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POLICY BRIEF

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Bridging Gaps, Facing Limits: Opportunities and Constraints of Private Finance under the New Collective Quantified Goal (NCQG) for LDCs and SIDS

1. Introduction

Least Developed Countries (LDCs) and Small Island Developing States (SIDS) are the countries that are most vulnerable to climate change, facing threats posed both by slow-onset processes and extreme weather events. They bear disproportionate shares of climate risk relative to historic responsibility and have very limited resources and capacity to deal with the climate crisis. Consequently, international climate finance is critical to drive climate action in LDCs and SIDS.

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The New Collective Quantified Goal (NCQG), which sets a US$300 billion climate finance target annually by 2035, and the Baku to Belém Roadmap, which is to be finalised at COP30 and will outline pathways for mobilising US$1.3 trillion for developing countries from all actors, emphasise private climate finance to fill the gaps where public climate finance is limited. While the NCQG decision states that developed countries should take the lead in mobilising the US$300 billion, climate finance is expected to come from "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources".[1] The decision further calls on all actors to scale up financing to developing countries from "all public and private sources" to at least US$1.3 trillion per year by 2035.[2] Considering the limits to publicly mobilised climate finance, this larger mobilisation goal implies that the private sector is expected to step up to provide significant amounts of climate finance. In LDCs and SIDS, however, there are severe limitations to mobilising both domestic and international private climate finance. The domestic private sectors are typically small, highly informal, and capital constrained. The international private sector is deterred from investing in climate solutions in LDCs and SIDS due to perceived and real climate, currency and policy risks, small market sizes and high transaction costs that limit economies of scale.

These constraints motivate a persistent policy debate. One strand posits that strengthening domestic enabling environments can catalyse domestic and international private climate finance at scale. Measures to strengthen enabling environments include credible and predictable regulation, policy frameworks that support green investments and create demand for climate solutions, strong financial institutions, available information of climate risks and opportunities, as well as bankable project pipelines. The opposing strand emphasises that persisting structural impediments and high climate vulnerability prevent private climate finance from being mobilised at the speed and scale needed in LDCs and SIDS without sustained substantial and highly concessional international climate finance. These barriers include high-risk premiums to be paid when seeking financing in international markets, hindrances to profitable business cases posed by small markets and fragmented geographies in the case of SIDS, challenges in generating returns with adaptation investments and exposure to climate risks and the resulting vulnerability. Additionally, narrow export bases, energy and food import dependences, shallow financial systems, and elevated debt rates limit fiscal space domestically.

In this context, this policy brief critically assesses the diverging views, the current state of affairs, associated limitations but also some additional options for successfully scaling private climate finance to support the most vulnerable countries – LDCs and SIDS. It also provides recommendations for a reflection of the specific circumstances and characteristics of LDCs and SIDS in the Baku to Belém Roadmap.

2. Defining 'private climate finance'

2.1 Providers of private climate finance

Private climate finance refers to financing that is provided for climate change mitigation and adaptation[3] by entities and organisations that are non-state actors. This includes a large variety of very heterogenous actors. Households, small and medium-sized enterprises (SMEs) and larger private companies can act as providers of climate finance when they invest in climate solutions directly (either for their own use or for providing commercial products and services) or in climate-related financial products (to generate financial returns). Additional providers of climate finance from the private sector include commercial and investment banks, equity funds and institutional investors such as private pension funds and insurance companies.

1 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

2 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

3 Loss and Damage is typically not included in the concept of private climate finance, since these investments do not yield any revenue streams, which would be necessary to attract private financing (IHLEG, 2024). Addressing Loss and Damage will require highly concessional and debt-free finance, especially in LDCs and SIDS, which are the countries that are most vulnerable to climate change. Thus, this policy brief does not consider private finance for Loss and Damage.

2.2 Measurement and attribution of private climate finance flows

In the international climate-change regime, there are three ways of looking at private finance that differ in the logic of how private finance is leveraged, and that have direct implications on how related climate finance flows are measured and attributed. These include private finance mobilised through public finance interventions, private finance catalysed through policy interventions that are not of financial nature, and private finance that is independent of public interventions (ODI, 2025).

Private finance that is mobilised through public finance interventions is reported by OECD DAC members as that part of public climate finance that counts directly towards the US$100 billion goal until 2025 and thereafter to the US$300 billion goal. Private finance catalysed is currently not being tracked due to the complexity and difficulty of estimating and foreseeing the impact of policies on future finance flows/investments.[4] Private finance that is invested independently from public finance as well as non-financial interventions can only be estimated as there are no standardised definitions and frameworks to track climate finance from private actors. Since available data is often sparse or fragmented, this limits the accuracy of available information on who funds, administers and receives climate finance. Additionally, privacy concerns and knowledge gaps make it challenging to discern the factors that influence private sector investment in climate action (WRI, 2023).

2.3 Private climate finance under the NCQG

While the NCQG decision "Calls on all actors to work together to enable the scaling up of financing to developing country Parties for climate action from all public and private sources to at least US$1.3 trillion per year by 2035" (para. 7), important questions are not addressed.[5] These include the question of how much the private sector is expected to contribute. While the exact volume of private climate finance towards the US$1.3 trillion target cannot be determined in advance, the lack of specificity presents significant challenges. On the one hand, the lack of a universally agreed definition of what counts as climate finance results in challenges for tracking, monitoring and evaluating progress in scaling up private climate finance. On the other hand, the lack of specification on the envisioned and realistic applications of private climate finance – referring to thematic, sectoral and geographic distributions – bears the risk of relying on private climate finance to solve the issue in areas where it most likely cannot.

3. Private climate finance in LDCs and SIDS

3.1 How much does private climate finance contribute?

Private climate finance mobilised for climate action in LDCs and SIDS is lower and less effective compared to other developing countries. The mobilisation of private climate finance concentrates on upper-middle-income countries (UMICs) and lower-middle-income countries (LMICs), whereas less is mobilised for low-income countries (LICs) (and high-income countries (HICs), which obviously require less development assistance) (Figure 1). Mobilisation of private climate finance is also less effective in mobilising private finance for climate action in LICs compared to countries with higher incomes (Figure 2).

4 Catalysation is a term often used to describe interventions such as public policies, incentives and capacity building measures that create environments conducive to increasing private sector investment over time. Assessing the impact of such interventions, however, is complex, because several interventions operate simultaneously in a broader policy landscape, which makes isolating the effect of individual interventions challenging (OECD, 2023b).

