

Green Initiative International Webinar  
Climate Mitigation Finance: Bridging the Gap between Financial Institutions and SMEs

Theory and Insights on Climate Mitigation Finance

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The basic data of the Climate Mitigation Finance problem are simple: the bulk of investments in decarbonization must be made in the South while half of global savings is in the hands of sixty million millionaires mostly located in the North. The challenge is to reorient a share of these savings towards low-carbon and resilient projects in the South. Such a shift would comply with the “common but differentiated responsibilities” principle<sup>1</sup>.

The problem is thus not a lack of money but structural obstacles to channel savings towards a high enough amount of climate friendly initiatives with good viability prospects (IPCC AR6 SYR chapter 7). On the one hand, the weakening of social safety nets in developing countries over the past four decades incited savers and the intermediaries to whom they entrust their capital to invest more in real estate, land, modern art or any liquid speculative asset to secure their retirement and face the vagaries of life. On the other, viable projects are hampered by high up-front risks, institutional barriers, vested interests and difficulties to access funding at reasonable interest rates, especially in half of Southern countries below a BB grade and compelled to pay interest rates above 21%. Finally, accounting rules based on the “fair value” principle, company management based on the shareholders’ value for money, preference of financial intermediaries for the real estate and the Basel III rules, explain why banks are so reticent about investments with capital recovery times above eight years. This is at the root of the gap between the ‘propensity to save and propensity to invest’ which fragilizes growth dynamics in modern capitalism<sup>2</sup> and generates a chronic underinvestment in infrastructure for long pointed out by the IMF since 2014<sup>3</sup>.

To design a fully-fledged alternative financial system (of which development finance is only one of the components) seems out of reach in due time. COP 29 held in Baku in November 2024 has approved a goal of increasing the flow of financial resources in concessional conditions (grants and soft loans) from developed countries to the global South to 300 USD billion per year by 2030. While it represented an increase of the previous commitment of 100 billion/year (established in 2009 with a 2020 deadline and met in 2022 only), it was well below the 1.3 trillion/year pledged by developing countries. Therefore, negotiations of a “Baku to Belém Roadmap to 1.3 trillion” are ongoing until now to reduce this gap. However, this looks like an impossible mission, given the particularly hostile global context.

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<sup>1</sup> This presentation is mainly based on the ideas developed at La Rovere, E. L.; Hourcade, J. C.; "North, South and Paradox of Climate Urgency", *Pluralia Opinions* #38/24, 20 September 2024.

<sup>2</sup> Summers, L. H. (2016). *The Age of Secular Stagnation: What It Is and What to Do About It* (D3286, trans.). *Foreign Affairs*, 95, 2. <https://doi.org/https://www.foreignaffairs.com/articles/united-states/2016-02-15/age-secular-stagnation>

<sup>3</sup> IMF. 2014. *Is it Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment*, *World Economic Outlook*, October 2014: Legacies, Clouds, Uncertainties. Washington DC: International Monetary Fund, doi:10.5089/9781498331555.081

On the other hand, it is possible to design on paper some innovative financial devices apt to both accelerate immediately the funding of climate friendly projects and pave the way to a structural evolution of the economic and financial system: different blended finance schemes, a substantial increase in the budgets of the multilateral development banks and an increased use of public guarantees. In particular, the last IPCC report confirmed that public guarantees are a decisive instrument. However, the efficiency of public guarantees depends on the quality of their sovereign backing. Multi-Sovereign Guarantee Mechanisms (MSGMs) for cross-border investments can provide AAA+ backing. A Statement proposing that such a mechanism be tested through a Design Lab was presented by a group of experts at COP 30<sup>4</sup>.

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<sup>4</sup> This Statement was prepared for the side-event “Multilateral sovereign guarantee mechanisms of climate finance” at COP 30 on Nov 20<sup>th</sup> at Side event room 5 from 16:45 – 17:30.

It relies on a background material composed of

- A concept note on *‘the economic and political rationale of Multi-Sovereign Guarantees Mechanisms to scaling up climate finance and launch a North–South circle of trust’*. It systematises contributions to the G20 summit in Brazil in 2024 and to

- the Baku to Belem Roadmap by a group composed of: *H. De Coninck\**, *D. Dasgupta\** *Y. Glemarec*, *M. Grubb\**, *J.C Hourcade\**, *M. Kainuma\**, *E. La Rovere\**, *L. Murasawa*, *M.N. Schneider*, *Y. Sokona\**, *L. Vallejo*, *H. Winkler\** (\* IPCC authors).

- A multi-country study about *“Securing the acceleration of climate action thanks to the short-term benefits of multi-sovereign climate finance”*. Carried out under the supervision of JC Hourcade and the technical coordination of B Michoud (Smash), this study involves teams of the Imacim network led by F. Gheri (CIRED, Fr): COPPE-Brazil (W. Wills, E. La Rovere), IIML India (D. Gupta) and CCDD-Nigeria (Chukwuemeka Emekwe, Uche Nnamani) and LEGI-Tunisia (Uyem Chekki; Imen Bennour).

- The UCL - Chatham House International Finance from Risk Guarantees two-page Summary.

This background material was posted on the websites of the CIRED and of the Centro Clima / Coppe UFRJ: [www.centroclima.coppe.ufrj.br](http://www.centroclima.coppe.ufrj.br) | <https://www.centre-cired.fr>