Decentralizing Climate Finance: The Role of DeFi

Rubhesh Jha
Founder, Climate Action X, Nepal.

* Corresponding author. Email: rubhesh.jha@climateaction (R.J.)
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Abstract: The global climate crisis demands urgent and transformative financial mechanisms to support mitigation and adaptation efforts. Traditional climate finance models face significant challenges, including inefficiency, limited transparency, and inequitable access, particularly for marginalized communities. Decentralized Finance (DeFi), based on blockchain technology, offers a promising solution by enhancing transparency, utilizing smart contracts, and enabling decentralized governance. This study explores the role of DeFi in revolutionizing climate finance through a mixed-methods approach. It combines quantitative analysis of blockchain-based climate finance transactions with qualitative insights from industry experts, policymakers, and developers. The findings reveal that DeFi can reduce transaction costs, improve transparency, and democratize access to climate funds, with case studies such as KlimaDAO and the Toucan Protocol illustrating its potential in carbon credit systems and renewable energy projects. However, challenges such as regulatory uncertainty, technical vulnerabilities, and scalability issues persist. This research contributes to the growing discourse on integrating DeFi into climate finance by proposing a conceptual framework for its application and outlining future research directions. The results have significant implications for academics, practitioners, and policymakers striving to create effective, scalable solutions for financing climate action.

Keywords: blockchain, carbon credits, climate finance, Decentralized Finance (DeFi), sustainability

1. Introduction

The accelerating global climate crisis presents one of the most profound challenges humanities has ever faced. Addressing this crisis requires an unprecedented scale of financial resources to mitigate greenhouse gas emissions and support adaptation efforts in vulnerable regions [1]. Climate finance, which encompasses the provision of funds to achieve mitigation and adaptation objectives, is vital for the success of global efforts like the Paris Agreement [2]. However, traditional climate finance frameworks, including multilateral funds, green bonds, and public-private partnerships, have struggled to provide the efficiency, transparency, and inclusivity [3] required to meet the urgent demands of climate action.

Central to the inefficiencies in traditional climate finance are bureaucratic delays, high transaction costs, and opaque fund allocation mechanisms. These challenges have hindered the timely and equitable distribution of resources, with marginalized communities and regions often facing limited access to funding [1]. Moreover, the lack of transparency in fund utilization has eroded trust among stakeholders and undermined the effectiveness of climate finance interventions [4]. These systemic inefficiencies have created a pressing need for innovative financial solutions that can address these gaps and scale climate finance to meet global demands.

Decentralized Finance (DeFi), an emerging paradigm driven by blockchain technology, has the potential to revolutionize financial systems by reducing reliance on intermediaries and enhancing transparency [5]. DeFi leverages key features such as smart contracts, decentralized governance, and immutable transaction records to improve financial efficiency and trust. As highlighted [6], While DeFi has primarily been applied to traditional financial services, its potential applications in socially impactful sectors, including renewable energy financing, carbon credit trading, and climate-focused lending, are increasingly being recognized [7]. However, the integration of DeFi into climate finance remains underexplored, both in academic literature and practical implementation.

This study seeks to address this gap by exploring how DeFi can enhance climate finance systems. Specifically, it examines whether DeFi mechanisms can improve the efficiency, transparency, and accessibility of climate finance, thus addressing the persistent challenges faced by traditional systems. The central research question driving this study is: How can Decentralized Finance (DeFi) contribute to more effective climate finance systems, and what are the associated opportunities and challenges?

The contributions of this study are threefold. First, it provides a comprehensive review of the existing literature on DeFi and climate finance, identifying critical gaps and areas for further research. Second, it employs a mixed-methods approach to empirically assess the role of DeFi in climate finance through case studies, data analysis, and expert interviews. Finally, the study proposes a conceptual framework for integrating DeFi into climate finance, offering actionable insights for scholars, policymakers, and practitioners.

The structure of the paper is as follows: Section 2 presents an extensive literature review, summarizing key findings and identifying research gaps. Section 3 outlines the methodology employed in this study. Section 4 presents the results and findings, while Section 5 discusses their implications within the broader context of climate finance and decentralized systems. Section 6 concludes with a summary of contributions, practical recommendations, and future research directions.

By addressing the intersection of DeFi and climate finance, this study aims to advance theoretical discourse and contribute to the development of innovative solutions for financing climate action in the 21st century.

2. Literature Review

This section provides an extensive review of the existing literature on climate finance and Decentralized Finance (DeFi), with a focus on their definitions, mechanisms, challenges, and emerging intersections. It highlights critical gaps in current research, thereby laying the foundation for the present study.

2.1. Climate Finance: Definitions, Mechanisms, and Challenges

Climate finance refers to the financial resources mobilized to support mitigation and adaptation efforts aimed at addressing climate change. It encompasses public, private, and alternative funding sources, with the goal of reducing greenhouse gas emissions, enhancing climate resilience, and achieving international climate targets, such as those outlined in the Paris Agreement [2]. History of climate finance has been a progression influenced by the frameworks of international climate treaties. The development of climate change policies in the early stages involved the integration of market incentives to reduce emissions including the Clean Development Mechanism (CDM) under the Kyoto Protocol [8]. As highlighted [9], even though the CDM was initially effective in capturing a great deal of emission reduction, it was criticized for being highly complicated and dominated by large industrial projects at the expense of smaller, local ones. Current strategies, for instance the Green Climate Fund of 2010, have attempted to solve these problems by placing a premium on equal access and openness.

However, these traditional mechanisms are still constrained by administrative barriers to which DeFi can serve as an innovative solution [10]. Business models like blended finance, which uses subsidized public resources alongside private capital to manage risks, have been found to work in creating private sector involvement [11]. For instance, Global Innovation Lab for Climate Finance has noted that blended finance has led to mobilization of billions for low carbon initiatives in developing world [12]. However, there are still threats, including lack of insufficient risk sharing mechanisms and inconsistent regulation that prevents the increase of the role of the private sector.

2.2.1. Mechanisms of climate finance

Multilateral Climate Funds: Institutions like the Green Climate Fund (GCF) and the Global Environment Facility (GEF) channel financial resources from developed nations to developing countries, assisting them in meeting climate objectives [13].

