Understanding Global Concessional Climate Finance 2024

Enhancing its scale and efficiency for climate action

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CLIMATE POLICY INITIATIVE

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices around the world in Brazil, India, Indonesia, South Africa, the United Kingdom, and the United States.

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EXECUTIVE SUMMARY

Concessional capital—finance offered at more favorable terms than the market—must increase by at least fivefold by 2030 to achieve the Paris goals (IHLEG, 2023). Affordable capital is essential to driving the low-carbon and resilient transition, especially for sectors and activities that are either nascent or do not yield revenue streams. It is also necessary for protecting the regions and populations most vulnerable to the impacts of climate change. Concessional capital is crucial in reducing the average cost of capital in investments, creating markets, and fostering enabling conditions for private actors to fill the multitrillion-dollar climate investment gap. Climate Policy Initiative's Global Landscape of Climate Finance 2023 (the Landscape) found that concessional finance was only 11% of total climate finance with the rest focusing on market-rate debt and equity instruments (CPI, 2023 a).

Assessing a baseline for concessional climate finance is crucial to understanding how it can be scaled up and where to direct it to unlock further capital for action. This report uses data from the Landscape to track concessional climate finance channelled both internationally and domestically, with particular focus on cross-border flows. Building on publicly available data on international concessional climate finance,[1] we dig deeper into the sources, climate-related uses, sectors, and geographic destinations of these flows from 2019 to 2022. This research captures primarily international concessional loans (low-cost debt) and grants, excluding any market-rate financial instruments.

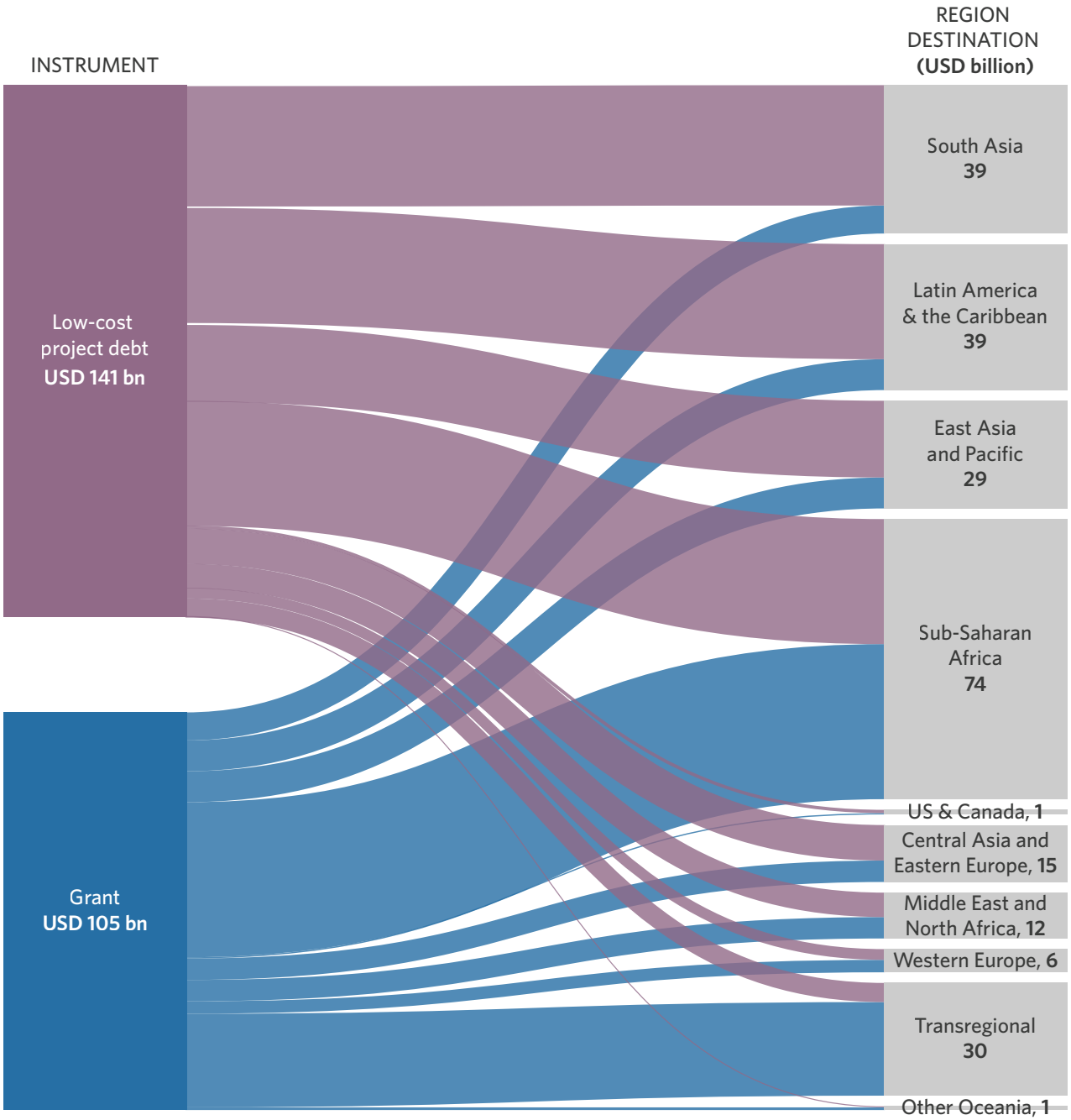
KEY FINDINGS

International concessional climate finance increased by 50% from 2019 reaching USD 81 billion in 2022. While this increase is a step into the right direction, this amount remains low compared to not only global needs but also other climate-damaging concessional flows for fossil fuels. Fossil fuel subsidies reached USD 1.3 trillion in 2022 and international public funding for the fossil fuel sector was at least USD 47 billion per year between 2020 and 2022 (Oil Change International, 2024). These are substantial pools of funding that have great potential to be redirected to support concessional finance for climate action. and a just and sustainable development more broadly

Global official development assistance (ODA) increased by 22% in 2022 compared to the previous year, reaching USD 287 billion, partly because of increased aid and support for Ukraine. USD 109 billion of this ODA was in the form of grants, with climate-related grants making up 35% (USD 38 billion) (UNCTAD, 2024).

1 These publicly available data sources include the OECD-DAC, Joint MDB Report on Climate Finance, IDFC Green Finance Mapping, and Climate Funds Update. See the 6.2 Annex Methodology section for further information.

Figure ES 1: International concessional climate finance in 2019-22 by instrument and regions



WHERE IS CONCESSIONAL CLIMATE FINANCE GOING INTERNATIONALLY?

- **International concessional climate finance has increased.** Most international concessional climate finance was provided by bilateral development finance institutions (DFIs) (33%), followed by multilateral DFIs (30%), and direct project-level international funding from governments and their agencies (26%).[2] Multilateral environment and climate funds provided 5% of concessional climate finance.[3] While the volumes provided by MCFs are comparably low, their concessional nature creates the potential to advance transformative, systemic change while building markets and capacity to mobilize additional finance.

2 Examples of bilateral DFIs include Japan International Cooperation Agency and KfW; multilateral DFIs include the International Development Association and World Bank. Direct government funds may come from economic cooperation and development ministries.
3 Examples of multilateral climate funds are the Green Climate Fund, Adaptation Fund, Global Environment Facility and Climate Investment Funds.

- **About 360 institutions provided international concessional finance for climate action between 2019 and 2022.** About 10 institutions provided 70% of concessional finance. Having many avenues for accessing concessional capital may increase the availability of climate finance. However, having a multitude of finance providers, each with its own disbursement process, can increase transaction costs and logistical hurdles for recipients and therefore, result in delayed climate action (ODI, 2024).
- **Over time, the share of loans and grants remained fairly similar** with concessional loans accounting on average for 57% and grants for 43% between 2019 to 2022. Total international grant finance reached USD 38 billion in 2022, compared to an average of USD 22 billion between 2019 and 2021.
- **Least-developed countries (LDCs) received approximately 33% (USD 21 billion annual average) of total international concessional climate finance.** The rest of the EMDEs (excluding China) received a further 60% of these flows. Sub-Saharan Africa was the primary destination of international concessional climate finance, receiving 30% of the total, followed by South Asia and Latin America and the Caribbean, each receiving 16% of the total (Figure ES1).
- **Countries affected by fragility and conflict have received less concessional climate finance in those years.** For example, Myanmar, Burkina Faso, Niger, and Sudan have experienced stark decreases in international concessional climate finance between 2019 and 2022 in the years of increased conflicts. Countries affected by fragility and conflict receive less adaptation finance compared to other low-income countries indicating the importance of strengthening delivery channels in those countries (World Bank, 2024).
- **Almost 42% of international concessional climate finance targeted climate mitigation activities between 2019 and 2022**. Adaptation and resilience efforts received 36% of concessional climate finance over the same period. Activities with dual objectives (both mitigation and adaptation) received the remaining 22% and it increased over the years. The increase in dual objectives finance means that funders are targeting a more systemic transformation. However, it still leaves a large gap for adaptation and resilience where concessional finance is critical considering its public good character.
- **Compared to low-cost loans, international grants for climate action tended to target projects with smaller ticket sizes, tilting their focus toward shorter-term outcomes and impacts**. Between 2019 and 2022, the average ticket size was USD 3 million for projects financed by grants and USD 74 million for low-cost debt. Small ticket size projects often deter large institutional investors, leaving financing to public development finance institutions or development aid agencies.
- Approximately 37% of international concessional finance supported the **direct infrastructure costs in the transport, energy systems, and water and wastewater sectors**. A further 15%, or about USD 28 billion, provided policy and capacity-building support to national governments in developing countries, mainly in the form of technical assistance grants. The share of such policy support which is a critical enabler of more systemic, country-driven transformations, had increased in 2022 compared to 2019.
- **We found no coordinated approach or impact metrics** for concessional funding channelled by international actors although some efforts among MDBs are emerging e.g. MDB Common Approach to Measuring Climate Results. In addition, data on the mobilization of public and private climate finance using public concessional resources remains fragmented.

WHAT IS THE STATUS OF DOMESTIC CONCESSIONAL CLIMATE FLOWS?

- While this report focuses on international concessional climate finance, we acknowledge that domestic flows also significantly contribute to national climate action. These can be provided in the form of subsidies or low cost debt through fiscal transfers or public domestic financial institutions.
- Data on domestic concessional climate finance is scarce across countries given the general lack of transparency in climate relevance of public budget expenditure.
- However, available information indicates that domestic concessional climate capital is focused on mitigation action and is exclusively channeled by governments and national development finance institutions, highlighting the important role of national institutions. We anticipate that considerable adaptation spending is being included in government budgets, but the lack of data hinders the tracking of these flows (CPI, 2024b; GCA, 2020).
- Domestic concessional finance is concentrated in high-income economies**.** Around 75% of these investments were made within Western Europe and 15% in East Asia and the Pacific. Domestic concessional climate investment in the rest of the world stood at just 10% based on available data.
- Domestic concessional climate finance tends to support governments' long-term objectives with clear and predictable timelines and signals to the private sector.

