Climate Finance:
What Is It and Why Does It Matter?

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At the 29th United Nations Climate Change Conference (COP29) in November 2024, countries reached a new agreement on climate finance. They committed to providing at least $300 billion a year by 2035 to support developing countries (*UNFCCC, 2024*). This funding is intended to help deliver nationally determined contributions (NDCs), implement national adaptation plans, and raise overall ambition in tackling climate change. But what exactly is considered as climate finance and is $300 billion a year really a lot?

The nature of climate finance

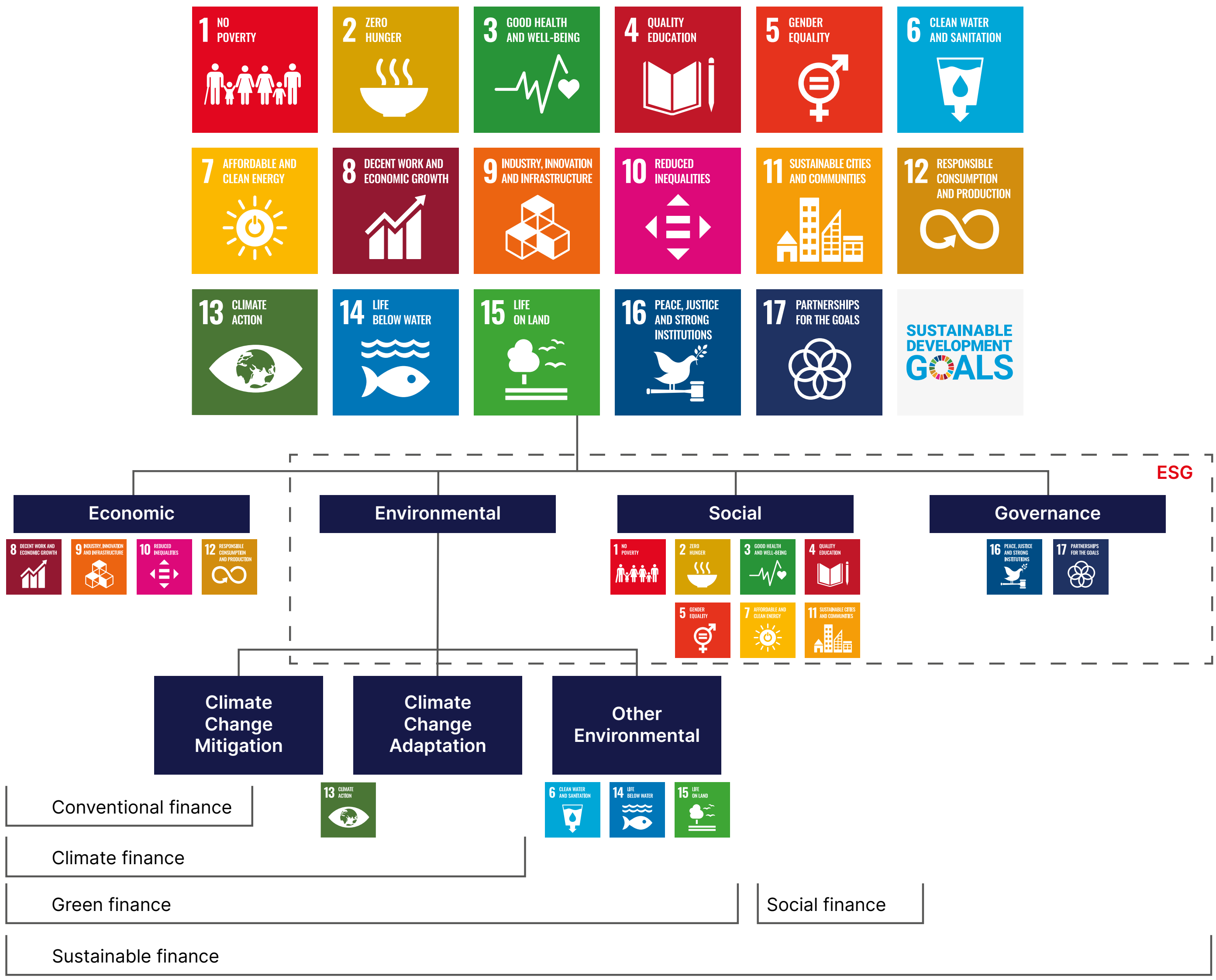
To better understand the role of climate finance, it is helpful to place it within the broader framework of sustainable finance according to the UNEP (see Figure 1). Sustainable finance includes a wide range of financial flows and investments that support environmental, social, and governance (ESG) objectives. **In contrast, climate finance refers specifically to funding aimed at supporting climate change mitigation and adaptation efforts**.

