

Climate and Development Finance

A transition framework for all

June 2023

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Foreword

By Melinda French Gates, Co-Chair,
The Bill & Melinda Gates Foundation

While visiting Lucknow, India, last December, I met a woman named Prema Devi. A widowed mother of four, Prema farms wheat, peas, sugarcane, and a variety of other crops, using the money she earns to send her daughter and sons to school. Between showing off the remarkable new technologies she uses to improve her crop yields, Prema spoke to me about a danger that looms over her livelihood – and, by extension, her children’s future – every day: the worsening water scarcity that threatens her ability to grow what she needs.

Prema’s story is a climate change story. But when world leaders gather to talk about big issues like climate resilience, development finance, and the future of the global workforce, stories like hers aren’t usually at the center of their conversations.

Typically, these discussions zoom so far out that they miss the reality on the ground for millions of people in lower-income countries who are feeling the brunt of the climate crisis. Leaders have begun to ask questions about how they can transition to clean energy, build greener infrastructure, or promote more sustainable consumption. But too often, they forget to zoom in and ask about people like Prema—their lives and experiences, their skills and education, their aspirations and needs.

Because of that, climate actions at the international level tend to focus on priorities that are relevant to wealthier countries. But the mounting challenges that lower-income countries face have repercussions around the world. If we ever hope to truly address climate change, then we need to focus on *both* views of the crisis with an equal measure of concern and commitment. Crucially, the needs of lower-income countries and their populations must be factored into the rules, goals, and mechanisms of international finance.

In April, I met the finance minister of Madagascar, Rindra Hasimbelo Rabarinirinarison, two months after a series of cyclones badly damaged as much as 90 percent of the farmland in the southern part of the island. Under normal circumstances, she would have tapped her public coffers to rebuild. That, she told me, was no longer an option. After years of climate-fueled disasters, pandemic disruptions, and the fallout from higher fuel and food prices, any available money now went to service debt payments.

It’s the same story all around the world: lower-income countries are battered by a climate crisis they did little to contribute to and are unable to climb their way out and invest in their people because of crushing debt repayments and a lack of access to low-cost financing. Wealthier countries have access to a variety of funding sources, while lower-income countries are locked out.

That’s deeply unfair, of course. But this is about more than just fairness. It’s about the future for all of us. Trying to build a prosperous global economy without investing in lower-income countries would be like trying to fuel the tech revolution of the 2000s while ignoring Silicon Valley. You’d be missing the future.

By the end of this century, ten of the twenty largest cities in the world will be in Africa, where up to 20m young people are expected to enter the workforce every year. Women there make up an ever-growing share of the workforce. The future of the global economy that touches all our lives will be written in no small measure by the women and men of the Global South.

Think about how bright that future can be if instead of hemorrhaging money to make interest payments, their governments can invest in building up schools, health systems, and other key pieces of social and physical infrastructure—especially those that benefit women and girls.

Think about how bright that future can be if young people, no matter where they live, can get a great education, women can thrive in the workforce, and nations are better positioned to solve the next wave of global challenges.

We have a chance, right now, to listen to, and prioritize, the needs of the Global South and do things differently – not as an act of charity, but as an act of solidarity that will lead to progress for everyone.

We can start with the recommendations laid out in this paper.

Delivering transformative change will require supporting low-income countries to invest in health and development by allocating existing resources effectively and reforming the global financial architecture in three ways:

- Unlocking the lending power of the World Bank and other Multilateral Development Banks while also investing in IDA, the World Bank's best tool to help reduce poverty and improve gender equality.
- Enabling lower-income countries facing debt distress to shift resources away from debilitating loan payments and toward long-term investments in essential services and inclusive, resilient economic reforms that are led by, and benefit, women.
- Focusing ODA where it is most needed to help nations without alternative financing cement strong foundations for development and climate resilience without exhausting their national coffers, unlocking inclusive economic growth that positions more women to exercise their economic power.

Over the last eighty years, our international financial architecture has supported lifting billions of people out of poverty and expanded opportunity in nations around the world. Today, and in the months to come, we have an opportunity to match or even exceed that level of positive impact. By taking the steps outlined in this paper, we can begin to instill the needs and priorities of those most affected by climate change into the financial instruments that exist to help address it. We can expand our perspective to see the whole picture of this crisis—through Prema's eyes, and the eyes of billions—and begin to lay the bedrock of a more equitable and resilient future for us all.

Executive Summary

Policymakers in every country are facing a monumental challenge. How do they accelerate development and reduce poverty in ways that are resilient to climate change and create greater opportunities for their citizens, while also moving to green ways of organizing economic activity? This paper contends that, as monumental as the task is, it is surmountable. It will require matching constrained finances to the different needs of countries at different points on the income and development spectrum, while also reforming the financing systems to deliver for all countries as they transition.

The perspective and needs of low-income countries (LICs) and lower middle-income countries (LMICs) must be at the heart of climate resilient development and green transitions. These countries face an especially daunting challenge. They need to overcome the scars and setbacks of the last 4 years in human capital development – health, education, and social protection – and at the same time prepare to transition to green, digital and service-intensive economies. They need to build energy and other critical physical infrastructure to underpin job creation and livelihoods. They also need to build and finance mechanisms to protect populations from the impact of more frequent and severe climate shocks as well as from the disruptions that inevitably accompany economic transitions. In all these transitions, deliberate efforts need to be made to include women and girls, who are usually the worst-affected and often invisible in the solutions suggested.

These challenges need to be met in a limited fiscal space. The overlapping shocks of COVID-19, the food and fuel price crisis caused by the war in Ukraine, and the sharp increase in interest rates and depreciations of currencies have exhausted domestic resources, significantly increased the burden of servicing debt, and effectively shut LICs and LMICs out of international financial markets.

Delivering climate resilient development in an environment of constrained finance requires action on two fronts:

- **A financing framework** that matches types of financial resources to different development challenges facing countries; and
- Significant reform to all elements of the **global financial architecture**.

Financing framework

A financing framework is needed to guide resource allocation across countries and sectors depending on where they are in their transition from low to high-income status, and as they implement policies and projects to accelerate economic development, move to a green economy and build resilience against current and future climate risks. It should ensure that (1) countries' own priorities drive development policies, recognizing that policy trade-offs and the financing mix will shift as countries move along the transition process, and (2) that different types of financing flows are fit-for-purpose based on the availability of alternative financing sources, and the nature of the investments in terms of risk and return.

- **Grants and concessional finance should be prioritized for LICs and LMICs. In these countries, public resources are limited and other types of capital are unlikely to be available.** These countries are likely to require significant investments in health, education, social protection, energy and transport infrastructure as well as targeted investments in key sectors of economic activity. Such investments will have measurable payoffs but over horizons that are longer than the tenure of non-concessional funding.
- **Targeted concessional flows may also be needed for some middle-income countries (MICs),** which have development needs but also risks from rapidly rising greenhouse gas emissions, alongside guarantees and innovative instruments to catalyze private capital flows.

- **Public, philanthropic and venture capital investments** are most suited to fund innovation for new climate resilient solutions to reduce green premiums at an early stage, establish commercial viability and crowd-in other private sector financing.

Global financial architecture reform

Many of the global financial architecture reforms currently being discussed are promising for MICs, but the direct benefits to LICs and LMICs are less clear. To rebalance the debate and generate the attention and resources required for LICs and LMICs, additional actions are needed to:

- **Raise ambition for multilateral development bank (MDB) reform** by unlocking the lending power of the MDBs, increasing donor contributions to the International Development Association (IDA), addressing the looming “IDA cliff,” and reallocating special drawing rights (SDRs) to MDBs.
- **Address unsustainable debt burdens in LICs and LMICs**, including by urgently implementing reforms to the Common Framework to allow timely and meaningful debt restructuring for developing countries at high risk of, or already in, debt distress. Sustainable debt solutions must also be implemented, including debt suspension clauses in case of natural disasters or pandemics.
- **Focus official development assistance (ODA) where it is most needed.** This will involve re-calibrating the share of ODA going to finance long-term development needs where other financing is limited. This should also include channeling increasing levels of ODA through multilateral institutions with proven track records, such as IDA, to support developing countries in making measurable progress toward climate resilient economic development and poverty reduction.

Beyond these short-term priorities, and given the significant financing needs, the ambition must be to expand the perimeter of development finance to include: (1) the domestic public sector in low-income countries financed by a renewed push for domestic revenue mobilization, (2) domestic and international private investors including through new products for risk mitigation and sharing, (3) the regional and national development banks, (4) new fundraising instruments, and (5) philanthropic capital.