RECOMMENDATIONS

Given the scarcity of concessional climate finance, both internationally and domestically, international cooperation is required to scale these flows within a more coherent climate finance architecture. We must move beyond ambiguous invocations of "private sector mobilization" to a truer private sector view for a long-term and sustained funding of the climate investment gap.

Some specific strategies for concessional climate finance providers to enhance the scale and efficiency of their activities are outlined below.

1. **Tap all available sources to expand the volume of concessional climate finance, including by:**
    a. Further increasing ambition and the share of concessional capital in climate finance provided by existing sources (governments, public development banks, and multilateral and national climate funds).
    b. Implementing new and innovative mechanisms for expanding concessional climate finance, including through international taxation, credible carbon markets, and special drawing rights (IHLEG, 2023).
    c. Redirecting harmful fossil fuel subsidies and loans to provide long-term support for climate action, noting that some subsidies will still be required to provide a safety net for lower-income and vulnerable groups affected by the energy transition, as well as adverse climate change impacts.

2. **Target scarce concessional resources to where they are needed most to increase their impact, including by**:

    a. Targeting flows to communities facing the worst impacts of climate change and/or socioeconomic fallout from the low carbon transition including fragile and conflict affected countries, least developed countries and small island developing states.

    b. Prioritizing concessional finance for early-stage and frontier climate sectors that have the potential to mobilize private finance, while continually reviewing market developments and adjusting exit strategies. By supporting transactions at different stages of development, concessional capital can be strategically used to build an ecosystem of market actors and investors.

    Better using resources to mobilize domestic finance and support country platforms to shift their entire economies to low carbon transition and climate resilient development. Concessional capital should support developing countries' priorities in a coordinated manner. This may include funding project development, aggregation, and risk management, as well as fostering collaboration and coordination among governments and local actors to mobilize domestic resources (CPI, 2024 a).

3. **Use scarce concessional resources more efficiently, including by**:

    a. Exploring the use of concessional finance and risk-management instruments to shift toward wholesale risk mitigation, thereby lowering the cost of capital.

    b. Standardizing and streamlining climate finance project approval processes across major concessional climate finance providers (DFIs and multilateral and vertical climate funds).

    c. Improving efficiency across major concessional climate finance providers, harmonizing approaches, and fostering comparative advantages among institutions.

    d. Allowing intermediaries to deploy funds more flexibly, in structures other than concessional loans (senior or subordinated). This can enhance the development and delivery of risk mitigation structures to enable access to even more private capital.

    e. Concessional finance channelled to broader sustainable development goals (SDG) can be further scaled and used to manage common market risks and barriers to climate investment, such as currency risks or local domestic capital market development which can help unlock further climate finance.

4. **Improve impact metrics to better understand concessional finance, including by:**

    a. Streamlining approaches to evaluating the impact and effectiveness of finance while acknowledging that outcomes and effectiveness are linked to local contexts.

    b. Increasing transparency to share lessons learned, such as regarding actual risk and return, or which transaction costs may gradually be reduced.

    c. Going beyond project-level ex-post evaluation to conduct more systemic evaluations of the impacts and outcomes of concessional finance beyond its stated objectives. This should include longer-term (non-market) factors, such as institutional and policy reform or more flexible use of funds beyond capital preservation. While challenging to implement, such efforts will enable more high-impact interventions for concessional capital.

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1. INTRODUCTION

Demand is increasing to scale concessional finance and better target it to reduce the cost of capital and catalyze further capital from other sources to tackle climate change. Concessional finance can be in the form of debt, equity, or grant capital—or their combination—offered at more favorable terms than the market. This could involve lower interest rates or non-financial benefits such as longer repayment periods or the use of guarantees.

In 2023, various leading international organizations highlighted the need to increase concessional climate finance. The UNFCCC Global Stocktake underscored the importance of scaling up the concessional financing models of multilateral development banks (MDBs). At the same time, the Independent High-Level Expert Group on Climate Finance (IHLEG) estimated that **concessional climate finance must increase by at least fivefold** by 2030 in emerging markets and developing economies (EMDEs). In addition, the International Energy Agency and International Finance Corporation (2023) estimated that EMDEs will need between USD 80 billion and USD 100 billion in concessional funds by 2030 to mobilize private finance to achieve net zero in their energy sectors alone.

However, the predominantly public sources of concessional finance are being stretched by competing demands arising in the post-COVID-19 recovery, global security tensions, competing development objectives, and sustained pressure for the delivery of public services.

THE IMPORTANCE OF CONCESSIONAL CLIMATE FINANCE

The availability of affordable capital is a key driver of the climate transition. Private sector finance—which comprises two-thirds of the world's economic activities—will be vital to close the multitrillion-dollar climate investment gap. However, increasing private investment will require more upfront concessional capital to foster enabling conditions, mitigate certain risks, and facilitate market development. Concessional climate finance can help achieve the following:

- **Derisking projects through financial innovation.** Concessional finance is increasingly being used in instruments such as blended finance and as guarantees to improve risk profiles and reduce the cost of capital for high-impact projects. More and more private financial institutions are seeking opportunities that combine private and public funding, with such deals hitting a five-year high of USD 15 billion in 2023 (Bloomberg, 2024).
- **Support to create new markets.**
    - **Overcoming initial cost barriers to support the creation of new markets**: Most of today's viable innovative clean energy technology received initial R&D investment from governments and corporations. Such early investment can demonstrate project viability, enabling cost reductions and improved efficiency of technologies, raising their competitiveness against fossil fuel-based alternatives.
    - **Managing risks and overcoming high costs of capital**: The development of clean technologies carries a cost premium due to various risks and constraints in establishing a new market, particularly in EMDEs (ESMAP, 2023). EMDEs also face higher costs of capital than high-income countries due to real and perceived risks (CPI, 2023 b).

Concessional finance can help overcome this cost barrier, helping to reduce costs for future projects and laying the foundation for the development of successful domestic markets.

- **Financing activities that would not be funded by the market.** Concessional finance is essential for building adaptation and resilience, protecting biodiversity and minimising loss and damage due to the public good nature of these activities. It can also be used to compensate for the early closure or decommissioning of fossil fuel power plants.
- **Creating an enabling policy environment.** Concessional capital to support technical assistance and research activities will be important for governments and public/private partnerships to develop climate-aligned industrial policies, as well as legal and regulatory reforms conducive to private sector activities.
- **Building capacity**. Many governments and local public and private stakeholders around the world lack the technical capacity and know-how to implement complex policy reforms or projects for climate action. Grant financing or technical assistance facilities can bridge the knowledge and capacity gap.
- **Freeing up fiscal space for climate action.** Many EMDEs have limited scope to expand public support due to weakened fiscal positions since the COVID-19 pandemic and amid rising interest rates (IEA, 2024). Of the 59 developing economies most vulnerable to climate change, 34 are also at high risk of debt vulnerability (IMF, 2022). In addition to solutions such as comprehensive debt restructuring, debt-climate swaps, concessional climate finance instruments can help support those climate-vulnerable countries that are unable to take on more debt and have limited access to international financial markets (IMF, 2022, IEA, 2024).

Despite the above benefits, concessional capital can also create perverse incentives and crowd out private capital if improperly used. This can hinder the development of viable markets and inhibit commercial finance (IFC, 2021). For example, concessional support for inefficient business models could render sectors and industries that are capable of achieving commercial viability dependent on permanent subsidies or aid. High dependence on fossil fuel subsidies is another example of inefficient allocation of scarce public capital.

Concessional climate finance can help achieve several goals.

Derisking projects through financial innovation

Concessional finance is strategically used in innovative financial instruments such as blended finance transactions or the use of guarantees to reduce the cost of capital and attract more public and private capital.

Support to create new markets

Overcoming initial cost barriers to establish new markets

Early investment can demonstrate viability of projects and enables clean energy technology cost reduction and improved efficiency, raising its competitiveness against fossil fuel based alternatives.

Managing risks and overcoming high cost of capital

The cost of capital is higher in EMDEs than in high-income countries due to real and perceived risks (CPI, 2023) - concessional climate finance can help countries overcome this initial cost barrier and lay the foundation for the development of successful domestic markets.

Targeting finance to activities that otherwise would not be funded

These include support for adaptation and loss and damage as well as global public goods.

Creating enabling policy environment

Concessional capital will be important for government entities and public/private partnerships to develop climate-aligned industrial policies, as well as legal and regulatory reforms conducive to private sector activities.

Building capacity

Grant financing or technical assistance facilities can bridge the knowledge and capacity gap to implement complex reforms or projects for climate action.

Freeing up fiscal space for climate action

As many countries are unable to take on more debt and have limited access to international financial markets, grant funding plays an essential role in supporting climate-vulnerable countries that do not have the fiscal space to accumulate new debt (IEA 2024).

STUDY OBJECTIVES

This study aims to set a baseline on who is providing what kind of concessional finance, for which activities, and in which geographies. This information is crucial for public and private concessional providers and policymakers to better understand how to increase the scale of finance and where it could be directed to unlock more capital for climate action, avoiding perverse incentives.

This report builds on Global Landscape of Climate Finance 2019-2022 data on concessional finance, which uses data from the OECD-DAC, Joint MDB report on Climate Finance, Climate Funds update, among others. CPI also gathered additional data including from IDFC Green Finance Mapping reports. The report adds value by digging deeper into the sources, climate-related uses, sectors, and geographic destinations of concessional climate finance flows from 2019 to 2022. It focuses only on concessional loans and grants, excluding any market-rate financial instruments.

2. METHODOLOGY

Our analysis follows the climate finance tracking framework based on CPI's methodology for the Global Landscape of Climate Finance (2023) and dives deeper into the state of concessional climate finance.

The framework aims to track finance flows from sources and intermediaries against types of financial instruments, regional destinations, country income groups, types of activities, mitigation and adaptation uses, and sectors.

SCOPE OF ANALYSIS

This report focuses on international concessional finance flows for climate action, provided at below-market rates by governments, major financial institutions (e.g., development banks and multilateral funds), and philanthropic organizations. It also provides an overview of available data on domestic concessional capital.

Overall, the approach focuses on tracking primary concessional finance flows directed toward climate mitigation and adaptation activities. These include:

- **Grants or subsidies:** Finance with no expectation of repayment, sometimes paid if a project reaches specified milestones.
- **Low-cost debt**: Debt provided at lower than market rates.

The definition on concessionality varies across institutions (details in Annex). Our analysis follows the OECD definition on concessional funds that meet the Official Development Assistance (ODA) grant equivalent threshold with economic development and welfare as the main objective.

DATA LIMITATIONS

International concessional finance between developing economies has limited tracking due to the lack of data.

Our analysis does not cover private finance mobilization rates due to a lack of standardized metrics and definitions of mobilized finance. Our tracking also excludes risk management instruments such as guarantees and insurance as well as concessional equity investment.

