



Food and Agriculture Organization
of the United Nations

Climate-related development finance to agrifood systems

Global and regional trends
between 2000 and 2021

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Contents

| | |
|--|-----------|
| Foreword..... | v |
| Acknowledgements..... | vii |
| Abbreviations | viii |
| Executive summary..... | ix |
| <hr/> | |
| Chapter 1. Introduction | 1 |
| Climate finance for agrifood systems transformation | 1 |
| Relevance of climate finance in the Paris Agreement | 2 |
| Chapter 2. Methodology..... | 5 |
| Definition of climate finance | 5 |
| OECD DAC purpose codes used in the analysis..... | 6 |
| Regional Classification..... | 6 |
| Sources of climate finance..... | 7 |
| Chapter 3. Trends in global and regional climate-related development finance flows to agrifood systems..... | 9 |
| In focus: using blended finance to promote the development of more sustainable agrifood systems..... | 15 |
| Financing trends of bilateral/multilateral providers | 17 |
| Most financed sectors by type of provider | 20 |
| Geographical distribution of resources and preferences by type of providers, with a focus on SIDS..... | 21 |
| In focus: instruments that can mobilize climate finance flows towards agrifood systems | 23 |
| Conclusions | 27 |
| References | 29 |
| Annexes..... | 31 |
| Annex A..... | 31 |
| Annex B | 33 |
| Annex C | 35 |

Figures

| | | |
|-----|---|----|
| 1. | Climate-related development finance to agrifood systems..... | 10 |
| 2. | Climate-related development finance to agrifood systems and its share against global flows..... | 11 |
| 3. | Climate-related development finance by climate objective – Global flows..... | 12 |
| 4. | Climate-related development finance by climate objective – Agrifood systems..... | 12 |
| 5. | Climate-related development finance to the agrifood systems sectors..... | 13 |
| 6. | Regional distribution of climate-related development finance allocated to agrifood systems by climate objective in 2021 | 14 |
| 7. | Climate-related development finance to agrifood systems by provider type | 18 |
| 8. | Bilateral flows to agrifood systems (2000–2021) | 19 |
| 9. | Multilateral flows to agrifood systems (2000–2021)..... | 19 |
| 10. | Bilateral flows to agriculture in 2021 (USD Mil)..... | 20 |
| 11. | Multilateral flows to agriculture in 2021 (USD Mil)..... | 20 |
| 12. | Sources of contributions to agrifood systems in 2021 | 22 |

Boxes

| | | |
|----|--|----|
| 1. | Moving towards implementation and Sharm el-Sheikh joint work on climate action in agriculture and food security..... | 3 |
| 2. | Review of special funds | 8 |
| 3. | Different calculations of climate finance..... | 11 |
| 4. | Gender sensitivity in global and agrifood systems flows in 2021 | 14 |

Foreword

Agrifood systems present a unique opportunity to simultaneously tackle climate change, biodiversity loss and food security. Enhancing resilience within agrifood systems can ensure their adaptation to the challenges posed by climate change and help enhance food security. Sustainable agricultural practices also offer opportunities to reduce greenhouse gas (GHG) emissions as well as promote a sustainable use of biodiversity. Agrifood systems solutions are climate solutions.

Solutions exist but there is a big financing gap. The amount of climate finance flowing to agrifood systems is strikingly low and continues to diminish vis-à-vis global climate finance flows. Agriculture is one of the sectors with the highest adaptation finance needs for implementing the nationally determined contributions (NDCs) but climate finance for adaptation is also on a downward trend. The diminishing trends of both agrifood and adaptation investments is a cause for alarm and a missed opportunity.

The Food and Agriculture Organization of the United Nations (FAO) is taking action to tackle this challenge. The Food and Agriculture for Sustainable Transformation Initiative - FAST, launched at the 27th session of the Conference of the Parties (COP27) of the United Nations Framework Convention on Climate Change (UNFCCC), underscores the power of collective action to ensure that climate finance reaches the most vulnerable, particularly family farmers who often bear the brunt of climate-related impacts. FAO will host the FAST Partnership Task Force at its headquarters in Rome, acting as a Secretariat and facilitating its work.

This publication aims at addressing the persistent knowledge gap related to climate finance to agrifood systems, providing data and information to support countries making informed decisions towards agrifood systems transformation. Building on the recent

assessments from the publication series, “Climate-related development finance in the agriculture and land use sector,” this latest edition presents an enhanced analysis that now extends to agrifood systems and incorporates additional sectors.

The analysis also brings to light the evolution of climate finance in agrifood systems over the past two decades, showcasing unique sectorial analysis of climate finance allocations for adaptation and mitigation, delving into the diversity of actors involved, from bilateral and multilateral agencies to the private sector, highlighting the critical need for partnerships that transcend boundaries.

FAO will continue to support countries in accessing climate finance to deliver on our Strategy on Climate Change. We will continue to advocate for holistic and ambitious climate finance strategies that strive for better production, better nutrition, a better environment, and, ultimately, a better life for all.



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Abbreviations

| | |
|----------------|--|
| AF | Adaptation Fund |
| AIMS | Atlantic, Indian Ocean, Mediterranean and South China Sea |
| CGIAR | Consultative Group for International Agricultural Research |
| COP | Conference of the Parties |
| CRS | Creditor Reporting System |
| DAC | Development Assistance Committee |
| EBRD | European Bank for Reconstruction and Development |
| FAO | Food and Agriculture Organization of the United Nations |
| GCF | Green Climate Fund |
| GEF | Global Environmental Facility |
| GHG | greenhouse gas emissions |
| IFAD | International Fund for Agricultural Development |
| IDB | Inter-American Development Bank |
| IPCC | Intergovernmental Panel on Climate Change |
| KJWA | Koronivia Joint Work on Agriculture |
| L&D | Loss and Damage |
| LDCs | least developed countries |
| LDCF | Least Developed Countries Fund |
| MDB | multilateral development bank |
| NDCs | nationally determined contributions |
| NENA | Near East and North Africa |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OOF | other official flows |
| PCGS | partial credit guarantee scheme |
| SDGs | Sustainable Development Goals |
| SIDS | Small Islands Development States |
| SMEs | small and medium enterprises |
| TAF | Technical Assistance Facility |
| UNFCCC | United Nations Framework Convention on Climate Change |

Executive summary

Ensuring an adequate flow of climate finance to agrifood systems is key to implementing the necessary transformation of these systems, in order to contribute to mitigation and adaptation efforts and pursue the Paris Agreement's adoption of the 1.5°C global warming limit.

Tracking the amount of climate-related development finance allocated to agrifood systems and looking at the trends reveals how the share of climate-related development finance allocated to agrifood systems has continued to decrease. Between 2000 and 2021, climate-related development financial support for agrifood systems amounted to USD 183 billion. In 2021 contributions reached USD 19 billion, marking a 12 percent decline compared to the previous year.

Despite the decline in the share of climate finance allocated to agrifood systems over the past decade, the sector's significance in achieving climate change mitigation and adaptation remains crucial.

Agrifood systems are unique, offering considerable opportunities for climate actions, such as sustainable agriculture, climate-resilient agrifood systems, and the conservation and restoration of natural resources and ecosystem services.

Under the UNFCCC, there is a financial mechanism that supports countries in addressing the negative affect of climate change on their agrifood systems, which includes the Global Environment Facility (GEF) and the Green Climate Fund (GCF). An agreement to establish a new Loss and Damage (L&D) fund to support developing countries that are particularly vulnerable to the impacts of climate change, is evidence that opportunities are opening up for agrifood systems to address the impacts of the climate crisis on agriculture and food security.