Introduction: the challenge

The requirements of a just transition

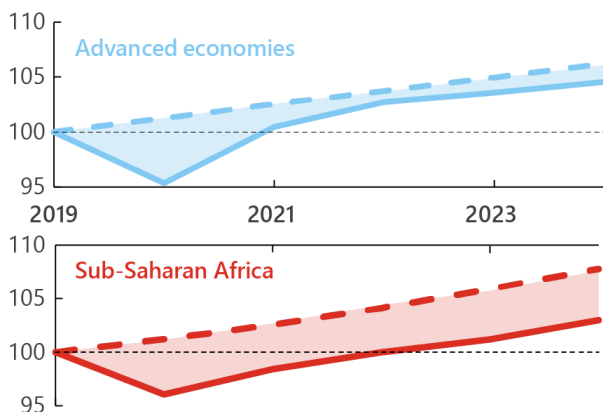
The global economy is facing an unprecedented set of challenges. The COVID-19 pandemic and the fallout from the war in Ukraine have caused economic disruption on an extraordinary scale. At the same time there is growing acceptance that action to address climate change can no longer be postponed. The rising frequency and intensity of climate shocks has made it clear that countries need to build resilience to the changes in climatic conditions already in train through adaptation across all facets of economic activity, while also taking actions to slow future greenhouse gas emissions.

The perspectives and needs of LICs and LMICs must be at the heart of the transition to climate resilient development. LICs and LMICs have been disproportionately impacted by the compounding shockwaves referenced above. Advanced economies had the financial means for extraordinary measures to protect their economies, practically rewriting the economic policy playbook. But developing countries – especially those in Sub-Saharan Africa (SSA) – did not have the financial buffers to do that, hampering their ability to respond to these overlapping crises. Additionally, many are warning of a lost decade of development progress in the region given the rapid tightening of monetary policy in response to the increase in global inflation, the diversion of ODA and official bilateral financing away from SSA, and the deterioration in key development indicators.

“Sub-Saharan African countries, including Nigeria, continue to bear the brunt of climate shocks that threaten to reverse hard-won development gains and undermine food production.”

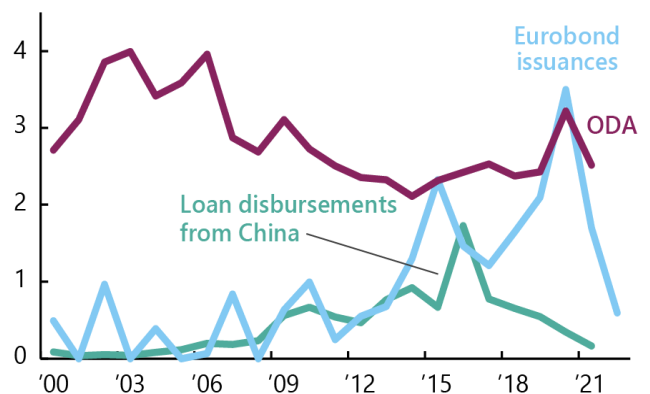
Zainab Ahmed, Nigerian Finance Minister

Figure 1: Real GDP per capita, 2019 – 2024 (2019 = 100, dashed line indicates pre-crisis trend)



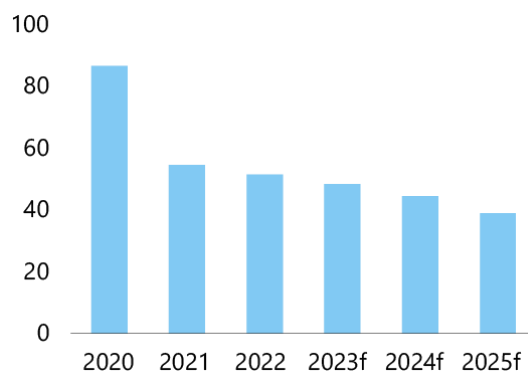
Source: IMF, “The Big Funding Squeeze”, 2023

Figure 2: SSA Sources of financing (percent of regional GDP)



Sources: IMF, “The Big Funding Squeeze”, 2023

Figure 3: People living in countries with income per capita below 2019 levels (percent of SSA population)



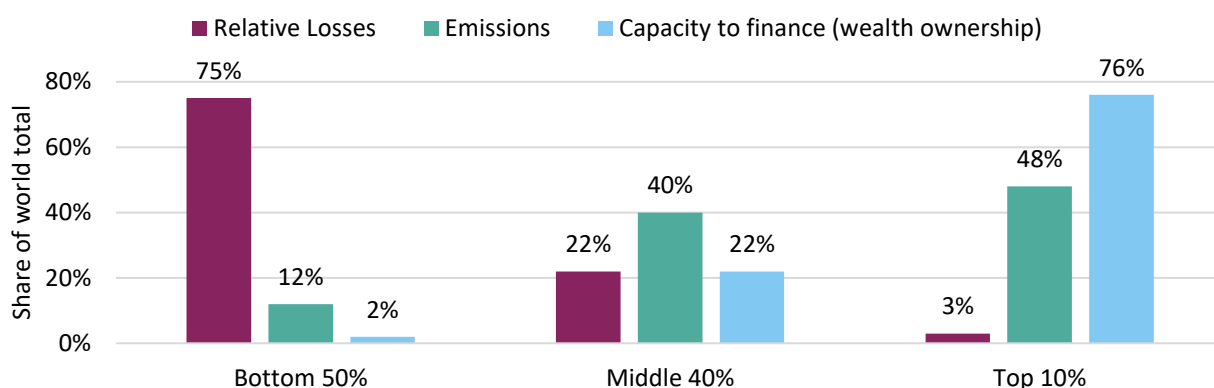
Sources: World Bank, “Global Economic Prospects”, 2023

Climate change is likely to drive significant increases in poverty, malnutrition, health issues, gender inequalities and forced migration around the world, but these impacts are not distributed equally across countries and income groups (see Figure 4). Despite having the lowest per capita greenhouse gas emissions of any region, SSA is already experiencing some of the sharpest consequences of climate change. Losses range between USD 7bn and USD 15bn per year due to more frequent and intense extreme weather events, growing food insecurity, and environmental degradation. Without action, these losses will rise to USD 50bn per annum by 2030, with a reduction in economic growth of up to 15 percent.¹

“This reflects a just and equitable solution – when the countries of Africa are asked to renounce on polluting development to deal with the current state of emergency on the planet it is only fair that as a counterpart the cost of adaptation to this should be shared equitably also. This is the essence of our advocacy.”

Macky Sall, President of Senegal

Figure 4: Global Carbon Inequality: Losses, Emissions and Capacity to Finance



Notes: Relative income losses due to climate change, vs. greenhouse gases emissions vs. wealth ownership. Source: World Inequality Lab, “Climate Inequality Report”, 2023

Exacerbating these challenges is the fact that advanced economies are also under significant pressures from slowing growth, rising debt, growing refugee costs and the broader consequences from the ongoing war in Ukraine.² They also need to accelerate the green transition in their own economies, without which the negative impacts of climate change will worsen and the costs to adapt to the crisis will exponentially increase.

“The hope is to strengthen the narrative of the nexus between attaining the SDGs and climate action in developing countries... It is hard to drive an approach of net zero without mentioning a managed, just and financed transition for Africa to industrialize.”

Bogolo Kenewendo, UN Climate Change High-Level Champions, Africa Director

Every country needs to undertake urgent and significant development and growth transitions to adapt to the consequences of ongoing climate change, and to fast track the move to a green economy. This needs to be done while reversing the losses in, and accelerating progress towards, the Sustainable Development Goals (SDGs). Addressing development and climate change is inextricably linked in every country, but the linkages take different forms across countries. It is therefore crucial to understand the specific challenges that groups of countries face, and the types of resources they have available to tackle issues in the short and longer-term.

¹ African Development Bank, “African Economic Outlook 2022”, 2022

² IMF, “The outlook is uncertain again amid financial sector turmoil, high inflation, ongoing effects of Russia’s invasion of Ukraine, and three years of COVID”, 2023

Actions needed to accelerate human capital development, climate adaptation and transition to green growth

Policymakers in any country list growth and job creation as their primary economic policy priorities. Between 2020 and 2100, the world is projected to add 3.1bn people to the total population, of which 1.4bn will be of working age. Almost all the additional working age people will be in SSA.³ To keep up with the growth in working age population the region already needs to create 1.5m jobs per month, and that number is projected to rise to 2m jobs per month by 2040.⁴

To meet this challenge, LICs and LMICs, especially those in SSA, need to accelerate progress on development, adapt and build resilience to climate challenges, and potentially leap-frog to green growth.

Action is needed in four broad areas.

First, reduce poverty and economic vulnerability. For this, LICs and LMICs will need to redouble efforts to strengthen human capital.