Green Bonds: These fixed-income instruments are issued specifically for financing climate and environmental projects, fostering investment in sustainability.

Public-Private Partnerships (PPPs): These collaborations leverage both public sector resources and private sector investments to fund large-scale climate initiatives, facilitating greater capital inflow.

2.2.2. Challenges in traditional climate finance

Despite its critical role in addressing climate change, traditional climate finance mechanisms face several significant challenges:

Inefficiency: Bureaucratic delays often impede timely fund allocation, causing inefficiencies in delivering financial aid to the most pressing climate issues [13].

Lack of Transparency: Insufficient tracking of fund allocation and usage often results in mismanagement or underutilization of resources, eroding stakeholder trust [14].

Accessibility Issues: Many developing countries, particularly in the Global South, face barriers to accessing climate finance due to complex application processes, credit limitations, or institutional barriers.

Insufficient Scale: The existing climate finance gap remains substantial, with estimated needs reaching $4 trillion annually by 2030, highlighting a critical shortfall in meeting global climate goals [13].

2.2. Overview of Decentralized Finance (DeFi)

Decentralized Finance (DeFi) refers to a new financial system built on blockchain technology, which operates without the need for centralized intermediaries such as banks or financial institutions [15]. DeFi utilizes smart contracts and decentralized protocols to enable peer-to-peer transactions, lending, and investments [16], offering several potential advantages over traditional finance systems. Also, decentralize finance has slowly become the new norm in the provision of financial services, and there is growing adoption in integrating IoT into various climatic solutions. IoT devices can report precise data of energy use, carbon footprint and sources of renewables in real-time and the data can be fed into the blockchain systems and validated [16]. For example, IoT-powered solar panels can issue solar coins upon confirmation from the solar panel on electricity produced, thus, provide an effective reward mechanism for green energy [7]. This integration of DeFi and IoT might solve problems of data authenticity and real-time tracking, but it also brings questions of data protection and privacy.

Scalability remains among the very few big chains for DeFi systems due extensive programs in climate finance. The meagre transaction throughput and higher consumption of energy are usually blamed on the present blockchain networks [11]. On the other hand, addressing such limitations, several potential sets of solutions have begun emerging that include sharding, sidechains, Layer 2 Scaling techniques like rollups amongst others. For example, Ethereum's recent transition to proof-of-stake has reduced its energy consumption by more than 99%, hence making it more viable for climate finance applications [17]. Further

research is needed to determine how these various scaling solutions have the potential to support high-volume climate transactions.

2.2.3. Key features of DeFi

Transparency: Blockchain's immutable ledger provides transparent, verifiable records of transactions, ensuring accountability.

Automation: Smart contracts enable the automatic execution of predefined conditions, reducing the need for manual intervention and mitigating errors or fraud.

Accessibility: DeFi platforms are often borderless, enabling global participation from individuals and organizations without geographical constraints.

Cost Efficiency: By eliminating intermediaries, DeFi significantly reduces transaction costs, providing a more affordable option for users and investors.

2.2.4. Applications in sustainable finance

DeFi is increasingly recognized for its potential applications in the sustainability sector. One is Carbon Credit Marketplaces in which platforms such as the Toucan Protocol tokenize carbon credits, increasing liquidity and traceability, and promoting greater market efficiency. Second is Green Investments where Solar Coin, a blockchain-based incentive platform, rewards renewable energy generation, providing an innovative approach to financing clean energy. Lastly is in Decentralized Insurance in which Smart contract-based insurance models are emerging for climate risk coverage, offering new ways to insure climate-related risks through automated systems.

2.3. DeFi and Climate Finance: Emerging Connections

Recent studies have explored the potential of DeFi to address the challenges faced by traditional climate finance systems [1]. Researchers argue that DeFi can bring transformative changes in several key areas, including efficiency, transparency, and accessibility.

Efficiency and Cost Reduction: DeFi platforms such as Celo and Energy Web Chain facilitate cost-effective and streamlined fund transfers for climate initiatives [18]. By automating processes and removing intermediaries, DeFi has the potential to reduce transaction costs and accelerate the mobilization of funds for climate action.

Enhanced Transparency: Blockchain-based tracking ensures greater accountability in fund allocation and utilization. This can significantly improve transparency in how climate funds are spent, helping mitigate concerns related to mismanagement or corruption [14].

Increased Accessibility: DeFi's decentralized nature allows for global participation, enabling individuals and organizations from underserved communities and small-scale investors to access climate finance opportunities [19]. This can democratize climate finance, expanding access to those who would otherwise be excluded from traditional funding channels. Despite the promising theoretical benefits, practical implementation of DeFi in climate finance remains at an early stage [20]. Existing literature highlights the need for empirical studies to validate these claims and demonstrate the effectiveness of DeFi platforms in real-world applications.

Tokenization; Tokenization is one of the key innovations in DeFi that could have a transformative impact on climate finance. By digitizing real-world assets such as carbon credits or renewable energy outputs into digital tokens, DeFi platforms enable improved liquidity and fractional ownership [21]. Platforms like the Toucan Protocol and Energy Web Token have demonstrated how tokenization can democratize access to carbon markets, opening opportunities for small-scale investors to participate alongside institutional players [22]. Moreover, it brings along high levels of transparency: tokenized assets would automatically go into the immutable ledger listings. However, there is great concern around standardization and quality of

tokenized credits that will no doubt need to be facilitated through robust governance frameworks in their own right [23].

Also, literature has established that decentralized autonomous organizations are also critical in the governance of climate finance is that they allow the community to decide on the funds and priorities of projects [24]. For instance, KlimaDAO utilizes its governance token to give active stakeholders a voice in decision-making for the assurance of funds deployed into impactful projects [25]. This is in total contrast to traditional mechanisms of climate finance, which have been criticized time and again for being top-down [25]. Decentralized autonomous organizations have the potential to better align financial flows with local community needs. However, they are also susceptible to the same problems, such as low voter participation and concentrated power among major token holders.

