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Bridging the climate finance gap

Reaching US$1.3 trillion annually by 2035

January 2026

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Summary of key findings

The global climate finance landscape is at an inflection point. While COP29 set a new collective target of US$300 billion per year by 2035, this remains well below the US$1.3 trillion annually that developing economies estimate is required from international channels for effective mitigation and adaptation. Recognizing this shortfall, parties also adopted an aspirational target of US$1.3 trillion and launched the Baku-to-Belém Roadmap to 1.3T—a process tasked with identifying practical pathways to mobilize finance at the necessary scale. At COP30 the Mutirão decision recognized the importance by committing to triple adaption-related finance by 2035 and establishing a two-year work program to help ensure countries continue implementation.[1] The "Veredas Dialogue" was established with the goal to align finance flows with climate goals through 2028.[2] Despite these ambitious intentions, concerns are rising over the persistent gap between commitments and needs given current progress.

Current state

- **Persistent climate finance gap:** Current climate finance commitments of at least US$300 billion per year by 2035—covering public and private sources from a broad contributor base—remain far below the US$1.3 trillion annually needed by developing countries. The gap is especially pronounced in adaptation finance.
- **Uneven distribution of finance:** Most climate finance is directed toward mitigation in developed economies; while developing and emerging markets (outside China) could require US$2.3–2.5 trillion annually by 2030, with about half (US$1.3 trillion) estimated to come from external sources.
- **Evolving climate finance architecture:** The New Collective Quantified Goal (NCQG) and the Baku-to-Belém Roadmap expand the contributor base beyond traditional donor countries and public sources, which introduces greater complexity and the need for transparent, accountable reporting.

The future of climate finance

- **Traditional finance sources remain insufficient**, with Deloitte Global's analysis projecting that traditional sources of international public finance—including multilateral development banks (MDBs), bilateral finance and climate funds—can provide between US$170 billion and US$353 billion annually by 2035 in a low- and high-ambition scenario respectively.
- **MDBs can scale up but need reform** as projections indicate that they could deliver up to US$311 billion per year by 2035, of which almost US$218 billion would originate from advanced economies.
  - **Private capital mobilization is needed to help bridge the climate financing gap** through public leverage—such as blended finance and guarantees—and activating carbon markets under Article 6 of the Paris Agreement.
  - **Private finance mobilization ratios can be significantly improved.** With enabling reforms, leverage ratios could rise from historic levels of 0.2–0.4 up to 1.2, potentially mobilizing up to US$405 billion from advanced countries by 2035.
- **Alternative sources of international climate finance**—including Article 6-enabled carbon markets, international carbon taxation, Special Drawing Rights (SDRs), philanthropic capital, and South-South cooperation—could provide modest or considerable contributions ranging from about US$47 billion to US$779 billion annually by 2035 across the two scenarios.
  - **Article 6-enabled carbon markets**, if fully harmonized and globally integrated, could contribute up to US$472 billion annually by 2035—a potentially important source, though dependent on global standards and market integrity.
  - **Innovative finance sources** such as international carbon taxation (US$23–72 billion by 2035), SDRs (US$7–10 billion), and philanthropic contributions—which could exceed US$6 billion annually by 2035—are modeled as complementary sources.

  - **South-South cooperation** as a growing contributor, driven by emerging economies, could reach about US$218 billion annually by the mid-2030s, assuming sustained growth and catalytic private finance mobilization.

- **Potential aggregate impact across international climate finance sources**—traditional, alternative, and South-South flows—toward emerging markets and developing economies (EMDEs) could reach US$269 billion to US$1.5 trillion by 2035. The lower bound aligns with the new NCQG baseline of US$300 billion annually, while the upper bound slightly exceeds the aspirational target.
  - **Integrity and transparency are important** as high-integrity mechanisms, safeguards, and transparent accounting, including redefining climate finance using grant-equivalent terms, are necessary prerequisites to provide systemic and enabling conditions for financial flows to reach their potential.
  - **Strengthening the international enabling environment** with ambitious MDB reforms, innovative capital sources, and an NCQG framework with quantified sub-targets is an important factor to help achieve US$1.3 trillion in climate finance.

In summary

Bridging the climate finance gap to US$1.3 trillion by 2035 is both a challenge and an opportunity. Success calls for scaling finance, improving quality and transparency, and leveraging both public and private resources. Proactive engagement, innovation, and leadership in this space will be important to unlocking value and supporting the global transition to a resilient, low-carbon future.

Context setting

The 29th Conference of the Parties (COP29) concluded with a decision to triple the global climate finance goal, establishing a new collective target of US$300 billion per year by 2035.[3] However, this figure remains below the US$1.3 trillion that developing economies requested and that is estimated to be required annually to help address their mitigation and adaptation needs. Recognizing this shortfall, parties also adopted an aspirational target of US$1.3 trillion[3] and launched the Baku-to-Belém Roadmap to 1.3T[4]—a process tasked with identifying practical pathways to mobilize finance at the necessary scale. Despite these ambitious intentions, concerns are rising over the persistent gap between commitments and needs given current progress. In Belém, the focus shifted to operationalizing the NCQG and establishing mechanisms to help remove barriers and enable deployment of climate finance.[5] This paper and supporting research examine the sources of climate finance and highlight the enabling conditions and potential changes needed for a climate finance architecture that aligns with the aforementioned aspirational target of US$1.3 trillion per year by 2035.

Climate finance today

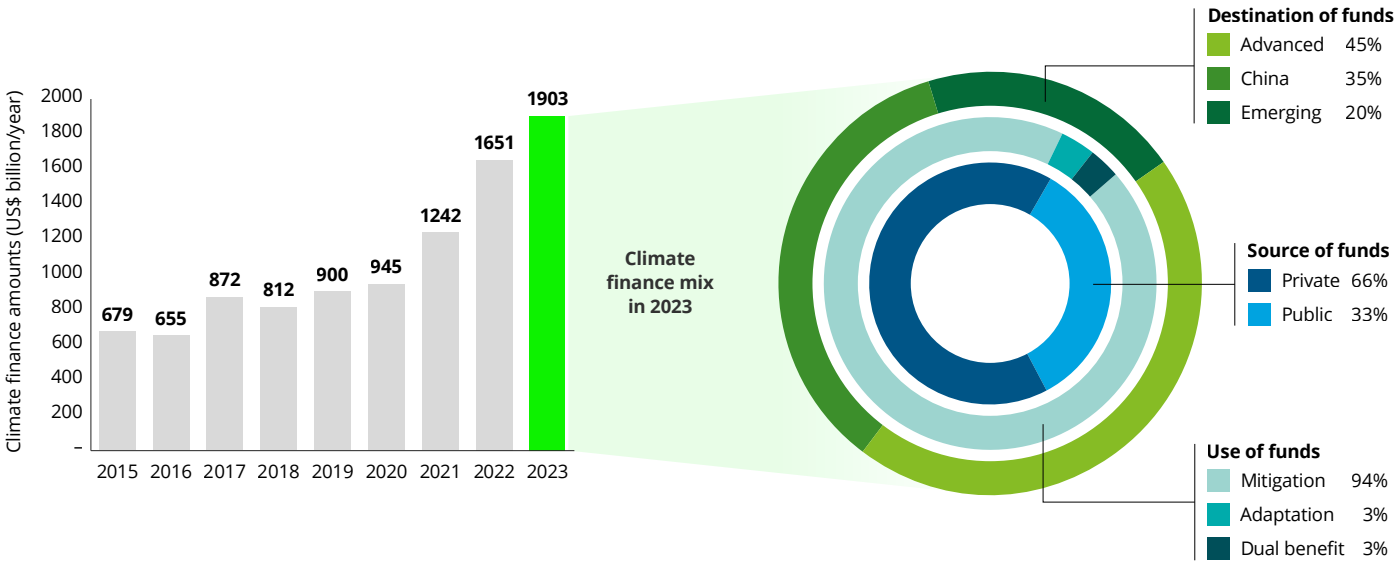
Global climate finance has evolved since the Paris Agreement in 2015, reaching almost US$2 trillion by 2023 (Figure 1) and exceeding that amount for the first time in 2024.[6] Yet, there is still progress to be made. According to the Independent High-Level Expert Group on Climate Finance (IHLEG), meeting the 1.5°C limit can require annual investments of roughly US$6.3 – 6.7 trillion by 2030, rising to US$7–8.1 trillion by 2035.[7]

Most finance flows are directed toward mitigation in developed economies, while developing countries—historically least responsible for emissions but some of the most exposed to climate risks—remain underfunded.[6] IHLEG estimates that emerging markets and developing economies (EMDEs) outside China could require US$2.3–2.5 trillion annually by 2030, about half of which should come from external climate finance.[7]

Climate action is primarily structured around three interlinked pillars: mitigation, adaptation, and loss and damage.[8] 'Mitigation' refers to measures designed to reduce or remove greenhouse gas emissions, while 'adaptation' involves adjusting human and natural systems to withstand present and future impacts of changing weather and climate conditions. 'Loss and damage' relates to the negative effects of climate change that occur despite mitigation and adaptation efforts.[8]

Historically, adaptation finance has lagged, despite the need.[9] International public adaptation flows rose from US$22 billion in 2021 to US$28 billion in 2022, the largest annual increase since the Paris Agreement.[10] Yet, these levels remain far below the estimated US$215–387 billion needed per year.[10] Even a doubling of adaptation finance by the end of 2025, as called for under the Glasgow Climate Pact, would cover only 5% of the gap.[10] This persistent shortfall, both in adaptation finance and climate finance more generally highlights the importance of the New Collective Quantified Goal (NCQG) in delivering substantially higher, predictable and needs-based finance for emerging and developing countries for the transition.

