

# **26** Making climate funds fit for more interlinked and mutually reinforcing agendas

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Climate funds such as the Adaptation Fund, Climate Investment Funds, Green Climate Fund and Global Environment Facility provide crucial climate-related development finance that could help increase resilience and address poverty and inequality in developing countries. This chapter highlights ways for these funds to become more fit for purpose, including by deploying their resources more strategically to serve the interlinked and mutually reinforcing agendas of climate, development, and poverty and inequality reduction. It argues for climate funds to improve the availability, accessibility and delivery of finance; increase the volume of finance directly provided to developing country institutions; strengthen their focus on sectors relevant for climate change adaptation; and ensure that finance is used equitably and in line with developing countries' expressed priorities.

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## Key messages

- Sound climate policy is sound development policy, and failure to deliver on ambitious collective climate action will leave more of the most vulnerable countries and people further behind.
- While climate-related development finance is growing in volume and increasingly going to lower income countries, it is also increasingly fragmented and the proliferation of projects raises transaction costs.
- Climate funds play a relatively small role in terms of amounts of climate-related development finance provided.
- To meaningfully contribute to a strengthened global response to the climate challenge, climate funds need to improve the availability, accessibility and delivery of their support and increase their focus on local adaptation action, which can also help fight poverty and inequality.

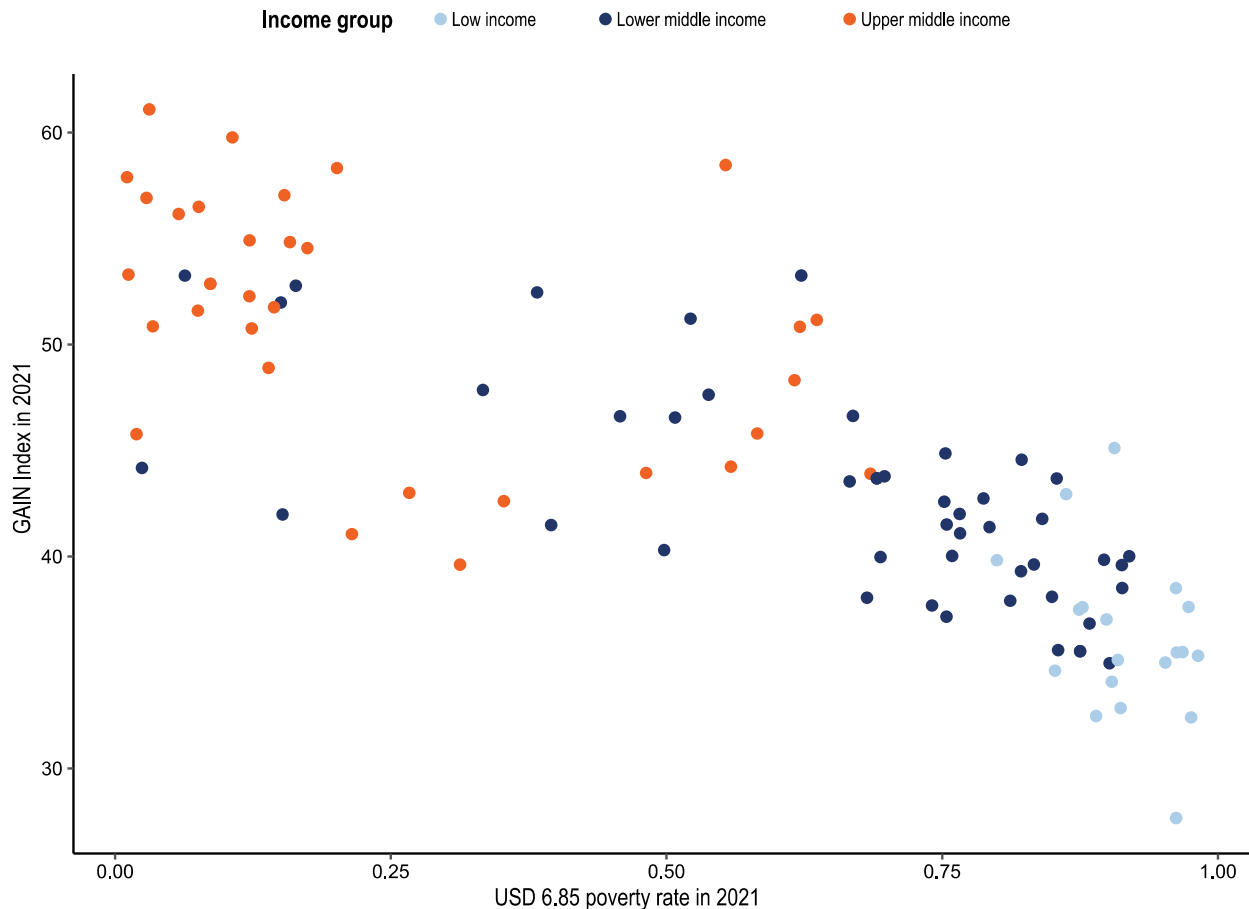
## Higher financing ambition and action to address climate change in the poorest countries are key to global progress on climate and development goals

Each successive report from the Intergovernmental Panel on Climate Change records that the climate crisis is escalating as global average temperatures are increasing faster and climate change impacts are more dire than previously anticipated. Developing countries are disproportionately burdened due to their high exposure and vulnerability to climate change impacts. Insufficient financial and institutional capacity to manage climate change risks drives this vulnerability. Poorer people generally depend more than others on climate-sensitive livelihoods, operate with weaker safety nets and are more strongly affected by potential health issues stemming from climate change (Hallegatte et al., 2016<sup>[1]</sup>). They, therefore, have greater needs for improving their resilience to climate change (Figure 26.1). Many communities are already reaching limits to adaptation, in particular those in least developed countries (LDCs) and small island developing states (SIDS). Natural disasters alone are pushing 26 million people a year into poverty (Hallegatte et al., 2016<sup>[2]</sup>).

