID-19”](#)

1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
8. Local currency solutions
9. Sovereign insurance
10. Macro-economic frameworks

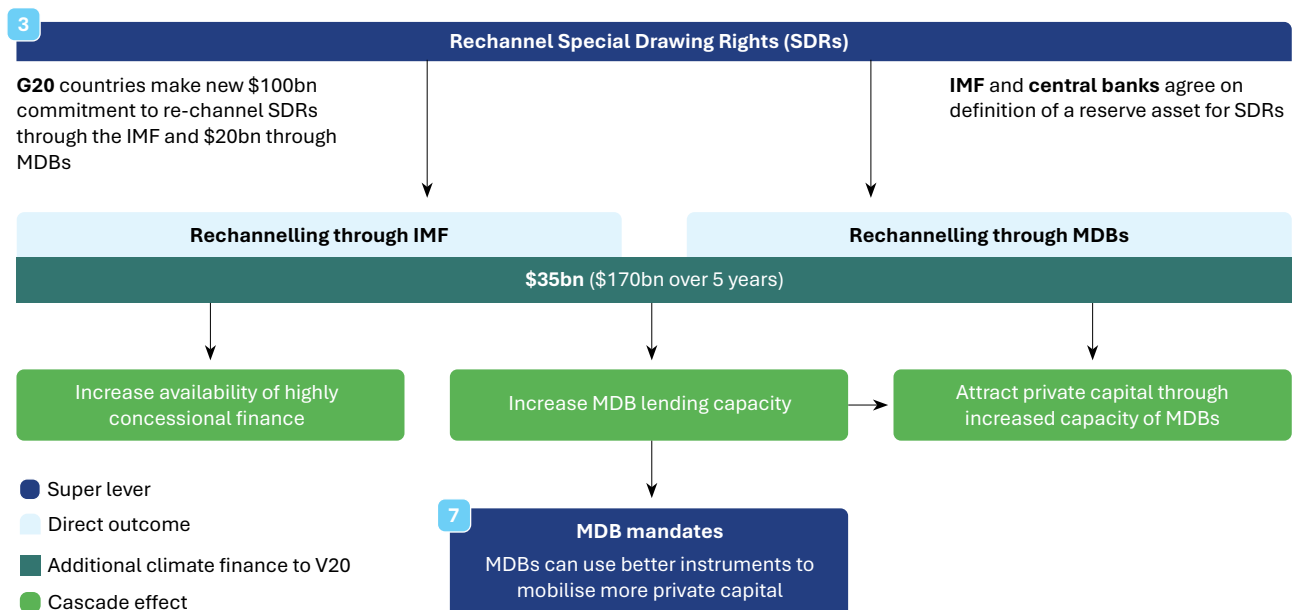


Lever 3: Rechannel Special Drawing Rights (SDRs)

Rechannelling Special Drawing Rights (SDRs) – an international reserve asset that can be exchanged for hard currency and converted into interest-free loans – has the potential to unlock up to \$35 billion annually for the V20, providing vital, highly concessional climate finance. SDRs could be unlocked by rechanneling them through the MDBs or by leveraging existing mechanisms like the IMF’s Resilience and Sustainability Trust, providing much-needed liquidity to V20 countries without increasing debt burdens. Beyond their direct financial contributions, SDRs can trigger a cascade of benefits, including strengthening domestic markets, increasing MDB lending capacity, and attracting private capital through innovative financial instruments such as SDR-backed bonds.



Figure 10: Potential cascade effects of better SDR rechanneling



Background

Special Drawing Rights (SDRs) are international reserve assets issued by the IMF as a tool to support global financial stability and liquidity. SDRs are not a currency but can be exchanged for hard currencies among IMF member countries. They provide immediate liquidity during periods of heightened global liquidity needs. The two most notable SDR allocations were in response to the COVID-19 pandemic (\$650 billion in 2021) and the global financial crisis (\$250 billion in 2009)⁴⁷. SDR allocations do not add to a country’s debt and come without attached conditions. However, when SDRs are exchanged for hard currency, the country using the SDRs pays interest to the IMF, while the country providing the hard currency earns interest. Countries use SDRs differently depending on financial needs and priorities. Some hold SDRs as part of international reserves to strengthen financial positions and boost market confidence. This is useful for countries seeking to stabilise currencies or improve creditworthiness. Others exchange SDRs for hard currency to meet urgent liquidity needs, such as addressing balance-of-payment pressures or funding essential imports. For V20 countries, this ability to quickly access liquidity without accruing additional debt makes SDRs a vital financial tool.

Rechanneling SDRs from developed countries to V20 countries could give the monetary and foreign exchange headroom needed to invest in climate mitigation, resilience, and adaptation.

Allocations of SDRs are based on each country’s IMF quota. The quota system, established in 1944, is designed to represent each nation’s economic standing and financial contribution to the IMF.

⁴⁷ IMF, “[Special Drawing Rights \(SDR\)](#)”, accessed on 30/12/2024



However, this system no longer reflects current global economic realities. This highlights the need to update IMF quotas to better account for the economic contributions and vulnerabilities of developing nations⁴⁸. Developed economies and China hold ~60% of SDRs that have not been exchanged for hard currency⁴⁹. This untapped potential presents an opportunity for developed countries to provide voluntary contributions into mechanisms that channel more SDRs to the V20⁵⁰.

Existing SDR rechanneling mechanisms provided by the IMF ensure that unused SDRs can benefit developing countries. Key programs include the Poverty Reduction and Growth Trust (PRGT), the Resilience and Sustainability Trust (RST) and the Catastrophe Containment and Relief Trust (CCRT). These mechanisms are crucial for V20 countries, offering access to interest-free or highly concessional capital for most eligible countries. However, contributions to these channels remain voluntary, and participation by wealthier nations has been limited, leaving substantial untapped potential. Eligibility to access the PRGT is also contingent on an income threshold (per capita Gross National Income) which renders climate vulnerable countries with higher per capita income levels ineligible.

1. **The PRGT** allows wealthier IMF members to contribute SDRs to provide concessional financing to low-income countries, often with zero or very low interest rates. These funds support essential development priorities, including poverty reduction and economic stabilisation.
2. **The RST**, established more recently, focuses on helping vulnerable countries address longer-term challenges like climate change. RST financing is available at highly concessional terms, enabling investments that build resilience and sustainable growth.
3. **The CCRT** provides debt relief to low income countries if they face natural or public health disasters. The fund provides grants that cover debt service owed to the IMF (or in some cases debt cancellation), creating more fiscal space for countries at times when they have increased spending needs.

“
Rechanneling Special Drawing Rights could provide up to \$35 billion annually in highly concessional finance.”

Recent innovations could enhance SDR rechanneling, particularly through multilateral development banks (MDBs) and SDR bonds. In addition to IMF facilities, MDBs such as the African Development Bank (AfDB) and Inter-American Development Bank (IDB) are exploring options to leverage SDR contributions by issuing loans or guarantees, effectively multiplying their impact. Unlike

⁴⁸ W. Kring et al, “[Quota reform is an opportunity for the IMF to restore its legitimacy](#)”, (Oct 2023)

⁴⁹ Systemiq analysis; IMF, “[SDR Allocations and Holdings for all members as of October 31, 2024](#)”, (Oct 2024)

⁵⁰ CEPR, “[Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges](#)”, (Apr 2022)



IMF mechanisms, MDBs can align SDR resources with specific development and climate priorities of V20 countries. Prominent economists have also proposed issuing SDR bonds⁵¹, which would allow MDBs like the World Bank to use SDRs as backing for bond issuances. These bonds would raise additional funds from global capital markets, significantly expanding the lending capacity of MDBs. For example, leveraging SDRs through bond issuances could enable the World Bank to offer more concessional loans and grants for climate mitigation, resilience, and adaptation projects in V20 countries. SDR bonds have the added benefit of attracting private capital into climate finance, creating a multiplier effect that amplifies the impact of public resources. Such innovations broaden the scope of SDR utilisation, shifting unused reserves in developed countries toward impactful investments in V20 countries.

Direct impact and cascade effect

Rechannelling SDRs can provide highly concessional monetary support to strengthen domestic markets in V20 countries.

The PRGT provides interest-free loans to low-income member countries, the RST provides longer-term affordable financing, the CCRT provides relief from IMF debt service and MDBs provide concessional capital for sustainable development. Access to these sources of finance allow V20 countries to spend on critical areas such as renewable energy, infrastructure, healthcare, and climate resilience, with limited increase in debt burdens when compared to other sources of capital. This monetary support encourages imports and domestic spending to build local economies.

The lending capacity of MDBs would increase and facilitate broader policy objectives. A key benefit of rechannelling through MDBs is the ability to leverage SDRs up to 3-4x⁵². This would enhance their capital structure, support private sector mandates and the use of more effective instruments to crowd in private capital, as described in Lever 7. Given the policy objectives of SDR allocations, MDBs would be a complementary channel given that their mission is to support sustainable development⁵³. MDBs have been increasingly focussed on climate impacts, with a new \$120bn climate finance commitment by 2030 for low- and middle-income countries, so this avenue is key to direct funds towards climate mitigation and adaptation.

⁵¹ CFR, "[How an SDR denominated bond could work](#)", (2023)

⁵² AfDB, "[Unlocking Transformative Potential: Rechannelling SDRs Through Multilateral Development Banks Will Spur Sustainable Development in Africa](#)", (2023)

⁵³ Lazard, "[Rechannelling SDRs in a responsible and efficient way](#)", (Feb 2022)



Progress and actors

G20 countries have committed over \$100 billion for rechannelling through the IMF but there is potential for this to be increased.

The original commitment has been exceeded with the PRGT receiving \$56 billion and the RST \$49 billion⁵⁴. However, the top five SDR holders (US, Japan, China, Germany, UK) still hold \$375bn in SDRs. Another \$100bn rechannelling commitment from developed countries could increase access to more affordable forms of capital by increasing the current SDR holding of only \$45 billion across the 70 V20 countries. New commitments should be coupled with more efficient disbursement of funds for highest impact – only \$9.5 billion of concessional loan commitments have been made by the RST so far⁵⁵.

Central banks and the IMF must clarify the reserve asset status of SDRs to encourage more rechannelling through MDBs. In May 2024, the IMF approved the use of SDRs for the acquisition of hybrid capital, which was a pivotal step in AfDB and IDB’s proposal to allow SDRs to be rechannelled through MDBs⁵⁶. Hybrid capital refers to financial instruments that blend characteristics of debt and equity, offering MDBs a way to leverage SDRs without increasing their liabilities excessively. A limit of 15 billion SDRs (\$20 billion) was set to minimise liquidity risks, and countries like the UK, Japan, Canada, and Saudi Arabia have expressed support. However, concerns expressed by the European Central Bank (ECB) are preventing EU countries from participating. Given that EU countries and the ECB hold ~\$235 billion of SDRs, clarifying the reserve asset status could unlock significant amounts for rechannelling. While MDBs have yet to issue SDR-backed hybrid capital, the first issuance will serve as an important proof of concept.

While the IMF has not indicated a new SDR issuance, ongoing reviews of the Debt Sustainability Analysis (DSA) could pave the way for future allocations. The IMF is currently assessing how climate and nature resilience can be incorporated into country assessments. If these risks are found to pose a threat to global liquidity, it could justify a new SDR issuance. Support for regular issuances to meet liquidity needs for global climate mitigation and adaptation has been voiced by prominent economists like Joseph Stiglitz⁵⁷, and world leaders such as Barbados Prime Minister Mia Mottley⁵⁸. Their advocacy underscores the critical role SDRs can play in addressing the financial challenges posed by the climate crisis.

⁵⁴ IMF, “[Special Drawing Rights](#)”, (accessed on 05/12/24)

⁵⁵ IMF, [Quarterly report on IMF Finances](#), (Jul 2024)

⁵⁶ IMF, [Global Financial Stability Report](#), (Oct 2024)

⁵⁷ U.S. House Committee on Financial Services, “[Virtual Hearing - The Role of the International Monetary Fund in a Changing Global Landscape](#)”, (Feb 2022)

⁵⁸ CEPR, “[The Case for More Special Drawing Rights: Rechannelling Is No Substitute for a New Allocation](#)”, (Oct 2022)



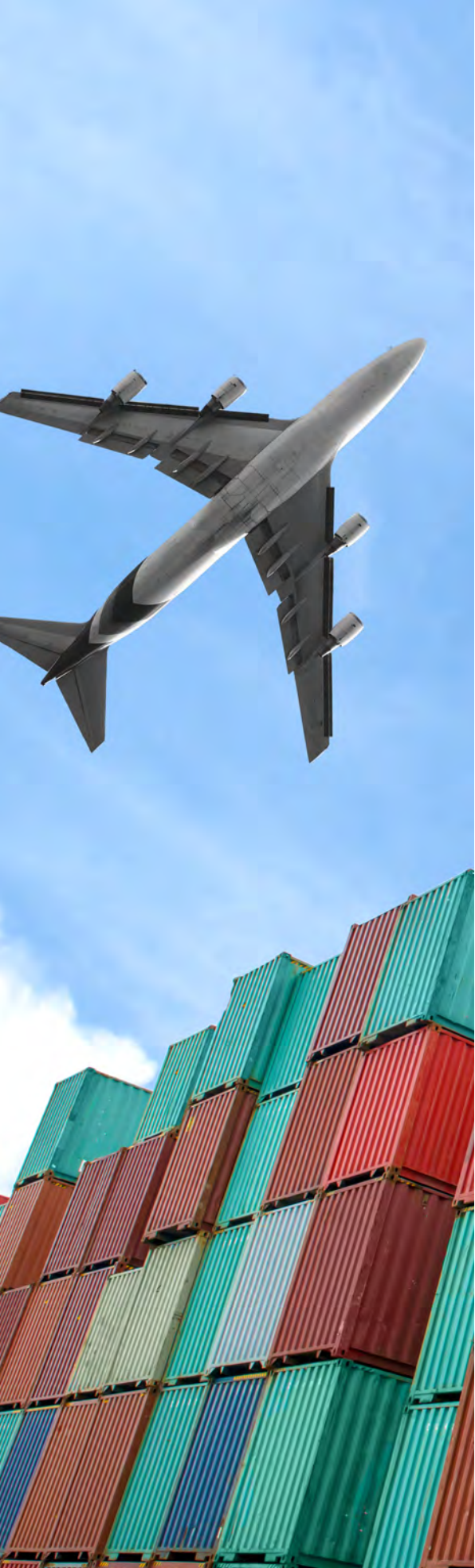
Conclusion

Rechannelling SDRs provides an opportunity to unlock underutilised resources, offering highly concessional capital that strengthens fiscal capacity and helps build more resilient V20 economies. While SDRs address liquidity gaps and create pathways for MDBs to scale their impact, additional innovative mechanisms are needed to generate predictable, debt-free funding streams for climate action. This is why the next chapter focuses on implementing solidarity levies for emissions-intensive sectors, which have the potential to raise substantial revenue while aligning economic activities with climate and nature goals alongside SDR rechannelling.