5 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

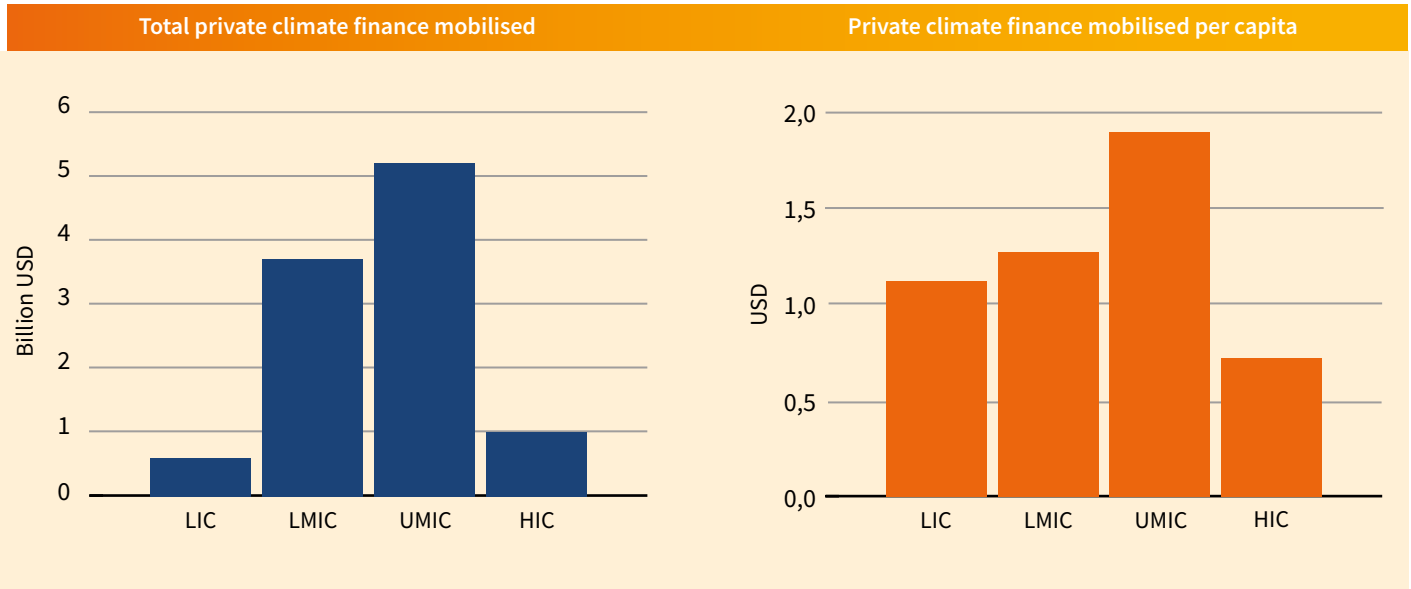

Figure 1: Private climate finance mobilised for developing countries 2016-2021. Data source: OECD (2023b). Scaling Up the Mobilisation of Private Finance for Climate Action in Developing Countries: Challenges and Opportunities for International Providers.[6]

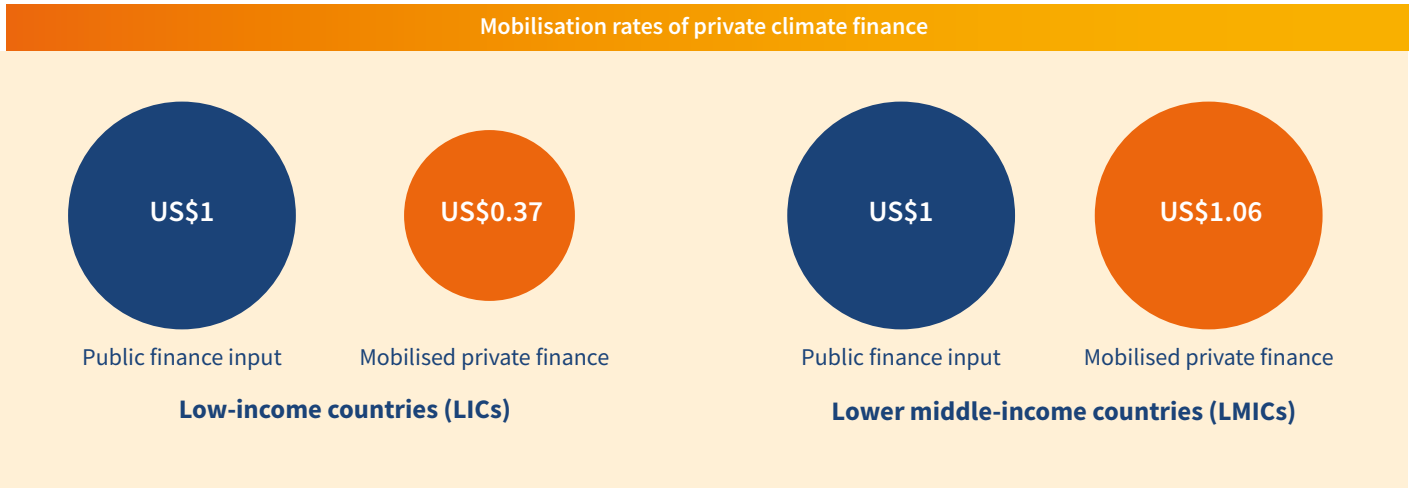

Figure 2: Mobilisation rates of private climate finance through public finance interventions. Data Source: United Nations Department of Economic and Social Affairs (UNDESA) (2025). Blended finance is not working; It is time for a new approach for mobilizing private finance for the SDGs at FfD4.

Private climate finance that is independent from public finance interventions is also limited in LDCs and SIDS. Data on private finance beyond the mobilisation as reported by OECD DAC members is scarce and fragmented. Research by the Climate Policy Initiative (CPI) indicates that private finance accounts for less than 10% of climate finance to LDCs and less than 2% to low-income and lower-middle-income SIDS (CPI, 2024a). Most recent data shows that private climate finance in SIDS represents 0.20% (US$2.5 billion in 2023) of all private climate finance flows measured, with more than two thirds of those coming from the domestic private sector. Private climate finance in LDCs accounts for 0.41% (US$5.2 billion in 2023) of global private climate finance flows, with a balance of domestic and international flows (Figure 3) (CPI, 2025a).

6 The data is based on reporting by OECD DAC members, including bilateral and multilateral providers. Reporting private climate finance mobilisation requires a demonstrable causal link between private finance made available for a specific project and the leveraging mechanism deployed by official development finance providers (OECD, 2023b). In this context, mobilisation can be reported for the following leveraging mechanisms: syndicated loans, guarantees, shares in collective investment vehicles, direct investment in companies, credit lines, project finance and simple co-financing arrangements. Limitations in this data are: 1) reporting on amounts mobilised is (in contrast to finance provided) not mandatory for OECD DAC members and multilateral institutions, 2) many of the reported amounts mobilised are reported at regional level, making it impossible to disaggregate per country. Consequently, these data have not been included in the analysis.