Climate change aggravates the challenges developing countries face in progressing on their development pathways and jeopardises development gains, including those achieved with the support of development co-operation. It is becoming ever more evident that climate-resilient development is not only a necessity at the global and local level, but also presents new opportunities to achieve both climate and development goals, including related to poverty and inequality reduction – if the global community is able to achieve higher financing ambition and action.

### Figure 26.1. The higher the poverty rate in a given country, the greater the needs for improving resilience to climate change

Correlation between USD 6.85 poverty rate and ND-GAIN Index on climate change vulnerability in 2021, by income group



Notes: Data are from 2021 or closest available year, interpolated. Exprobated data were used for the poverty line. The USD 6.85 poverty rate (the poverty line in upper middle-income countries) was used to capture poverty in the entire sample. The ND-GAIN Index scores show a country's exposure, sensitivity and capacity to adapt to the negative impacts of climate change, focusing on overall vulnerability.

Source: ND-GAIN (2024<sup>[3]</sup>), *Notre Dame Global Adaptation Initiative Country Index: Vulnerability and Readiness* (database), <https://gain.nd.edu/our-work/country-index/rankings>; World Bank (2024<sup>[4]</sup>), *Poverty and Inequality Platform* (database), <https://pip.worldbank.org/home>.

### ***More strategic use of development finance could serve the interlinked agendas of climate, sustainable development, and reducing poverty and inequalities***

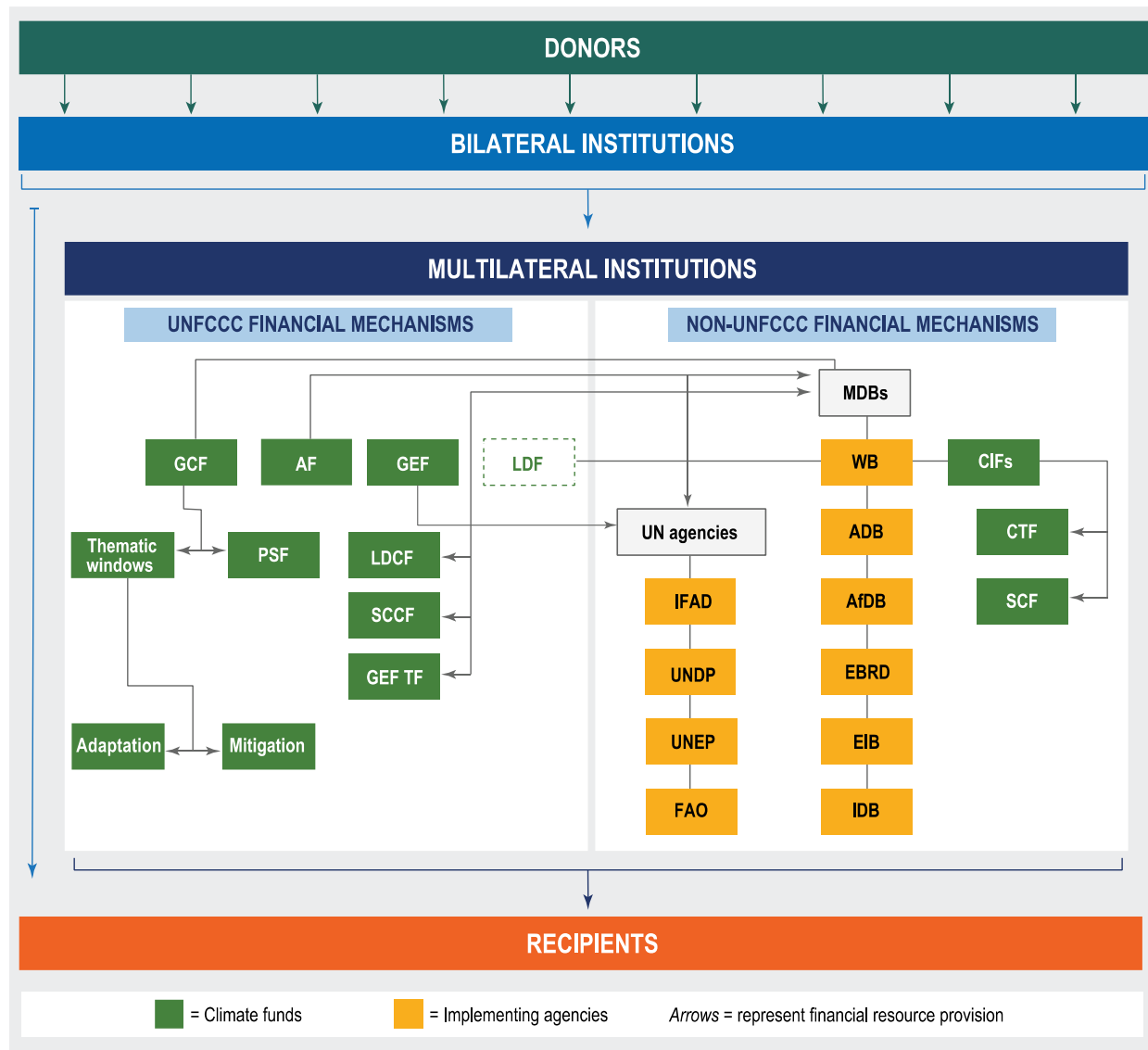
Supporting developing countries in their climate change mitigation and adaptation efforts requires massive deployment of finance from all sources. Development finance must be used strategically to trigger broader change – in particular, change led by partners and other actors. However, efforts so far do not measure up to the interlinked and mutually reinforcing agendas of climate, development, and ending poverty and reducing inequalities. Greater ambition and action in development co-operation are essential to development and climate progress, and to restoring trust. Action in 2024 and 2025 is particularly relevant given the updating of nationally determined contributions (NDCs) under the Paris Agreement, ongoing deliberations around a New Collective Quantified Goal on climate finance, and the fourth Financing for

Development Conference that will take place in 2025 and set new a framework for development finance. The international climate finance architecture is a complex, continuously changing landscape of political commitments and individual funding and financing decisions by a multitude of bilateral and multilateral institutions (Figure 26.2). Climate funds are fairly nascent entities within this architecture, dedicated to addressing climate change and broader environmental issues. The Green Climate Fund (GCF), the Global Environment Facility (GEF) and the Adaptation Fund are particularly relevant. These are special funds and financing entities under the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) and/or serve the Paris Agreement. The Climate Investment Funds (CIFs), separate from the UNFCCC financial mechanisms, are also particularly relevant due to their size.

