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# Understanding the Quality of Climate Finance

11<sup>th</sup> September, 2025

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# Agenda

- **Welcome**
- **Presentation:** Understanding the Quality of Climate Finance
  - Sean Stout, *Climate Policy Initiative*
- **Panel discussion moderated by Baysa Naran, Climate Policy Initiative with:**
  - Khondoker Tanveer Haider, *International Finance Corporation*
  - Lindsey Napier, *UK Department for Energy Security and Net Zero*
  - Valerie Laxton, *World Resources Institute*
- **Audience Q&A**
- **Wrap up & preview of upcoming webinars**

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## Context & Scene Setting

- Public climate finance providers have long acknowledged the importance of climate finance quality – **parallel to the emphasis on quantity of finance**.
- However, to date, a **common understanding** of what high-quality climate finance looks like, in practice, has not yet emerged across multiple public actors.
- Share language and understandings of climate finance quality can help move away from institutional- (or coalition-based) siloes, with **harmonization in measurement approaches** facilitating opportunities to aggregate assessments of the quality of global public climate finance, as a whole.
- The need to understand and assess climate finance quality is particularly acute at a time when **public budgets are increasingly strained** and climate projects/programs therein are exposed to shifting priorities.

# CPI's Vision

Overall, an evidence base on climate finance quality can illuminate what works; for whom; and what may be scaled or replicated.

## Tracking climate finance



### Flows

Comprehensive analysis of finance flows

What is the current state of global climate finance flows, across sectors, themes and geographies?



### Needs

Tracking progress against needs and buildings roadmaps

How far are we from closing the climate investment gap? How may the gap be closed?