Source: <https://www.lazard.com/research-insights/rechannelling-imf-special-drawing-rights-in-a-responsible-and-efficient-way/>

1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
8. Local currency solutions
9. Sovereign insurance
10. Macro-economic frameworks

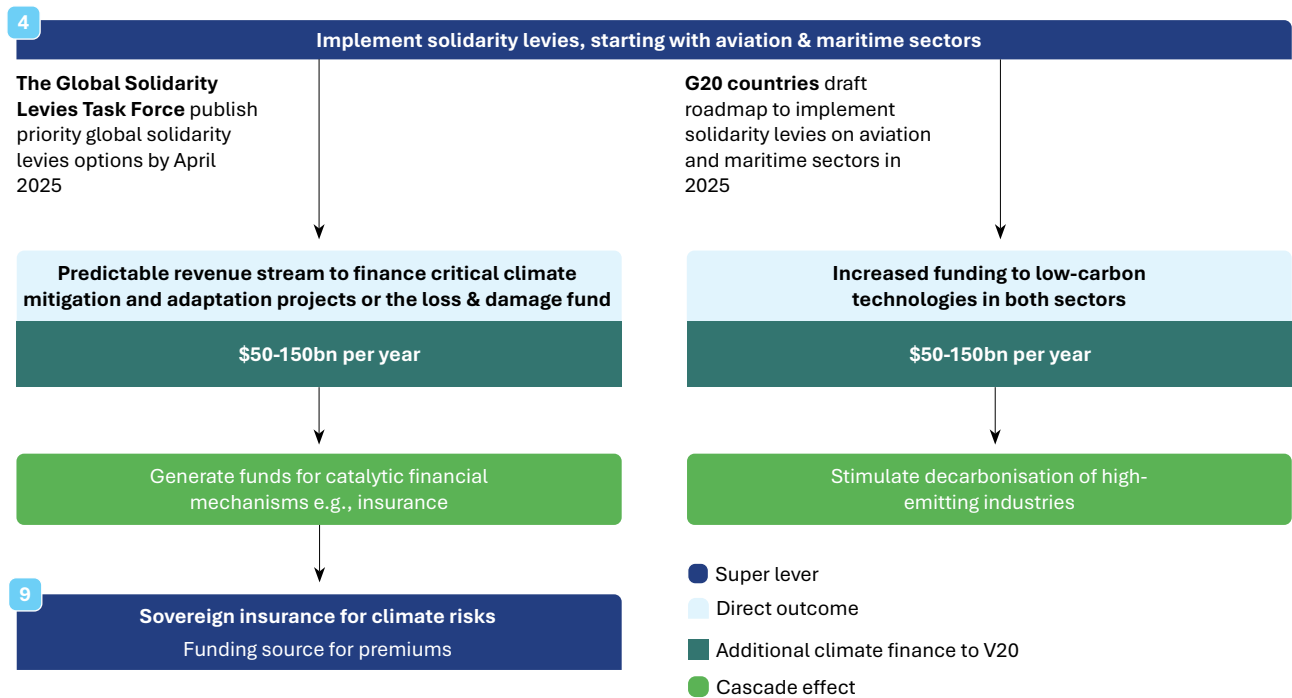


Lever 4: Implement solidarity levies

Solidarity levies, particularly those targeting shipping and voluntary contributions from flight tickets, have the potential to unlock \$50–150 billion annually, providing a predictable and substantial stream of climate finance for V20 countries. Beyond their direct financial contributions, these levies could create significant cascade effects by incentivising decarbonisation in high-emitting industries, supporting climate-resilient development, and funding financial mechanisms such as insurance premiums. With existing infrastructure for implementation and growing international momentum, solidarity levies represent one of the most feasible super levers.



Figure 11: Potential cascade effects of implementing solidarity levies



Background

“

Aviation and maritime sector levies could unlock \$50–150 billion annually, creating predictable funding for climate solutions.

”

Solidarity levies could generate significant funds for climate mitigation, adaptation, and loss and damage.

These are targeted levies imposed on specific sectors, activities, or groups, designed to redistribute resources towards addressing critical societal and environmental challenges. They can be applied not only to activities that directly contribute to carbon emissions, but also to areas reflecting broader societal inequalities. For example, solidarity levies on fossil fuel company windfall profits, financial transactions or ultra-high-net-worth individuals have been proposed as ways to redistribute resources to support those most vulnerable to the impacts of climate change (see Appendix). These special levies aim to generate funds to address global challenges, including the climate crisis, through a principle of collective responsibility and fairness.

Aviation and maritime sectors are especially well-suited for solidarity taxes due to their significant emissions and global nature.

Aviation and maritime sectors are recognised as having the highest potential compared to other taxes to generate climate finance for V20 countries. This is because they are significant contributors to global carbon emissions and are inherently global, with emissions and environmental impacts transcending national boundaries. However, they remain relatively undertaxed and have historically enjoyed preferential tax treatment⁵⁹. A solidarity tax on these sectors aligns with the “polluter pays” and “common but

⁵⁹ Keen, M; Parry, I; Strand, J, “Planes, ships and taxes: charging for international aviation and maritime emissions”, (2014)



differentiated responsibility” principles of the UNFCCC- higher emissions lead to more funds collected to respond to climate change harms. These levies can mitigate their environmental impact while generating substantial revenue for climate finance and addressing the stark inequality between the small subset of society overwhelmingly responsible for the climate crisis and the billions most affected by its impacts.

Levies and taxes are well established mechanisms that have existed for centuries to reallocate funds from polluting sectors.

Amongst the levers in this report, taxes are have an existing infrastructure and mainly require political will to implement. A maritime levy could be a carbon pricing mechanism that accounts for the full lifecycle of fuel emissions (“well-to-wake”). An aviation levy could be designed in several ways, for example: (1) an excise duty on jet fuel on international flights; or (2) on tickets (air passenger duty applied to first and business class tickets with voluntary contributions from economy class passengers) that could be modular (lower on economy seats vs premium seats) or for frequent flyers⁶⁰.

However, careful design is essential to avoid unintended consequences, such as cost pass-through to consumers or disproportionate impacts on low-income countries dependent on trade. International cooperation, careful design, and transparent governance are required to minimise economic disruptions and protect vulnerable populations. For instance, compensation schemes can be established to mitigate the impact on low-income countries. The “solidarity” aspect will involve determining whether the revenues should be used as direct compensation to countries most affected by the climate crisis, recycled within the industry, or a mix of both to maximise fairness and effectiveness. Sound policy design, which can be incorporated in country platforms (lever 1), mean that governmental departments are engaged to ensure that a portion of funds can be directed towards climate mitigation, such as critical transmission and distribution infrastructure, as well as less investable adaptation activities or loss and damage.

Direct impact and cascade effect

Imposing levies in aviation and maritime sectors could generate \$100-300 billion⁶¹ per year, providing essential financial resources for V20 countries without increasing debt burdens.

Allocating even half of this amount to support the V20’s response to loss and damage (L&D) and adaptation could contribute the majority of the V20 estimated need (Figure 5). The remaining funds could further support research and the development of low-carbon technologies in these sectors to mitigate climate change effects⁶². In addition to generating a significant proportion of the climate

⁶⁰ Global Solidarity Levies Task Force, “Scaling Solidarity: Progress on Global Solidarity Levies”, (Nov 2024)

⁶¹ Please see annex for calculations and sources

⁶² Boyd, D; Keene, S, “Air travel and maritime shipping levies” (2021)



finance needed, collected revenues could be invested in building local real economy and financial sectors. One catalytic use could be funding insurance premiums or forecast-based financing for V20 countries. These currently struggle to attract adequate donor support and could have a multitude of positive cascading outcomes increasing country resilience, whilst strengthening local insurance markets (as outlined in Lever 9).

Levies provide a predictable revenue stream. They could be used in several ways including funding the Loss and Damage Fund, or be earmarked for V20 countries to finance critical infrastructure and adaptation projects e.g. resilient energy grids, flood defences, and drought-resistant agriculture. They reduce reliance on traditional aid flows, which can be unpredictable and insufficient, whilst also driving systemic change to decarbonise polluting industries.

Progress and actors

There is growing momentum on solidarity levies – the Global Solidarity Levies Task Force, co-chaired by France, Barbados, and Kenya, is examining various levies to raise at least \$100 billion per year for climate finance. They will launch concrete proposals that include assessments of potential impacts by mid-2025. Among the suggested levies, those on aviation and shipping show significant potential to finance climate change initiatives in developing countries. These have been suggested at the UNFCCC⁶³, and UN Secretary-General António Guterres has advocated for taxes to fund loss and damage⁶⁴. These levies show more progress and a clearer pathway for implementation compared to others, but it is acknowledged that taxes on fossil fuel extraction/windfall profits, financial transactions, and ultra-high net worth individuals could provide significant additional climate finance (see annex). However, these taxes often remain confined to national budgets and require more political will.

A maritime levy is the most mature proposal for a solidarity levy. The International Maritime Organisation's (IMO) draft net zero framework in 2024 proposes a global pricing mechanism for maritime GHG emissions, with negotiations expected to approve this in April 2025 and adopt it by October 2025⁶⁵. For aviation, a useful precedent is the French Solidarity Levy (FSL), imposed on domestic and international flights since 2006. The FSL has raised €227 million per year, providing a predictable and substantial source of funding to Unitaid for the public health needs of developing countries. This demonstrates high feasibility for an aviation tax despite trade bodies such as the International Air Transport Association (IATA) opposing such taxes⁶⁶, if enough government support is garnered.

⁶³ UNFCCC, "[Initial synthesis report on the existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change](#)", (Mar 2023)

⁶⁴ UN, "[In an Era of Climate Extremes, Loss and Damage Finance Is a Must', Secretary-General Tells Baku Launch Event](#)", (Nov 2024)

⁶⁵ IMO, "[IMO agrees possible outline for maritime "net-zero framework"](#)", (Mar 2024)

⁶⁶ IATA, "[Solidarity Tax](#)", accessed on 01/12/2024



Conclusion

Solidarity levies provide a pathway to generate substantial, debt-free resources for climate finance while incentivising decarbonisation in key global sectors. However, more finance alone is not enough when the economics of climate investment remain misaligned. This is why the next chapter looks at tackling inefficient subsidies, particularly for fossil fuels, which continue to distort markets and undermine climate and nature goals. Repurposing these subsidies represents a critical opportunity to reset economic incentives, redirecting significant capital toward climate- and nature-positive investments alongside solidarity levies.



1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
8. Local currency solutions
9. Sovereign insurance
10. Macro-economic frameworks

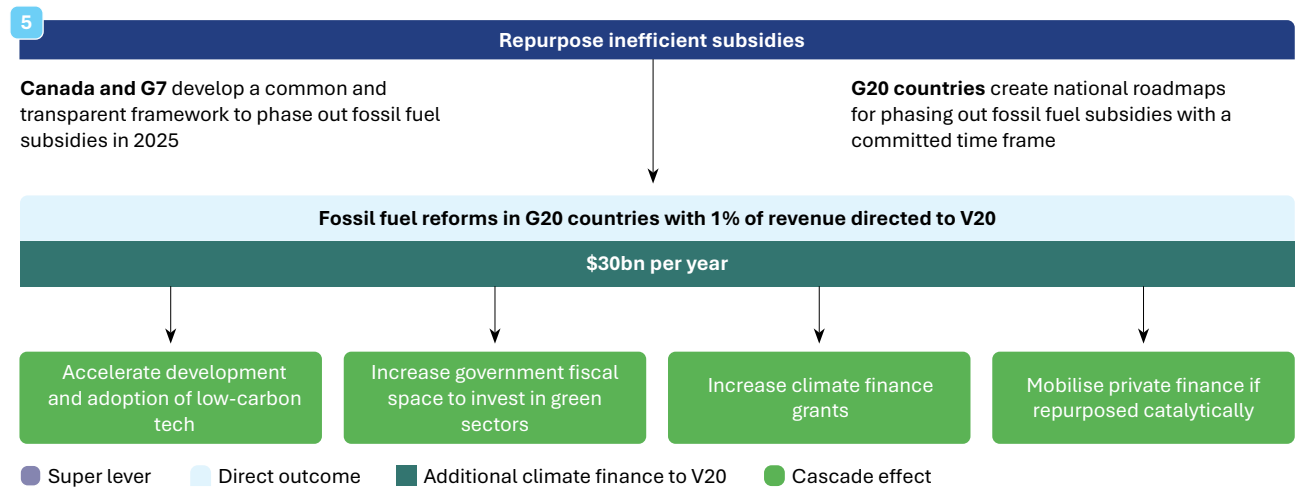


Lever 5: Repurpose harmful subsidies

Repurposing harmful and inefficient subsidies could unlock \$30 billion⁶⁷ annually if 1% of the revenue was redirected to the V20. Beyond the direct financial impact, this super lever has the potential to catalyse cascade effects by resetting economic incentives, encouraging private-sector investment, and accelerating climate mitigation and adaptation.



Figure 12: Potential cascade effects of repurposing inefficient subsidies



Background

Governments spend ~\$1.25 trillion annually on inefficient and harmful subsidies, including for fossil fuels, agriculture and fishing, which have a negative impact on people and the planet that costs over \$7 trillion⁶⁷. These subsidies often distort markets, incentivise environmentally harmful practices, and lock economies into carbon-intensive pathways, exacerbating climate vulnerabilities. For V20 countries, this perpetuates reliance on systems that undermine resilience to climate impacts and opportunities for sustainable development. Reallocating these funds to subsidise climate- and nature-positive activities would not only create an additional source of capital but reset the economic incentives for extractive activities. However, repurposing subsidies requires more than removal, it must be accompanied by a package of reforms that avoids unintended consequences. Key principles include implementing social protection and compensation to safeguard vulnerable groups, carefully sequencing reforms to avoid large price shocks, and building public acceptance.