But with the increasingly adverse impacts of climate change, global hunger is growing, impacting as many as 783 million individuals worldwide in 2022. Ensuring food security for all, particularly women and people living in rural areas, remains an urgent and important priority in addressing climate change.

In 2021, most climate-related development finance contributions to agrifood systems, totalling 59 percent, came from bilateral resource providers, while 35 percent stemmed from multilateral providers, and the private sector contributed a modest 5 percent to the total flows. This distribution highlights the dominant role of bilateral providers in supporting agrifood systems, followed by multilateral efforts and the private sector.

Looking at the geographical distribution of resources and preferences by type of provider, sub-Saharan Africa emerged as the primary beneficiary of financial support directed towards climate-related initiatives in agrifood systems. The region received a substantial 53 percent of these funds from bilateral donors, with contributions coming mainly from Germany and EU institutions.

Asia stands out as the only region with a notable decline in overall contributions, furthermore, financial contributions from multilateral organizations exceed those from bilateral sources.

In recent years, blended finance gained prominence as a key instrument to mobilize significant amounts of private capital towards climate-smart investment projects in developing and emerging countries, using seed capital made available by public sources to de-risk and incentivize the private sector's engagement.

Adequate sectorial allocation of climate finance is essential, but the regional variations of climate finance are dynamic in nature. A disparity in focus between bilateral and multilateral providers with regards to climate objectives shows the differing priorities in addressing climate-related challenges.

While bilateral partners have pursued a more evenly distributed approach across various climate objectives, multilateral organizations have placed a stronger emphasis on projects aimed at climate adaptation. Understanding the preferences and strategies of resource partners vis-à-vis financial instruments is crucial to identifying and designing effective climate finance instruments, to increase the share of climate-related development finance allocated to agrifood systems.



Chapter 1

Introduction

Climate finance for agrifood systems transformation

In 2022 global hunger was still far above pre-COVID-19 pandemic levels, affecting up to 783 million people in the world. Food insecurity remains one of the main challenges for 29.6 percent of the global population, especially women and people living in rural areas (FAO *et al.*, 2023).

At the same time, agrifood systems provide employment to 1.23 billion people in the world, and nearly half the world's population live in households that are dependent on agrifood systems (Davis *et al.*, 2023).

In order to achieve food security for all, different elements from food production to consumption, as well as the rural–urban continuum, need to be taken into consideration. Only with a holistic view of the entire process and an understanding of the growing connectivity and interlinkages across urban, peri-urban, and rural areas is it possible to make decisions that will limit the negative spillover, and avoid a mere shift of the problem from one sub-system to another. As a result, a real positive impact on the achievement of the Zero Hunger Goal (SDG 2) can be created.

An agrifood system approach comprises a series of tightly interconnected sub-systems and actors that jointly implement activities related to the production, aggregation, processing, distribution, consumption, and disposal of food products that originate from agriculture, livestock, forestry, or fisheries and aquaculture (FAO, 2018).

Addressing climate change in agrifood systems is a challenge that requires innovative solutions, policy support, and investments to safeguard food security, livelihoods, and the well-being of communities worldwide. Furthermore, it is a critical aspect of achieving a sustainable and resilient future for agriculture and food production.

Scaling up climate finance towards agrifood systems can enable transformative solutions to tackle climate change in terms of both production and sustainability, and at the same time bear a positive impact on the environment. Achieving the goals of the Paris Agreement requires substantial changes in food production, as emissions from the global food system could preclude achieving not only the 1.5° but also the 2°C climate change target. Thus, it is critical that an adequate level of investment in climate action be targeted to transform agrifood systems to be more efficient, resilient, and sustainable.

Relevance of climate finance in the Paris Agreement

Under the United Nations Framework Convention on Climate Change (UNFCCC) developed countries committed to collectively mobilizing USD 100 billion per year allotted to developing countries, placing high importance on enhancing climate finance to achieve the implementation of the Paris Agreement.

The Paris Agreement acknowledges the significance of climate finance to support developing countries in their efforts to mitigate and adapt to climate change. It mentions the importance of climate finance in several articles to emphasize the responsibility of developed countries to mobilize financial resources and facilitate technology transfer and capacity building to enable global climate action. The nationally determined contributions (NDCs) reflect the diverse needs and gaps that each individual country faces in the fight against climate change, and the financial requirements to meet such commitments vary significantly between countries depending on their own capacity and resources. It is also a known fact that climate change affects different countries and local communities in a disproportionate way. It is crucial that such differences be considered when identifying the necessary financial flows, and that the climate actions chosen adequately meet local needs.

The first mention of climate finance in the Paris Agreement is as early as Article 2.1(c), which sets out the aim of the Agreement, “strengthen global response to the threat of climate change,” and lists the three key actions to take in this direction: holding the increase of global temperature; increasing the ability to adapt; and finally “making finance flows consistent with a pathway towards low greenhouse gas emissions (GHG) and climate-resilient development.” The Article concludes with the recognition of the different national circumstances where it is essential to adopt the principle of common but differentiated responsibilities. Article 4 focuses on countries’ mitigation commitments to reduce GHGs, and paragraph 3 mentions how developed country Parties should continue to take the lead in mobilizing climate finance from a variety of sources to assist developing country Parties in their mitigation efforts.

Further indications on how to address the provision of climate finance to support developing countries in their climate actions are explained in Article 9, which states that the financial resources to support mitigation and adaptation action in developing countries should be provided by mobilization efforts from developed countries, with an additional element with respect to baseline flows. This Article recognizes the importance of public funds, which as shown in this analysis continue to make up a consistent portion of the mobilization effort.

As the Paris Agreement aims to set a framework for the provision of financial, technical and capacity building support towards more ambitious climate action, climate finance is mentioned throughout the document as a key step to support several key actions, such as the need for financial resources to facilitate the adoption of climate-friendly technologies (Art.10), to build institutional and technical capacities for climate action (Art. 11), and to enable enhanced transparency (Art. 13). A key aspect of the innovation brought forward by the Paris Agreement is the importance of transparency, with a view to strengthening trust and confidence among Parties and practitioners to support sustainable implementation of climate action. The impetus towards transparency also relates to transparent climate finance, for which Parties are encouraged to provide information on the aggregate financial support. At the same time developed countries should provide information on the financial support received.

Furthermore, it is essential to mention Article 6 and its recommendation on the possibility of transferring a Party's successful carbon reduction outcome so that it is included in another Party's mitigation target, either through a voluntary carbon market or through a centralized mechanism. Carbon finance could represent significant financing opportunities for climate action, but agriculture and food systems are, to date, covered in only a limited way. However, the mitigation potential and available financing can be further enhanced by tapping into synergies with agrifood systems.

The concepts set forward in the Paris Agreement define the guiding principles for both climate finance providers and recipients, and delineate the increasing ambition of flows as well as the scope under which the resources are made available, that is, reducing emissions in all sectors and increasing the ability to adapt to the effects of a changing climate.