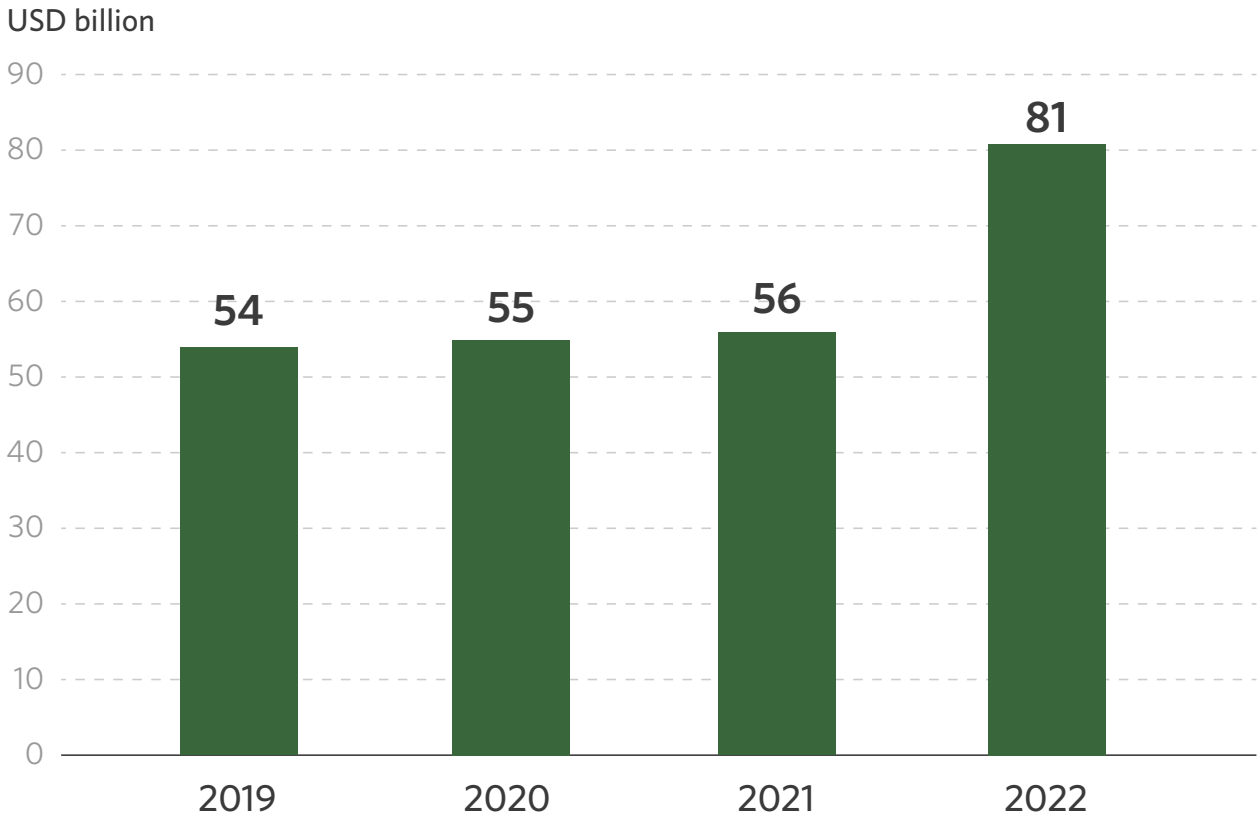
Domestic concessional climate finance data is limited and mostly covers government subsidies for the clean energy and transport sectors, as well as concessional finance from national development finance institutions (DFIs). **For more information on methodology, please refer to the Annex.**

3. KEY FINDINGS

3.1 TRENDS IN CONCESSIONAL CLIMATE FINANCE 2019-2022

International concessional climate finance reached USD 81 billion in 2022. This marks an approximately 50% increase compared to the 2019 level. CPI tracked international concessional climate finance of about 360 public and private institutions between 2019 and 2022**.**

Figure 3.1: International and domestic concessional climate finance from 2019 to 2022 (USD billion)



While international concessional climate finance is growing, these flows remain small relative to overall concessional finance going to general philanthropic giving and fossil fuel subsidies.

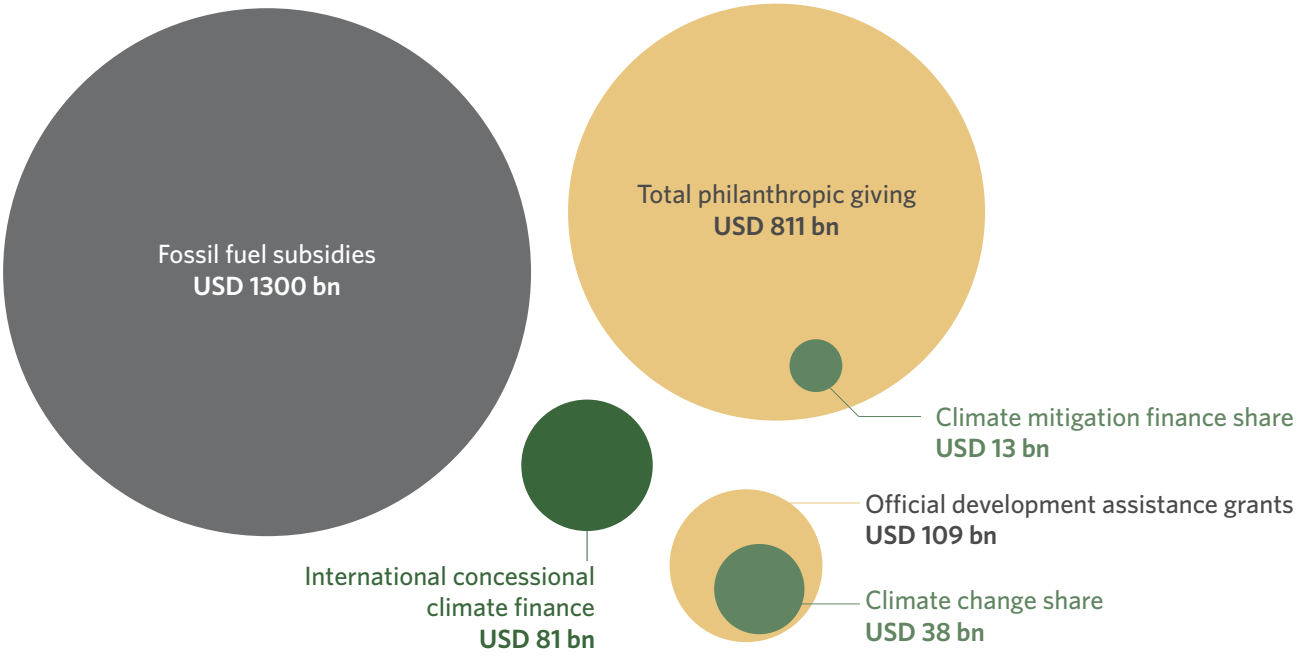
- Total philanthropic giving[4] reached USD 811 billion in 2022, of which less than 2% (between USD 8 billion and USD13 billion) targeted climate mitigation action, showing modest growth of 12% compared to 2021 (Climate Works, 2023).
- Global ODA from developed to developing countries stood at USD 287 billion in 2022, reaching the highest level on record (UNCTAD, 2024). In 2022, global ODA increased

4 Comprising philanthropic giving by companies and foundations.

by 22% on the previous year partly driven by support for countries' COVID-19 recovery and increased humanitarian aid, including in relation to the war in Ukraine. While grants made up USD 109 billion of total ODA, climate-related grants accounted for just USD 38 billion of that amount.

- Total domestic fossil fuel subsidies, on the other hand, were USD 1.3 trillion as of 2022 (IMF, 2023). In addition, fossil fuel-based ODA and other official flows reached USD 5.4 billion in the same year, up from USD 1.2 billion in 2021 (Clean Air Fund and CPI, 2024) and at least USD 47 billion was recorded in international public finance annually between 2020 and 2022 (Oil Change International, 2024). This presents a concessional capital source that could be redirected to climate finance both to prevent long-term lock-in of fossil fuel infrastructure and to increase the scale of concessional capital for climate action

Figure 3.2: Concessional climate finance in the context of other flows in 2022 (USD billion)



The subsequent sections explore international concessional climate finance by sources, geographies, sectors, and uses between 2019 and 2022 followed by analysis of domestic concessional finance in the same period.

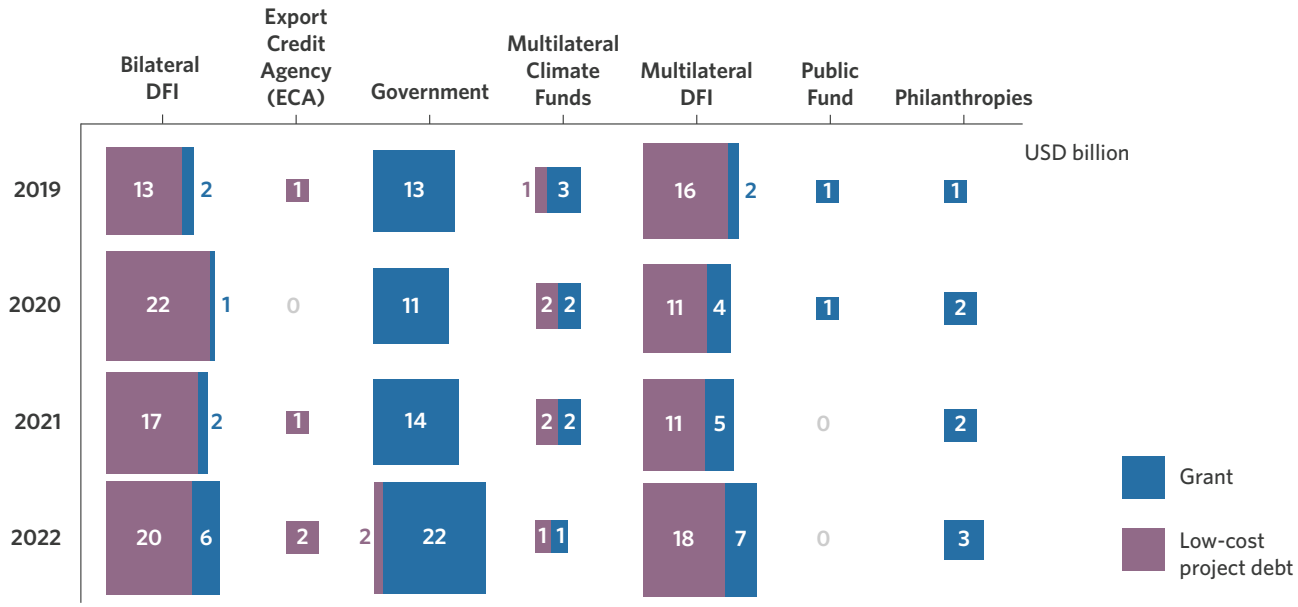
3.2 SOURCES AND TYPES OF CONCESSIONAL CLIMATE FINANCE INSTRUMENTS

Most international concessional climate finance was provided by bilateral DFIs (33%), followed by multilateral DFIs (30%) and governments (26%). The majority of such finance from bilateral and multilateral DFIs was in the form of low-cost debt, while governments primarily provided grants. Total climate finance by bilateral DFIs reached USD 34 billion in 2022, with 74% of this flowing as concessional finance. MDBs' climate finance totaled USD 111 billion in 2022, of which 23% was concessional. Typically, eligibility to receive grants or concessional

loans from MDBs is determined by country income group levels, with priority given to low-income countries. About 10 organizations provided 70% of international concessional climate finance. The top senders of concessional climate finance among bilateral DFIs include Japan International Cooperation Agency, KfW, and Agence Française de Développement. Among MDBs, the World Bank, Inter-American Development Bank, and the International Development Association (IDA) lead on these flows. We note that bilateral and multilateral climate finance institutions are ultimately funded by the governments that are their shareholders. Among governments directly providing concessional funds to projects, Germany and the European Commission, were most notable.