Direct impact and cascade effect

The direct impact of repurposing harmful subsidies would be substantial, especially when combined with synergistic policies such as carbon taxes. Eliminating explicit fossil fuel subsidies and introducing a carbon tax globally could prevent 1.6 million premature deaths annually, increase government revenues by \$4.4 trillion⁶⁸, and align emissions trajectories with the Paris Agreement targets. Reallocating these funds, such as through climate grants or investments in V20 countries can significantly influence economic incentives. This shift would move away from

⁶⁷ Includes fossil fuel subsidies only which represent the largest amount. Please see appendix for calculations and assumptions.

⁶⁸ IMF, “[IMF Fossil Fuel Subsidies Data: 2023 Update](#)”, (Aug 2023)

⁶⁹ IMF, “[IMF Fossil Fuel Subsidies Data: 2023 Update](#)”, (Aug 2023)



extractive and destructive industries and support investments in resilient infrastructure, regenerative agriculture, and clean energy, along with public goods like education and health. This ensures that subsidy reform not only addresses climate goals but also delivers public goods that enhance credibility and public acceptance. If fossil subsidy reforms were implemented in the 19 countries of the G20, they could collectively raise an additional \$3.2 trillion in revenues⁷⁰. If just 1% of this was redirected towards climate and nature grants or investments in climate-vulnerable countries, this could generate \$30bn to V20 countries. These investments would create a multiplier effect that could stimulate private-sector participation, accelerate low-carbon technology adoption, and foster economic diversification in V20 countries.

Progress, actors and implementation pathway

“ Redirecting just 1% of global fossil fuel subsidies to the V20 could provide \$30 billion annually. ”

Despite repeated commitments, progress in phasing out inefficient subsidies has been slow. The first pledges to phase out inefficient fossil fuel subsidies were made in 2009 from the G7⁷¹, G20⁷² and APEC⁷³. However, the amount spent more than doubled from 2020 to 2022, reaching \$1.3 trillion following the global energy crisis and spikes in energy prices. This is significantly above the \$70 billion that was spent on support for clean energy investments in 2023, such as grants or rebates for electric vehicles, efficiency improvements or heat pumps⁷⁴.

Canada’s G7 presidency presents an opportunity to develop a common and transparent framework to phase out fossil fuel subsidies, enabling countries to set clear timelines. Currently, there is no dedicated framework to define the fossil fuel subsidies to be phased out, and only Canada has published a guideline to identify them. This is a necessary step for countries to identify which subsidies to eliminate and commit to a deadline. Canada, Germany and Italy are the only countries to have made a timeline commitment in domestic policy documents. Given Canada’s progress and its participation in the international coalition to phase out fossil fuel subsidies launched at COP28⁷⁵, Canada could use its G7 leadership to ensure a common definition is developed and to demonstrate strong leadership. Implementation requires strong political will, transparent governance, and international cooperation to ensure that reallocated funds effectively support climate goals without causing unintended economic disruptions.

⁷⁰ IMF, “<https://www.imf.org/-/media/Files/Topics/energy-subsidies/EXTERNALfuelsubsidiestemplate2023new.ashx>”, (2023)

⁷¹ G8, “[Responsible Leadership for a Sustainable Future](#)”, (2009)

⁷² G20, “[G20 Leaders Statement - The Pittsburgh Summit](#)”, (Sep 2009)

⁷³ Asia-Pacific Economic Cooperation; APEC, “[2009 Leaders’ Declaration](#)”, (Nov 2009)

⁷⁴ IEA, “[Fossil Fuel Subsidies](#)”, accessed on 06/12/2024

⁷⁵ Government of the Netherlands, “[COP28: Netherlands launches international coalition to phase out fossil fuel subsidies](#)”, (Dec 2023)



Conclusion

Repurposing inefficient and harmful subsidies will ultimately reset economic incentives to level the playing field across technology types, helping unlock additional investment for clean energy and other climate-positive solutions that may still be uncompetitive when compared to subsidised fossil energy. Repurposing these subsidies could also redirect substantial public resources toward the protection of Global Public Goods. However, even with better allocation of public funds, financing sustainable infrastructure in V20 countries remains expensive due to structural barriers in global financial regulations. Therefore repurposing subsidies will need to occur alongside other regulatory reforms. This is discussed in the next chapter, which focuses on reducing the cost of capital by updating banking regulations.



1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
8. Local currency solutions
9. Sovereign insurance
10. Macro-economic frameworks



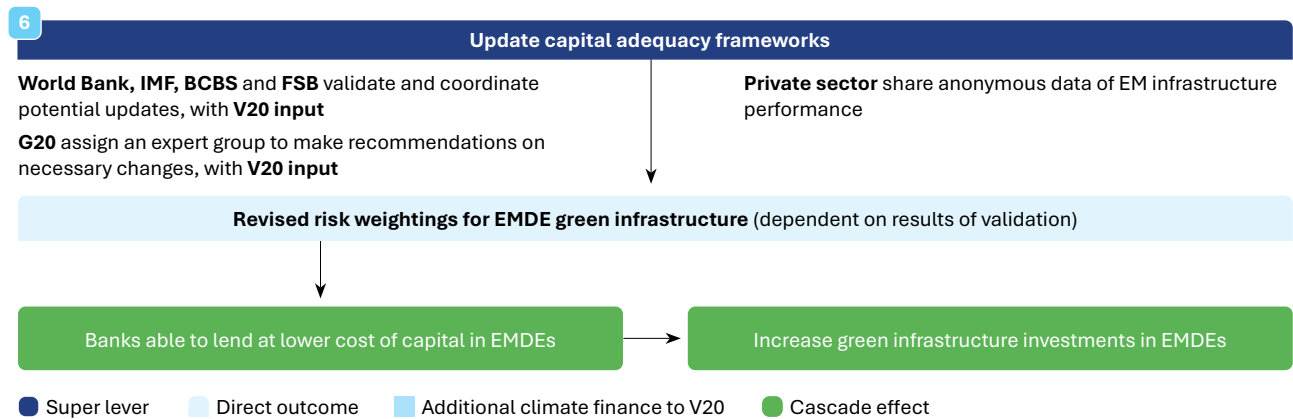
Lever 6: Reform capital adequacy rules

Banking regulations like the Basel frameworks play a crucial role in ensuring global financial stability. However, these frameworks can also create disincentives for lending to infrastructure projects, especially in countries which are seen to be higher risk (including many V20 countries). This may increase the cost of capital, creating barriers to lending. Updating financial frameworks and regulations could unlock significant private finance for climate-positive projects in V20 countries through a more differentiated approach to assessing risk.

The super lever for this topic requires further work to avoid unintended consequences, so this section outlines possible next steps to validate and update capital adequacy frameworks.



Figure 13: Potential cascade effects of reforming capital adequacy rules



Background

“
Reforming banking regulations could unlock significant investment in green infrastructure projects in emerging and developing countries.
”

In the wake of the financial crisis, regulations were introduced requiring banks to hold a minimum amount of capital to ensure stability of the financial system. During the 2007 financial crisis, major global banks were found to be over-leveraged and undercapitalised. The negative effects of the bailouts by central banks and economic downturn were global and long-lasting. Central banks, mostly from advanced economies, overhauled the capital requirements under Basel II and III to prevent similar crises in the future. The next set of rules – Basel III – bring standardisation of risk measurement, eliminating the use of internal risk measurements and putting greater emphasis on external ratings. Basel III is due to be implemented from 2025-2028⁷⁶.

Basel capital adequacy rules were developed to strengthen regulation, supervision and risk management within the global banking system. These rules generally require banks to hold more capital and maintain higher liquidity levels to absorb shocks. While the goal is to make the global banking system more resilient, the Basel III regulations may disproportionately increase the cost of capital compared to the risk, particularly for projects in developing countries. This could be in the following ways:

1. **Cost of capital:** Basel III rules require banks to hold more capital against riskier assets, meaning that banks might raise the cost of capital for projects in V20 countries, which are often seen as riskier than those in developed economies. These rules can lead to higher lending rates or less favourable terms, particularly for long-term financing, as banks account for the higher capital buffers needed to cover potential risks associated with lending in these markets.

⁷⁶ PWC, “[Basel III endgame: The next generation of risk-weighted assets](#)”, accessed 13/01/2025



- 2. Availability of credit:** Given the higher capital requirements, banks may be less willing to extend credit to borrowers in emerging markets due to the risk-weighted assets they would need to hold. This is especially relevant for infrastructure projects, startups and industries in developing economies that are already facing challenges in accessing affordable and sufficient capital.
- 3. Constraining growth:** For many V20 countries, where infrastructure development, small and medium enterprises and economic growth rely heavily on external capital, the higher costs associated with Basel III regulations could slow down development. These rules might hinder both private and public sector investments in crucial sectors such as energy, transportation, and healthcare.

Potential levers

There is a growing argument for revisiting Basel III's application to emerging markets. Some key reasons for reform include:

- 1. Differentiated risks:** The capital adequacy requirements under Basel III apply uniformly across the world, but the risk profiles of emerging markets – especially in V20 countries – differ significantly from developed economies. Reforming the Basel III framework to allow for a more nuanced approach – one that accounts for country-specific risks, development needs, and financial market structures – could help lower the cost of capital for projects in these markets.
- 2. Access to infrastructure finance:** Many V20 countries rely on large-scale infrastructure projects to fuel growth. If capital is too expensive or unavailable due to stringent Basel III requirements, these projects might not go ahead, stalling economic development. By adjusting the Basel III rules to make funding for these projects more accessible, there could be a significant boost in infrastructure development, which is essential for long-term economic growth in emerging markets.
- 3. Avoiding ratings bias:** The use of external credit ratings under the Basel III rules may be problematic for project finance models where these are not commonplace. For infrastructure projects, where external ratings are not available the standardised model applies a 30% higher weighting during the construction phase than in the operational phase⁷⁷. This could significantly constrain project finance models, especially given the high capital requirements and early-stage project risks associated with green projects. The Global

⁷⁷ CGDev, "Making Basel III Work for Emerging Markets and Developing Economies", (2019)



Infrastructure Hub finds that there is scope to reduce charges by 60% if historical data were used to define risk weights against the infrastructure asset class- this reduces regulatory requirements from 5.9% to 2.4% for middle and low income countries if capital charges are based on historical performance⁷⁸.

- 4. **Encouraging investment:** Reforming Basel III rules could help attract more foreign and local investment into V20 countries. If the capital burden on banks and financial institutions is reduced or adjusted, there could be greater willingness to finance high-risk, high-reward projects in developing countries. This would be particularly helpful in sectors like renewable energy, technology and agriculture, where access to finance is often a barrier.
- 5. **Deepening local capital markets:** Revising some Basel III capital requirements for V20 countries could help develop and deepen local capital markets. Local banks would have more flexibility to lend to projects without the need to over-hedge against risk. This could encourage the creation of regional investment funds, bonds and other financial instruments tailored to the specific needs of developing economies.

Revising the risk weightings and capital without losing financial stability benefits. Revising the approach to risk weightings for V20 within the Basel framework could reduce cost of capital for countries with the same financial stability benefits based on the Global Infrastructure Hub findings. Naturally, the BCBS and the Financial Stability Board (FSB) should coordinate this validation and update process, with input and representation from V20 countries. The G20 could assign an expert group to evaluate and recommend actions to the BCBS, building on the work of the Global Infrastructure Hub and as proposed by SAIIA to the G20 as part of a cost of capital commission⁷⁹. The private sector can also play a key role. By anonymously sharing data on EM infrastructure performance the BCBS and FSB will be able to better validate the most appropriate risk weightings to give to EMDCs and the V20.

Ultimately, reforming Basel III with a more differentiated risk approach could unlock significant capital for climate- and nature-positive projects in V20 countries by lowering borrowing costs, increasing access to long-term financing and improving investor confidence:

⁷⁸ Global Infrastructure Hub, “[Banks are critical for closing infrastructure deficits, but banking regulations are not supportive](#)” (2023)

⁷⁹ South African Institute of International Affairs, “[Cost of Capital Commission: A Proposal](#)”, (2024)



- **Lower borrowing costs:** Banks could pass on the benefits of reduced capital buffers to borrowers, leading to more affordable financing for projects, which in turn could stimulate development and economic growth.
- **More long-term financing options:** Basel III reforms that allow for more flexibility in the treatment of long-term loans could make financing for infrastructure projects more viable. This is especially relevant for V20 countries that often struggle to secure the long-term funding needed for large projects.
- **Improved investor confidence:** A reformed Basel III framework could increase investor confidence by showing that the regulatory framework is more attuned to the specific needs of V20 countries, potentially attracting more international investment.

Greater regulatory capital relief could also be sought for project finance loans benefiting from MDB guarantees by engaging with the Basel Committee and the national and regional regulators. When offering guarantees and loans, MDBs such as the World Bank Group work closely with governments in project selectivity, due diligence, and supervision. Automatic granting of lower capital reserve requirements can be justified for project finance loans benefiting from MDB involvement on the basis of improved financial strength and ESG components of these projects.

Conclusion

Reforming the Basel III capital rules could have an outsized impact on mobilising climate finance in V20 countries. While Basel III's rules are designed to ensure global financial stability, their impact on the cost of capital in V20 countries creates significant disincentives, especially for project and infrastructure finance. Reviewing these rules to implement suitable risk weightings for V20 infrastructure investments could unlock a significant amount of finance for infrastructure and development projects, providing a boost to economic growth and removing barriers to private finance. By creating a more flexible and context-sensitive regulatory framework, global financial institutions and governments could help unlock critical funding to meet the pressing needs of V20 economies. This will require collaboration across central banks, the FSB, the G20 and many more to avoid unintended consequences. But the potential payoff is worth it. We therefore encourage a body like the G20 to lead on the technical work – potentially leveraging its new “cost of capital commission” to review the upcoming Basel III rules urgently.