Human capital is a driver of transformation and growth, and an essential prerequisite for physical investments to be productive. According to a recent paper by the IMF which examines the growth outcomes of different mixes of investment, financing human capital is highly effective in promoting long-run economic development even though the effects of such investments accrue with a long lag.⁵ Strengthened investments in human capital are needed to account for losses during the pandemic, as well as accelerate economic transitions towards green and digital economies. These investments need to be done in ways that are resilient to climate change that has already taken place, and they need to be broad-based and inclusive. Specifically, in an intentional break from the past, countries need to make more deliberate and concerted efforts to tap into the talent, agency, and potential of their entire population – men and women – to benefit the economy through their complementary and mutually reinforcing skills.

Second, LICs and LMICs need to invest in adapting their main sources of economic activity to climate change. This includes agriculture, which still accounts for more than half of employment in SSA and roughly a third of GDP, and which is exceptionally sensitive to climate change.⁶ Investments in climate-resilient agriculture will have significant payoffs. According to the World Bank, agricultural sector growth is two or three times as effective in reducing poverty than any other sector.⁷ In addition, LICs and LMICs need to prepare for climate adaptive, green industries, and keep up with the rapid expansion and shifts in digital technologies in their service sectors.

Third, even with efforts to reduce vulnerability and build resilience to shocks, the poorest people in LICs and LMICs, especially women, must have reliable and responsive safety nets to protect them when crises do occur.⁸ Missing social safety nets force the poor to take shorter-term decisions to cope with immediate crisis which prevent them from building buffers to future shocks, leaving them in a vicious circle of vulnerability. Furthermore, the major economic transformation that countries will need to undertake will inevitably result in winners and losers, making responsive social safety nets critical not only to cushion the fall, but to allow those at risk of being left behind to bounce back.

“The bottom line is that with growth and sustainability and inclusivity, there need not be trade-offs between them ... What am I talking about? The world has grown very much by burning fossil fuels and having high carbon emissions but we could grow by focusing on renewables, some of which have become much cheaper than fossil fuels.”

Ngozi Okonjo-Iweala, Director General, World Trade Organization

3 Growth and Labour Markets in Low Income Countries Programme, “The Demography of the Labor Force in Sub-Saharan Africa : Challenges and Opportunities”, 2019

4 Growth and Labour Markets in Low Income Countries Programme, “The Demography of the Labor Force in Sub-Saharan Africa: Challenges and Opportunities”, 2019

5 IMF, “Debt, Investment, and Growth in Developing Countries with Segmented Labor Markets”, 2020

6 African Development Bank, “Feed Africa”, 2022

7 World Bank, “Five new insights on how agriculture can help reduce poverty”, 2018

8 Social safety nets consist of non-contributory assistance to improve lives of vulnerable families and individuals experiencing poverty. This may include: reskilling, capability development, entrepreneurship development and other ways of generating economic participation and value.

Finally, even though their own contributions to greenhouse gas accumulations to date have been negligible, LICs and LMICs cannot be left behind in the effort to transition to green growth, which is critical for their economies' long-term sustainability and creates new economic opportunities. For this, they need access to financing for new green technologies and to avoid being locked into carbon-intensive technologies.

LICs and LMICs: rising needs and shrinking resources

While LICs and LMICs are contending with the impacts of overlapping and unprecedented shocks, their resources to tackle these challenges are increasingly constrained. Efforts to manage the pandemic reduced government revenues, increased expenditure pressures, exhausted savings, and increased debt – wiping out buffers at the country, business, and household level. Rapidly rising interest rates led to depreciating currencies and forced many developing countries to spend a rising share of their shrinking revenues on servicing their debt, in some cases being forced to spend more on debt service than on core services such as health.⁹ 60 percent of the world's lowest-income countries are at high-risk of debt distress or are already in debt distress.¹⁰

At the same time, external finance has been shrinking. ODA and other official bilateral flows have declined because of competing pressures on fixed or decreasing donor budgets.¹¹ Bilateral aid to SSA dropped by almost 8 percent in real terms in 2022,¹² and ODA for activities with climate change as an objective reduced from USD 30bn in 2020 to USD 23bn in 2021.¹³ The tightening of monetary policies in advanced countries has significantly reduced private capital markets' appetite for African debt, and with soaring spreads on sovereign debt, LICs and LMICs have effectively been priced out of Eurobond issuance. At the multilateral level, because of the frontloading of IDA disbursements in response to the COVID-19 shock, fewer IDA funds are now available, leaving the most vulnerable countries facing an "IDA cliff" in FY24 and FY25. The only external financing flow that has been resilient during the recent crises is remittances, at levels about three times total ODA.¹⁴ However, beyond adding to countries' foreign exchange coffers, the benefits of remittances accrue primarily to the families and households of migrant workers. While private foreign direct investment flows also seem to be resilient, so far, very little has flowed to LICs and LMICs either for development or for climate adaptation and mitigation.

"The current international financial architecture, is, to put it bluntly, rigged against those of us in the global South. Because we cannot meaningfully address our development needs using the financial resources from this architecture."

William Ruto, President of Kenya

9 UNAIDS, "Pandemic triad: HIV, COVID-19 and debt in developing countries", 2022

10 World Bank, "International Debt Report 2022"

11 When excluding items such as donor refugee costs and COVID-19 vaccines. See Development Initiatives, "New DAC Data Reveals the Impact of Ukraine Invasion on Aid"

12 OECD, "ODA Levels in 2022 – preliminary data," 2023

13 OECD, "Climate-related official development assistance in 2021: A snapshot", 2021

14 United Nations, "International Day of Family Remittances 16 June", 2022

Financing for development: the international community's response

African Finance Ministers are calling for:

- *Increasing low-interest money available over the long-term,*
- *Re-channelling IMF SDRs to the African Development Bank,*
- *Sustaining the IMF's Poverty Reduction and Growth Trust with additional financing,*
- *Overhauling the Common Framework and finding a real solution to the debt crisis, and*
- *Confirming the African Union as a full member of the G20.*

African Centre for Economic Transformation

Many in the global community have proactively responded to these challenges by proposing several "roadmaps" for the way forward. These include the UN Secretary General's SDG Stimulus to Deliver Agenda 2030, the Bridgetown initiative led by Mia Mottley, the Prime Minister of Barbados, and reports by several high-level expert groups. There is much in common in these proposals.

For instance, the Bridgetown Initiative called for global financial architecture reforms to reflect the needs of developing countries broadly, including through increasing official development lending, expanding MDBs' lending capacity for climate resilience, mobilizing large sums of private sector funding for green transformations, and transforming the governance of the international financial institutions.¹⁵

Similarly, African Finance Ministers have called on global institutions to deliver more for African countries, and

have outlined five asks, including increasing low-interest money and re-channelling SDRs to the African Development Bank.¹⁶ This follows developed countries committing to support climate action in developing countries, initially (in 2009) through mobilizing USD 100bn per year by 2020, and then in 2021, collectively doubling annual adaptation finance from the 2019 volume (USD 20bn) to USD 40bn by 2025.¹⁷

¹⁵ Foreign Affairs and Foreign Trade - Barbados, "Bridgetown Initiative", 2022

¹⁶ African Center for Economic Transformation, "African Finance Ministers demand action on Global Financial Architecture Reform", 2023

¹⁷ International Institute for Environment and Development, "Adaptation finance must reach and pass the USD 40bn target", 2022

Allocating existing financial resources effectively: a framework

The financing challenges are immense and there is growing consensus that significant reforms to the global financial architecture are needed. However, even if reforms are made and donor generosity increases, a framework for allocating development and climate finance effectively and equitably will still be needed to meet the challenges in front of us. This paper outlines the key principles for an equitable financing framework that efficiently matches different financing flows (grants, concessional and non-concessional loans, private equity and debt flows, blended finance, philanthropic capital, and domestic revenue) to different needs and priorities of each country based on the risk and return profile of each type of investment.

Investments in human capital, basic health care and education almost always fall to the public sector to finance.

As argued above, these investments are highly productive from both an individual and societal point of view. However, their benefits accrue over time horizons that make them less attractive to private financing and so must be prioritized for public and concessional funding.

In contrast, other types of investment like physical infrastructure in energy or transport, financial services, or digital tools, **yield returns to private capital**, especially with the appropriate policy and regulatory environment. Even in these cases, however, some incentives may be needed (including guarantees and temporary subsidies) to induce private capital to flow into what may still be perceived as risky environments.

As countries transition between different stages of development, the mix of financing should also evolve to reflect the shifting risk-return configurations. Financing in one stage may be tailored to encourage the shift to the next stage. For example, using ODA in LICs to improve the investment climate for private capital.

