

# **3** Challenges in financing adaptation in developing countries

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This chapter explores barriers to scaling up and mobilising further adaptation finance. These relate to economic and financial conditions, knowledge and capacity gaps, and institutional and governance arrangements. Developing countries' financial, technical, and institutional constraints hinder both their access to international public finance and their ability to attract complementary private investment for adaptation activities. Challenges include data and knowledge gaps that hinder the ability to identify, develop and prepare potential climate adaptation projects, as well as the fragmented adaptation finance architecture and difficulties to access relevant sources of finance.

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As discussed in Chapters 1 and 2, adaptation action in the face of climate change requires the scaling up of climate finance for adaptation purposes. To date, data indicate that there exists a notable shortfall in climate finance provided or mobilised for adaptation purposes within the context of the USD 100 billion goal. Adding to the challenges are capacity and resource gaps in developing countries and other institutional and financial barriers. Based on trends in finance flows, recent research, and interviews with key stakeholders from developed and developing countries multilateral institutions, this chapter discusses three categories of challenges to increasing both public and private finance for adaptation: economic and financial, technical and knowledge-based, and institutional and governance barriers. Options to address and overcome these challenges are presented in Chapter 4.

### 3.1. Economic and financial barriers

Adaptation action, primarily aimed at safeguarding societies and economies from the adverse impacts of climate change, is traditionally seen as a government responsibility. Public investments in adaptation often target transport, energy infrastructure, information technology systems, education and health infrastructures, intangible assets, and disaster risk reduction. The primary objective of public investment is to enhance productivity, boost economic growth and promote societal well-being. Though public investment might not offer a direct financial return and is financed through public budgets, it operates on the principle of both economic and social returns. Governments may issue debt for public investment based on the rationale that public investment bolsters the economic environment, fostering growth and consequently higher government revenue that can be put towards repaying and servicing debt.

The conventional approach to mobilising private finance for public investments in climate change adaptation is to issue government debt in capital markets and channel the proceeds towards adaptation projects. However, in reality, many developing countries and especially lower-income countries have limited tax bases and borrowing capacity. The dual challenges of the COVID-19 pandemic and the economic fallout from Russia's aggression against Ukraine worsened many developing countries' fiscal stance, and rising debt levels further restrict their capacity for domestic public investment in adaptation. In 2022, 60% of countries eligible for the G20 Debt Service Suspension Initiative were in debt distress or at high risk of debt distress – double the proportion in 2015 (Chabert, Cerisola and Hakura, 2022<sup>[1]</sup>). This restricts their capacity for domestic public investment in adaptation.

Climate change also influences public investment decisions. Public adaptation investments could become a necessity to reduce and avert economic losses. Research suggests that a USD 50 billion investment in flood defences for coastal cities could reduce projected losses in 2050 from USD 1 trillion to just USD 60 billion, for instance (Klusak et al., 2023<sup>[2]</sup>). Yet, vulnerable countries may lack the financial resources and capacity to invest in activities to avert climate-induced losses in the future without putting their debt sustainability at risk in the present. The impacts of climate change also could negatively affect a country's credit ratings, limiting its ability to source finance for adaptation (Klusak et al., 2023<sup>[2]</sup>).

Given these public finance constraints, private sector investments can play a key, complementary role in supporting adaptation through solutions that can range from forecasting data services to climate-resilient crops and advanced irrigation systems. Private businesses make adaptation investment choices for their own best interests, for instance fortifying their operations. Growing demand for adaptation products also means there are potentially lucrative business opportunities in adaptation, and the aggregate result of firms capitalising on these opportunities and making informed adaptation decisions greatly benefits the overall adaptation landscape. As is the case with public finance, there are a number of barriers to increased private adaptation investment in developing countries. Effective adaptation action by private investors requires policies and regulatory frameworks that foster an efficient and effective enabling environment. Individual firms also need access to the right financial products and service to optimise adaptation investments.