Figure 1. The evolution of the global climate finance between 2015 and 2023 and its mix by source, type and destination



Source: Deloitte Global analysis based on the data from Climate Policy Initiative[6]

NCQG and its evolution

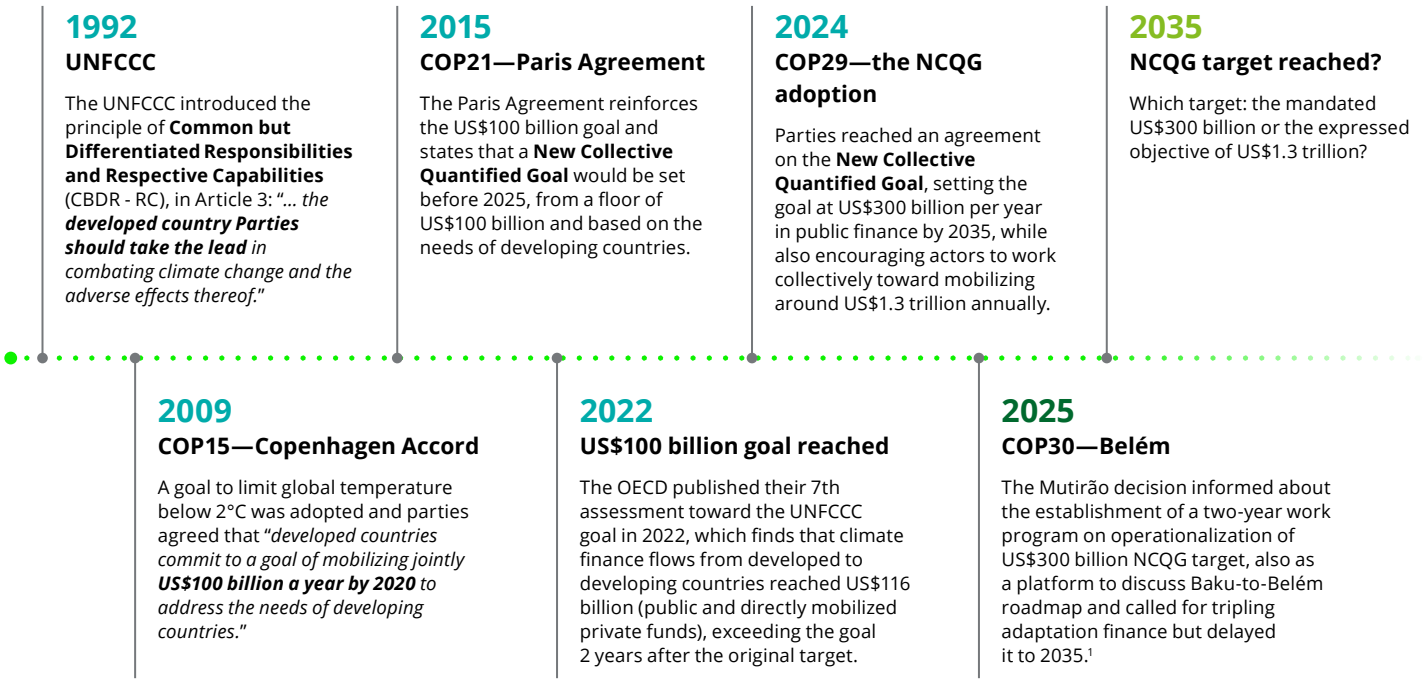
The NCQG is the product of three decades of climate diplomacy and grounded in the principle of common but differentiated responsibilities and respective capabilities.[11]

Under the Paris Agreement (COP21–2015) the US$100 billion commitment was formalized as a floor,[12] continuing through 2025 and requiring an NCQG.[13] In 2022, developed countries reported having met the US$100 billion annual target, two years after the targeted year. COP28 saw agreement and capitalization of the Loss and Damage Fund, which was an addition to the international architecture on financing for vulnerable nations.[14,15,16]

COP29 in Baku marked the culmination of the NCQG work program and delivered the following outcome: Parties agreed to set a new goal of at least US$300 billion per year by 2035, tripling the previous target, with developed countries taking the lead in mobilizing resources from public and leveraged private sources, and encouraging voluntary contributions from developing countries.[17] The aspirational objective to scale up climate finance to US$1.3 trillion annually by 2035 was also articulated and the Baku-to-Belém Roadmap was launched to define how this larger mobilization effort would be realized.[17] Despite this progress, many developing countries expressed concern that the new goal still falls short of the scale required to meet their adaptation and mitigation needs and noted that key challenges such as the quality, accessibility and inclusivity of finance remain inadequately addressed.[18] The decision provided only limited guidance on grant-based finance, regional allocation and prioritization of funding.[19]

The intersessional negotiations in Bonn in June 2025 resulted in only a procedural outcome that deferred key decisions on burden-sharing and finance quality to COP30.[20] Accordingly, COP30 saw the first high-level ministerial meeting on the Baku-to-Belém Roadmap. While climate finance was in the spotlight, the Brazilian COP30 Presidency led to the Mutirão decision to triple adaptation finance and launch a two-year work program for operationalizing the US$300 billion NCQG commitment of COP29.[5] This program is also expected to be used as a platform for the discussions regarding the US$1.3 trillion aspirational goal.[21] The "Veredas Dialogue" was also launched to discuss aligning finance flows with climate goals through 2028.[2] Therefore, the 2026–2030 period is expected to be decisive in demonstrating early progress toward the US$300 billion baseline, setting the stage for scaling toward the US$1.3 trillion aspirational target.

Figure 2. The history and evolution of the NCQG



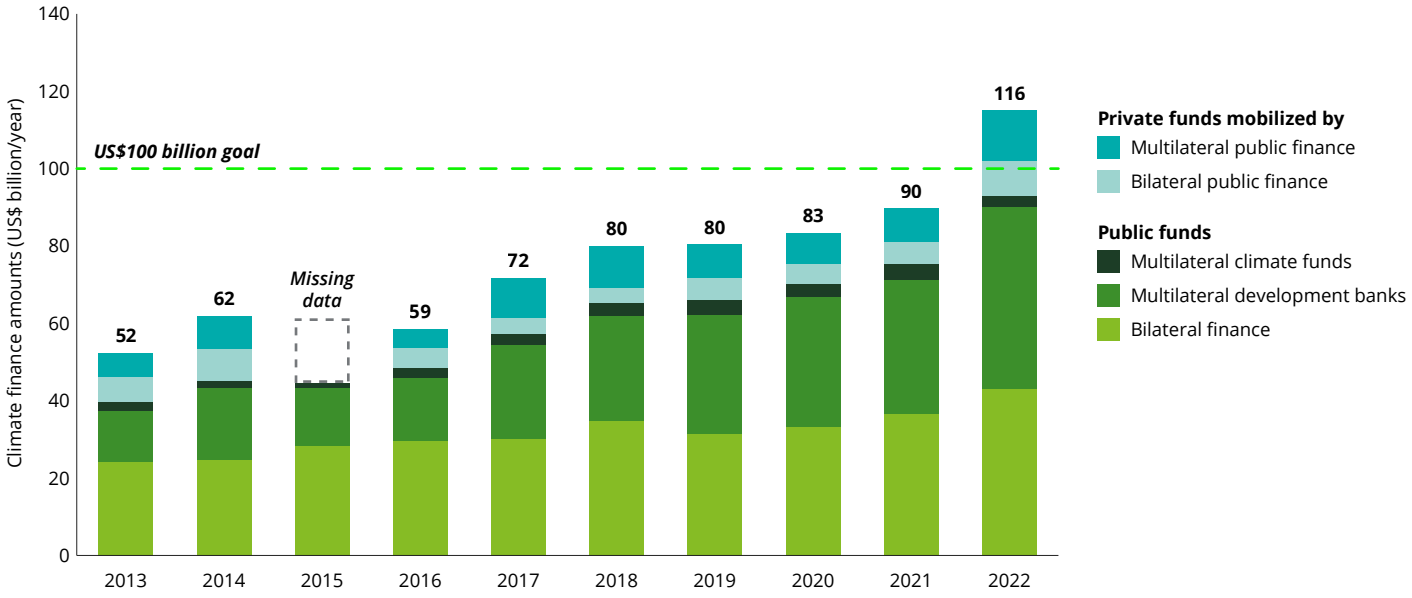
Source: Deloitte Global summary based on German Council on Foreign Relations (DGAP),[22] Natural Resources Defense Council (NRDC),[11] United Nations Framework Convention on Climate Change (UNFCCC),[13,16] Organization for Economic Co-operation and Development (OECD),[14] and United Nations Environment Programme Finance Initiative (UNEP Finance Initiative).[17]

International climate finance is built on a combination of public and private resources, each playing complementary roles. Public finance remains the cornerstone of international climate finance, providing a foundation of predictable resources to support developing nations in pursuing low-emission, climate-resilient pathways (Figure 3). These resources are mobilized through a range of bilateral, multilateral and dedicated climate funds:

- **Multilateral Development Banks** (MDBs) are the largest providers of climate finance among multilateral channels. In 2022, MDBs provided almost US$47 billion,[23,14] notably leveraging their balance sheets and co-financing arrangements. They pool resources from member governments to extend grants, concessional and non-concessional loans, guarantees, and technical assistance.[24]
- **Bilateral financial institutions** (BFIs),[25] including development finance institutions (DFIs) and development cooperation agencies, are the second key climate finance providers, with US$41 billion mobilized in 2022.[14] They often provide funding directly to partner countries using mainly the public budget of the donor country, supplemented by their own funds.[26]
- **Multilateral Climate Funds** (MCFs), such as the Green Climate Fund (GCF), Global Environment Facility (GEF) and Adaptation Fund (AF), mainly provide grants across mitigation and adaptation. Their reliance on public contributions enables them to support higher-risk interventions, with strong safeguards that help ensure alignment with country priorities.[27]

On top of the public sources, private finance has become an important component of international climate finance, complementing public resources in achieving and surpassing the US$100 billion annual goal (Figure 3). In 2022, US$21.9 billion of private finance was mobilized, up from US$14.4 billion in 2021.[14] These flows remain concentrated in mitigation sectors,[28] as private investors and lenders typically seek risk-adjusted commercial returns favoring proven, revenue-generating projects such as renewable energy, while projects with less certain returns, particularly adaptation and resilience, continue to face a financing gap.[10] Public finance therefore plays an important role by deploying concessional funding, guarantees and blended finance mechanisms to reduce risks and the associated financing costs and crowd in private capital (see Box 1).[29]

Figure 3. Climate finance mobilized from advanced economies to developing economies between 2013 and 2022