Such a financing framework will involve:

- **Varying the degree of concessionality by country grouping.** Highly concessional resources are limited globally and are most efficiently used where they have the greatest development impact and where there are few alternatives. Grants and highly concessional finance should be focused on funding the priorities of LICs and LMICs.
- **Varying the degree of concessionality by sector.** Sectors that have strong public-good characteristics should receive more favorable terms, while those that offer scope for private returns could be priced at less concessional terms. Grant funding and highly concessional lending is best suited for human capital development, adaptation and resilience building efforts in some sectors, and loss and damage after climate shocks. In contrast, energy or infrastructure sectors can more often attract private investment or less concessional public loans.
- **Blended financing, or the use of catalytic capital from public or philanthropic sources to increase private sector investment,** is clearly appropriate for mitigation and adaptation investments in high income countries (HICs) and upper-middle income countries (UMICs). But they may also be necessary and appropriate in LMICs with high rates of emissions that are in urgent need of both energy expansion and green transitions, and with reasonable investment risk environments. In these cases, small amounts of targeted ODA can be effective when used alongside guarantees and innovative instruments to catalyze significant private capital flows, address a market failure, or accelerate the achievement of a global public good.

“Concessional loans from the World Bank offered at lower rates are a concrete step the institution can take to support countries like mine, Sierra Leone, to restructure our debt and fight the effect of the climate crisis on our food systems.”

Julius Maada Wonie, President of Sierra Leone

- **Philanthropic, private venture, and public capital** can be used to fund innovation for new climate resilient solutions and to bring down green premiums before commercial viability of the solutions can be established and private investment capital becomes realistic.
- Finally, **domestic revenue mobilization** remains a critical medium-term priority for LMICs to enable them to raise sustainable financing for social spending and narrowing fiscal deficits and borrowing needs. Domestic revenues and strong public financial management are important prerequisites for countries to graduate to middle income status. Further, as the Organization for Economic Co-operation (OECD) notes, “Tax is not the sole determinant of rapid development, but it is one pillar of an effective state and may also provide the basis for accountable and responsive democratic systems”. SSA countries have made mixed progress over tax in the past decade, with some countries securing revenue gains while reform has stalled in others, but the recent crises have meant that all countries have suffered major setbacks, as reduced economic activity impacts tax take. In parallel with economic recovery, LIC and LMIC governments – with the support of donors – should invest more in improved tax administration so that revenue is collected in a transparent, accountable, and equitable manner, including through greater use of digital tools.

Uses of Finance: Agriculture – Adaptation is a best buy

The world is already 1.1°C warmer and adapting to a scope and scale of negative impacts far greater than previously estimated (WMO, 2023). Between 3.3bn and 3.6bn people live in hotspots of high vulnerability to climate change (IPCC, 2022). The world is on track for 2.5°C of warming if current plans are fully delivered and even more, if not (UNFCCC, 2022).

Warming of just 1.5–2°C will cause further widespread and irreversible impacts (IPCC, 2021). Global averages obscure regional variations which further disadvantage LICs, and the Intergovernmental Panel on Climate Change (IPCC) is clear that we face a rapidly closing window of opportunity to secure a liveable and sustainable future for all. LICs must be supported to take anticipatory action to adapt and avoid overwhelming loss and damage.

Nowhere is this more apparent than for the 500m smallholder farming households who produce roughly 35 percent of the world’s food. Agriculture accounts for more than half of jobs in SSA and at least 30 percent of GDP (FAO, 2021). The World Bank (2023) estimates economic growth from this sector is at least twice as effective at reducing poverty than any other – with incomes reinvested back into building human capital. Yet agriculture is exceptionally sensitive to climate change with 95 percent of African agriculture rain-fed. By 2050, areas that currently provide 70 percent of the total value of crop production in SSA will face “severe” or “extreme” aridity and heat stress leading to an inability to complete agricultural work, or a significant health risk in doing so (BMGF, 2021). Just 1.7 percent of climate finance supports SHFs in developing countries adapt to these impacts (IFAD, 2022).

Adaptation has been too incremental, small-scale, fragmented and reactive. Finance is a critical barrier. There is growing demand for country-led resilient, low-carbon development pathways and investment pipelines which can attract coordinated financial packages to drive poverty reducing green growth. Adaptation solutions are also critical pre-requisites for averting and reducing emissions in developing countries - helping resilient farmers avoid being locked-out of markets and helping countries avoid locking-in future emissions. Diagnostic tools, bundled services and finance – such as digital soil maps, and insurance and integrated soil and water management – prepares farmers to improve their resilience and sequester carbon more effectively, where markets are structured to reward them fairly. Yet smallholder farmers (SHF) can only take action if they have access to the solutions necessary. The CGIAR is the most important global research institution developing relevant public goods for SHFs and regularly producing new drought, flood and disease resistant crops and livestock. Despite a sustained track record of 10:1 impact it is critically underfunded and requires a doubling of resources to deliver on its critical mandate under a changing climate.

Matching country groups to financing modalities

The building blocks of the financing framework illustrated below are based on the growth-poverty-climate nexus in different country groups by income level and allow for policy trade-offs as well as financing to differ depending on where the country is in its transition from low to high-income status (see Box 1). The framework builds on work carried out by the transition finance team at the OECD's Development Assistance Committee (DAC) and the Global Council for SDG1.^{18,19}

Although the discussion in this paper is based on country income groups, there are other relevant factors that will interact with income levels to influence the sectoral investment priorities in countries. These include: (1) disaster risk (measured by hazard, exposure, and vulnerability) – this would include small island nations that are heavily exposed to climate shocks; (2) the size of current and future greenhouse gas emissions – this would include populous countries; (3) significant regional and other inequalities. A detailed discussion of these cases is beyond the scope of this paper.

Uses of Finance: Women at the center of climate resilient development

Women are key to the success of climate actions – be it adaptation to climate change, addressing disaster risk or adopting green practices in how we grow things and how we live. While the disproportionate impact on women of climate shocks is well-documented, their unique capacities and contributions to climate change adaptation and disaster management are less recognized. There is growing evidence that women's individual and collective knowledge at the household and community level equip them with skills that would benefit the design of solutions (UNDP, 2016).

Women play a major role in agricultural production. According to the Food and Agriculture Organization (FAO), in SSA, 66 percent of women's employment is in agrifood systems (FAO, 2023). High engagement in the sector means women are disproportionately exposed to shocks that result from a changing climate, with more regular extreme weather events – such as droughts and floods – destroying crops and negatively impacting livelihoods. As women tend to work at lower economic levels of agricultural value chains than men, they have fewer opportunities to engage in profitable enterprises, and lack the assets necessary to increase their productivity or adapt and respond to climate shocks.

Women's predominance in agriculture and the climate change impacts they are likely to experience, require them to intentionally be placed at the center of solutions. Putting women at the center of the transition to climate-resilient and green development will require:

- Increasing the amount of development finance dedicated to both women's empowerment and climate adaptation;
- Supporting local women's organizations to advance their own priorities for climate action;
- Closing gender gaps in access to climate-smart agricultural innovations (e.g., improved seeds, digital tools and technologies, irrigation); and
- Building the evidence of what works to increase rural women's resilience to climate shocks.

Of USD 632bn climate finance, only USD 46bn is allocated as adaptation finance and of that only USD 5bn is gender "tagged" (Climate Policy Initiative, 2021). And while 65 percent of bilateral finance for agricultural and rural development incorporates a gender lens only 6 percent includes a principal focus on gender equality. A more effective use of existing development finance, and leveraged resources from MDBs, must increase funding available to approaches that empower women. This will improve their lives and livelihoods, and holds the potential to positively impact multiple outcomes, including income, diets, food security, and resilience (FAO 2023). For example, recent estimates from the FAO indicates that if half of small-scale agricultural producers benefited from interventions with a women's empowerment focus, incomes would increase significantly for an additional 58m people and resilience would improve for an additional 235m people (FAO, 2023).

¹⁸ OECD, Transition Finance Toolkit

¹⁹ Gable, et al (2023), Global Council for SDG1 Gable, et al (2023) "A transition approach to poverty reduction and climate finance: The missing link to implementation", Global Council for SDG1.