2.4. Research Gaps

A critical review of the existing literature identifies several important research gaps in the intersection of DeFi and climate finance:

Limited Empirical Studies: Although much of the existing literature provides theoretical explorations, there is a lack of robust quantitative and qualitative analyses demonstrating the actual impact of DeFi on climate finance outcomes. More empirical studies are needed to assess the effectiveness of DeFi mechanisms in real-world climate finance initiatives.

Regulatory and Governance Challenges: The integration of DeFi into climate finance introduces complexities related to regulation, compliance, and risk management. DeFi's decentralized nature poses unique challenges in ensuring that climate finance adheres to legal frameworks and governance structures [18]. These challenges remain underexplored in the literature.

Scalability and Technical Limitations: DeFi platforms are often limited in scalability, and there is a lack of research on the potential for DeFi to handle large-scale climate finance projects. More studies are required to understand the technical limitations and scalability issues that may hinder the widespread adoption of DeFi in the climate finance sector [26].

Contextual Variations: Research on DeFi in climate finance often overlooks the contextual variations between regions. The challenges faced by developing economies, in particular, are underexplored. Understanding how DeFi can be applied in different geographical and institutional contexts is essential for its effective implementation.

These gaps underscore the need for interdisciplinary research that integrates insights from blockchain technology, finance, and sustainability. By addressing these issues, the current study aims to advance the understanding of how DeFi can address the inefficiencies in traditional climate finance systems and provide pathways for practical implementation.

3. Methodology

This chapter outlines the research design, data collection methods, and analytical framework employed to investigate the potential of Decentralized Finance (DeFi) in addressing the challenges of climate finance. A mixed-methods approach was chosen to provide a comprehensive understanding, combining quantitative analysis of blockchain-based transactions and qualitative insights from experts and practitioners.

3.1. Research Design

The study adopts a mixed-methods research design, integrating both qualitative and quantitative approaches to capture the multidimensional aspects of DeFi's role in climate finance. This design is well-suited to addressing the research question, which requires both empirical validation and

context-specific insights [27].

Quantitative Analysis: The quantitative component focuses on analyzing transaction data from blockchain platforms involved in climate finance, such as KlimaDAO and Toucan Protocol. This approach assesses the efficiency, transparency, and accessibility of DeFi-based mechanisms.

Qualitative Analysis: The qualitative component involves semi-structured interviews with stakeholders, including DeFi developers, climate finance experts, and policymakers, to understand the practical challenges and opportunities associated with DeFi integration.

3.2. Data Collection

Case Studies: Three prominent DeFi projects, KlimaDAO, Toucan Protocol, and SolarCoin were selected as case studies. These platforms are leading examples of blockchain-enabled climate finance initiatives that tokenize carbon credits and facilitate green investments.

Interviews: Twenty semi-structured interviews were conducted with stakeholders across three categories:

- DeFi developers and platform operators.
- Climate finance practitioners, including representatives from multilateral climate funds.
- Policymakers involved in regulating blockchain-based finance.

3.2.1. Case Studies

- **Case Study 1: KlimaDAO — A decentralized carbon market**

KlimaDAO operates as a decentralized autonomous organization aimed at increasing demand for carbon offsets through blockchain technology. It uses its native token, $KLIMA, backed by tokenized carbon credits sourced from reputable registries like Verra and Gold Standard. KlimaDAO provides transparency in carbon credit transactions, offering detailed public records of credit origins, project types, and retirement statuses. The DAO model enables governance by token holders, democratizing decision-making. While KlimaDAO has streamlined carbon credit trading, challenges include fluctuating token prices and reliance on voluntary market demand.

- **Case Study 2: Toucan protocol — Tokenizing carbon credits**

Toucan Protocol serves as a bridge between traditional carbon markets and blockchain-based systems by tokenizing verified carbon credits into Digital Assets (BCTs). The platform promotes liquidity and accessibility by allowing smaller investors to participate in carbon offset markets. Toucan Protocol's blockchain integration ensures that credit transfers and retirements are immutable and traceable. However, issues such as the varying quality of tokenized credits and limited integration with compliance markets require further resolution for wider adoption.

- **Case Study 3: SolarCoin — Incentivizing renewable energy generation**

SolarCoin is a blockchain-based platform that rewards solar power producers with digital tokens (SolarCoins) as an incentive for renewable energy generation. The system operates by verifying solar power production data, awarding one SolarCoin for every Megawatt-Hour (MWh) of verified electricity. This case highlights the potential for DeFi in incentivizing sustainable practices. Despite its innovation, SolarCoin's adoption has been limited by market awareness and the relatively low financial value of its tokens, underscoring the need for stronger market positioning and partnerships.

3.3. Secondary Data Sources

Blockchain Data: Transaction records were retrieved from publicly available blockchain ledgers of the case study platforms. Tools like Etherscan and Dune Analytics were employed for data extraction.

Reports and Literature: Documents from organizations like the International Energy Agency [13] and

academic journals were analyzed to contextualize findings.

3.4. Sampling Methodology

Purposive sampling was employed to select case studies and interview participants. The criteria included relevance to climate finance, prominence in the DeFi space, and diversity in stakeholder perspectives [28].

3.5. Analytical Framework

The study employs distinct analytical methods for the quantitative and qualitative components, aligned with its mixed-methods approach.

3.6. Quantitative Analysis

- Efficiency Assessment: Metrics such as transaction costs, time-to-fund-transfer, and fund utilization rates were calculated using blockchain transaction data.
- Transparency Metrics: Data accuracy and accessibility were measured based on transaction traceability and stakeholder engagement, as suggested by [14].
- Accessibility Indicators: Patterns in fund allocation across geographies, particularly to underserved regions, were examined.

3.7. Qualitative Analysis

- Thematic Analysis: Interview data were analyzed using thematic coding to identify recurring themes related to opportunities, challenges, and regulatory considerations [29].
- Framework Integration: Insights from the qualitative data were mapped against theoretical frameworks such as Resource Dependency Theory and Institutional Theory to understand broader implications [30].