Concessional climate finance by multilateral climate funds (MCFs) accounted for 5% of the total, on average between 2019 and 2022, and was mostly provided through grants. MCFs provided 89% of their total climate finance in concessional form. While the volumes provided by MCFs are comparably low, their concessional nature creates the potential to advance transformative, systemic change while building markets and capacity to mobilize additional finance. They support both upstream policy, planning, and project preparation work as well as implementation and downstream private finance mobilization. They also serve an important bridging function, channeling climate finance through regional, national, or subnational DFIs in EMDEs. Given that MCFs are primarily funded through donor contributions, they should be able to pursue innovative approaches with higher risk tolerance than other actors in the climate finance landscape. This can ensure their additionality in projects' capital stacks, adopting flexibility in terms of pricing, tenor, rank, and security (CPI, 2024a).

Figure 3.3. International concessional climate finance by actors and instruments (2019-2022; USD billion)



Concessional loans accounted for 57% of tracked international concessional climate finance, and the remaining 43% was in the form of grants. In absolute terms, financing has increased across both instruments over time, with the ratio of concessional loans to grants remaining fairly stable. Total international grant finance reached USD 38 billion in 2022 compared to an average of USD22 billion between 2019 and 2021.

Private flows—philanthropic giving by foundations or companies—currently account for less than 2% of total domestic and international concessional climate finance.

While concessional climate finance is increasing every year, more sources, including new and innovative sources, will be needed to expand it (IHLEG, 2023). Options for bolstering such sources are discussed in Box 1.

Box 1: Beyond international climate finance

There are various options for expanding the sources of concessional finance, including via:

Leveraging taxation to support a just transition: If targeted carefully, taxation and subsidies can correct market failures and create long-term incentives to develop industries and markets that provide climate mitigation and adaptation solutions. The Global Solidarity Levies Task Force was established at COP28 to foster political will around options for progressive levies to support climate and development action and bring together international and national initiatives working on levy options. For example, the International Maritime Organization (IMO) plans to launch the world's first global carbon emissions tax on maritime shipping in 2027. Denmark has introduced tax reforms to generate funds and provide tax relief for the green transition. These take into account the additional burden of higher carbon taxes on households by redirecting some of the revenue they generate to the most vulnerable households (CEP, 2022). A stronger focus on higher income earners can increase equity and revenue generation for fiscal space (OECD, 2024).

Carbon markets: Despite the uncertainty around voluntary carbon markets, if channeled correctly, they could grow to USD 50 billion by 2030 (McKinsey, 2023), potentially providing additional concessional finance. However, to achieve this, there is a need to support and develop strong integrity standards for carbon credits. Countries should also consider leveraging voluntary carbon market approaches to create light-touch domestic carbon markets that can help with pricing carbon, meet their Nationally Determined Contribution targets.

Special Drawing Rights (SDRs): This year sees the replenishment of key resource pools such as IDA capital, potential expansion of SDRs, and continued discussion on expansion of operating capital within MDBs, DFIs, and MCFs. For example, the International Monetary Fund's Resilience and Sustainability Facility, established in 2022, aims to provide longer-term financing to strengthen the economic resilience and sustainability of developing countries.

New actors: New entrants such as high-net-worth individuals (HNWI) and family offices are incorporating impact investing in their asset allocations (Barclays, 2023), and even investment advisory groups are tailoring their offerings to provide concessional capital investment advice. These actors have a unique ability to deploy a variety of capital swiftly and flexibly.

3.3 REGIONS AND TYPES OF ACTIVITIES

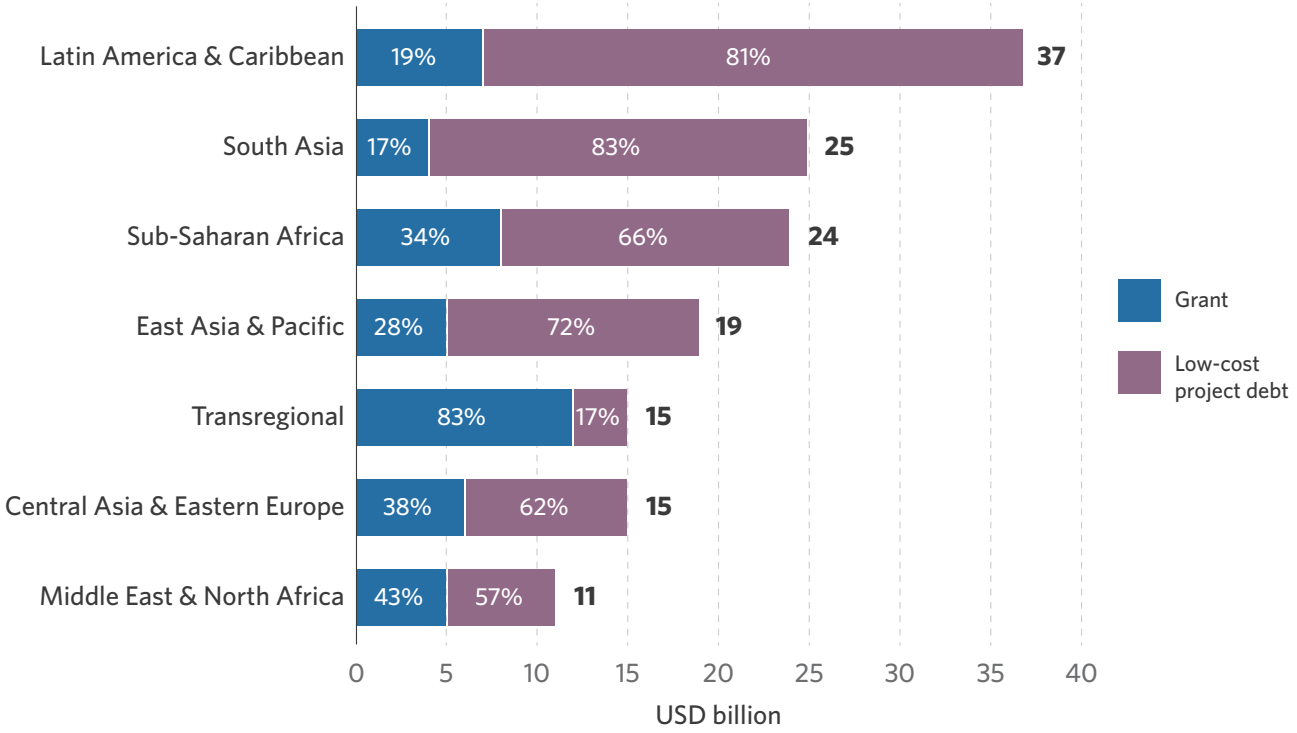
Sub-Saharan Africa was the primary destination of international concessional climate finance, receiving 30% of the total. It was followed by South Asia, and Latin America and the Caribbean, each receiving 16% of the total between 2019 and 2022.

EMERGING MARKETS AND DEVELOPING ECONOMIES (EMDES)[5]

Almost 60% of international concessional climate finance recipients were emerging markets and developing economies between 2019 and 2022. Concessional finance for EMDEs was stable between 2019 and 2021 with annual average flows of USD 34 billion. However, in 2022, it reached USD 46 billion increasing by almost 35% compared to the previous year. Of the international concessional climate finance that went to EMDEs, 67% was in the form of concessional loans between 2019 and 2022.

Latin America and Caribbean region received 25% of total concessional climate finance between 2019 and 2022. The Middle East and North Africa and sub-Saharan Africa showed increases of 49% and 57%, respectively between 2019 and 2022. While this growth is promising, it is increasing from a low base. International concessional finance flows in Central Asia and Eastern Europe, as well as East Asia and the Pacific (excluding China), are largely stagnant with annual average of USD 3.8 billion and USD 5 billion, respectively, between 2019 and 2022.

Figure 3.4. Total international concessional climate finance in EMDEs by instrument (2019–2022; USD billion)



5 Excludes least developed countries and China

LEAST DEVELOPED COUNTRIES (LDCs)[6]

LDCs received 34% of international concessional finance between 2019 and 2022, with over half of this in the form of grants. Almost 80% of grant funding went to adaptation and dual objectives finance, while 45% of low-cost debt targeted mitigation activities. After stagnating in 2021, the flows to LDCs increased in 2022 by 52%, reaching USD 29 billion. Including non-concessional flows, total climate finance flows in LDCs reached USD 39 billion, meaning the majority of tracked climate finance flows in this country group were concessional. Despite the increase, the total climate finance flows still fall significantly short of meeting LDCs' climate finance needs, which are conservatively estimated at USD 94 billion a year (IIED, 2015).

