Climate Finance Effectiveness
Six Challenging Trends
BEATA CICHOCKA AND IAN MITCHELL

Abstract
This paper identifies and explores a number of challenges in using international public climate finance effectively towards contributing to low-carbon and resilient growth in lower- and middle-income countries. We explore key quantitative and qualitative trends in the climate finance architecture, including predictability of disbursements, affordability and concessionality of funding, provider proliferation and project fragmentation, implementation via modalities supporting recipient ownership, and the degree to which climate-related interventions are evaluated. Our research considers these trends against globally agreed principles of development effectiveness, with the aim of improving understandings of both the common and the climate-specific challenges within development finance. Ultimately, we find that climate-related development finance faces a number of challenges relative to other official development flows, including significantly lower disbursement ratios, a higher share of finance provided through debt instruments – and a rising share of loans to lower-income countries assessed as being at high risk of debt distress, a faster pace in proliferation of providers and shrinking project sizes, and fewer efforts to systematically evaluate impacts of interventions. Each of these areas will need to be tackled by public climate finance providers to ensure that the available funding is used towards climate objectives effectively. These and other issues related to the quality of climate finance should also be considered during the design of the new quantitative climate finance target under the UNFCCC to ensure that the structure of the goal promotes accountability and increases recipients’ ability to trust in the climate finance architecture.
Climate Finance Effectiveness: Six Challenging Trends

Beata Cichocka and Ian Mitchel
Center for Global Development

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Executive Summary

Climate finance accounts for a significant share of development flows and is set to grow further

Official flows to lower- and middle-income countries, including official development assistance (ODA), increasingly target climate objectives. In 2020, finance with climate objectives accounted for a third of bilateral ODA from OECD DAC countries and for nearly a quarter of outflows from multilateral development finance institutions. In absolute terms, providers now report over $83 billion in annual climate finance towards the UNFCCC $100 billion target, an increase of 59% over 2013 levels. Notwithstanding this evident scale-up, the international community has called out for even larger quantities of finance to meet lower- and middle-income countries’ needs, which by most estimates far outweigh currently available international public finance. Discussions on a new, post-2025 target from a floor of $100 billion are currently ongoing under the UNFCCC process, with the first round of negotiations on the New Collective Quantified Goal (NCQG) having taken place at COP27 in Sharm El-Sheikh.

Quality needs more attention or finance will not succeed in tackling climate challenges

As negotiators at COP27 pointed out, discussions on the quantity of climate finance need to be matched by ambitions on improving its quality. Recipients have frequently pointed out that they are unable to access or afford climate finance; that support arrives unpredictably, later than promised, or is delivered in a way which bypasses country systems and institutions. These issues have contributed to lost trust in the climate finance architecture. Without more focus and accountability for how climate finance is programmed and disbursed, discussions on quantity alone may ultimately prove meaningless in contributing to lower- and middle-income countries’ resilient and green growth.

Development effectiveness principles should also apply to climate finance, but have not been a focus

The effectiveness of development finance has long been a focus for policymakers, with broad international consensus around four effectiveness principles – recipient ownership, transparency and accountability, a focus on results, and inclusive partnerships – re-affirmed in 2011 at Busan. Yet today, more than a decade on from this agreement, there is little evidence of the extent to which the effectiveness principles and related norms have been applied and implemented in climate finance as compared with other, more traditional development flows. This paper aims to fill that gap.
We identify six challenging trends that provide evidence that climate finance faces significant additional challenges towards its effectiveness:

1. **Committed climate finance is not being disbursed to recipients at the same rates as other types of development finance, suggesting delays or cancellations of projects.** The lack of predictability implied in this pattern has negative impacts for recipients’ abilities to plan and integrate climate-related interventions within their wider development planning and damages trust in providers’ abilities to deliver on promises made.

2. **Loans are much more prevalent for delivering climate projects than grants, and risk adding to recipient countries’ unsustainable debt burdens.** Over two-thirds of official climate finance is provided as loans – a proportion significantly higher than the 52% average for all official flows to developing countries. This stands in contrast with recipients’ calls for more affordable grant-based financing. We also find that over the past decade, the share of loan-based climate financing to low-income countries assessed as being at high risk or in external debt distress has significantly increased, raising concerns about the extent to which providers are aligning their climate finance with wider considerations around debt sustainability.

3. **Climate project sizes are getting smaller while the number of climate finance providers is increasing.** While provider proliferation and project fragmentation are evident across development flows to many sectors, climate finance has witnessed these trends happening at higher rates. Amidst an increasingly complex financing landscape, climate-vulnerable countries are struggling to access funding at the scale necessary to achieve transformational impact, while increased transaction costs are placing additional strains on recipients’ capacities.

4. **Finance for emissions reduction is increasingly not allocated to specific countries.** With nearly a third of mitigation finance now being unallocated, this pattern raises important questions on how global and local benefits of finance for global public goods should be balanced, who should pay and who benefits from finance, and ultimately, who “owns” climate mitigation projects.

5. **Little climate finance is provided directly to government budgets.** Although budget support is a minority of overall development finance, it lags even further behind in climate finance. Most climate interventions are delivered via project-based modalities which can risk a fragmented approach and bypassing country systems. While “direct access” project modalities have been put forward as a promising avenue for increasing recipient ownership, there still remains significant scope to scale up their impacts.

6. **There is almost no high-quality evidence on the impact of climate finance.** There is a significant gap in the number of evaluations and systematic reviews published on climate adaptation, mitigation, or resilience opposite other areas which are targeted by development finance – even when accounting for the relative novelty of flows targeting climate action.
Together, these trends and patterns paint a picture of climate finance facing significant barriers to effectiveness as compared with other forms of development finance. These identified challenges – alongside existing processes and commitments, such as the ten collective actions identified in the Climate Finance Delivery Plan for the current $100 billion goal, ongoing work under the Taskforce for Access to Climate Finance, and the monitoring exercises under the Global Partnership for Development Cooperation (GPEDC) – provide a template for bilateral and multilateral development agencies to address effectiveness.

In light of these findings, we make four recommendations for policymakers:

1. Bilateral and multilateral development agencies should consider their own performance on these, and other, effectiveness measures, and set goals to improve performance.

2. Providers of climate finance should be undertaking evaluations of their climate finance impact and – particularly given the common nature of climate challenges and goals – establish a coordination mechanism to collate findings, share lessons, and harmonise approaches.

3. The GPEDC should set up a climate finance effectiveness working group to take forward regular, targeted assessments of climate finance, and share learnings between more “traditional” development finance areas and climate.

4. Policymakers working on the new climate finance goal from 2025 (NCQG) should take account of these findings, and consider the implications of the new target’s design and the structure of its potential sub-targets on incentives for more effective, accessible, affordable, and accountable climate finance allocation.
1. Introduction

Climate finance accounts for a substantial and rising portion of global official development finance. But as with other forms of development finance, its ultimate effectiveness faces a number of challenges, many of which are exacerbated by wider shifts in an increasingly complex development landscape. The purpose of this paper is, firstly, to explore key quantitative and qualitative trends in the climate finance architecture, including its affordability and concessionality, fragmentation and proliferation, implementation modalities, and evaluation, and secondly, to consider the implications of these trends for climate finance effectiveness. By assessing how the global principles for effectiveness have been applied to international climate finance, and benchmarking progress against other types of development finance, we aim to contribute to evolving understandings of both the specific and common challenges official climate and development finance providers may be grappling with.

1.1. Why is the effectiveness of international climate finance important?

International public climate finance increasingly overlaps with official development assistance (ODA) and other types of official development finance. Although there is agreement in the 2009 Copenhagen Accord that international climate finance should be “new and additional” over existing development efforts, in practice, these two types of flows are increasingly drawing from the same, squeezed pot of money within official providers’ budgets. In the latest round of countries’ reporting to the UN Framework Convention on Climate Change (UNFCCC), ODA accounted for over 80% of bilateral climate finance, with non-concessional official flows accounting for the remainder. Meanwhile, the proportion of climate-related allocable ODA among DAC members increased to 33% of the total in 2020 – up from 22% in 2013, and representing some $44 billion in concessional financing in the latest annual data. A similar scale-up is also evident for multilateral public finance. Among ODA-eligible multilateral agencies, the share of climate-related outflows rose from 16%
in 2013 to 23% in 2020, or $37 billion in absolute terms.\(^5\) While still significant in volume, climate finance from non-official, or “mobilised” private sources has not grown at the same rates as public finance.\(^6\)

With the current strains on public budgets – which account for the “lion’s share” of international climate finance attributed to or mobilised by “developed” countries – using the limited available resources as effectively as possible is crucial.\(^7\) Even if, despite budgetary constraints, the internationally agreed target of providing $100 billion a year in international climate finance until 2025 is met, this still comes vastly short of most assessments of developing countries’ needs.\(^8\) While it is important that the quantity of climate finance can match recipient countries’ costed needs, any volume of funding will ultimately be meaningless without also considering climate finance quality. For the current UNFCCC negotiations around the post-2025 New Collective Quantified Goal (NCQG) to be meaningful, recipient countries will need to be able to trust that climate finance will be spent in an effective way for contributing towards their green growth and climate resilience.\(^9\) The effective use of funding will likewise be a concern in operationalising new arrangements for loss and damage which have followed the historic commitments made at COP27.\(^10\)

1.2. Which principles guide climate and development effectiveness?

While the development effectiveness agenda was borne out of decades of experience and a large body of evidence on “what works” in development cooperation, climate finance is still a relatively

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\(^6\) According to our calculations, based on OECD datasets, the share of climate-relevant ‘mobilised finance’ from DAC members increased from 26% to 30% of ‘mobilised finance’ between 2013 and 2020, although, in absolute terms, the volumes of such ‘mobilised’ climate finance from DAC members have been declining steadily every year since 2017. For export credits, the “climate” relevant portion saw an increase from 5% in 2013 to 14% in 2020, but in the context of small and declining amounts of export credits reported to the OECD OOFs dataset in general over this period, the absolute volume of climate–related export finance is not very significant.