The global climate finance architecture is complex and always evolving (Watson, Schalatek, Evéquoz, 2025). Funds flow through various channels such as multilateral, bilateral, regional, and domestic both within and outside of official UNFCCC and Paris Agreement mechanisms. The concept of developed countries providing financial support to developing countries was first introduced at the 1992 Earth Summit, which led to the creation of the UNFCCC, and later the Kyoto Protocol in 1997. In 2024, the Standing Committee on Finance of UNFCCC updated its operational definition of climate finance to the following: climate finance aims at reducing emissions and enhancing sinks of greenhouse gases, aims at reducing vulnerability, increasing adaptive capacity, and mainstreaming and increasing resilience of human and ecological systems to negative climate impacts, and includes financing for actions identified in a country's nationally determined contribution, adaptation communication, national adaptation plan, long-term low-emission development strategy or other national plan for implementing and achieving the goals of the Paris Agreement and the objective of the Convention (Standing Committee on Finance, 2024).

Given broad definition of these types of finance, it leaves the room for different actors to define the climate finance based on the context-specific nature of the climate actions and evolving processes that help to iterate the definition according to the actions the country aims for to achieve the climate change mitigation and adaptation action.

However, this flexibility also introduces risks. Without clear definitions, verification mechanisms, and transparent reporting, there is a risk of greenwashing, where funds are labelled as climate finance without delivering actual climate benefits. This makes robust tracking systems more essential.

Because of its strategic and political dimensions, climate finance is more than a financial label. It reflects the priorities, compromises, and power dynamics that shape the global climate effort.



Source: Adapted from UNEP Inquiry (2017).

Figure 1. Sustainable finance structure according to UNEP.
Source: UNEP, 2016

Tracking the climate finance: why it is important

Given the growing importance of climate finance in addressing climate crisis, tracking these financial flows accurately is critical, in order to ensure transparency, comparability, accountability, and the ability to assess whether funds are being provided and used effectively to meet climate goals.

Global / regional tracking of climate finance flows

Currently, there is a number of organisations that track climate finance flows using various methodologies, examples of which are provided below.

One of the most widely used methodologies, specifically for tracking international climate finance provided by developed countries to developing countries, is the Rio markers developed by the OECD Development Assistance Committee (DAC) used, for example, in the EU in accordance with the *Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018*. Specifically, Article 19(3) of the Regulation (EU) 2018/1999 requires EU Member States to submit information detailing the quantitative financial resources committed and provided to developing countries in the previous year, and this information is structured around the Rio markers system. Thus, the European Commission qualitatively identifies whether an activity supports the objectives of the Rio Conventions, including the UNFCCC, and classifies climate-related finance into three categories: «principal objective» (climate change is the main reason for the intervention), «significant objective» (climate is one among several objectives), and «not targeted» (no climate relevance) (OECD DAC, n.d.). Based on these markers, fixed coefficients are applied to approximate the climate-relevant share of financing: typically, 100% for the principal and 40% for significant objectives (OECD DAC, n.d.).

Another common methodology is that of the Multilateral Development Banks (MDBs). This approach uses harmonised principles for tracking mitigation and adaptation finance. MDB climate finance includes direct commitments and co-financing from other entities. The methodology emphasises precision, counting only project components that directly address climate objectives. Adaptation finance is identified through a contextual and conservative approach, while mitigation finance uses a globally standardised list of eligible activities aligned with the Paris Agreement. In order to ensure the relevance and robustness of the methodology, the MDB approach is regularly updated to ensure credibility and alignment with international goals.

The International Development Finance Club (IDFC) also provides a significant methodology, leveraging its global network of development banks. Since 2011, the IDFC has tracked over $1 trillion in green finance commitments. Its approach evolves to better support climate-related financing and reporting, integrating member experience and technical knowledge.