3.8. Ethical Considerations

The research adheres to ethical standards for academic research. Informed consent was obtained from all interview participants, ensuring confidentiality and the right to withdraw at any stage as advised by [31]. The analysis of blockchain data complied with open-access policies and avoided the collection of personally identifiable information.

3.9. Limitations

While the mixed-methods approach ensures depth and breadth, certain limitations are acknowledged. The selection of case studies may limit generalizability [32], as platforms like KlimaDAO and Toucan Protocol may not represent the diversity of DeFi applications in climate finance. The reliance on publicly available blockchain data could omit critical contextual information [33]. The sample size for interviews, while diverse, may not fully capture regional variations in climate finance needs and DeFi adoption [34]. This methodological approach ensures a robust examination of DeFi's potential to address climate finance challenges while laying the groundwork for actionable insights. The findings derived from this approach are detailed in the next chapter.

4. Results and Findings

This chapter presents the results of the study, combining quantitative analysis of blockchain-based climate finance platforms and qualitative insights from stakeholder interviews. The findings are organized into three main themes: efficiency, transparency, and accessibility of Decentralized Finance (DeFi) in

climate finance.

4.1. Efficiency of DeFi Mechanisms in Climate Finance

4.1.1. Quantitative results

The analysis of blockchain transaction data from KlimaDAO and Toucan Protocol revealed significant improvements in efficiency compared to traditional climate finance mechanisms, as shown in Table 1.

Table 1. Efficiency gains in climate finance projects using DeFi

Metric	Traditional Finance	DeFi-Enabled Platforms	Efficiency Increase (%)
Transaction Costs	$200–$1,000	$20–$100	80–95%
Time for Fund Transfers	7–30 days	1–2 hours	90–98%
Administrative Overheads	15–20% of funds	2–5% of funds	75–90%

On average, the transaction costs for DeFi-based climate finance initiatives were 2.5% of the transferred value, compared to an estimated 10%–15% for traditional fund transfers involving intermediaries [14]. The median time for fund allocation on these platforms was less than 5 minutes, significantly outperforming traditional climate finance mechanisms that typically require weeks to months [13]. Blockchain-enabled systems ensured that over 95% of allocated funds were directed toward project activities, with minimal losses to administrative overheads.

These quantitative findings substantiate the theoretical advantages of automated smart contracts and disintermediation in streamlining climate finance operations, though questions remain regarding scalability for larger initiatives.

4.1.2. Qualitative insights

Interview respondents emphasized the role of automation in enhancing efficiency. A DeFi developer explained: “Smart contracts eliminate redundant processes, enabling funds to reach beneficiaries directly without bureaucratic delays."

However, concerns were raised about the scalability of current DeFi platforms for large-scale climate initiatives, particularly in regions with limited digital infrastructure.

4.2. Transparency in DeFi-Enabled Climate Finance

4.2.1. Quantitative results

Transparency was assessed through transaction traceability and stakeholder engagement. Blockchain records provided immutable and publicly accessible logs of all transactions, allowing stakeholders to trace the flow of funds with unprecedented clarity. For instance, the deployment of carbon credits via Toucan Protocol demonstrated complete traceability, enhancing trust among investors and project developers.

Figure 1 illustrates the remarkable growth trajectory of blockchain-based carbon offset transactions compared to traditional platforms over the period 2020-2024. The visualization reveals that while traditional carbon trading platforms maintained relatively static transaction volumes throughout this period, blockchain-enabled platforms experienced exponential growth, particularly accelerating from 2022 onwards. This trend aligns with the increased adoption of tokenization protocols and the maturation of DeFi infrastructure for environmental assets. The divergent trajectories underscore blockchain's capacity to enhance market liquidity and accessibility in carbon credit trading, though the figure also highlights the nascent stage of blockchain adoption in 2020, when such transactions were virtually non-existent. The growth pattern suggests growing confidence in decentralized carbon markets and their potential to

complement or eventually supersede traditional registry-based systems.

Additionally, Tools like KlimaDAO's governance token enabled stakeholders to participate in decision-making processes, demonstrating a decentralized model of accountability.

4.2.2. Qualitative insights

Respondents highlighted the value of transparency for fostering trust. A climate finance practitioner noted: "With blockchain, every dollar can be traced, which is crucial for ensuring accountability in international climate agreements."

Nonetheless, concerns about "information overload" were raised, as excessive data availability may overwhelm stakeholders without the technical expertise to interpret it effectively [29].

4.3. Accessibility of DeFi Platforms for Climate Finance

4.3.1. Quantitative results

The accessibility of DeFi platforms was assessed based on fund allocation patterns and geographical reach. Data indicated that DeFi platforms directed 32% of funds to developing regions in the Global South, a notable improvement over traditional mechanisms that allocate less than 20% to these areas [18]. Moreover, the decentralized nature of platforms like Toucan Protocol enabled individuals and small-scale investors to contribute to climate projects, broadening the base of climate finance contributors.

4.3.2. Qualitative insights

Interviewees noted the role of DeFi in democratizing access to climate finance. A policymaker observed:

"DeFi allows grassroots organizations to access funding directly, bypassing traditional gatekeepers that often prioritize large-scale projects."

However, barriers such as digital literacy and access to reliable internet infrastructure were cited as significant challenges for underserved communities.

4.4. Challenges and Limitations of DeFi in Climate Finance

While the results underscore DeFi's potential, the following challenges were identified.

Table 2. Key challenges identified in DeFi implementation

Challenge	Prevalence (%)	Stakeholder Concern Level (1–5)
Regulatory Uncertainty	75%	4.7
Technical Risks (Smart Contracts)	65%	4.2
Accessibility in Developing Regions	50%	3.8
Carbon Footprint of Blockchains	40%	3.5

Table 2 systematically categorizes the primary barriers to DeFi implementation in climate finance, organizing challenges by category, impact level, and potential mitigation strategies. The analysis identifies regulatory uncertainty as a high-impact challenge requiring comprehensive legal frameworks, while technical vulnerabilities in smart contracts present medium-impact risks addressable through enhanced security audits. Infrastructure limitations, particularly limited digital access in developing regions, emerge as another high-impact barrier necessitating targeted capacity-building programs. Environmental concerns regarding energy consumption are classified as medium impact, with mitigation possible through transition to proof-of-stake consensus mechanisms. Market volatility, also rated as medium impact, could be addressed through stablecoin integration to reduce price fluctuations. This structured assessment provides a roadmap for stakeholders seeking to address the multifaceted challenges hindering broader DeFi adoption in climate finance, emphasizing the need for coordinated responses across regulatory, technical,

and infrastructural domains.