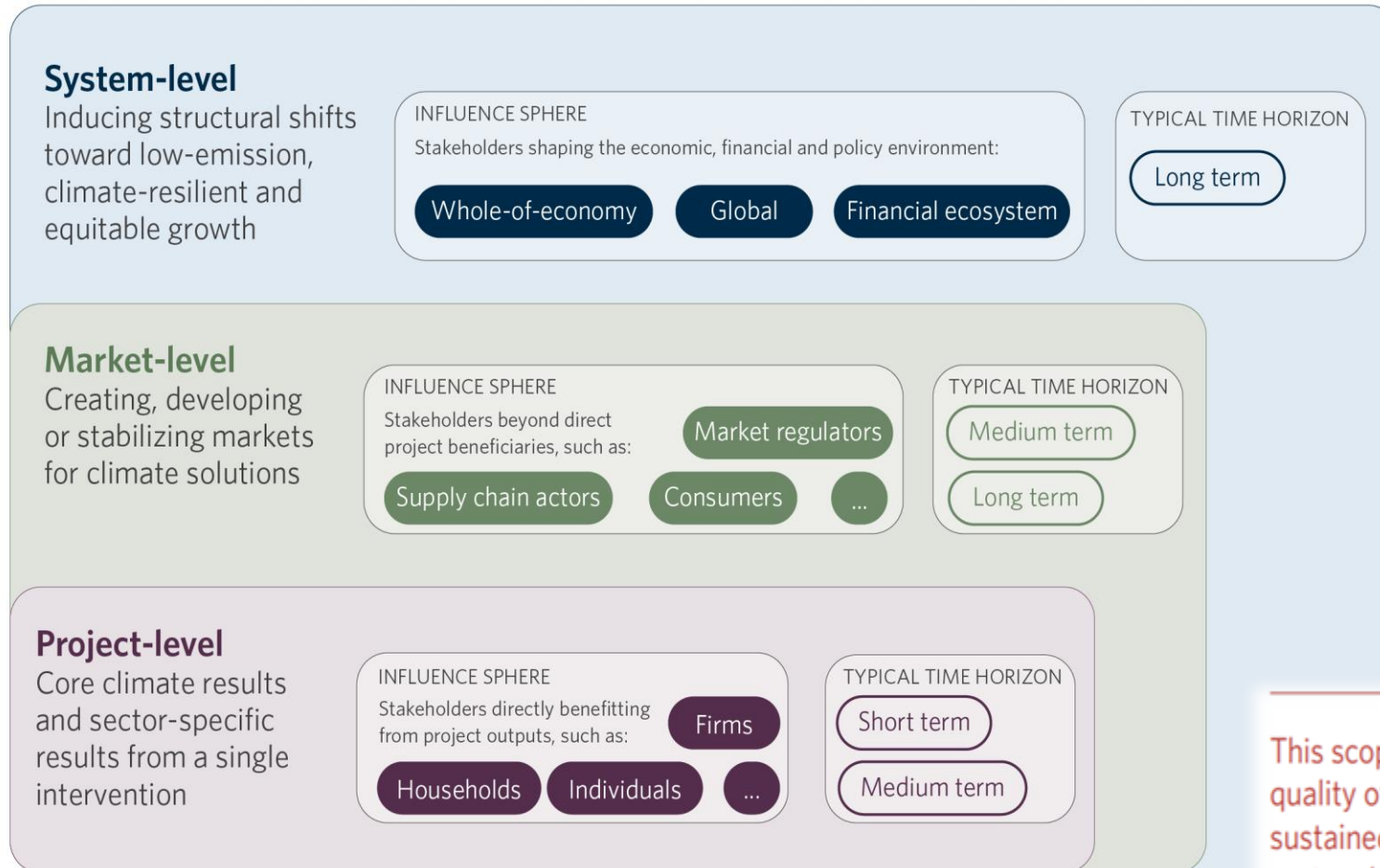


### Quality

Evidence based on the quality of finance

What works, for whom, and what may be scaled or replicated?

# 3-level framework for understanding and defining climate finance quality



This scoping study adopts a broad approach to explore the quality of climate finance in terms of whether flows deliver sustained transformational change at the market and system levels, ultimately leading to low-emission, climate-resilient and equitable economies

# Project-level

**Table 1:** Key project-level terminology

TERM	DEFINITION	MITIGATION EXAMPLE	ADAPTATION EXAMPLE
<b>Inputs</b>	The financial, human, and material resources used for a project ( <a href="#">OECD, 2013</a> ) climate finance is an input toward some output.	Concessional debt (and in-kind technical assistance)	Grants (and in-kind technical assistance)
<b>Outputs</b>	The products, assets, goods, or services that result from a project/program ( <a href="#">OECD, 2013</a> ). Outputs can also be enabling activities; for example, the direct establishment or modification of institutional or governance processes and mechanisms ( <a href="#">IIED, 2019</a> ).	Construction and operation of a solar power plant	Socializing and increasing the uptake of climate-smart agricultural practices in a water-stressed context, including the provision of drought-resistant seeds
<b>Outcomes</b>	The (expected or achieved) short- and medium-term effects of a project/program's outputs ( <a href="#">OECD, 2013</a> ). Attributing outcomes to specific outputs is crucial for demonstrating whether projects or programs have achieved their intended results ( <a href="#">IIED, 2013</a> ).	Emission reductions over business-as-usual (measured in tonnes of CO <sub>2</sub> e)	Increased agricultural yield during droughts (measured in tonnes/hectares per year)
<b>Impact</b>	The long-term (positive or negative; direct or indirect; intended or unintended) change that is induced or enabled by the outcomes of a climate project/program ( <a href="#">OECD, 2013</a> ).	Global temperature rise is kept well below 2°C	Avoided (economic and non-economic) loss and damage during droughts



# Market-level

**Table 3:** Key market-level terminology

TERM	DEFINITION
Addressing market imperfections	Barriers or distortions that prevent the efficient allocation of resources or capital, hindering the development and financing of climate solutions within a sector. These imperfections can include information asymmetries, knowledge gaps, and a lack of infrastructure and skills.
Providing demonstration effects	Demonstrating the feasibility, viability or effectiveness of new climate-friendly technologies or approaches within a specific sector.
Incubator	An incubator provides support—from one to five years—to entrepreneurs or start-ups by providing physical, financial and technical services to access finance and investment networks. (UNFCCC et al., 2018)