National tracking of climate finance flows

At the national level, both developed and developing countries are experimenting with climate budget tagging, integrating climate considerations into public financial management systems or ad-hoc compilations from various agencies. While some developed countries set the targets on the share of climate spending in the total budget, as the EU has done, developing countries tend to track domestic climate expenditure. Their goal is to align with national budgets and policy priorities, facing challenges like limited data and administrative capacity. These systems differ from international finance tracking, as they focus on internal public spending rather than aid received.

Chile, for example, tracks domestic climate expenditure using the Classification of the Functions of the Government framework, embedding climate spending within its national budget. Ministries submit budget data, and officials identify spending on climate-related activities, tagging them as mitigation or adaptation using a preliminary Measurement, Reporting, and Verification system for climate finance. The process involves categorising expenditures on natural resources, disaster response, or climate-specific projects. Data is compiled annually to meet transparency commitments, relying on existing budgetary systems for feasibility.

Nepal employs a Climate Budget Tagging process to track climate-relevant spending. Ministries assess programmes using qualitative criteria, such as alignment with climate policies or targeting vulnerable communities, classifying them as «highly relevant» (>60% climate-related), «relevant» (20-60%), or «neutral» (<20%) (Nesbit et al., 2021). Budget officers tag expenditures during annual planning, and results are compiled into a national climate budget report. System's simplicity allows ministries to integrate tagging with minimal additional workload, making it feasible for capacity-constrained settings. However, its reliance on broad qualitative criteria may lead to overestimation of climate finance as it does not distinguish between mitigation and adaptation or track expenditures for negative climate impacts (Nesbit et al., 2021).

While methodologies differ — from activity-level tagging to broad green budget statements — the common aim is to mainstream climate priorities into fiscal policy, enable better planning, and build credibility with domestic and international stakeholders.

Overview of climate finance flows

Climate finance is usually categorised using a few key categories:

- Source of finance — public and private, mobilised, other (e.g. philanthropic);
- Level of finance — domestic (national or subnational) and international sources;
- Channels — bilateral and multilateral.
- The primary instruments used to deliver climate finance — loans, debt instruments, balance sheet financing, project-level equity, and state-backed guarantees.
- Theme finances — mitigation and adaptation, and sectors financed – energy, transport, industry, buildings and infrastructure, agriculture, forestry and other land use (AFOLU).

Each year, the Climate Policy Initiative monitors global climate finance to assess how much investment is being directed toward climate-related goals. According to its most recent report, Global Landscape of Climate Finance 2025, global climate finance flows reached USD 1.9 trillion in 2023, a 15% increase compared to 2022, largely driven by increased investments in renewable energy (see *Figure 2*) (Global Landscape of the Climate Finance, 2025). However, this level of funding remains far below what is needed. Although the commitment to provide USD 300 billion to developing countries was a significant increase from the previous USD 100 billion per year goal, it is still not enough to satisfy the needs of developing countries, which amount to USD 5.1–6.8 trillion from 2024 through 2030 (455–584 billion and adaptation finance needs USD 215–387 billion annually for up until 2030) (Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its sixth session, held in Baku from 11 to 24 November 2024, 2025).