BOX 1. Moving towards implementation and Sharm el-Sheikh joint work on climate action in agriculture and food security

At the twenty-seventh Conference of Parties of the United Nations Framework Convention (UNFCCC COP27) in 2022, agriculture remained a high priority on the agenda. Following the landmark decision adopted at COP23 on Koronivia Joint Work on Agriculture (KJWA), the only agenda item dedicated to bringing together discussions on agriculture, food security, and climate change under the UNFCCC, COP27 concluded the KJWA roadmap and agreed on a four-year window (2022-2026) for countries to continue working on issues related to agriculture and food security. The KJWA will focus on implementation, namely, "Sharm el-Sheikh joint work on implementation of climate action on agriculture and food security."¹

The Sharm el-Sheikh joint work on climate action in agriculture and food security highlights the unique role of agriculture and food security in responding to climate change and calls for concrete implementation actions beyond technical dialogues. Facilitating the implementation of Koronivia outcomes, addressing previous issues on agriculture under the UNFCCC and handling future topics through the Financial Mechanism² under the Convention are also underpinned in the Sharm el-Sheikh joint work on climate action in agriculture and food security (UNFCCC, n.d.).

Stepping up climate finance is also key to transforming agrifood systems to contribute to adaptation efforts and pursue the Paris Agreement's adoption of the 1.5°C global warming limit.

¹ Information on the objectives and mandates of the new Sharm el-Sheikh joint work can be found in Decision 3/CP.27 under the UNFCCC. Available here: https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf

² See Box 2 for more information.

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Source: UNFCCC. n.d. Joint work on implementation of climate action on agriculture and food security – Decision -/CP.27. Advance unedited version, Paragraph 14b. https://unfccc.int/sites/default/files/resource/cop27_auv_3ab_Koronivia.pdf



Chapter 2

Methodology

Definition of climate finance

There is no agreed definition of climate finance, but the UNFCCC provides an operational definition:

Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.

The level of climate finance reported by bilateral, multilateral and private providers is analysed to help monitor the flow and effectiveness of climate finance, assess progress towards climate goals, and enhance transparency and accountability in climate finance efforts. Reporting mechanisms are essential for tracking financial commitments, understanding climate finance trends, and ensuring that financial resources are used efficiently and effectively to address climate change challenges. Developed countries that are Parties to the UNFCCC are required to submit their climate finance reports on the financial resources they mobilize and allocate to support climate actions every two years, as part of their reporting obligations under the convention. The UNFCCC maintains a centralized platform, the Biennial Assessment and Overview of Climate Finance Flows, to collect and disseminate information on climate finance provided and received by countries. The platform focuses on climate finance flows related to climate change mitigation and adaptation efforts under the UNFCCC framework, and the climate finance data collected through this method aims to track progress toward achieving the USD 100 billion target.

On the other hand, providers also report climate-related development finance to the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) (OECD, 2023), the objective of this data being to track the mainstreaming of climate objectives in development finance (OECD, 2022). The OECD DAC provides comprehensive and accurate data and information about the developmental flows, based on financial flow data gathered from both bilateral and multilateral providers, with project-level accuracy, yearly. The data source for this analysis is compiled and stored in the OECD DAC Climate-related Development Finance Statistics (OECD, n.d.).

This database includes Official Development Assistance (ODA), other official flows (OOF), private grants and private amounts mobilized reported by DAC and non-DAC members, including multilateral institutions and private philanthropy.

It is important to mention that the term and concept of “climate finance” started to gain recognition around the year 2008, marking a notable shift in discourse. Before this period, the term was not commonly employed. In this analysis, we have chosen to include data from the year 2000 onwards, aligning with our primary objective of presenting a comprehensive snapshot of all available data on this topic. However, it is essential for the reader to be aware of this in order to be able to contextualize the significance of the data and appreciate the evolving nature of climate-related development finance over time.

For bilateral donors (DAC and non-DAC) and a few multilateral institutions, the degree of climate mainstreaming is tracked through the Rio marker methodology, indicating whether climate is the principal objective of the activity, a significant objective, or if the activities do not target climate change adaptation and/or mitigation. The dataset also includes activities from multilateral development banks (MDBs) and other multilateral institutions that instead use the climate components methodology. This analysis considers together climate-related flows labelled as principal, significant (identified through the Rio markers) and the climate components (for MDBs and other multilateral institutions) (OECD, n.d.). Based on OECD’s database, this report analyses the financial flows of commitments from the recipient perspective capturing development finance to developing countries, using USD million as the currency in line with the publication series to allow comparability, the objective being to provide a detailed picture of climate-related development finance with a focus on agrifood systems.

The database provides information on the level of concessionality, which measures how favourable the terms of the financial assistance offered by the donor country or organization to the recipient country are compared to a loan at market rate. Grants have a 100 percent concessionality level because they do not need to be repaid, while loans have lower concessionality levels, typically below 100 percent because they must be repaid with interest. Concessionality is an essential aspect of ODA, defined as developmental or not primarily developmental depending on whether its primary objective is the promotion of the economic development and welfare of developing countries.

The analysis has also allowed us to summarize information on the financial instruments, and the tools or mechanisms used to mobilize and direct financial resources towards climate-related projects and activities. The two main instruments depend on the level of concessionality: i) grants, which require no repayment; and ii) loans, aimed at promoting climate-friendly projects and envision repayment with favorable terms (for example low interest rates or longer repayment periods).

OECD DAC purpose codes used in the analysis

For the purpose of this analysis, the “agrifood systems” definition is based on a selection of the OECD purpose codes compiled in consultation with the FAO technical departments. The list has been expanded from the previous version of “agriculture and land use sector” to include additional codes related to nutrition and energy. The concept of “agrifood systems” involves agriculture development, crop production, nutrition, cross-cutting, energy, fishery, food security, forestry, livestock, environment and biodiversity, emergency/resilience (please see the full list of codes and the agrifood systems aggregation in Annex A).

Regional Classification

For this analysis, the OECD regional classification is followed. It was acknowledged during the analysis process that certain differences in the perception of regions exist between the FAO and OECD (for a

detailed explanation please see Annex B). However, since the regional projects were included in the database based on the OECD regional classification to ensure they are rightfully counted in, the logic of the OECD database had to be maintained. Hence, the analysis is based on the OECD classification which encompasses sub-Saharan Africa, Asia, Latin America and the Caribbean, North Africa and Middle East, Europe, and global and interregional projects.

Sources of climate finance

Contributions to support actions aimed at reducing emissions and increasing adaptation to climate change rely on a combination of diverse sources and are distributed through different financial instruments.

Public finance

- Domestic climate finance includes domestic financing through public budgets carried out by central, state, or local governments and their agencies, export credits to support the domestic economy and employment by helping companies find overseas markets, public fund, and state-owned entities and finance institutions.
- Developmental: the resources are primarily aimed at development. They are mainly provided through ODA, defined as financial support in the form of grants or concessional loans from the OECD and DAC member countries to developing countries, or OOF, which are developmental flows that fall outside of the ODA definition (e.g. not considered concessional enough):
 - ▶ bilateral: flows from a government or a national extending agency. These flows are classified as provided by DAC members or non-DAC members in the OECD DAC database, while in other datasets they are usually referred to as flows from governments, development finance institutions, or national development finance institutions. These flows are bilateral, meaning they are provided directly from the resource partner to the recipient country;
 - ▶ multilateral: flows channeled via an international organization;
 - ▶ banks: also referred to as multilateral development finance institutions, they are established by more than one country, for example: the World Bank, or regional development banks such as the African Development Bank;
 - ▶ climate funds: multilateral climate finance initiatives designed to help developing countries address the challenges of climate change, for example, Green Climate Fund (GCF) and Global Environmental Facility (GEF);
 - ▶ other multilateral organizations: multilateral organizations such as FAO. In the OECD DAC classification, the International Fund for Agricultural Development (IFAD) is also classified as other multilateral.