\(^8\) For example, UNEP estimates that the current costs of adaptation in developing countries amount to $70 billion per year, and that existing climate finance covers less than half of this; See also UNEP, ‘Adaptation gap report 2020’, 2021; Tabea Lissner, Adelle Thomas, and Emily Theokritoff, ‘Doubling Adaptation Finance: A Floor Not the Ceiling of Needs’, *Climate Analytics Briefing,* June 2022.


new type of development flow for which this body of experience is more recent. The development effectiveness agenda, the latest iteration of which was agreed in 2011 during the Fourth High-Level Forum on Aid Effectiveness in Busan, was nevertheless designed to be broadly universal, and its four principles – recipient ownership, inclusive development partnerships, a focus on results, and transparency and mutual accountability – should, in theory, be relevant for every type of development finance or modality. Yet in the decade since Busan, some providers have felt that the effectiveness agenda lacks applicability for specific contexts. In recent years, additional sets of “sub-principles” have been developed which clarify what makes cooperation effective, for instance, when cooperating with fragile states, or with the use of blended finance. Although climate finance lacks such a formalised set of principles, language in UNFCCC agreements offers some legally-binding guiding concepts on how the “means of implementation” for supporting climate action in developing countries should be structured. Some of these concepts, like “predictability” of support or “ownership” over capacity-building efforts align with the development effectiveness agenda, while others, like “additionality” or “timeliness” of support extend beyond.

Development practitioners are increasingly finding it difficult to apply the effectiveness principles to new and emerging types of cooperation, such as climate finance, despite broad agreement with the theory and “concept” behind them, which could be one reason behind the stalled implementation of the effectiveness agenda – a trend widely observed by others. In a recent survey of development agency officials, a majority of respondents supported reforming the Busan principles to “add new principles to cover different types of development finance and cooperation”, while 46% supported adding new principles to guide the “changing purposes of ODA”, the most prominent of which is tackling global challenges like climate change. This suggests that there is now demand to review progress on implementation of development effectiveness commitments in the climate space and to potentially revisit the existing effectiveness framework from this perspective. Indeed, even in 2011, the Busan Partnership Agreement recognised climate finance as a new and complementary flow to existing cooperation efforts, which “brings with it new opportunities and challenges”, and so committed that development practitioners “continue to share lessons learned in development

14 As given by the Paris Agreement Article 9 and UNFCCC Article 4. Although outside the scope of this paper, for more on issues with achieving the principle of “additionality” in climate and development finance, see also: Mitchell, Ritchie, and Tahmasebi, ‘Is Climate Finance Towards $100 Billion “New and Additional”? ’
effectiveness with those entities engaged in climate activities and ensure that broader development co-operation is also informed by innovations in climate finance”.

Despite this ambition, more than a decade after Busan, it is unclear to what extent climate finance providers – or indeed, development finance providers who work on climate – have engaged with existing effectiveness norms and best practices. More recently, as part of the work under COP26-initiated Taskforce on Access to Climate Finance, led by the UK and Fiji, a group of providers agreed on a set of five principles, many of which reflect the wider lessons learned in development effectiveness. While the application of these principles and associated recommendations will likely be limited for a number of pilot projects with “pioneer countries” for now, the initiation of this work can hopefully also provide future opportunities to institutionalise learnings on what works across the wider climate finance architecture.

1.3. Structure of the rest of this paper

Section 2 briefly describes the data sources used and related limitations of our paper. Section 3 maps key quantitative and qualitative trends in climate finance allocation and delivery, and where possible, compares and contrasts these trends with other official flows to developing countries, or ODA. Section 4 discusses how these trends impact effectiveness in the context of the development effectiveness principles – ownership, inclusive partnerships, results, and transparency – and also situates these trends within debates in the wider literature around the perceived or real trade-offs within climate and development finance effectiveness. Section 5 provides concluding remarks and suggests directions for future research.

2. Approach, data sources, and limitations

Our paper analyses the available quantitative data on the provision of climate finance to consider several areas and indicators relevant to development effectiveness. These areas draw on analyses of development effectiveness identified in the wider literature – including on issues like predictability, fragmentation, evaluation, and the use of modalities which support ownership – as well as looking at issues raised by recipients of climate finance, for example on affordability, concessional and accessibility of climate finance. The data available does not give a complete picture of effectiveness; but it provides several important indicators.

19 Several of these issues were raised by at the Climate and Development Finance Ministerial meeting held under the UK COP Presidency in early 2021, see also UK Government, ‘Climate and Development Ministerial Stocktake’, 29 October 2021. Accessed at https://ukcop26.org/climate-development-ministerial-chairs-summary.
It is important to note that official providers have not fully harmonised the way they report their climate finance. In the last decade, MDBs have made significant efforts to harmonise reporting— including through publishing joint annual reports on their climate finance since 2012, or by reporting on the financial value of “climate components” of projects to the OECD since 2013—but underlying differences in their individual methodologies and a lack of clarity on eligible activities somewhat hampers comparability of figures even within this group.20 Meanwhile, bilateral providers and multilateral funds do not directly report on their climate finance to the OECD, but instead apply the “significant” or “principal” Rio Markers, where relevant, for climate adaptation and mitigation based on their own assessments of eligible activities across their portfolio of development finance projects. When reporting to the UNFCCC on climate finance, these providers usually use their reporting to the OECD as a basis and apply a fixed coefficient on the total value of these activities based on whether they are marked as having a “principal” or “significant” climate objective. While for “principal”-marked activities most providers report 100% of the project value as climate finance to the UNFCCC, individual providers’ coefficients vary widely for activities marked as having a “significant” climate objective and range between 30 and 100% of total project value.21

Given this lack of harmonisation, our paper uses three main data sources for assessing official development and climate finance volumes and delivery patterns: the OECD datasets on climate-related development finance (CRDF) from both the “provider” and “recipient” perspectives,22 the OECD’s Creditor Reporting System and supplementary DAC reporting tables,23 and the OECD’s 2022 aggregate reports on progress towards the $100 billion target on climate finance.24 The use of multiple data sources allows for a more comprehensive assessment and comparison between climate and development finance over time, as each source provides slightly different information (a summary of which can be found in the Annex).

Nevertheless, our analysis is still limited by some underlying characteristics of the available datasets:

- **Rio markers are intended to be a mainstreaming tool and using them to assess the scale of climate finance poses some limitations.** Simply by aggregating the amounts of projects tagged with either the “principal” and “significant” Rio markers risks presenting the value

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24 For more on how the last two datasets differ from one another, refer to the OECD’s methodological note: OECD, ‘Methodological Note on the OECD–DAC Climate-Related Development Finance Databases’, Paris: OECD, June 2018.
of projects with partial – or even marginal – climate focus, rather than the exact portion of finance specifically targeting climate objectives. This means that where our analysis relies on Rio markers – in particular for bilateral providers and non-MDB multilateral providers – this might lead to an overestimate of the amounts of climate finance provided.  

- **As MDBs only report to the OECD on commitments, but not disbursements, they are excluded in several parts of the analysis.** We acknowledge this is a potentially significant omission, seeing as according to OECD estimates, MDBs now account for over a quarter of all climate finance towards the annual $100 billion target, and are projected to continue being a major source of climate capital until 2025. Nevertheless, as MDBs only report on their commitments under their “climate components” methodology, MDBs are completely excluded from the analysis of trend 1 (on disbursement ratios), and are only included in part of the analysis for trend 3 (regarding fragmentation of project sizes), where two versions of the data – one based on actual disbursements, but without MDBs, and one based on planned commitments, but with MDBs – are used to bolster the findings. Where possible and simple to do, data from the CRS and the OECD Climate-Related Development Finance datasets were cross-referenced and combined so as to allow a fuller assessment of the climate finance landscape (such as in trend 3, on the proliferation of providers).

- **Climate finance is a relatively new type of development finance,** and reporting on it is also relatively recent, which prevents us from analysing change over longer time periods. In many cases, our analysis begins in 2015. Also, due to reporting lags from both the OECD and the UNFCCC Biennial Reporting, our analysis usually finishes with data for 2020.

- **We recognise that climate adaptation and mitigation are not “sectors”** – when we compare climate finance with development finance in education, health, transportation, or other sectors it is with the understanding that these are based on sums from projects which are not necessarily mutually exclusive of “climate” projects.

Further, we note that while the Copenhagen Accord – from which current commitments to provide $100 billion a year in international climate finance originate – is necessarily vague in terms of provider coverage, it is generally understood that the target only applies to contributions from “developed” country providers as denoted by the list of “Annex II” countries formed in 1992. While there is a large overlap between Annex II countries and countries which are part of the OECD DAC.

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27 With the limited exception of the Caribbean Development Bank and the Council of Europe Development Bank, who do report on Rio Markers.

28 See also Sarah Colenbrander et al, ‘A fair share of climate finance: An initial effort to apportion responsibility for the $100 billion climate finance goal’, ODI: London, UK (2021), 17.
or report to the body, there are also some notable differences in the two groupings. As we wanted to capture the broadest possible picture of global climate-related development finance, we chose to include all official providers which report data to the OECD on their climate and development finance within the scope of the current analysis, with the understanding that there are also important official providers beyond this group who we were not able to capture due to either a lack of transparency from some countries, or issues with comparability of the available data.

3. Six challenging trends for climate finance effectiveness

Our analysis of the available indicators and issues in climate finance is set out below, and we summarise the findings under six challenges.

3.1. Low disbursement ratios leave doubt on how much finance reaches the ground

Our analysis finds that ODA for climate consistently lags behind the average as regards the share of approved funding which is actually delivered, hinting at persisting challenges with delivering or executing climate projects on the ground. Disbursement ratios for climate finance – defined as the annual share of commitments which materialise as disbursements – have trailed behind ODA in each year since 2015 (Figure 1), indicating that approved climate projects are either being implemented with significant delays, or are not being implemented at all. In 2020 – with the impacts of COVID-19 understandably delaying the implementation of many development projects – disbursement ratios for ODA in general slumped to 91%, and to just 59% for adaptation-related ODA and 75% for mitigation-related ODA. While the impetus to provide countercyclical COVID-19-related support concentrated in the social sectors may have disproportionately delayed, for example, climate-related infrastructure or renewable energy projects, the gap between disbursement ratios for climate-relevant and other types of ODA much pre-dates the pandemic. What is more, while mitigation finance has seen some improvements in disbursement levels since 2015, adaptation finance continues to be disbursed at particularly low levels. While speed of disbursement is not a factor which necessarily guarantees project success, the timely and predictable disbursement of funding for already-agreed projects contributes to recipients’ abilities to plan ahead (see also discussion in section 4.1).