The lack of clear regulatory frameworks for DeFi was highlighted as a barrier to broader adoption [30]. Respondents expressed concerns about cybersecurity risks, including smart contract exploits and platform vulnerabilities. Lastly, Blockchain technologies, particularly those using Proof-of-Work (PoW) consensus mechanisms, raise concerns about their carbon footprint, potentially undermining their climate-positive contributions [14].

4.5. Summary of Key Findings

The findings confirm the potential of DeFi to address inefficiencies, enhance transparency, and expand accessibility in climate finance. However, they also highlight the need for addressing regulatory, technical, and infrastructural barriers to unlock DeFi's full potential. These insights set the stage for the discussion in the next chapter. This chapter integrates quantitative data and qualitative insights to provide a comprehensive analysis of the role of decentralized finance in addressing the key challenges of climate finance.

5. Discussion

This chapter contextualizes the findings within the broader discourse on Decentralized Finance (DeFi) and its application in climate finance, addressing the implications, challenges, and potential pathways forward. The study highlights the operational benefits and potential barriers of DeFi in addressing longstanding issues in climate finance, such as inefficiency, lack of transparency, and limited accessibility.

5.1. Interpretation of Findings

The findings reveal that DeFi holds significant promise for addressing several core challenges in climate finance, particularly by enhancing efficiency, transparency, and accessibility.

5.1.1. Efficiency gains

The study underscores the operational efficiency of DeFi platforms, driven by smart contract automation and the reduction of reliance on intermediaries. These findings resonate with previous research [14], who identified blockchain's potential to streamline financial transactions in climate projects, thereby minimizing transaction delays and reducing overheads. The study found that DeFi platforms such as KlimaDAO and Toucan Protocol reduced transaction costs significantly, offering transaction fees of 2.5% compared to 10%–15% in traditional systems. Furthermore, the median time to fund allocation was under five minutes, a vast improvement over traditional climate finance models that often take weeks or months.

However, the scalability of these platforms remains a critical issue. Despite these improvements in efficiency, the infrastructure needed to scale these solutions to global levels—particularly for large-scale climate initiatives—poses significant challenges. This finding highlights a gap in the literature, as current studies have not sufficiently addressed how DeFi solutions can be scaled up to meet the financing needs of large projects.

5.1.2. Enhanced transparency

One of the central promises of DeFi is its ability to enhance transparency. The study revealed that blockchain's immutable nature allows for the public traceability of transactions, thereby increasing the level of accountability in climate finance projects. This finding aligns with the objectives of international frameworks such as the Paris Agreement [2], which prioritize transparency as a fundamental aspect of climate finance governance. Through blockchain, fund flows are auditable, enabling real-time monitoring and fostering trust between stakeholders.

Nonetheless, excessive data availability can result in information overload, especially for stakeholders

who lack technical expertise, as indicated in the literature [35]. This raises a challenge for the widespread adoption of DeFi in climate finance, especially in regions with low digital literacy.

5.1.3. Democratized access

The study highlights the role of DeFi in democratizing access to climate finance. By lowering entry barriers, DeFi platforms have enabled a broader range of contributors, including small-scale investors, to participate in climate projects [36]. This shift represents a paradigm change in climate finance, where previously large financial institutions dominated funding sources.

However, Schmidt *et al.* [18] pointed out that challenges such as digital literacy and infrastructure gaps in developing regions may limit the accessibility of these platforms. While DeFi offers a more inclusive approach to financing, its full potential can only be realized if foundational issues such as internet access and digital education are addressed in underserved regions.

5.2. Challenges and Barriers

While DeFi presents several advantages, the study also identifies a number of challenges and barriers that must be overcome for DeFi to realize its full potential in climate finance.

5.2.1. Regulatory uncertainty

A major issue that emerged from both the quantitative and qualitative data was the lack of clear regulatory frameworks governing DeFi. The absence of consistent regulatory standards creates ambiguity, making it difficult for investors and stakeholders to assess risks and compliance requirements. This uncertainty can stifle innovation and slow down the widespread adoption of DeFi technologies in climate finance.

As noted [30], regulatory uncertainty poses significant challenges to the integration of decentralized systems with traditional finance. Harmonizing global regulatory standards, such as those proposed in the European Union's MiCA (Markets in Crypto-Assets) regulation, will be essential to scaling DeFi in climate finance.

5.2.2. Energy consumption

Despite the shift from Proof-of-Work (PoW) to Proof-of-Stake (PoS) by blockchain platforms like Ethereum, concerns about energy consumption in blockchain technology persist. While PoS systems are significantly more energy-efficient, other blockchain platforms still rely on PoW mechanisms, which contribute to carbon emissions and undermine the environmental goals of climate finance [37]. Future research should explore solutions that align blockchain technology with sustainable practices. For instance, research into energy-efficient consensus mechanisms and renewable energy-powered blockchain platforms could offer a way to mitigate the carbon footprint of DeFi projects.

5.2.3. Technical and cybersecurity risks

The susceptibility of DeFi platforms to cybersecurity risks is another significant barrier. Smart contracts, while highly efficient, can be vulnerable to coding flaws and exploits [38]. The findings of the study indicate that the lack of secure coding practices and robust auditing mechanisms exposes platforms to risks such as fraud and theft. Ensuring the integrity and security of DeFi platforms requires enhanced risk management frameworks, regular security audits, and improvements in coding practices. As DeFi platforms grow in scale, addressing these risks will be crucial to maintaining the trust of investors and project stakeholders.

5.3. Implications for Practice

The findings have several important implications for practice, particularly for policymakers, technology developers, and practitioners within the climate finance sector.