Private finance

- Private at market terms: flows from private finance at market terms financed out of private sector resources including companies, institutional investors such as insurance companies, commercial and investment bank, private equity, venture capital, and infrastructure funds.
- Private and developmental: private grants from non-governmental organizations (NGO) or other private bodies. The Bill and Melinda Gates Foundation is an example of a private grant.

BOX 2. Review of special funds

The Convention established a financial mechanism to provide financial resources to developing country Parties for activities, programmes and measures relating to climate change. The mechanism includes a number of special funds and its operating entities: the GEF and the GCF. The Adaptation Fund (AF) was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change, and the Warsaw International Mechanism for Loss and Damage (WIM) associated with climate change impacts (Loss and Damage Mechanism) was established to address loss and damage associated with impacts of climate change.

Green Climate Fund (GCF): The GCF is a special fund established under the UNFCCC to provide financial support for climate-related projects and programmes in developing countries. It aims to promote low-emission and climate-resilient development, which can include initiatives related to agriculture and food security. Developing countries can access funds from the GCF to implement projects that help reduce emissions from agriculture, enhance agricultural resilience to climate change, and improve sustainable farming practices.

Global Environment Facility (GEF): The GEF is a special fund that operates in partnership with the UNFCCC and other international conventions to provide support for global environmental projects, including those related to climate change. While the GEF primarily focuses on biodiversity, climate change, land degradation, and international waters, it does provide funding that can be channeled toward agricultural sectors in the context of climate change mitigation and adaptation.

Adaptation Fund (AF): The Adaptation Fund was established to finance adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change. Agriculture is a key sector that can benefit from the AF, as it supports projects aimed at increasing the resilience of agricultural systems and rural livelihoods in the face of climate change impacts.

The recent agreement on the establishment of the new fund and funding arrangements for the unavoidable impacts of climate change that surpass the adaptation limit, Loss and Damage (L&D), to support developing countries that are particularly vulnerable to impacts of climate change, also opens up opportunities for agrifood systems to further address the unavoidable impacts of climate change on agriculture and food security. The potential funding arrangements to support L&D in agrifood systems would include exploring prevailing major funding arrangements under the UNFCCC supporting climate actions in developing countries, as well as catalysing finance from private sectors, multilateral development bank/financing institutes, international organizations/UN agencies, insurance/risk transfer mechanisms and innovative finance such as levies, bonds, and debt swaps.

The exact level of L&D funding needed for agrifood systems is hard to determine. Yet, to date, little has been done to address the adverse effects of climate change on agricultural sectors and to assist low- and middle-income countries in terms of L&D work. Decision 2/CP.27 underscores the need for meeting a wide range of gaps in the current funding landscape with particular focus on “the most vulnerable populations and the ecosystems on which they depend,” which essentially refers to agrifood systems.

Chapter 3

Trends in global and regional climate-related development finance flows to agrifood systems

Between 2000 and 2021, climate-related development financial support for agrifood systems amounted to USD 183 billion. More than half of this funding was delivered during the most recent five years. In 2020, there was a notable peak, with a single-year allocation of USD 21.8 billion, but in 2021 the contributions decreased to USD 19 billion, marking a 12 percent decline compared to the previous year. This indicated the first instance of a decrease in climate-related development finance for agrifood systems since the Paris Agreement was signed.

The decrease is in line with global trends in all sectors, which saw a delay in the upward trend of contributions with a marginal 0.03 percent decrease of flows compared to 2020. The impact of the COVID-19 pandemic in 2020 on climate-related development finance has been complex and varied, furthermore its precise impact on climate-related development finance is not straightforward, and can differ depending on various factors. During the pandemic, many governments shifted their focus and financial resources towards immediate public health responses and economic stimulus packages to address the socioeconomic impacts of COVID-19. This shift in priorities might have temporarily reduced the share of allocation of public funds to climate finance initiatives at a global level.

The primary reason for the overall decrease in climate finance to agrifood systems in 2021 is a significant decline in contributions to Asia, which experienced a sharp drop of -44 percent compared to 2020. This reduction in funding is also present in global trends, however this decline in contributions had a notable

FIGURE 1.

Climate-related development finance to agrifood systems



Source: authors' calculations based on OECD's climate-related development finance dataset.

impact on the flows directed to agrifood systems. All agrifood systems sectors³ experienced a decrease in climate finance, except for energy and food security, which remained resilient despite the overall downward trend. Notably, two crucial sectors, agriculture and environment and biodiversity that jointly accounted for 62 percent of total climate-related finance to agrifood systems in Asia, encountered a decline of 41 percent and 15 percent, respectively.

In contrast, all other regions saw an increase in climate finance contributions to agrifood systems, albeit with varying degrees of growth. Africa and Europe experienced a mild increase of 4 percent, while Latin America and the Caribbean saw similar modest variations of 6 percent. The most decisive increase occurred in the NENA region, where contributions surged by 54 percent. Another contributing factor to the overall decrease was a reduction in climate finance for global and interregional projects, which experienced a decline of 10 percent compared to 2020.

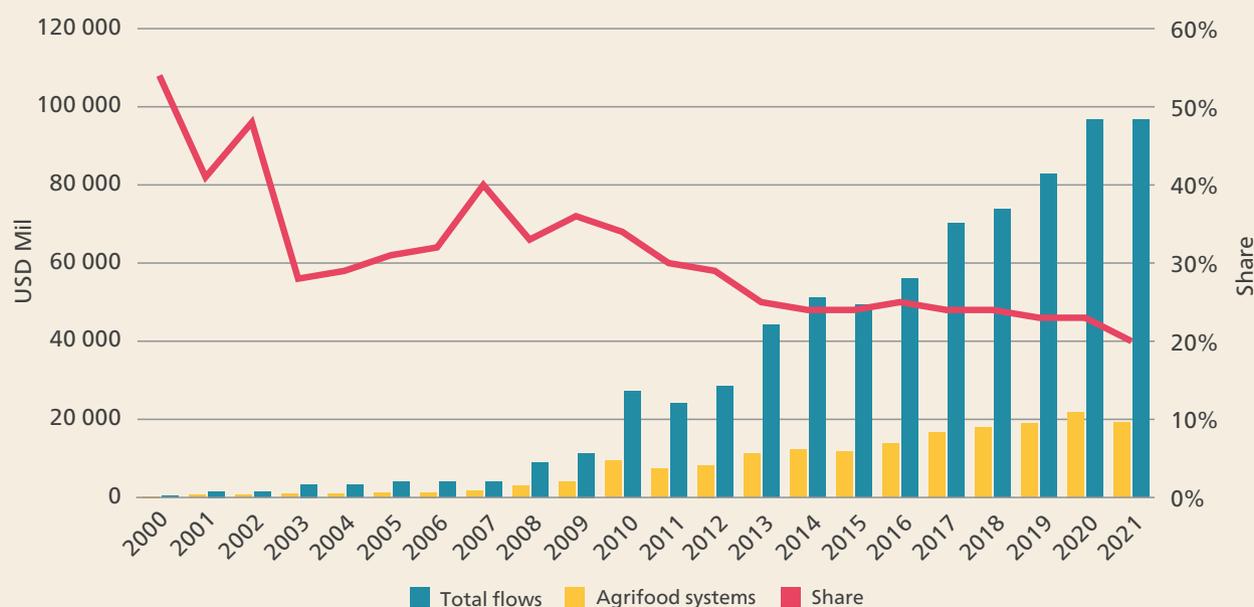
Despite the overall increasing trend in absolute terms, as seen in Table 1, the growth rate of climate-related development finance towards agrifood systems falls short of the average growth rate observed in climate-related development finance overall. Consequently, there is an overarching decrease in the proportion of finance allocated to agrifood systems in comparison to global flows and, similar to the trend observed for 2000–2020, the share of climate-related development finance allocated to the agrifood systems has continued to decrease also in 2021. The decreasing trend may be attributed to distinct factors such as the lack of supportive policies and regulations that can increase the attractiveness of the agrifood systems,