In this context, specific factors that can hinder investment in adaptation, particularly from the private sector, include:

- **Difficulty of pricing climate risk.** Understanding the positive impact of investments on business profitability is key to making a business case for private finance for adaptation. This entails valuing and pricing the potential impacts of climate events on revenue streams, business interruption or discontinuation of operations. Coastal real estate development offers an example: without a clear understanding of potential sea level rises and increased storm frequency, developers might underinvest in precautions, thereby risking significant future damage. However, localised variations make climate-related impacts unique to specific areas, complicating the risk-return evaluation of adaptation investments. Data gaps compound the difficulty. Without an accurate pricing of climate risks, the private sector could choose to simply avoid adaptation investments. More broadly, it is also difficult to price inaction. This relates to the additional challenge of establishing a counterfactual – for example, how would the population have adapted or coped with a climate-related crisis without the intervention? – and the fact that the effectiveness of the adaptation intervention may only be seen when a climate risk actually materialises (OECD, 2023<sup>[3]</sup>). Section 4.4. discusses options that international providers could consider to address these challenges.
- **Challenges of quantifying non-financial benefits.** The benefits and co-benefits of adaptation may not readily translate into financial returns. Societal benefits and externalities are seldom documented, recorded, or quantified, which means the true value of an investment may not be adequately reflected when only its financial returns are considered (Stoll et al., 2021<sup>[4]</sup>). Moreover, such benefits may not be captured due to a variety of market failures and equity reasons (Tall et al., 2021<sup>[5]</sup>). Sections 4.4 and 4.5 present options to overcome this challenge.
- **Lack of policies and regulation to internalise adaptation benefits.** Dedicated policies and regulatory frameworks can overcome the challenges to valuing adaptation benefits and pricing inaction. A supportive policy environment that includes regulations, incentives, and frameworks specific to adaptation can help establish a clear mandate for businesses to incorporate climate risks and adaptation strategies into their operations and investment decisions (OECD, 2022<sup>[6]</sup>). For instance, businesses can be required to implement disaster risk management strategies, incentivising them to take measures to address climate-related risks (Hallmeyer and Tonkonogy, 2018<sup>[7]</sup>). However, in many developing countries, such policy environments to support sector-specific investment in adaptation are lacking. Information regarding the impact of climate change and benefits of adaptation is also crucial to convince businesses to act to adapt to the reality of climate change. Sections 4.2. and 4.4 set out options for addressing these challenges.

As shown Table 3.1 in some sectors, including agriculture or climate-resilient infrastructure, already offer significant potential for financial returns and for a progressively increasing role from the private sector. This is because these sectors have a direct link to profit-making activities and can provide both tangible and quantifiable benefits, often leading to a quicker return on investment. In addition, market-driven innovations and advancements in technology have further increased the attractiveness of these sectors for private investment. In contrast, sectors such as enabling environments, coastal zones, and, to some extent, water, which offer public services, will still likely require continued support from public actors and sources.

**Table 3.1. Overview of adaptation activities and respective expected financial returns**

Adaptation activity	Examples of activities	Usually publicly funded	Mixed (below-market)	Commercially viable
Enabling environments	Development of national adaptation plans and strategies			
	Provision of climate-related data and risk maps			
	Implementing Early Warning Systems covering climate-related events			
	Development of new technologies and services for adaptation			
	Development of financial services to support adaptation (e.g. credit and insurance)			
	Consultancy services for adaptation			
Agriculture	Afforestation and reforestation			
	Changing production towards better-adapted crops and varieties			
	Installing water-efficient irrigation			
Coastal zones	Restoration of coastal wetlands			
	Relocation of properties from high-risk areas			
	Beach nourishment			
	Flood defences			
Infrastructure	Integrating climate resilience into the design of new infrastructure			
	Increase backup systems in infrastructure networks			
	Making existing infrastructure resilient			
Water	Expanding water storage capacity			
	Desalination			
	Reducing leaks in existing infrastructure			
	Protecting watersheds			
	Improving water efficiency of major water users			

Note: The shading expresses the extent to which they relate to the respective financial returns, with white cells having no financial return and dark grey having the highest potential for returns.