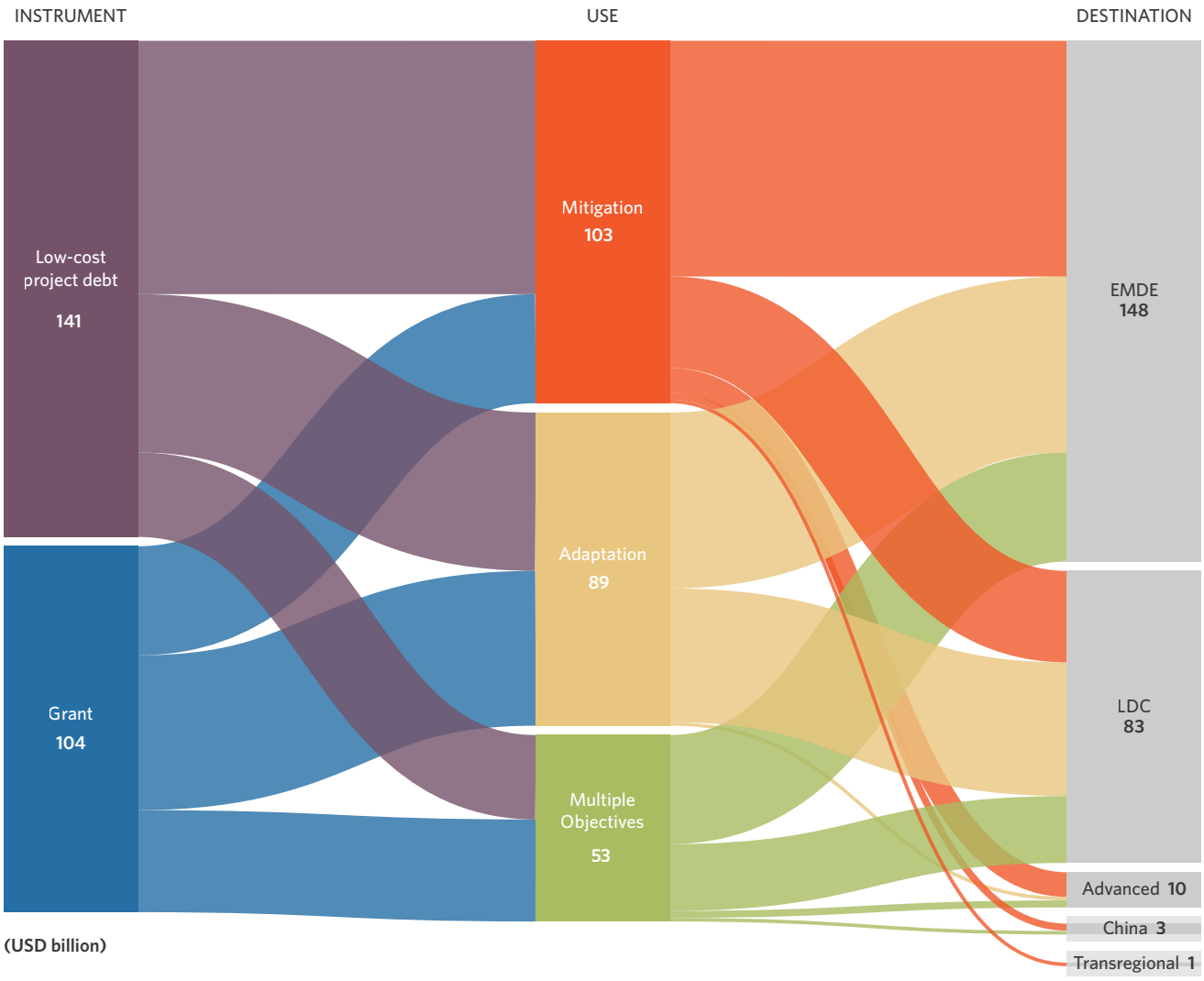
Between 2019 and 2022, 60% of international concessional finance flows to LDCs went to countries in sub-Saharan Africa, where 33 of the 45 LDCs are located. LDCs in South Asia, and East Asia and the Pacific received 17% and 8% in the same period. There was a spike in international concessional finance for climate action in 2020 following the COVID-19 pandemic. However, concessional climate finance reduced drastically in LDCs affected by conflict in a given year. For example, Myanmar, Burkina Faso, Niger, and Sudan have experienced stark decreases in international concessional climate finance between 2019 and 2022. This is potentially because delivery channels for climate finance in conflict-affected countries become challenging (IRC, 2024). Poorer populations and communities affected by conflict are often the most vulnerable to the impacts of a changing climate (Hallegatte et al, 2016). Spillover effects associated with fragility and conflict could become even more disruptive, including more forced displacement and migration to other countries (IMF, 2023 b). In countries where domestic resources and policies cannot easily protect communities, international support is needed to finance adaptation and improve institutional capacity.

DEVELOPED ECONOMIES AND CHINA

We also tracked about USD 14.3 billion in international concessional finance going to developed countries and China. In contrast to LDCs and EMDEs, international concessional finance to these countries mostly went to mitigation solutions; 59% of grant finance and 78% of low-cost debt targeted climate mitigation action.

6 The LDCs identified in this report align with those designated as such by the UN. The EMDEs are all developing countries excluding the LDCs. See: https://unctad.org/topic/least-developed-countries/list

Figure 3.5. International concessional climate finance by instrument, use and destination, (2019–2022; USD billion)



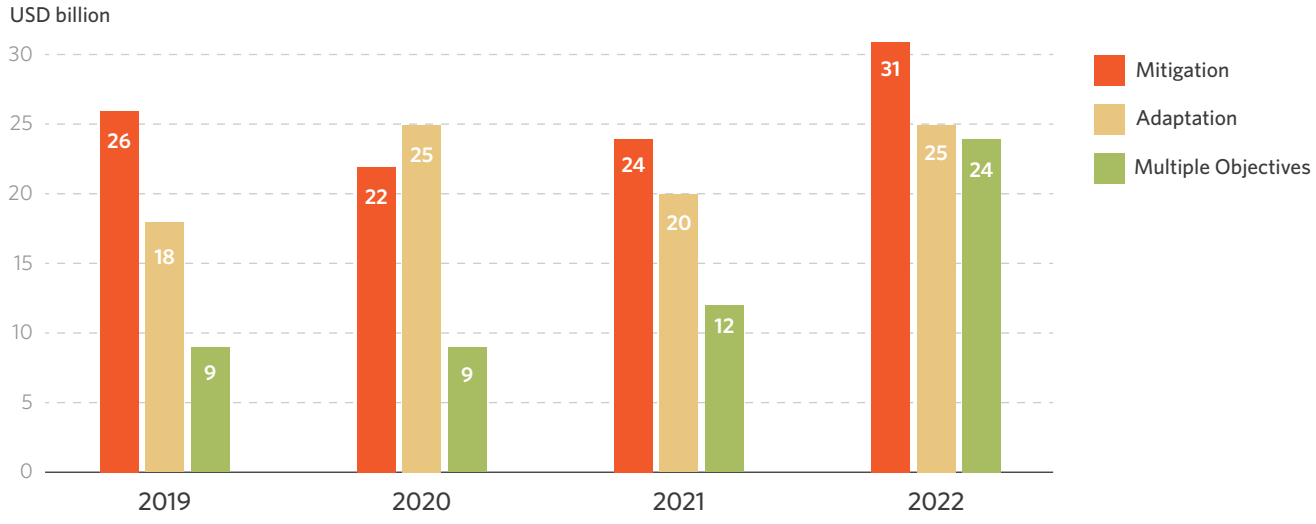
South-South cooperation[7] is increasingly seen as a crucial part of solving the climate crisis. These countries may share climate risks and have similar economic, capacity-building and technological needs and challenges. Proponents of South-South flows suggest these can be based on common values, mutual benefit, and sovereign ownership (UNCTAD, 2022). However, South-South climate flows remain low, with a lack of reporting. CPI estimated around USD 18 billion annual average in climate finance flows between developing countries in 2021/2022 (CPI, 2023). Some of the other available data suggests that about USD 4.5 billion in climate finance flows annually was directed from China to other developing countries, however, further research is needed to establish the concessionality of global South-South climate finance flows (WRI, 2024).

7 Refers to a broad framework for collaboration and exchange among countries of the South in the political, economic, social, cultural, environmental and technical domains (UNEP, 2024).

3.4 SECTORS AND USES OF ACTIVITIES

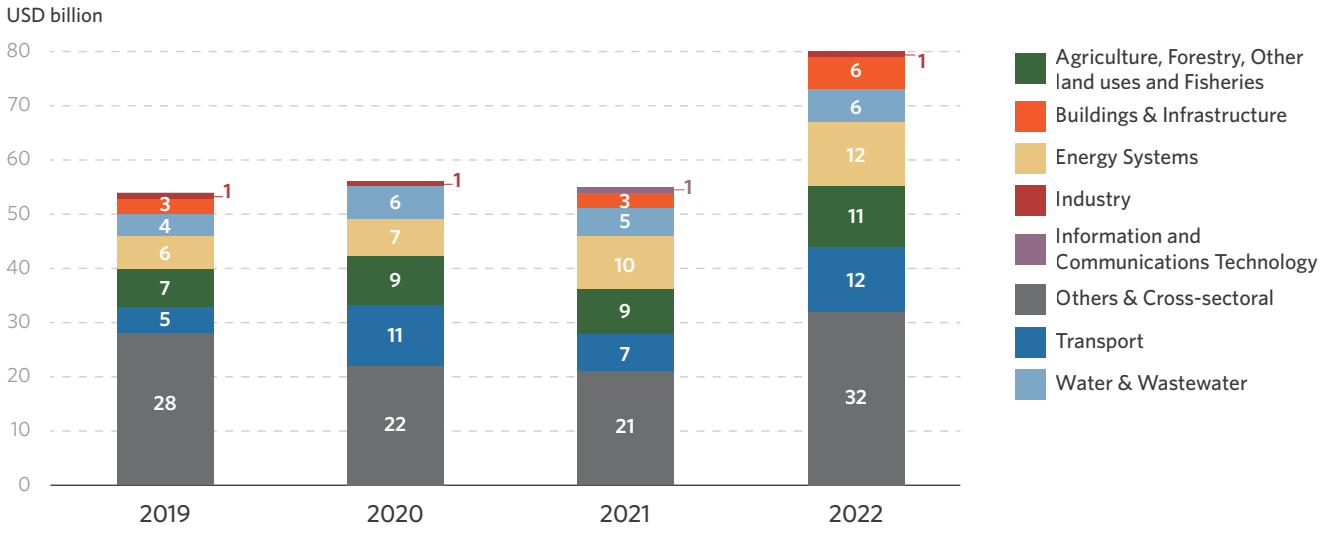
International concessional climate finance is relatively similarly distributed between mitigation and adaptation activities. Between 2019 and 2022, almost 42% of these flows targeted mitigation, whereas adaptation and resilience received 36% and dual-objective activities 22%.

Figure 3.6. International concessional climate finance by use (2019–2022, USD billion)



International concessional finance primarily targeted cross-sectoral activities (42%) between 2019 and 2022, including themes such as disaster risk reduction, health, sustainable recovery for climate change, and technical assistance for public policy on energy transition. It was followed by the transport (14%), energy systems (14%), and agrifood system sectors (14%). The secondary sectoral focus of concessional finance differs across regions: AFOLU[8] (22%) and energy sectors (18%) in sub-Saharan Africa, transport in South Asia (19%). and energy systems in Latin America and the Caribbean (5%).

Figure 3.7: International concessional climate finance by sector (2019-2022; USD billion)



8 AFOLU stands for Agriculture, Forestry, Other land uses and Fisheries

Approximately 40% of international concessional finance supports direct capital investment in transport, energy systems, and water and wastewater sectors. Many of the direct capital investment projects are accompanied by technical assistance activities, which are not reported separately. Some of the high-impact sectors and themes, including agrifood systems, industry decarbonization, methane abatement, and nature-based solutions, have not been funded adequately. For example, the AFOLU and industry sectors received approximately 14% and 12% of international concessional finance.

The majority of international concessional grant finance is channelled to projects with smaller ticket sizes compared to low-cost debt, with a median grant per project of USD 300 thousand between 2019 and 2022. Low-cost debt had a higher median ticket size of USD 30 million.

Approximately 15% of concessional climate finance, or about USD 12 billion, went to technical assistance activities in 2022 to provide policy support as well as capacity-building efforts for national governments in developing countries and are provided mainly in the form of grants. The share of such policy support has been increasing in 2022 compared to 2019.

Funding targeting emergency response and disaster risk reduction increased over 2020 and 2021 following COVID-19. Reducing poverty and providing low-income groups with opportunities, basic services, and well-designed social safety nets to reduce their vulnerability are essential before climate change impacts become much larger (Hallegate, 2016).