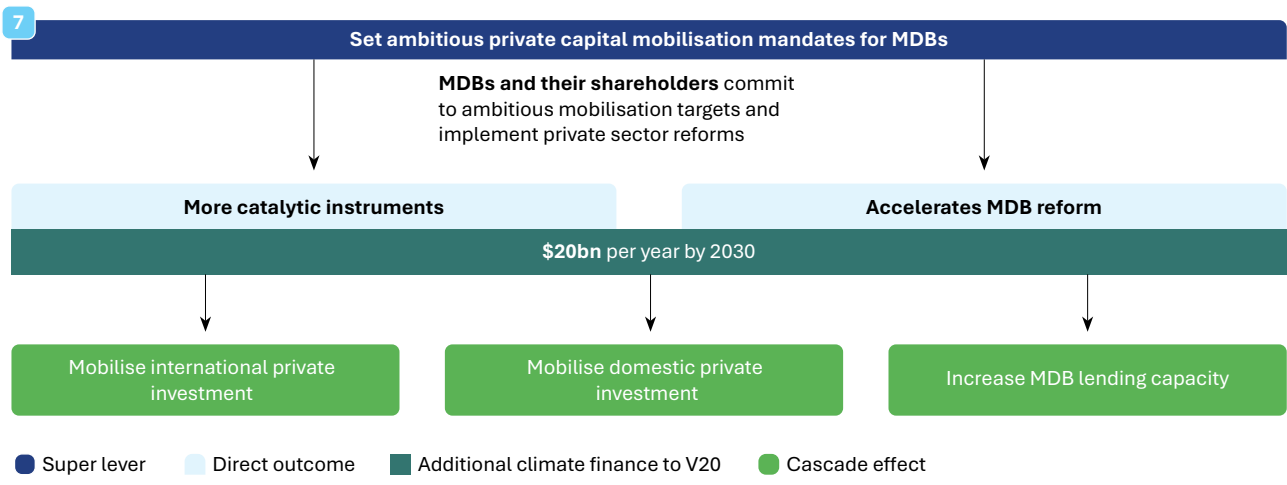


Lever 7: Set ambitious private capital mobilisation mandates for MDBs

Setting ambitious private capital mobilisation mandates (with appropriate safeguards) could raise more than \$20 billion in additional climate finance for V20 countries. Mobilisation mandates encourage the use of the most catalytic instruments and more innovation to unlock private capital. Mandates would help drive the broader MDB reform agenda, improve their operating model and strengthen data-quality and data-sharing to accelerate private sector participation, both international and domestic.



Figure 14: Potential cascade effects of setting ambitious MDB mobilisation mandates



Background

A high cost of capital and perception of risk are critical barriers to mobilising private capital in V20 countries. The cost of capital for loans in V20 countries is estimated to be around five times higher than in advanced economies⁸⁰. This prevents private sector investments that are commercially viable in other regions and countries, such as solar project, from going ahead. In places where more affordable capital is available, the lack of an investable pipeline is also limiting the private sector’s potential role. Over a five-year period, 30% less adaptation finance was disbursed compared to non-climate development priorities such as education and health⁸¹. This reinforces the lack of pipeline as a major barrier and the vital role of project preparation in enabling private capital.

Public money plays a vital role in reducing barriers to private finance already and can go even further, bridging financing gaps through smarter risk-sharing mechanisms targeted at crowding in private capital. Currently, MDBs mobilise \$0.4 of private capital of climate finance for every public dollar⁸². Given their strong financial positions and impact mandate, the G20 recommends they could mobilise at least \$1.2 of private capital for every public dollar⁸³.

Direct impact and cascade effect

Setting ambitious private sector mandates is a catalyst for MDBs to expand the use of more effective instruments that can crowd in private capital. Private sector mandates are a target by MDBs to mobilise a certain amount of private capital from their committed public funds. Delivering on ambitious mandates will systematically

⁸⁰ Systemiq analysis; Climate Policy Initiative, “Cost of Capital for Renewable Energy Investments in Developing Economies”, (Jun 2023)
⁸¹ Carbon Brief, “Guest Post: Three Major Gaps in Climate-Adaptation Finance for Developing Countries”, (Nov 2023)
⁸² WRI, “Multilateral Development Bank Climate Finance: The Good, Bad and the Urgent”, (Nov 2024)
⁸³ G20, “Strengthening Multilateral Development Banks: The Triple Agenda”, (2023)



require a higher use of effective risk-sharing instruments like guarantees utilising MDB balance sheets to attract more private capital. Guarantees can target a wide range of different risk reductions, including credit, currency, political, project and liquidity risks. They have been found to mobilise five times more than loans but make up only 4% of MDB portfolios⁸⁴. While some MDBs have set volume targets for guarantees, setting a mobilisation mandate would be a more holistic way of scaling the use of these types of instruments, without setting artificial allocations to specific risk-sharing instruments or ignoring other ways to mobilise private capital like “originate to distribute” models or securitisation solutions to attract institutional investors into MDB assets/portfolios.

Mobilisation mandates would also incentivise MDBs to implement broader reforms to mobilise private capital including streamlining processes to reduce transaction times and better data sharing to attract private capital. Improving the efficiency of MDBs in terms of how they use capital, how they operate and how they report on outcomes has been the focus of multiple G20 presidencies under the objective of “Bigger, Better, Bolder” MDBs. To attract the private sector, MDBs are expected to focus on operating model improvements. These include shortening project timelines, improving cost efficiency and committing money to country-owned platforms. To improve data sharing with the private sector, MDBs are starting to publish sovereign and non-sovereign defaults in the Global Emerging Markets (GEMs) database giving private investors better information, reducing the gap between perceived and real risk to lower the cost of capital.

Of course, private capital mandates would need to be subject to appropriate safeguards to avoid unintended consequences (e.g. shifting portfolios mainly to middle income countries or more investable sectors like energy). Ensuring private capital mobilisation targets don’t impact allocations to low income countries or reduce a focus on adaptation will be important and should be balanced by freed-up development finance where the private sector has come in. Without the right incentives in place to allocate towards the highest impact outcomes private capital is more likely to flow to the lowest risk, highest return options. Only ~10% of private capital mobilised by MDBs reaches low-income countries and less than 10% of global adaptation funding is private⁸⁵. Distribution of adaptation funding by MDBs was found not be correlated to countries with the highest climate vulnerabilities⁸⁶, and therefore where the money could create the best resilience outcomes. Refining approaches to allocation, where required, will be important to maximise impact and avoid the use of public money where opportunities become commercially viable without it.

“
Ambitious private sector mobilisation mandates could raise \$20 billion annually for climate action.
 ”

⁸⁴ Systemiq, “[Better Guarantees, Better Finance](#)”, (2023)

⁸⁵ Systemiq analysis; Climate Policy Initiative, “[Global Landscape of Climate Finance 2024](#)”, (2024); International Finance Corporation, “[MDBs Joint Report on Mobilization of Private Finance 2020-21](#)”, (2023)

⁸⁶ Center for Global Development, “[Who Gets World Bank Climate Money? An Exploration of Adaptation Financing to Lower-Income Countries](#)”, (Dec 2024)



Progress and actors

Some MDBs have already introduced ambitious private sector mobilisation targets – demonstrating the effectiveness of this solution. Both the Asian Development Bank and the Inter-American Development Bank have set mobilisation targets of \$2.5 and \$1.7-2 of private capital per MDB dollar respectively. Their private capital mobilisation is not only linked to the use of smart de-risking mechanisms but they also have close relationships with the private sector through originate-to-distribute solutions and better data transparency reforms⁸⁷, demonstrating the potential positive cascading effect of this type of mandate.

All other major MDBs have not yet announced a target or their target is unclear in its ambition level⁸⁸. The Independent High-Level Expert Group on Climate Finance also finds that although clear progress can be seen, it is insufficient across the major MDBs⁸⁹. At COP 29, MDBs made a new commitment to mobilise \$65 billion of private capital as an addition to a \$120 billion yearly climate financing to low and middle income countries⁹⁰. This is a good start, but it equates to about \$0.54 of private capital per \$1 of public capital, indicating further room for improvement.

Conclusion

The use of public money to bring in new sources of private finance will be vital to unlock climate finance in V20 countries. If MDBs can set and deliver ambitious private capital mobilisation mandates, this could lead to the use of more catalytic instruments like guarantees and help accelerate broader MDB reforms. These in turn include streamlining processes to reduce transaction times and better data sharing to attract private capital – both international and domestic as discussed in more detail in the next chapter.

⁸⁷ CGDEV, “[Multilateral Development Bank Reform Tracker](#)”, (2024); Inter-American Development Bank, “[IDB and IDB Invest Highlight New GEMs Consortium Publications Offering Insights into Emerging Market Credit Risk](#)”, (2024)

⁸⁸ CGDEV, “[Multilateral Development Bank Reform Tracker](#)”, (2024)

⁸⁹ Bhattacharya A, Songwe V, Stern N, Soubeyran E, “[Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance](#)”, (2024)

⁹⁰ World Bank, “[Multilateral Development Banks to Boost Climate Finance](#)”, (Nov 2024).

1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
- 8. Local currency solutions**
9. Sovereign insurance
10. Macro-economic frameworks



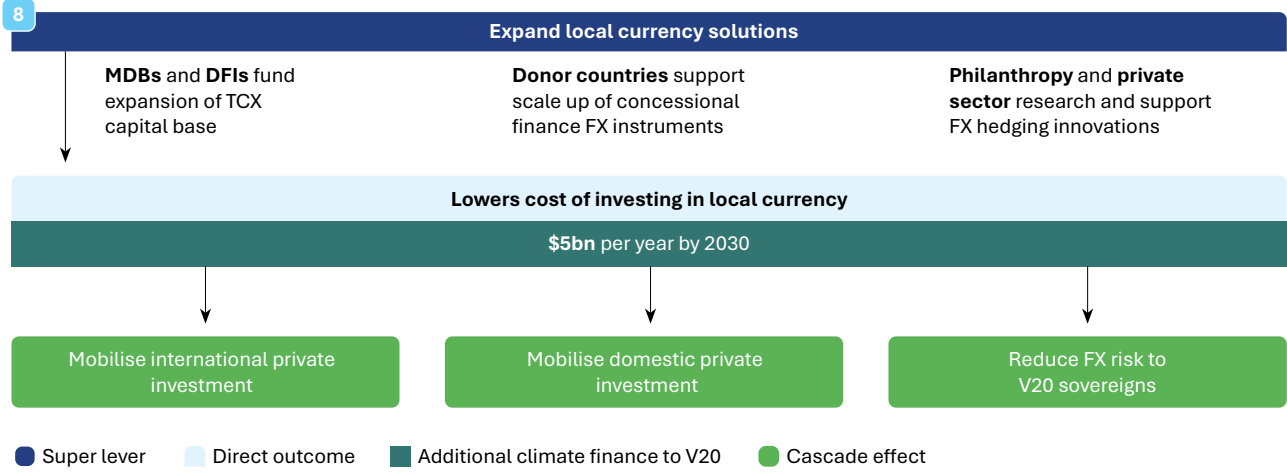
Lever 8: Scale local currency solutions

Expanding local currency solutions and tackling foreign exchange (FX) risk are two of the most powerful ways to mobilise private capital for climate action in V20 countries from both domestic and international investors. Currency risk is one of the biggest and most persistent barriers to mobilising capital for renewable energy projects and other climate solutions in V20 countries where financing typically happens in dollars but revenues are often in local currency. Increasing the availability of affordable FX hedging to manage this currency mismatch could unlock billions of dollars of international capital into V20 markets. Lowering the cost to V20 countries of borrowing in local currency from MDBs will also help reduce the risk to sovereigns from currency devaluations related to hard currency debt. Therefore, scaling MDB lending, bond issuances and de-risking mechanisms like guarantees in local currency should be a priority across the development finance system. Increasing the MDB local currency product offering would help deepen domestic capital markets and catalyse domestic investors and local savings pools – thereby significantly reducing FX exposure when financing occurs in local currency.

There is no universal approach to scaling local currency solutions and mitigating FX risk. Instead, a range of options are available as described below, contingent on factors such as the demand for local currency exposure, the maturity of domestic capital markets, and the strength of the central bank, among others.



Figure 15: Potential cascade effects scaling local currency solutions



Background

“
Scaling affordable FX hedging could unlock billions by reducing currency risk for private and public investments.
”

The limited size and depth of local markets in many V20 countries increases reliance on foreign capital in hard currency. On average EMDC currencies have higher risk of long-term depreciation stemming from limited depth of financial markets, including a lack of domestic bond markets, fit-for purpose regulation, and limited financial institutions, including the capacity to invest in alternative asset classes beyond government debt⁹¹. Without sufficient depth in capital markets, both sovereigns and private investors, such as pension funds, have limited options for borrowing and investing. This results in a greater reliance on international money, therefore introducing more FX risk.

Domestic and international private investors face high upfront costs in managing FX risk. Both public and private investors are limited by their ability to manage currency risk at a low cost, and this barrier is greater for green infrastructure⁹². Domestic investors, e.g. project developers, often need to borrow in hard currency over long periods where domestic financial markets are limited. They face costly currency hedging or increased currency risk, which can threaten project viability if the local currency depreciates significantly. International private investors for renewables projects typically receive income in local currency through selling energy to the domestic energy grid versus oil and gas revenues that are predominately in USD. This means if a project is financed in hard currency, and income is in local currency, there is again a need for FX hedging at a high additional cost.

⁹¹ Systemiq, “Mobilising Domestic Capital to Drive Climate Positive Growth” (2024); FSD Africa, “Pension Funds, Private Equity, and Private Debt in Southern Africa”, (2023)
⁹² CPI, “Managing Currency Risk to Catalyze Climate Finance”, (2024)



Sovereigns also take on FX risk from borrowing from MDBs that can contribute to unsustainable debt burdens. MDBs receive money from donor countries/shareholders and tend to raise money in capital markets in hard currency to match their capital base. This typically makes MDB lending in hard currencies cheaper. Currently, more than 80% of MDB and DFI lending to low and lower middle income countries is in hard currency (e.g. USD, euro). For the V20, MDBs are their largest creditor representing ~40% of all debt⁹³, making their foreign currency exposure significant. This means the majority of lending by MDBs transfers currency risk to borrowers in V20 countries. With increased debt service payments prompted by currency devaluation, debt burdens are more likely to become unsustainable with a large reliance on foreign currency.

Direct impact and cascade effect

Lowering the cost of FX hedging can enable more private and domestic investments and deeper financial markets. The high capital costs in V20 countries can lead to a negative cycle that prevents economic growth through a lack of investment. Shallow financial markets limit large-scale investments in the local currency, while the elevated cost of capital deters investments in hard currency. Increasing the availability and access to affordable foreign exchange hedging mechanisms, or currency guarantees, would accelerate private investment significantly by reducing the cost of managing currency risk. By reducing the cost of capital, FX solutions can initiate a cycle of private investment and growth. With the right policy environment, deeper markets help to provide new domestic sources of finance. This improves the country's economic resilience to financial shocks and lowers the cost of capital. Building this depth in financial markets is ultimately important in delivering long-term growth opportunities and economic stability.