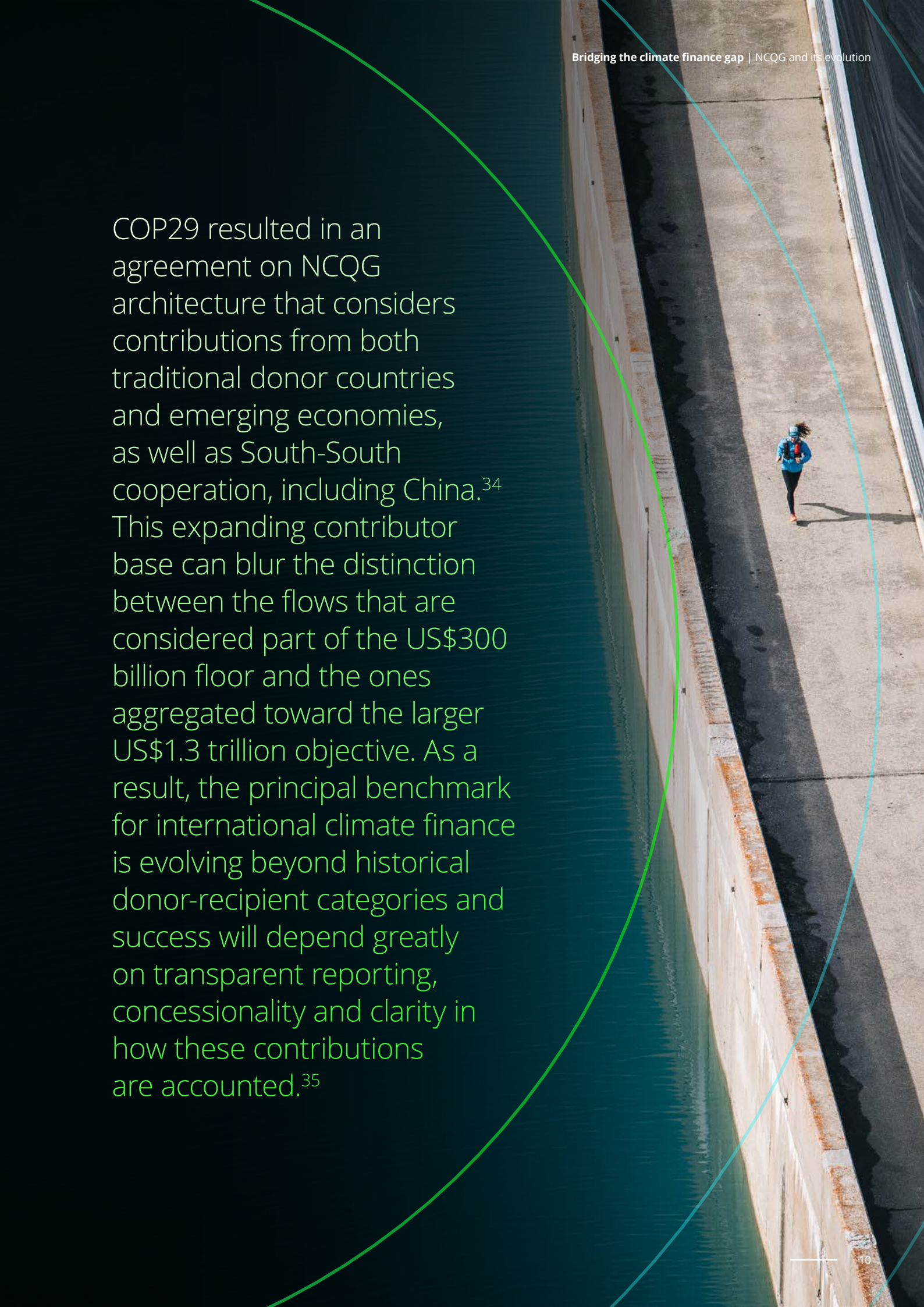
Source: Deloitte Global analysis based on the OECD database[14]

Box 1. The de-risking effect of public financing

Climate projects, especially in developing countries, face macro, market, technical and financial risks that can deter private capital and drive financing costs up.[29] Public entities can cut the costs by providing low-cost capital and risk-transferring mechanisms.[29] Provided in the form of concessional finance (e.g., capital with lower-than-market interest rates) or grants, it has a dual effect. It first provides capital where commercial lenders or investors may be reluctant to enter. It also directly lowers the financing costs of projects by lowering the cost of capital.[30] This enables further capital flow into the project by widening the pool of risk-averse capital providers.[29]

Blended finance combines public and private financing and complements concessional tools by transferring some risks that private actors cannot take to public actors that are better suited to take them. This risk transfer can be in the form of guarantees (political risk guarantees, revenue guarantees, etc.) or mezzanine instruments such as subordinated debts and first-loss tranches that absorb potential initial losses, thus leaving private investors with a safer senior tranche.[29] These de-risking mechanisms can make a project bankable (i.e., attractive to commercial lenders and investors), mobilizing private capital. Globally implemented, such instruments can reduce the overall cost of the energy transition by up to 25%.[31]

An example of the impact of international public finance in de-risking renewable projects is the Noor Ouarzazate Solar Complex in Morocco, the world's largest concentrated solar power (CSP) plant.[32] The 580 MW CSP plant, structured as a public-private partnership, received a combination of concessional loans and grants from multiple development finance institutions. This included multilateral institutions, such as the African Development Bank (AfDB), the Clean Technology Fund, the International Bank for Reconstruction and Development (IBRD), and bilateral institutions such as the Agence Française de Développement (AFD), Kreditanstalt für Wiederaufbau (KfW), and the European Commission.[33] This capital structure reduced risks borne by private equity investors. In addition, the Moroccan Agency for Sustainable Energy (MASEN) guaranteed a 25-year power purchase agreement (PPA), eliminating off-take risks.[33] Together, these de-risking mechanisms delivered by different public entities directly provided capital, reduced the project's financing costs, and made it financially viable, further unlocking private capital.



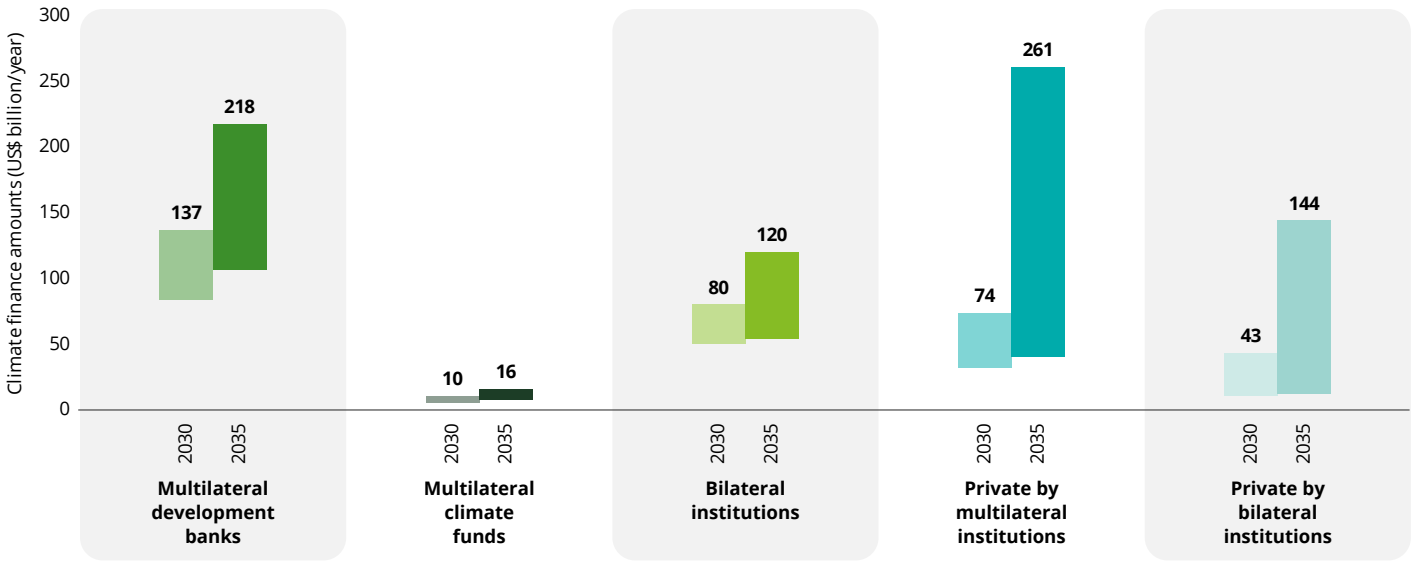
COP29 resulted in an agreement on NCQG architecture that considers contributions from both traditional donor countries and emerging economies, as well as South-South cooperation, including China.[34] This expanding contributor base can blur the distinction between the flows that are considered part of the US$300 billion floor and the ones aggregated toward the larger US$1.3 trillion objective. As a result, the principal benchmark for international climate finance is evolving beyond historical donor-recipient categories and success will depend greatly on transparent reporting, concessionality and clarity in how these contributions are accounted.[35]

The future of climate finance

Looking ahead to 2035, the target year for both the US$300 billion NCQG and the US$1.3 trillion aspirational goal, **multilateral development banks (MDBs)** are expected to remain the largest providers of international public climate finance, given their large balance sheets and their ability to lend directly (Figure 4). At COP29, MDBs announced a target to scale up their climate finance efforts to US$120 billion for EMDEs by 2030,[36] 70% of which (US$84 billion) is assumed to be attributed to contributions by advanced economies following historical contribution levels.[37] The reforms recommended by the G20 Independent Expert Group (IEG) under the triple agenda of "better, bolder and bigger MDBs"[38] could: (1) optimize the balance sheet of MDBs; (2) inject new capital; and (3) enhance coordination among themselves. These efforts are expected to expand the lending capacity of MDBs to about US $390 billion by 2030, representing an increase of approximately US$260 billion.[39] They are also expected to enhance private finance mobilization, crowding in further monetary flow.[39]

Assuming roughly 50% of MDBs' portfolios are directed toward climate finance,[40] direct flows could reach close to US$200 billion annually, with around US$137 billion (equivalent to 70% of the contributions[37]) attributable to advanced economies. Extending these trends to 2035, total MDB outflows could reach US$552 billion annually by 2035. Assuming a linear increase in the share of climate finance in MDB financing—reaching about 55% by 2035—their lending capacity for climate purposes could reach as high as US$311 billion by 2035, of which US$218 billion could come from advanced economies. (See Appendix 1 for a detailed description of the estimations.)