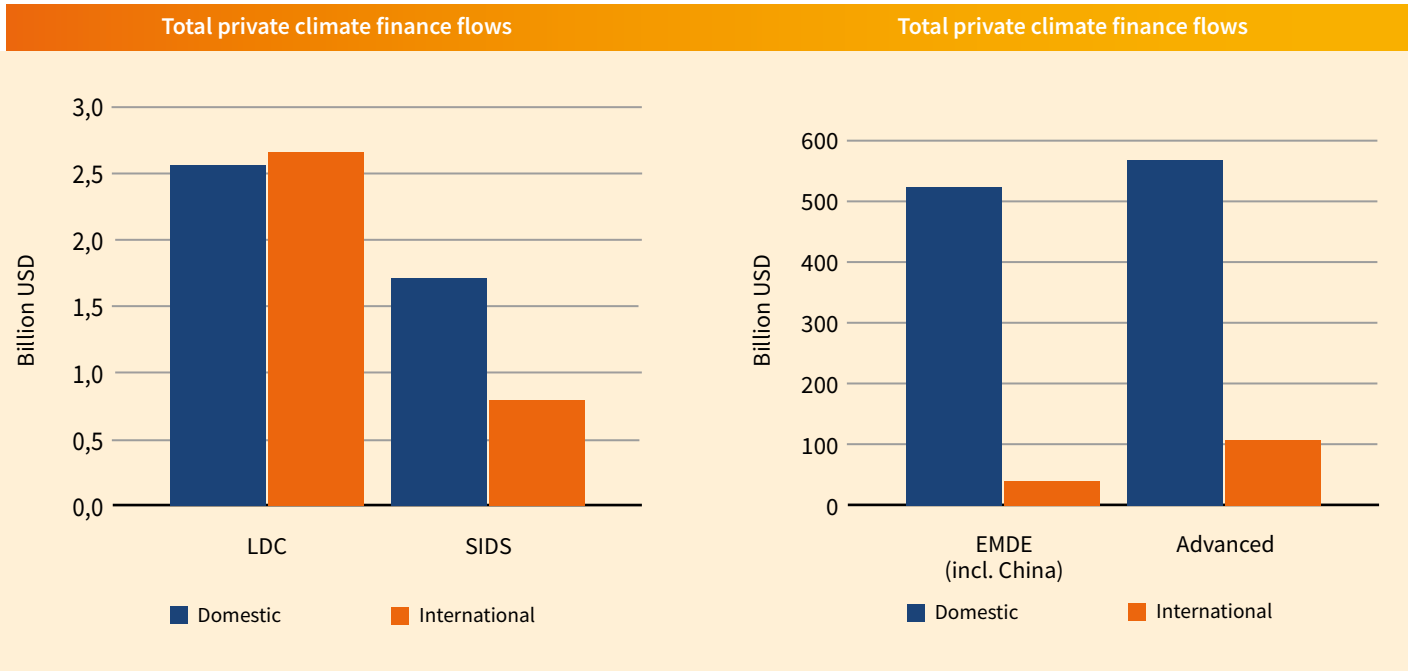

Figure 3: Total private climate finance flows in 2023. Data source: Climate Policy Initiative (CPI) (2025a). Global Landscape of Climate Finance 2025. GLCF 2025 Data Download.

3.2 What kind of projects is private climate finance directed towards?

Private climate finance in LDCs and SIDS primarily targets mitigation activities, while less is invested in urgently needed adaptation measures. Across developing countries, mobilisation of private climate finance through public finance interventions focuses on mitigation activities (86%), while significantly less goes to adaptation (9%) and cross-cutting activities (6%) (between 2016 and 2021) (OECD, 2023b).[7] Looking at private climate finance beyond mobilisation, the dominance of mitigation finance becomes even more pronounced for LDCs and SIDS (Figure 4).

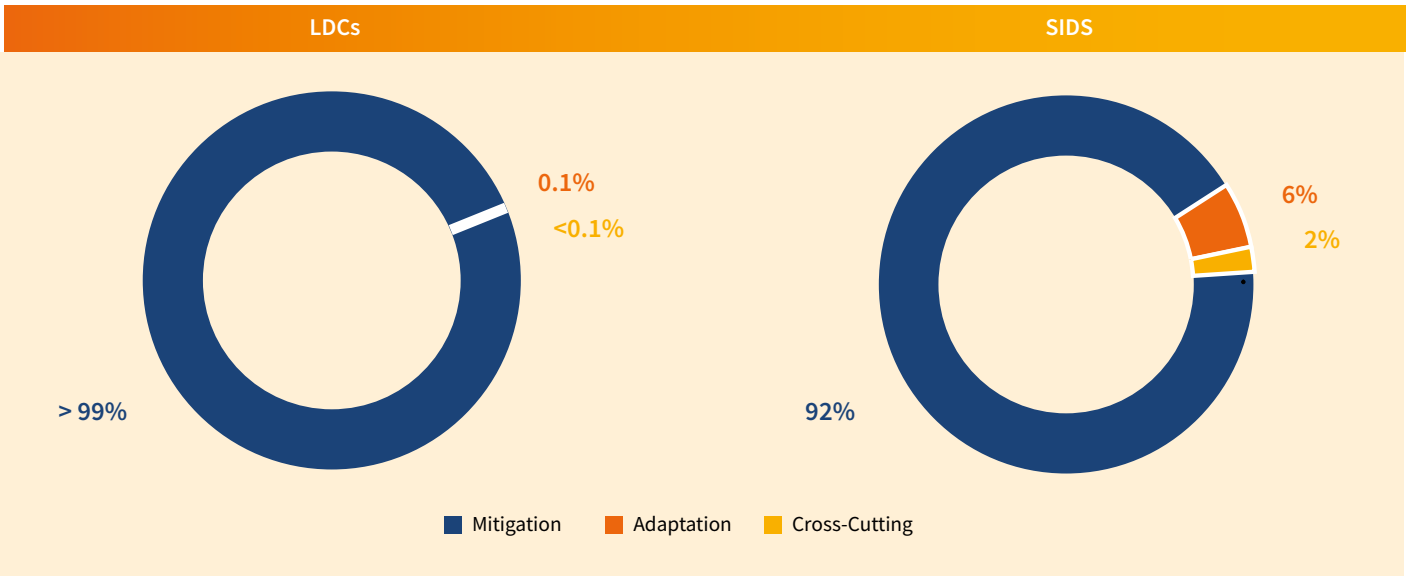

Figure 4: Distribution of total private climate finance across mitigation, adaptation and cross-cutting objectives. Data source: Climate Policy Initiative (CPI) (2025a). Global Landscape of Climate Finance 2025. GLCF 2025 Data Download.

7 Data for 2016 - 2021. This dominance of mitigation finance provided by the private sector, however, is not unique to LDCs and SIDS but a global phenomenon due to the lack of profitable business models for adaptation projects. The Climate Policy Initiative tracked US$ 727 billion of private climate finance in 2022 – US$ 710 billion was invested for mitigation and only US$ 6 billion or less than 1% was invested in adaptation. Even when including estimated investments that could not be tracked but only be estimated, private finance for adaptation reached a maximum of US$ 66 billion globally (CPI, 2024a).