Increasing local currency lending by MDBs reduces risk to sovereigns. Reducing the cost to MDBs for managing FX risk will contribute to scaling local currency lending. Lowering the cost to V20 countries of borrowing in local currency from MDBs will help reduce the risk to sovereigns from currency devaluations related to hard currency debt. Therefore, mechanisms that help MDBs scale local currency lending are also essential for delivering on the V20 climate investment need- both in terms of the creating fiscal space for governments by reducing currency risk and for mobilising private capital.

MDBs should also commit to increasing their local currency product offering including loans, bonds and guarantees. MDBs can be an important source of additional local currency lending and are well-placed to do more local currency bond issuance⁹⁴, set up on-shore treasuries and on-lend deposits from local banks to help

⁹³ Bhandary R, Marins N, "V20 Debt Review", (2024)

⁹⁴ Some V20 countries would not currently have the depth in markets and institutions for local currency bond issues



grow volumes of local currency finance. Expanding local currency lending can also help manage FX exposure as well as increasing the availability of cost-effective FX risk management tools in the market. A significant increase in MDB de-risking mechanisms in local currency will also have an outsized impact on deepening domestic capital markets by mobilising domestic private investors for climate action (less than 5% of blended finance instruments are in local currency today).

Progress and actors

MDBs, DFIs and the private sector have implemented solutions to manage FX risks and mobilise private capital than can be scaled. FX hedging contributes to reducing some of the additional costs from investing in countries with limited financial markets and domestic capacity and therefore makes them attractive to private investors. Specialised currency facilities that provide local currency guarantees are also overcoming the challenge of local currency risk in V20 countries and showing high mobilisation rates of 2-15 times (estimated from their capital bases)⁹⁴. MDBs/DFIs are also increasing use of local currency bond issuances and exploring option of local currency portfolio transfers to increase local currency lending and mobilise more domestic private capital.

- **FX hedging platforms:** TCX, founded by DFIs in 2007, provides currency hedging solutions to investors. It offers FX swaps and forwards in markets that are underserved by other financial organisations, and diversifies its own risk through a large portfolio. This solution reduces the cost of currency hedging for private investors and therefore contributes to mobilising private capital. TCX reported that it could increase its capital based from \$1.3 to \$5 bn in the near term with increased support of MDBs⁹⁵.
- **Specialised local currency guarantee facilities:** Local guarantee de-risking platforms like GuarantCo, Dhamana and Infrazamin are showing high private capital mobilisation, and domestic capital mobilisation from small capital bases. Scaling these can contribute to significant domestic private domestic private capital mobilisation. Infracredit has underwritten at least ₦145 billion (US~\$93m) in local currency guarantees as a catalyst to attract domestic Nigerian investors, including pension funds, insurance companies, and other long-term investors. The private capital mobilised versus the Infracredit capital base equates to a private mobilisation ratio above 2x⁹⁶. Due to its success, this

⁹⁵ TCX, “[Proposal for Mitigating FX Risk](#)”, (2023)

⁹⁶ Based mobilising \$445m of private capital from a capital base of \$187m billion resulting in a ratio of 2.4 x private capital mobilised; Data from Infracredit, “[Infracredit Secures US\\$15 Million Facility from African Development Bank Group to support Infrastructure Financing in Nigeria](#)”, accessed 30/12/2024



facility has received support from the finance development agency, FSD Africa. The guarantee platform GurantCo has delivered \$5.7bn of private investment since 2005, suggesting an estimated 15x mobilisation from their capital base⁹⁷.

- Local currency bond issuances:** In 2024, IDB Invest issued sustainable bonds in Mexico for MXN \$2.5bn (~US\$150mn) and in Colombia for COL \$40bn (~US\$10mn). The Mexican transaction was 1.2 x oversubscribed - 70% of the issuance went to investment funds, 21% to pension funds and 9% to banks⁹⁸. IFC is also a leader on local currency bond issuances issuing an oversubscribed ZK190mn bond (~US\$10mn) and a JA\$ 2bn (~US\$15mn) in 2023⁹⁹. Noting that only Colombia is part of the V20, but these examples demonstrate that there may be local currency demand for other EMDCs.
- MDB local currency portfolio transfer:** A feasibility study for FSD Africa found that across seven African countries \$8.7 bn could be transferred from MDBs to local pension funds¹⁰⁰. These local currency transactions had the dual benefit of deepening domestic markets and reducing foreign exchange exposure for local investors. The increase in liquidity for MDBs from transferring the loans could be used for new investments. This is a great example of what is possible with the right private sector participation and both philanthropy and the private sector can play a key role in supporting this effort.

Conclusion

Scaling local currency solutions removes a major barrier for private and public investment, reducing currency risk and lowering the cost of capital, while also helping deepen domestic financial markets and reducing financial volatility and exposure to exchange rate fluctuations. Other de-risking mechanisms like insurance – discussed in the next super lever – can also help protect fiscal stability and enable faster recovery in the face of climate and other macro shocks.

⁹⁷ Based on mobilising \$5.7bn of private capital over a \$390m capital based resulting in a ratio of 14.6 x private capital mobilised; Data from GuarantCo, “[GurantCo Financial Statements](#)”, (Dec 2023); GuarantCo, “[Our Impact](#)”, accessed on 30/12/2024

⁹⁸ IDB Invest, “[IDB Invest Expands its Sustainable Bond Offering in Latin America and the Caribbean with Two Local Currency Issuances](#)”, (2024)

⁹⁹ IFC, “Annual Investor Newsletter”, (2023)

¹⁰⁰ FSD Africa, “[Local Currency Solution for Multilateral Development Bank Portfolio Transfer](#)”, (2024)

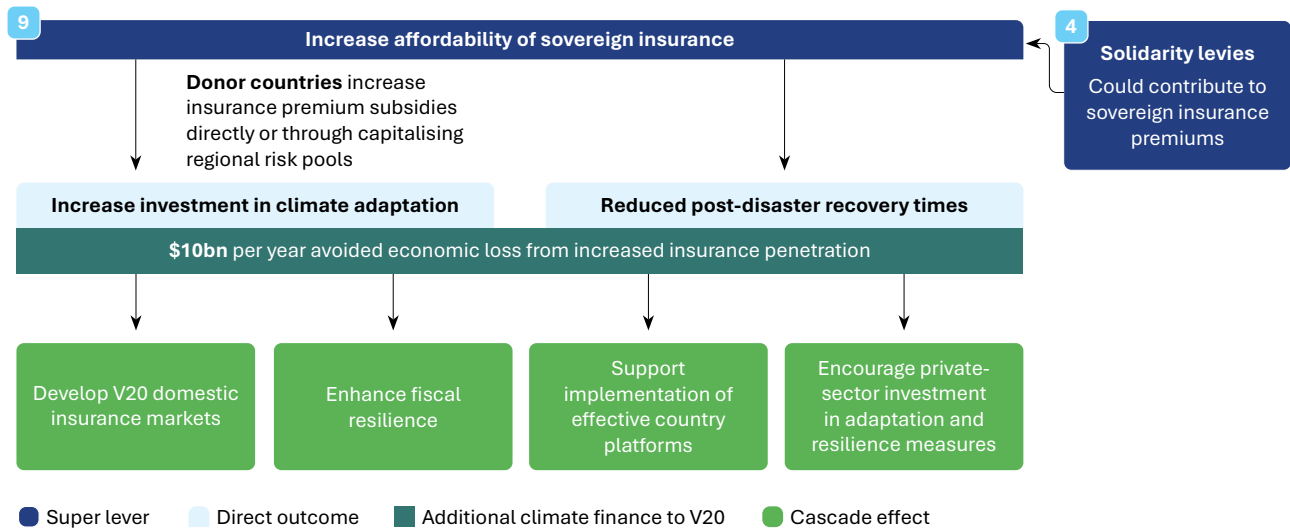


Lever 9: Increase affordability of sovereign insurance

Expanding the use of pre-arranged financing mechanisms, particularly insurance, would reduce the financial impact of climate-related disasters. However, the cost of insurance is a major barrier, leaving a 98% protection gap in V20 countries. Well-designed insurance mechanisms provide a critical buffer against climate-related shocks, enabling faster recovery and reducing reliance on expensive post-disaster borrowing for rebuilding and recovery. Beyond the direct benefits, subsidising insurance premiums and creating regional risk pools could catalyse the development of domestic insurance markets, enhance fiscal resilience, and encourage private-sector investment in adaptation and resilience measures. Reducing the cost of insurance through targeted subsidisation and risk pooling could help narrow the protection gap and scale the use of insurance by the V20 – helping reduce the burden on countries that are being hit by climate-related natural disasters with more frequency, greater severity and with a higher cost than ever before. If this gap was closer to the global average of 60%, then \$10bn of economic losses per year could be covered in V20 countries.



Figure 16: Potential cascade effects from increasing affordability of sovereign insurance



Background

Global economic losses from natural catastrophes highlight the urgent need to reduce the protection gap in V20 countries. Global economic losses from natural catastrophes reached \$280 billion in 2023, with only \$110 billion covered by insurance, leaving a 60% protection gap. For V20 countries this gap is 98%, underscoring the limited access to affordable protection mechanisms¹⁰¹. Insurance is a type of pre-arranged financing, which provides funding when disasters occur. It is a key tool among other pre-arranged financing options (table 2).

Table 2: Types of disaster financing

Pre-arranged financing	Ex-post financing
Insurance	Public borrowing
Contingency reserves/disaster funds	Most international development assistance
Contingent disaster grants & loans	Budget reallocations
Climate resilient debt clauses	Domestic taxation
Forecast-based financing	
Catastrophe drawdown options	

¹⁰¹ V20, "Climate Vulnerable Economies Loss Report", (2022)



“
Increasing insurance penetration to global averages could cover \$10 billion in annual economic losses in the V20.
 ”

Financial protection against disasters remains predominantly post-shock and concentrated in middle income countries.

Pre-arranged financing can save taxpayers significant amounts by reducing the need for emergency fundraising and high-interest borrowing after a disaster. It is estimated that every dollar invested in pre-arranged financing can save up to \$3-\$4 in future disaster costs¹⁰². However, only 1.1% of total crisis financing flows¹⁰³ in 2022 were pre-arranged. Total financial protection coverage is concentrated in wealthier regions, where 64% is in high and upper-middle income countries, 33% is in lower-middle-income countries and only 3% in low-income countries. 70% of V20 countries are low or lower-middle income countries, where there is opportunity to increase pre-arranged financing.

Insurance is a critical and effective climate solution but remains underused. Key barriers are high costs and the reliability of appropriate products.

There is no single best pre-arranged financing instrument and the appropriate combination of disaster risk mechanisms is dependent on a country’s risk, and its political and operational context. Insurance is one critical solution as studies show that a 1% increase in insurance penetration can alleviate up to 22% of disaster recovery costs borne by taxpayers. However, affordability is the main barrier to insurance uptake. Grants or concessional mechanisms for V20 countries to subsidise insurance premiums are essential to close the protection gap. These mechanisms could increase fiscal space during disasters and catalyse the growth of domestic insurance markets. Other factors for limited insurance uptake include: a lack of understanding and technical capacity, availability of alternatives, and perceptions of reliability¹⁰⁴. The latter has been hindered by recent examples of unsuitable trigger conditions in insurance policies that left countries without financial support after severe impacts, such as in Jamaica after Hurricane Beryl¹⁰⁵.

Direct impact and cascade effect

Pre-arranged financing can support effective country platforms and increase investment in climate adaptation.

An increasing number of climate-related country platforms are incorporating the use of insurance and pre-arranged financing. For example, Ghana benefited from a subsidised premium for its national drought insurance to protect the livelihoods of farmers and its agriculture industry, a key sector in its Climate Prosperity Plan¹⁰⁶. Insurance provides financial protection against losses from climate-related disasters, ensuring that funds are available for recovery and

¹⁰² Centre for Disaster Protection, “[The state of pre-arranged financing for disasters](#)”, (2023)

¹⁰³ Total crisis financing is a subset of international development financing, which includes activities and flows to organisations whose primary purpose is to deliver prevention, preparedness and response to crises

¹⁰⁴ ODI Global, “[The political economy of premium subsidies: searching for better impact and design](#)”, (Dec 2022)

¹⁰⁵ CVF V20, “[World Bank should course-correct for more flexible cat bond trigger conditions in the wake of Jamaica’s experience with Hurricane Beryl](#)”, (Jul 2024)

¹⁰⁶ Systemiq, conversation with a member of Ghana’s Finance Ministry, (Dec 2024)



rebuilding efforts. This reduces the burden on limited public finances in funding disaster costs, which could be used for critical structural transformations in V20 countries, including investments in climate adaptation. It also reduces perceived risks, encouraging private sector investment in climate resilience and adaptation.

Creating predictable demand for insurance products and attracting private sector investment stimulates the development of domestic insurance markets. By subsidising premiums, donors enable governments to trial insurance solutions, collect better data, build technical expertise, databases, and infrastructure, and integrate insurance into fiscal strategies. This encourages the growth of domestic and regional insurance markets and could catalyse broader climate finance by reinforcing other financial tools like catastrophe bonds and resilient debt clauses. Of course, unintended consequences, including over-reliance on donor subsidies, less attention to preventive measures (moral hazard) or administrative inefficiencies must be addressed through balanced investments in both financial and physical risk-reduction mechanisms.

Progress and actors

Early initiatives are showing the increasing role of insurance as part of the mosaic of financing solutions to vulnerable countries. Calls for meaningful reform of the international financial architecture have created a historic opportunity to shift the default in favour of pre-arranged financing. Recent discussions about forecast-based insurance are also gaining traction, as insurance payouts can even be made in advance of predicted extreme weather events¹⁰⁷. Funds are released when forecasted metrics surpass predefined thresholds, ahead of foreseeable events, which could provide benefits faster than traditional indemnity or parametric insurance. Fiji implemented the first such scheme in 2023 to protect farmers against the impacts of cyclones, with payments triggered and paid out based on early warnings such as wind speed and weather forecasts¹⁰⁸. Protecting economies and people against shocks is an established priority across global policy reform agendas, including G20, Bridgetown Initiative and V20, who have called for a set of measures designed to create a ‘shock-absorbent financial system for social protection, financial protection and loss and damage’. This has resulted in a number of initiatives to make climate and disaster risk finance more cost effective and increase adoption e.g. InsuResilience Global Partnership, the Global Shield against Climate Risks, and Humanity Insured. The Global Shield has raised ~€300 million to date and it is estimated it could leverage an additional €2.9 bn from MDBs in concessional financing and €5.1 bn from private risk capacities, which would be paid out to vulnerable countries for climate impacts.