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**Figure 26.2. Donors provide climate-related development finance through a patchwork of dedicated climate funds and established implementing agencies**

Simplified illustration of resource flows within the international climate finance architecture focusing on the four main climate funds



Notes: Arrows represent flows of financial resources. The arrows under donors are indicative and aim to show that a wide range of bilateral donors have their own bilateral implementing agencies and dedicated climate funds that contribute to multilateral institutions. Climate funds are depicted in green squares, implementing agencies in orange squares. UNFCCC = United Nations Framework Convention on Climate Change; GCF = Green Climate Fund; PSF = Private Sector Facility; AF = Adaptation Fund; GEF = Global Environment Facility; LDCF = Least Developed Countries Fund; SCCF = Special Climate Change Fund; GEF TF = Global Environment Facility Trust Fund; LDF = Loss and Damage Fund; IFAD = International Fund for Agricultural Development; UNDP = United Nations Development Programme; UNEP = United Nations Environment Programme; FAO = Food and Agriculture Organization; WB = World Bank; ADB = Asian Development Bank; AfDB = African Development Bank; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; IDB = Interamerican Development Bank; CIFs = Climate Investment Funds; CTF = Climate Technology Fund; SCF = Strategic Climate Fund. All multilateral development banks (MDBs) are accredited entities of the GCF. The World Bank administers the CIFs. At COP28, the World Bank was further invited to “operationalise” the Fund to Address Loss and Damage as a World Bank-hosted financial intermediary fund for an interim period of four years. The GEF serves as the secretariat for the Adaptation Fund, the Least Developed Countries Fund and the Special Climate Change Fund .

Source: Adapted from Watson and Schalatek (2020<sup>[5]</sup>), *The Global Climate Finance Architecture*, <https://climatefundsupdate.org/wp-content/uploads/2020/03/CFF2-2019-ENG-DIGITAL.pdf>.

While climate funds hold significant value in the international climate finance architecture, the volumes of resources they provide is relatively limited compared to climate-related development finance overall (Table 26.1). It is hence essential for the funds to deploy their resources strategically, to maximise the impact of climate action in and by developing countries. The ability of climate funds to reach those furthest behind will determine whether they fulfil their mandate of supporting ambitious action on climate change and biodiversity loss in the context of sustainable development as well as related efforts to eradicate poverty and reduce inequalities.

**Table 26.1. The four major climate funds are providing increasing volumes of climate-related development finance, and must be deployed strategically to maximise their impact**

Contribution of funds, average 2016-21

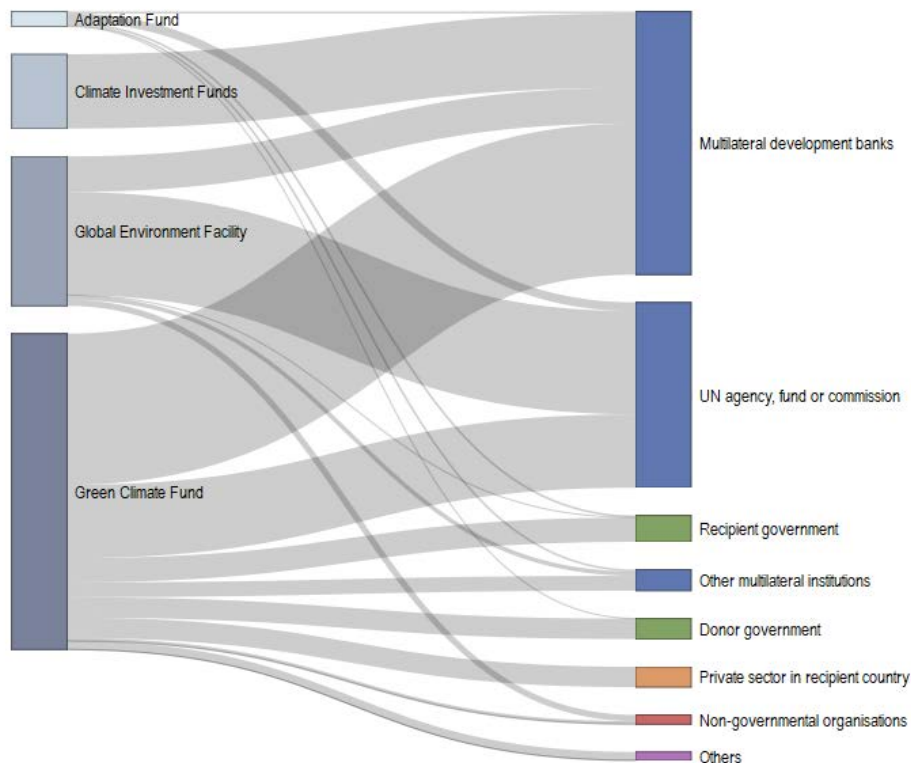
	Climate-related development finance in constant USD million	Share, relative to climate-related development finance provided by multilateral institutions, excluding multilateral development banks	Share, relative to climate-related development finance provided by DAC members and multilateral institutions, excluding multilateral development banks
<b>Adaptation Fund</b>	91.49	2.2%	0.2%
<b>Climate Investment Funds</b>	453.46	11.9%	1.1%
<b>Global Environment Facility</b>	872.25	21.8%	2.0%
<b>Green Climate Fund</b>	1 901.34	47.7%	4.3%

Source: Based on OECD (2023<sup>[6]</sup>) *Creditor Reporting System* (database), <http://data-explorer.oecd.org/s/m>.

