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**Realigning Climate Finance
Amid Global Energy Transition**
June 2025



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Executive summary

As geopolitical volatility intensifies, new directions and strategic drivers are reshaping the global energy transition and climate finance—now propelled more by national interests and economic imperatives than global consensus. Climate action isn't slowing down; it's evolving into a more intricate and fast-moving phase.

While the Paris Agreement remains a vital foundation for international climate efforts, political headwinds persist. Domestic priorities such as energy security, industrial competitiveness, and national resilience are increasingly dominating policy agendas, leading to progress outside traditional multilateral frameworks.

Leading Players in the Shift:

- China, the global frontrunner in green technologies, is capitalizing on the current geopolitical environment to accelerate its energy transition and drive innovation.
- Europe, in response to fuel dependency and economic challenges, continues to press forward with its decarbonization strategies.

As green supply chains grow and clean technology costs fall, the energy transition is gaining global momentum. Emerging economies are turning to renewables primarily for their economic advantages, rather than political alignment.

With climate impacts intensifying and the goal of limiting warming to 1.5°C slipping further out of reach, both public and private sectors are expanding their investments in adaptation measures. The rising issuance of adaptation-focused bonds reflects this shift.

In today's dynamic landscape, organizations must integrate geopolitical awareness with data-driven insights to identify evolving risks and unlock new opportunities. Climate finance and energy transition strategies are being recalibrated—creating space for sustainable, long-term growth.

Introduction: Navigating the Energy Transition in a Shifting Geopolitical Landscape

In previous models, developed countries were expected to lead the way in decarbonization, with emerging economies following suit through support in finance¹, technology, and policy. This vision was reflected in the foundational principles of the Paris Agreement.

Today, however, reality tells a different story. The fragmentation of global politics and intensifying competition among nations have shifted focus away from multilateral climate cooperation. Instead, governments are prioritizing domestic issues—like energy independence, economic resilience, and rising living costs. Across recent elections, climate action has been overshadowed by immediate socio-economic concerns, undermining global coordination on shared challenges.

The evolving position of the United States—most notably its withdrawal from the Paris Agreement for a second time—has further disrupted multilateral momentum. Yet this uncertainty isn't halting progress; it's redirecting it. The same forces complicating collective agreements are also accelerating practical shifts toward cleaner energy and climate adaptation.

Nations are investing in green technologies and resilience not just to fulfill environmental goals, but to gain strategic advantage, protect their economies, and prepare for mounting climate risks. These drivers are reshaping energy transition and climate finance, marking a new era defined by national interests and pragmatic innovation.

In this complex landscape, companies and investors will need to move beyond headline narratives. By combining geopolitical insight with rigorous data analysis, they can uncover real opportunities emerging in this recalibrated energy future.

This report outlines how geopolitics is recalibrating the energy transition, and it examines the shifting dynamics for climate across the political, economic, and physical domains. In this new landscape, investors and companies will need to look beyond the headlines and combine geopolitical analysis with robust data insights to uncover the opportunities of the energy transition's next phase.

¹ Concessional finance refers to financial support offered at terms more favorable than market rates—typically by institutions like development banks and multilateral funds—to help developing countries advance their development goals.

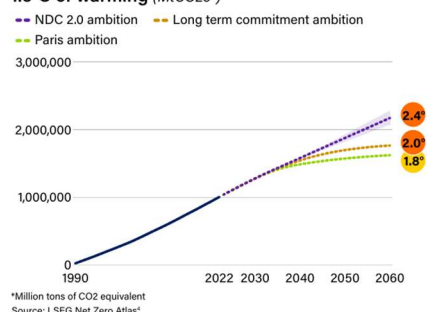
Political obstacles continue to hinder the progress of the Paris Agreement

Over the past decade, the Paris Agreement's framework has served as a foundational reference point for global efforts in energy transition and climate finance. However, by 2025, the multilateral landscape has shifted dramatically. The United States' second withdrawal from the Agreement, coupled with limited political appetite for mobilizing concessional finance, signals a need for the UN Conference of the Parties (COP) to recalibrate its approach in the years ahead. While no other signatories have expressed a clear intention to follow the U.S. lead, major economies still within the COP process show little inclination to assume a renewed leadership role. As a result, global climate diplomacy is entering a more diffuse and uncertain phase, where momentum for change will likely arise from decentralized strategies rather than top-down coordination.

While the European Union continues to uphold its sustainability agenda and China reaffirms its support for climate multilateralism—underscored by President Xi Jinping's public statements² in April—neither has signaled an intention to assume a leadership role in the evolving COP process. As the global climate governance structure enters a more decentralized phase, much of the climate momentum from these two major economies is now occurring through initiatives and investments outside the Paris Agreement framework (see Section Two of this report for further detail).