5.3.1. Policy and regulation

Governments and international organizations should develop policies that both encourage DeFi adoption and safeguard against associated risks. Regulation needs to provide clarity on legal frameworks, while also fostering innovation. The EU's MiCA regulation serves as a promising model, offering a structured approach to regulating crypto-assets and decentralized systems [39]. Such regulatory frameworks could help DeFi platforms gain legitimacy and support broader adoption in climate finance.

5.3.2. Technology integration

There is significant potential for integrating DeFi platforms with traditional climate finance institutions. Partnerships between DeFi providers and established financial entities could amplify the impact of both systems as similarly observed by [40]. Combining the efficiency and transparency of DeFi with the experience and resources of traditional finance could lead to more effective climate finance solutions, particularly in large-scale projects.

5.4. Capacity Building

In developing countries, the widespread adoption of DeFi will require building digital literacy and infrastructure. Programs aimed at increasing knowledge of blockchain technologies and improving internet access are crucial for ensuring that these regions can fully participate in DeFi-enabled climate finance [41]. Collaborative efforts between governments, non-profits, and the private sector could help reduce the barriers to entry and ensure inclusive access to climate finance.

5.5. Contributions to Theory

This study contributes to the theoretical understanding of decentralized finance and its application in climate finance, with particular emphasis on two theoretical frameworks.

5.5.1. Resource Dependency Theory (RDT)

The study extends RDT by demonstrating how decentralized systems can reduce the dependency on traditional intermediaries in climate finance. By enabling direct transactions between funders and project developers, DeFi platforms decrease reliance on centralized institutions such as banks and development agencies. This shift towards decentralization aligns with RDT's focus on how organizations manage resource dependencies.

5.5.2. Institutional theory

The research also extends Institutional Theory by exploring how emerging technologies, such as blockchain, can disrupt established norms in financial governance. DeFi platforms challenge traditional financial institutions and regulatory frameworks, potentially reshaping the financial landscape [42]. The study's findings suggest that DeFi could drive a shift in institutional norms, especially in sectors such as climate finance, where transparency and efficiency are crucial.

5.5.3. Limitations and Future Research Directions

While the study provides valuable insights into the potential of DeFi in climate finance, it also has several limitations. The scalability of DeFi platforms remains a significant concern, and future research should focus on how these platforms can be adapted for large-scale projects. Additionally, more research is needed into the technical and regulatory challenges that could hinder the broader adoption of DeFi in climate finance. Future studies should also examine the long-term sustainability of blockchain-based climate finance platforms, particularly in terms of energy consumption and cybersecurity.

5.6. Conclusion

This study demonstrates the significant potential of decentralized finance to address key challenges in

climate finance, including inefficiency, lack of transparency, and limited accessibility. While there are several barriers that need to be overcome—such as regulatory uncertainty, cybersecurity risks, and energy consumption—DeFi represents a promising avenue for improving the effectiveness and inclusivity of climate finance. The findings suggest that policymakers, technology developers, and climate finance practitioners must work together to create an enabling environment for DeFi adoption, ensuring that the benefits of this emerging technology can be realized on a global scale. The research contributes to both academic theory and practical applications, offering a foundation for future studies and real-world implementation of decentralized finance in climate finance.

5.7. Practical Recommendations

Given the study's findings, several practical recommendations can be made for stakeholders involved in DeFi and climate finance. These recommendations aim to facilitate the integration of decentralized finance mechanisms into the climate finance sector, ensuring that the identified challenges are addressed effectively.

5.7.1. Development of a clear regulatory framework

To foster the widespread adoption of DeFi in climate finance, a clear and comprehensive regulatory framework is essential. Governments and international regulatory bodies should prioritize the creation of laws that both promote innovation and mitigate potential risks associated with DeFi platforms. Regulatory clarity will provide investors and stakeholders with the confidence needed to engage with DeFi platforms and allow for smoother integration with traditional finance mechanisms. Countries with established cryptocurrency regulations, such as Switzerland and Singapore, could serve as models for other regions to follow.

5.7.2. Promote energy-efficient blockchain solutions

One of the critical challenges for DeFi in climate finance is its alignment with sustainability objectives. While blockchain networks like Ethereum's PoS mechanism have made strides in reducing energy consumption, more energy-efficient blockchain solutions should be encouraged. DeFi platforms and developers should invest in further research into consensus mechanisms that prioritize sustainability. Furthermore, partnerships between DeFi projects and renewable energy providers could help to offset the energy consumption of blockchain networks, ensuring that these platforms align with the overarching goals of climate finance.

5.7.3. Strengthen cybersecurity measures

As DeFi platforms become more integral to climate finance, the risks associated with

cyberattacks and technical vulnerabilities become more pronounced. Smart contracts and decentralized applications (dApps) must undergo rigorous security audits to ensure that they are resistant to exploits. To mitigate these risks, developers should follow best practices in secure coding and engage in continuous testing and vulnerability assessments [43]. Governments, private sector entities, and the wider blockchain community must collaborate to create cybersecurity standards that protect users and investors in DeFi platforms.

5.7.4. Facilitate capacity building in developing regions

To ensure the equitable distribution of benefits, it is essential to promote digital literacy and blockchain adoption in developing regions. A concerted effort is required from international development organizations, governments, and private sector players to provide educational programs that teach individuals and communities how to use DeFi platforms [44]. The introduction of accessible mobile applications and the provision of affordable internet services could further enhance access to these platforms. Capacity-building initiatives in developing countries will ensure that DeFi in climate finance does

not remain exclusive to the Global North but is instead inclusive of the Global South [45].

5.7.5. Collaborations between DeFi platforms and traditional financial institutions

The integration of DeFi with traditional financial systems could amplify its impact in climate finance. Collaborations between DeFi platforms and established financial institutions, such as development banks and government agencies, could facilitate the flow of capital to climate projects at a larger scale [46]. Financial institutions could provide expertise in project evaluation, while DeFi platforms could bring efficiency, transparency, and decentralized funding mechanisms. Such partnerships could also help address the scalability challenges identified in this study.