Box 1: Financing framework building blocks

Income & investment environment					
	Low income, fragile context	Low income, stable context	Low-middle income	Upper-middle income	High income
Development priorities	<ul style="list-style-type: none"> • Build strong human assets and economic foundations to handle potential shocks • Support immediate needs (e.g., crisis relief) • Support agricultural development 	<ul style="list-style-type: none"> • Build human capital • Support basic needs • Diversify the economy beyond primary sector and generate jobs • Increase state capacity • Improve agricultural productivity 	<ul style="list-style-type: none"> • Climate-resilient development programs to reduce poverty and create jobs (e.g., health, energy, digitalization) • Need option to balance poverty reduction, economic development, and the risk of costly lock-ins in energy and carbon-intensive paths • Reduce dependency on foreign aid • Increase state capacity 	<ul style="list-style-type: none"> • Attracting private flows to support greener climate resilient development • Shifting from a physical capital-intensive economy to a human capital intensive economy • Accelerating energy transition in large emitters • Addressing governance weaknesses (e.g., corruption and fiscal inefficiency) • Improving competitiveness 	<ul style="list-style-type: none"> • Characterized by sound macroeconomic policy, strong human/physical capital, and relatively high level of institutional quality • Lead in mitigation efforts domestically • Support innovation and push the frontier of green technologies and policies • Support developing countries' mitigation/adaptation efforts
Investment environment	<ul style="list-style-type: none"> • Very high-risk investment environment • Severely limited public services and investment 	<ul style="list-style-type: none"> • High-risk investment environment • Limited public services and investment 	<ul style="list-style-type: none"> • Low-to-moderate risk investment environment and growing private capital pools • Governments may prefer to invest resources in services and infrastructure. Concessional borrowing may strengthen investments in global public goods 	<ul style="list-style-type: none"> • Vibrant private sector • While still some risk, potential high private returns in emerging markets • Relatively strong human/physical capital 	<ul style="list-style-type: none"> • Low-risk investment environment (sound macroeconomic policy, strong human/physical capital) • Vibrant private sector

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Financing instruments/needs</p>	<ul style="list-style-type: none"> • Remittances important to fulfil individuals’ or families’ basic needs when government support is lacking • ODA targeted at welfare provisions and humanitarian aid • Improved liquidity provision architecture with unconditional short-term liquidity lines for large financial shocks 	<ul style="list-style-type: none"> • ODA targeted at economic development and basic needs (e.g., jobs, health, agricultural resilience) • Stronger architecture to restructure unsustainable debt and prevent crises, inc.: timely and predictable debt restructuring frameworks; systematic inclusion of natural disaster and pandemic debt suspension clauses in debt contracts; a Debt Sustainability Framework which integrates development spending and climate vulnerability considerations 	<ul style="list-style-type: none"> • Remittances fund social sectors and investments in housing/businesses • ODA (inc. IDA and IBRD concessional money) to fund development and adaptation efforts, due to limited private flows • Over time, development efforts attract private capital and domestic public resources, mainly through improvements in the general domestic investment climate • Concessional financing may still be needed in health and education and global public goods, where private or non-concessional financing is limited 	<ul style="list-style-type: none"> • Domestic public resources, concessional and non-concessional external public finance, and private finance to fund economic development, energy transitions, etc • Innovative finance, inc. sustainable bonds (as UMICs have capacity to take on debt) and a range of blended finance options including a smaller portion of ODA/grant/public financing. 	<ul style="list-style-type: none"> • HICs have benefited from unsustainable economic development, creating a climate and environmental debt • Lead mitigation efforts domestically • Innovate solutions and increase support to developing countries’ mitigation and adaptation efforts
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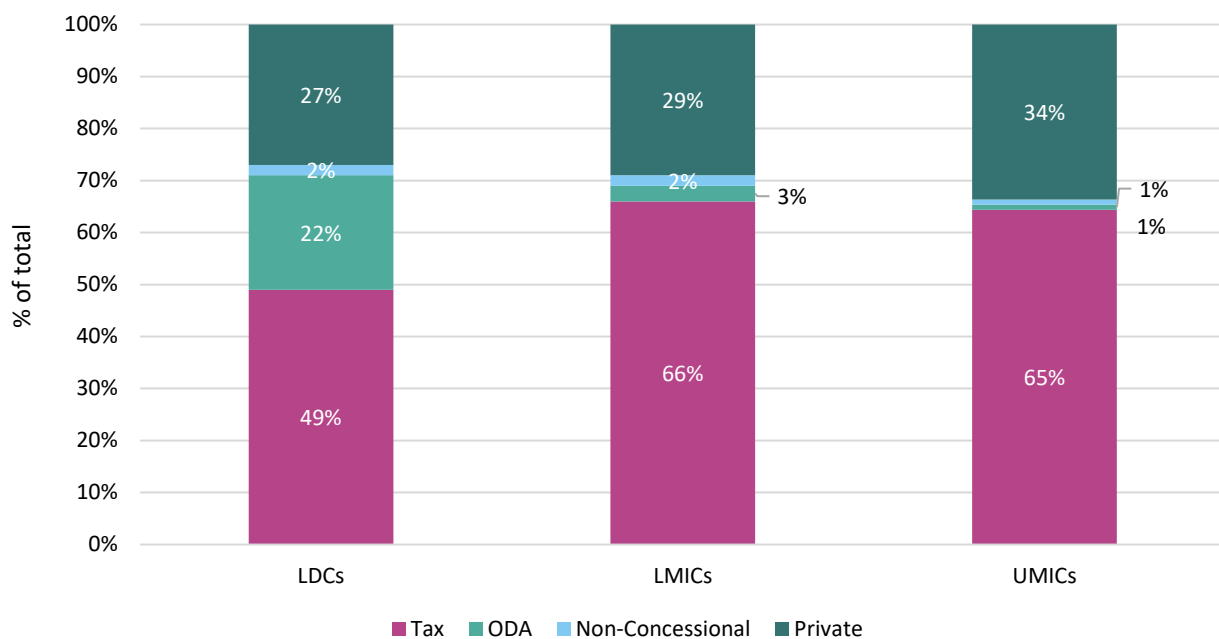
Sources of finances

Figure 5 and Box 2 show how the mix of available development finance changes over time as countries transition between income status—from least developed countries (LDCs), to LMICs and UMICs.

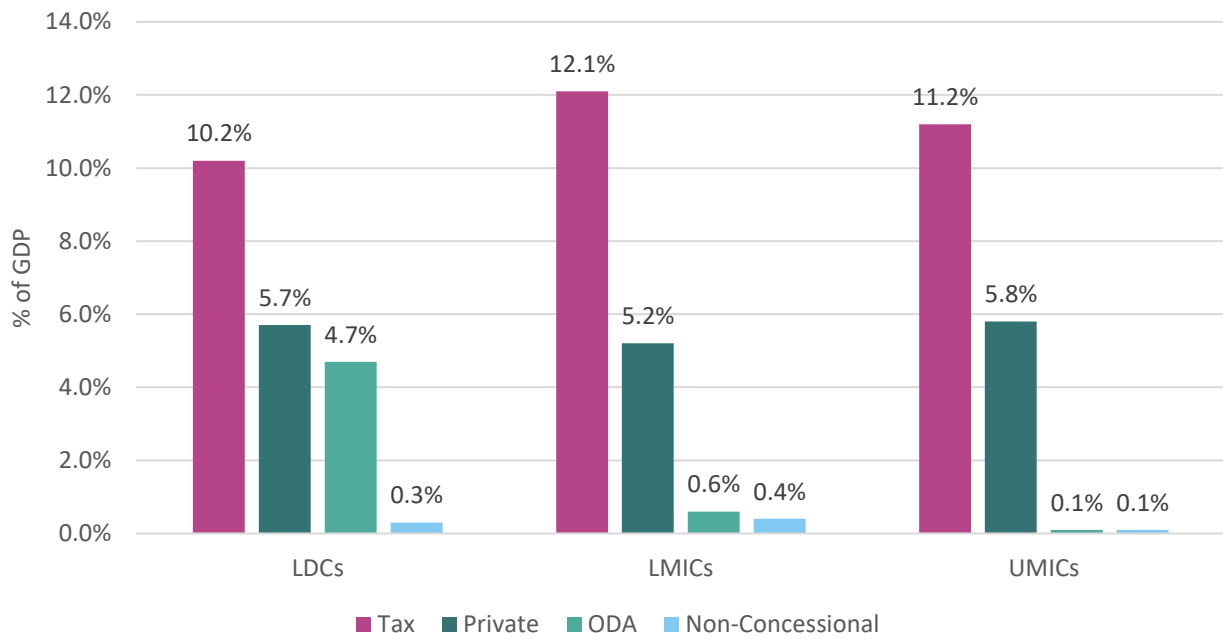
- Tax revenues are the most important financing flow in all country income groups. However, while the share of taxes in relation to GDP is broadly similar between the country groups, the amount of tax revenues per capita – a good measure of resources available for the provision of public services, public investments, and debt payments – is 2.5 times higher in LMICs and nearly 10 times higher in UMICs, than in the LDCs.
- As a share of total financing flows, ODA is especially important to LDCs. However, even when adding ODA per capita, available public resources are much lower in least developed countries.
- The share of private financing in relation to GDP is similar across the country groups. But, in per capita terms, it is two times larger in LMICs and 9 times larger in UMICs, compared with LDCs.²⁰

Figure 5: Financing flow mix to LDCs, LMICs and UMICs at the country level

As share of total financing flows, as share of GDP, and as USD per capita (2018)