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29 For example, while Czechia, Hungary, Lithuania, Poland, Slovakia, Slovenia and South Korea are all members of the DAC, they are not Annex II countries. Additionally, 19 countries which are neither part of the DAC nor an Annex II country also report on their development finance statistics to the OECD DAC, although their use of Rio markers for tagging climate-related activities is not compulsory and somewhat inconsistent. These countries include: Azerbaijan, Bulgaria, Croatia, Cyprus, Estonia, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Malta, Qatar, Romania, the Russian Federation, Saudi Arabia, Chinese Taipei, Thailand, Timor Leste, Turkey, and the United Arab Emirates.

Figure 1. Disbursement ratios in 2015–2020, for all ODA and ODA with climate objectives

Source: OECD CRS, based on Rio Markers for commitments and disbursements, ODA for all official donors, including DACs, non-DACs and multilateral agencies excluding MDBs.

Note: Disbursement ratios in the figure and throughout our analysis are based on “smoothed” annual data for commitments, in accordance with the DAC and CRS methodology. When reporting on annual commitments, the CRS uses “moving averages in statistical presentations to smooth the resulting fluctuations”, meaning that commitment values should represent an approximation of the planned annual spend, rather than the gross total of a multi-year project. This means that regardless of the faster-than-average growth rate in climate-related ODA opposite other types of ODA over recent years, annual disbursement ratios should still be reflective of trends in delayed or cancelled projects. See also OECD, ‘Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire’, DCD/DAC/STAT(2020)44/FINAL, 20 April 2021, pp. 118–119.

We additionally probed whether these may be a characteristic of the particular sectors in which adaptation and mitigation finance are concentrated. Initial analysis of ODA for 2018–2020 suggests this is not the case. For the top three sectors to which mitigation and adaptation ODA were committed across this time period – listed in order for each mitigation and adaptation in Figure 2 – disbursement ratios were lower for projects targeting adaptation or mitigation as compared with projects in the same sectors which did not target these climate objectives.

Although further work is needed to fully interrogate the reasons behind lower disbursement ratios in climate finance, factors related to the particular modalities, instruments, and funding arrangements used to deliver climate finance can be suggested as promising areas of further inquiry. Firstly, it is generally understood that budget support tends to be best suited for “emergency” or fast disbursements, yet our analysis in later parts of this paper shows that climate finance tends to primarily be committed towards project finance modalities (see section 3.5). What is more, prior

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research has suggested that in the African context, the “rigid rules of climate funds” combined with the low programming capacities within many recipient governments are further barriers impeding the full implementation of approved climate projects (see also section 3.3 on the proliferation of climate funds, and section 4.2 on how a lack of harmonisation impedes recipient access).\textsuperscript{32} Also in the context of adaptation finance in Africa, some studies have pointed out that grant-based finance faces fewer delays as compared with loans, which could be significant in the context of our findings within this paper that climate finance is committed with a higher proportion of loans than average official flows to developing countries (see section 3.2).\textsuperscript{33}

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3.2. High proportion of climate lending raises concerns over debt sustainability

Even as climate vulnerable countries have repeatedly called for more grant-based climate finance, providers continue to offer climate funding primarily in the form of loans. According to the latest OECD report on progress towards the $100 billion target, debt instruments, including both concessional and non-concessional loans, have accounted for the majority of bilateral and multilateral public climate finance to developing countries, and have constituted at least two-thirds of the total in each year between 2016 and 2020 (Figure 3). Meanwhile, grant and equity instruments accounted for under a third of the total, with their share hovering between 23% and 28% of public climate finance in 2016–2020. Other instruments accounted for the remaining 4–7% of annual climate finance figures.

Climate finance appears to use a higher proportion of debt instruments than average across other official financial flows to developing countries. When benchmarking climate finance statistics from the OECD against prior analysis of official flows as conducted by the World Bank, the data indicates that the share of loans used in climate finance has surpassed the average share for official finance in each year between 2016 and 2019 (Figure 3). For instance, in 2019 – the latest year for which comparable data is available – 52% of all official flows to developing countries took the form of loans – 16 percentage points lower than the proportion of loans used in climate finance (68%). The level of concessionality in loans will be important to debt sustainability. A more detailed examination of climate finance concessionality would therefore be valuable, but in its absence, the higher level of loans relative to grants is a potential concern (see also Box 1).

Figure 3. Instruments used for public climate finance and all official finance to developing countries, 2016–2020

Source: Data on climate finance was adapted from the OECD Aggregate Report,35 and data on official finance was adapted from the World Bank.36

Note: The underlying sources for both climate finance and official finance both understand “developing countries” to mean ODA-eligible countries under DAC classifications. Also, for both types of flows, both concessional and non-concessional finance is included. Percentages may not sum to 100% due to rounding.

BOX 1. Climate finance and debt sustainability in low-income countries

Through the joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (LICs), the two institutions regularly produce Debt Sustainability Analyses (DSAs), whereby countries are classified according to their risk of external debt distress. The number of countries assessed to be at high risk or already in external debt distress more than doubled between 2013 and 2020, from 15 in 2013 to 33 by 2020. During this period, the share of loans as a percentage of climate finance commitments to LICs facing high debt vulnerabilities increased by 28 percentage points, from 2% to 30% of public climate finance (Figure 4). In 2020, this lending represented a total of nearly $2.1 billion in additional annual debt across the 33 most debt-vulnerable LICs. Of this, nearly half ($0.9 billion) was for climate mitigation projects, despite the fact that LICs contribute marginally to global renewable energy investment.

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emissions, and their share of global emissions is unlikely to be significant in the next decade.\textsuperscript{37,38} For countries not facing similar levels of debt vulnerabilities, the proportion of debt instruments as a share of public climate finance also increased in this period, though by a smaller proportion (17 percentage points, from 51% to 67%).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Instruments of climate-related public development finance to highly indebted LICs}
\end{figure}

Source: Data on financial shares and volumes taken from the OECD CRDF-RP dataset, data on countries at high risk or in external debt distress taken from historical Debt Sustainability Assessments from the IMF.
Notes: The figure accounts for changing country grouping over the years. Percentages may not sum to 100% due to rounding.

Our findings suggest that climate finance providers are largely not aligning their financing terms or tailoring the availability of instruments offered based on wider debt sustainability considerations, or that they are only doing so with a lag.\textsuperscript{39} While in the MDB system, any country which is assessed as being at high risk of debt distress will only be eligible for concessional lending, even this can contribute to the overall debt burden of the borrowing country, especially if the country’s economic growth rates are low.

In the current context of a dual debt and climate crisis, while additional financing may expand the much-needed fiscal and monetary spaces in developing countries and contribute to their low-carbon, resilient and sustainable development, nonetheless, these efforts may be insufficient if providers do not also align their investments with wider considerations of growing indebtedness.

\textsuperscript{38} Even if emissions levels are low, there may be opportunities to remove carbon through supporting forestry which would qualify as mitigation, though this lending is very small relative to the value of that global public service. See: Ian Mitchell and Samuel Pleeck, ‘How Much Should the World Pay for the Congo Forest’s Carbon Removal?’, CGD Note, London: Center for Global Development, 2022.
\textsuperscript{39} Indeed, this is not only an issue for climate finance, and this finding is in line with what the World Bank has suggested is the case across providers of all official finance flows to developing countries, see also: World Bank, \textit{A Changing Landscape}. 
While current investments may intend to be revenue-generating projects, or even pave the way to scale up private investment in the future, these potential benefits must be weighed against the economic risks of exacerbating currently dangerously high external debt burdens in many countries, including a growing number of LICs (see Box 1). The already high cost of capital for lower- and middle-income countries – associated with higher risk perceptions – means that even public lending is given at much higher rates than for high-income countries, with the costs of borrowing frequently exceeding 8% and sometimes reaching 20%. The cost of borrowing is further increased for the most climate vulnerable developing countries in this group, where some studies estimate that 10% of capital costs are due to the risks associated with climate change alone.

3.3. Proliferation in providers and shrinking project sizes

While the growing complexity of the development finance architecture – characterised by a proliferation of new development providers and the concomitant fragmentation of development interventions into projects of smaller sizes – has been widely documented, in the following section, we analyse these trends specifically from the perspective of climate finance. By benchmarking these trends in climate finance against different development sectors targeted by official financial flows, we analyse how – and whether – proliferation and fragmentation have affected climate finance on a larger scale or in different ways than for other types of flows.

Changes in providers of climate and development finance

Given the rapid scale-up in climate finance volumes as well as the highly-specialised expertise some climate interventions require, not only have a range of new institutions, facilities, and vertical funds been created with a specific mandate to govern or deliver climate finance, but also, existing development cooperation providers have been keen to enter the climate finance space. Since 2006, ten additional DAC members have started providing climate finance, as compared with six additional DAC members providing official finance in the health and education sectors each, and seven fewer DAC providers active in the transport and storage sector (Figure 5, below). Meanwhile,

since 2013 – the first year in which most multilateral development banks started reporting on their climate finance commitments to the OECD – the number of multilateral climate finance providers increased from 13 to 23 – this also represents a larger increase than in both the education and health sectors, in which the number of multilateral providers increased from 7 in 2013 to 8 in 2020 in each case. Though, as these figures only provide sample snapshots for each given year, and therefore there is a risk that they mask larger variations or “lumpiness” of data across time, these results do suggest that the number of climate finance providers has increased disproportionately over the last decades compared with other areas of development finance.