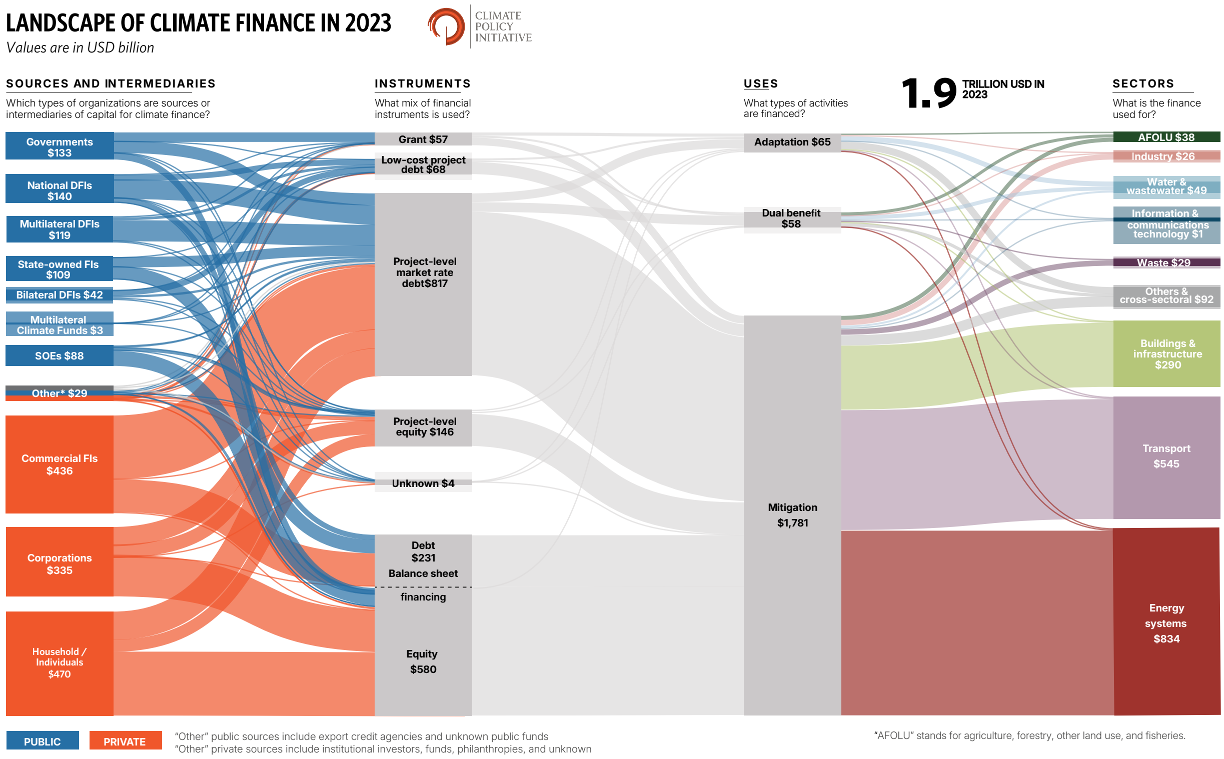
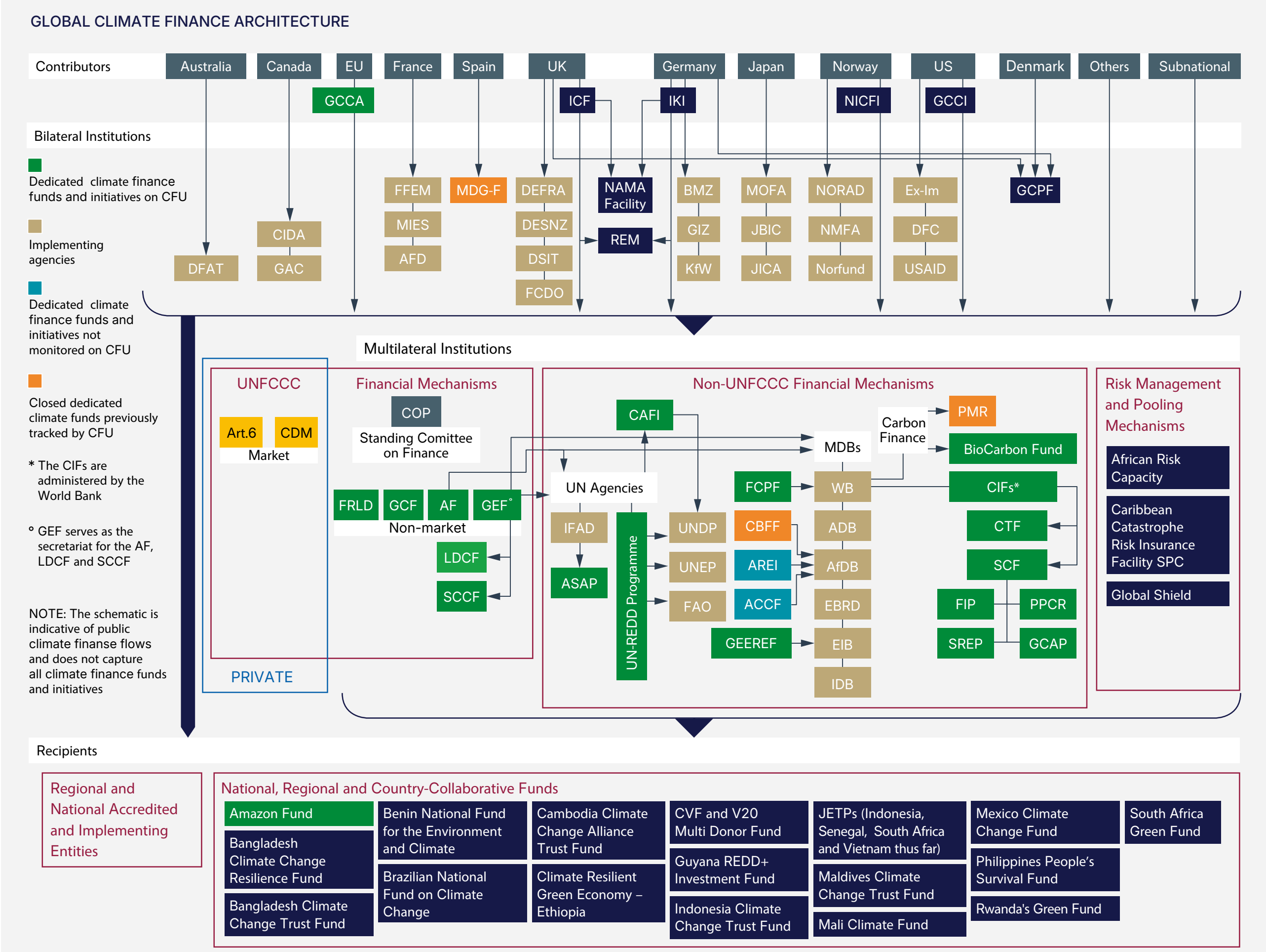