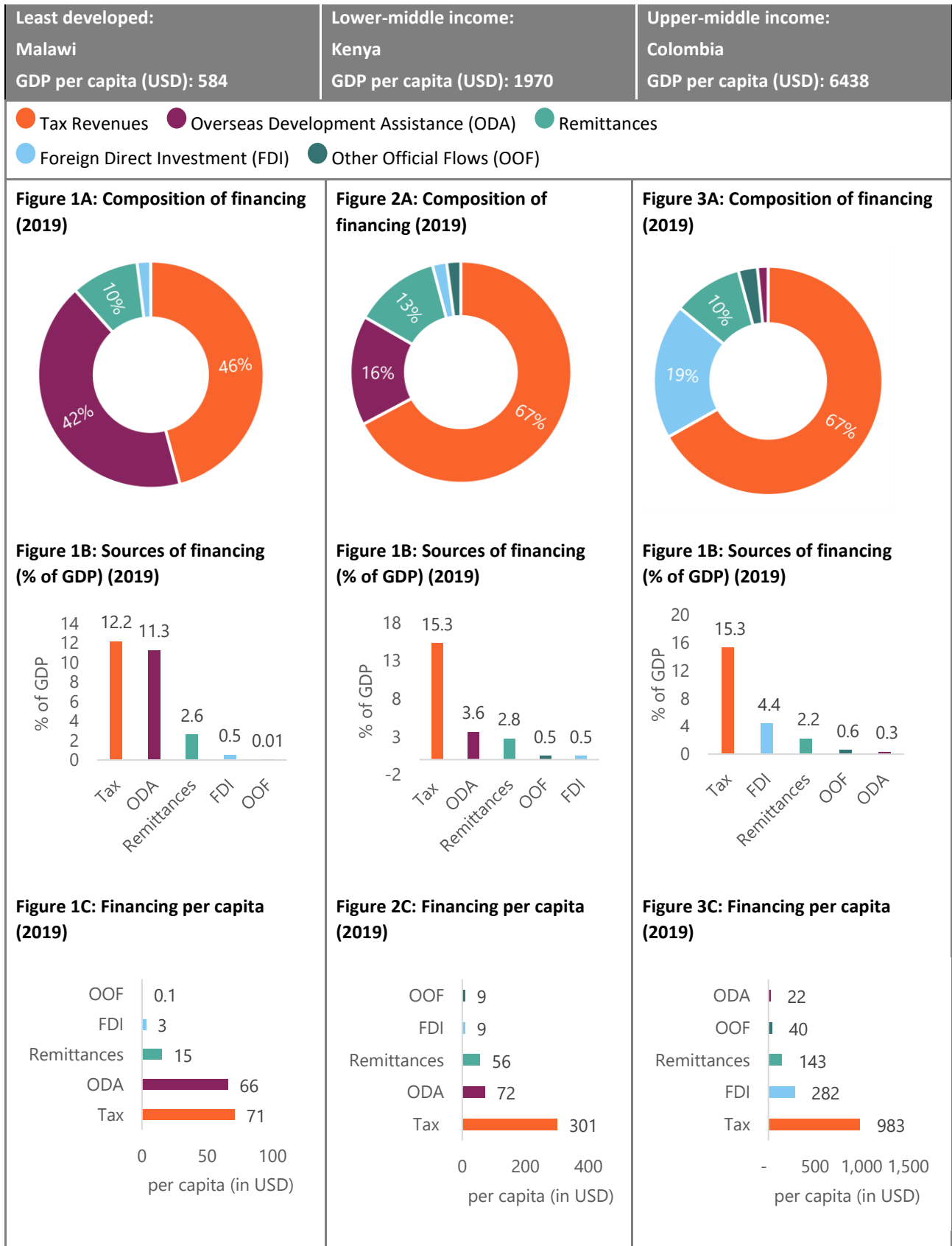


²⁰ Even when considering mobilized private capital there is an uneven distribution. For example, according to Convergence, only 17 percent of mobilized climate finance in 2021 went to LICs Convergence, “State of Blended Finance 2022”, 2022



Source: Authors' calculations based on input from Development Initiative, OECD data and the World Development Indicator database.

Box 2: Country case studies



Sources of finance transform as economies grow. As countries' income levels increase, the composition of financing undergoes significant change.

- Within public sources of finance (taxes, ODA, and other official flows) the share of tax revenues increases and reliance on ODA wanes as countries get richer.
- The share of private financing rise as countries become richer. In 2019, the share of private finance (remittances and foreign direct investment) in total financing was 12 percent in Malawi, rising to 15 percent in Kenya and 29 percent in Colombia. The primary driver of this increase is FDI, possibly reflecting an improved business environment, and larger domestic markets.

Source: Data from World Development Indicators database, World Bank

A word about trade-offs: There may be situations where **the first best solution needs to be set aside for a feasible solution.** The goal can still be the same, for example a green energy transition, but solutions need to take the intertemporal priorities of the country, like job creation, into account in the investment design.

Although it is beyond the scope of this paper to offer solutions to all trade-offs, the framework offers principles on how trade-offs could be handled. Examples of trade-offs that are likely to arise are:

- **Trade-offs in types of investments:** Although there are many policies and investments with climate and poverty reduction/development co-benefits, there can still be trade-offs between alternative actions. For example, a choice between a project with large poverty reduction benefits and small climate benefits, and a project with small poverty reduction benefits and large climate benefits. There may even be situations in which the gain in poverty reduction leads to negative climate effects, or when achieving climate goals leads to negative effects on poverty reduction. The framework incorporates the idea that the weight given to poverty reduction and climate respectively, can change as countries transition through stages of development.
- **Trade-offs in the use of concessional finance:** Another example pertains to the trade-off between prioritizing ODA to countries and sectors that have limited access to other financing solutions and allocating some ODA to mobilize private capital for development. As already noted, the framework emphasizes that ODA and concessional finance need to be prioritized for lower-income countries and basic needs but acknowledges other high impact uses.
- **Trade-offs over time:** An example of this would be the choice of investing in carbon-based energy which may be more readily available versus in green energy which may be less available and/or more expensive. Countries may prioritize moving to green energy sources sooner on the premise that these investments will be most efficient in the long run and that the alternative carries the risk of locking in unsustainable economic activities.

Global financial architecture reform

Alongside increasing the effectiveness and impact of financial resources across development and climate needs, transformational reform to the global financial architecture is needed. Reforms being discussed include: revising and broadening the development goals of different organizations to expanding the lending capacity of the MDBs; offering sustainable debt solutions to highly indebted countries; providing greater flows of unconditional, short-term liquidity during times of crisis and to cope with the spillovers of policy actions in advanced countries; innovative financing instruments to mobilize private investors;²¹ and reviewing the approaches used by rating agencies to more accurately reflect the investment risks in African countries.

“We applaud the World Bank Group and International Monetary Fund for their openness to reform and urge them to continue to listen to stakeholders especially from Africa, a continent of 1.5bn people that receives the majority of resources from these institutions.”

African Center for Economic Transformation

Many of the reforms gaining traction are promising for MICs, but they may not apply to, or could even disadvantage, LICs. To refocus the debate and generate the level of change required in the shorter run for LICs and LMICs, additional action is needed, particularly around three areas: (1) raising ambition for the reform of the World Bank and other MDBs; (2) addressing unsustainable debt burdens in a timely manner; and (3) focusing ODA where it is most needed. These are not to replace other essential initiatives such as mobilizing private capital, but they need to be added to the core debate on how we address the challenges the world is facing.

Raise ambition for MDB reform

As one of the largest sources of funding for LICs and LMICs, and a critical first mover among MDBs to embark on an “evolution” process spurred by shareholders, the World Bank could set an important precedent for other MDBs to follow by adopting ambitious reforms that address the needs of *all* its borrowing countries. However, the current debate is focused on how the World Bank can boost lending for MICs and incorporate lending for global public goods, including funding climate mitigation efforts in large emitters. These efforts are important, but at the same time, the World Bank needs to boost its flow of grants and highly concessional loans to LICs and LMICs to support the compounding effects of the climate crisis, the impacts of COVID-19 and Russia’s invasion of Ukraine, in addition to longstanding development and poverty reduction challenges.

Reform proposals must be opened to real outside scrutiny. All stakeholders involved must also be ready to accept trade-offs to support a truly transformational plan. For example, MICs need to accept transfers to IDA, and the World Bank’s management team must work more cooperatively with other MDBs and reduce operational burdens on borrowers. MDBs also need to address why private sector investments continue to fall short of expectations and find efficient solutions to scale private capital mobilization.

The following reforms to the MDBs should be taken up urgently:

- **MDB shareholders and management should vigorously pursue options outlined in the G20 report on the MDBs’ Capital Adequacy Frameworks** to ensure that new and existing dollars go much further and make the World Bank more responsive to its borrowers. The G20 and others have rightly noted that “balance sheet optimization” would unlock considerably more lending power for the World Bank even with its existing resources (and even more so if it receives additional capital).