Indeed, currently, the number of official climate finance providers active globally outstrips providers in the health, education, or transport sectors – in the latest data for 2020, 59 climate finance providers reported their commitments to the OECD, as compared with 47 providers in the health and education sectors each and 26 providers in the transport and storage sector (Figure 5). While the larger number of climate finance providers as compared with health and education providers is largely the result of the additional multilateral agencies (including MDBs) involved in climate finance, this trend is not especially new – even in 2013, we found that the number of multilateral climate finance providers exceeded the number of multilateral agencies in other benchmarked sectors. This is not a surprise – many of the specialised multilateral funds which are now used to deliver climate finance were established over a decade ago, including the specialised funds explicitly under the UNFCCC.45

Against the backdrop of an evolving climate finance architecture, which has increasingly been “shifting towards fund mechanisms with competitive application and allocation principles”, it is important to consider proliferation not only in terms of rising numbers of providers, but also the multiplicity of dedicated funding mechanisms which they administer.46 While many bilateral providers have established dedicated funding mechanisms for climate, often in collaboration with their climate or environment ministries, this trend is perhaps most notable within the multilateral climate finance.47 Partly as an initiative set up to help recipient countries “determine which of the various climate funds they may be most eligible for and/or best-suited to access” in the context of their proliferation, the OECD’s Climate Funds Inventory now registers details for 88 such public climate funding mechanisms, of which 70 are multilateral and 18 are bilateral. Again, analysis of the inventory indicates that proliferation in the climate finance space is not necessarily a new

45 These include the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund (AF). See also Niranjali Manel Amerasinghe et al., ‘Future of the Funds: Exploring the Architecture of Multilateral Climate Finance’ (World Resources Institute, 3 October 2017), www.wri.org/research/future-funds-exploring-architecture-multilateral-climate-finance.
46 Matthias Garschagen and Deepal Doshi, ‘Does Funds-Based Adaptation Finance Reach the Most Vulnerable Countries?’, Global Environmental Change 73 (1 March 2022): 102450.
47 A recent review showed that at least seven DACs have established a dedicated funding mechanism for allocating climate-related development finance, usually with specific and different allocation criteria or priority sectors. See also: Rachael Calleja, ‘How Do Development Agencies Support Climate Action?’, CGD Policy Paper 207, (London: Center for Global Development, 2021).
phenomenon – a majority of the climate funds for which data is available were established between 2000 and 2009 (55%), while a further 35% were initiated between 2010 and 2015.48 Our more disaggregated analysis of proliferation at the country levels (see below), which is possible only for later years due to the relatively recent improvements in project-level reporting for climate finance, should be understood in this context.

At the country level, the recent proliferation of climate finance providers has been most acute among the poorest recipients. We analyse the number of providers in each recipient country where that country receives finance in the relevant area (i.e., climate, education, or health). While in 2015, the average low-income or least-developed country received climate finance commitments from under 12 providers, by 2020 this increased to nearly 16 providers (an increase of 34%, Table 1 below). By contrast, the average upper-middle income country receiving climate finance in 2020 was dealing with fewer than 10 providers. In 2020, there were more climate finance providers active at the average country level than there were health finance providers, but still fewer than there were education finance providers – with these findings holding true for recipients at all income level.

48 Data from the OECD, ‘Climate Fund Inventory’, 2022, qdd.oecd.org/subject.aspx?subject=climatefundinventory This was only calculated for the funding mechanisms where data on years of operation is given by the OECD, or a subset of 65 of the 88 public climate funds.
Although proliferation is progressing more quickly for climate finance than for other types of development finance, it is not a phenomenon unique to climate-related flows. Proliferation in the number of health and education providers active at the country level likewise progressed between 2015 and 2020, although at a slower rate.\(^49\)

### Changes in the size of climate and development finance projects

At the same time as a larger number of providers have become active in the climate space, increasing the number of climate-related transactions, the average size of each activity has decreased substantially. Table 2, below, compares the number of disbursements and their average size in climate finance and different sectors in 2015 and 2020. In this time period, climate projects – across both adaptation and mitigation – appear to have become fragmented at a faster pace than projects in different sectors. While the average size of disbursements has declined across all sectors we looked at (except health), the scale of the decline was largest for climate projects, with the average size of mitigation and adaptation disbursements declining by over 30% each. Still, by 2020, though climate disbursements were, on average, over three times smaller than for the two non-social sectors we compare against (banking and transportation), they were still larger than those for education.

One major limitations of measuring fragmentation of climate projects by looking only at disbursements is that this is only possible for activities which are tagged with Rio markers in the CRS. But as MDBs do not report on these, this excludes the possibility of including them in the analysis in Table 2 – even as they are a major source of international climate finance, accounting for 21% of the total according to the latest OECD report for 2020.\(^50\) Still, when looking at climate-related commitments for the wider range of providers, our findings on fragmentation of provider activities

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\(^49\) The only exception was the larger percentage increase in the number of providers active in the health sector within the average UMIC – partly a result of very low baselines in 2015, as well as the likely effect of a boost in COVID-19-related health-sector assistance to UMICs in 2020.

\(^50\) OECD, Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–2020.
are still evident, and appear to be progressing at similar levels to data based on disbursements only (i.e., a decrease of roughly 30% in the size of an average transaction). Analysis of climate-related commitments further suggests fragmentation is progressing at a similar rate in recipient countries regardless of their income levels (a decline in size of 29–30% for each income group between 2015 and 2020, Figure 6). Unsurprisingly, the baselines for climate project size were also the smallest among the poorest recipients. The average climate commitment for an LDC or LIC in 2020 was worth $2.8 million, as compared with $3.9 million in 2015.

Table 2. Average size of disbursements for climate (without MDBs) and selected sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2020</th>
<th>% change in average size, 2015–2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of deliveries</td>
<td>Average size of disbursement ($US, mn)</td>
<td>Number of deliveries</td>
</tr>
<tr>
<td>Climate adaptation</td>
<td>11,288</td>
<td>1.03</td>
<td>26,869</td>
</tr>
<tr>
<td>Climate mitigation</td>
<td>9,588</td>
<td>1.46</td>
<td>19,984</td>
</tr>
<tr>
<td>Education</td>
<td>22,911</td>
<td>0.58</td>
<td>30,950</td>
</tr>
<tr>
<td>Health</td>
<td>16,921</td>
<td>0.81</td>
<td>28,708</td>
</tr>
<tr>
<td>Banking and financial services</td>
<td>3,689</td>
<td>4.17</td>
<td>5,472</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>6,160</td>
<td>3.47</td>
<td>5,892</td>
</tr>
</tbody>
</table>

Source: CRS, 2015 figures adjusted for inflation and represented in 2020 constant prices, all official flows for all official donors, including DACs, non-DACs, and multilateral agencies – but, as this analysis is based on the CRS, excluding MDBs’ climate finance.

Figure 6. Average size of climate finance commitments (including MDBs), by recipient income group, 2015–2020

Source: OECD CRDF–RP dataset
Note: Number in this figure are not directly comparable with data presented in table 2. The figure above, being based on climate commitments rather than disbursements, enables analysis of a fuller dataset of providers, including commitments from MDBs. The above Table 2, by contrast, is based on actual deliveries or disbursements, but excludes MDBs.
### 3.4. An increasing share of climate mitigation finance is unallocated to specific recipients

An analysis of allocation patterns for climate finance across adaptation and mitigation suggests two trends: firstly, climate finance  – and especially mitigation finance  – is increasingly not being allocated towards specific recipients, and, secondly, when mitigation finance is being allocated to specific recipients, these tend to be middle-income countries rather than the poorest economies. Previous analysis has also noted these allocation trends across wider development finance. A recent World Bank report claimed that “the volume of funding which donors have not identified as allocated to specific recipient countries almost quadrupled over the past two decades” and suggests that an increasing focus on channelling finance for regional or global programmes intended at tackling transboundary challenges is one major reason for this trend. Our analysis provides some further evidence that this trend in wider development finance has at least partly been driven by increases in the extent to which official financial flows target the provision of global public goods like climate change mitigation.\(^{51}\) In 2020, whereas under a fifth (18\%) of all official financial flows were unallocable by country, this was over a quarter of mitigation finance (Figure 7). Indeed, the share of mitigation finance which is unallocable by country has consistently risen since 2015, from 19\% to 29\% in 2020. In the same time period, a consistently low share of mitigation finance was targeted at the poorest recipients (15–16\%). In contrast to mitigation finance, adaptation finance was not channelled to programmes “beyond the country level” at significantly higher rates than across all official flows. Adaptation finance was also better targeted towards the poorest recipients.

#### Figure 7. Allocation of all official finance and climate finance in 2015 and 2020, by recipient type

<table>
<thead>
<tr>
<th></th>
<th>LDCs and LICs</th>
<th>LMICs</th>
<th>UMICs</th>
<th>Unallocated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Official Flows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>23%</td>
<td>34%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>2020</td>
<td>23%</td>
<td>37%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Climate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>20%</td>
<td>40%</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>2020</td>
<td>22%</td>
<td>37%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Mitigation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>37%</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>2020</td>
<td>16%</td>
<td>34%</td>
<td>21%</td>
<td>29%</td>
</tr>
<tr>
<td><strong>Adaptation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>27%</td>
<td>39%</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>2020</td>
<td>27%</td>
<td>36%</td>
<td>18%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: “all official flows” taken from ODA and OOFs in the OECD CRS, climate finance taken from the OECD CRDF-RP dataset. All flows are based on commitment values and include all official providers.

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3.5. Climate finance providers do not seem to prioritise implementing through country institutions

Project-based modalities – which are currently the most common mode of delivering concessional climate finance – often bypass existing country institutions or are poorly integrated with recipient country systems and budgetary processes. In 2020, “project-type interventions” accounted for 80% of concessional finance for adaptation and 81% for mitigation, significantly more than across all ODA commitments, where they accounted for 62% of the total (Figure 8). Existing literature has pointed out that project-based climate interventions reduce opportunities for integration with national budget and planning processes as well as wider sectoral plans across government ministries or other sectoral interventions by other development providers.52

Figure 8. Modalities for ODA vs. climate ODA commitments in 2020

Source: CRS for “general ODA”, OECD CRDF-RP dataset for mitigation and adaptation finance. The scope of providers includes all official donors, including MDBs, multilateral agencies and both non-DAC and DAC members.