³ For the purpose of the analysis, agrifood systems are identified through the aggregation of selected OECD DAC purpose codes as identified in Annex A.

and improve the allocation of climate finance contributions. At the same time, the importance of agrifood systems in climate change mitigation and adaptation efforts might not be adequately highlighted or advocated enough to be compared to other sectors. Efforts to raise awareness about the importance of agrifood systems in providing solutions to climate change and advocating for increased climate finance in this sector may help reverse the declining trend and ensure more sustainable and resilient agrifood systems.

FIGURE 2.

Climate-related development finance to agrifood systems and its share against global flows



Source: authors' calculations based on OECD's climate-related development finance dataset

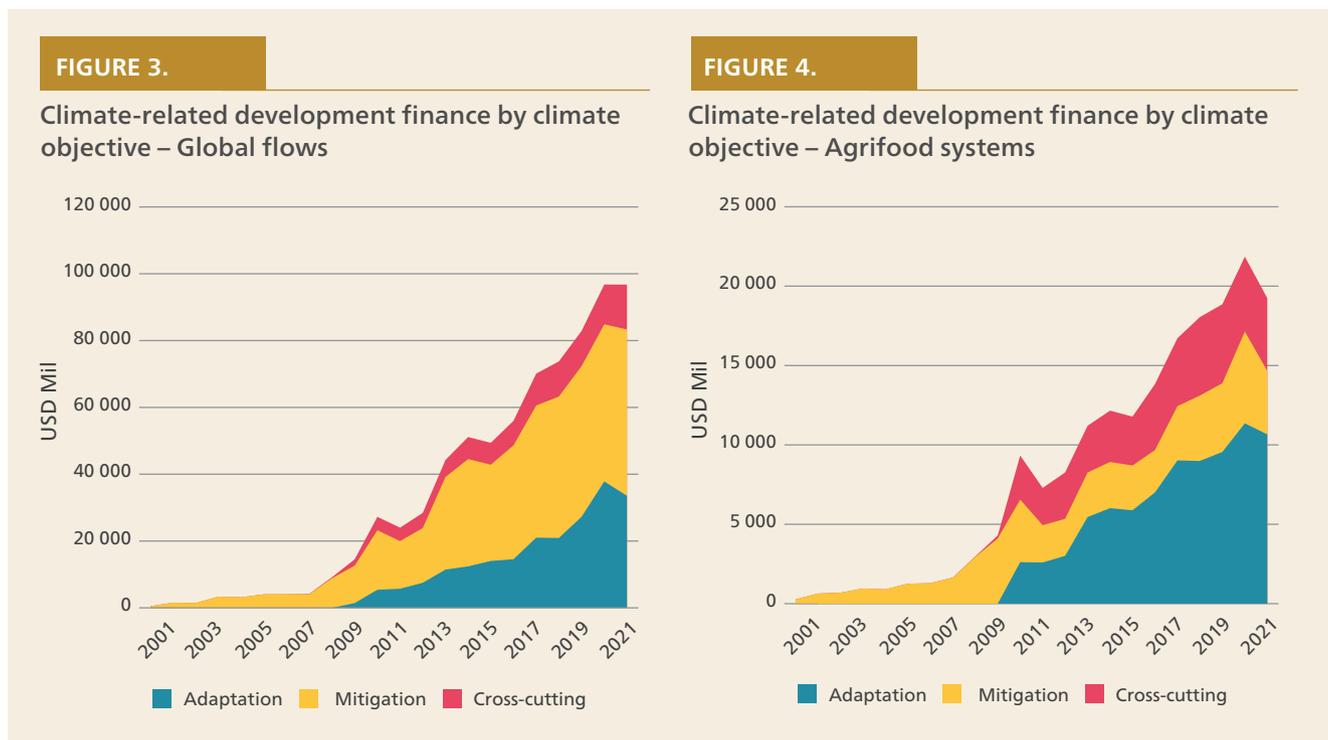
BOX 3. Different calculations of climate finance

This analysis considers climate-related development finance flows. Other analyses, such as the Landscape of Climate Finance for Agrifood Systems (CPI, 2023) developed by the Climate Policy Initiative, take into consideration the entire architecture of climate finance and a broader range of financial aspects related to climate change, including public and private sector investments, and domestic and non-developmental private climate finance. Their analyses show that in 2019/2020, agrifood systems received only a small fraction (4.3 percent) of total global climate finance tracked at the project level, with an annual average of USD 28.5 billion.

Source: CPI (Climate Policy Initiative). 2023. Landscape of Climate Finance for Agrifood Systems. Climate Policy Initiative. Chiriac, D., Vishnumalakala H. & Rosane, P. www.climatepolicyinitiative.org/wp-content/uploads/2023/07/landscape-of-climate-finance-for-agrifood-systems.pdf

The trend seen in the analysis of the period 2000–2020 shows that in 2021 the largest share of climate-related development finance to all sectors was allocated to the mitigation objective (51 percent), followed by adaptation (35 percent) and the cross-cutting objective (14 percent). It is interesting to note that this was not the case for agrifood systems specific allocations, where most of the allocations targeted the adaptation objective (55 percent), followed by mitigation (21 percent) and cross-cutting (24 percent). This may be linked to a stronger sense of urgency to limit the immediate impacts of climate change on agrifood systems, which are heavily affected by extreme weather events, and slow-onset events such as changing precipitation patterns, and rising temperatures. Additionally, as agriculture plays a critical role in global food security, adapting agricultural practices and food systems to climate change helps ensure food production and availability, making adaptation efforts a priority for many countries and the international organizations addressing food security concerns.

Nevertheless, it is essential to recognize the significance of both adaptation and mitigation initiatives in addressing climate change within agrifood systems. Achieving a balanced financial approach to support both adaptation and mitigation is crucial for the development of sustainable and climate-resilient agricultural systems.



Source: authors' calculations based on OECD's climate-related development finance dataset.