“[In 2021] the 54 countries of the African continent received USD 33bn [in SDRs]. By contrast, the seven largest economies of the world, the G7, received USD 277bn. That equals an average of USD 600m per African country and an average of USD 39bn per advanced economy.”

Hassatou Diop N’Sele, Acting Vice-President for Finance and Chief Financial Officer, African Development Bank

²¹ Financing instruments under discussion include: Debt Swaps, Credit Enhancements, Insurance, Green Bonds, Sovereign Bonds, Rupee Denominated Bonds, Municipal Bonds, Corporate Bonds, Priority Sector Lending, Green Banks, Infrastructure Debt fund (IDFs), Crowd Funding, Asset Backed Securitization (ABS), Blended Financing and Venture Capital

- **Other internal reforms at the World Bank, such as halving the time it takes to get a project started**, would make a significant difference for borrowing countries that are frustrated by the bureaucratic complexities of World Bank lending.
- **Provide new money to the World Bank.** Since 1944, the World Bank has taken in some USD 19bn from its shareholders and translated that into more than USD 800bn in lending. The MDBs all enjoy high credit ratings and are viewed as safe and stable because of their conservative lending practices. An agreement among shareholders to negotiate a capital increase as part of the Evolution Roadmap process would not only increase financing capacity at this critical time but also shore-up confidence in the multilateral system by signaling strong support from shareholders for the World Bank’s model and the potential of reforms.
- **Increase donor contributions to IDA and address the looming “IDA cliff”.** Donors should begin mobilizing USD 6bn in immediate contributions to the Crisis Response Facility. These contributions would allow IDA to maintain the same level of financial support to IDA-eligible countries in the last two years of the 20th replenishment of IDA and could potentially be finalized around the time of the World Bank Annual Meetings. In addition, the World Bank should present its shareholders with specific proposals for growing IDA that can be approved by Annual Meetings as part of the Evolution Roadmap. This should include donors committing to increase their grant contributions to IDA21 by 50 percent over IDA 20 levels.
- **Extend differentiated pricing** to sectors, so that investments in human capital and small-scale agricultural producers in IDA countries receive the most concessional terms.²²

Uses of Finance: Digital Public Infrastructure to achieve the SDGs

New technology can transform lives, provide a pathway out of poverty, and spur economic growth. However, access to digital systems and tools is not equitable, primarily due to market failures and a piecemeal approach to fixing them. 1.4bn adults (World Bank, 2022), particularly women and those in the world’s poorest countries, remain excluded from formal financial services; globally, an estimated 850m people do not have official proof of identity (World Bank, 2022); and 1.7bn lack access to comprehensive digital health services (Digital Square, 2022).

Digital Public Infrastructure (DPI) – an interoperable network of digital systems for payments, ID, and data exchange – presents an opportunity for countries to tackle these challenges and create inclusive, sustainable systems that lead to long-term socio-economic gains.

DPI enables countries to deliver essential services and economic opportunities that advance multiple development goals – including public financial management, domestic resource mobilization, social protection, health care, financial inclusion, and women’s economic power. With DPI in place, individuals can safely and cheaply receive wages, pay bills, access services, and transact with each other, whatever their position in society and wherever they live.

Additionally, DPI gives governments a direct line to citizens in a timely and cost-effective way. This increases countries’ ability to navigate crises, reduces corruption, and facilitates tax collection, thereby building trust with citizens who see the benefits of an equitable and efficient tax system through improved service delivery. During the COVID-19 pandemic, DPI enabled the rapid delivery of emergency response payments (World Bank, 2022). India quickly leveraged its widespread payment and ID systems to reach 200m low-income women in the first three months of lockdown. By contrast, countries with limited systems were left with slower options, such as physically delivering cash or pre-paid cards.

Countries need access to the funding, technologies, and technical and regulatory support to build secure and interoperable DPI. And countries don’t have to start from scratch. They can use open-source digital public goods (DPGs), like MOSIP for ID and Mojaloop for payments, and they can work with technical assistance programs, such as the World Bank’s ID4D initiative or AfricaNenda. By doing so, LICs and LMICs could accelerate GDP growth by 20-33 percent (UNDP, 2022), leapfrog traditional development trajectories by more than 10 years, and help achieve the Sustainable Development Goals (UNDP, 2022).

²² Differentiated pricing is already in place for the risk of debt distress, per capita gross national income and other factors.

- **Reallocate SDRs towards MDBs,** starting with the African Development Bank hybrid capital proposal. Pledges to the African Development Bank and other MDBs, in addition to those towards the International Monetary Fund (IMF), would ensure the G20 USD 100bn target is met, while supporting Africa’s development outcomes.
- **Adapt the operating model of the private-sector lending arms of MDBs** to crowd in more private sector money to address climate-resilient investment needs. Many reforms have already been proposed, including 1) adopting an originate-to-distribute model, 2) maximizing financial additionality by focusing on asset types that are undersupplied by private investors, 3) creating a strategy for improved mobilization of institutional investment, and 4) adopting transparent metrics and reporting on impact.

Address unsustainable debt burdens in LICs and LMICs

An efficient solution to the debt problems of low and lower middle-income countries is also urgently needed. As already noted, many countries are being forced to make tough choices between growing debt service payments and vital investments in economic growth, climate, health, gender equality, and education, as well as other areas.

The G20 “Common Framework for Debt Treatment” must be reformed. It was launched two and a half years ago to facilitate debt restructuring, but, in practice, the process has been inefficient, unpredictable and – ultimately – unappealing for countries which find themselves with no alternative to deep fiscal austerity. Only one country has applied to the Common Framework over the past two years and only one debt treatment has been finalized to date.

We need a rapid review of the Common Framework and changes that will make it a workable option for developing countries. An initial round of reforms to the

Uses of Finance: The Climate Health Nexus

COVID-19 placed a significant strain on health systems, and reversed years of progress on many diseases. There were 14m more malaria cases in 2020 than in 2019, as prevention, diagnosis and treatment were disrupted (WHO, 2021). This foreshadows the additional burdens that climate change will, and in some cases already is, placing on vulnerable health systems. Extreme events and the resulting displaced populations will hamper community-based outreach. Women and children will bear the disproportionate impacts, heightening existing vulnerabilities.

Transformative solutions that provide dual benefits exist in some areas – such as the solar electrification of health facilities, placing them on a low-carbon pathway whilst providing critical refrigeration for vaccines and electrified labour wards in remote areas.

Governments must systematically and proactively factor climate risks into their health strategies and investments or run the risk of locking vulnerabilities into critical systems, which will cost even more to correct later. Health and climate modelers must come together to project how these incremental burdens will play out at national and sub-national levels – building on global forecasts and the lived-experience of communities. Early action will save lives and help enable eradication before climate change complicates efforts further – preventing diseases, like malaria, from surging where they were once under control and stopping them from spreading to new areas. Effectively allocating limited resources will enable countries to get ahead of many impacts and strengthen disease-specific preventative actions, this includes increasing investments in:

- **Research:** into the diseases facing low and lower-middle income countries to identify new solutions.
- **Primary healthcare:** to build resilient facilities able to address a growing scale and scope of cases.
- **Climate/health modelling:** to prioritize the distribution and use of limited resources by need.
- **Disease surveillance:** to monitor transmission and distribution, and inform Early Warning Systems.

Hard limits to adaptation exist and where they are exceeded, climate, health and humanitarian responses must be better coordinated. Climate change is expected to cause 250,000 deaths in Africa per annum between 2030 and 2050 (WHO, 2022). This is not inevitable, but an effective response must place it in the context of the existing priorities of local communities, current disease burdens and the efforts to address them today – both scaling-up finance for proven solutions where they exist and doubling down on research where they do not or will become less effective under climate change.

G20 Common Framework for debt treatment must also be advanced immediately to facilitate debt restructuring in developing countries, introduce debt standstills upon a country's request for a debt restructuring, and begin making a portion of those debts financed at IDA rates through surge financing from MDBs.

While debt restructuring agreements can also address liquidity crises, we need to prevent unsustainable debt build-up by streamlining debt suspension clauses in case of natural disasters or pandemics, shoring up emergency financing facilities including at the IMF, and integrating vulnerability considerations into debt sustainability frameworks.

"If [debt restructuring is] not concluded soon, it is going to distort all the good efforts that we have been making to reconstruct the economy and bring investment."