Source: Authors.

### 3.2. Technical and knowledge-based barriers

Demand from developing countries should guide the provision by international providers of adaptation finance (Section 2.1). However, many developing countries lack clear project pipelines and national strategies for adaptation that they need to apply for and access sources of climate finance. Providers can support developing countries in identifying and preparing project proposals for adaptation activities and systematically integrating adaptation considerations into broader development projects. While planning project proposals and development strategies is a challenge in all development finance, several factors make it particularly challenging in the context of adaptation:

- **Gaps in data availability, granularity, and quality:** Developing countries may have difficulty accessing accurate and up-to-date climate data for their regions such as historical climate records, climate projections, and localised data on temperature, rainfall patterns, sea level rise and extreme weather events. Reliable climate data are important for assessing specific climate risks and vulnerabilities that need to be addressed through adaptation projects. Moreover, adaptation project proposals can require capacities in detailed climate modelling, monitoring and evaluation of

adaptation impacts as well as in linking climate impacts to policy action (Richmond, Saghir and Tapia, 2021<sup>[8]</sup>). Conducting thorough vulnerability assessments is essential to identify the sectors, communities, and ecosystems most at risk from climate change impacts. But developing countries often encounter data gaps that limit their understanding of social, economic, and environmental vulnerabilities including limited data on demographics, poverty rates, infrastructure conditions, ecosystem services and the adaptive capacity of local communities (OECD, 2023<sup>[9]</sup>). Collecting and processing accurate and timely data is costly and requires specific skills, and in least developed countries (LDCs) and small island developing states (SIDS) in particular, data on weather and climate are lacking (Casado Asensio, Blanquier and Sedemund, 2022<sup>[10]</sup>). Section 4.2 presents options for providers to address the data challenge.

- **Difficulty demonstrating the adaptation-specific objective of project proposals.** Adaptation finance is often embedded in broader development projects (Section 1.2. and Box 2.2.). This results in challenges with respect to distinguishing adaptation and development activities. For instance, a project to improve agricultural yields may incorporate improved irrigation systems, resistant crop varieties and farmer training as part of a broader development plan. Such activities are also adaptive measures as they enhance resilience to changing climatic conditions such as fluctuating rainfall patterns and rising temperatures. It can be difficult to delineate and separate out the incremental costs of adaptation as is often required as part of the application process for adaptation funding from international providers (IMF, 2021<sup>[11]</sup>). Sections 4.2., 4.3. and 4.4. present options for international providers to address this difficulty.
- **Lack of capacity and expertise to develop adaptation strategies and project pipelines.** All providers consulted for this report cited the lack of project pipelines and/or tangible national strategies as a key challenge to scaling up adaptation financing. Both multilateral development banks (MDBs) and climate funds, two of the primary providers of international climate finance, require developing countries to submit project proposals with their applications. Some bilateral providers reported that for their climate and adaptation financing to be approved and disbursed, there must be a demonstrable and clear link between the project to be funded and an existing national strategy or plan. However, developing countries often lack the necessary expertise to conduct comprehensive climate vulnerability assessments, identify suitable adaptation activities and subsequently integrate these into broader development plans. High-level strategies such as their national adaptation plans (NAPs) often do not contain sufficiently detailed or concrete projects (Box 3.1). Section 4.2 presents options for addressing this challenge.

### Box 3.1. How national adaptation plans can help access and attract adaptation finance

#### Global update of the NAP process

To support developing countries in preparing adaptation project proposals, the 16th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change, or COP16, established the NAP process for countries to analyse the impact of climate change, identify adaptation needs, and develop strategies and programmes to address these needs (UN, n.d.<sup>[12]</sup>). This process helps structure and plan adaptation in developing countries and is crucial to accessing adaptation finance. A well-formulated NAP can be instrumental in applying for adaptation finance with well-defined, impactful projects embedded in broader national strategies.