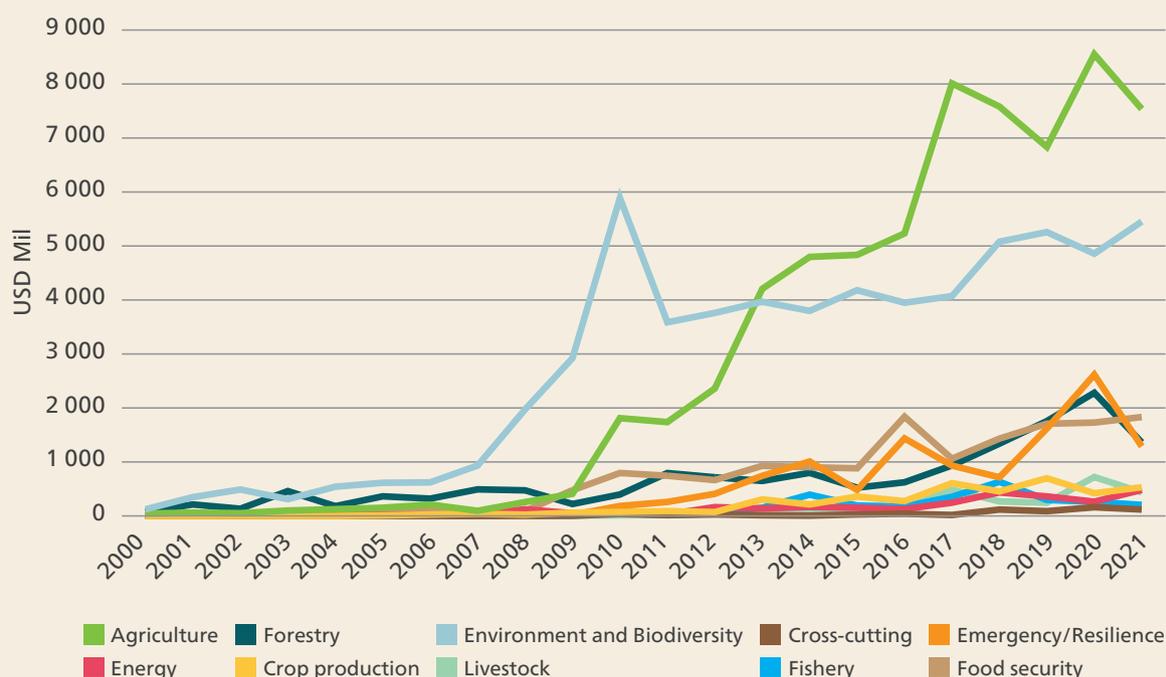
As of 2021, agriculture continued to hold its position as the most highly financed sector, accounting for 39 percent of climate-related financial flows directed to agrifood systems. However, this trend was not unilaterally positive, with a decline observed in 2019 and 2021 flows.

The second most highly financed sector was environment and biodiversity, attracting 28 percent of the total contributions. Notably, this sector demonstrated an upward trend, indicating an increasing recognition of the importance of environmental conservation and biodiversity preservation in climate finance strategies. Food security also experienced a continuing upward trend in funding, which reflects the growing emphasis on ensuring food availability, access, and stability in the face of climate change impacts. The picture was different for both emergency and resilience, and forestry sectors, as they both saw a sharp decrease in contributions in 2021.

In 2021, sub-Saharan Africa emerged as the region that attracted the largest share of resources, accounting for 36 percent of total climate-related financial flows directed to agrifood systems. Following closely was Asia, which received 20 percent of the contributions, Latin America and the Caribbean with 16 percent, and Europe and NENA (Near East and North Africa) each with 6 percent. When analysing the climate objectives of these regions, a similar trend in the distribution of climate-related development finance was observed. In all regions, flows directed towards adaptation efforts represented more than half of the contributions, with sub-Saharan Africa and NENA both reaching peaks of 63 percent for adaptation funding. Conversely, investments in mitigation activities varied across the regions. NENA showed lower emphasis on mitigation, with only 5 percent of contributions allocated to these projects.

FIGURE 5.

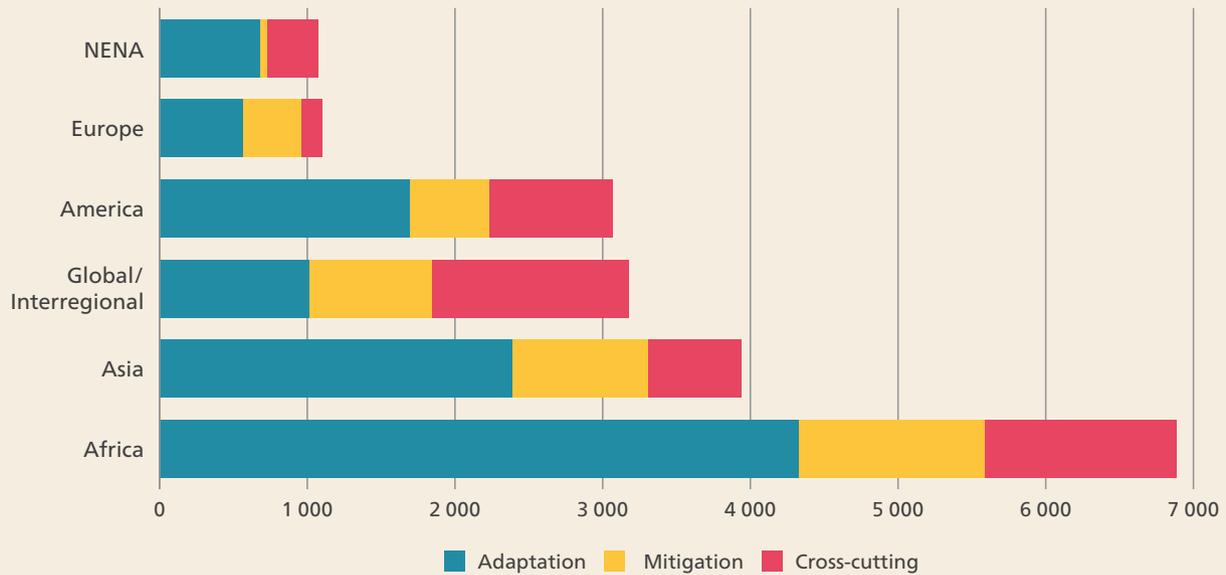
Climate-related development finance to the agrifood systems sectors



Source: authors' calculations based on OECD's climate-related development finance dataset.

FIGURE 6.

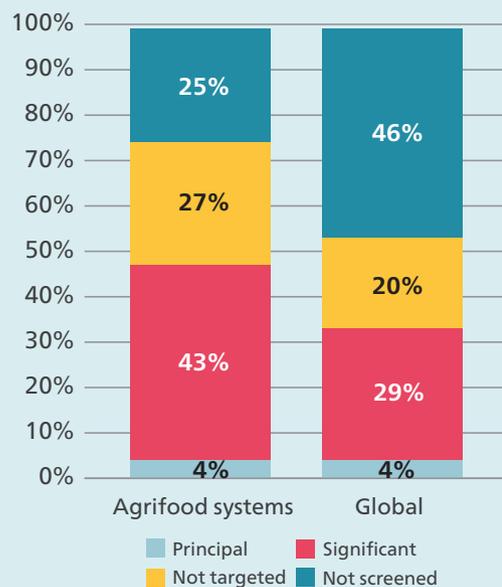
Regional distribution of climate-related development finance allocated to agrifood systems by climate objective in 2021



Source: authors' calculations based on OECD's climate-related development finance dataset.