This sharply contrasts with the substantial adaptation needs of LDCs and SIDS – countries that are particularly vulnerable to the impacts of climate change. Their adaptation needs are reported at US$ 239-240 billion in LDCs (73-74% of their total climate finance needs reported) and at US$ 36 billion in SIDS (48% of their total climate finance needs reported) (UNFCCC SCF, 2024). When these numbers are placed in context with domestic resources, the high vulnerability of LDCs and SIDS becomes evident: while other developing countries face adaptation needs of 1.4% of their GDP, LDCs are confronted with adaptation needs of 2.5% and SIDS with 3.4% compared to their GDP (UNEP, 2024).

4. Scaling private climate finance in LDCs and SIDS – barriers and options for addressing them

Despite the significant economic and social benefits of climate action, securing resources for climate projects can be challenging.[8] LDCs and SIDS are perceived as high-risk but low-return environments, which drives up borrowing costs, as investors are reluctant to provide capital. Consequently, financing options for climate action are severely constrained – both domestically and internationally. Perceptions of high risks are shaped by multiple factors. The high vulnerability of LDCs and especially SIDS to climate change creates risks to investment because extreme weather events threaten to diminish returns (CPI, 2024c). However, risk perceptions are also shaped by sovereign ratings from private credit rating agencies that emphasise vulnerability but do not consider actual resilience – which leads to a 'geography penalty' for these countries. As a result, foreign investment is discouraged, and borrowing costs rise for LDCs and SIDS trying to finance climate action at home (OECD, 2023b). High public debt levels, with nearly half of SIDS being close to or already in debt distress, further contributes to high-risk perceptions of foreign investors (LSE, 2024). This circumstance highlights the strong interlinkage between debt sustainability and the ability to mobilise climate finance: unless debt is restructured in a timely and predictable manner, incentives for private investors to engage in LDCs and SIDS will remain very limited. Domestic governance factors also contribute to these perceptions and include, among other things, weak regulatory frameworks, policy uncertainty, rules and regulations that constrain rather than enable private investment, limited enforcement of regulations, limited operational efficiency of public institutions, and general political instability (WBG, 2024a).

Perceptions of low returns in LDCs and SIDS stem from small ticket sizes of projects (CPI, 2025b) and small markets that provide only limited opportunities for profitability as the potential client base is small and has limited purchasing power (UN IATF, 2023a; Habib & Paris, 2025). Achieving economies of scale, which are critical because they allow companies to reduce the production costs per unit of output as they increase production, is often limited. Doing business in SIDS even faces challenges of diseconomies of scale – meaning that, instead of lowering per unit costs, expanding business operations beyond a certain threshold actually increases per unit costs – due to the remoteness and limited connectivity between individual islands (UN IATF, 2023a).

The following sections summarise key challenges in mobilising private equity and debt from domestic and international actors for climate action. A special consideration is provided for the difficulties of privately financed adaptation because the underlying economics and risk profile often misalign with conventional investment criteria.

4.1 Limited space for mobilising domestic private equity for climate action

Many LDCs and especially SIDS typically have small economies, limited fiscal space and a narrow private sector base, all of which directly **limit their potential for domestic equity mobilisation**. The private sector of LDCs typically consists of small and medium-sized enterprises (SMEs) that are concentrated in low-value-added and labour-intensive sectors, including agriculture (UN IATF, 2023b). Additionally, the informal sector that operates outside the reach of the tax system is large, accounting for about 35-40% of the GDP in LDCs (UNCTAD, 2023). SIDS face similar challenges due to very small domestic economies. Micro, small and medium-sized enterprises (MSMEs) are common. In Pacific SIDS

8 Investing in climate action today pays off in the future. Investment in mitigation is important to limit climate change and its negative consequences, and thus reduce the amounts of finance that will need to be spent on enhancing our resilience to climate change and paying for the losses and damages. Evidence suggests that investments in adaptation today also reduce the costs of losses and damages and generate socio-economic benefits: each US$1 invested in adaptation can yield over $10 in benefits over a 10-year period and may generate annual returns ranging from 20% to 27% (WRI, 2025).

in particular, the private sector is largely made up of subsistence agriculture and fishing enterprises with limited export opportunities. So called 'microstates', including for example Kiribati, the Marshall Islands and Tuvalu, have even smaller business communities.[9] Even where domestic savings exist, including for example institutional investors such as pension funds or insurance companies, they are rarely directed towards climate solutions in LDCs and SIDS. This is due to shallow financial markets, shortages of long-term and stable assets and the small ticket size of most climate projects in LDCs and SIDS. Instead, funds are often invested in 'safe haven' assets with larger ticket sizes abroad.

Addressing the shortage of domestic equity for climate action in LDCs and SIDS is challenging. **Enabling fiscal space** for mobilising private equity finance, for instance through measures such as flexibilization of national tax systems, improving revenue collection and tackling illicit financial flows, can help to expand the financial capabilities of private actors. However, the potential mobilisation remains limited due to small economies or large informal economies in some LDCs and SIDS.

Creating and enhancing enabling environments helps to leverage equity from private investors by improving conditions for investment. Enabling environments refer to predictable, stable, transparent, fair and reliable business regulation, supervision and administrative procedures, governance capabilities, regulation, legal frameworks and project pipelines (OECD, 2015). Such efforts to create enabling environments must go beyond climate interventions and incorporate macro-economic, legal and administrative reforms that enhance the general investment environment. However, the potential of enabling environments to mobilise domestic equity is again constrained by the small size of these economies and their limited domestic capital bases.

Enhancing access to international climate finance for the local private sector helps to scale its capacity to implement local climate projects. It is important to acknowledge the local private sector in LDCs and SIDS as recipients of climate finance, and not only as contributors. (M)SMEs – which play a key role in providing climate finance and implementing climate projects in LDCs and SIDS,[10] and are themselves part of the very communities that international climate finance seeks to support – have largely been excluded from access to such finance.

4.2 Lack of affordable debt finance in domestic financial markets

Besides the outlined limitations in mobilising equity, private actors also face significant **challenges in accessing affordable debt resources for financing climate projects**. LDCs and SIDS tend to have relatively small and shallow financial markets (UN IATF, 2023a; UN IATF, 2023b) that are often dominated by commercial banks that have limited domestic deposits, making them prefer short-term over long-term loans. Additionally, commercial banks must comply with prudential rules such as capital adequacy requirements or risk management standards. These financial regulations, which are established by central banks, often further restrict their capacity to provide financing for the long-term and higher risk activities inherited by many climate projects. Besides commercial banks, national development banks (NDBs) also have limited means to provide access to affordable capital. On the one hand, this is due to low domestic capitalisation that is capped by the small economies. On the other hand, high levels of public indebtedness significantly reduce the fiscal space available to many LDCs and SIDS to capitalise their NDBs. Nearly half of SIDS are already at high risk of, or are already in, debt distress, and several LDCs spend more on debt servicing than on key public goods such as health or education (UN IATF, 2023a; UN IATF, 2023b). This debt burden also limits the scope for governments to provide guarantees or concessional co-financing that could help de-risk private climate investment.