Figure 4. The potential evolution of traditional sources of international climate finance through 2030 and 2035



Source: Deloitte Global analysis based on the methodology described in Appendix 1

The NCQG decision explicitly called for annual outflows from the listed **multilateral climate funds**[41] to "at least triple" by 2030 compared to 2022 levels, which implies a minimum of US$5.6 billion by 2030.[42] If this tripling is extended across the broader landscape of MCFs and sustained (slightly below US$4 billion in 2022[14]), total MCF flows could exceed US$10 billion annually by 2030 and exceed US$15 billion by 2035 if the trend continues linearly. These flows are important for adaptation and loss-and-damage finance, especially for least developed countries and small island states.

Bilateral finance will remain closely tied to the priorities of advanced economies.[43] If current patterns persist, with climate finance maintaining a steady share of development budgets and expanding only in line with GDP, flows would only reach US$50 billion by 2030 and US$55 billion by 2035 (see Appendix 1). However, the IHLEG suggests a higher ambition, arguing that bilateral climate finance should double by 2030 and triple by 2035,[7] which would imply annual flows exceeding US$120 billion by 2035.

While historical **private finance** leverage ratios—private capital mobilization over public financing—have been between 0.2 and 0.4,[44] the announced target level by MDBs in their climate finance pledge of US$120 billion is 0.54, i.e., the US$65 billion that MDBs pledged to mobilize from private sources divided by the overall mobilization target of US$120 billion.[36] This ratio depends on the mix of instruments used by public institutions and the enabling conditions.[45] Some interventions, like support for Nationally Determined Contribution (NDC) investment plans or technical assistance grants, work at the systemic level, creating policy certainty and investment pipelines, necessary first steps to attract private capital.[46] Others operate at the project level, providing commercial or concessional capital or shifting risks from private to public actors (e.g., guarantees,[47] insurance, and first-loss mechanisms). According to *Strengthening multilateral development banks: The triple agenda report*,[39] ratios of up to 1.2 are achievable by multilateral financing institutions with the creation of an enabling policy environment and a cost-of-capital reduction. Assuming MDBs reach their 0.54 target by 2030, and the ambitious target suggested by G20 IEG is achieved through MBD reform by 2035, US$117 billion of private funds annually could be mobilized through advanced countries' bilateral and multilateral public financing by 2030, reaching as high as US$405 billion by 2035 (Figure 4).

Private finance has become an important pillar of international climate finance in the last years, and it can grow to contribute as much as US$400 billion to finance flows from developed to developing economies by 2035.

Expanding the toolbox: new sources

Once summed, traditional sources of international public climate finance—from MDBs, BFIs, and MCFs—could provide between US$170 billion and US$353 billion annually by 2035 (Figure 4). Even with optimistic private capital mobilization assumptions, bridging the gap to the aspirational US$1.3 trillion target requires alternative sources beyond traditional public and private flows. Four potential new sources being considered include: international aviation and maritime shipping taxation, Special Drawing Rights (SDRs), philanthropies, and most importantly Article 6-enabled, high-integrity carbon markets. These alternative sources could collectively contribute about US$47 billion to US$779 billion annually by 2035, depending on scenario assumptions (Figures 8 and 9).

According to the International Monetary Fund (IMF), carbon pricing for international aviation and maritime shipping could generate as much as US$200 billion annually by 2035.[48] After compensating countries facing economic impacts, particularly low-income nations, small island states and tourism-dependent economies, under a net-zero-aligned[49] carbon tax scenario, about US$70 billion would remain that could be used as international climate finance directed to developing countries by 2035 (see Appendix 2). A low scenario with a combined carbon tax and feebate system (i.e., charging fees on high-emission activities and providing rebates for low-emission alternatives) could still unlock US$22 billion by 2035 (Appendix 2).[48]

SDRs are reserve assets created by the IMF to supplement member countries' foreign currency reserves and provide liquidity in times of challenge. In 2021, the IMF issued US$650 billion in SDRs to help countries respond to the COVID-19 pandemic.[50] These SDRs were allocated proportionally to the IMF quotas[51] with most going to advanced economies.[52] The G20 countries pledged to re-channel about US$100 billion of SDRs to support vulnerable economies,[53] mainly through the IMF's Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST).[54] With the pledged US$100 billion allocated to the PRGT and RST proportionally, the SDRs can add approximately US$9 billion in 2030 and US$10 billion in 2035 to climate finance annually (see Appendix 2).

Philanthropy, while a relatively small contributor (about US$16 billion between 2019–2023), plays a catalytic role.[55] Long-term, flexible and risk-tolerant philanthropic capital can fund early-stage innovation, de-risk projects and attract additional resources from public and private sources.[56] In recent years, major funders and some leading philanthropic foundations[57,58,59] have pledged more climate funding. Assuming the historical growth trajectory,[6] philanthropic contributions could reach almost US$5 billion by 2030 and exceed US$6 billion annually by 2035.

Article 6 of the Paris Agreement provides the framework for international cooperation through carbon markets, allowing countries and organizations to meet their climate targets by trading emission reductions.[60] These markets could represent a significant untapped source of climate finance. Under current policies and with a highly fragmented carbon market, such markets could still enable annual carbon trading volumes of 1.1 $GtCO_2$ on average through 2035.[61] These volumes could increase even further with global integration, reaching 2.6 $GtCO_2$ on average annually through the same period.[61] The revenues from integrated carbon markets can contribute to international climate finance if they enable direct financial flows toward climate action in the recipient countries. If so, Article 6-enabled carbon markets could then contribute an additional US$7 to US$250 billion to international climate finance by 2030, and between US$11 and US$472 billion by 2035, depending on the size of the market (see Appendices 2 and 3 for a detailed description of the estimation methodology). Realizing this potential, however, would require harmonized rules, standards, high-integrity emissions accounting, and alignment of NDCs with the Paris Agreement to help ensure that traded emission reductions are additional and supportive of domestic and global climate goals.

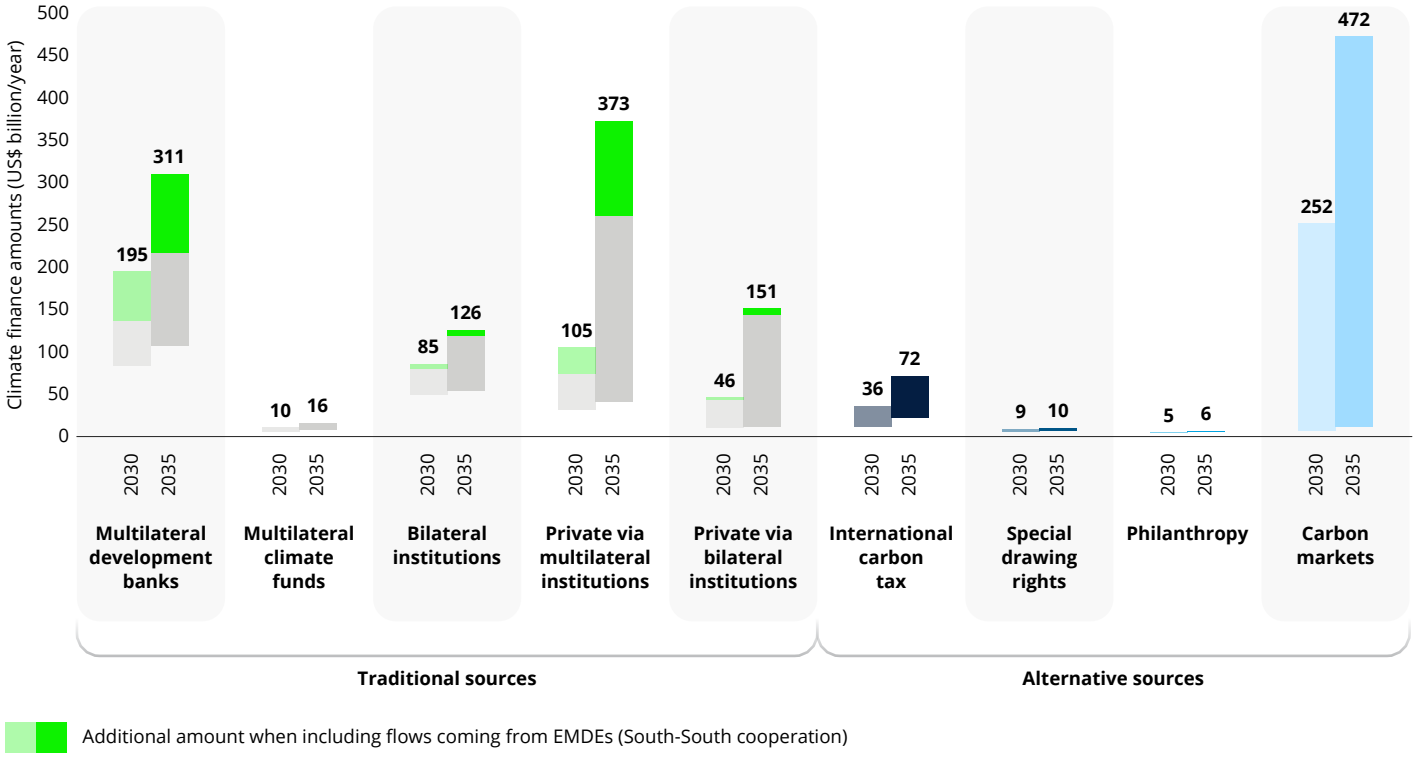
While the framework for Article 6 is now established, significant safeguards and monitoring are still needed to help ensure both

environmental integrity and genuine climate impact.[62] Challenges for effective integration into national and corporate accounting include compliance with local, national and international law,[63] permanence of emissions reductions and removals,[62] sustainability compliance,[63] and robust and transparent accounting.[64] Without these safeguards, there is a risk that Article 6 mechanisms could facilitate business-as-usual transactions without delivering climate benefits for developing countries.