Analysis shows significant challenges for the funds, however. For example, the four major climate funds (GCF, GEF, AF and CIFs) have distinct governance arrangements and policies that steer and guide the allocation of financial resources. But for all of them, a substantial share of their resources are co-financed or channelled through existing institutions of the international development finance architecture, such as MDBs, before reaching partners in developing countries (Figure 26.3). This framework was set up to avoid duplication of costs and benefit from the institutional infrastructure provided by MDBs.

### Figure 26.3. The vast majority of climate funds' resources are channelled through existing development finance institutions before reaching recipients in developing countries

Channels of climate-related development finance of four major climate funds, totals, 2016-21



Source: Based on OECD (2023<sup>[6]</sup>) *Creditor Reporting System* (database), <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm>.

## Making climate funds fit for purpose

### ***Donors must address fragmentation and proliferation of development finance overall, including finance to support climate action***

The volume of climate-related development finance is growing, and certain quality elements of climate-related development are also improving. For example, support for adaptation is increasing more than financing for mitigation in line with the demand by developing countries in light of the significant local impacts of climate change (OECD, 2024<sup>[7]</sup>). For DAC members in particular, adaptation-related development finance exceeded mitigation-related development finance for the first time in 2021 (OECD, 2023<sup>[8]</sup>).

Further, climate-related development finance is increasingly provided to lower income countries, including LDCs (OECD, 2024<sup>[7]</sup>). Indeed, the allocation pattern of climate-related development finance has been approaching that of overall development finance, which has itself become slightly more focused on poor countries. Forthcoming OECD research finds that growth in financing to support climate action by developing countries accounted for the vast majority of the increase of overall official development finance

in the period 2010-21. Overall, the analysis indicates that climate finance is in essence development finance.

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Other quality elements of development finance need further attention. While the number of active multilateral entities has grown to more than 200 over the past decade, 70% of total financing from the multilateral development system comes from just 10 of these entities (OECD, 2022<sup>[9]</sup>). In addition, the number of providers has sharply increased while average project size has decreased. Evidence suggests that climate-related development finance is also impacted by fragmentation and proliferation. Box 26.1 describes these shifts in the case of climate-related development finance for SIDS.

### Box 26.1. Small island developing states suffer in particular from a fragmented system

While an issue for development finance in general, proliferation and fragmentation of development and climate-related finance is particularly relevant for small island developing states (SIDS). SIDS are especially vulnerable to climate change due to a range of interconnected risks such as sea level rise, biodiversity and ecosystem loss, water insecurity, destruction of settlements and infrastructure, degradation of health and well-being, and economic decline (IPCC, 2022<sup>[10]</sup>; ND-GAIN, 2024<sup>[3]</sup>). While they present the most urgent needs, SIDS' capacity development constraints limit their ability to adapt and build resilience to climate change impacts (IPCC, 2022<sup>[10]</sup>; OECD, 2023<sup>[11]</sup>; 2018<sup>[12]</sup>). In this context, SIDS have called for their priority access to climate-related development finance as an enabler of their overall development.

Between 2016 and 2021, climate action in SIDS was financed through an average of 1 391 projects per year, with the number of projects increasing from 670 in 2016 to 2 758 in 2021 (OECD, 2024<sup>[7]</sup>). Climate-related development finance from the four main climate funds to SIDS increased over the same period from USD 1.38 billion to USD 2.95 billion. The majority of support from climate funds (and from development co-operation providers more broadly that report to the OECD Development Assistance Committee) targeted climate change adaptation. The average size of adaptation projects decreased significantly over the same period. The proliferation of projects results in high transaction costs, in particular when considering the relevance of adaptation-related development finance in overall development finance for SIDS.

Sources: IPCC (2022<sup>[10]</sup>), "Small islands", <https://doi.org/10.1017/9781009325844.017>; ND-GAIN (2024<sup>[3]</sup>), *Notre Dame Global Adaptation Initiative Country Index: Vulnerability and Readiness* (database), <https://gain.nd.edu/our-work/country-index/rankings>; OECD (2018<sup>[12]</sup>), *Making Development Co-operation Work for Small Island Developing States*, <https://doi.org/10.1787/9789264287648-en>; OECD (2023<sup>[11]</sup>), *Capacity Development for Climate Change in Small Island Developing States*, <https://doi.org/10.1787/888c870a-en>; OECD (2024<sup>[7]</sup>), "Development finance for climate and environment", web page, <https://www.oecd.org/en/topics/development-finance-for-climate-and-the-environment.html>.

By channelling a large share of their financing through existing multilateral organisations, notably MDBs (see Figure 26.2 and Figure 26.3), climate funds contribute to the simultaneous trend of increasing fragmentation – through the increasing number of funds – and increasing concentration of resources – through the channelling of resources through established development finance institutions. While the use of multilateral organisations is intentional for some of the climate funds – to benefit from efficiency gains



by using legacy institutions – this also means that resources can be captured in the system. Additionally, by adding layers of delegation, the vertical fund model can increase transaction costs.

The question, hence, is, how can climate funds deliver directly to developing countries, without adding further to the number of development finance channels and institutions developing countries engage with, and thereby avoiding further fragmentation? One of the key foundational elements of the GCF's formation is the direct resource provision to recipients, including, for example, private sector entities, non-governmental organisations and government entities in partner countries, in line with the effectiveness principle of country ownership. Over the 2016-21 period, however, only 14% of the GCF's finance was directly provided to developing country institutions compared with 13% of the AF's finance and 0% of the finance of both the GEF and the CIFs.<sup>1</sup> Additionally, only 20 of the 62 developing country institutions had projects approved, according to research carried out in 2021 (Caldwell and Larsen, 2021<sub>[13]</sub>). Funding is generally committed for specific projects and delivered to an increasing number of implementing agencies, which creates the risk that projects are not integrated with wider government processes and therefore not sustainable, in addition to failing to create synergies. Alignment of climate fund resources with developing country processes, needs, priorities and strategies can support the direct delivery of financial resources to developing countries while avoiding the burden of higher fragmentation, and improving cost-effectiveness.