Measures that aim to **create enabling environments** can address barriers to accessing affordable debt resources, but there are limits to mobilising private capital through measures that do not entail international financial support, particularly in LDCs and SIDS. Commonly stated measures to create enabling environments include the **strengthening of central banks** and their financing options allowing them to act as enablers of local climate solutions. This includes developing tools to promote long-term credit and provide green financial products, thereby enabling other domestic actors

9 In contrast, some African SIDS have larger and growing private sector enterprises. For example, the Seychelles or Mauritius have a fast-growing tourism industry and sizable fisheries (OECD, 2023a).
10 This has been identified by interview partners, particularly applying to SIDS in the Pacific.

such as NDBs and commercial banks to provide affordable financing to the local private sector.[11,12] Further measures include **adopting green finance taxonomies, integrating climate risk into prudential supervision and developing local-currency bond markets** with preferential collateral treatment for green or resilience-linked securities (WBG, 2021; OECD, 2023b). However, the limited capacities of most LDCs and SIDS significantly constrain not only the development but, more importantly, the practical implementation of such measures – particularly compliance-related regulations and policies that require supervision and oversight. In the context of LDCs and SIDS, careful evaluation and adaptation of such measures is needed for them to perform as enablers, rather than additional burdens and conditionalities for accessing international climate finance.

4.3 Lack of affordable debt finance in international markets

In addition to limited access to affordable capital in domestic markets, LDCs and SIDS also face **significant barriers to obtaining concessional or affordable loans on international markets**. The widespread perception in LDCs and SIDS that climate projects are high-risk and low-return investments leads to investor reluctance, which in turn contributes to higher **borrowing costs**. Debt characteristics also reinforce perceptions of high-risk environments, further driving up borrowing costs: elevated debt levels lower sovereign ratings of LDCs and SIDS, but low sovereign ratings also drive up borrowing costs, which in turn increases indebtedness. This limits access to affordable debt financing in international markets, not only for governments but also for private actors, and discourages international private investment. Additionally, **currency risk or foreign exchange risk** act as a major barrier for local commercial banks, NDBs and foreign investors. Loans from international financing providers are often structured as 'hard loans' in US dollars or Euros. The climate projects financed with these loans, however, are implemented locally, meaning that revenues are generated in local currency. This makes investment returns vulnerable to local currency depreciation (CPI, 2025b), which often leads to unattractive risk-return profiles for foreign private investors and limits the ability of national development banks (NDBs) to offer favourable borrowing conditions to the local private sector (PIFs, 2023).

Scaling risk-reducing instruments can help address persisting perceptions of climate projects in LDCs and SIDS as high-risk investments. Importantly, this requires substantive public finance to be deployed in the form of guarantees, first loss tranches and subordinated capital, and below-market-rate loans. MDBs, who are well placed to absorb risk due to their high credit ratings and financial liquidity, need to scale these instruments to unlock private investment in climate action. At the same time, further work on tailoring blended financing instruments to the needs and capacities of LDCs and SIDS is needed, as these instruments currently find limited application and have limited effectiveness due to their complexity and their limited capacities for structuring eligible projects in LDCs and SIDS (CPI, 2024c; WBG, 2024b).

Addressing risk perceptions also requires well-informed risk assessments that are based on better data, including not only **information on climate risk but also information on resilience**. Improving data availability is therefore a precondition for better evaluation of investment risks. Valuable initiatives for mobilising private investment in emerging markets through enhanced transparency include the Global Emerging Markets (GEMs) database. This database, which publishes credit risk statistics of loans to emerging market firms over the past three decades, demonstrates historical performance trends that challenge prevailing risk perceptions. Although the GEMs database offers significant potential to support private sector investors in conducting informed risk assessments and making evidence-based investment decisions, further refinement and development are required. More granular statistics at country and sector level, as well as statistics on collateral/guarantee, credit rating and lending in local currencies are needed – but reluctance among private firms to share investment data remains due to confidentiality concerns. Besides data improvements, enhanced dissemination is needed to increase awareness of the GEMs database among private sector investors (GEMs, 2024).

11 Examples of tools that promote long-term credit are: refinancing windows / credit lines through which central banks provide longer-term, low-cost liquidity to commercial banks for on-lending to climate projects; relaxed collateral frameworks that accept green loans as eligible collateral in central bank operations; macroprudential regulations that adjust capital adequacy requirements and risk weightings to enable rather than prevent long-term green lending.
12 For example, the central bank of Bangladesh (Bangladesh Bank) set up a refining line of credit, which is funded partially from its own reserves but also with concessional donor finance, for banks that issue loans for approved green projects. These banks can refinance these loans at preferential rates with the Bangladesh Bank.

Addressing the **perception of limited investment opportunities requires increasing the international private sector's awareness of opportunities in LDCs and SIDS**, especially as it is more accustomed to operating in developed or emerging markets. Targeted brokering can bridge LDCs and SIDS with international corporations, ensuring that potential financiers grasp investment opportunities and can respond to them. Domestic chambers of commerce will play an important role in highlighting investment opportunities and developing a better understanding of the markets in LDCs and SIDS.[13] Additionally, the **regional pooling** of investment opportunities is a promising way to overcome the **limitations of small markets**. This could be done by aggregating many smaller, potentially diverse projects in one portfolio to increase ticket sizes and reduce transaction costs, or by bundling smaller projects of the same type to leverage additional benefits through standardisation.[14] To support the regional pooling of investment opportunities, respective institutions, frameworks and agreements for regional private sector cooperation across countries would be needed. International financing institutions can play important roles as aggregators of investment opportunities, for example, by setting up regional guarantee facilities.[15]

Reducing **high borrowing costs** requires systemic measures to **transform the international financial architecture**, notably, the Basel III framework. Basel III establishes banking regulations to ensure global financial stability, among other things through capital adequacy rules. While these rules help increase systemic stability in times of financial turmoil, they also strongly discourage banks from providing long-term, direct project finance loans for investments in countries associated with high investment risks. Building on sovereign ratings that are determined by international credit rating agencies, these rules bear the risk of disproportionately increasing the cost of capital compared to risk, especially in LDCs (OECD, 2025b). Addressing the barriers in the international financial system will include measures to avoid risk bias stemming from credit ratings, and will require a differentiation between risk and related capital requirements to take into account different stages of development (CVF-V20, 2025). Another important aspect is to address the lack of sufficient transparency by credit rating agencies as well as alignment with sustainable development objectives (OECD, 2025b).

Tackling the **barrier of currency volatility** means shifting the foreign exchange risk from commercial banks, NDBs and other local financial institutions in LDCs and SIDS, which operate in very constrained fiscal spaces, to MDBs – which are better placed to take on this risk. While first initiatives for **local currency lending** or soft loans already exist, MDBs are not delivering these financing options at scale. Approximately 80% of climate finance from MDBs and development finance institutions (DFIs) is still provided in the form of hard loans (CPI, 2024b).