Note: “Other modalities” here include scholarships, debt relief, administrative costs, and other in-donor expenditures which are not sector-allocable.

Within project finance there have been attempts to improve recipient access in the form of projects based on “direct access” to funding for accredited national institutions offered by select multilateral climate funds. Yet finance from multilateral funds which offer direct access modalities still constitutes a small minority of overall climate finance – just 5% of public climate finance in 2020

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according to the latest OECD report. What’s more, even when climate finance is being provided via these multilateral funds, in practice, the modality lags behind indirect access projects (see also Box 2). Meanwhile, the percentage of concessional climate finance committed as budget support – that is, as a direct transfer to the government or ministries within recipient countries – has lagged behind other types of ODA. In 2020, only 7% of both adaptation and mitigation finance was given as budget support, as compared with 15% across all ODA.

**BOX 2. Direct access modalities at the GCF**

First developed and launched by the Adaptation Fund, “direct access” – a project modality unique to the climate finance space – enables accredited recipient-owned institutions to access funding without having to go through international intermediaries such as MDBs or UN agencies. Despite their mandate to increase ownership through such innovative modalities, at some climate funds, approvals for “direct access” projects have not yet fully realised their potential. At the GCF – by far the largest fund which enables “direct access” – our analysis shows that international intermediaries have continued to receive the majority of approved projects since 2015 (Figure 9, based on UNFCCC and GCF project data). What is more, even when “direct access” projects – and especially those which are delivered via public partner country institutions – are approved, they tend to be of smaller financial value (Table 3). Previous literature has identified several factors hindering the transformative potential of this approach – for instance, while it is difficult for recipient institutions to get the necessary accreditation to be eligible for direct access, even accredited institutions at the GCF are struggling to get their project proposals approved. Despite the GCF having made progress by accrediting 62 developing country institutions for direct access, as of 2021, 42 of these had not yet received any project funding.

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53 As based on figures from the OECD, *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–2020*, p. 6. (Table 1); For a criticism of this low share of finance going through multilateral funds, see also Julie Bos, Lorena Gonzalez, and Joe Thwaites, ‘Are Countries Providing Enough to the $100 Billion Climate Finance Goal?’, World Resources Institute, 10 July 2021, www.wri.org/insights/developed-countries-contributions-climate-finance-goal.


55 2020 is somewhat of a special year, COVID-19 hit, and budget support was a primary tool to address immediate impacts. The percentage of budget support in prior years was significantly lower, across both ODA and climate finance, though concessional climate finance still trailed other types of ODA. See also: ‘Estimates of Official Development Assistance Funding for COVID-19 Response in 2020’, in *Development Co-Operation Report 2020* by OECD, Development Co-Operation Report, Paris: OECD, (2020).


57 This trend was previously noted, see Molly Caldwell and Gaia Larsen, ‘Improving Access to the Green Climate Fund: How the Fund Can Better Support Developing Country Institutions’, World Resources Institute, 3 October 2021, Accessed at www.wri.org/research/improving-access-green-climate-fund-how-fund-can-better-support-developing-country.

58 Garschagen and Doshi, ‘Does Funds-Based Adaptation Finance Reach the Most Vulnerable Countries?’

3.6. Climate interventions face a large “evaluation gap”

There are significant opportunities to improve the evaluation of climate interventions. Of over 10,000 impact evaluations collected by the International Initiative for Impact Evaluation (3ie), we found just 50 tagged with “climate adaptation” and 23 with “climate mitigation” (Figure 10). This compares poorly with the numbers of evaluations tagged with keywords related to other cross-sectoral priorities or sectors, including 1,654 for “nutrition”, 645 for “gender”, or 161 for “air pollution”. While to some extent, this may partly be a feature of the relative novelty in the delivery of climate finance at scale as compared to other types of development interventions, even when looking only at the most recent evaluations – i.e., only from 2020 onwards – “climate”-related initiatives still feature much less frequently than other types of interventions. Among these more-recently published evaluations, “climate adaptation”, “mitigation”, and “resilience” each recorded fewer than 20 relevant

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61 Ibid.
evaluations, as compared with 97 for “migration”, 164 for “gender”, 332 for “social protection”, 257 for “nutrition” and 626 for “education”.

Crucially for evaluation of climate finance at a global scale, not only does climate finance face an “evaluation gap”, but also a “synthesis gap” – even when a limited number of studies exist which evaluate the activities of individual climate finance providers, there exist even fewer systematic reviews which can synthesize findings across a variety of different financial sources and contexts so as to provide more general insights on the pre-conditions for climate project successes.62

![Figure 10. Number of impact evaluations recorded by key words](image)

Source: Authors’ synthesis of search results from the International Initiative for Impact Evaluation (3ie), collected in October 2022.

Evaluation efforts are hampered by both a lack of common metrics and methodologies on evaluating climate project success, as well as by a lack of transparency from providers on the expected and achieved results of their climate projects. For projects which have climate mitigation as their primary aim, one measure of both anticipated and actual results – greenhouse gas emissions

avoided – could in theory be measured and compared consistently across all mitigation projects. Yet greenhouse gas accounting methods currently differ across climate finance providers, and leave a margin of uncertainty for any efforts trying to compare between providers on a like-for-like basis. What is more, few funders – other than the World Bank’s Clean Technology Fund and the Green Climate Fund – make information on the emissions reductions of their individual mitigation projects systematically and publicly available. For adaptation-focused projects, where results are more likely to be specific to the local context, defining indicators for success across all providers may be inherently more difficult than it is for mitigation. However, from the perspective of assessing collective progress and sharing best practices in adaptation finance, there is still value in comparing approaches to measuring results and developing common frameworks metrics for doing so – in fact, this is already the focus of ongoing technical efforts by the UNFCCC. Under the Glasgow Sharm El-Sheikh work programme on the Global Goal for Adaptation, parties have recently published a technical report mapping the landscape of “indicators, approaches, targets and metrics for reviewing progress” used for adaptation finance. This review reveals a very wide variety of approaches for “tracking adaptation effectiveness” across adaptation finance providers. The technical report raises important questions around how indicators used in adaptation finance could be standardised or defined to support reporting at aggregated levels.

4. How do these trends impact the application of the effectiveness principles to climate?

This section will draw on wider literature to explore how the quantitative and qualitative trends described above impact the effective delivery and implementation of climate finance.

4.1. Ownership

The challenge of ensuring domestic “ownership” of policy agendas financed by concessional resources is a longstanding theme of the development effectiveness literature, and has likewise been acknowledged as a priority within climate finance. Ownership can be broadly conceptualised, as it

65 Macura et al., ‘Effectiveness of climate change adaptation interventions in sub-Saharan Africa and the impact of funding modalities’.
relates to all stages of climate or development programmes, including not only project delivery and disbursement through country systems, but also priority-setting and allocation decisions.

As regards delivery and implementation, our analysis found that modalities which are understood to best enhance ownership – by working with or through country institutions – tend to be underutilised for implementing climate projects. Instead, the two modalities most often indicated as enhancing ownership – budget support and “direct access” – have come short (section 3.5 above).68 Indeed, the 2021 Principles and Recommendations on Access to Climate Finance, developed as part of the work of the UK and Fiji-led Taskforce at COP26, recognised a need for providers to increase programmatic approaches, including through support to government budgets or entire sectors, over “single-project investments” so as to maximise synergies between ongoing activities and country processes.69 While the percentage of concessional climate finance committed as budget support is lower than for other types of development finance (7% for either mitigation or adaptation finance, as compared with 15% for all ODA, Figure 8), “direct access” modalities are only offered by select multilateral climate funds, which currently constitute a small share of international public climate finance volumes – and even for these providers, “direct access” projects are a minority of all approved projects (see also Box 2).70

Providers have insisted that recipients’ low capacities have been the limiting factor for channelling climate finance through recipient-owned institutions. For budget support, providers have pointed out that many recipient countries do not yet have sufficient accounting mechanisms to ensure that climate finance channelled through national budgetary processes is allocated to activities which target climate-related objectives.71 While improvements in climate “tagging” of budget expenditures provides one avenue to increase recipients’ accountability, these reforms are likely to take significant efforts and time to scale-up.72 Vertical climate funds have also recognised capacity constrains as an issue, and some have increased “readiness” funding in response, which has contributed to more country-owned institutions becoming accredited for “direct access”. Still, many of those accredited institutions are still struggling to get their projects approved due to additional project approval procedures, in which providers may ask for highly technical evidence in a narrow area of expected

71 Zou and Ockenden, ‘What Enables Effective International Climate Finance in the Context of Development Co-operation?’
climate impacts or proof of long-term historical baselines. These requirements often place a heavy data burden on recipients and inhibit their ability to directly access funding for projects over which they can exercise greater ownership.

Our findings also suggest that climate finance delivery is less predictable than other types of development finance (section 3.1, on the gap between commitments and disbursements). To exercise meaningful ownership over climate finance, recipient governments need to be able to plan ahead and make sure that available funding can be integrated with wider development planning. Currently, low disbursement ratios for climate finance (excluding MDBs for which data is not available) mean that recipients often face a large degree of uncertainty around the volumes of finance which will actually materialise. While there is scope to make this finding more robust through the inclusion of MDBs’ climate finance once data on their disbursements becomes available, further work is also needed to understand the ways in which lower disbursement ratios in climate finance may be a product of the type of instruments or modalities preferred by climate finance providers.