Beyond traditional North-South climate finance flows, support from developing countries, known as **South-South cooperation**, has emerged as an increasingly important pillar of international finance, as underscored in the COP29 NCQG decision.[3] Several countries in the Global South have already made significant contributions, providing more than US$4 billion in bilateral and US$24 billion in multilateral public climate financing in 2023.[6] If these contributions continue to grow in line with the GDP share of contributing countries, public bilateral finance from the Global South could exceed US$5 billion by 2030 and US$6 billion by 2035. Assuming these countries maintain their historical share of MDB contributions (around 30%), their support could represent an additional US$59 billion in 2030 and up to US$93 billion in 2035. Moreover, the catalytic effect of multilateral and bilateral public finance could mobilize an additional US$119 billion in private climate finance. The estimation of the South-South financial flows is detailed in Appendix 2. Total South–South contributions can therefore reach about US$218 billion by the mid-2030s. This represents a growing source of finance that can complement traditional North-South flows.

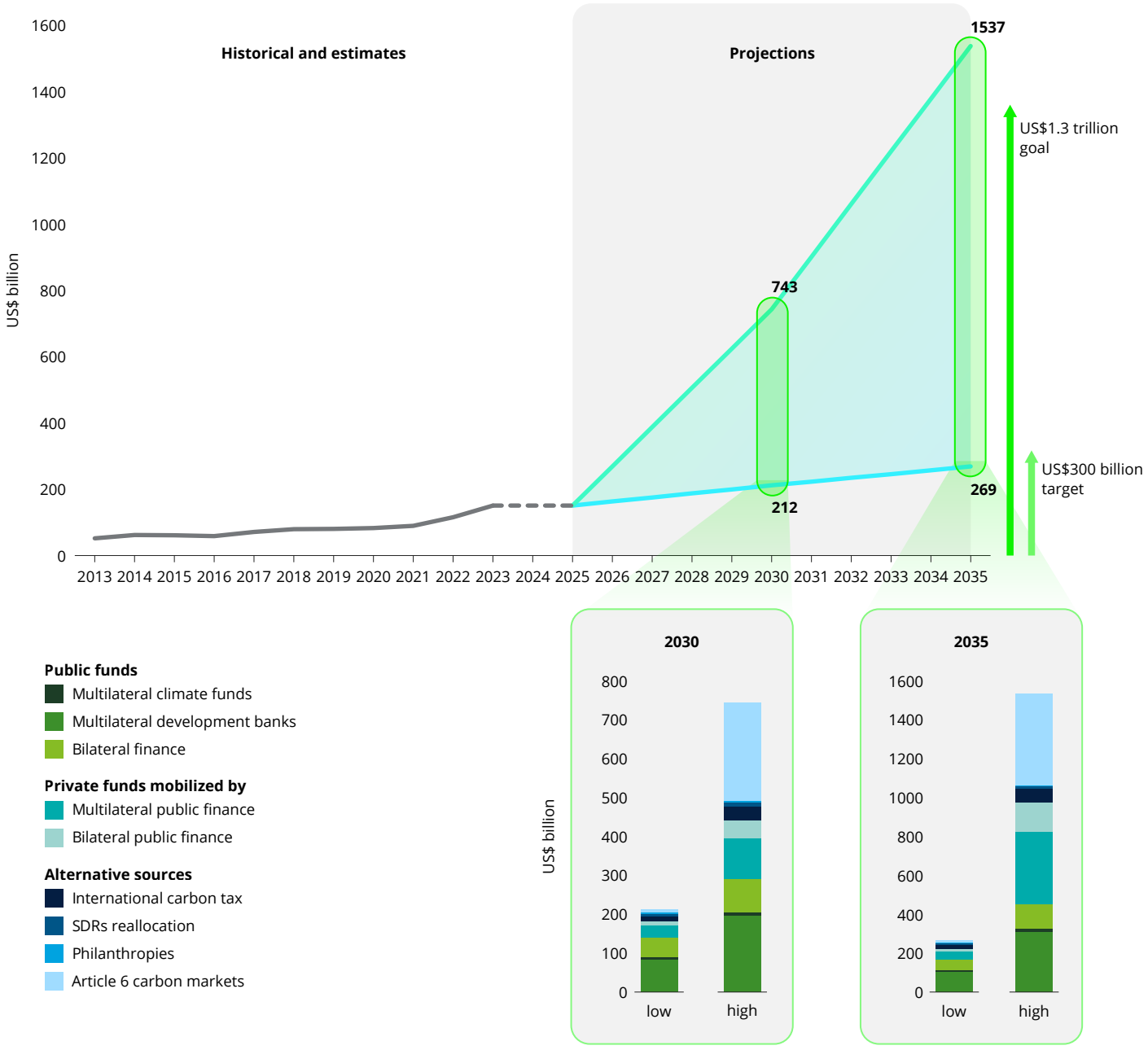
Summing up the traditional and alternative sources, the international climate finance toward EMDEs can reach between **US$212 billion and US$743 billion by 2030**, and between **US$269 billion and US$1.5 trillion by 2035** (Figure 6). These figures show that the US$300 billion goal remains within reach. The challenge, however, will be creating the enabling conditions to reach the US$1.3 trillion target.

Figure 5. Ranges of the sources of international climate finance directed to developing economies



Source: Deloitte Global analysis based on the methodology described in Appendices 1 and 2

Figure 6. International climate finance evolution, historical and projections through 2035



Source: Deloitte Global analysis based on the methodology described in Appendix 2

Looking ahead to unlock US$1.3 trillion

Attaining the aspirational US$1.3 trillion annual target for international climate finance by 2035 will likely require larger funding flows and a transformation in how finance is mobilized, structured and delivered. The current baseline of US$300 billion, while a big step forward, should translate into accessible value for developing countries. For climate finance to be more effective, predictable and aligned with global climate goals, a combination of enabling conditions and strategic actions is needed.

1. Redefining climate finance in grant-equivalent terms

The value of climate finance lies both in the nominal volume as well as in its concessionality and accessibility. Measuring the current US$300 billion target of the NCQG should be in grant-equivalent terms (see Box 2) or channeled through outright grants and highly concessional loans to help mobilize the needed financial flows. This can reduce debt burdens, making finance impactful for developing countries. Harmonized accounting for grant-equivalent flows should therefore become standard practice, helping to ensure transparency and comparability while avoiding inflation of headline figures that are not concessional.

Box 2. Concessionality through grant-equivalent accounting

Not every climate finance tool delivers the same value to recipient countries. The concept of "grant-equivalent" finance recognizes that loans, guarantees and equity investments can impose different burdens and risks compared to outright grants. While total climate finance flows are often reported, the actual concessionality—how much of this finance is equivalent to a grant—can vary substantially.[65] For developing economies, this distinction is important. Higher grant-equivalent content means more concessional finance,[66] which can help reduce debt stress and enhance the effectiveness of support. Assessing finance on a grant-equivalent basis can provide a more accurate benchmark for evaluating the financial effort by donors.

Although grant-equivalent value depends on the terms and the context in which it is deployed, it provides a useful benchmark to assess the financial effort embodied in different forms of climate finance. The principle is to compare the difference between financial flows under concessional terms and those under market conditions, in terms of present value—the discount rate depending on the considered market.[67] This difference represents the effort incurred by the donor, the so-called grant-equivalent amount of the contribution. Under this definition, the greater the difference between the interest rate of a concessional loan compared with the market rate, the higher its concessionality and the grant-equivalent value—a 2% loan to a least developed country carries a higher grant-equivalent value than the same loan given to a middle-income country.[65]

The figure below compares the key financing support mechanisms in terms of grant-equivalent support. Grants are fully grant-equivalent by definition.[65] Concessional loans, however, can vary widely: a concessional loan with a 10-year grace period can have a grant-equivalent value ranging from 40% to 70% of the borrowed amount, depending on the rate at which it is borrowed and the base rate in the borrower's market.[68] Subordinated or mezzanine loans typically score higher, while shorter grace periods reduce concessionality. Concessional equity

similarly reflects the gap between targeted and market returns, with public institutions often accepting returns as low as 2–5%, translating into grant-equivalent value between 20% and 40% depending on the market's risk.[68] Guarantees, meanwhile, have complex profiles: their value depends on the fee charged, duration and country risk, but they generally represent a smaller grant-equivalent effort compared to loans or equity. Finally, non-concessional instruments, aligned with market terms, naturally have a grant-equivalent value of zero.

These instruments may have the same notional value, but their support to recipient countries varies. This is why the definition and measurement of the NCQG matters: US$300 billion in grants and concessional loans represents substantial effort, while US$300 billion in market-rate finance offers limited support. If the NCQG target were defined in grant-equivalent terms, a mix of concessional loans, equity and guarantees could collectively account for the aspirational goal of US$1.3 trillion in total finance flow, while helping to ensure the financial effort is transparent and meaningful.

Relying solely on notional finance values could risk overstating donor effort. By contrast, grant-equivalent accounting can provide a transparent and credible measure of actual support to developing countries, helping to ensure that climate finance commitments translate into impact.

Grant equivalent accounting of a notional amount of US$100 million for a selection of instruments

Source: Deloitte Global analysis based on the OECD methodology on grant-equivalent accounting[68,69]

2. Unlocking the potential of Article 6

Carbon markets under Article 6 offer a significant, yet untapped opportunity to scale international climate finance, which, based on the current analysis, could become the main source of climate finance, with up to US$470 billion mobilized by 2035 (see Appendix 2). Realizing this potential would require:

- **Converging standards:** Harmonized and transparent rules and standards under Articles 6.2 and 6.4, on how credits are created and retired, to help ensure environmental integrity and facilitate cross-border transactions.
- **Paris alignment:** Participating countries, including developing ones, with NDCs and long-term strategies aligned with the Paris Agreement to help ensure traded emission reductions are genuinely additional to their national commitments.
- **Global market integration:** Cross-border cooperation and harmonized registries for the creation, transfer and retirement of credits to maximize liquidity, efficiency and equitable access, while safeguarding against double counting and carbon leakage.