Developing and implementing **tailored financial instruments** offers alternative ways to unlock capital – including investment from the international private sector, institutional investors and remittance flows. Examples of this include developing green and blue bond frameworks that provide standardised and credible investment vehicles.[16] While there are limits to this in LDCs and SIDS due to the small ticket sizes of investments, efforts to aggregate investment opportunities at the regional level through regional bond platforms could be explored.

13 This has been identified by interview partners, particularly applying to SIDS in the Pacific.
14 Securitisation, which transforms a portfolio of financial assets into tradable securities that can be sold to investors, is another option. However, this requires mature capital markets, and would thus for most LDCs and SIDS only be possible with substantive support from international financing institutions.
15 The Caribbean Climate-Smart Accelerator (CCSA) is one example of a regional partnership across the Caribbean to identify and broker climate-smart investment opportunities. With support from the IDB, the CDB and the World Bank for project preparation as well as concessional co-financing, the CCSA pools projects into regional pipelines, helping to overcome the barrier of small national markets to attract private capital.
16 There are several examples for green and blue bonds among SIDS. A common characteristic among them are guarantees provided by regional or multilateral development banks. For example, the Seychelles' Blue Bond (US$15 million) is partly backed by a guarantee and concession finance from the World Bank to cover risk and interest, Barbados' Blue Bond Facility (US$150 million) is backed by co-guarantees from philanthropic sources and the IDB, and Fiji's Sovereign Green Bond (US$50 million) was set up with technical assistance from IFC and the World Bank. Despite significant interest, issuances of green bonds are still rare among LDCs, as respective initiatives are still in preparatory stages.

Scaling private climate finance for LDCs and SIDS beyond mobilisation: Polluter-Pays Levies

In the current political context, scaling up international public finance seems particularly challenging. Major donors have announced significant cuts to their official development assistance (ODA) budgets, which will affect their climate finance contributions (OECD, 2025c). Hence, developed countries need to find alternative ways to increase the size of international climate finance. Polluter-pays levies provide one option for generating public revenues from the private sector that could be channelled to adaptation as well as loss and damage in those countries that are most impacted by climate change. The Global Solidarity Levies Task Force, a coalition chaired by Barbados, France and Kenya, is developing proposals to introduce levies in international shipping and aviation, fossil fuels and selected financial transactions and will present options for discussion at COP30.

While polluter-pays levies could act as a viable option for internalising the negative externalities of emission-intensive industries, there are several challenges that need to be addressed before they can generate meaningful contributions to climate finance:

- Carbon pricing can raise transportation and fuel costs, which could negatively affect LDCs and especially SIDS, as they rely heavily on maritime transport for trade. The design of levies must take into consideration their unique position, and they must include rebates or compensation to avoid regressive effects (UNCTAD, 2023b).
- The use of revenues must be allocated in a balanced way, benefiting both the countries that are most vulnerable to climate change and allowing industry to invest in low-carbon technologies. Furthermore, fair benefit-sharing arrangements must be designed for allocating revenues among recipient countries (NUS, 2025). Options for earmarking and channelling resources to most vulnerable countries include the Loss and Damage Fund.
- Levies should be designed in such a way that they progressively charge high-income users of emission-intensive industries in high-income countries, avoiding placing the cost burden of who actually pays on the most vulnerable (CE Delft, 2025)

4.4 Limited opportunities for business cases in adaptation

There are examples from LDCs and SIDS where private actors are leading innovative mitigation efforts, despite the absence of a strong enabling environment provided by the public sector (see textbox below). However, in many LDCs and SIDS, it is difficult to identify business cases that are attractive for private investment in climate solutions, i.e. those that generate sufficient financial returns (CPI, 2025b). While this also holds true for mitigation, it is especially challenging for adaptation measures that are urgently needed in these most vulnerable countries. Identifying profitable business cases that can generate financial returns is not unique to LDCs and SIDS but is a global challenge, as many adaptation measures such as coastal protection and emergency preparedness constitute public goods that can hardly be monetised. Even though there are adaptation measures that could generate financial returns, the overall sizes of investments in adaptation projects are generally small compared to mitigation investments. This increases the share of transaction costs in proportion to total project costs, thereby reducing profitability (IISD, 2023) and making projects of this kind less attractive to international private investors who prefer to look for large-scale investment opportunities. In addition, adaptation projects are highly context specific and localised, making it difficult to achieve economies of scale through upscaling (IISD, 2023).

Solutions for addressing the **lack of adaptation business cases** remain limited. Research indicates that about only 25% of adaptation needs in developing countries up to 2035 could *theoretically* be financed by the private sector.[17] The remaining 75% are public goods or actions that typically fall within the domain of the public sector. The *realistic potential* for private sector financing of adaptation measures is estimated to be much lower, namely 10% in SIDS and 5% in LDCs (Watkiss and England, 2025). **Context-specific collection and**

17 The study assesses the potential contribution of the private sector towards implementing publicly identified adaptation priorities (e.g., stated in NDCs and NAPs) (thus excluding funding needs for the private sector to adapt their own assets and business operations). The analysis indicates that 40% of adaptation priorities are public goods (without financial returns, thus to be funded publicly), 35% are essential public services (also typically publicly funded), leaving a theoretical maximum of 25% that present mixed or commercial return opportunities (thus attractive to the private sector). However, the realistic potential is lower and various across sectors and countries, reflecting adaptation needs and existing levels of public and private investment in each sector, as well as the need for public support to help scale up private investment.

analysis of information on concrete investment opportunities for adaptation is needed to identify those adaptation measures where the private sector, in partnership with the public sector, can play a role. Approved multi-country programmes from international multilateral climate funds such as the GCF aim to mobilise significant volumes of private climate finance for adaptation investments,[18] including for LDCs and SIDS. However, funding has either not yet been disbursed or lacks transparency concerning the precise locations where investments take place and what impact they create. Thus, the limits to private climate finance for adaptation need to be recognised.

However, some sectors are more suited for private investment in adaptation, for example tourism, fishing and agriculture, among others. In these sectors, products and services that generate adaptation benefits can be sold (potentially even in US$ or EUR) on markets in developed countries, including eco-tourism or sustainable tuna for example.[19] This puts the cost burden for paying for adaptation investments on wealthy consumers in the developed countries. While efforts are needed to identify further areas where products and services that produce adaptation benefits can generate revenues in international currencies (such as US$ or EUR), these will likely be limited by low export capacities of LDCs and SIDS. Adaptation investments by the international private sector in other sectors such as infrastructure must be carefully evaluated to avoid placing the cost burden for paying for climate action on local communities and the most vulnerable.