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### ***Climate funds need to enhance the availability, accessibility and speed of delivery of finance***

Achieving the transformation to low-emission and climate-resilient economies requires the right scale of finance of the right kind and at the right time. Though estimates vary, it is clear that global finance flows for climate action have increased but still fall short of the amount needed to make a meaningful contribution to reducing poverty and inequality in a changing climate (UNFCCC, 2022<sub>[14]</sub>; Naran et al., 2022<sub>[15]</sub>; Songwe, Stern and Bhattacharya, 2022<sub>[16]</sub>; UNEP, 2023<sub>[17]</sub>).

Developing countries, in particular LDCs and SIDS, have sounded the alarm on the need for more accessible and affordable climate finance for a number of years (LIFE-AR, 2019<sub>[18]</sub>). One of the key barriers to accessing finance are complex accreditation and application processes, including those of climate funds, which LDCs and SIDS often lack the institutional and technical capacity and resources to complete (OECD, 2018<sub>[12]</sub>; Caldwell and Larsen, 2021<sub>[13]</sub>; Garschagen and Doshi, 2022<sub>[19]</sub>; Wilkinson, Treichel and Robertson, 2023<sub>[20]</sub>). Without harmonised accreditation and application processes, as well as long-term capacity-building support for national and local institutions, there is a risk that the resources of climate funds will be captured by countries that already have a certain level of capacity while LDCs, SIDS and other most vulnerable countries could fall further behind. As shown in Table 26.2, middle-income countries are the main recipients of three of the four main climate funds, as is the case for development finance overall. Beyond general access of developing country entities to financial resources of climate funds, it is the direct access that is essential to ensure finance is aligned with developing country needs and priorities, strengthen developing country systems, and improve cost-effectiveness.

**Table 26.2. As for development finance overall, middle-income countries are the largest recipients of the main climate funds – except for the Adaptation Fund**

Top ten recipients of climate-related development finance by climate fund, total 2016-21

Adaptation Fund	Climate Investment Funds	Green Climate Fund	Global Environment Facility
Niger	India	Mongolia	China (People's Republic of)
Sierra Leone	South Africa	Brazil	Brazil
Namibia	Indonesia	Bangladesh	India
Liberia	Bangladesh	India	Mexico
Peru	Türkiye	Costa Rica	Indonesia
Ethiopia	Rwanda	Egypt	Peru
Guinea-Bissau	Colombia	Tanzania	Colombia
Panama	Morocco	Argentina	Tanzania
Lao People's Democratic Republic	Peru	Indonesia	Democratic Republic of the Congo
Gambia	Ukraine	Ethiopia	Ethiopia

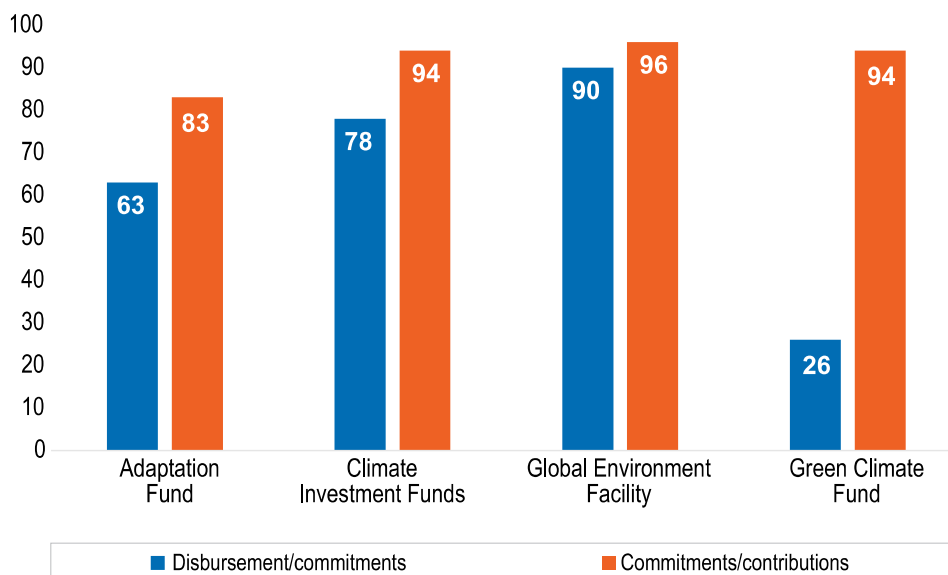
Notes: Antigua and Barbuda, though among the largest Adaptation Fund recipients, is not included in the table as it is not official development assistance eligible; the World Bank classifies Antigua and Barbuda as a high-income economy. Green cells indicate a low-income country recipient, blue cells indicate a lower middle-income country recipient and orange cells indicate an upper middle-income country recipient.

Source: Based on OECD (2023<sup>[6]</sup>) *Creditor Reporting System* (database), <http://data-explorer.oecd.org/s/m>.

Speed of delivery of climate finance to activities in developing countries varies substantially across climate funds (Figure 26.4). The GCF, in particular, is relatively slow in moving from commitment to disbursement. Several factors may contribute to this. First, the GCF works with a more diverse group of implementing entities, including recipient country private sector entities and non-governmental organisations (see Figure 26.3), which may lack the administrative capacity or other relevant processes to quickly absorb disbursements (Lee, Landers and Matthews, 2023<sup>[21]</sup>). Second, more than two-thirds of the GCF's commitments since 2016 were made in 2020 and 2021 (versus 21% of the AF's, for example). With projects typically lasting several years, only a small portion of the committed funds have already been disbursed (Lee, Landers and Matthews, 2023<sup>[21]</sup>). To improve access to finance, the GCF updated several of its policies in 2022, including to streamline the accreditation process and accelerate project approval and implementation (Green Climate Fund, 2022<sup>[22]</sup>; 2022<sup>[23]</sup>).