3. Maximizing private capital mobilization through public leverage and systemic support

Public finance, notably multilateral finance, should be used not only for direct investment, but also to unlock larger sums from the private sector. This can be achieved by:

- Strategic deployment of blended finance instruments, using public funds to share or reduce risks, for example through guarantees or "first-loss" capital, which can make investments more attractive to private investors.
- Supporting changes that make it easier for private finance to flow into projects—such as improving regulatory frameworks, building reliable project pipelines and helping to ensure that climate finance is embedded in national development plans and NDCs.

4. Broadening the contributor base, while supporting additionality

Emerging economies and South-South cooperation provide a growing complementary source of finance. However, expanding the range of contributors to the NCQG should not be confused with widening the accountability base. Mobilizing additional resources from these actors—rather than substituting for developed country flows—could unlock further US$300 billion by 2035, reinforcing the overall NCQG trajectory.

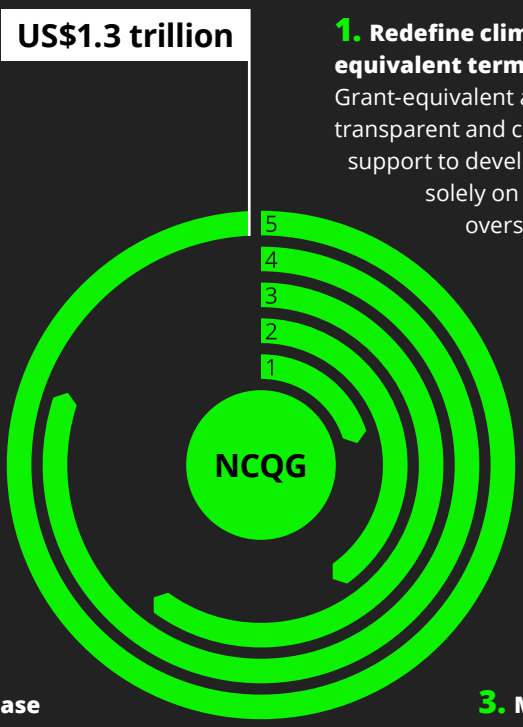
5. Strengthening the international enabling environment

Reaching US$1.3 trillion may be possible with international cooperation. This includes:

- **Accelerating reforms at MDBs and DFIs:** These reforms are about making these institutions more efficient, more ambitious and better suited to lend and invest at a larger scale, while taking prudent risks to support sustainable growth.
- **Securing reliable long-term funding:** Helps to ensure that climate funds are replenished regularly, tapping into innovative sources, such as carbon pricing on aviation and shipping, or the reallocation of international reserve assets (SDRs).
- **Enhancing coordination:** Harmonizes standards, reduces fragmentation and helps to ensure that finance is fairly allocated to the countries and communities that need it most.
- **Clarifying the NCQG framework:** Introduces clear sub-targets, for example by contributor group, type of finance or thematic scope (e.g., adaptation, mitigation and loss and damage), to provide direction and accountability.

In summary, the path to US$1.3 trillion in climate finance by 2035 is ambitious but appears achievable. It may require scaling while improving quality. This means prioritizing grant-equivalent support, leveraging Article 6 and innovative instruments, maximizing the catalytic role of public finance, engaging capable contributors and building a resilient, transparent climate finance system. With these measures, the NCQG may deliver on its potential for a climate-resilient and sustainable future.

Summary of five key enablers for achieving the US$1.3 trillion target



1. Redefine climate finance in grant-equivalent terms
Grant-equivalent accounting provides a transparent and credible measure of actual support to developing countries while relying solely on notional finance values risks overstating donor effort.

2. Unlock the potential of Article 6
Carbon markets offer an important untapped opportunity to scale international climate finance. Realizing this potential requires converging standards, worldwide Paris alignment, and global market integration.

3. Maximize private capital mobilization
Private investment should crowd in at scale, requiring strategic deployment of blended finance instruments, guarantees, and first-loss capital but also systemic interventions to create investable project pipelines and regulatory enabling conditions.

4. Broaden the contributor base
Emerging economies and South-South cooperation provide a growing complementary source. But expanding the range of contributors to the NCQG should not be confused with widening the accountability base: what matters is mobilizing additional resources.

5. Strengthen the international enabling environment
Achieving progress toward the goal requires ambitious MDB reforms, tapping innovative capital sources, and stronger international coordination. This should be underpinned by a clearer NCQG framework with quantified sub-targ-ets to help ensure funds are allocated efficiently and appropriately.

Source: Deloitte Global analysis

Appendices

Appendix 1. Calculation of future contributions from traditional sources of climate finance

Estimates for the future contributions of traditional climate finance sources—multilateral development banks, bilateral finance, multilateral climate funds, and mobilized private finance—are based on historical trends, macroeconomic growth assumptions, and pledges currently in place. Given uncertainties around the evolution of each source, the analysis presents upper and lower bounds to reflect a plausible range of outcomes through 2030 and 2035.

Multilateral development banks

At COP29, MDBs committed to scaling up climate finance for emerging markets and developing economies (EMDEs) to US$120 billion by 2030.[36] Historically, developed economies have provided around 70% of MDB funding.[14] If this ratio is maintained, approximately US$84 billion of the US$120 billion target could be attributed to international climate finance from developed to developing countries by 2030, representing the lower bound of MDB contributions.

The G20-mandated Independent Expert Group's MDB reform recommendations and the corresponding estimated increased financing capacity by MDBs constitute the upper bound of the estimations for 2030 and 2035. According to the IEG's estimations, if the MDB reform is successfully implemented, by 2030, the lending capacity of MDBs can be increased by US$260 billion[39] from the historical US$130 billion levels, reaching as high as US$390 billion.[39] Several MDBs already channel a majority of their financing toward climate projects, and a big proportion of MDBs are aiming to direct 50% of their portfolios to climate finance.[24] If 50% of all the MDB financing represents climate action, about US$195 billion of international climate finance can be provided by MDBs to developing economies. Applying the historical 70% share, the upper bound for international climate finance from MDBs reaches US$136.5 billion by 2030.

Projections for 2035 use:

(i) for the lower bound: linear extrapolation based on climate finance 2023 and 2030 values—US$75 billion[70] and US$120 billion—following Equation 1:

$$MDB_{2035}^{low} = \frac{(MDB_{2030}^{low} - MDB_{2023})}{2030-2023}\,(2035 - 2030) + MDB_{2030}^{low} \qquad \textbf{Equation (1)}$$

Where, MDB_{2035}^{low} and MDB_{2030}^{low} are the lower bound levels for climate MDB financing in 2035 and 2030, and MDB_{2023} is the historical contribution from MDBs for the year 2023. MDB_{2035}^{low} then reaches US$152 billion.

(ii) for the upper bound: linear extrapolation on total MDBs financing and ratio of financing directed to climate. Total MDBs financing in 2035 is derived from a linear extrapolation based on total MDBs financing in 2022 and 2030—US$130 billion and US$390 billion—following Equation 2:

$$MDB_{2035}^{high,total} = \frac{(MDB_{2030}^{high,total} - MDB_{2022}^{total})}{2030-2022}(2035 - 2030) + MDB_{2030}^{high,total}$$ **Equation (2)**

Where, $MDB_{2035}^{high,total}$ and $MDB_{2030}^{high,total}$ are the lower bound levels for climate MDB financing in 2035 and 2030, and MDB_{2022}^{total} is the total MDBs financing for the year 2022.

The ratio of financing directed towards climate is also based on linear extrapolation of 2022 and 2030 ratios—40% and 50%—following Equation 3:

$$ratio_{2035}^{climate} = \frac{(ratio_{2030}^{climate} - ratio_{2022}^{climate})}{2030-2022}(2035 - 2030) + ratio_{2030}^{climate}$$ **Equation (3)**

Upper bound of results from $MDB_{2035}^{high,total}$ and $ratio_{2035}^{climate}$, reaching US$311 billion in 2035.

Applying the historical 70% share to the results above, international climate finance from MDBs reaches between US$107 and US$218 billion in 2035.

Bilateral climate finance

Bilateral climate finance estimation in this analysis assumes developed countries will at least maintain 2022's share of climate finance in their GDPs. Lower bounds for 2030 and 2035 are calculated by applying the 2022 ratio to projected GDPs for those years (see Equation 4):

$$BFI_{year}^{low} = \sum_{country} GDP_{year}^{country} \times \frac{BFI_{2022}}{\sum_{country} GDP_{2022}^{country}}$$ **Equation (4)**

Where, BFI_{year}^{low} represents the lower bound of the BFI contribution in the considered year (2030 or 2035), $GDP_{year}^{country}$ is the GDP of the considered developed country in the considered year (that is summed over OECD countries), BFI_{2022} is the 2022 BFI contribution[14] and $GDP_{2022}^{country}$ represents the GDP of the considered country in year 2022. The GDP values are based on OECD's GDP long-term forecast dataset,[71] which accounts for a 15% and 26% GDP increase by 2030 and 2035 respectively, compared to 2022. Using this method, lower bounds are estimated at US$50 billion in 2030 and US$55 billion in 2035.

Upper bounds are defined by IHLEG's ambitions to double and triple bilateral climate finance by 2030 and 2035[7] respectively, resulting in US$80 billion and US$120 billion.

Multilateral climate funds

The NCQG draft decision calls for a tripling of finance by key listed funds—the Green Climate Fund (GCF), Global Environment Facility (GEF), Adaptation Fund (AF), Least Developed Countries Fund (LDCF), and Special Climate Change Fund (SCCF)—by 2030.[42] Collectively, these funds contributed about US$1.9 billion of the US$3.4 billion MCF total in 2022. Tripling the MCF contributions gives an upper bound of US$10.2 billion in 2030, while tripling only the listed funds yields a lower bound of US$5.6 billion.