The importance of recipient capacity for various elements of climate finance effectiveness suggests the possibility of a trade-off between providers’ motivations to maximise certainty of project results, and recipients’ ability to exercise ownership in low-capacity settings. To some extent, low capacity and low ownership are mutually-reinforcing problems – while, in the short term, providers can have more certainty over results by outsourcing project implementation to external experts or intermediaries, in the long-term, delivering projects outside of national institutions is unlikely to “strengthen the capacity of the national systems to act as a vehicle of channelling and delivering international climate finance in-country”, and, ultimately, might make providers’ climate interventions less sustainable. Ownership, therefore, is not only achieved through technocratic solutions, but is also influenced by political considerations around providers’ risk appetites, the kind of evidence or data considered sufficient for project approvals, and the level of detail expected in recipient countries’ climate strategies and plans to form the basis of an integrated approach between providers and recipients. While in the long-term dedicated capacity-building efforts are the solution, these are likely to take time – especially in countries which currently have low capacities but high

73 Analysis of the GCF by the World Resources Institute, for instance, showed that despite 62 developing country institutions having become accredited, a majority of these (42) have still not yet received any funding, see: Caldwell and Larsen, ‘Improving Access to the Green Climate Fund’.
76 This trade-off between different elements on the effectiveness agenda has been noted by others before, see for example Lundsgaarde and Engberg-Pedersen, The Aid Effectiveness Agenda: Past Experiences and Future Prospects.
climate vulnerabilities, the balance between timely delivery of concrete projects which address urgent challenges and capacity-building in the long-term is unclear.

But ownership is impacted not only by the factors surrounding climate finance delivery, but also by the allocation criteria set by providers, or wider political decisions around the types of objectives and recipients prioritised by providers. In using development finance for global public goods – such as climate mitigation – there is somewhat of a trade-off between providers interests to allocate finance wherever it can achieve emissions reductions most efficiently, and recipients interests to maximise local development outcomes. Although, in theory, climate and development outcomes are complementary and reinforce one another, in a situation where development budgets are in practice limited – and climate finance is not likely to be “new and additional” to other development activities – recipients are unlikely to want to allocate bilateral ODA to activities whose benefits fall largely beyond their borders unless there are also significant local development co-benefits.

In this regard, our finding that climate mitigation finance is increasingly not allocated to specific recipients – and when it is, that it does not tend to target the poorest countries – exposes a fundamental tension in ensuring the “country” ownership for development finance targeting “global” public goods (see section 3.4). As regards increasing shares of mitigation finance not targeting specific recipients, on the one hand, as the benefits of mitigation projects can be expected to transcend individual country borders, it perhaps follows that programming is also more appropriate beyond the country level. On the other hand, however, this pattern may undermine opportunities to integrate individual mitigation projects with other, existing sectoral or climate strategies, policies or frameworks, most of which are developed at the national level. In missing this opportunity, providers may risk undermining the potential long-term sustainability of the climate projects they finance. Likewise, the relative de-prioritisation of least-developed and low-income countries as recipients of mitigation finance can be justified by the fact that they are not currently major contributors to climate change. Yet, on the other hand, omitting the poorest countries, which face the greatest development challenges, in the name of more “earmarking” for global public goods risks leaving them behind on vital development programmes. This pattern of allocation has even been

80 Keijzer et al., ‘Seeking Balanced Ownership in Changing Development Cooperation Relationships’.
81 Ramachandran and Baker, ‘Let Them Eat Carbon’.

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called “a new line of aid tying”, with providers “tying” aid to the global purpose or good they are most interested in pursuing, rather than to countries who need it the most. 82

Finally, while our analysis is clear that the climate finance landscape has witnessed significant proliferation of providers and fragmentation of activities – and that these trends have often occurred at a larger scale or faster pace relative to different sectors of development finance – questions remain around their impact on ownership and effectiveness (section 3.3). On the one hand, traditional academic literature suggests that proliferation of funders is likely increase transaction costs and strain recipient countries’ already limited capacities for monitoring, reporting, and coordination. 83 On the other hand, a multitude of funding channels and providers increases the options for recipient countries, and theoretically may provide funding complementarity. 84 Likewise, while fragmentation can increase administrative burdens for recipients, smaller project sizes may be more appropriate for projects in lower-income countries with lower capacities, or, similarly, for community-led projects at the local and sub-national levels, where climate finance can contribute not only to “country” ownership, but also to “local” ownership. One – more positive – interpretation of the fragmentation trend, especially in the climate mitigation space, is that shrinking project sizes are reflective of the rapid declines in investment costs in renewable and green technologies over the past decade, leading to “cheaper” but qualitatively “smaller” projects. Indeed, as solar or wind power projects become increasingly attractive for the private sector and the focus of public providers shifts to “frontier markets”, where smaller projects are more likely to be suitable, we may see a continuation of shrinking project sizes in mitigation finance without adverse impacts for their effectiveness. In the future, more research would be needed to determine both the causes of these trends, as well as the conditions under which proliferation and fragmentation exert either a positive or negative impact on recipient ownership and wider climate finance effectiveness.

4.2. Inclusive partnerships, alignment, and harmonisation

The principle of “inclusive partnerships”, introduced at Busan, recognises that development relies on the participation of a wide variety of actors who should strive to be “complementary” and aligned

82 Quoted from Davies, ‘Public Enemies’. 5. While the issue of allocation to projects which favours “global” benefits over “local” ownership is mainly relevant to climate mitigation, some authors have also suggested that the current focus on “transformational” projects within some climate funds likewise prioritises adaptation projects which are “easily scalable” and “replicable” over those which can best “address local needs”. Kuhl and Shinn (2022), for example, argue that even the direct access modalities available at the GCF, which are intended to support country ownership “may be insufficient to mitigate the tensions between the priorities of climate funds and local needs”. See: Laura Kuhl and Jamie Shinn, ‘Transformational Adaptation and Country Ownership: Competing Priorities in International Adaptation Finance’, Climate Policy 22, no. 9–10 (26 November 2022): 1290–1305.


with one another rather than working in silos. In the spirit of such inclusive partnerships between climate and development finance providers, Busan underscored the importance of “promot[ing] coherence, transparency and predictability across our approaches for effective climate finance and broader development co-operation.” Indeed, the fact that climate change and development are mutually reinforcing and interlinked challenges calls for a more integrated approach between climate and development so as to “minimise trade-offs and maximise synergies” between the two funding streams.

In contrast with these aspirations, existing evidence suggests climate and wider development finance providers are not aligning and coordinating their approaches to learn from one another and are instead working in silos. For instance, while there is widespread recognition that the foundations of good development (i.e., good governance, financial systems, secure livelihoods, diversified economies) are also critical to enhancing climate resilience, many climate finance providers have a limited mandate to fund some areas with are relevant to both climate and development. Some climate finance providers may place artificial limits on project approvals due to these silos created by the need to meet multiple mandates on poverty alleviation, development and climate change. Inconsistencies regarding the acceptable trade-offs and frequently narrow definitions of “climate-relevant” eligible projects between various funds ultimately place a large “burden of proof” on recipients seeking funding. Likewise, across development finance providers, there are inconsistencies in the extent to which climate considerations and concepts like climate vulnerability have been mainstreamed across existing portfolios. This lack of integration of climate across development providers’ portfolios may be leading to under-investment in climate action in some key

85 Indeed, the inclusive partnerships principle, has its conceptual roots in the “alignment” and “harmonisation” principles which were included in earlier iterations of the effectiveness agenda at Paris and Accra. See also Brown, “The Rise and Fall of the Aid Effectiveness Norm”; Calleja and Cichocka, ‘Development Effectiveness in the “New Normal”’.
91 Despite efforts to align with the Paris agreement and to mainstream climate considerations across portfolios, there remains a lack of integration of climate risk considerations across providers’ own processes, systems, and activities. The OECD suggests that Paris-aligned interventions should go beyond “doing no harm,” noting that making a “positive contribution to the system-wide transformation” to low-emissions, climate-resilient pathways is needed (OECD, 2019).
areas, including health and social protection, and is likely to be hindering a shift towards holistic climate-resilient development pathways.\textsuperscript{92}

One area in which we find a lack of alignment between climate finance providers and wider development considerations is in terms of rising concerns around climate finance and debt sustainability (section 3.2). On one hand, loans can usually mobilise larger volumes of total finance for climate than grants, especially in the context of strained development budgets within some provider countries.\textsuperscript{93} On the other hand, as the cost of borrowing is higher for lower and middle income countries than for developed economies – and is currently growing – there are concerns that spikes in climate-related borrowing, such as after natural disasters, can push recipients into "climate debt traps".\textsuperscript{94} Despite a growing recognition that indebtedness and climate vulnerability reinforce one another, we find that climate finance has a higher share of loans than average for official flows, and that the share of climate finance which is loans has sharply increased especially among the most debt-vulnerable low-income countries (see Box 1). This trend suggests that climate finance providers may not be responsive to debt risks, and some are not aligning the share of grants offered based on global assessments of debt sustainability such as the World Bank and IMF’s DSAs.\textsuperscript{95} While the Glasgow Climate Pact and Delivery Plan which came out of COP26 emphasized the need for more concessional funding, no firm commitments from providers have followed.\textsuperscript{96}

We also find that climate finance providers – and especially multilateral climate funds – are not harmonising their approaches and funding criteria. While, to some extent, the negative effects of proliferation on recipient ownership (described in section 3.3, and explored further in the current section under ownership, above) could be "managed through better programming and coordination",\textsuperscript{97} wider literature notes that this has not generally been the case for climate finance.\textsuperscript{98} At the global level, providers have generally failed to work in tandem to reduce the multiplicity of implementation channels, harmonise their reporting approaches and simplify their standards and procedures for access.\textsuperscript{99} For lower-income countries, the challenges created – not only by the sheer number of donors present in country, but also by the complexity and lack of harmonisation between their individual funding procedures – can impose high reporting obligations, increase transaction costs, and make it difficult for climate finance to catalyse long-term, structural change. Meanwhile,

\begin{footnotesize}
\begin{itemize}
\item[93] Pauw et al., ‘Post-2025 Climate Finance Target’.
\item[95] World Bank, A Changing Landscape.
\item[97] World Bank, A Changing Landscape, 29.
\item[98] Amerasinghe et al., ‘Future of the Funds’.
\end{itemize}
\end{footnotesize}
the lack of harmonisation of accreditation and project approval procedures among the numerous climate funds with competitive allocation mechanisms contributes to difficulties among many lower and middle-income countries – in gaining access to funding.\textsuperscript{100} As regards climate finance providers’ coordination at the country level, the cross-sectoral nature of many climate projects has prevented the use of existing development coordination mechanisms within recipient countries, which usually emphasize coordination within singular and relatively separate sectors, such as in education or health.\textsuperscript{101} Yet the lack of whole-of-government coordination and lack of integration of climate finance providers with existing development efforts risks creating potential barriers for achieving or reinforcing other national sustainable development objectives through the use of climate finance.\textsuperscript{102}

### 4.3. A focus on results

If providers have clear evidence that climate finance is leading to results, they will be more confident in allocating funding, reducing burdens and improving access for recipients. Yet our analysis has highlighted that there is a significant gap in the number of evaluations done for climate interventions as opposed to other development priorities (section 3.6). While this is partly a result of the relative novelty of climate finance as a type of development finance, the “evaluation gap” for climate persists even when looking only at the most recently published impact evaluations. With such a paucity of high-quality evaluation research, there is not only a case for substantially stepping up monitoring and evaluation efforts, but for doing so in a coordinated and consistent way to enable learning across providers and different contexts, and feed into the global stocktake process.