**Figure 26.4. Speed of climate finance delivery varies substantially across climate funds**

Commitment and disbursement ratios, 2012-21



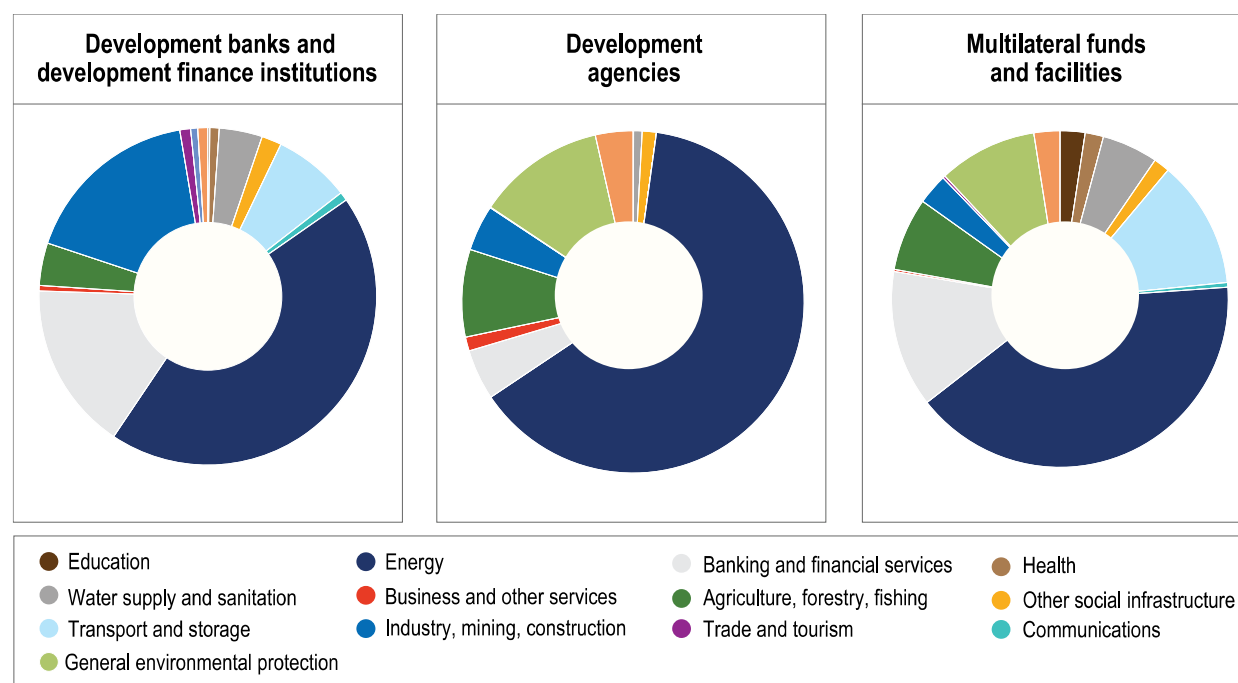
Notes: The ratio disbursement/commitments indicates the speed of climate funds' actual disbursement of resources after commitments have been made, while the commitments rate relative to contributions indicates how swiftly climate funds commit resources to specific interventions after a contribution has been received.

Source: Adapted from Lee, Landers and Matthews (2023<sup>[21]</sup>), "Concessional climate finance: Is the MDB architecture working?", <https://www.cgdev.org/publication/concessional-climate-finance-mdb-architecture-working>.

Access to finance from climate funds is also important to support the mobilisation of private climate finance. Forthcoming OECD analysis shows that multilateral funds and facilities, and mostly climate funds within this provider type, mobilise private finance for climate action in a broader set of sectors than other provider types, including those with likely implications for poverty and inequality reduction (Figure 26.5) (OECD, 2024<sup>[24]</sup>). In particular, a larger share of private climate finance by multilateral funds targeted the sectors pertaining to agriculture, forestry and fishing; general environmental protection; education; health; and water supply and sanitation than the private finance mobilised by development banks and development finance institutions. In absolute terms, however, development banks and development finance institutions are the most significant mobilisers of private climate finance. Given the adaptation finance gap, climate funds could be an important partner of developing countries to mobilise private finance in such sectors.

## Figure 26.5. Multilateral funds, including climate funds, mobilise private climate finance for a broader range of sectors such as those relevant for adaptation

Shares of private climate finance mobilised through official development finance interventions, by type of development finance provider and sector, 2016-22



Notes: In addition to the major climate funds, multilateral funds include the Credit Guarantee and Investment Facility, International Fund for Agricultural Development (IFAD), the European Development Fund, the Global Energy Efficiency and Renewable Energy Fund, and the United Nations Capital Development Fund. The four major climate funds that are the focus of this chapter mobilised the majority of private climate finance through official development finance interventions in this group of providers.

Source: OECD (2024<sup>[24]</sup>), *Private Climate Finance Mobilised in Developing Countries: 2016-2022*, based on OECD (2024<sup>[25]</sup>), "Mobilised private climate finance for development", <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm>.