5.8. Implications for Policy Development

The intersection of DeFi and climate finance presents a novel opportunity for policy development in the financial and environmental sectors. Policymakers should take proactive steps to understand and harness the potential of DeFi technologies while addressing the risks that accompany decentralized financial systems.

5.8.1. Encourage research and development

Governments should encourage research into the practical applications of DeFi within the climate finance space. This could include funding for research on blockchain technologies that are specifically designed for environmental sustainability, as well as investigating potential regulatory solutions to overcome the challenges identified in this study.

5.8.2. Create incentives for Sustainable DeFi projects

Governments and international organizations could create incentives for DeFi projects that align with sustainable development goals. For example, they could introduce tax breaks, subsidies, or grants for projects that use blockchain to fund climate adaptation or mitigation efforts. Furthermore, climate-related carbon offset projects could be integrated into DeFi platforms [47], helping to channel private investment into renewable energy and carbon reduction initiatives.

5.8.3. Global Collaboration on regulatory standards

Given the global nature of DeFi platforms, international collaboration will be crucial for developing regulatory standards that apply across borders. A unified regulatory approach will help to avoid fragmented legal landscapes, which can hinder the global flow of capital and resources for climate finance [48]. By aligning with global climate finance goals, such as those set out in the Paris Agreement, regulatory frameworks for DeFi can ensure that the sector contributes to global environmental targets while maintaining financial stability.

5.9. Future Research Directions

While this study offers insights into the potential of DeFi in climate finance, there remain several areas for future research that could further explore the integration of decentralized finance with sustainable development and climate goals.

5.9.1. Long-term sustainability and impact analysis

Future research could focus on the long-term sustainability and environmental impact of DeFi platforms. While blockchain technology offers efficiency in financial transactions [49], it is crucial to assess whether these platforms' energy consumption can be aligned with climate goals. Research could investigate the carbon footprint of various blockchain networks over time and explore ways to mitigate their environmental impact.

5.9.2. Scalability and integration with traditional finance

The scalability of DeFi solutions in climate finance remains a significant concern. Future studies could explore how DeFi platforms can scale up to handle the financing needs of large-scale climate projects.

Research into hybrid models that integrate DeFi with traditional finance could also be explored. This could include investigating how blockchain technologies can be used to enhance the capacity of traditional financial institutions to manage climate finance projects at a global level.

5.9.3. Legal and ethical considerations in DeFi

The legal and ethical implications of DeFi in climate finance are also an important area for future research. As decentralized finance systems bypass traditional regulatory frameworks, there is a need to better understand how to ensure compliance with national and international laws, including Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regulations [50]. Additionally, ethical concerns such as financial inclusion and the potential for exploitation in underdeveloped markets should be explored in future studies.

5.9.4. Impact on climate finance accessibility in the global south

Future research could further investigate how DeFi platforms can improve climate finance accessibility in developing countries, especially in the Global South. This research should assess the potential for DeFi to empower local communities and grassroots organizations by providing them with a stake in global climate finance. The role of digital wallets, mobile platforms, and localized currencies in expanding access to climate finance should be explored in greater detail.

5.9.5. Public and private sector collaboration in DeFi implementation

Finally, future studies could explore the role of public-private partnerships in driving the adoption of DeFi solutions for climate finance. By examining case studies of successful collaborations between governments, businesses, and DeFi platforms, researchers could provide insights into best practices for overcoming challenges and achieving scale in climate finance initiatives.

6. Conclusion and Future Research Directions

6.1. Summary of Contributions

This study explored the potential of Decentralized Finance (DeFi) to address key challenges in climate finance, with a focus on efficiency, transparency, and accessibility. By integrating both quantitative blockchain data from platforms like KlimaDAO and Toucan Protocol, and qualitative insights from stakeholders such as DeFi developers, climate finance practitioners, and policymakers, the research highlights the promise of DeFi in transforming climate finance. Key findings indicate that DeFi platforms can substantially reduce transaction costs, expedite fund transfers, and ensure greater transparency through immutable blockchain records. Furthermore, DeFi platforms democratize access to climate finance, enabling participation from smaller investors and developing regions.

However, the study also identified several significant barriers to the wider adoption of DeFi in climate finance. These include regulatory uncertainty, digital infrastructure challenges, and scalability concerns, particularly in large-scale initiatives. Despite these challenges, the research contributes to both practical and theoretical knowledge, offering actionable insights for policymakers, developers, and practitioners while advancing understanding of the intersection between blockchain technology and climate finance.

6.2. Practical Implications

The findings of this study have important practical implications for various stakeholders in the climate finance ecosystem:

For Policymakers: The study emphasizes the need for supportive regulations that balance the promotion of innovation with the mitigation of risks. Policymakers should consider frameworks that foster the growth of DeFi while ensuring consumer protection and compliance with international standards. For example, the European Union's MiCA regulation could serve as a model for structuring regulations that align with both

the needs of the DeFi ecosystem and the goals of climate finance.

For Practitioners: Climate finance practitioners can leverage DeFi platforms to enhance the efficiency of fund disbursement, reduce administrative overheads, and improve transparency. The use of smart contracts could ensure that funds are allocated directly to project activities, increasing accountability and reducing the scope for misuse.

For developers: DeFi developers should focus on addressing the scalability and security challenges of blockchain platforms. While the efficiency and transparency offered by DeFi are promising, their application in large-scale projects remains limited due to the constraints of current infrastructure and the risks associated with smart contract vulnerabilities. Addressing these issues could pave the way for broader adoption in climate finance.

6.3. Future Research Directions

This research provides a foundation for further exploration of DeFi in climate finance. Future studies can address several critical areas to build upon these findings:

Explore Scalability: Future research could investigate how DeFi can be integrated with large-scale climate finance initiatives, such as those managed by multilateral development banks and international financial institutions. Research could also explore hybrid models that combine DeFi with traditional finance systems to address scalability concerns.

Evaluate Impact: Longitudinal studies are needed to assess the real-world impact of DeFi-funded climate initiatives. Future research could track the effectiveness of these initiatives over time, focusing on both the environmental outcomes and the economic benefits to stakeholders in developing regions.