¹⁰⁷ WSP, “[Enhancing Resilience with Forecast-Based Insurance](#)”, (Jan 2025)

¹⁰⁸ UNDRR, “[Pacific’s first anticipatory action pilot insurance scheme to provide Fijian farming groups with funds to better prepare for cyclones](#)”, (Sep 2023)



Regional risk pools are an existing effective delivery mechanism to deploy insurance and pre-arranged financing. Regional risk pools are collaborative initiatives among countries that offer parametric insurance products to help them access quick financial resources in the event of disasters. The four largest pools currently provide coverage to 50% of V20 members¹⁰⁹ and have often been the first financial injection after a disaster. They are evolving into full-service platforms and expanding e.g. ARC aims to expand membership to all African Union countries. However, more donor support is required to maximise their potential and coverage.

Conclusion

Increasing access to affordable and effective sovereign insurance and through scaling regional risk pools provides much needed protection against climate-related shocks. Ensuring these products are fit-for-purpose will be critical, ensuring countries can expect a predictable financial response after a disaster to support their ability to rebuild, in addition to developing local insurance markets and improving data for better understanding of the real climate risk faced by V20 countries. This also strengthens the accuracy of economic growth models related to the final super lever. By embedding the data on climate and nature risks from better insurance models into economic decision-making, these two super levers help position V20 economies to be more resilient to shocks and be better equipped to invest in adaptation and sustainable development.



¹⁰⁹ Caribbean Catastrophe Risk Insurance Facility (CCRIF), African Risk Capacity (ARC), Pacific Catastrophe Risk Insurance Company, Southeast Asia Disaster Risk Insurance Facility (SEADRIF)

1. Country platforms
2. Carbon markets
3. SDRs
4. Solidarity levies
5. Repurpose subsidies
6. Capital adequacy rules
7. Private capital mandates
8. Local currency solutions
9. Sovereign insurance
10. Macro-economic frameworks

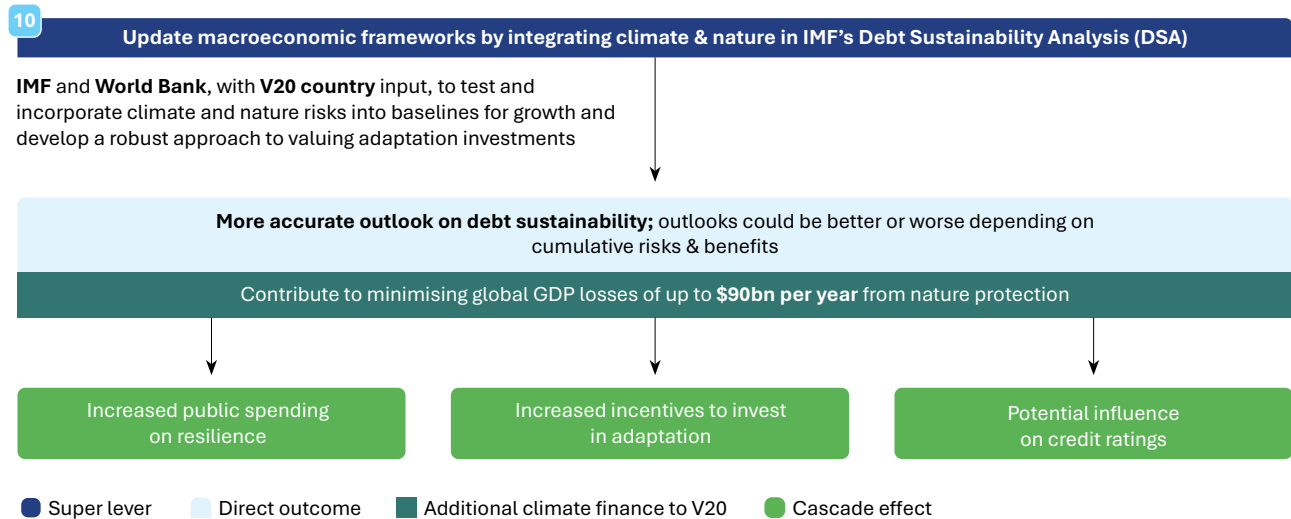


Lever 10: Update macroeconomic frameworks by integrating climate & nature

Updating macroeconomic frameworks to integrate climate and nature risks into decision-making is one of the most important levers to ensure ministries of finance prioritise investment in adaptation and resilience. While not directly generating new climate finance, reforming macroeconomic frameworks like the IMF's baseline GDP growth forecasts and Debt Sustainability Analysis (DSA) can demonstrate why a country might want to borrow money for climate action and nature-based solutions to avoid major costs in the future. Integrating climate and nature into DSAs should limit perverse outcomes where a country is penalised for taking on debt to protect its natural capital but would be viewed as more creditworthy if it were destroying nature (e.g. deforestation for commodities which might generate short term revenue for the country but doesn't account for the long-term costs of this destruction). Understanding the economic benefits of adaptation and protecting natural capital will reduce the likelihood of countries being penalised for spending money on these activities. Understanding the economic risks of climate vulnerability and natural capital exploitation should also help limit global GDP losses linked to climate and nature destruction of \$90 billion annually, and contribute to preventing the V20's estimated \$70-260 billion annual losses and damages from early action. Influencing debt sustainability outlooks may lead to more affordable and targeted climate spending, better resilience planning and increased private investment for countries which would be seen as more creditworthy if they took a long term view on climate adaptation and resilience.



Figure 17: Potential cascade effects from fully incorporating climate and nature in the IMF’s Debt Sustainability Analysis (DSA)



Background

Macroeconomic frameworks, like Debt Sustainability Analyses (DSA), are used to assess the health of a country’s economy.

These frameworks aid decision-making on growth opportunities and risks that drive governments fiscal, monetary and policymaking choices. The IMF carries out DSA, which evaluates a county’s ability to repay their debt. This at least yearly assessment is a reference point for a country’s growth strategy and the outcome of the assessment is of critical importance to the country’s ability to borrow as it indicates their available fiscal space before debt is considered unsustainable¹¹⁰.



Integrating climate risks into macroeconomic assessments could prevent \$90 billion in global GDP losses annually.



Current DSA frameworks do not fully reflect the risks from climate change and nature loss, nor do they capture the benefits from reducing these risks.

In the IMF DSA, a country’s economic forecasts are calculated from a baseline growth scenario that includes government spending and assumptions on how types of spending would contribute to growth, as well as stress testing scenarios for different types of financial shocks that might occur. In the current framework, climate and nature risks are not measured comprehensively in baselines for growth. Acute physical risks from climate change are not included in all growth baselines, e.g. hurricane and other natural disasters, that destroy productive capital and worsen economic and financial performance. Similarly, transition risks are not fully incorporated e.g. an abrupt introduction of carbon pricing, that could trigger sudden downturns in demand for fossil fuels. The co-benefits from early investment and an orderly transition are not also recognised – these include social outcomes for health and energy access, and importantly, co-benefits of protecting nature. Therefore, better data on the positive economic

¹¹⁰ Note there is different DSA framework for countries with market access. The IMF definition of market access, with some exceptions, is that on top of meeting income per capita levels, the government has issued bonds at least 3 of the last 5 years, cumulatively equivalent to at least 50% of the country’s IMF quota.



multipliers from natural capital and adaptation investments, like mangroves that provide flood protection¹¹¹, is important to stimulate investment and reduce potential losses.

The impact of missing these vital elements in the DSA framework could put V20 countries at risk and fail to support investment led growth. Countries may lack sufficient oversight of the risks they face from both climate change and nature loss. The current modelling for measuring climate risk fails to account for the unique profile of climate and nature risks that are nonlinear and deeply uncertain, as well as the compounding of negative feedback loops that have higher impact on low income countries. For example, Kraemer and Volz found that the most severe impact to GDP came from a partial collapse of nature rather than any economic shock in Bangladesh and Vietnam¹¹². If vital ecosystem services collapse, like pollination and forests, the World Bank estimates low income and low middle income countries are worst hit losing 10% and 7.3% of GDP by 2030¹¹³. This underlines the importance of stress testing. The existing DSA framework for low income countries has also been found to overplay the positive impacts of fiscal consolidation, whereas evidence has showed that an investment-led approach can lead to higher income long-term¹¹⁴.

Proposed IMF reforms that are supported by findings from the Expert Review on Debt, Nature and Climate¹¹⁵:

1. IMF should expand GDP growth forecasts and macroeconomic programming to include the country’s (i) climate and nature risks *in all baselines for growth (including all physical and transition risks)*, (ii) the mitigating impact of climate and nature investments and policies (i.e. financial insurance instruments, investments in physical and natural capital), (iii) natural capital as productive capital for economic growth, and (iv) make 20-year time horizons standard practice to consider longer term impacts.
2. IMF should expand the guidance on alternative scenarios and volatility stress tests to include nature risks and investments, and ensure consistent implementation
3. Analysis should reflect importance of an investment-led growth path that puts forward, where appropriate, use of grants and concessional finance by fully recognising the benefits of climate (and nature) investments
4. Reforms should be aligned and implemented across the two DSA frameworks (LIC-DSF and SRDSF)

¹¹¹ Systemiq, “The Mangrove Breakthrough Financial Roadmap”, (2023)

¹¹² Kraemer and Volz, “Integrating Nature into Debt Sustainability Analysis”, Nature Finance, (2022)

¹¹³ World Bank, “The Economic Case for Nature”, (2021)

¹¹⁴ Kharas H and Rivard C, “Debt, Creditworthiness and climate”, (2022)

¹¹⁵ Not comprehensive, see sources for more detail. Task Force on Climate, Development and the International Monetary Fund, “Room to Grow: Integrating Climate Change in Debt Sustainability Analyses for Low-Income Countries”, (2024); Systemiq, “Integrating Climate Adaptation and Natural Capital into Macroeconomic Frameworks and Debt Sustainability” (2024)



Direct impact and cascade effect

The DSA reforms will influence the country's outlook on its debt sustainability with magnitude and direction to be further researched. Proposed reforms include fully integrating climate and nature risks into all baseline scenarios for growth, improve approach to climate risk measurement and ensure correlations between risks are considered in full. Integrating these additional risks and benefits will alter the level at which a country's debt is considered sustainable. This will make climate a more prominent risk to V20's future GDP, reducing the level of country's sustainable debt carrying capacity. In parallel, by integrating the benefits from protecting and restoring natural capital or from investing in climate mitigation will increase the level of sustainable debt carrying capacity. The aggregate of these two will determine the revised debt sustainability outlook. The total magnitude and direction of this change is currently unknown until the data is tested and made available.

Implementing the DSA reforms can contribute to a risk management approach to reduce global GDP loss from nature loss and climate change by enabling investment-led growth. The proposed reforms are not just to assess risk but also to help countries manage risks proactively, ensuring resilience in fiscal and financial systems. The revised outlook could help drive alternative decision-making based on building climate resilience and protecting natural capital by governments, public and private finance. The consequence of delaying investments, if incentives remain weak, would be higher future costs for loss and damage and therefore higher potential fiscal instability.

The IMF DSA is a source of information for financial actors across the system, therefore its reform could create positive cascades for creating sufficient and affordable climate finance – but the magnitude of this change needs to be further researched:

- **Governments and concessional finance providers have more clarity on links between climate risks and future debt burdens.** Implementing the reforms will provide a more accurate picture of countries' risks stemming from climate and nature loss, in addition to the benefits of near term climate investment and the co-benefits of nature for reducing climate risk. This data could be used to build more comprehensive country-owned platforms (lever 1) that take into account the debt carrying capacity of a country and allocate capital based on resilience outcomes.
- **The G20 Common Framework for debt treatment¹¹⁶, a process that includes the IMF, official and non-official creditors, uses the DSA as an input. Reforms could enable better financing**

¹¹⁶ In November 2020, the Common Framework was set up to replace the Debt Service Suspension Initiative (DSSI) put in place during Covid. The framework was agreement of the G20 to coordinate and cooperate on debt treatments for 73 eligible low income countries. The idea is that it would provide debt relief that was consistent with the debtor's capacity to pay and maintain essential spending needs as well as bring in non-Paris club members into the restructuring. The process is supported by the IMF who run the DSA as part of this. Also note that the World Bank and the IMF jointly conduct DSAs for low income countries.



packages for countries that consider adaptation needs as mechanism for increasing economic resilience. A DSA is conducted at the beginning of the Common Framework process available to low income countries. This underpins the financing package and recommendations the IMF makes to the creditor negotiation¹¹⁷.

- **Private credit ratings may be influenced by the DSA reforms if material risks are shown.** Material ESG scores are included in sovereign ratings, but for low income countries macroeconomic factors, fiscal or debt factors were found to drive a country’s rating decision. This means the risks from climate are not being truly reflected in ratings. The World Bank also found that a countries reliance on natural capital in the long-term is not well integrated into ratings¹¹⁸. Analysis that integrates a partial nature collapse into ratings found that the highest impact is on emerging markets and developing countries and 31% of sovereigns are expected to have their rating lowered by 3 notches in this scenario¹¹⁹. A reformed DSA assessment could more clearly highlight variations in climate and nature risk between countries, which wouldn’t be visible within the current credit rating system.

Progress and actors

The IMF and World Bank have strongly signalled commitment to the DSA reform, but the High Level Expert Group on Climate Finance finds progress too slow. Collaboration between the IMF and World Bank is essential to integrate these reforms, drawing on the latter’s expertise in public investment programs and long-term growth diagnostics. Earlier in the year, they jointly published a supplement to the existing DSA guidance that recognised the macroeconomic significance of climate change for low income countries¹²². This was a positive step and the IMF have also engaged with discussions on implementing the DSA reform. However, the High Level Expert Group on Climate finds that the IMF could move faster on implementing the recommended measures to fully incorporate both climate and nature risks and benefits¹²³. Without comprehensively measuring climate risk, countries’ fiscal positions are likely to become increasingly unstable.