While finance providers use impact metrics, these do not use shared criteria and lack data (Convergence, 2024). This makes it difficult to assess thematic areas and overall impact targeted through concessional capital. There is currently no standardized reporting mechanism to track the intended outcomes and impacts of concessional finance. Most available information on impact focuses on ex-*post* evaluation at the project level. These are reported using metrics and standards unique to individual organizations, hindering data aggregation and analysis. Efforts to harmonise structures to measure climate results are emerging among MDBs including "Common Approach to Measuring Climate Results."

By design, concessional finance providers take on more risks and expect lower returns than commercial participants in a project's capital stack. However, they also tend to focus on capital preservation rather than deploying their funds in whatever structure that optimizes risk mitigation to mobilize other financial flows. This makes them less flexible.

3.5 DOMESTIC CONCESSIONAL FINANCE

Domestic concessional finance for climate action is sourced and spent in the origin country and can come from a range of actors, including governments through fiscal transfers or local DFIs, as well as from philanthropic organizations.

Domestic concessional finance reached USD 82 billion in 2022, with a 33% in compound annual growth rate (CAGR) since 2019, and was exclusively provided by national DFIs and governments. Governments primarily provided subsidies (or grants) for low-carbon technology uptake by consumers such as rooftop solar and electric vehicles. Subsidies provide incentives for consumers and give a positive longer-term signal to the private sector about government commitment to support clean technology. Domestic grants and subsidies have likely increased since 2022 due to large scale incentives under the US Inflation Reduction Act and the EU's Green Deal Industrial Plan.

National DFIs provided low-cost project debt to carry out large-scale government programs in renewable energy and transport sectors. For example, KfW facilitated funding that promotes highly efficient new buildings as well as refurbishment projects for residential and non-residential buildings. National DFIs also provided low-cost debt to large-scale, low-carbon transport projects such as mass transit systems. They also play a key role in mobilizing public and private finance by utilizing blended finance structures combined with the provision of low market-rate loans, guarantees, credit enhancements, and subordinated loans, along with the issuance of green bonds (CBI, 2024).

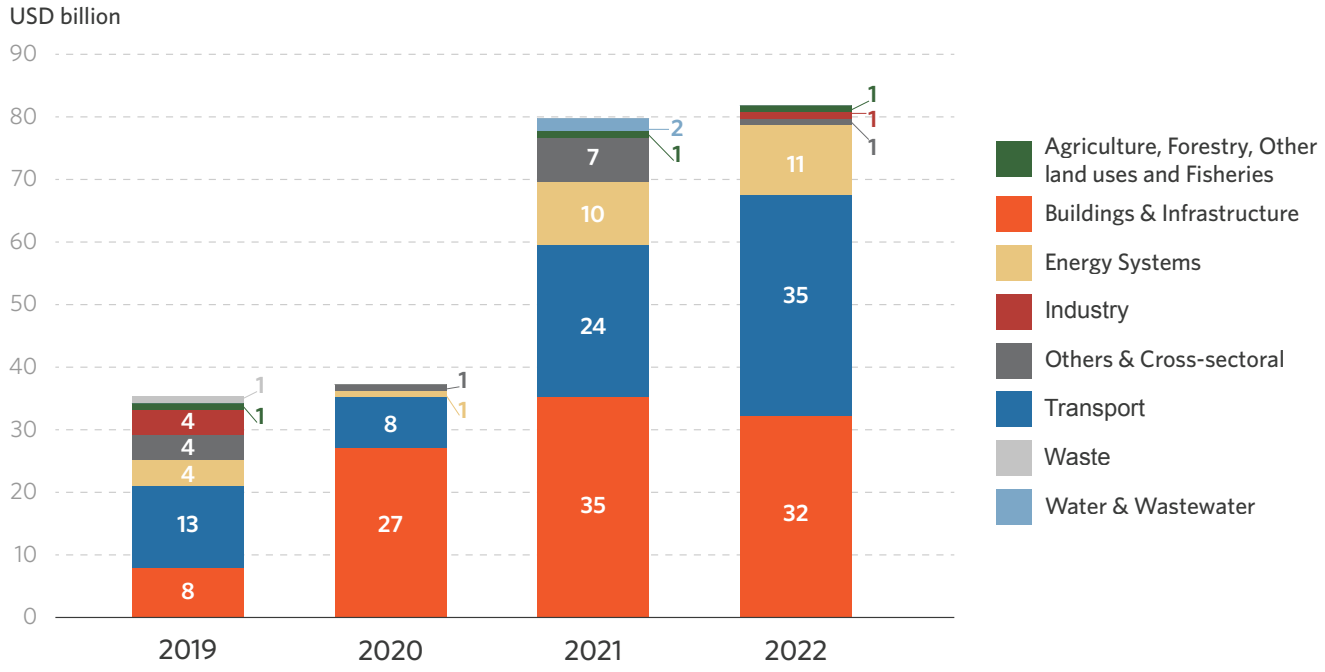
Domestic concessional climate finance is concentrated in high-income countries (HICs), with 96% in Western Europe. The concentration of concessional finance flows in HICs can be attributed to strong domestic policy action. Especially in Western Europe, there has been a push for green finance subsidies and climate-based policies. Several European countries have established green finance frameworks providing subsidies for renewable energy along with tax incentives for improving energy efficiency (EC, 2024). East Asia and the Pacific accounted for 15% of total domestic concessional climate finance, with the majority of flows in China. Battery electric vehicles, for example, received extensive support through purchase subsidies in China.

The majority of tracked domestic concessional finance went to mitigation activities, whereas adaptation and resilience-related domestic concessional finance data is not widely available. A considerable volume of adaptation spending is expected to be coming from (national and subnational) government budgets; however, the lack of systematic methodology for evaluating how development programs address climate risk and vulnerability makes it difficult to track funding for adaptation measures (CPI, 2024; GCA, 2020).

Almost 90% of domestic concessional climate finance goes to the buildings and infrastructure, transport, and energy systems sectors. These flows mainly target mitigation activities in the form of subsidies, low-cost debt for energy-efficient building construction and renovation, low-carbon transportation and deployment, and small-scale renewable energy systems. Such support enables uptake of low-carbon technologies with high upfront costs (e.g., electric vehicles) as well as financing of infrastructure projects by national development banks. Subsidies for energy-efficient housing and low-carbon transport have increased at a compound annual growth rate (CAGR) of 15% between 2019 and 2022. As certain technologies are becoming increasingly mature, governments are retiring subsidies.

There is room to direct further subsidies as well as other grant, low-cost debt, and equity instruments in the agrifood systems, industry, and water and wastewater sectors as these sectors collectively received only about 5% of domestic concessional climate finance.

Figure 3.8: Domestic concessional climate finance by sector (2019-2022; USD billion)



Note: *Tracking of government grants is limited to direct subsidies to existing low-carbon technologies and does not include R&D in developing innovative technologies.*

3.6 AREAS FOR FUTURE RESEARCH

More research on emerging trends on overarching framework and definition of catalytic finance to assess the outcome and impact of concessional finance can be useful in guiding concessional capital providers towards a common approach.

Another area of potential research is assessing the extent of concessional finance mobilizing more private finance, for example, through blended finance transactions. A deeper dive data analysis could qualify how much of concessional climate flows are being used for public sector projects (such as sovereign lending to developing country governments) vs. private sector mobilization (such as blended finance). This will help assess whether providing concessional finance in some sectors can leverage more investments from private actors than others. However, such research requires improved methodologies to measure and disclose data by concessional finance providers.

A dedicated analysis of domestic concessional finance, including research and development and policy-induced domestic revenue mechanisms in climate mitigation and adaptation, is not included in this report, but further research could be done in this area as it can be a good indicator of how governments are supporting climate innovation and enabling environment conducive for private investment.

4. CASE STUDIES ON MOBILIZING CONCESSIONAL FINANCE

4.1 LESSONS FROM CPI'S LAB

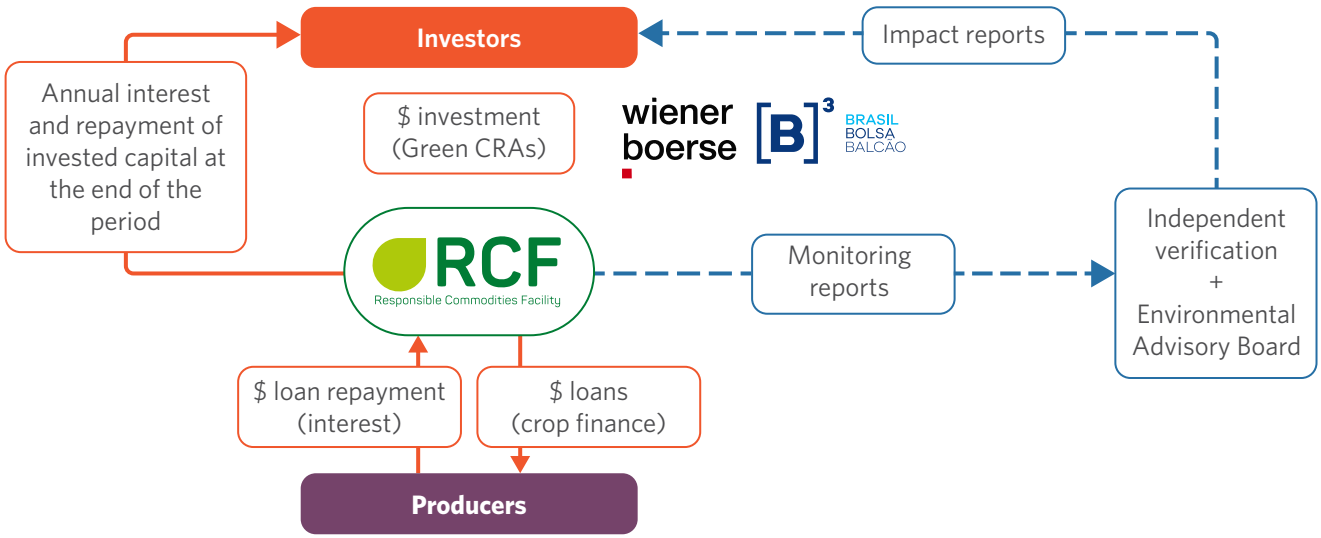
The Global Innovation Lab for Climate Finance ("the Lab"), managed by Climate Policy Initiative, is an investor-led, public-private initiative that accelerates innovative early-stage climate finance solutions and instruments**.** The Lab has helped mobilize more than USD 4 billion of public and private capital across its instruments since its inception in 2014, including by using innovative structures to mobilize finance in sectors traditionally considered to have low commercial viability. It has supported the development of 68 ideas, of which 42 have secured investments thus far, representing a 54% mobilization rate (The Lab, 2024). Most of these instruments have secured a portion of their investments through concessional capital.

This section analyzes case two studies from the Lab to delve into how blended finance instruments have used concessional finance to mobilize private capital.

4.1.1 RESPONSIBLE COMMODITIES FACILITY

The Responsible Commodities Facility (RCF) developed in 2018 and launched in 2022, provides incentives to produce soy in existing cleared and degraded lands in the Brazilian Cerrado (tropical savanna) to discourage further agricultural expansion. This initiative aims to operate in areas at high risk of deforestation to maximize additionality. Farmers have traditionally lacked access to financing, resulting in a high cost of capital and creating barriers to investing in sustainable soy production. This instrument overcomes these barriers by providing credit lines at lower interest rates. Moreover, concessional finance such as grants and subordinated capital are key to the implementation of the instrument as they ensure that the innovative features are implemented without creating a price premium due to higher costs.