Figure 2. Landscape of sustainable finance in 2023.
Source: Climate Policy Initiative, 2025

Global climate finance funding channels

The wide range of funding channels available for climate finance offers recipient countries more opportunities to access support and can enhance the potential for funding to be used in complementary ways. Although the amounts of funding currently being channelled to developing countries are still low compared both to their needs and to global capital markets. According to the UNFCCC and Paris Agreement principle of the "common but differentiated responsibility and respective capabilities", developed countries Parties should provide the financial assistance to the developing countries in order to achieve the UNFCCC objectives (*UNFCCC, 2025*). Under the UNFCCC, there are several operating entities that provide climate finance to developing countries, which is mainly finance from voluntary contributions from developed countries. Since the Convention entered into force in 1994, the Global Environment Facility (GEF) has fulfilled this role. In 2010, at COP 16, Parties established the Green Climate Fund (GCF), and the following year, it was also designated as an operating entity of the financial mechanism. Both financial mechanisms remain accountable to the COP, which determines their policies, programming priorities, and funding eligibility criteria.

However, existing financial mechanisms extend far beyond the scope of the UNFCCC and have evolved at various levels over the past decades. Figure 3 illustrates the global climate finance landscape, with a particular focus on public mechanisms dedicated to climate-related funding (Climate Finance Updates, 2020). Climate finance flows through various routes, including multilateral climate funds specifically established to address climate change. In addition, several developed countries have launched their own climate finance initiatives or deliver funding through their bilateral development cooperation agencies. On the other hand, many developing countries have created their own regional and national funds or mechanisms to manage and receive climate finance more effectively.



Implementing Agencies and Institutions	
AfDB	African Development Bank
AFD	Agence Française de Développement (French development agency)
ADB	Asian Development Bank
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (federal ministry of economic cooperation and development, Germany)
CIDA	Canadian International Development Agency
DESNZ	Department for Energy Security and Net Zero (UK)
DEFRA	Department for Environment, Food and Rural Affairs (UK)
DFAT	Department of Foreign Affairs and Trade (Australia)
DFC	United States International Development Finance Corporation
DSIT	Department for Science, Innovation and Technology (UK)
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
Ex-Im	Export-Import Bank of the United States
FAO	Food and Agriculture Organization of the United Nations
FCDO	Foreign, Commonwealth and Development Office (UK)
FFEM	Fonds Français pour l'Environnement Mondial (French global environment facility)
GAC	Global Affairs Canada
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German technical cooperation)
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (German development bank)
MIES	Mission Interministérielle de l'Effet de Serre (inter-ministerial taskforce on climate change, France)
MOFA	Ministry of Foreign Affairs (Japan)
NMFA	Norwegian Ministry of Foreign Affairs
Norfund	Norwegian Investment Fund for developing countries
NORAD	Norwegian Agency for Development Cooperation
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	United States Agency for International Development
WB	World Bank