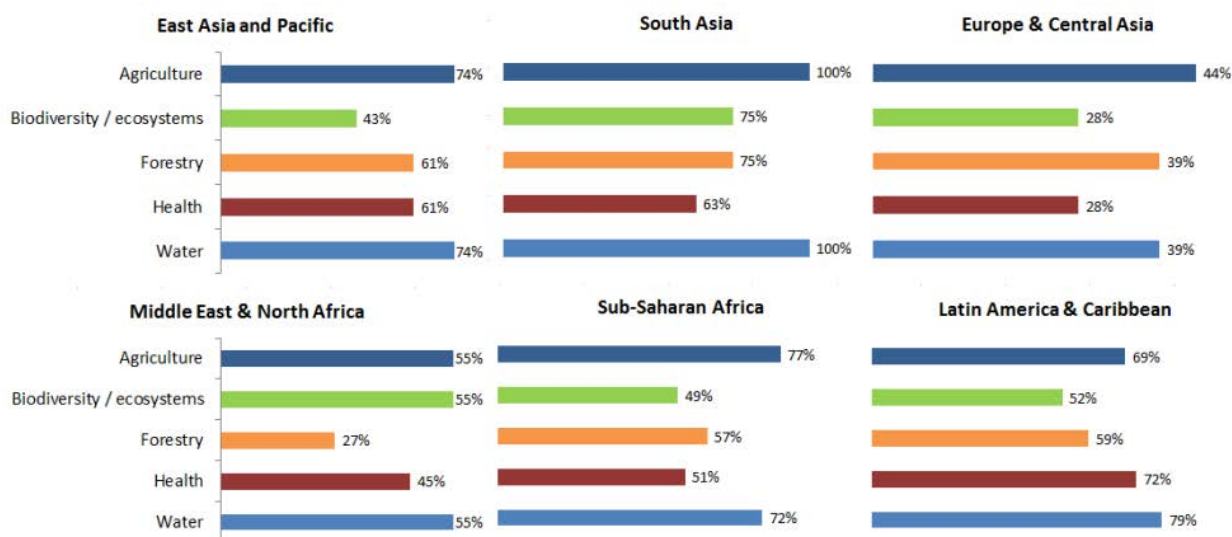
### **Climate funds need to strengthen their support for local adaptation action**

The needs and cost of adaptation in developing countries are substantial and rising, and dwarf current levels of international adaptation finance by a factor of 10 to 18 (UNEP, 2023<sup>[17]</sup>). Accordingly, the Glasgow Climate Pact, as the main outcome document of COP26, included a call to double adaptation finance from 2019 levels by 2025. The GCF had been set up to devote 50% of its resources to mobilisation, with half going to LDCs, SIDS and African countries. As 2023 is confirmed to have been the warmest year on record by a clear margin (World Meteorological Organization, 2024<sup>[26]</sup>), stepped-up efforts to mitigate climate change are essential. It is equally crucial to assist developing countries to adapt to the rapidly worsening impacts of climate change, not least because climate change impacts disproportionately affect some of the poorest countries and marginalised populations. LDCs and SIDS in particular often lack the institutional capacities to adapt and to increase resilience – for instance by ensuring that financing is utilised effectively and equitably, including with attention paid to gender as well as to vulnerable and marginalised groups.

Within the fragmented landscape of climate finance providers, country ownership and alignment with partner countries' own needs are important guiding principles (Shine, 2017<sup>[27]</sup>). Adaptation efforts should be based on developing countries' self-identified vulnerabilities, needs and priorities and result from a local, gender-responsive, participatory and transparent approach (UNFCCC, 2015<sup>[28]</sup>). Approximately 75% of developing countries specify in their NDCs that the sectors related to agriculture, biodiversity and

ecosystems, forestry, health, and water are priority sectors for their adaptation action in response to identified climate risks (German Development Institute, 2022<sup>[29]</sup>). Figure 26.6 provides a regional breakdown of these sectors in the NDCs of developing countries.

**Figure 26.6. Priority sectors outlined in developing countries' nationally determined contributions, by region**



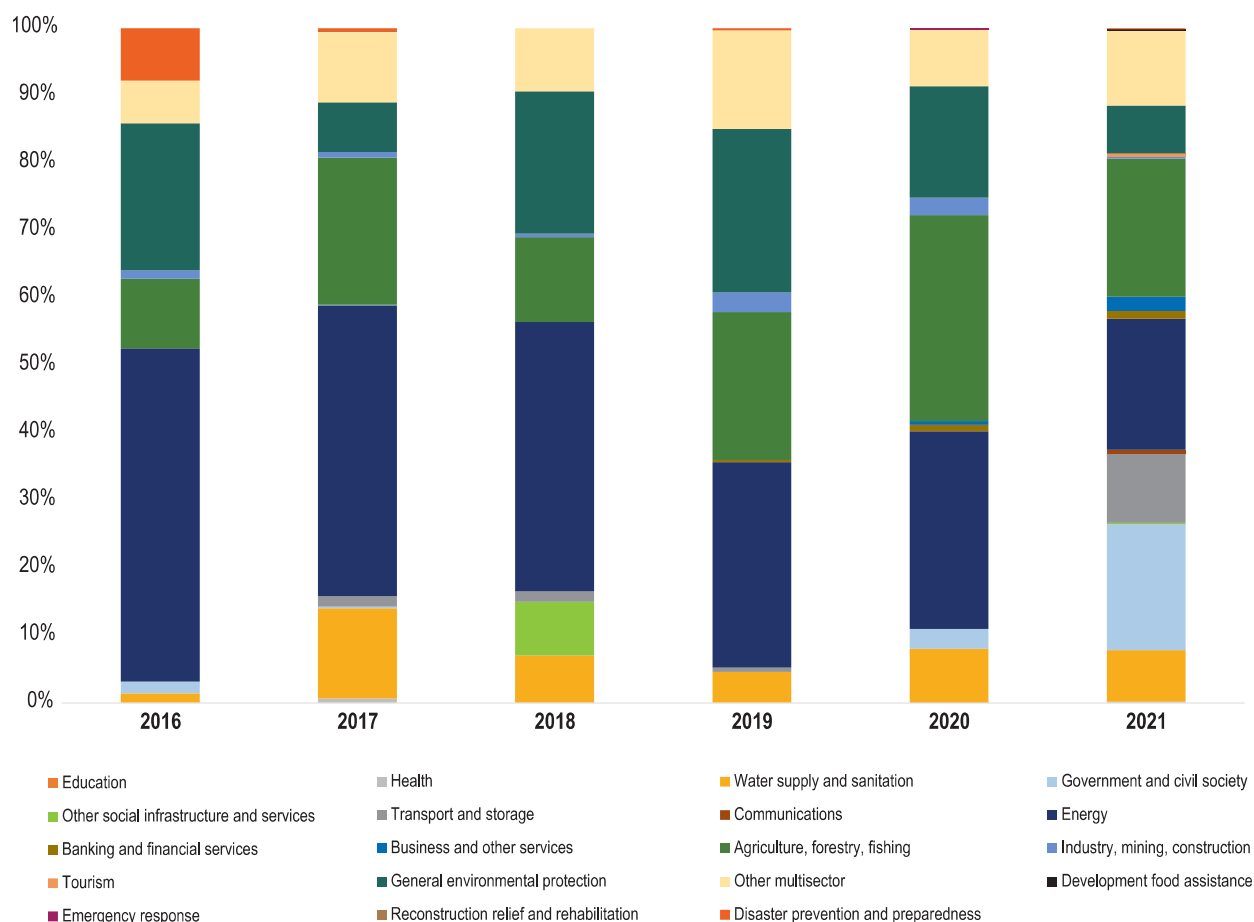
Note: The percentages indicate the share of developing country nationally determined contributions examined that identify the respective sectors as a priority for adaptation action.