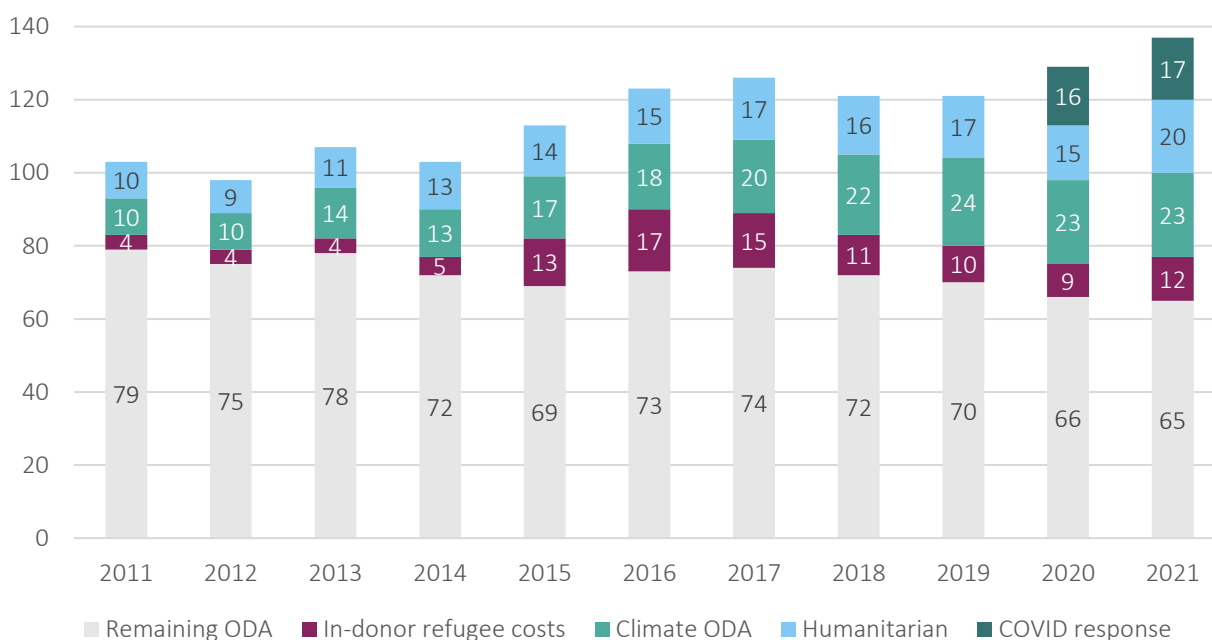
Hakaide Hichilema, President of Zambia

Focusing ODA where it is most needed

How ODA is accounted for and allocated must be reassessed. This will involve re-centering discussions on the purpose of ODA. The OECD DAC defines ODA as support for LICs to grow their economies, create more and better jobs for their people, and improve quality of life through better healthcare and education.²³ However, over time, and particularly over the last ten years, the definition has been stretched in a way that allows ODA to be spent on, for example, refugees in donor countries, debt relief, and direct support to global challenges that are not necessarily in line with the OECD-DAC definition of ODA (see Figure 6).

The definition of what can be counted as ODA has also changed, including, for example, questionable grant-equivalent transformation of lending and guarantees. Donors must commit to recalibrating the share of ODA going to countries where it is most needed, in line with the financing framework above, as well as scaling support for global public goods which address LICs' cross-cutting needs and priorities (see Figure 7). An essential debate for improved aid effectiveness is how to handle the trade-off between directing ODA to countries and issues with considerable needs but no or limited alternative financing, and ODA to initiatives that can catalyze a substantial amount of private capital.

Figure 6: Composition of gross bilateral DAC ODA, constant 2020 USD bn, 2011–2021



Source: Development Initiatives, "How much aid actually reaches the countries with the greatest poverty?", 2023²⁴

²³ OECD, "Official Development Assistance", 2021. The precise definition of ODA is: "government aid that promotes and specifically targets the economic development and welfare of developing countries."

²⁴ Notes: Overlaps between Covid response, humanitarian assistance and climate-marked ODA (principal and significant) have been treated as follows: anything with a Covid keyword is shown under the Covid response category; anything that is humanitarian and not also Covid is shown

Figure 7: People living in extreme poverty in LDCs, and ODA to LDCs, 2011–2021



Source: Development Initiatives, “How much aid actually reaches the countries with the greatest poverty?”, 2023²⁵

Over the past 20 years, there has been a 50 percent increase in the number of countries and multilateral institutions providing official finance. The number of ODA recipients has also skyrocketed, with local organizations receiving less than a third of total ODA.²⁶ Within ODA, improved rules are needed for transparency about how money is being spent. There have also been problems with double counting aid spend.

A first step to ensure ODA is deployed to support LICs and LMICs to achieve equitable and climate resilient development is to channel funding through highly effective multilateral institutions such as IDA. This may require shifts in the representation/weight of legacy donors versus new and emerging donors at multilateral institutions.

under the humanitarian category. Climate-marked ODA is shown in its category only if it is not Covid-related or humanitarian assistance. The Covid ODA shown is based on the ODA activities returned as 'Covid' in the CRS 'Keyword' field, rather than the DAC1 field 'Total ODA for Covid-19 activities', which differs slightly

²⁵ Notes: Continuation of trend scenarios (average annual change) for ODA to LDCs percent total over both last three years and last ten years lead to 23 percent in 2025 DAC bilateral ODA to LDCs percent of total. This was based on following the trajectory of ODA to LDCs as a percentage of total bilateral ODA (including non-country allocable). Applying three-year and ten-year average annual growth both resulted in the 23 percent value. Considering ODA to LDCs as a share of country-allocable ODA from DAC donors, the trend is relatively stable, with ODA to LDCs remaining at around 40 percent over the last decade. The range is from 37 percent to 45 percent but there is no downward trend, and the 2010 value of 41 percent is close to the 2021 value of 40 percent.

²⁶ Center for Global Development, “How much foreign aid reaches foreign governments”

Conclusion

Urgent action is required to address the global climate crisis while leaving no country behind. LICs and LMICs need support for building resilience to ongoing climate change, including for loss and damage, adaptation, and mitigation which is a consequence of inadequate action in HICs. This is in addition to the need for inclusive economic growth and jobs, energy expansion, investments in human capital, reducing poverty and advancing gender equality.

A financing framework that ensures development resources are allocated most effectively and equitably across climate and development challenges is needed to complement existing proposals for reforming the global financial architecture. LICs and LMICs must be at the center of the reform process, and they must be heard so that solutions on debt relief, concessional finance, and international support are co-designed with those who are disproportionately impacted by the current economic and financial crises. As funding is distributed and used, women's voices and needs must also be central to considerations, given their heightened vulnerabilities and their key role in fostering new human capital.

Glossary

Word	Definition
Adaptation	Adjustments in ecological, social or economic systems in response to actual or expected climatic stimuli and their effects. It refers to changes in processes, practices and structures to moderate potential damages or to benefit from opportunities associated with climate change.
Climate resilient development	A process of implementing greenhouse gas mitigation and adaptation options to support sustainable development for all.
Climate vulnerability	The degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes.
Concessional loans	Loans that are extended on terms substantially more generous than market loans. Concessionality is achieved through interest rates below those available on the market, by grace periods, very long maturities, or a combination of these.
Environmental degradation	Any change or disturbance to the environment perceived to be deleterious or undesirable. It is caused by the depletion of resources such as air, water and soil, the destruction of ecosystems and the extinction of wildlife.
Grants	A financial assistance support mechanism providing money, property or other direct assistance in lieu of money, or both, to an eligible entity to carry out an approved project or activity in support of a public purpose and not the direct benefit of the government.
Green economy	Low carbon, resource efficient and socially inclusive. In a green economy, growth in employment and income are driven by public and private investment into such economic activities, infrastructure and assets that allow reduced carbon emissions and pollution, enhanced energy and resource efficiency, and prevention of the loss of biodiversity and ecosystem services.
Green growth	Fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which well-being relies.
Hazard exposure	The situation of people, infrastructure, housing, production capacities and other tangible human assets located in hazard-prone areas.
Human capital	The knowledge, skills, and health that people invest in and accumulate throughout their lives, enabling them to realize their potential as productive members of society.
Loss and damage	The negative consequences of climate change that occur despite efforts to mitigate and adapt to it. It encompasses economic losses, which can be quantified in monetary terms, such as infrastructure damage or crop loss, and non-economic losses, which are challenging to measure, such as trauma, displacement, or biodiversity loss. Loss and damage can result from both sudden extreme events like heat waves and storms, as well as gradual changes like rising sea levels or ocean acidification.

Mitigation	The lessening or minimizing of the adverse impacts of a hazardous event.
Non-concessional loans	Loans with market-based interest rates.
Overseas development assistance	Government aid that promotes and specifically targets the economic development and welfare of developing countries.
Resilient capacities	The ability of a system, community or society exposed to hazards to resist, absorb, accommodate to—and recover from—the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions.
Social safety nets	Social welfare services provided by a community of individuals at the state and local levels. These services are geared toward eliminating poverty in a specific area, and may include housing re-assignment, job placement, subsidies for household bills, and other cash equivalents for food. Social safety net works in conjunction with several other poverty reduction programs with the primary goal of reducing/preventing poverty.