As of June 2023, 139 of 154 developing countries have started the NAP process, but only 45 have submitted NAPs (UN, n.d.<sup>[12]</sup>). Submitted NAPs vary widely in their level of detail and their content, with many focusing on strategy and falling short in terms of identifying concrete actions and financing needs. Only 23 of the 45 submitted NAPs include lists of concrete projects accompanied by a time frame, cost estimates, sub-actions, output indicators and/or stakeholders to be involved. Another 13 identify adaptation actions but are missing details on implementation, responsibility, or financing needs; 9 NAPs only identify broad areas of action. Additionally, 13 of the submitted NAPs provide cost estimates by project, 14 estimate costs by sector or as a total, and 18 do not include any cost estimates. Not all the NAPs have financing strategies and where these do exist, they often simply list possible sources of adaptation finance. Many of the NAPs mention that the process is at an early stage and reference more detailed planning underway at sectoral and regional levels that could eventually lead to a pipeline of investable projects. NAP processes in developing countries typically benefit from technical and financial international support including from the NAP Global Network (NAP Global Network, n.d.<sup>[13]</sup>) and Green Climate Fund (GCF) Readiness and Preparatory Support Programme.<sup>34</sup> out of 45 submitted NAPs acknowledge that external support was involved their formulation.

#### Madagascar's NAP

The Madagascan NAP clearly identifies actions that need to be taken and why, their benefits and cost, and how they can be financed (Ministère de l'Environnement et du Développement Durable, 2021<sup>[14]</sup>). It includes detailed project proposals in 12 national programmes, with a one-page summary for each programme setting out the project location, context, objectives, costs, indicators, potential financing sources and a time frame. These summaries contain a sufficient level of detail to provide a solid basis for the development of a project proposals and to initiate funding discussions with interested providers. The NAP takes stock of current funding sources and defines strategic actions to enhance the financing process for adaptation actions. On a domestic level, these actions include mobilising internal resources and budgeting planned actions. The Madagascar government also outlines actions to mobilise external finance, including through accrediting a national entity at the GCF, mobilising private investment through incentive schemes (such as co-financing, subsidies, and credit guarantees); strengthening government capacities to prepare project proposals; and creating a national climate fund as a focal point. Madagascar also sets out actions to integrate adaptation financing in the national budget, mainly relating to capacity building.