TERM	DEFINITION
Accelerator	An accelerator provides targeted, time-limited support—typically for three to six months—to accelerate the commercialization of climate solutions and innovations. (UNFCCC et al., 2018)
Enabling technology transfer	Processes through which climate-related knowledge, equipment, skills and practices are introduced, adapted and scaled-up within a given sector to support low-emission and climate-resilient development. This process includes advancing climate technologies from research to commercial application, facilitating their transfer from developed to developing countries, and supporting their local adoption and integration into existing systems and with local practices. (UNEP, 2022)
Addressing path dependence	The tendency to favor a product or practice based on historical precedent, reinforced by a combination of previous investments, institutional arrangements and established infrastructure. Such path dependency shapes the current and future development of a market.
Research and development (R&D)	R&D refers to investments and activities aimed at creating and improving climate-related solutions to enhance scalability, reduce costs, and attract investment, supporting widespread adoption across sectors.

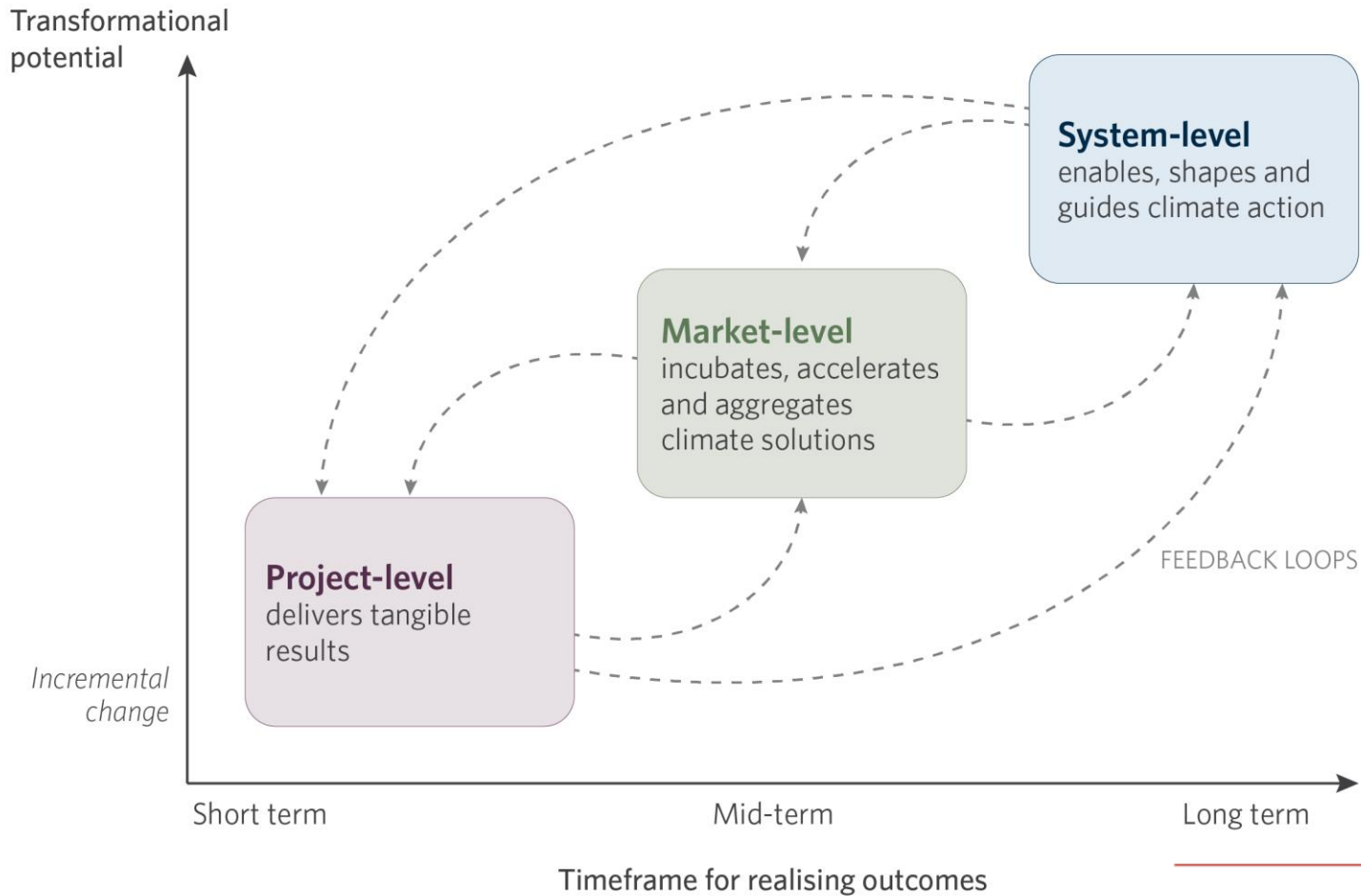
# System-level

DIMENSION	DEFINITION	EXAMPLE
Guiding paradigms and values	The guiding concepts, principles or thought models within which, and toward which, the system – people, policies, institutions and economies – works.	<b>Net Zero:</b> From its original use in the scientific community as a framing for stopping global warming, the concept evolved to become an overarching, time-bound target for a range of actors—from countries to individual corporations—to work toward ( <a href="#">ECIU, 2021</a> ).
		The <b>SDG Agenda</b> presents a plan of action with goals, sub-goals, and indicators for delivering prosperity for people and the planet by 2030. Its guiding principle of “leave no one behind” speaks to the need to reduce inequalities and vulnerabilities both within and among countries ( <a href="#">UNSDG, 2025</a> ).