The 2035 values are calculated based on linear extrapolation of the 2030 values using 2022 as the base year, as in the MDB contribution calculations:

$$MCF_{2035}^{low} = \frac{(MCF_{2030}^{low} - MCF_{2022})}{2030-2022}(2035 - 2030) + MCF_{2030}^{low}$$ **Equation (5)**

$$MCF_{2035}^{high} = \frac{(MCF_{2030}^{high} - MCF_{2022})}{2030-2022}(2035 - 2030) + MCF_{2030}^{high}$$ **Equation (6)**

In these equations, MCF_{2035}^{low} and MCF_{2030}^{low} are the lower bound levels for MCF financing in 2035 and 2030, MCF_{2035}^{high} and MCF_{2030}^{high} are the upper bound levels for MCF financing in 2035 and 2030, and MCF_{2022} is the historical contribution from MCFs for the year 2022. The linear extrapolation results in US$7.66 billion and US$15.55 billion of lower and upper bound levels for 2035.

Mobilized private finance

Historically, US$41 billion in bilateral finance mobilizes US$9.2 billion in private finance (22% leverage),[14] and US$74.7 billion in MDB finance mobilizes US$28.6 billion (38% leverage).[70] These ratios are used for lower-bound calculations. When multiplied by the lower-bound levels for BFI and MDB contributions in 2030 and 2035, these ratios result in US$11 billion and US$12 billion, and US$31.9 billion and US$40.5 billion, respectively, of mobilized private finance by BFIs.

For the upper bound, MDBs have set a private finance mobilization target of 54% by 2030, which equates to mobilizing US$65 billion from the private sector.[36] Applying this ratio to the upper-bound public flows translates into US$73.7 billion mobilized by MDBs and US$43.2 billion by BFIs in 2030. Assuming that the targeted leverage ratio of 120% suggested by IEG's MDB reforms[39] can be attained by 2035 in the high scenario, the upper bound levels for 2035 reach US$261 billion and US$144 billion for private finance mobilized by MDBs and BFIs respectively.

Figure 7 summarizes the historical and estimated finance contribution by each source of international climate finance for 2030 and 2035 in terms of low and high levels.

Figure 7. The contributions from the traditional sources of international climate finance (US$ billion)

Source of finance	2022	2030		2035	
	Historical	Low	High	Low	High
MDBs	46.9	84	136.5	106.66	217.55
Bilateral public	41	50	80	54.53	120
MCF	3.4	5.6	10.2	7.66	15.55
Private mobilized by bilateral public	9.2	11	43.2	12	144
Private mobilized by multilateral public	12.7	31.9	73.7	40.5	261.06

Source: Deloitte Global analysis based on the assumptions and the sources detailed in the text above the table

Appendix 2. Calculation of future contributions from alternative sources of climate finance

This analysis identifies four principal alternative sources of international climate finance: high-integrity carbon markets under Article 6, international carbon taxation mechanisms, Special Drawing Rights, and philanthropic contributions. In addition, the assessment incorporates the potential for South-South cooperation, recognizing the growing climate finance flows from developing economies to their peers. The following sections outline the estimation methodologies and projected values for each of these alternative sources.

High-integrity international carbon markets under Article 6

The potential of climate finance from international carbon markets assumes operationalization of articles 6.2 and 6.4 of the Paris agreement, and their convergence to the same standards and market prices, since the exchanged carbon credits will be assumed to be interchangeable. The first step is to estimate the size and price of the carbon market. Through a global general equilibrium modelling framework, Pedro Piris-Cabezas et al. estimate that between 1.1 $GtCO_2$ and 2.6 $GtCO_2$ can be traded on average between 2020-2035. Assuming a linear increase from the 2021 (historical) 0.49 $GtCO_2$ level, the traded volumes (market size in carbon credits) reach between 1.3 and 3.2 $GtCO_2$ in 2030, and 1.71 $GtCO_2$ and 4.71 $GtCO_2$ in 2035 for the lower and the upper bounds respectively.

The low scenario corresponds to a carbon market that is fragmented, with climate ambitions being limited to current NDCs, considering carbon prices of US$12/$tCO_2$ in 2030 and US$15/$tCO_2$ in 2035. The high scenario, on the other hand, assumes a uniform harmonized global CO_2 market, with NDCs in line with the Paris agreement. The carbon prices for these upper bound values are US$183/$tCO_2$ in 2030 and US$233/$tCO_2$ in 2035.

About 80% of generated revenues are assumed to flow toward developing economies. This assumption is based on the UNCTAD analysis where only six least developed countries (LDCs) account for 80% of credits under Kyoto protocol's clean development mechanism (CDM), hence 80% is considered as the proxy.[72] Based on these assumptions, the size of the Article 6-enabled carbon market revenues in developing economies would vary between US$12 billion and US$468 billion in 2030, and US$21 billion and US$878 billion by 2035. Historically, the ratio of "carbon credit purchase to total size of the project" is 5.5.[73] If replicated in the future with half of the capital originating from international investors, this would translate into US$58 billion to US$2.4 trillion of international finance mobilized by carbon markets in 2035. However, not all of this investment can be directly attributed to carbon markets or accounted for in the NCQG, as it might simply serve as carbon-credit trading with no support for climate action in the host country. To quantify the portion of revenues that can be accounted for in the NCQG, the weighted average cost of capital (WACC) with and without carbon market revenues is compared. The WACC reduction in percentage points can then serve as the metric for determining the share of total project finance that can be counted in the NCQG. Equation 7 shows how this can be calculated:

$$NCQG_{year}^{Article\ 6} = CM_{year}^{EMDCs} \times r_{leverage} \times r_{international} \times \left(\frac{WACC^{pre-Article\ 6} - WACC^{Article\ 6}}{WACC^{pre-Article\ 6}}\right) \quad \textbf{Equation (7)}$$

Where, $NCQG_{year}^{Article\ 6}$ is the financing contribution from Article 6-enabled carbon markets at the considered year; CM_{year}^{EMDCs} is the international carbon market revenue flowing to developing countries in this year (in US$ billion); $r_{leverage}$ is the amount of money invested in a project for each dollar of carbon credit purchased; $r_{international}$ is the share of the project's financing coming from international flows (assumed to be 50%); and $WACC^{pre-Article\ 6}$ and $WACC^{Article\ 6}$ represent the WACC of a typical project in the absence of Article 6-enabled carbon markets and in their presence respectively.

The difference in the WACC levels before and after Article 6 is estimated based on OECD reference interest rates[74] for the cost of capital and the cost of debt, also considering that a part of the investment in the project is financed by the carbon credit purchase (using the 5.5 ratio).

Using Equation (7) and the estimated values for carbon-market size, the revenues received by developing economies (80%), and the changes in WACC level (20%), the lower and the upper bounds of the NCQG contribution from high-integrity international carbon markets vary between US$6.58 billion and US$251.64 billion in 2030, and between US$11.26 billion and US$472.45 billion in 2035.

International carbon taxation

International carbon taxation, notably on aviation and shipping, can both support the energy transition of these hard-to-abate sectors,[75] and provide further sources for climate finance.[48] The analysis first uses the estimated revenues of international carbon taxation on these sectors under different assumptions for 2030 and 2035. Depending on the policy stringency (only carbon tax or carbon tax combined with a revenue-neutral feebate), the revenues transferred from international carbon taxation can vary between US$105 billion and US$202 billion in 2035.[48]

It is important to note that such a taxation scheme could lead to economic losses by impacting the final cost of traded goods and reducing the revenues from travel-related activities, notably tourism. The IMF analysis also assesses the potential losses, defines a redistributive compensation mechanism and identifies the remaining revenues from international carbon taxation, which vary between and US$23 and US$72 billion in 2035, based on tax and feebate and on tax only with net-zero ambition.[76] The 2030 values are calculated using a linear interpolation between today—with no revenues from such a scheme—and 2035, accounting for US$11.4 billion and US$35.9 billion. These levels in 2030 and 2035 are considered as the lower and upper bound values for the contribution to international climate finance from international carbon taxation.

Special drawing rights (SDRs)

Special Drawing Rights are assets created by the IMF to supplement member countries' foreign currency reserves and provide liquidity in times of challenge. In 2021, right after the COVID-19 pandemic, the IMF issued US$650 billion in SDRs.[50] Allocation of SDRs is based on the IMF's quotas,[51] which indicate that most of the SDRs went to advanced economies in 2021, with only US$275 billion of the US$650 billion going to developing economies.[52] The G20 countries pledged to re-channel about US$100 billion of SDRs to support vulnerable economies[53] via the IMF's Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST). As of now, what is being directed to the RST represents US$41 billion in loanable deposits, and US$29 billion of committed amount, over 5 years.[77] Assuming that these figures grow in line with the global GDP towards 2030 and 2035,[78] following Equations (8) and (9), it would represent US$45 billion of loanable deposits and US$31 billion of committed amount in 2030, and US$49 billion and US$35 billion, respectively, in 2035 (over 5 years).

$$RST_{year}^{loanable\ deposits} = \sum_{country} GDP_{year}^{country} \times \frac{RST_{2025}^{loanable\ deposits}}{\sum_{country} GDP_{2025}^{country}} \qquad \textbf{Equation (8)}$$

$$RST_{year}^{committed\ amount} = \sum_{country} GDP_{year}^{country} \times \frac{RST_{2025}^{committed\ amount}}{\sum_{country} GDP_{2025}^{country}} \qquad \textbf{Equation (9)}$$

Where, $RST_{year}^{loanable\ deposits}$ and $RST_{year}^{committed\ amount}$ represent loanable deposits and committed amount in the considered year (2030 or 2035); $GDP_{year}^{country}$ is the GDP of the considered developed country in the considered year (summed over OECD countries); $RST_{2025}^{loanable\ deposits}$ and $RST_{2025}^{committed\ amount}$ are the levels reached in 2025; and $GDP_{2025}^{country}$ represents the GDP of the considered country in year 2025. According to the OECD long-term GDP forecast data, OECD countries' GDP in 2030 and 2035 can reach US$83 trillion and US$91 trillion (an increase of 10% and 20% respectively, compared to 2025), which are the values used for $\sum_{country} GDP_{year}^{country}$ in 2030 and 2035 respectively.[78]

This would result in the following average yearly flows: for the lower bound—only based on committed amount—US$6.4 billion in 2030 and US$6.9 billion in 2035, and for the upper bound—including loanable deposits—US$9 billion in 2030 and US$9.8 billion in 2035.