Source: Based on German Development Institute (2022<sup>[29]</sup>), *NDC Explorer* (database), <https://klimalog.idos-research.de/ndc/#NDCExplorer/worldMap?NewAndUpdatedNDC??income???catIncome>

Trends in financing from climate funds indicate, however, that their finance dovetails with the priority adaptation sectors identified in NDCs only in certain cases (Figure 26.7). Over the period 2016-21, finance from the four major climate funds increased from USD 2.7 billion to USD 3.9 billion and their support for energy-related projects decreased steadily from 49% of the entire portfolio in 2016 to 19% in 2021. This decrease somewhat benefited a larger share of climate funds' operations in the agriculture, forestry and fishing sector – a sector relevant for both mitigation and adaptation – but did not lead to an increased focus on a range of adaptation-relevant sectors (Figure 26.7). For example, climate-related development finance provided by climate funds and dedicated to general environmental protection, which could support biodiversity and ecosystems, decreased significantly in absolute and relative volumes: in 2016, this sector made up 22% of climate funds' activities but only 7% in 2021. Similarly, climate funds did not increase their activities in the health sector, though developing countries identify this sector as a priority for action. Climate funds did increase their finance in the water supply and sanitation sector, from a 1% share in 2016 to 8% in 2021, though this increase was more limited in relative terms. These trends suggest a stronger need for climate funds to focus on adaptation-relevant sectors, both to address poverty and inequality and to adhere more strongly to country ownership and the use of country systems as fundamental conditions of effectiveness. The challenge to strengthen climate funds' adaptation support is aggravated by the fact that local adaptation actors have no representation at the funds and the lack of direct delivery capacity of climate funds.

## Figure 26.7. Climate funds do not focus on a wide range of adaptation-relevant sectors

Shares of climate-related development finance by the four major climate funds by sector, 2016-21



Source: Based on OECD (2023<sup>[6]</sup>) *Creditor Reporting System* (database), <http://data-explorer.oecd.org/s/m>.

## Some priority actions to be taken

Climate action is essential to prevent the most severe impacts on the most vulnerable populations and to avoid leaving more people further behind. This reasoning reflects what the Paris Agreement calls the “intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty” (UNFCCC, 2015<sup>[28]</sup>). The four major climate funds could therefore increase their provision of financial resources for adaptation and in adaptation-relevant sectors to support developing countries to address poverty and inequality. Doing so would also support the 2030 Agenda by supporting societies’ most vulnerable people to reduce their vulnerability to climate change impacts and thereby counteract continued exclusion and disadvantage.

The initial analysis included in this chapter suggests five action areas where climate funds and their donors can enhance the funds’ fitness for purpose in a changing climate and amid increasing poverty and widening inequality:

1. **Increase developing country entities' direct access** to financial resources at affordable terms; align finance with developing country needs and priorities; strengthen developing country systems; and improve cost-effectiveness in delivering finance to intended beneficiaries.
2. **Simplify and harmonise accreditation and application processes** to enhance access to finance for LDCs and SIDS in particular as these countries often lack the institutional and technical capacity and resources to navigate the processes, which can differ from fund to fund.
3. **Address the gap between disbursements and commitments** to enhance the credibility and predictability of climate funds. This would enable more effective implementation of projects and the funds' broader co-ordination with partner country actors and other development co-operation providers.
4. **Increase adaptation finance and support in adaptation-relevant sectors** to respond to developing country needs. By increasing adaptation finance and targeting it to priority sectors identified by developing countries, climate funds can contribute to supporting the most vulnerable people that face the greatest risks from climate change, including those who live in poverty, face entrenched disadvantage(s), and/or lack access to water and other fundamental human needs. As these people tend to live in the most vulnerable locations and environments and include communities dependent on coastal and agricultural livelihoods, targeting finance in this way would involve a stronger focus on LDCs and SIDS.
5. **Deploy climate funds strategically** to:
  - a. **support NDCs and long-term low emissions development strategies** to increase the effectiveness of support through adhering to developing country-defined action and priorities while ensuring that activities support the groups and communities that most need the support
  - b. **catalyse countries' transitions to low emissions, climate-resilient pathways** by strengthening policies, capacities and enabling investment environments. Climate funds' financial resources are relatively small, but deploying all of these levers can trigger broader change in developing countries, particularly change led by partners and other actors.

Delivering on these five action areas can make a meaningful contribution by climate funds to meeting financing needs for climate action in developing countries, thereby addressing poverty and inequality as well.

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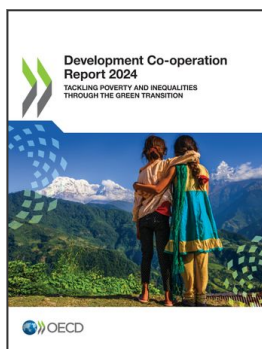
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## Note

<sup>1</sup> The Climate Investment Funds are set up to channel their resources through the major Multilateral Development Banks (MDBs) due to their ability to provide large-scale financing.



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