		<b>Planetary Boundaries:</b> A set of nine interdependent planetary boundaries (centered around resource use) within which humanity must stay in order to develop and thrive; the crossing of boundaries increases the risk of generating large-scale or irreversible environmental changes with drastic socioeconomic implications ( <a href="#">SRC, 2023</a> ).
		<b>Climate justice:</b> A paradigm and political movement that seeks to address how climate change affects the most vulnerable people and communities, first and foremost, while the majority of historical emissions were emitted by the richest countries, which have the greatest capacity to adapt to climate change impacts ( <a href="#">LSE, 2022b</a> ).

DIMENSION	DEFINITION	EXAMPLE
Behaviors and attitudes	Changing behavior or shifting social norms such that they are conducive to low-emission, climate-resilient and equitable economies. This may be achieved through education initiatives, information and awareness campaigns, communicating both the case for action (the individual, tangible benefits) as well as the consequences of inaction (the adverse, individual losses and damages) ( <a href="#">WRI, 2021</a> )	Integrating climate change topics into educational curricula
		Nudging consumers toward better energy use awareness and efficiency.
		Shifting norms across entire financial institutions (e.g., banks aligning portfolios with Net Zero)
Policies and regulations	Creating or facilitating long-term and holistic policies, strategies, legal frameworks, governance structures, and the capacity needed to raise ambition on—and ultimately implement—climate action at a national or subnational level for an entire system (e.g., food and agriculture, energy, transport etc.).	A policy-based lending program that includes provisions such as: establishing carbon pricing; producing sectoral climate investment roadmaps; and aligning financial regulations with climate (e.g., mandatory climate disclosures) with the aim of reforming the entire system.
Institutional arrangements	Creating or facilitating the (inter- or intra-) institutional arrangements and organizational structures that may enable systematic coordination and cooperation within the global climate finance landscape.	Country climate and development platforms (see Box 4)
		Programmatic approaches with multi-year funding envelopes (e.g., the CIF Clean Technology Fund, Pilot Program for Climate Resilience, Forest Investment Program)