¹¹⁷ Club de Paris, “[The G20 Common Framework for Debt Treatments beyond the DSSI](#)”, accessed on 30/12/2024

¹¹⁸ World Bank Group, “[Credit Worthy: ESG Factors and Sovereign Credit Ratings](#)”, (2022)

¹¹⁹ Agarwala M, Burke M, Klusak P, Kraemer M, Volz U, “[Nature Loss and Sovereign Credit Ratings](#)”, (2022)

¹²⁰ IMF and World Bank, Supplement to 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, (2024)

¹²¹ IHLEG, “[The State of Delivery: Progress Report of the Global Climate Finance Agenda](#)”, (2024)



Conclusion

Improving macroeconomic frameworks, including the DSA, will provide a more accurate view of the risks and benefits from climate and nature. These reforms could contribute to better incentives for investment, help to create the case for more concessional funds and for better credit ratings. The DSA output could underpin a robust country platform from the first lever. Together, the ten super levers form a self-reinforcing roadmap; starting with strong national strategies, redirecting resources, shifting economic incentives, optimising financial tools, and embedding supportive systemic conditions. This cohesive agenda ensures that the multilateral system is equipped to mobilise and deploy the scale and quality of finance needed for V20 countries. It drives climate resilience, sustainable growth, and the protection of global public goods.





The way forward

Mobilising finance for V20 countries at the scale and pace necessary to tackle the climate crisis and ensure a pathway to climate prosperity, resilience and sustainable development requires bold action and political will. The ten super levers outlined in this paper provide an actionable framework to unlock affordable finance while catalysing systemic reforms across global financial systems. This work consolidates existing efforts, providing clear pathways and actors for implementation. Together, the super levers could accelerate an additional \$210 billion of climate finance annually for V20 countries by 2030. This would mitigate GDP losses from avoided destruction of nature, reduce climate-related loss and damage, build long-term domestic capacity and deepen domestic economic and financial markets. To achieve this in the next five years, the actors highlighted need to:



Implementing the ten super levers demands unprecedented global collaboration but could catalyse systemic change, benefiting not only V20 countries but all emerging economies.



- 1. Prioritise immediate delivery:** Policymakers, financial institutions, and development partners must prioritise actions with the most immediate and significant impact, such as repurposing inefficient subsidies, implementing solidarity levies, scaling sovereign insurance, and enhancing local currency solutions. These steps can quickly generate financial flows while reducing exposure to climate shocks.
- 2. Build momentum through collaboration and leadership:** Leadership from V20 countries should be supported by the broader international community to deliver on this agenda. Ensuring that V20 priorities remain central to global climate finance discussions will help drive the necessary political will for action.
- 3. Innovate and refine financial tools:** Continued innovation is essential to ensure that financial mechanisms, such as carbon markets, SDR rechannelling, and local currency instruments, are designed to deliver both scale and inclusivity.
- 4. Pursue financial architecture reforms:** Although financial system reform will take longer, initiating these changes today is crucial to meet the scale of investment needed in the coming decades. Key reforms include integrating climate and nature risks into macroeconomic frameworks and updating capital adequacy frameworks to reduce financing costs for infrastructure investments in V20 countries. These changes will not only improve access to capital but also create a more resilient and inclusive financial system.
- 5. Strengthen governance and institutional capacity:** Addressing structural imbalances in global financial governance is critical to enabling fair and equitable finance flows. Simultaneously, strengthening domestic institutions and supporting coherent policy environments in V20 countries will maximise the impact of mobilised resources.

Below are the next steps to deliver each super lever.

Table 3: Implementation pathway for ten “super levers” for V20 climate finance

“Super lever”	Finance amount per year to V20	Pathway to implementation (actor and actions)
1. Strengthen country platforms	Facilities unlocking finance from all of the below levers	<ul style="list-style-type: none"> • V20 and other EMDCs lead the creation of effective country platforms, tailored to local needs • Philanthropies provide long-term flexible grants to create and implement country platforms • Private sector build capacity and expertise to finance V20 priorities through country platforms
2. Scale carbon markets	\$20 bn explicit carbon pricing/compliance market	<ul style="list-style-type: none"> • V20 governments set carbon strategies, implement carbon regulations and frameworks • International donors and development partners provide financial and technical support • Developed country governments and corporates to go beyond existing commitments through financial contributions or credits • G20 countries to allow companies to use high quality international carbon credits to pay for a small portion of taxable emissions
3. Rechannel Special Drawing Rights (SDRs)	\$35 bn	<ul style="list-style-type: none"> • G20 countries make new \$100bn commitment to re-channel SDRs through the IMF and \$20bn through MDBs that can be leveraged 3-4x • IMF and central banks agree on definition of a reserve asset for SDRs
4. Implement solidarity levies	\$50-150 bn	<ul style="list-style-type: none"> • The Global Solidarity Levies Task Force publish priority global solidarity levies options by mid-2025 • G20 countries draft roadmap to implement solidarity levies on aviation and maritime sectors in 2025
5. Repurpose inefficient subsidies	\$30 bn	<ul style="list-style-type: none"> • Canada and G7 develop a common and transparent framework to phase out fossil fuel subsidies in 2025 • G20 countries create national roadmaps for phasing out fossil fuel subsidies with a committed time frame
6. Reform capital adequacy rules	No amount estimated – in-depth analysis required from actors	<ul style="list-style-type: none"> • BCBS and FSB validate and coordinate potential updates, with World Bank, IMF and V20 input • G20 to assign a cost of capital commission to make recommendations on changes, with V20 input • Private sector to share anonymous data of EM infrastructure performance
7. Set private capital mobilisation mandates	\$20 bn	<ul style="list-style-type: none"> • MDBs and their shareholders commit to ambitious mobilisation targets and implement private sector reforms
8. Expand local currency solutions	\$5 bn	<ul style="list-style-type: none"> • MDBs/DFIs/donors fund expansion of TCX capital base • Donor countries support scale up of concessional FX instruments • Philanthropy and private sector research and support FX hedging innovations
9. Improve access to affordable insurance	\$10 bn avoided economic loss	<ul style="list-style-type: none"> • Donor countries increase insurance premium subsidies directly or through capitalising regional risk pools
10. Update macroeconomic frameworks	Contributes to minimising global GDP losses of \$90 bn from nature protection	<ul style="list-style-type: none"> • IMF and World Bank, with V20 country input, to test and incorporate climate and nature risks into baselines for growth and develop a robust approach to valuing adaptation investments

Appendix

V20 climate finance need

The V20 climate finance need of **\$490bn per year** was estimated from the requirement for Emerging Market Developing Countries (EMDCs) of **\$2.4 trillion per year by 2030** (estimated by the Independent High Level Expert Group on Climate Finance (IHLEG)). The portion for the V20 was estimated using the V20 percentage the total GDP for EMDC countries within the IHLEG analysis. Additional finance amounts were included for the V20 based on a higher need for Adaptation and Resilience (A&R) and Loss and Damage (L&D). These were added because of higher climate vulnerability (and lower adaptation capacity) in the V20 that were not reflected through the GDP based figure. The high level estimate for the total climate financing need for the V20 is \$490bn (\$494bn rounded to nearest 10) per year for the V20.

To summarise, this estimate is the sum of three parts: **\$411bn** financing need for V20 based on GDP from the IHLEG total; **\$30bn** additional financing need for Loss and Damage (L&D) based on regional estimated for L&D on a per capita basis; **\$53bn** additional financing need for Adaptation and Resilience (A&R) based on adaptation costs as a % of GDP. Sources and calculation method for getting to the **\$490 bn** per year V20 requirement provided in Table 4 to Table 7 below.

Table 4: Estimation of financing need for V20 based on GDP (\$ billions per year)

Category	Figure	Source
Climate investment needs for 142 World Bank borrowing countries, EMDCs excluding China	\$2.4 trillion per year	Bhattacharya A, Songwe V, Stern N, Soubeyran E, “ Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance ”, (2024)
% of GDP for V20 of IHLEG countries GDP for latest year available: \$4tn/\$20tn	16.85%	World Bank Development Indicators: GDP (current US\$)
V20 investment need based on GDP: \$2.4 trillion x 16.85%	\$411 billion per year	-

Table 5: Estimation of additional V20 financing need for Loss and Damages (\$ billions per year)

Category	Figure	Source
Loss and damage estimates by region	See Data Table 1 below	Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024)
Population of V20 by region	See Data Table 2 below	World Bank Development Indicators: GDP (current US\$)
Estimated Loss and damages in V20 by 2030: Regional estimate x % population in V20	Total: \$70-260 billion by 2030 High damage (3.4 °C by 2100): \$259 billion Low damage (2.5 °C by 2100): \$72 billion	-
Difference between GDP estimate for loss and damage and total	$\$72 - \$42 = \$30$ bn	-

Table 6: Loss and damages estimates by region (\$bn per year)

Residual damages estimates (\$ billions US 2005)	2030 high damage-low discount rate	2030 low damage-high discount rate	2040 high damage-high discount rate	2040 low damage-high discount rate
Middle East and North Africa	130	36	162	68
Sub-Saharan Africa	112	31	140	59
South Asia	345	96	431	182
Latin America and Caribbean	308	86	385	163
East Asia	122	34	153	64

Table 7: V20 population by region using latest available year

Region	Total population (millions)	V20 population (millions)	V20 population (% of total)
Middle East and North Africa	501	107	21%
Sub-Saharan Africa	1242	766	62%
South Asia	1939	510	26%
Latin America and Caribbean	664	126	19%
East Asia and Pacific	2381	250	11%

Table 8: Estimation of additional V20 financing need for adaptation (\$ billion per year)

Category	Figure	Source
Adaptation finance as a % of GDP	Low income: 3.1% Lower middle income: 2.5% Upper middle and high income: 1.4%	UNEP, Adaptation Gap Report, 2023
V20 adaption finance need: GDP x adaption finance % rate (rate applied by country based on income bracket)	Total: \$95 billion per year	World Bank Development Indicators: GDP (current US\$) World Bank Income Classifications

V20 current climate finance

Current climate finance estimates provided by the Climate Policy Initiative (CPI), from data in the CPI "[Global Landscape of Climate Finance 2024](#)".

Table 9: Uses of current V20 climate finance (\$bn for 2022)

Climate Finance Use	Private	Public	Unknown	Total
Adaptation	0.8	19.9		20.6
Mitigation	27.4	19.6	0.7	47.6
Multiple Objectives	0.6	17.5		18.1
Unknown	0.0	0.9		0.9
Total	28.8	57.8	0.7	87.2

Table 10: Sources of current V20 climate finance (\$bn for 2022)

Sources of finance	Private	Public	Unknown	Total
Domestic	25.4	1.2	0.7	27.3
International	3.3	56.6	0.0	59.9
Total	28.8	57.8	0.7	87.2

Note that the above estimates are based on available data, however, there are certain data limitations. These include limited data on private adaptation finance as well as domestic public finance due to lack of consistent reporting. In addition, data on household contributions to adaptation as well as on South-South climate finance remain scarce.

Amount of finance unlocked and avoided losses from the ten super levers

Table 11: Method for estimation, sources and assumptions for contribution of ten super levers (\$bn per year)

“Super lever”	Finance amount per year to V20	Estimation approach and assumptions																		
1. Strengthen country platforms	Facilities unlocking finance from all of the below levers	Country platforms are a foundational lever that can unlock investment from other levers.																		
2. Scale carbon markets	\$20 bn	<p>Explicit carbon pricing (from compliance market):</p> <p>Estimates on carbon pricing revenue for V20 countries as % of GDP [IMF, “Putting a price on Pollution”, (2019)]</p> <table border="1"> <thead> <tr> <th>V20 country</th> <th>Estimated revenue as a % GDP from \$35 tCO2e carbon tax</th> </tr> </thead> <tbody> <tr> <td>Colombia</td> <td>~0.5%</td> </tr> <tr> <td>Costa Rica</td> <td>~0.25%</td> </tr> <tr> <td>Côte d’Ivoire</td> <td>~0.5%</td> </tr> <tr> <td>Ethiopia</td> <td>~0.25%</td> </tr> <tr> <td>Pakistan</td> <td>~1.25%</td> </tr> <tr> <td>Tanzania</td> <td>~0.5%</td> </tr> <tr> <td>Vietnam</td> <td>~1.5%</td> </tr> <tr> <td>Average</td> <td>0.7%</td> </tr> </tbody> </table> <p>Based on the above, if V20 countries could collect 0.5% of GDP from carbon pricing schemes. V20 total GDP=\$4trillion x 0.5% GDP captured from carbon pricing = \$20 billion</p> <p>Assumption: V20 countries can collect 0.5% of GDP and implement a \$35 tCO2e carbon tax</p> <p>Domestic crediting (from voluntary market): Potential market value of voluntary carbon markets for LDCs by 2030 at \$10 price = ~0, at \$50 price =~1bn, at \$100=~\$5bn; 2040 at \$10 price = near 0, at \$50 price=~5bn, at \$100=~ \$20bn [UN, “Least Developed Countries Report 2024”, (2024)]</p> <p>Note this is not included in total for carbon markets due to uncertainty on price and low of revenue if price remains at \$10tCO2e.</p> <p>Assumptions: Data for domestic crediting is in LDCs, which is 44 countries, 29 of which are in the V20. Does not include data for other income categories outside of LDCs.</p>	V20 country	Estimated revenue as a % GDP from \$35 tCO2e carbon tax	Colombia	~0.5%	Costa Rica	~0.25%	Côte d’Ivoire	~0.5%	Ethiopia	~0.25%	Pakistan	~1.25%	Tanzania	~0.5%	Vietnam	~1.5%	Average	0.7%
V20 country	Estimated revenue as a % GDP from \$35 tCO2e carbon tax																			
Colombia	~0.5%																			
Costa Rica	~0.25%																			
Côte d’Ivoire	~0.5%																			
Ethiopia	~0.25%																			
Pakistan	~1.25%																			
Tanzania	~0.5%																			
Vietnam	~1.5%																			
Average	0.7%																			