However, the lack of common and comparable metrics and methodologies across all providers has hampered progress towards a more joint-up approach to understanding what makes climate projects successful. While MDBs are one type of provider for which alignment has been high on the agenda, and there has been notable progress on harmonisation of their climate finance reporting, there still remains room for improvement and the operationalisation of joint initiatives is still in progress. Since 2012, MDBs have produced joint annual reports on climate finance and worked to harmonise their project-level emissions accounting under the International Financial Institutions Technical Working Group (IFI TWG), and since 2015, they have committed to a joint approach on

\textsuperscript{100} Previously, recipients have highlighted the fact that each fund has different procedures and requirements, making coordination difficult, for an example of Kenya, see: Adis Dzebo, Zoha Shawoo, and Elvine Kwamboka, ‘Coordinating Climate Finance in Kenya: Technical Measures or Political Change?’ Stockholm Environment Institute: 15 June 2020. 6. These processes can lead to significant management costs and spending on consultants which does not necessarily add value or build capacity. In another example, evaluation reports of Norway’s International Climate and Forests Initiative (NICFI) commented that the fund’s use of a large number of multilateral channels scattered finances too widely across institutions. With each fund maintaining its own rules and procedures concerning the management and disbursement of climate finance, this ultimately inhibited coordination in partner countries and caused delays in the programme’s implementation, see also: Warren Olding, ‘Norway’s International Climate and Forest Initiative: Lessons Learned and Recommendations’ (Norad, October 2017).

\textsuperscript{101} Erik Lundsgaarde et al., ‘The politics of climate finance coordination,’ \textit{SEI Policy Briefs} (2021).

Paris alignment in five areas. Still, previous iterations of MDBs’ joint reports have suffered from a lack of clarity on how “green” the climate finance from each bank actually is, given a lack of common definitions of eligible activities and different greenhouse gas accounting methods which also complicated the creation of common emissions thresholds for mitigation projects.103 The IFI TWG Interim Guideline, published in 2021, is a “key document” and step forward for joint emissions accounting on MDBs’ climate projects, but it still provides significant flexibility in the standards used and leaves unresolved the potential issues arising from this for the comparability of project-level outcomes.104

One – more theoretical – issue with developing common metrics for climate finance are the different understandings of the mandate and expected objectives for climate and development finance, which complicate considerations of which results should be considered as relevant when assessing climate finance outcomes. Development finance has traditionally been focused on achieving poverty eradication or boosting economic development, but the ultimate aim of mitigation finance is curbing climate change.105 In part due to this issue, and especially in the context where climate finance comes from ODA budgets, previous literature has criticised an overly-narrow focus on emissions benefits as the sole indicator determining mitigation project success.106 This perhaps suggests that in mitigation projects where mitigation is only one of the intended objectives, and other criteria, such as benefits for green growth or “energy access and fuel poverty”,107 are also part of the project selection process, it is also important that these objectives can be made explicit. For this, it would be necessary to develop additional indicators for mitigation finance to enhance understandings of expected and actual results. Such an effort would also help ensure transparency on the expected share of global and local benefits targeted by mitigation finance and clarify some of the issues surrounding ownership described above.

104 Spittle and Brauch, ‘Carbon Accountability by Public and Private Institutions’.
105 For further discussion on how the use of ODA towards broader, global objectives like climate mitigation can lead to “a lack of shared rules, principles and norms”, see Thomas Melonio, Jean-David Naudet, and Remy Rioux, ‘Official Development Assistance at the Age of Consequences’, Editions AFD, Policy Paper, 11 (October 2022): 30.
107 For example, among MDBs and select bilateral development banks, E3G’s Matrix highlights a lack of a consistent approach in defining targets on how access to energy is integrated within mitigation projects. See E3G, ‘Matrix’, indicator on “energy access and fuel poverty”.

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4.4. Transparency and accountability

Transparency in climate finance is important for three reasons: it allows the monitoring on the fulfilment of pledges by providers, enables better coordination in the allocation of funding, and supports decision-making by recipient country governments. Despite these benefits, existing arrangements for the measurement, reporting, and verification of climate finance, including through the UNFCCC and the OECD are fragmented and inconsistent. The Paris Agreement calls for an “enhanced transparency framework” (ETF) to be implemented by 2024 that builds on existing UNFCCC transparency systems. Under the ETF, in their biennial transparency reports not only will providers be expected to report on support provided and mobilised, but also recipients will be required to report on the use, impact and estimated results of the financial support needed and received. This type of disaggregated reporting can enable an easier comparison between what providers claim to be giving, and what recipients are getting – and, also, what they claim they need. Yet – as both developing and developed countries have struggled to meet their reporting requirements even under the current requirements, it is unclear to what extent the ETF will improve on the current situation without other efforts also taking place – notably, supporting recipient countries’ capacities to be able to report and track climate finance, and more clearly defining “climate finance” and eligible activities. Ultimately, the current lack of a transparency in climate finance prevents a more robust assessment of climate finance effectiveness, and poses several limitations for efforts like ours (see also Section 2 of this paper).

Importantly, our findings on low disbursement ratios and high shares of lending in climate finance touch on two further issues surrounding the accountability of climate finance, which are not yet resolved by the changes proposed by the enhanced transparency framework. As total progress towards the $100 billion target is often based on face values rather than on grant equivalent terms, and includes commitments which often fail to materialise rather than just disbursements, aggregate estimates have been widely contested. For example, for 2017–18 Oxfam estimated the value of climate finance based on grant equivalents at only US$19–22.5 billion, or roughly $60 billion below

112 On capacity needs, and definitions, see Dagnet, Yamide, Nathan Cogswell, Neil Bird, Mathilde Bouyé, and Marcelo Rocha. “Building capacity for the Paris Agreement’s enhanced transparency framework: What can we learn from countries’ experiences and UNFCCC processes.” World Resources Institute (2019). On how developed countries’ adherence to the current mandatory reporting requirements to the UNFCCC on have been found to be lacking in completeness, transparency, and timeliness see Romain Weikmans and Aarti Gupta, ‘Assessing State Compliance with Multilateral Climate Transparency Requirements: “Transparency Adherence Indices” and Their Research and Policy Implications’, Climate Policy 21, no. 5 (28 May 2021): 635–51.
113 Grant equivalents represent the value of loans once repayments and interest are deducted from the totals.
the OECD’s estimates for 2018. Likewise, recipient groups have in the past stressed that trusting in the climate finance architecture requires more “grants and honest accounting for rich countries’ promised $100 billion in climate finance”. As regards the post-2025 target, there is increasing recognition that without resolving ambiguities in definitions and accounting methodologies, “simply increasing the target would be ineffective to significantly improve climate finance”.

4.5. Trade-offs between elements of climate and development finance effectiveness?

The discussion in this section so far has highlighted a number of theoretical trade-offs, as identified in the literature on climate finance effectiveness (synthesized in Figure 11, below). Some of these trade-offs are not unique to climate finance – for instance, the trade-off between, on the one hand, providers exercising greater control with the intention of guaranteeing project results, and, on the other hand, channelling funding in a way which promotes recipient ownership, even in lower-capacity or fragile contexts, has been long-noted. Likewise, the issue of ensuring debt sustainability and yet also providing affordable sources of finance at scale, in the context of rising borrowing costs is a wider concern (even though climate vulnerability does also exacerbate debt vulnerability in a compounding way). Similarly, current debates on whether and how restrictively “climate finance” should be defined mirror the debates on the value of moving from a narrower, more strictly defined concept of “aid effectiveness” towards the wider “development effectiveness” agenda since Busan in 2011. As regards financial flows for climate, while to keep current mitigation ambitions alive, the mainstreaming of climate considerations across flows from all sources and sectors is a necessary step (in keeping with Paris Agreement Article 2.1c), in practice, it is more likely that providers can be held accountable if clear definitions of eligible activities and sources are established. However, some trade-offs are also unique in the climate context. So long as climate finance is not “additional” to development finance, but instead drawing on the same, limited pot of money, allocation of funding towards projects targeting middle-income countries, or global, rather than primarily local objectives

116 Pauw et al., ‘Post-2025 Climate Finance Target’.
118 Buhr et al., “Climate change and the cost of capital in developing countries.”
119 For example, Melonio, Naudet, and Rioux suggest that “the Busan high-level forum in 2011 (…) led to a shift from the concept of aid effectiveness to that of development effectiveness: a fuzzy concept that has so far not been much more than a buzzword, and has contributed to dissolving the collective work on aid effectiveness”. See Melonio, Naudet, and Rioux, ‘Official Development Assistance at the Age of Consequences’; 29.
is inherently a choice to divert finances away from the most vulnerable recipients and towards projects which have more diffuse benefits.¹²¹

Figure 11. Trade-offs for elements of climate finance effectiveness as identified by the literature

- Greater provider certainty and control over project results
- Mobilising greater amounts of finance through increased lending
- Prioritising global outcomes, scalability and replicability of climate interventions
- Defining standardised indicators and methodologies for reporting results
- Mainstreaming climate considerations within all financial flows, from all sectors and actors
- Recipient ownership in low-capacity contexts: reducing the “burden of proof” on recipients
- Potentially mobilizing more finance but increasing the risks related to growing indebtedness
- Prioritising local co-benefits of climate and development interventions
- Flexibility and recognition of local context at the risk of creating silos between climate and development interventions
- Enabling greater clarity and accountability for finance targeting climate objectives

Source: Authors’ compilation based on the literature cited across section 4.