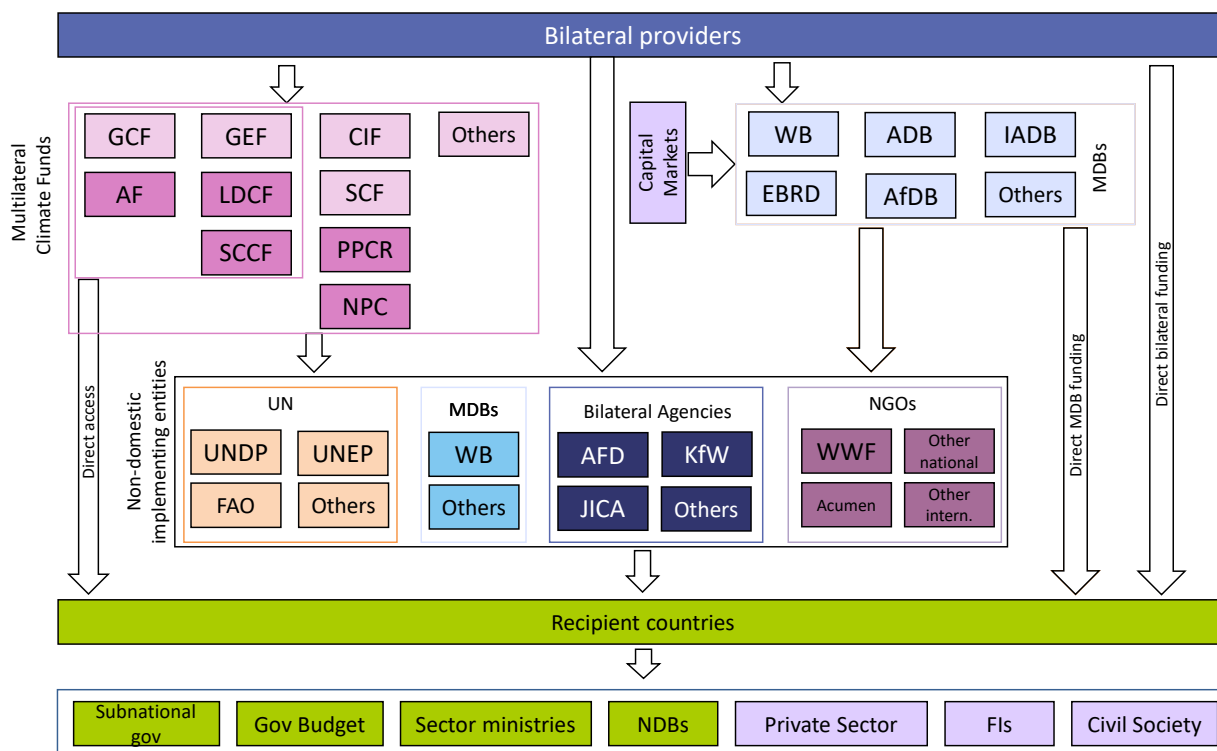
Source: Authors' own analysis of available NAPs on (UN, n.d.<sup>[12]</sup>). Source: NAP Central (n.d.<sup>[12]</sup>), Frequently Asked Questions, <https://napcentral.org/faq>, NAP Global Network (n.d.<sup>[13]</sup>), NAP Global Network, <https://napglobalnetwork.org/about/>; Government of Madagascar (2021<sup>[14]</sup>), <https://unfccc.int/sites/default/files/resource/PNA-Madagascar.pdf>; République du Cameroun (2015<sup>[15]</sup>), [https://www4.unfccc.int/sites/NAPC/Documents/Parties/PNACC\\_Cameroun\\_VF\\_Valid%C3%A9e\\_24062015%20-%20FINAL.pdf](https://www4.unfccc.int/sites/NAPC/Documents/Parties/PNACC_Cameroun_VF_Valid%C3%A9e_24062015%20-%20FINAL.pdf); OECD (OECD, 2022<sup>[6]</sup>), Climate Finance Provided and Mobilised by Developed Countries in 2016-2020: Insights from Disaggregated Analysis, <https://doi.org/10.1787/286dae5d-en>

### 3.3. Institutional and governance barriers

Obtaining adaptation finance can be a complex and challenging endeavour for developing countries due to the diverse landscape of providers, varied eligibility criteria and intricate application requirements. The fragmentation of the adaptation finance architecture intensifies these challenges (Figure 3.1). As is the case for technical and knowledge-based challenges to increase adaptation finance, institutional and governance challenges apply to development finance more broadly but are more acute in the context of adaptation finance. There are many reasons for this, but chief among them is the small scale and context-specific nature of adaptation projects that makes the preparation of funding applications more daunting. Different categories of adaptation finance providers have different approaches to support developing countries to access public development financing:

- **Climate funds** mainly consider project or funding proposals submitted by developing countries, though an accredited entity often facilitates applications.<sup>1</sup>
- **Bilateral providers** with field presence mainly develop their programmes by engaging in dialogue with developing countries to jointly identify areas where support is needed. Access to bilateral funding can be more flexible and less burdensome than for climate funds and MDBs but may also focus more on smaller-scale projects.
- **MDBs** employ mixed approaches. Some operate based on project applications submitted by developing countries while others engage in bilateral discussions with partner countries to identify opportunities for investment.

Figure 3.1. Overview of international public climate finance architecture



Note: Fls = Financial Institutions; NDBs = National Development Banks; NPC = Nature, People and Climate Program; SCF = Strategic Climate Fund.