BOX 4. Gender sensitivity in global and agrifood systems flows in 2021

Gender-specific considerations are still largely overlooked by resource partners: 46 percent of projects are not screened against the gender component and an additional 20 percent of the activities do not target gender. Around one-third of the projects have a gender component, but only 4 percent have a gender-specific principal objective and 29 percent have a gender-specific significant objective. Projects in agrifood systems tend to take gender aspects into more careful consideration, and also have a higher level of flows directed to activities that carry a significant gender component. As seen in previous analyses, multilateral development banks have the highest rate of unscreened project against gender considerations (81 percent), while for DAC members it is only 10 percent. There is often a limited awareness and understanding among climate finance resource partners of the importance of integrating gender considerations



in climate finance, and insufficient data and research on the gender dimensions of climate change and climate finance can hinder the integration of gender-specific considerations. Concerted efforts are still needed to ensure that gender considerations are fully integrated into climate policies, also at a sectoral level, to promote more equitable and effective climate solutions.

On the other hand, Europe demonstrated a stronger focus on mitigation efforts, with 35 percent of contributions directed towards climate change mitigation projects. Notably, global and interregional projects exhibited a higher focus on cross-cutting activities that targeted both mitigation and adaptation. These projects aimed to address climate challenges on a broader scale, recognizing the interconnectedness of mitigation and adaptation strategies in the agrifood systems of various regions.

In focus: using blended finance to promote the development of more sustainable agrifood systems

According to FAO data, 84 percent of the 608 million farms worldwide are less than two hectares in size. Although these smallholders operate only around 12 percent of total agricultural land, they are responsible for one-third of global food production (Lowder, Sanchez and Bertini, 2021). The vast majority of these actors rely on inefficient, resource-intensive and heavily polluting agricultural practices for their businesses, while also being extremely vulnerable to negative climate events – both sudden and slow-onset. Given these premises, it is evident that small-scale agriculture will require massive levels of investment to transition to sustainable food and land-use systems. The Food and Land Use Coalition (FOLU) estimates the need for around USD 300–350 billion in annual investment capital to achieve this transition by 2030, with the potential of unlocking USD 5.7 trillion worth of economic and social gains to society (Apampa *et al.*, 2021). That being said, agriculture (and climate-smart agriculture in particular) is perceived as a risky and uncertain sector for investments due to the significant transaction costs, small ticket sizes, data gaps and information asymmetries, high systemic risk, loosely structured value chains, and numerous other factors. Consequently, even in the case where financing for small-scale agriculture materializes, the terms of credit offered are usually not sufficient enough to help farmers transition towards a more sustainable agricultural model. The tenor and possible grace period of such loans are too short for the types of farm-level endeavours that these types of projects require (e.g. tree planting, farmland restoration). Moreover, the loan amounts offered are usually too low, and interest rates can quickly become excessive if long-term financing is demanded. As a result, promoting and upscaling investments in small-scale agriculture that also pursue climate-related impacts require considerable de-risking support to become a feasible proposition for farmers.

In this scenario, **blended finance**, an approach to de-risking and incentivizing investments in climate-smart agriculture, has rapidly gained popularity in recent years. Blended finance entails the use of concessional funds from public and philanthropic sources to attract and mobilize massive amounts of investment capital towards agricultural development projects that would not be normally considered by most investors on account of their risk profile. By leveraging concessional funds, it is possible to incentivize private and public investors towards deploying their capital in climate-smart, resilience-enhancing projects linked to developing agriculture. This approach offers satisfying financial returns as well as significant environmental and social impacts, such as GHG reductions, food security improvements, land rehabilitation, and biodiversity protection.

As pointed out by a recent, large-scale analysis of the global state of blended finance carried out by Convergence (2022), climate change has historically been a strong thematic focus of blended finance transactions. Since 2011, half of all blended finance transactions launched annually (on average) undertook this type of focus, attracting more than 65 percent of the aggregate annual financing in the blended finance space (an average of USD 7 billion per year). Furthermore, the median size of these climate-focused transactions has been USD 80 million, which is considerably higher than the median size of transactions registered in the overall blended finance market (USD 55 million). From a regional perspective, climate blended finance has focused primarily on sub-Saharan Africa (41 percent of transactions in the 2019–2021 period), followed by Latin America and the Caribbean (28 percent). From a country perspective, Kenya, Brazil, and Colombia have registered the highest number of blended finance deals with a climate focus.

From the specific perspective of **agriculture**, finance can play an essential role in “improving the bankability of projects and reducing transaction costs in a sector defined by high transaction cost/return ratios and information asymmetries, and loosely structured value chains in which most operators and transactions are small-scale” (Convergence, 2022). An increasing number of climate-oriented blended finance transactions in recent years have focused specifically on smallholder farmers and rural communities: 36 percent of climate deals between 2019 and 2021 have targeted these actors, up from 26 percent registered in 2016–2018 period. This rising interest can be explained by the fact that, from the perspective of impact **investors, agriculture-focused transactions are well placed to achieve both climate mitigation and climate adaptation results**. In other words, they can both contribute to reducing the emission of CO₂ and other greenhouse gases, as well as help rural dwellers become more resilient against the rising effects of climate changes, such as the increased frequency and magnitude of extreme natural events, erratic weather patterns, and soil salinization. In fact, according to Convergence’s analysis, over 60 percent of climate blended finance deals in agriculture (in the 2019–2021 period) were **cross-cutting transactions** aimed at achieving both mitigation and adaptation effects, such as expanding renewable energy usage in agribusiness and promoting forest restoration (Convergence, 2022).

Nevertheless, as already discussed, successfully leading investors towards channeling their capital towards sustainable agricultural development projects requires considerable technical expertise, an established track record of supported transactions, and insightful, granular information on the context at hand (such as agroecological features of the territory, value chain dynamics, specific farm-related aspects of climate vulnerability). In turn, this requires **extremely specialized blended finance funds** that have been set up with the necessary capacity, expertise and resources to identify and foster the most impactful deals in climate-smart agriculture. In this sense, there have been some interesting examples in recent years, of blended finance funds specifically set up to incentivize investors’ engagement in these types of agricultural projects, although they are relatively few in number in the overall blended finance space. These funds focus on de-risking investments in projects that aim at achieving various types of environmental and social impacts, through the promotion of sustainable agricultural practices, forest protection, degraded farmland and pastureland rehabilitation, and a host of other interventions. Two relevant examples of blended finance funds, substantially capitalized with public resources using these resources to attract and mobilize further private investment in sustainable agricultural projects are: i) the **AGRI3 Fund**, which seeks to mobilize capital in investment projects focused on climate-smart agriculture and the promotion of rural livelihoods; and ii) the **&Green Fund**, which focuses on de-risking investments that seek to promote a move away from traditional deforestation practices in key agricultural



value chains, such as palm oil, soy, beef (Benni, 2023a). Both these funds have been originally capitalized by the Dutch government, followed by a range of other public and investors.

Financing trends of bilateral/multilateral providers

Development finance providers of ODA and OOF may be classified in three main groups: bilateral sources, which refer to assistance provided by individual countries directly to another country or recipient, and include DAC and non-DAC members; multilateral institutions, for which reporting to the OECD started with 2013 flows; and additionally, private developmental flows representing funding from non-governmental sources. The full list of providers and their category is included in the Annex C.

In the upcoming section of our analysis, we will focus on the comparison between bilateral and multilateral flows, delving into the trends and preferences in financing within these categories. This examination will provide insights into how donor countries and international organizations choose to allocate their climate-related development finance resources to agrifood systems, and the varying approaches they employ to address global challenges.

As outlined in the methodology section, the OECD gathers data on climate-related development finance using two distinct approaches: one for bilateral donors and select multilateral institutions using the Rio marker to assess the degree of climate focus, and another for MDBs and other multilateral institutions employing the climate components methodology. The authors acknowledge the limitations of comparing the two methodologies, yet emphasize that these data represent the most reliable and granular source for information on climate-related development finance.