Examples of successful private sector financing in LDCs and SIDS

Solar water heaters in Barbados: The private sector in Barbados has played a decisive role in making the country a global leader in solar water heater (SWH) penetration. Beginning in the 1970s, local entrepreneurs pioneered the development and commercialisation of affordable, reliable SWH systems tailored to the Caribbean climate. Their efforts were supported by government incentives, such as tax breaks for homeowners and businesses investing in solar technology, but it was the private sector's drive to innovate, market aggressively and build consumer trust that truly accelerated adoption. By combining local manufacturing, job creation and persistent outreach, these companies turned solar water heating into a mainstream household technology, ultimately giving Barbados one of the world's highest per-capita rates of solar water heater use (see also Rogers, 2016).

Off-grid solar PV in East Africa: In several East African LDCs, local private sector MSMEs have transformed energy access through Pay-As-You-Go (PAYGo) solar systems. They have pioneered business models that combine off-grid solar home systems with mobile money platforms, allowing households and microenterprises to pay in small, flexible instalments. Despite ongoing challenges with affordability, collection rates and local currency fluctuations, this innovation dramatically reduced the upfront cost barrier and brought electricity to the local population previously unserved by national grids. Beyond lighting, PAYGo systems also power productive uses such as phone charging, refrigeration or irrigation, helping to stimulate local economies while cutting kerosene use and related emissions (see also ESMAP 2024).

Resilient tourism in SIDS: Across SIDS, tourism enterprises are increasingly first movers on adaptation where coastal asset protection and business interests align. Hotels and tour operators finance ecosystem-based measures such as coral nurseries and planting or mangrove and dune restoration to mitigate wave impacts, curb erosion, and lower storm damage to beaches and infrastructure. Parallel to this, hotels retrofit for resilient buildings including wind- and flood-adapted envelopes, elevated and waterproofed infrastructure, and redundancy in power and water. Some pair these with parametric insurance, which releases rapid funds for post-storm reef repair, closing liquidity gaps after disasters. Funding typically comes from operating budgets, sometimes blended with concessional loans or guarantees; returns accrue via avoided losses, faster reopening, lower insurance costs, and preserved environmental attractiveness (see also IDB 2023 and UN-OHRLLS 2023).

18 See for instance approved GCF programmes FP181, FP213 or FP223
19 This has been identified by interview partners, particularly applying to SIDS in the Pacific.

5. Implications for the Baku to Belém Roadmap

Although not a negotiated outcome, the Baku to Belém Roadmap is expected to serve as a guiding framework for operationalising the NCQG. Consequently, it must outline concrete and realistic pathways to delivering climate finance at scale. This should include consideration of potential solution pathways and requirements as well as limitations that hinder the mobilisation of private finance to support climate action in LDCs and SIDS. It should also deliver clear-cut recommendations for actions as outlined below.

To ensure that the NCQG decision that developed countries should take the lead in mobilising US$300 billion and all actors should work together to mobilise US$1.3 trillion annually by 2035 can be turned into action in a manner that is predictable, transparent, equitable and tailored to the needs of the most vulnerable nations, the Roadmap should achieve the following:

- **Prioritise and increase the provision of public climate finance for adaptation and loss and damage to LDCs and SIDS** based on NCQG para. 5 that "Decides that the new collective quantified goal on climate finance will [...] reflect the evolving needs and priorities of [...] least developed countries and small island developing states" and para. 14 that "Acknowledges the need for public and grant-based resources and highly concessional finance, particularly for adaptation and responding to loss and damage in [...] least developed countries and small island developing states".[20] Considering the limitations facing private sector mobilisation for climate action in LDCs and SIDS, as well as their high vulnerability, negligible historic responsibility and severe constraints in the mobilisation of domestic finance, the Roadmap should operationalise commitments to prioritise highly concessional public climate finance to LDCs and SIDS. This should include ambitious quantitative targets to provide highly concessional financing focused on grants and loans with long grace periods, very long periods of repayment and built-in state-contingent debt instruments (e.g. climate-resilient debt-pause clauses) for those adaptation measures that cannot and, in some cases, should not be privatised.

- **Commit public finance resources and risk reducing instruments to be deployed by multilateral climate funds, MDBs and bilateral partners to mobilise private finance for climate action in LDCs and SIDS** based on NCQG para. 13 that "Recognises that multilateral climate funds [...] are key in supporting developing country parties" and para. 15 that highlights the need for "increasing the mobilisation ratio of finance mobilised by public sources [...] and creating fiscal space in developing country parties through the use of innovative instruments, such as first-loss instruments, guarantees, local currency financing and foreign exchange risk instruments".[21] Considering that the mobilisation of private finance for climate action in LDCs and SIDS has been limited so far, the roadmap should encourage international financing institutions to take the lead in mobilising private finance using various instruments. These should include credit enhancement instruments that lower the cost of capital such as guarantees, first-loss tranches and currency hedging instruments. They can further help overcome the limited market and project sizes by increasing the ticket sizes to an investable level through regional pooling, aggregation and securitisation. They should also include non-financial instruments that help reduce real and perceived risks by supporting the creation of enabling environments. Their technical assistance can be used to identify climate investment opportunities for the private sector in LDCs and SIDS through context-specific research and analysis, as well as making these opportunities visible and understandable, for example by building pipelines of bankable projects and engaging in targeted brokering.

- **Strengthen the role and capacity of public development banks, regional and national, to provide access to affordable capital for the local private sector**, based on NCQG para. 6 that "Reiterates the importance of reforming the multilateral financial architecture and underscores the need to remove barriers and address disenablers faced by developing country Parties in

20 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf
21 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

financing climate action, including high costs of capital [...], unsustainable debt levels [...] and conditionalities for accessing climate finance" as well as para. 7 that "Calls on all actors to work together to enable the scaling up of financing to developing country parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035".[22] The Roadmap should recommend capitalising on the potential of multilateral development banks to cooperate with national or regional development banks to reform the international financial system and leverage synergies within the ecosystem of the public development banks. The Roadmap should emphasise measures for cooperation, including financial cooperation (channelling MDB financing through NDBs to enhance the lending capacities of NDBs, pool resources and leverage joint strengths), institutional and technical cooperation (knowledge sharing and capacity-building support to leverage best practice insights and local expertise and networks), country dialogue and strategy (coordinating support to governments in strategic and complementary efforts) as well as monitoring, reporting and evaluation.[23]

- **Encourage addressing macroprudential regulations and the role of credit rating agencies that increase the cost of borrowing capital to LDCs and SIDS** based on NCQG para. 6 (see above). The roadmap should encourage policymakers to take measures to address (unintentional) obstacles to financing climate action in prudential regulation, specifically Basel III. On the one hand, this needs to include short-term measures such as technical adjustments and clarifications to provide immediate guidance and interpretation of how the existing rules can be used better to allow developing countries – and specifically LDCs and SIDS – to access affordable capital. On the other hand, this also needs to include medium-term measures and structural reforms to address systemic barriers and biases in Basel III.[24]

- **Encourage international financial institutions and creditor governments to foster instruments that create fiscal space** based on NCQG para. 6, para. 14 and para. 15 (see above) and para. 23, which "Invites international financial institutions, including multilateral development banks [...] to continue to align their operational models, channels and instruments to be fit for purpose for urgently addressing global climate change [...] by deploying a range of instruments, in particular non-debt-inducing instruments".[25] As unresolved debt overhangs systematically undermine the mobilisation of both public and private climate finance in LDCs and SIDS, the Roadmap should lay out specific measures to link debt relief with climate finance, for example through climate-debt swaps, or state-contingent debt instruments like debt-pause clauses. It should prioritise the scaling-up of non-debt instruments, such as grants and guarantees.