Despite ongoing participation in the Paris Agreement, individual country commitments—known as nationally determined contributions (NDCs)—still fall short of the pact's original ambition. According to LSEG data, the current slate of 2030 emissions pledges (“NDC 2.0”) places the world on a trajectory toward a 2.4°C temperature rise by 2100, well above the Paris target of 1.5°C (see accompanying graphic for visual reference).

Projected cumulative emissions from the G20 under NDC 3.0 scenario will take the world beyond 1.5°C of warming (MtCO_{2e}*)



In more ambitious modeling—such as the “Paris ambition” scenario—global temperature increases could be limited to below 2°C. Achieving this outcome, however, depends on the rapid acceleration of decarbonization strategies. Without stronger commitments and leadership from developed economies, particularly the United States, emerging markets may remain cautious about enhancing their own climate pledges.

As of now, many countries have yet to submit their 2035 nationally determined contributions (NDCs), and there's little evidence that upcoming targets will demonstrate significantly greater ambition or provide the kind of reassurance that emerging markets are seeking to support bolder climate action.

In more ambitious projections—such as the “Paris ambition” pathway—global temperature increases could be limited to below 2°C. Achieving this outcome, however, hinges on significantly accelerated decarbonization across key economies. Without stronger and more decisive action from developed nations, particularly the United States, emerging markets may be reluctant to raise their own climate commitments. As of now, many countries have yet to submit their nationally determined contributions (NDCs) for 2035. And among those that are expected, there's little indication that the upcoming pledges will demonstrate substantially greater ambition or provide the policy clarity needed to encourage emerging markets to act with confidence.

² Ministry of Foreign Affairs of China

Persistent Challenges in Concessional and Blended Finance

Public climate finance remains the most politically constrained pillar of multilateral climate action. Historically, industrialized nations have fallen short of their commitment—first pledged in 2009—to mobilize \$100 billion annually in climate funding for emerging economies. Today, the challenge is even more acute. Rising energy security concerns, growing domestic political resistance to international development spending, and the increasing financial burden of meeting their own climate goals have compounded the obstacles. These dynamics are putting further strain on public climate finance, threatening its scale, reliability, and strategic impact in global climate efforts.

New collective quantified goal (NCQG) for annual climate finance provided by developed markets to emerging markets by 2035 (\$ Billion)



Note: the NCQG target was agreed at the conclusion of COP29

The United States withdrawal from the Paris Agreement adds a significant layer of complexity to an already challenging climate finance landscape. At COP29, held last November, industrialized nations committed to mobilizing \$300 billion for emerging markets by 2035. To explore how this target could be scaled up to \$1.3 trillion, the "Baku to Belém Dialogue" was launched—focused on developing innovative financial mechanisms to bridge the gap.

However, without full engagement from major economies like the U.S., realizing even the initial \$300 billion pledge becomes increasingly difficult—let alone the much more ambitious \$1.3 trillion goal.

With constrained political support for concessional finance, many countries are turning to blended finance to stretch limited resources. This approach—combining below-market-rate funding with commercial investments—is commonly deployed through development finance institutions, and increasingly supported by philanthropic organizations willing to absorb more risk. Still, blended finance alone is unlikely to bridge the broader gap in public climate funding. In 2023, climate-related blended finance transactions totaled \$11.6 billion—a meaningful figure, yet far short of the scale required. Much of this capital remains only marginally concessional, assuming slightly higher risk than commercial funding while still focusing on loss minimization. To reach the \$1.3 trillion mobilization goal outlined in the Baku to Belém Dialogue, a vastly larger pool of highly concessional finance with deeper risk tolerance will be essential. Without it, blended finance will remain a helpful tool—but not a transformational one.

Multilateral development banks (MDBs) are facing increasing challenges in bridging global climate finance gaps. Although the United States holds significant ownership stakes across most MDBs, its position—articulated during the World Bank–IMF Spring Meetings in April—suggests growing concern that prioritizing climate objectives may constitute "mission creep" beyond these institutions³ original mandates. In response, Washington has launched a formal review of the banks' roles and strategies, with outcomes expected by August.

The review places MDBs in a delicate position: they must address the U.S. administration's concerns while also aligning with the broader, often divergent priorities of their international shareholders. As a result, the path forward for climate-focused financing through MDBs may hinge on how effectively these institutions can balance strategic recalibration with their global development commitments.

³ US Department of the Treasury, "Treasury Secretary Scott Bessent Remarks before the Institute of International Finance" (April 2025)