Source: Inspired and re-adapted by authors based on Fouad et al (2021<sup>[11]</sup>), Unlocking Access to Climate Finance for Pacific Island Countries, <https://doi.org/10.5089/9781513594224.087>.

The complex international adaptation finance architecture poses additional challenges to accessing and increasing adaptation finance for developing countries:

- **Fragmentation of the climate funds architecture.** Multilateral climate funds have proven to be effective in mobilising and scaling funds for specific purposes in the short term (OECD, 2022<sup>[16]</sup>). However, the creation of such funds both reflects and contributes to the fragmentation of the broader aid landscape. Not all funds can have implementing capacity on the ground, as this would be costly and unrealistic, and therefore rely on the implementing capacity of existing multilateral organisations. Such funds also add to the complexity of the system and may also add transaction costs related to delegation (OECD, 2022<sup>[16]</sup>). At the end of 2022, there were between 81 and 99 climate funds, according to different studies<sup>2</sup> (OECD, n.d.<sup>[17]</sup>; Houérou, 2023<sup>[18]</sup>). Their proliferation raises concern about their complementarity and additionality towards increasing climate finance flows – questions that link most broadly to calls for multilateral reform in order to increase the system’s overall financing capacity (OECD, 2022<sup>[16]</sup>; OECD, 2023<sup>[19]</sup>). Different funds have different standards regarding public reporting, limiting transparency and comparability. Consequently, it is challenging to measure their actual true impact (Houérou, 2023<sup>[18]</sup>). Importantly, it is also difficult for countries seeking to access the climate funds to understand what each might offer and to navigate their different criteria. In interviews for this report, developing country officials said they find it hard to determine which fund is most appropriate for a particular project and to tailor proposals to fit the funds’ diverse mandates and funding criteria, especially given the interlinkages of adaptation, development and environmental protection. Section 4.3 presents options for addressing this challenge.
- **Accreditation barriers to access climate funds directly.**<sup>3</sup> These barriers prevent many developing countries from accrediting national entities to manage funds from multilateral climate sources such as the GCF and the Adaptation Fund. The accreditation process usually requires robust financial management, environmental and social safeguards, and transparency and accountability systems (United Nations and Climate Finance Access Network, 2022<sup>[20]</sup>). Often, an entity must demonstrate the ability to undertake specific types of due diligence; produce audit reports on institutional management programme effectiveness; and/or properly report on the progress, delivery, and implementation of projects. To access the GCF, for example, an entity seeking accreditation must demonstrate it is able to satisfy as many as 479 public financial management requirements (IMF, 2021<sup>[11]</sup>). While these safeguards are important to ensure effective financial management, streamlining some of these requirements may help increase developing countries’ access to adaptation finance. In many developing countries, capacity to meet these criteria is lacking, which constitutes a significant barrier to accreditation. Developing countries with limited capacity often rely on large international accredited entities (such as UN agencies or the MDBs themselves) to access adaptation finance from multilateral climate funds. Only 89 national implementing agencies in total are registered at the GCF and the Adaptation Fund.<sup>4</sup> Sections 4.3 and Box 4.4 outline options for addressing this challenge.
- **Challenges in complying with a wide range of diverse eligibility criteria and application requirements for project proposals.** Adaptation providers’ eligibility criteria for adaptation typically cover applicant type, regional focus or thematic areas among other characteristics. As providers have not harmonised requirements regarding adaptation definitions, eligibility standards, project appraisals and due diligence, recipient countries often struggle to stay abreast of each fund’s criteria for obtaining funding (OECD, 2023<sup>[9]</sup>). In the absence of unified standards and metrics to measure benefits from adaptation, a particular challenge is to demonstrate the climate rationale of adaptation projects (as opposed to the rationale for mitigation). Smaller countries are particularly affected since they frequently rely on just a few international providers and may miss out on additional funding opportunities (Klöß and Fagotto, 2020<sup>[21]</sup>). Still other developing countries receive funding from more than 20 international providers at the same time, which



requires a considerable co-ordination effort (Klöck and Fagotto, 2020<sup>[21]</sup>). Sections 4.2 and 4.3 set out options to overcome these challenges.