- **Ensure that the respective local private sector in LDCs and SIDS has access to climate finance** in line with NCQG para. 21, which "Underscores the importance of reducing existing constraints, challenges and systemic inequities and barriers to access climate finance", para. 22, which "Urges parties and other relevant actors to promote the inclusion and extension of benefits to vulnerable communities and groups in climate finance efforts", and para 24., which "Calls on multilateral climate funds [...] to strengthen their efforts to enhance access and promote effectiveness, including by [...] scaling up and prioritizing direct access".[26] The local private sector in LDCs and SIDS, which mostly consists of (M)SMEs, is essential for implementing climate action on the ground, but at

22 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf
23 For more information, please refer to Germanwatch (2025). Enhanced Cooperation between MDBs and NDBs. Seeking Synergies for Transformative Climate Impact. Available at: https://www.germanwatch.org/en/93044
24 *Technical measures and clarification* should include, among others, accepting guarantees provided by public finance institutions as well as political risk insurance and allowing the application of blended risk weights for partial guarantees to reflect the risk reduction offered by these tools. *Structural reforms* should include refining the treatment of project finance to reflect proven performance based on available market data, adjusting the approach to country risk to better differentiate between sovereign and project-level risk, and better recognising risk mitigation through well-structured blended finance arrangements. For more information, please refer to ICC (2025). How to finance the emerging climate opportunity. Enhancing climate finance in emerging markets and developing economies through prudential regulatory clarification and reform. Available at: https://iccwbo.org/wp-content/uploads/sites/3/2025/06/2025-ICC-Enhancing-climate-finance-in-emerging-market-developing-economies-1.pdf
25 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf
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the same time, it needs financial support. Considering this, the Roadmap should emphasise the need for fast, reliable and simplified access. It should recommend further simplifying (enhanced) the direct access modalities of climate funds, which currently do not account for the realities of the local private sector in LDCs and SIDS.

- **Ensure robust mechanisms for tracking progress on established pathways including commitments, disbursements and impacts of climate finance flows** in line with NCQG para. 30 that "Requests the Standing Committee on Finance to prepare a report biennially, [...] on collective progress towards all elements of this decision", and para. 35, which requests "disaggregated information related to the least developed countries and small island developing States".[27] Considering that data on private climate finance is scarce, the Roadmap should stress the importance of supporting the building and enhancement of LDC and SIDS capacities in tracking these data. The Roadmap should recommend strengthening concrete support windows for climate transparency and the Enhanced Transparency Framework – particularly through donor financial support. These support windows include: the Global Environmental Facility's (GEF) Capacity-Building Initiative for Transparency (CBIT), the Initiative for Climate Action Transparency (ICAT) and the Green Climate Fund's (GCF) Readiness Programme.

- **Encourage the implementation of processes and indicators to track outflows from climate funds in order to promote private sector engagement for climate action in LDCs and SIDS** based on NCQG para. 16, which "Decides that a significant increase of public resources should be provided through the operating entities of the Financial Mechanism, the Adaptation Fund, the Least Developed Countries Fund and the Special Climate Change Fund".[28] The Roadmap should recommend measures for monitoring how the climate funds contribute to scaling private climate finance in LDCs and SIDS, also considering that NCQG para. 13 "also decides to pursue efforts to at least triple annual outflows from those Funds from 2022 levels by 2030".[29]

6. Conclusion

Following the NCQG decision at COP29 in Baku, it is now crucial to make progress on the implementation of these provisions at COP30 in Belém this year to ensure increased public, and where possible, private climate finance flows to LDCs and SIDS. In particular, this includes securing rapid progress towards the goals of scaling up climate finance from developed countries to US$300 billion annually by 2035 and scaling up climate finance from all actors, public and private, to US$1.3 trillion. In this context, the Baku to Belém Roadmap, which will be finalised at COP30, provides a unique opportunity to present clear-cut recommendations on potential measures to be implemented over the short and medium term. The Roadmap and its recommendations need to reflect the unique position of LDCs and SIDS, which are the most vulnerable to climate change, with almost no historical responsibility and very limited resources to deal with the climate crisis.

Considering that governments place an increasing responsibility on the private sector for achieving the larger climate finance goal of mobilising US$1.3 billion annually by 2035, the Roadmap needs to reflect that several barriers and limitations to private climate finance in SIDS and LDCs, both for the national and the international private sector, persist. Building on the perception of LDCs and SIDS as high-risk but low-return environments – which is based in real circumstances but does not always adequately reflect the reality on the ground– key barriers include a lack of domestic equity and a shortage of affordable financing options both on domestic financial markets and the international financial market. Additionally, the lack of profitable business cases in climate change adaptation presents challenges for the mobilisation of private finance for the most urgently needed measures in LDCs and SIDS.

While some of these barriers can be targeted through measures at the domestic level that create enabling environments for private climate finance, for instance, supportive policy frameworks and enabling central banks to issue green financial instruments, their potential for mobilising private climate

27 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf
28 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf
29 UNFCCC, Decision 1/CMA.6: New collective quantified goal on climate finance', in FCCC/PA/CMA/2024/17/Add.1. Available at: https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

finance is limited. More importantly, measures to create more enabling environments at the international level are needed and should be reflected in the Baku to Belém Roadmap. These include scaling up risk-reducing instruments, including guarantees, first-loss tranches and currency hedging tools, in international public climate finance provided by bilateral donors and multilateral partners such as MDBs. Additionally, the international financial system needs to be transformed to address the geography penalty and debt trap that many LDCs and SIDS face when seeking financing options in the international financial market. In particular, negative bias in prudential regulations such as the Basel III framework as well as the role of private credit rating agencies in determining publicly used sovereign ratings need to be addressed.

While these measures are important for enabling private climate finance in LDCs and SIDS, it is important to acknowledge that mobilising additional private finance will in most cases require public finance interventions. Expecting the private sector to take the lead in financing climate action in LDCs and SIDS without international climate finance support is unrealistic, particularly for adaptation – let alone for loss and damage. Privatising adaptation measures also bears the risk of placing the cost burden of funding – meaning who actually pays for climate action – on the most vulnerable themselves. In this context, the Baku to Belém Roadmap should emphasise the importance of public climate finance to the most vulnerable countries, as it is highly unlikely that the gap in these countries will be closed by private climate finance.

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