Figure 4.1. RCF instrument structure



USE OF CONCESSIONAL FINANCE

RCF received 99% of its investments in the form of private capital. At an early development stage, the design and structuring were supported through seed funding from the Good Energies Foundation, and the instrument received grants from consumer goods companies through the Consumer Goods Forum's Forest Positive Coalition.

A unique element of this instrument is its ability to raise concessional capital from private actors. UK supermarkets such as Tesco, Sainsbury's, and Waitrose provided debt at concessional terms by investing in the subordinated tranche of the fund through green bonds (Green CRAs: Agribusiness Receivables Certificates). These investments were made at the concept testing stage to support the creation of deforestation-free commodities, showing that motivations exist for concessional investments by the private sector. In this case, corporates were aiming to green their supply chains, which are directly affected by soy-related deforestation. Although such investments do not yield market-rate returns, they can support the integrity of suppliers, reduce future regulatory risk, and improve brand reputation.

KEY INSIGHTS ON INSTRUMENT SUCCESS

Early-stage concessional investments were key to funding a pilot of the RCF. These investments derisked the structure by testing the concept, thus absorbing initial losses. This acted as a buffer for senior investors by proving the success of the instrument, leading to credit enhancement and reducing the cost of capital. Over time, commercial actors such as banks and impact funds leveraged the initial investments made by food retailers and invested around USD 36 million in debt into the instrument. Moreover, an expansion grant of USD 300,000 from the SDG Impact Finance Initiative supported by Convergence is helping to further grow the fund size.

Considering the maturity of Brazil's commodity sector, in which the RCF operates, there is a high potential for commercial capital mobilization for the push to combat deforestation, especially in the agrifoods sector. The instrument aims to attract commercial capital through the debt fund's performance fees, meaning that the need for commercial finance should reduce once the instrument has fully scaled.

This shows that commercial entities can and will provide concessional capital for strategic reasons, especially through blended structures and where crowding in more capital adds value for them, like in this case where supporting the instrument had a direct impact on food retailers' supply chains.

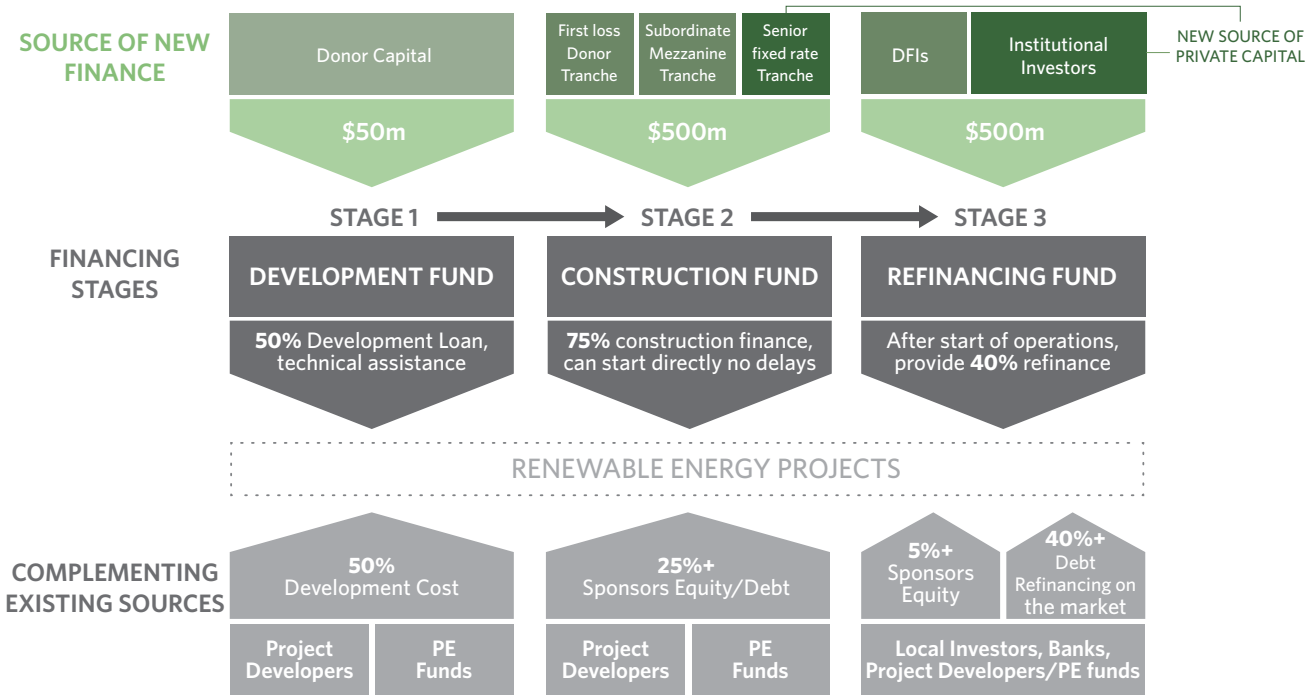
EXPECTED IMPACT

The RCF's initial program, the Cerrado Programme 1, which began in 2022, aims to create 1 million tonnes of deforestation-and conversion-free soy production, conserving 150,000 ha of native vegetation and 20 million tCO_2e stored in forests under the program within the first four years (Sustainable Investment Management, 2023). If the approach is successful over its first 10 years, it has the potential to expand in Brazil and be replicated for other commodities and regions. The proponent has been considering broadening its scope and scale.

4.1.2 CLIMATE INVESTOR ONE

Climate Investor One (CI1), launched in 2015, accelerates renewable energy projects in developing countries by providing whole-of-life financing solutions including early-stage development, construction financing, and refinancing through a fund structure that consists of a development fund and construction equity fund representing different stages of the process. The instrument aims to overcome barriers to accessing capital for project developers, inadequacy in capital arrangements from commercial finance institutions, the lack of suitable investment products for institutional investors, and policy and regulatory risks. It aims to do so by simplifying negotiations with capital providers, creating an innovative structure with equity/mezzanine capital making up to 75% of project costs, aggregating projects, and creating a diversified portfolio of asset classes that appeal to different investor types, and reducing project development costs.

Figure 4.2. CI 1 instrument structure



USE OF CONCESSIONAL FINANCE

CI1 employs a mix of public and private-sector funding as well as commitments from DFIs while making use of an export credit agency guarantee.

The CI1 Development Fund was supported by DFIs, including the Dutch Entrepreneurial Development Bank (FMO), which provided donor capital amounting to USD 50 million. CI1 had a long period between concept development in 2015 and reaching its first close in 2017. FMO's multi-year patient capital enabled the development and eventual launch of the fund. In interim closes, the fund then went on to attract financing from DFIs and institutional investors bringing total committed capital to USD 564 million by 2018.

The final close brought in the Green Climate Fund (GCF), which invested USD 20 million as a reimbursable grant and USD 80 million as junior equity in 2019, thus mobilizing investments from the African Development Bank and the Dutch Triodos Bank, leading to a bigger corpus for the fund at more than USD 900 million for its development fund and construction equity fund combined. In the development fund, CI1 has received USD 56.2 million in donor capital. The construction equity fund comprised USD 863.5 million split across first-loss, subordinate, and senior equity.

KEY INSIGHTS ON INSTRUMENT SUCCESS

Public-sector donors fund the development stage of CI1-supported projects to develop an investable pipeline of projects, which typically lie outside the risk-return profiles of private-sector investors. Donors also play a key role in mobilizing private capital during the construction stage of the project, where risks are better understood by the private sector and financial returns can be achieved.

Donor capital, led by FMO, to the development fund helped in providing funds to mitigate early-stage risks of projects and also further policy agendas of DFIs that aim to mobilize private investment into developing economies through blended structures. In the construction equity fund, the presence of a first loss tranche combined with subordinate equity created a risk buffer making the risk-return profile more attractive to institutional investors in senior tranches. Finally, the provision of risk-bearing capital from the GCF provided the concessional capital to expand private capital to grow the fund size. As of 2021, each dollar of donor capital provided in CI1 attracted 4 times the level of commercial investments (Convergence, 2021).

This example highlights the critical role of sustained concessional funding in driving the development of a financial instrument. In the case of CI1, FMO provided patient capital and support, even bankrolling the fund managers until the fund reached its first close. While technical assistance, such as that provided by the Lab, is vital during the development stage, instruments also need patient financial backing to test and refine their concepts, making them commercially viable. This aspect is essential, and neglecting it can hinder the success of innovative ideas.

Further, blended finance can play a key role in exposing institutional investors to new asset classes, regions, or sectors. In this case, high country risk was a barrier to private investment in renewable energy infrastructure projects in developing countries, but the credit enhancement mechanisms and use of a completely concessional development fund to kickstart the projects helped overcome some of these barriers and crowd in private investment.

EXPECTED IMPACT

Over its 20-year fund life, the fund aims to direct capital to generate 1,700 MW of additional clean energy, provide 13 million people with new access to energy, and generate 1.9 tCO_2 e of avoided emissions per annum (Convergence, 2021). Considering the clean energy market projections for India, sub-Saharan Africa, Latin America, and Southeast Asia, at a high level the market potential for this instrument is USD 155 billion in private finance and over 221 $MtCO_2$ abated by 2030 (CPI, 2015).

4.1.3 LAB REFLECTIONS ON THE USE OF CONCESSIONAL FINANCE

Analysis of our case studies, augmented by further consultation with CPI experts from the Lab, has yielded the following reflections related to the use of concessional finance.

- There are multiple forms through which concessional capital can help mobilize commercial capital. Within the instrument's/fund's capital structure, this can take the form of:
    - **Below market-rate funding**: This can be done through first loss or funding subordinated tranches of a fund, which help lower the cost of capital and add an additional de-risking mechanism for commercial investors.
    - **Guarantees and risk insurance**: These aim to absorb losses up to a pre-agreed limit in cases of non-payment or loss of value, adding an additional layer of protection and providing a credit enhancement, especially for senior tranche investors.

    External to the instrument's structure, this can be:

    - **Technical assistance**: The main purpose of technical assistance is to de-risk investment through ecosystem building. This can be deployed at different stages of the investment to improve the commercial viability or impact of an instrument. Technical assistance is often used in addition to other concessional capital in blended structures.
    - **Instrument design funding**: Refers to grant support for the design or preparation of an instrument. Such funding is considered to be external to the instrument's structure as it is used to stress-test the instrument prior to deployment.

The provision of concessional climate finance is a long and complex process that requires navigating through multiple steps and entities. Concessional capital providers, primarily DFIs, MCFs, and governments, have multi-stage processes for deploying concessional funding. Moreover, while instruments require funding at different stages of their process, funding is concentrated at the scaling stage, creating a funding gap during the early stages of project development. Hence, while a pool of concessional capital exists, it is important to ensure it is channelled proportionally to needs during different phases of the project. In addition, supporting institutional investors' understanding of how concessional capital contributes to the capital stack, and how institutional investors can come into the mix can help increase the scale and market for blended finance transactions.