- **Lengthy review processes by providers of adaptation finance.** Review processes of project proposals can take years, delaying disbursement of funds. In the context of adaptation finance, wherein detailed project justifications are required to establish an adaptation rationale and there are few common standards or metrics, the bottlenecks are especially severe. Interviewees from developing countries noted that the drawn-out review process can mean that project become obsolete due to shifting national priorities. However, any attempt to revise or expand the proposal to reflect such once the process is underway can potentially extend the approval timeline further, adding to the complexity of these processes. Staff of developing countries and international providers may change during the process as well, with the risk that feedback loops may also lead to conflicting comments and make making the review process even more difficult to manage. Protracted reviews of funding proposals can stem from capacity gaps on the side of both the provider and recipient as the complexity of funding criteria. Section 4.3 outlines options to continue to enhance these processes to address this barrier.
- **Limited reach to local organisations.** Empowering local actors and communities to access adaptation finance has the potential to not only foster higher absorption and demand but also increase the effectiveness of adaptation finance through more targeted responses. Such a shift in approach would simultaneously build capacity, facilitate adaptation to local needs and amplify the impact of these crucial funds. However, local actors have few options to access funding from international sources directly, and many current intermediary structures are insufficiently tailored to reach the local level (Soanes et al., 2017<sup>[22]</sup>). Challenges relating to compliance with providers' requirements, for instance drafting project proposals demonstrating a climate rationale, as well as challenges related to climate data affect local actors more than national governments (Soanes et al., 2017<sup>[22]</sup>). Language can often also barrier as many providers only accept funding proposals written in a few internationally used languages that might not be spoken in local communities. Section 4.3 presents options for tailoring adaptation finance to reach the local level.
- **Finance architecture is not tailored to the needs of SIDS, LDCs and fragile states.** Thanks to their higher capacity, middle-income countries with strong institutions and experience in development co-operation tend to attract proportionally more adaptation finance than countries more vulnerable to climate change impacts such as LDCs and SIDS, which usually have less-developed institutional capacities and significant staffing constraints for preparing project proposal (OECD, 2023<sup>[9]</sup>; LDC Expert Group, 2020<sup>[23]</sup>; United Nations and Climate Finance Access Network, 2022<sup>[20]</sup>). Some providers, notably multilateral institutions, have adopted approaches for a more balanced allocation of adaptation finance across developing countries (Box 3.2), while some funds specifically focus on lower-income countries such as the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). Section 4.2 discusses options to better direct adaptation finance to the most vulnerable countries.

### Box 3.2. How multilateral institutions allocate finance for adaptation across developing countries

Multilateral institutions complement a bottom-up and demand-based approach with recipient country target shares for adaptation finance or with country programmes to ensure geographical balance in their portfolio, address vulnerabilities of recipient countries and reduce risks. The African Development Bank (AfDB), for example, allocates its resources across recipients based on criteria of country performance,<sup>5</sup> with special facilities reserved for fragile contexts and regional operations. Country governments propose projects to use these allocations with some co-ordination via dedicated country programmes with the AfDB.