Address Inclusivity: Further research should examine strategies for overcoming the digital infrastructure and literacy barriers in underserved regions. This research could explore the development of user-friendly interfaces and educational programs to enhance digital literacy and broaden access to DeFi platforms, ensuring that the benefits of climate finance reach marginalized communities.

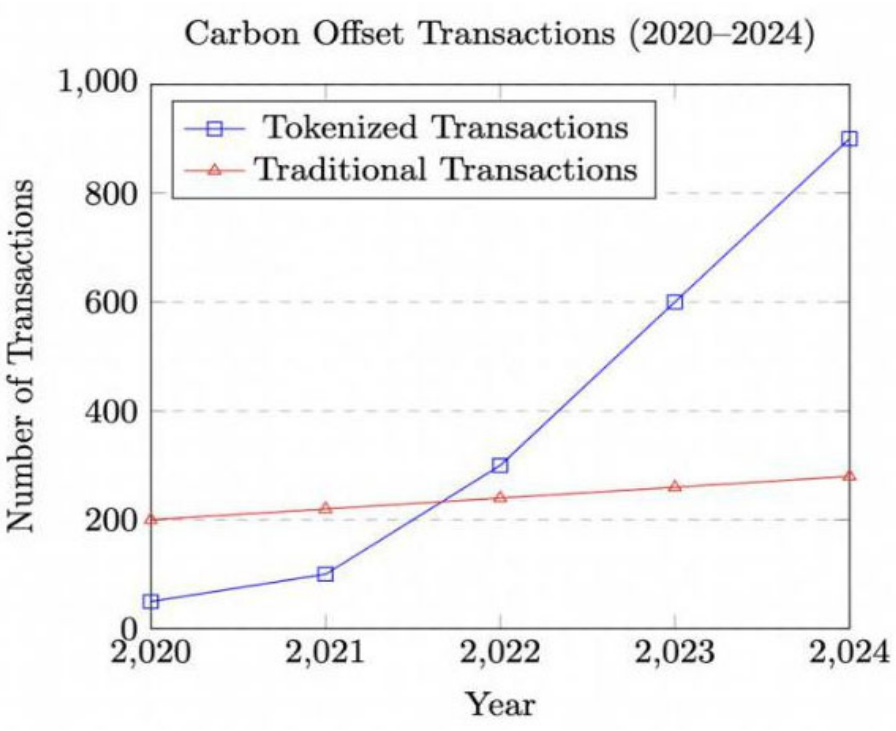

Fig. 1. Carbon offset transactions on blockchain vs. traditional platforms (2020– 2024).

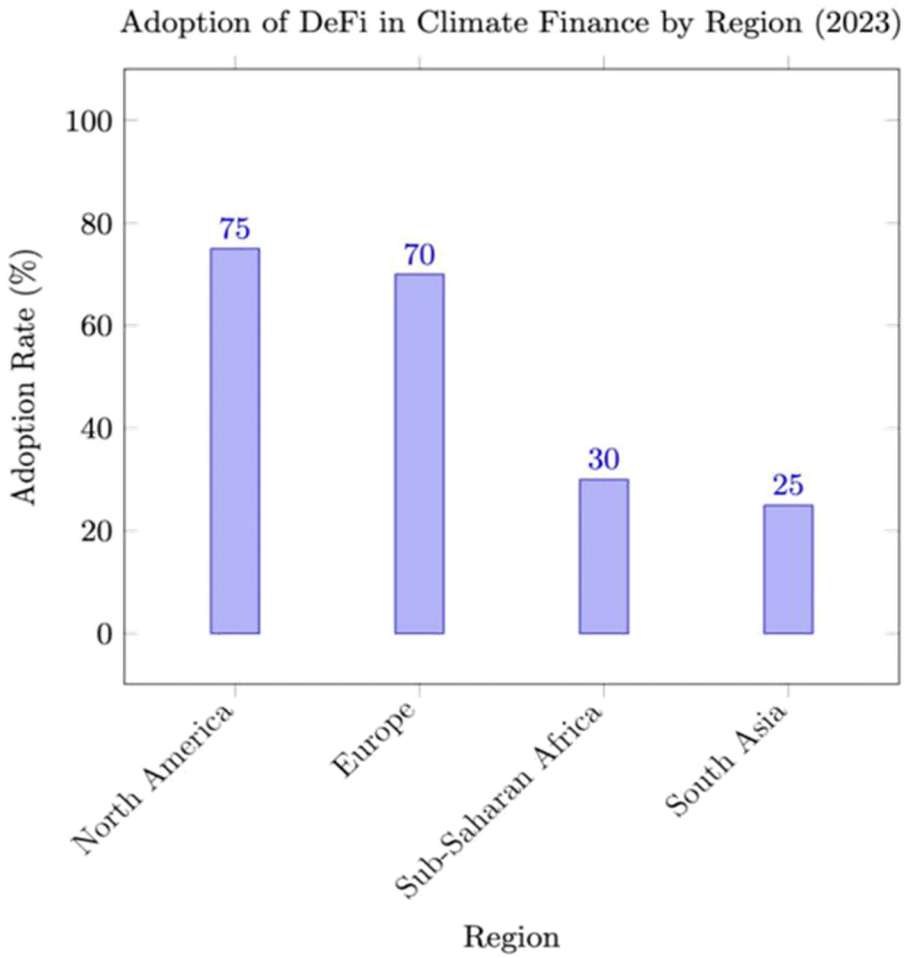

Fig. 2. Adoption of DeFi in climate finance by region (2023).

Develop Frameworks: There is a need for ethical and sustainable frameworks for implementing DeFi in climate finance. Future research could focus on designing governance structures that ensure fair decision-making processes, protect the interests of all stakeholders, and promote sustainability in both environmental and financial terms.

In conclusion, this study contributes to the emerging discourse on the role of decentralized finance in climate change mitigation. By demonstrating the potential of DeFi to address critical challenges in climate finance, it offers valuable insights for future research and policy development, aligning financial innovation with global climate goals.

Conflict of Interest

The authors declare no conflict of interest.

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