5. CONCLUSION AND RECOMMENDATIONS

Concessional finance for climate action is scarce both internationally and domestically. International concessional finance for climate action stood at only USD 81 billion in 2022. While domestic concessional climate flows are growing through increased subsidies and concessional loans by national DFIs, these are dwarfed by domestic concessional capital going to the fossil fuel sector.

Concessional finance is key to unlocking other pools of capital, helping to bridge investment gaps. **We must move beyond ambiguous invocations of "private sector mobilization" to a truer private sector view (CPI, 2024c).** Public finance alone will be unable to fill in the trillions in climate investment gap, particularly as the adverse impacts of climate change increase. For sustainable plugging of the climate investment gap, grants, for example, can be used to create more diverse concessional instruments to attract further public and private capital in the long term.

The landscape of concessional capital provision is evolving, breaking away from the traditional notions of provision solely by public actors. While public actors channel the majority of concessional capital, commercial actors also provide concessional funding, especially when it is strategic for their industry or business development or to meet their ESG goals, and they should be incentivized to grow this capital offering.

Scaling concessional capital and improving its effectiveness is possible, but international cooperation is required to increase global concessional capital for climate action. Countries are now working to establish the New Collective Quantified Goal (NCQG), which is expected to be agreed upon at COP29 in Azerbaijan. This represents a unique opportunity to increase the scale and ambition of international cooperation for a more coherent climate finance architecture.

RECOMMENDATIONS

Some specific strategies are outlined below.

1. **Tap all available sources to expand the volume of concessional climate finance, including by:**

    a. **Further increasing ambition and the share of concessional capital in climate finance provided by existing sources** (i.e., governments, bilateral and multilateral DFIs, and multilateral and national climate funds). This could be achieved through more ambitious replenishment of these institutions by their shareholders, including, for example, by implementing capital adequacy framework review reforms.

    b. **Implementing new and innovative means of expanding concessional climate finance**, including through international taxation, carbon markets, and special drawing rights (IHLEG, 2023). New sources of concessional finance could be then directed to well-functioning existing structures and organizations towards a more coherent climate finance architecture to collectively pursue the goals of the Paris Agreement.

c. **Redirecting harmful fossil fuel subsidies and project loans to provide long-term support for climate action**, noting that some subsidies will still be required to provide a safety net for lower-income and vulnerable groups affected by the energy transition, as well as adverse climate change impacts. This will become easier to implement as digital public (finance) infrastructure is deployed in EMDEs.

2. **Target scarce concessional resources to where they are needed most to increase their impact, including by:**

   a. **Targeting flows for communities facing the worst impacts of climate change and/or socioeconomic fallout from low carbon transition**. Taking a people-first approach, concessional capital should strengthen social protection and climate resilience to those living in poverty and vulnerable populations. Particularly strengthening adaptation finance will be essential in building resilience to the impact of climate change. Concessional finance will also be needed to sufficiently capitalize and manage the Loss and Damage Fund to protect the most vulnerable.

   b. **Prioritizing concessional finance for early-stage and frontier climate sectors that have the potential to mobilize private finance, while continually reviewing market developments and adjusting exit strategies**. Government and DFI funding needs to work more effectively to mobilize private capital from both international and domestic sources. In particular, MCFs such as the GCF and the CIF have scope to apply their concessional resources to innovative risk mitigation structures to crowd in private money. This includes providing first-loss positions or guarantees to attract more risk-averse investors. It also involves supporting project preparation and business development via grants for technical assistance. By supporting transactions at different stages of development, concessional capital can be strategically used to build an ecosystem of market actors. More support is needed for project preparation facilities and developer platforms that foster the creation of bankable, investment-ready climate projects in EMDEs.

   c. **Better using resources to mobilize domestic finance and to support country platforms to shift their entire economies to sustainability**. Concessional capital should support developing countries' priorities in a coordinated manner. This may include funding project development, aggregation, and risk management (CPI, 2024a). Technical assistance grants can also be used to develop the capacities of governments and other local actors, and foster collaboration among them, thereby mobilizing domestic resources and creating a more efficient environment for collective climate action and sustainable economic development (ibid).

3. **Use scarce concessional resources more efficiently, including by:**

   a. **Exploring the use of concessional finance and risk-management instruments to shift toward wholesale risk mitigation, thereby lowering the cost of capital.** Concessional finance and risk-management instruments can be used to mitigate risks across the board: policy, political, currency, sovereign, credit, off-taker, liquidity, and sometimes technology risks (CPI, 2024 c). This includes designing and implementing smaller ticket-size funding with project-level outcomes with a longer-term strategic vision and as part of broader catalytic programs to enhance impact. This can help diversify and reduce the project preparation and evaluation burden.

b. **Standardizing and streamlining climate finance project approval processes across all major concessional climate finance providers** (DFIs and MCFs). Access to funds and speed of deployment will be crucial to delivering impact in EMDEs. Consolidating the approaches used by different concessional climate finance providers can quicken access to finance by eliminating the inefficiencies arising from high administrative burdens.

c. **Improving efficiency across major concessional climate finance providers, harmonizing procedures, and fostering comparative advantages among institutions.** There is scope for pursuing a more coordinated and integrated approach between concessional finance providers, working together strategically (and possibly sequentially) based on respective comparative advantages, thereby avoiding duplicate efforts.

d. **Increasing the flexibility in deploying available concessional capital.** Allowing intermediaries to deploy funds in structures other than concessional loans (senior or subordinated) can enhance the development and delivery of risk mitigation structures to enable access to even more private capital. While public funds remain scarce, funders should seek to use better impact KPIs other than relying on preserving capital as the preferred way of extending the availability of these funds.

e. **Concessional finance channelled to broader sustainable development goals (SDG) can be further scaled** and used to manage common market risks and barriers to climate investment, such as currency risks or local domestic capital market development, by strengthening domestic capital markets and governance of institutions in emerging markets and developing economies. While these activities are climate change agnostic, they still help overcome market barriers that are commonly cited as risks in climate investment.

4. **Improve impact metrics to better understand concessional finance, including by:**

a. **Streamlining approaches to evaluating the impact and effectiveness of finance while acknowledging that outcomes and effectiveness are linked to local contexts.** A harmonized approach would facilitate comparability across projects and sectors, better-informing capital allocation. For example, investors could assess how concessional capital can achieve more transformation and how it can bring more private capital.

b. **Increasing transparency to share lessons learned, such as regarding actual risk and return, or which transaction costs may gradually be reduced.** A more data-focused approach to understanding risks and risk-adjusted returns is needed such as GEMs,[9] driven by more robust and easily accessible information on challenges, opportunities, scenarios, and strategies.

c. **Going beyond project-level *ex-post* evaluation to conduct more systemic evaluations of the impacts and outcomes of concessional finance beyond its stated objectives**. This should include longer-term (non-market) factors, such as institutional and policy reform or more flexible use of funds beyond capital preservation. While challenging to implement, this can encourage and incentivize more concessional finance by acknowledging its impact on the overall ecosystem, beyond the specific project level.

9 https://www.gemsriskdatabase.org/

6. ANNEXES

6.1 DEFINITION OF CONCESSIONAL FINANCE

The definition of concessionality varies across institutions:

1. **DAC members** - For Development Assistance Committee (DAC) members, assessing the concessionality of a loan is essential for determining its eligibility as Official Development Assistance (ODA). Concessionality is evaluated by calculating the "grant element", which considers four main factors: the interest rate, the grace period, the maturity, and the discount rate. A loan is deemed concessional if its grant element surpasses 10% for Upper Middle-Income Countries (UMICs), 15% for Lower Middle-Income Countries (LMICs), or 45% for Least Developed Countries (LDCs) and other Low-Income Countries (LICs) (OECD, 2020). Loans to the private sector need to convey a grant element of at least 25% to be concessional (ibid). In addition, the terms and conditions of ODA loans have to be consistent with the IMF Debt Limits Policy or the World Bank's Non-Concessional Borrowing Policy (ibid).
2. **Multilateral organizations (multilateral development banks and multilateral climate funds)—**For multilateral organizations, concessionality is based on their capacity to provide credit on financially sustainable terms, taking into account their own financing costs. To be financially sustainable, multilateral concessional loans require external grant resources. The choice between concessional and non-concessional loans by multilateral organizations depends on the recipient country's income level, creditworthiness, and debt sustainability. Typically, MICs and HICs are eligible for non-concessional multilateral loans (OECD, 2020).

While there are various definitions and methodologies relating to concessional finance, it is generally understood to refer to access to capital at favorable terms. This can include lower interest rates, longer repayment periods, and more flexible terms.

Concessional finance can be deployed in the following ways (IFC, 2021):

- **Senior loans**: Loans with a top priority for repayment, provided at below-market interest rates or other non-commercial terms (for example, with longer maturity or grace periods, security, and repayment profile).
- **Subordinated loans**: Loans with a lower priority for repayment (or with interest or principal payments deferred in certain pre-agreed situations), and provided at below-market interest rates or with other non-commercial terms, as described above.
- **Guarantees or risk-sharing facilities:** Such instruments transfer all or part of the financial risk of a loan or group of loans to the guarantor, with fees charged at below-market rates; this could be, for example, in the form of first-loss protection, where the donor guarantees a portfolio of investments of a financial intermediary and pays out before the senior guarantor in case there is a payment default.
- **Equity:** An ownership stake in a company or participation in a fund, with return expectations below those that market investors would expect. However, it is difficult to identify below market rate equity investment in data as return expectations are not disclosed.

- **Grants:** For example, finance with no expectation of repayment or performance grants that are paid if a project reaches specified milestones.

6.2 METHODOLOGY

DATA SOURCES

The report relies on data collected through CPI's Global Landscape of Climate Finance series. It draws information from a range of sources, including the Organization of Economic Co-operation and Development's Development Assistance Committee (OECD-DAC), Climate Funds Update, Global, and biannual surveys of MDBs, and DFIs conducted by CPI, Convergence Blended Finance, International Energy Agency (IEA).

The data has limited information on domestic government subsidies and grants beyond energy and transport sectors. While there is some data available on government grants in certain countries, the climate relevance of such data is not always available.

DATA COLLECTION

The figures reported in this study represent climate finance commitments made in 2019-2022, as stipulated by financing contracts or board decisions and they do not account for the time needed for completion of the disbursement. This methodological approach is determined by data availability, and consistent data on disbursements by various actors are often lacking. To avoid double counting, the data only includes transactions from the most reliable sources.

The figures do not include private and public research and development for new technologies and investment in manufacturing for low-GHG and climate-resilient development. Revenue support mechanisms such as feed-in tariffs are also excluded.

DATA ANALYSIS

Finance flows from MDBs in this analysis are not limited to those attributed to developed countries as seen in OECD 2024 but include all finance from multilateral development finance institutions.

Transregional flows without further details on the destination country were proportionally distributed to income groups.

Ticket sizes for concessional finance were analyzed for projects with values above USD 10,000.

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