Multilateral Funds and Initiatives	
AAAF	Africa Adaptation Acceleration Program
ACT	Accelerating Coal Transition program (implemented through WB, ADB, AfDB, EBRD and IDB)
AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
ACCF	Africa Climate Change Fund
AREI	African Renewable Energy Initiative
Art.6	Article 6 market and non-market approaches (implemented under the Paris Agreement)
ASAP	Adaptation for Smallholder Agriculture Programme
CAFI	Central African Forest Initiative
CBFF	Congo Basin Forest Fund (hosted by AfDB)
CDM	Clean Development Mechanism (implemented under the Kyoto Protocol)
CIF	Climate Investment Funds (implemented through WB, ADB, AfDB, EBRD and IDB)
CTF	Clean Technology Fund (implemented through WB, ADB, AfDB, EBRD and IDB)
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program (implemented through WB, ADB, AfDB, EBRD and IDB)
FRLD	Fund for responding to Loss and Damage
GCAP	Global Climate Action Programs (implemented through WB, ADB, AfDB, EBRD and IDB)
GCCA	Global Climate Change Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
GEEREF	Global Energy Efficiency and Renewable Energy Fund (hosted by EIB)
LDCF	Least Developed Countries Fund (hosted by the GEF)
PMR	Partnership for Market Readiness
PPCR	Pilot Program for Climate Resilience (implemented through WB, ADB, AfDB, EBRD and IDB)
SCCF	Special Climate Change Fund (hosted by the GEF)
SCF	Strategic Climate Fund (implemented through WB, ADB, AfDB, EBRD and IDB)
SREP	Scaling Up Renewable Energy Program in Low Income Countries (implemented through WB, ADB, AfDB, EBRD and IDB)
UN-REDD Programme	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation

Bilateral Funds and Initiatives	
GCCI	Global Climate Change Initiative (US)
GCPF	Global Climate Partnership Fund (Germany, UK and Denmark)
ICF	International Climate Finance (UK)
IKI	Internationale Klimaschutzinitiative (international climate initiative, Germany)
MDG-F	MDG Achievement Fund (implemented by UNDP)
NAMA Facility	Nationally Appropriate Mitigation Action Facility (UK, Germany, Denmark and the EC)
NICFI	Norway's International Climate Forest Initiative
REM	REDD+Early Movers (Germany and UK)

Figure 3. Global climate finance architecture.
Source: Climate Finance Update, 2025

Climate finance in the Ukrainian context

Ukraine has begun laying the foundation for mobilising climate finance as part of its broader commitment to climate action. The adoption of the Law of Ukraine «On the basic principles of state climate policy» has formalised the country's goal of achieving climate neutrality by 2050. In alignment with European standards, a draft law «On the Principles of Green Recovery» has also been developed, reflecting principles of the EU Green Taxonomy in order to address the gap in the definition of green recovery process of Ukraine.

There is a growing momentum around integrating green criteria into Ukraine's post-war recovery efforts. A notable financial mechanism under consideration is the Debt-for-Climate Swap (DFCS). This approach involves providing debt relief in exchange for the government's commitment to invest the equivalent amount in climate and environmental projects. In early 2025, the former Ministry of Environmental Protection and Natural Resources (MEPR) began exploring DFCS as a potentially key instrument for climate financing. Yet, the scale of Ukraine's fiscal challenges is significant. As of June 2025, the country's state and state-guaranteed debt had risen to nearly $185 billion, underscoring the urgent need for innovative financing solutions that can simultaneously address climate objectives and manage public debt (*Ministry of Finance of Ukraine, 2025*). However, it should be noted that DFCS represents only one of several possible future instruments aimed at unlocking climate finance for the green recovery of Ukraine. Broader strategic planning and diversified financial approaches will be essential to fully realise this potential.

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