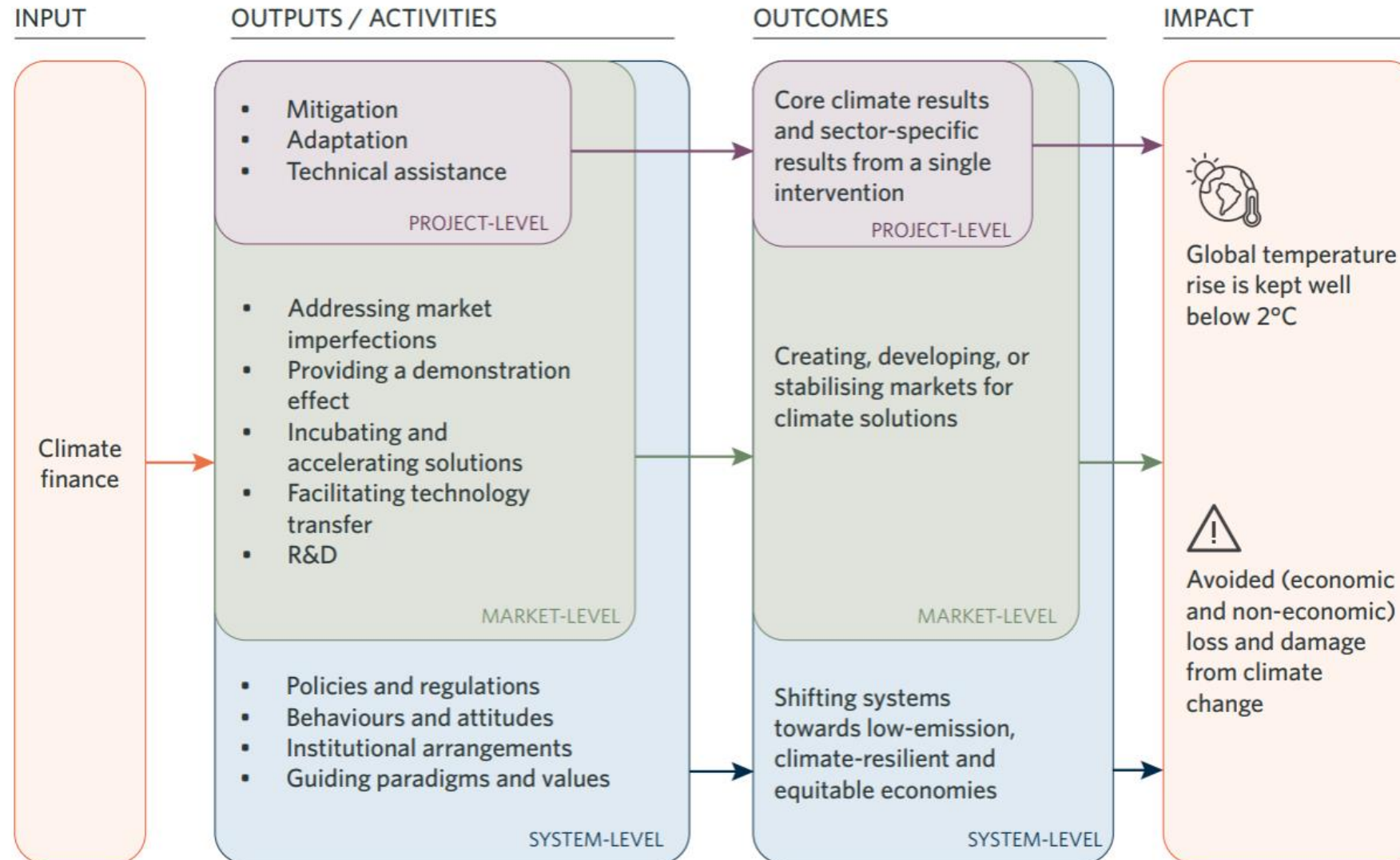


# Visualizing transformational climate finance



Transformational climate finance is finance that works to deliver positive and sustained change at the market and broader system levels