“Super lever”	Finance amount per year to V20	Estimation approach and assumptions
3. Rechannel Special Drawing Rights (SDRs)	\$35 bn	<p>New \$100bn commitment from G20 (matches existing commitment) to re-channel SDRs through the IMF over next 5 years = \$100bn/5 = \$20bn</p> <p>Plus, an additional \$20bn through MDBs (which is the IMF limit for hybrid capital) which can be leveraged 3-4x over the next 5 years = \$70bn/5 = \$14bn</p> <p>Total is \$35bn (rounded to nearest 5)</p> <p>Assumption: All V20 countries as well as other EMDCs would be eligible for receiving SDRs through the IMF or MDBs. Figure assumes full amount is apportioned to the V20.</p>
4. Implement solidarity levies	\$50-150 bn	<p>Half of the potential revenue generation per year from maritime shipping levy (\$36-127 billion), aviation fuel levy (\$6-20 billion), and aviation ticket levy (\$58-164 billion) could go towards climate finance, whilst the other half could be used to decarbonise the sectors.</p> <p>Low revenue(\$100bn/2) to high revenue(\$311bn/2) = \$50-150 bn</p> <p>Assumption: All V20 countries as well as other EMDCs could be eligible for receiving revenues from the portion for climate finance. Figure assumes full amount is apportioned to the V20.</p>
5. Repurpose inefficient subsidies	\$30 bn	<p>IMF model of “Change in revenue from (fossil fuel subsidy) reform” for 19 G20 countries is \$3.24 trillion.</p> <p>Assumption: A conservative assumption of 1% of this amount could be used as climate grants or investment. Since the average official development assistance (ODA) as a percentage of GNI was 0.37% in 2023 by members of the OECD Development Assistance Committee (DAC), and more countries outside of the G20 could also implement fossil fuel subsidy reforms, the total of \$30 billion (rounded to nearest 5) may be even larger.</p> <p>[IMF, “https://www.imf.org/-/media/Files/Topics/energy-subsidies/EXTERNALfuelsubsidiestemplate2023new.ashx”, (2023)]</p>
6. Reform capital adequacy rules	-	No amount estimated – in-depth analysis required from actors
7. Set private capital mobilisation mandates	\$20 bn	<p>Commitment by MDBs to climate finance in low and middle income countries =\$120bn (total commitment by 2030)</p> <p>\$46 billion private capital would be mobilised at the current mobilisation ratio of 0.4; \$144 billion private capital would be mobilised at the 1.2 target MDB mobilisation ratio; Difference is \$144bn -\$46bn =\$98bn</p> <p>\$20bn additional mobilisation for V20= \$98bn (total for low and middle income) x 20% (V20 portion based on GDP)</p> <p>Total is \$20bn (rounded to nearest 5)</p> <p>Assumption: All climate finance from MDBs can achieve a 1.2 private mobilisation</p> <p>Data exclusions: Excludes any V20 countries outside of low and middle income buckets</p> <p>[WRI, “MDB climate finance 2023”, (2023); G20 IEG, “The Triple Agenda G20 IEG Report”, (2023); World Bank, “Multilateral Development Banks to Boost Climate Finance”, (2024)]</p>

	“Super lever”	Finance amount per year to V20	Estimation approach and assumptions
8.	Expand local currency solutions	\$5 bn	<p>\$20 billion private capital mobilised by MDBs (see previous calculation)</p> <p>30% of this could be local currency, this would increase the mobilisation ratio on \$6 billion to ~2.4</p> <p>Total is \$5 bn (\$6bn rounded to nearest 5) additional capital mobilised from difference between 1.2 and 2.4 mobilisation rate</p> <p>Assumption: 30% of MDB climate finance is in local currency</p> <p>Supporting estimates showing high private capital mobilisation for local currency facilities:</p> <p>Infracredit= 2.4 x mobilisation = \$445mn private finance /\$187mn Infracredit capital base</p> <p>GurantCo= 14.6 x mobilisation = \$5.7bn private investment/\$390mn GurantCo capital base</p>
9.	Improve access to affordable insurance	\$10 bn avoided economic loss	<p>\$525bn of GDP lost in V20 in the last 20 years = \$26bn per year [V20, “Climate Vulnerable Economies Loss Report”, (2022)]</p> <p>If the protection gap decreased from the current 98% in V20 countries to the global average of 60%, then 38% of \$26bn could be additionally covered by insurance and loss avoided = \$10bn</p>
10.	Update macroeconomic frameworks	Contributes to minimising global GDP losses of \$90 by 2030 from nature protection	<p>\$90bn lost in a BAU scenario by 2030 from loss of ecosystem services caused by loss of caused by the conversion of natural land to cropland, pastureland and forest plantations that are not accounted for in economic models.</p> <p>[World Bank, “The Economic Case for Nature”, (2021)]</p> <p>Assumptions: Reforming macroeconomic frameworks leads to greater protection of nature. The nature loss figures are global, but given high dependency on nature in v20 countries they are expected to experience a significant portion of the losses and the reforms would also be global too.</p>

Solidarity levies

Table 12: Potential revenue generation from solidarity levies (\$bn per year)

Levy option	Potential revenue generation per year	Progress
Maritime shipping levy	\$36-127 billion	One of the most mature proposals, currently under negotiations at IMO, due to resume at MEPC83 7-11 April. Governments expected to adopt measures ahead of formal adoption in Oct’25. Strong support from majority of countries.
Aviation fuel levy	\$6-20 billion	Given challenges of negotiating global arrangement through existing fora, exploring option of starting with private jets or a regional coalition of a critical mass of countries.
Aviation ticket levy	\$58-164 billion	Exploring options of modular ticket levy (mandatory at higher rate on luxury tickets but voluntary at lower rate on economy ticket) or frequent flyer levy (\$121 billion).

Levy option	Potential revenue generation per year	Progress
Fossil fuel extraction levy	\$216.2 billion	At a national level, there are different degrees of direct or indirect levies on fossil fuels but internationally, nearly no examples of international coordination, except for an insurance system in case of oil pollution accidents. A mix of different types of levies is likely needed and these require further exploration.
Fossil fuel profits levy	\$173.4 billion	
Financial transaction levy	\$165 – 423 billion	Most advanced cross-border efforts were deployed within EU with a proposal for a Directive at EU level but there was ultimately no agreement. At national level, over 30 countries have the equivalent of a financial transaction levy. Efforts needed to revitalise efforts to design a global levy and build coalition of the willing to allocate share of revenues for climate finance.
Minimum wealth levy	\$200 – 250 billion	G20 released a report on wealth tax and signed ministerial declaration on international tax cooperation which restates commitment to fair and progressive taxation, including of ultra-high-net-worth individuals. Lots of momentum but lack of immediate follow-up actions.

Methodology

There were four main steps for identifying and validating the ten levers included in this report. Firstly, a literature review was conducted of key sources in parallel to conducting expert interviews. Second, the findings of the literature review and expert inputs were mapped to the estimated V20 climate finance needs. Third, an impact assessment was applied to the levers and finally the list of ten levers was validated through a short consultation process.

I. Literature review

The first step of this analysis was to undertake a literature review key financial reform and climate finance agendas that represent the collective expertise and momentum of critical priorities, which include:

- Climate Vulnerable Forum - Vulnerable 20 (CVF-V20)
- Bridgetown Initiative
- Blended Finance Taskforce
- COP28 Finance Agenda
- Climate Policy Initiative Compass
- G20 Multilateral Development Bank (MDB) Triple Agenda
- G20 Sustainable Finance Working Group
- Independent High Level Expert Group on Climate Finance
- Overseas Development Institute (ODI)
- Sustainable Markets Initiative 10-point action plan
- Stocktake of Paris Pact Roadmap
- Sustainable Banking and finance network (IFC)

In parallel, insights from participation in international climate forums and experts were gathered. Similar recommendations were made across these sources, so overlapping items were consolidated. This provided a set of mechanisms that were either set out explicitly from the existing research, e.g. target rates for MDB private capital mobilisation or rechanneling of SDRs, or implicitly by barriers to finance, e.g. improved credit ratings or cheaper FX hedging to achieve a lower cost of capital.

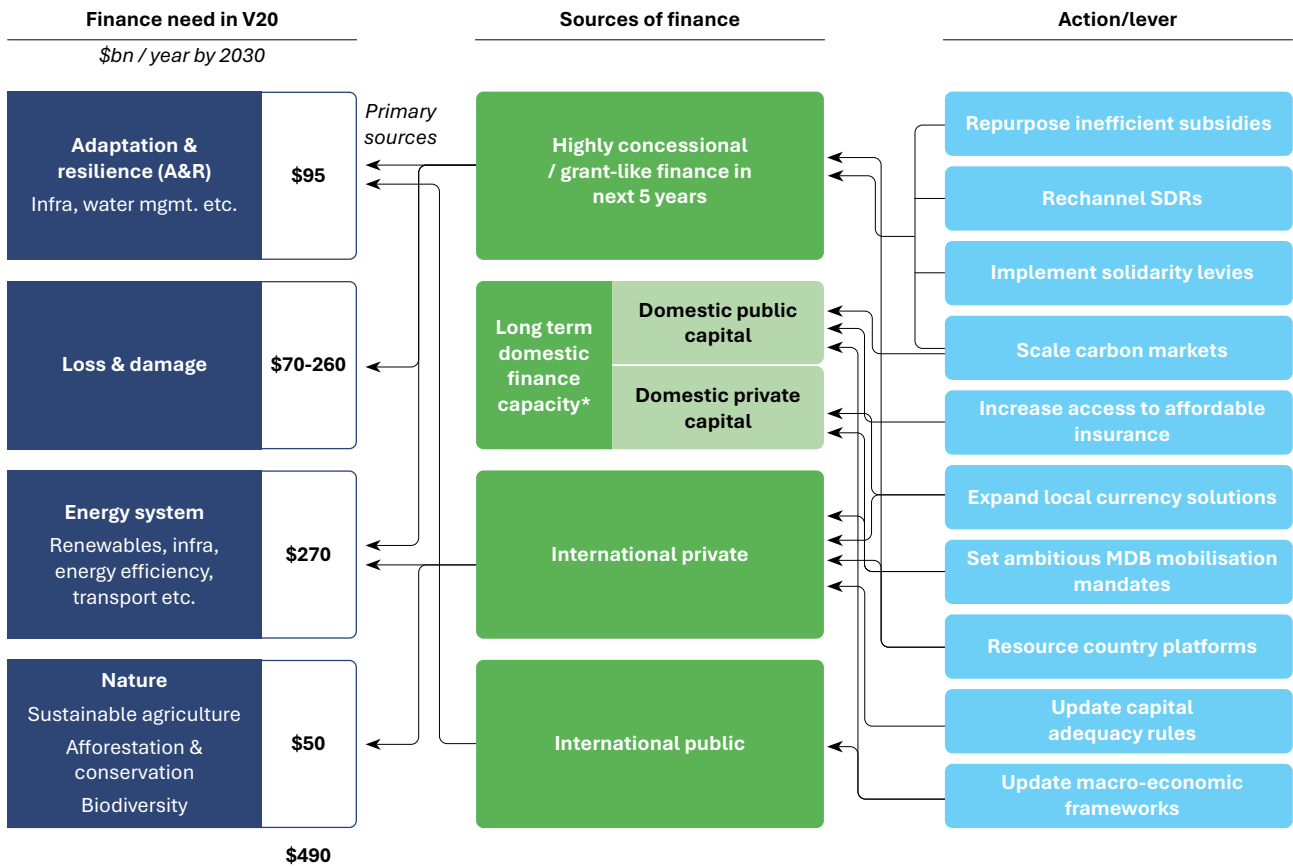
II. Mapping of action and finance needs

The recommended actions were then mapped to mechanisms that could provide the sources of finance, including debt-free, domestic, public and private, that are required to deliver the estimated \$490bn climate finance for the V20. This prioritised actions that could directly deliver financial outcomes compared to enabling actions for the agenda e.g. governance and stronger institutions.

The driving principle was that the levers should deliver a comprehensive strategy to deliver finance to adaptation and resilience, loss and damage, the energy system and nature, as shown below. This recognises that for the V20, adaptation, resilience and loss and damage are equally as important as investments in energy systems- without significant adaptation

investment in the near-term, the climate vulnerability of the V20 will rapidly grow and without access to loss and damage funds, development progress is stalled. Therefore, this strategy, through the ten levers, places equal importance on each climate finance need. See Figure 17 below for a simplified summary of the mapping.

Figure 18: Simplified mapping of finance need and sources of finance to levers



* Domestic finance would finance all 4 needs – arrows not drawn for simplicity

III. Impact framework

The next stage was to clarify that each lever identified mapped to the potential desired impact. An important consideration was that while size played a significant role and was a priority for scaling finance, it was not necessarily the best indicator of what would enhance domestic capacity. Or, importantly of what the V20 finance ministers and Climate Vulnerable Forum consider important from the decade long collaboration. Therefore size alone was not reflective of the quality of the finance.

The basic impact assessment was set across four main dimensions – these were that the lever should be demand-driven, market-building, available in a short time frame (pace) and significant in size as described in Figure 18 below. The lever had to both impactful in its own right before 2030 and have positive feedback loops to other levers or parts of the financial system to be part of the final list. For example, although important one-off contributions, through ODA for example, did not meet the criteria for the positive feedback loops.

Figure 19: Impact criteria for super levers

Demand-driven	Market-building	Pace	Size
Responds to the asks of the V20 and supports their climate finance objectives	Builds local real economy and financial sectors, and supports local agency	Impact is feasible in the near-term, by 2030	Additional capital raised or amount of avoided loss
<p>Green: An action or outcome the V20 directly called for and directly addresses climate finance objectives</p> <p>Amber: Linked to an outcome the V20 are calling for and/or indirectly addresses climate finance objectives</p> <p>Red: Not explicitly or implicitly demanded by the v20</p>	<p>Green: Significantly develops/strengthens local (financial) markets and supports local decision-making and capacity building</p> <p>Amber: Potentially develops / does not block development local (financial) markets</p> <p>Red: No significant link and/ blocks development of local (financial) markets</p>	<p>Green: Significant impact feasible before 2030- e.g. shows high political support, low cost, clear ownership of actions</p> <p>Amber: Implementation feasible by 2030</p> <p>Red: Implementation/ impact not feasible by 2030</p>	<p>Additional capital \$ bn raised per year</p> <p>Potential contribution to \$ bn avoided losses per year</p>
<ul style="list-style-type: none"> • Feedback loops • Enabling conditions 			

IV. Validation and limitations

The final step was to validate the findings of the levers through speaking to individual experts and through a consultation process with members of the V20 and Blended Finance Taskforce.

While this report is built on a thorough review of existing literature, expert insights, and data analyses, we acknowledge that the methodology has its inherent limitations. The estimated impacts of the ten super levers are derived from available data, modelling assumptions, and expert interpretations, which may not fully capture the dynamic complexities of financial systems or the unique circumstances of all V20 countries. Certain assumptions may vary based on evolving global contexts, policy environments, and data availability.

We welcome feedback and invite further collaboration to refine and strengthen the findings presented. Should you wish to provide comments, please contact Betty Wang (betty.wang@systemiq.earth) or Pippi Durie (pippi.durie@systemiq.earth).