Philanthropies

In 2023, philanthropic contribution to international climate finance toward EMDEs was US$2 billion.[6] Future estimates are based on a linear regression (using the method of least squares) on historical figures from 2019 to 2023.[6] Fitting a linear trend, this results in a contribution of US$4.7 billion in 2030 and US$6.2 billion in 2035. Given its limited value and the unavailability of systemic estimation methods for philanthropic contribution, there is only one value per year, with no upper or lower bound.

Figure 8 summarizes the potential low and high ends of climate finance from alternative sources for 2030 and 2035.

Figure 8. The future climate finance contribution estimations from alternative sources (US$, billion)

Source of finance	2030		2035	
	Low	High	Low	High
Article 6-enabled carbon markets	6.6	251.6	11.3	472.5
International carbon taxation	11.4	35.9	22.9	71.8
SDRs	6.4	9	6.9	9.8
Philanthropy	4.7	4.7	6.2	6.2

Source: Deloitte Global analysis based on the assumptions in the text above the table

South-South financial flows

The financial flows from developing economies toward other developing economies are grouped under South-South contribution, and contain possible, traditional international climate finance flows. The only difference is the origin of the finance, which does not come from advanced economies, but rather from EMDEs.

Concerning the South-South financial flows through multilateral development banks, the methodology is consistent with the approach for the MDB contribution from advanced economies. In 2030, the upper bound of overall climate flows toward emerging economies is based on the US$390 billion suggested by IEG in its MDB reform recommendations[39] and the target of 50% of financing directed towards climate, reaching US$195 billion. In the case of South-South, the remaining 30% of these contributions are added on top of the previous values, accounting for US$58.5 billion for high level in 2030.

The 2035 upper value for MDBs is derived from a linear extrapolation of the US$390 billion level and a linear extrapolation of the 50% ratio (to 56% in 2035), resulting in US$300 billion in 2035. This extrapolation is demonstrated in Appendix 1, where the MDB contribution is detailed. Applying the 30% ratio, the South-South financial flows through MDBs would represent US$93.23 billion in 2035.

Bilateral South-South contribution follows the assumption that emerging economies will at least maintain 2023's share of climate finance in their GDPs. China's GDP is used as a proxy to estimate future South-South contributions, as shown in Equation (9):

$$BFI_{year}^{South-South} = GDP_{year}^{China} \times \frac{BFI_{2023}^{South-South}}{GDP_{2023}^{China}}$$ **Equation (10)**

Where, $BFI_{year}^{South-South}$ represents the BFI contribution in the considered year (2030 or 2035); GDP_{year}^{China} is the Chinese GDP in the considered year; $BFI_{2023}^{South-South}$ is the 2023 BFI South-South contribution; and GDP_{2023}^{China} represents the GDP of China in 2023. The GDP values are based on OECD's long-term forecast dataset,[78] which accounts for a 34% and 58% GDP increase by 2030 and 2035 respectively. Using this method, bilateral South-South contribution is estimated at US$5.1 billion in 2030 and US$6.1 billion in 2035.

Private finance mobilized by South-South flow is based on the same methodology as described in Appendix 1 for the advanced economies case, using the same leverage ratios for MDBs and BFIs in the upper bound. It results in US$2.8 billion in 2030 and US$7.3 billion in 2035 for the private capital mobilized by bilateral public sources, and US$31.6 billion in 2030 and US$111.88 billion in 2035 for the private capital mobilized by multilateral public sources.

For South-South flows, the lower bound of all sources is set at US$0, to consider the case where no flows from emerging countries are counted towards NCQG.

Figure 9 summarizes the additional climate finance provided by South-South cooperation.

Figure 9. Additional climate finance contribution through South-South cooperation (US$, billions)

Source of finance	2030		2035	
	Low	High	Low	High
MDBs	0	58.5	0	93.23
Bilateral public	0	5.1	0	6.1
Private mobilized by bilateral public	0	2.8	0	7.3
Private mobilized by multilateral public	0	31.6	0	111.88

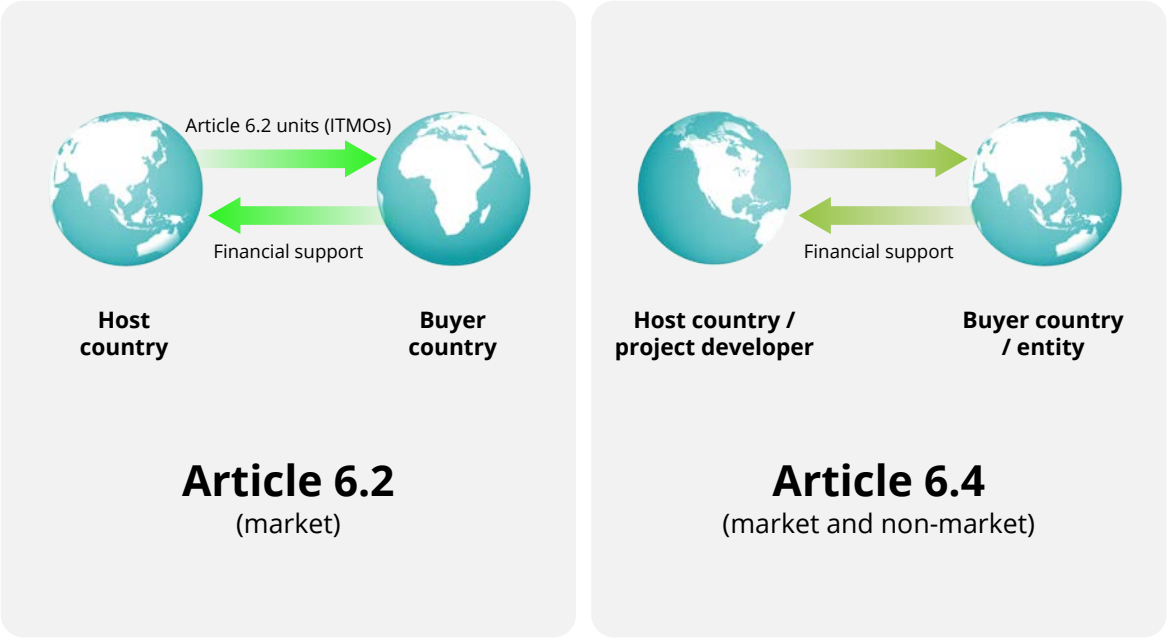
Source: Deloitte Global analysis based on the assumptions in the text above the table

Appendix 3. Article 6 and the importance of high-integrity carbon markets for capital mobilization toward NCQG

Since the adoption of the Paris Agreement, negotiations over Article 6 have focused on designing rules to ensure environmental integrity and avoid double counting.[79] Thus far, implementation of Article 6 has progressed slowly, and many technical details—such as registries, authorization procedures and transparency mechanisms—are needed until COP29 can be finalized.[80] Article 6 can be an important source of international climate finance, as it enables new flows of finance and capacity-building support to developing countries.[3]

Article 6 is implemented through two main mechanisms: Article 6.2 and Article 6.4. Article 6.2 enables bilateral or multilateral cooperation where countries can transfer Internationally Transferred Mitigation Outcomes (ITMOs) to help meet their NDCs.[81] This enables flexible country-driven arrangements. Article 6.4 establishes a centralized crediting mechanism, with enhanced safeguards, generating tradable emission reductions with high environmental integrity.[13] There is also Article 6.8, which focuses on non-market approaches for broader cooperation. Rather than creating or transferring carbon credits, it provides a centralized framework to connect host-country projects with financial and technical support from collaborating countries. This includes capacity building, knowledge sharing and direct financial flows that can channel resources toward the most vulnerable communities.[82] Therefore, under Article 6.8, the support can take a non-monetary format. Together, Articles 6.2, 6.4 and 6.8 can accelerate the development of global carbon markets, unlocking private sector finance, incentivizing innovation, and helping to ensure that mitigation efforts are in line with global climate goals.

Figure 10. The mechanism under which Articles 6.2 and 6.4 operate



Source: The Nature Conservancy (2024)[83]

Under current policies with fragmented markets, carbon market revenues flowing toward developing economies would reach around US$21 billion annually by 2035, while under Paris-aligned policies with an integrated global carbon market, these flows could rise to almost US$880 billion each year. [84] Historically, each dollar spent on carbon credits has been associated with roughly US$5.5 of project investment. If replicated at scale, with half of the capital originating from international investors, this would translate into US$58 billion to US$2.4 trillion of international finance mobilized by carbon markets in 2035 (see Appendix 2 for a detailed description of the estimation methodology).

Only a portion of the mobilized financing can be directly attributed to carbon markets accounted for in the NCQG. An important point is additionality and allocation of the flows to sustainable growth in the host country. One way to quantify this is to compare the weighted average cost of capital (WACC) of a project with and without carbon market revenues.[85] In this framework, revenues from carbon markets, in effect, can reduce the cost of capital, which can make projects financially viable and lower required returns. The degree of WACC reduction serves as the metric to calculate what share of total project finance can be considered as an NCQG inflow. Using OECD reference interest rates,[74] the effective mobilization attributable to carbon markets would be about 20% of these levels; therefore, between US$11 billion and US$472 billion annually could reasonably be counted toward the NCQG by 2035.

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    Where, A is the amount extended, R_t represents the net repayment in year t, i the market rate and n the number of periods considered. Grant-equivalent values were estimated using concessional rates between 0.5% and 2.5%, and market reference rates as defined by the OECD "Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire". The assumptions applied by instrument type are as follows: For the concessional loan, subordinated, with a 10-year grace, a market rate of 9% with a concessional rate of 2.5% were used for the lower bound, and a market rate of 11.5% and a concessional rate of 0.5% were used for the higher bound values. For the concessional loan, non-subordinated, with a 10-year grace, a market rate of 7% with a concessional rate of 2.5% were used for the lower bound, and 9% and 0.5% of market and concessional rates, respectively, were used for the higher bound. For the case with lower grace period, the repayment periods started earlier (in five years instead of 10 years for the grace period of five years). For the concessional equity, a market rate of 10.5% with a concessional rate of 5% was used for the lower bound, and 13% and 2% were used as market and concessional rates for the higher bound value. For the guarantees, at a 0.75% fee, the lower bound was calculated with a 5-year tenor and a market rate of 3%, and the upper bound with a 15-year tenor and a market rate of 5%.
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