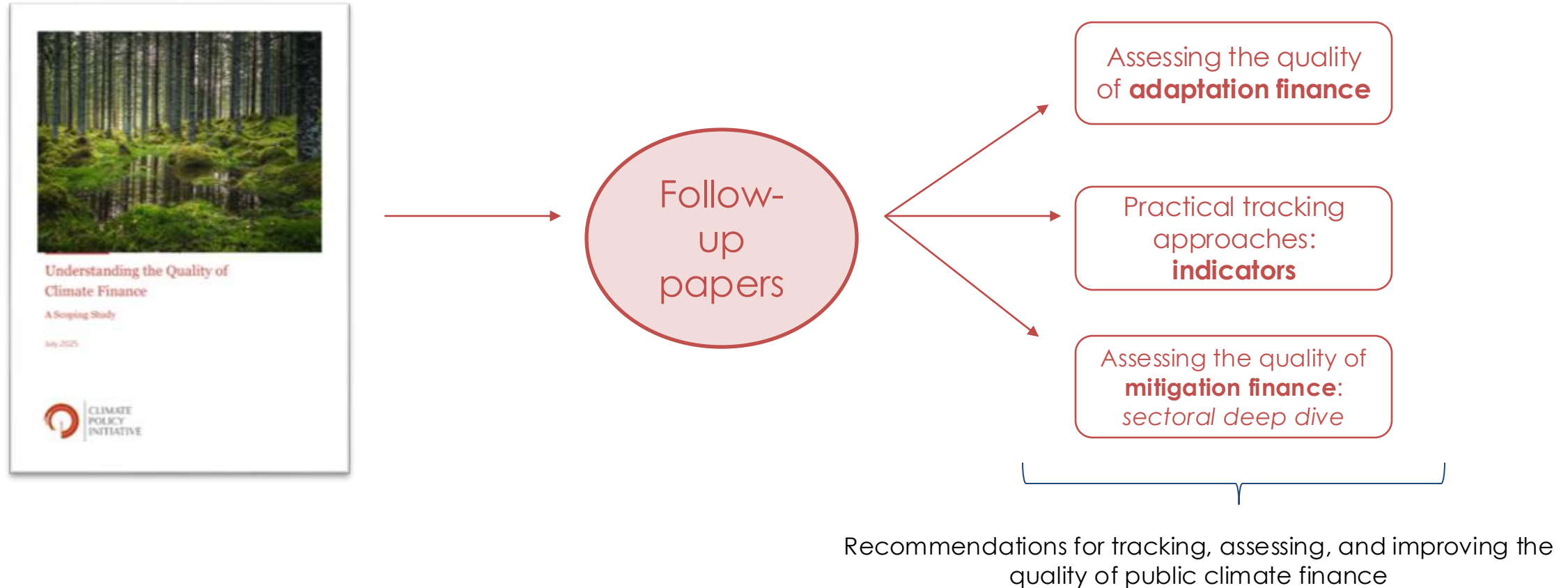
# Use case: theory of change template



# 10 dimensions for assessing the transformational potential of public climate finance

<p><b>ACCESSIBILITY</b></p> <p>Ensuring that beneficiaries can access climate finance without complex or confusing requirements, while also ensuring that fiduciary standards and safeguards are met. Includes access to finance for marginalized communities.</p> <p><b>Example:</b></p> <p><i>Simplifying access requirements and accreditation processes to multilateral climate funds (MCFs).</i></p>	<p><b>AFFORDABILITY</b></p> <p>Ensuring that climate finance is affordable —e.g., provided at below-market rates —and/or that financing instruments or structures are designed in innovative ways so as to alleviate the high cost of capital.</p> <p><b>Example:</b></p> <p><i>Deploying local currency financing instruments that tackle the high cost of capital (instead of lending in “hard” foreign currency)</i></p>	<p><b>CO-BENEFITS</b></p> <p>Aligning with the global SDGs to deliver on several complementary policy goals simultaneously via climate action.</p> <p><b>Examples:</b></p> <p><i>Reducing poverty Improving air quality Reducing gender inequality Protecting biodiversity</i></p>	<p><b>COMMERCIAL VIABILITY</b></p> <p>Ensuring that any positive changes derived from outputs and outcomes are commercially viable over the long term in the absence of external support (public climate finance providers). It is important that successful interventions are replicable and, possibly, scalable.</p> <p><b>Example:</b></p> <p><i>A clearly articulated exit strategy for the finance provider, with observed growth or continuation of a climate project/program/solution in the absence of public funding</i></p>	<p><b>COORDINATION AND PARTNERSHIPS</b></p> <p>Liaising with relevant actors to avoid duplication or misalignment in climate finance across providers, and so as to realize synergies or multipliers where available. Identifying where collaboration among multiple actors can unlock transformational financing opportunities that would not be independently viable, and addressing any barriers to this collaboration.</p> <p><b>Examples:</b></p> <p><i>Multiple actors—e.g., MDBs, NDBs, MCFs, domestic government—engaging in country climate-development platforms Harmonization of processes, standards and methodologies across collaborating institutions Producing a sector-specific climate investment roadmap</i></p>	<p><b>ENABLING ENVIRONMENT</b></p> <p>Creating or facilitating (long-term) policies, strategies, legal frameworks, governance structures, and the capacity needed to raise ambition on—and ultimately implement—climate investments at a national or subnational level. A positive feedback loop may emerge whereby public climate finance is used to craft an enabling environment which, in turn, stimulates the flow of additional climate finance.