5. Conclusion and Policy Recommendations

This paper has found that climate finance differs from other types of development finance in some key trends which impact its effectiveness: low disbursement ratios; insufficient evaluations and systematic reviews; and the high use of project-based modalities at the expense of programmatic approaches. Additionally, some such challenges – such as the tendency to allocate funding to regional and global programmes or middle-income countries over LICs – only apply to mitigation but not adaptation finance, likely as a result of the nature of climate mitigation as a global public good, compared to adaptation, which is generally conceived of as a national, or conceivably regional public good. Each of these areas will need to be tackled by policymakers to ensure that development finance is used towards climate objectives effectively.

Still, in other areas, we found that climate finance is broadly reflective of wider trends in development finance, if perhaps affected by them on a larger scale or at a faster pace. Though climate finance is delivered through more project-based modalities and less budget support than general

¹²¹ See also Gabriela Ileana Iacobuţă et al., ‘Transitioning to low-carbon economies under the 2030 agenda: Minimizing trade-offs and enhancing co-benefits of climate-change action for the SDGs,’ Sustainability, 13 (19) (2021): 10774
ODA, budget support had been consistently declining as a share of wider development finance, at least until the 2020 COVID-19 crisis. Provider proliferation is also a phenomenon widely observed across the development finance architecture, and the fragmentation of finance has been evident in the past especially in the social sectors.\(^{122}\) With that being said, the rate at which proliferation and fragmentation are affecting the climate finance architecture appears to be faster than for other types of development finance in the most recent years, and if trends since 2015 continue unabated in the next decade, climate finance will be significantly more fragmented than other types of development finance. Also, though finance for climate seems to be more debt-based than is the case for other types of official flows to developing countries, debt sustainability is a much wider concern affecting any type of debt-based financing regardless of sector or project purpose. Again, a caveat here is that the costs of borrowing may be higher among the most climate vulnerable countries owing to the specific climate risks they are facing, highlighting how debt, climate, and development vulnerabilities are mutually re-enforcing issues.\(^{123}\)

From a research and analysis perspective, these results suggest that:

- We need more scrutiny of climate finance – to further assess not just the volume of pledges and agreements being signed by providers, but to also look at implementation and delivery, so as to enhance accountability that climate finance is actually reaching the countries which need it. We also need to more comprehensively evaluate the “outputs” of climate finance projects, and look beyond just the “inputs” into effectiveness such as provider transparency or ownership, which much of our current research has focused on – while these are important, they cannot actually tell us much about the results of projects on the ground and across a variety of contexts.

- There is ample scope for further research into how some of the trends discussed in our research affect international public climate finance effectiveness in practice. For example:

  - Future work should further probe the impacts of the fragmentation and proliferation trends noted in our research on recipients. While some previous literature has suggested fragmentation and proliferation negatively impact effectiveness by increasing transaction costs, overburdening recipients, and thereby decreasing ownership, it could also be argued that a greater diversity in funding sources increases recipients’ options, while smaller project sizes might be more appropriate for delivering climate finance in low-income setting or at the local levels.

  - There is scope to propose options on how climate finance can be mobilised at the necessary scale for meeting current and future needs of lower- and middle-income countries without also risking greater indebtedness. Relatedly, future work could further detail the levels of concessionality or typical terms in loans for climate projects in lower- and middle-income countries.

\(^{122}\) World Bank, *A Changing Landscape*.
\(^{123}\) Buhr et al., ‘Climate change and the cost of capital in developing countries’.
Given the global public goods nature of climate mitigation, future research could consider how—especially loan-based mitigation finance—is allocated across countries, given the primarily global, rather than local expected benefits. In the same vein, future work could explore how different climate finance providers operationalise or prioritise local co-benefits relative to “global” benefits in project selection and design.

Finally, future research should further explore and interrogate our finding which suggests lower disbursement ratios in climate finance opposite other types of development finance. Such analysis could take into consideration the unique funding mechanisms, project approval procedures, and modalities prioritised by climate finance providers, or make our current findings more robust through the inclusion of disbursement ratios of climate finance from MDBs.

We also make four recommendations for policymakers concerned with the effectiveness of international climate finance:

1. Bilateral and multilateral development agencies should not only continue to increase the scale of finance provided to meet commitments under the Paris Agreement, but should also consider their performance against the qualitative challenge areas for effectiveness identified within this paper. In this regard, there is scope, especially for the relatively like-minded bilateral provider countries within the OECD DAC, to share experiences and set goals to improve performance. Such goals could focus, for example, on increasing the predictability and timeliness of climate finance disbursements, strengthening the use of modalities which support inclusive recipient ownership and access to climate funding, or exploring methods for greater streamlining of both climate and debt risks, especially within loan-based development flows.

2. Providers of climate finance should be undertaking more evaluations of the impacts of their climate mitigation and adaptation finance, and—particularly given the common nature of the climate goals—should consider establishing a coordination mechanism to enable greater comparability of current and future climate programme evaluations across a wide variety of contexts and sectors. This would enable providers to collate findings and share lessons towards more cost-effective and transformational project design in the future.

3. To complement ongoing efforts, the GPEDC should set up a climate finance effectiveness working group to take forward regular assessments of effectiveness and share learnings and experiences across a wider spectrum of both climate finance providers and climate-vulnerable partner countries. The GPEDC has traditionally been a forum where development effectiveness is considered and common work—including stronger engagement with the newer and more specialised multilateral climate funds—would be valuable. Policymakers involved in the GPEDC should consider in more depth the trade-offs stemming from the different, but overlapping mandates of development cooperation and
climate finance, and discuss why some aspects of climate finance effectiveness are lagging behind general development finance.

4. Policymakers and negotiators working within the UNFCCC processes on the post-2025 climate finance target should not only focus on the headline quantities of the NCQG, but should also take account of the findings of this paper, and consider the implications of the design and structure of the target on incentives for the allocation of climate finance and its effectiveness.

With the Paris Agreement committing all nations to climate action, tackling global challenges like climate change is becoming a primary motivation for many development finance providers. Yet, as highlighted by the challenges identified in this report, without more attention on the quality and effectiveness of climate-related development finance, there is a significant risk that programmes fail to achieve the necessary impacts, and that trust between development providers and partners is further eroded. Hopefully, climate and development finance providers can build on the findings of this research – as well as continuing the work already started under the ten collective actions within the Climate Finance Delivery Plan or the Taskforce on Access to Climate Finance – to fulfil the potential of public funds used.

124 Calleja and Cichocka, ‘Development Effectiveness in the “New Normal”’.  
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## Annex

Table 1. Comparison of the three main data sources used on climate finance

<table>
<thead>
<tr>
<th>Underlying data sources</th>
<th>OECD 2022 Report on Climate Finance Provided and Mobilised by Developed Countries(^{126})</th>
<th>OECD CRS and DAC Tables(^{127})</th>
<th>OECD Climate-Related Development Finance Datasets(^{128})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral public: Biennial reporting to the UNFCCC</td>
<td>Voluntary reporting from DAC members and multilateral agencies</td>
<td>Voluntary reporting from DAC members and multilateral agencies</td>
<td></td>
</tr>
<tr>
<td>Multilateral public attributed to ‘developed’ countries: OECD DAC; institutions’ annual reports (for calculating attribution shares for ‘developed’ countries)</td>
<td></td>
<td></td>
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<tr>
<td>Export credits: OECD Export Credit Group</td>
<td></td>
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<tr>
<td>Mobilised private: OECD DAC</td>
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<td></td>
</tr>
<tr>
<td>For each type of finance, complementary data submissions are also used</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Provider coverage</th>
<th>Climate finance attributable to ‘developed’ (Annex II) countries only</th>
<th>Development finance from 31 DAC members and 19 non-DAC countries</th>
<th>The “recipient perspective” covers bilateral and multi-bi contributions from all DAC and some non-DAC providers, as well as MDBs and some multilateral agencies. The “provider perspective” includes DACs’ bilateral commitments, as well as “imputed multilateral contributions” representing core funding to climate multilaterals.</th>
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</thead>
</table>

<table>
<thead>
<tr>
<th>Methodology for assessing climate contributions</th>
<th>Differs based on underlying data sources, likely a combination of coefficients applied to bilateral Rio-marked finance and ‘climate components’ method for MDBs.</th>
<th>Based on Rio markers</th>
<th>“Climate components” methodology for MDBs, Rio markers for bilateral providers and multilaterals excluding MDBs</th>
</tr>
</thead>
</table>

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<table>
<thead>
<tr>
<th>Commitments/disbursements</th>
<th>Mostly on the basis of commitments. Disaggregated data not available.</th>
<th>Available on a both commitment and disbursement basis; project-level disaggregation</th>
<th>Only available on a commitment basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment of concessionality</td>
<td>Concessional and non-concessional finance are aggregated</td>
<td>Tracks both ODA (concessional) and OOFs (non-concessional)</td>
<td>Classes projects as &quot;concessional and developmental&quot;/&quot;not primarily concessional or developmental&quot; or &quot;unspecified&quot;.</td>
</tr>
<tr>
<td>Publication frequency</td>
<td>The report is published annually, but some underlying data is available only on a biennial basis, other data sources on an annual basis. Complementary data submissions from providers may be used to fill in such gaps.</td>
<td>Annual, with Rio markers becoming mandatory in DAC reporting since 2006.</td>
<td>Annual, but MDBs only started reporting on climate components to the OECD in 2013.</td>
</tr>
</tbody>
</table>