To ensure that climate finance is not overly concentrated in certain recipient countries, multilateral climate funds operate with country caps (Section 4.3.). In this system, all eligible countries have access to a defined sum of grants, for example USD 20 million per country in the case of the Adaptation Fund (Adaptation Fund, 2021<sup>[24]</sup>). To access these resources, countries still must propose eligible projects for approval by funding boards. Uniform country caps, while beneficial for including neglected recipient countries, have been criticised for not addressing varying country needs and capacities and inadvertently creating an uneven distribution of adaptation finance (Mori, Rahman and Uddin, 2019<sup>[25]</sup>). In the existing system, countries with large populations, for instance India, are eligible for the same maximum amount of finance as smaller countries such as Saint Lucia. The result is higher per capita funding for smaller countries, though this is justified in some cases where the cost of adaptation projects remains constant regardless of population size (IMF, 2021<sup>[11]</sup>). As funding resources grow, these caps may hinder the rapid scale-up of adaptation finance. Therefore, funds such as the LDCF, the Adaptation Fund and others have modified their policies, allowing financing beyond the initial cap and creating alternative financing windows to ensure more flexibility and larger absorption potential for bigger countries (GEF, 2022<sup>[26]</sup>).

**Table 3.2. Overview of approaches for the allocation of adaptation finance across selected multilateral climate funds**

Multilateral Climate Fund	Method of allocation	Focus on vulnerable countries?	Country cap?
Adaptation Fund	Project- and programme-based allocation	Equitable access ensured through country cap	USD 20 million
Climate Investment Funds (CFI, including Pilot Program for Climate Resilience [PPCR])	Project-based application through MDBs on the basis of indicative funding envelopes for programmatic investment plans	Choice of participating countries based on vulnerability to climate risks	Indicative funding envelopes for each country based on programmes
Global Environment Facility (GEF)	System of Transparent Allocation of Resources (STAR): Performance-based framework building on global benefits, country performance and Gross Domestic Product (GDP) per capita.	Indirectly through global benefits and GDP per capita criteria	10% of total focal area resources for each focal area
Least Developed Countries Fund (LDCF, part of the GEF)	Project-based allocation	Exclusively targeted at LDCs	USD 20 million for the 8 <sup>th</sup> replenishment period
Special Climate Change Fund (SCCF, part of the GEF)	Project-based allocation	Window A reserved for SIDS	Between USD 3 and USD 6 million depending on resources
Green Climate Fund (GCF)	Project-based allocation, board approves project applications based on quality of proposals and quota	Goal of allocating at least 50% to vulnerable countries (SIDS, LDCs and African countries)	None

Table source: GCF (n.d.<sup>[27]</sup>), About GCF | Green Climate Fund, <https://www.greenclimate.fund/about> ; GEF (2022<sup>[28]</sup>), Summary of the Negotiations of the Eighth Replenishment of the GEF Trust Fund, [https://www.thegef.org/sites/default/files/documents/2022-06/EN\\_GEF\\_C.62\\_03\\_Summary%20of%20Negotiations%20of%20the%208th%20Replenishment%20of%20the%20GEF%20Trust%20Fund\\_.pdf](https://www.thegef.org/sites/default/files/documents/2022-06/EN_GEF_C.62_03_Summary%20of%20Negotiations%20of%20the%208th%20Replenishment%20of%20the%20GEF%20Trust%20Fund_.pdf) ; GEF (2022<sup>[26]</sup>), GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF for the GEF-8 Period of 1 July 2022

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## Notes

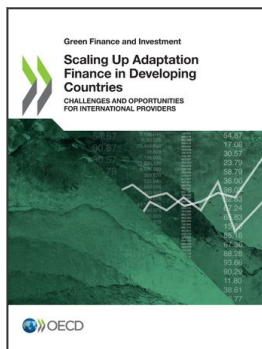
<sup>1</sup> These organisations that are granted the authority to receive and manage climate finance funds on behalf of the international mechanisms and include national and regional agencies, non-governmental organisations, and financial institutions.

<sup>2</sup> This includes multilateral, regional and national climate funds.

<sup>3</sup> Accreditation challenges are analysed in depth in (IMF, 2021<sub>[11]</sub>).

<sup>4</sup> This figure is the result of analysis by the authors based on websites of the GCF and Adaptation Fund.

<sup>5</sup> Country performance assessment is based on criteria such as macroeconomic management, governance, infrastructure, and performance of the bank's country portfolio. Further details are available at <https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-country-resources-allocation>.



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