</p> <p><b>Examples:</b></p> <p><i>Reforming fossil fuel subsidies and providing feed-in tariffs for renewable energy Safeguarding investments and anti-corruption measures. Legislation that sets a strategic direction for long-term, national climate change policy.</i></p>	<p><b>EQUITY AND JUSTICE</b></p> <p>Ensuring that climate finance is delivered with equity considerations in mind and is responsive to climate justice principles. Accordingly, climate finance is allocated equitably, based on needs and vulnerabilities.</p> <p><b>Examples:</b></p> <p><i>Allocating adaptation finance to the least developed countries or small island states. Allocating finance for just transition programs that address the socio-economic fallout from mitigation action.</i></p>	<p><b>MOBILIZATION</b></p> <p>Crowding in additional (often risk-averse) capital that would not have flowed to a climate project/program without the initial finance provider.</p> <p><b>Example:</b></p> <p><i>Pursuing blended finance approaches to improve risk-return profiles and thereby attracting private capital</i></p>	<p><b>OWNERSHIP</b></p> <p>Ensuring that finance—and the means by which it is delivered—supports and sustains country, if not local, ownership of climate projects/programs (as opposed to international/multilateral-led interventions).</p> <p><b>Example:</b></p> <p><i>Implementing climate projects and programs through country platforms (e.g. the Brazil Climate and Ecological Transformation Investment Platform (BIP) led by the Brazilian Government).</i></p>	<p><b>PROGRAMMATIC APPROACHES</b></p> <p>Moving toward coherent, multi-year (sectoral/thematic) programmatic funding and scalable work programs (that adequately reflect existing beneficiary-led work and priorities), rather than incremental, project-by-project financing. This may include country platforms, an emerging set-up for channeling and managing climate finance with a longer-term strategic approach.</p> <p><b>Example:</b></p> <p><i>CLIF’s Clean Technology Fund; Pilot Program for Climate Resilience; Forest Investment Program, etc.</i></p>
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## Next Steps



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# Thank You