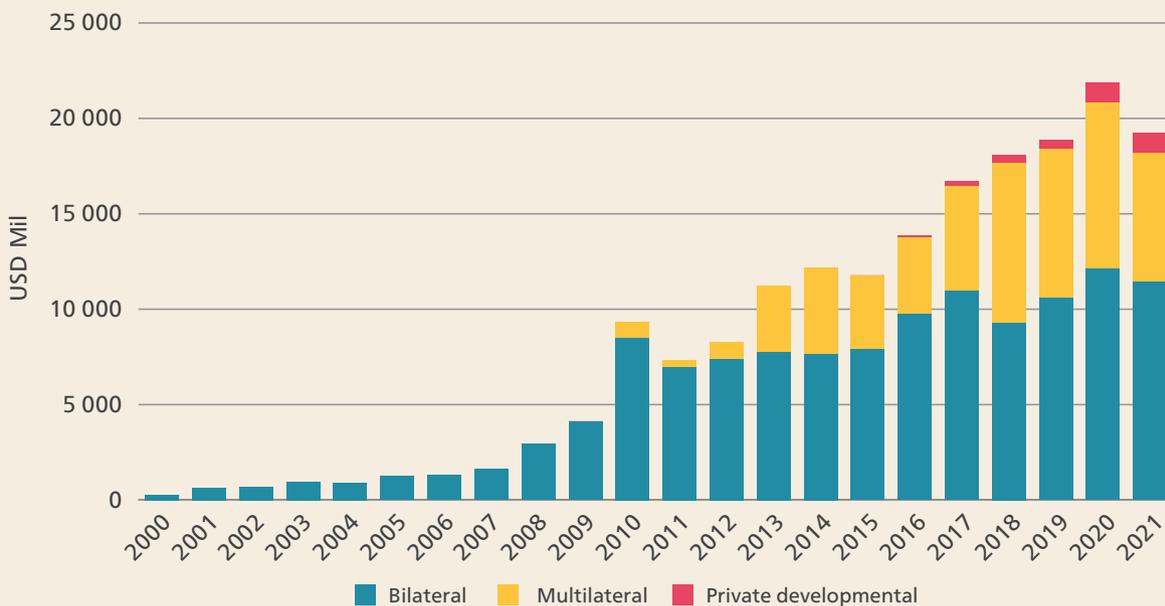
Between 2000 and 2021, bilateral transactions accounted for 68 percent of the total climate-related development finance flows to agrifood systems, while multilateral transactions comprised 30 percent of total flows. The initial record of multilateral transactions dates back to 2009 when the European Bank for Reconstruction and Development (EBRD) initiated projects focused on agro-industries and agricultural services, with a combined value of USD 17 million, primarily allocated to Ukraine (USD 12.6 million) and Armenia (USD 3 million). In the subsequent year, the volume of multilateral transactions surged to USD 827 million, with major contributions from the Inter-American Development Bank (IDB) (USD 713 million), the EBRD (USD 66 million), and the Nordic Development Fund (USD 38 million).

In 2021, bilateral flows accounted for 59 percent of total contributions to the agrifood systems, compared to the 35 percent of multilateral flows and 5 percent of private flows.

In 2021, the leading contributors in bilateral resources were Germany, France, EU institutions, and Japan, collectively making up 66 percent of the total bilateral flows. Commitment flows, especially those from

FIGURE 7.

Climate-related development finance to agrifood systems by provider type



Source: authors' calculations based on OECD's climate-related development finance dataset.

bilateral partners, exhibit fluctuations tied to specific funding cycles, resulting in peaks and troughs over the years. Japan is a prime example of this pattern, as it reached its highest contribution point in 2021, with significantly lower contributions in the preceding and subsequent years. On the other hand, Germany and France have steadily increased their contributions since 2018, while the United States, Canada, and the Kingdom of the Netherlands have maintained a relatively consistent level of support.

Among multilateral funding sources, the World Bank stands out as the largest contributor, having provided USD 24 billion to the agrifood system sector since its first reported year in 2013. The second-largest multilateral contributor during the 2013 to 2021 period is the GCF that financed projects totalling USD 5.2 billion between 2015 and 2021. This is followed by the GEF with USD 5 billion and IFAD with USD 4.3 billion.

When considering the climate objectives associated with these financial flows for the period spanning from 2000 to 2021, it becomes apparent that bilateral resource partners have maintained a relatively balanced approach over the years. Their allocations were spread across the three different objectives with a notable emphasis on adaptation, accounting for 38 percent of their contributions, especially for projects related to agriculture, environment and food security. Following closely behind, cross-cutting activities received 32 percent of their support, while mitigation efforts garnered 30 percent, notably for projects related to environment and biodiversity.

In contrast, multilateral providers exhibited a more pronounced focus on adaptation, allocating a substantial 61 percent of their contributions to projects in this category, mainly directed towards projects related to agriculture. Mitigation efforts received the second-largest share at 31 percent, while cross-cutting initiatives received a smaller portion, accounting for just 8 percent.

FIGURE 8.

Bilateral flows to agrifood systems (2000–2021)

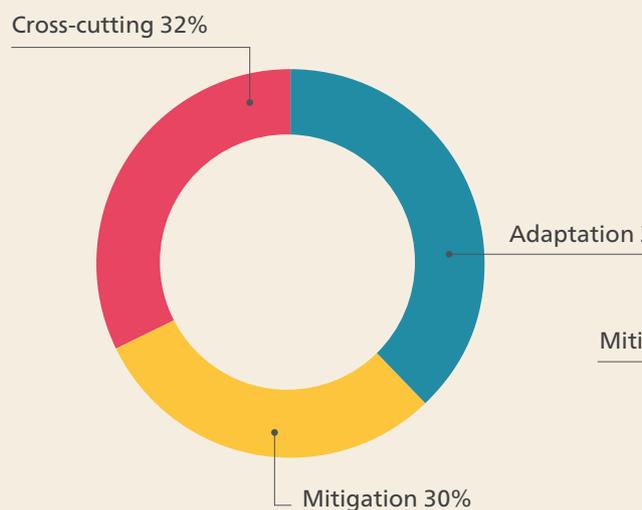
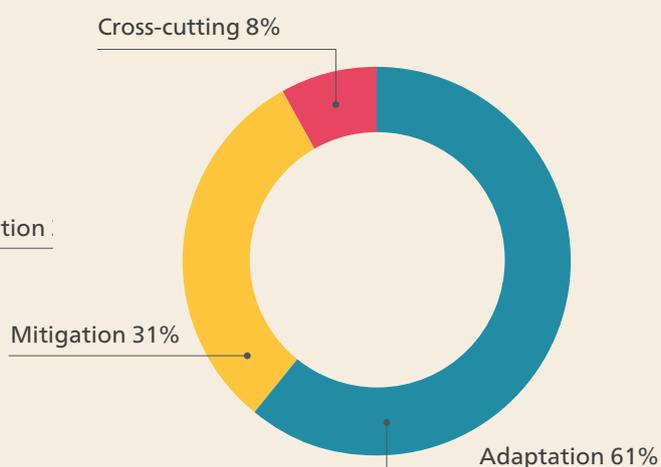


FIGURE 9.

Multilateral flows to agrifood systems (2000–2021)



Source: authors' calculations based on OECD's climate-related development finance dataset.

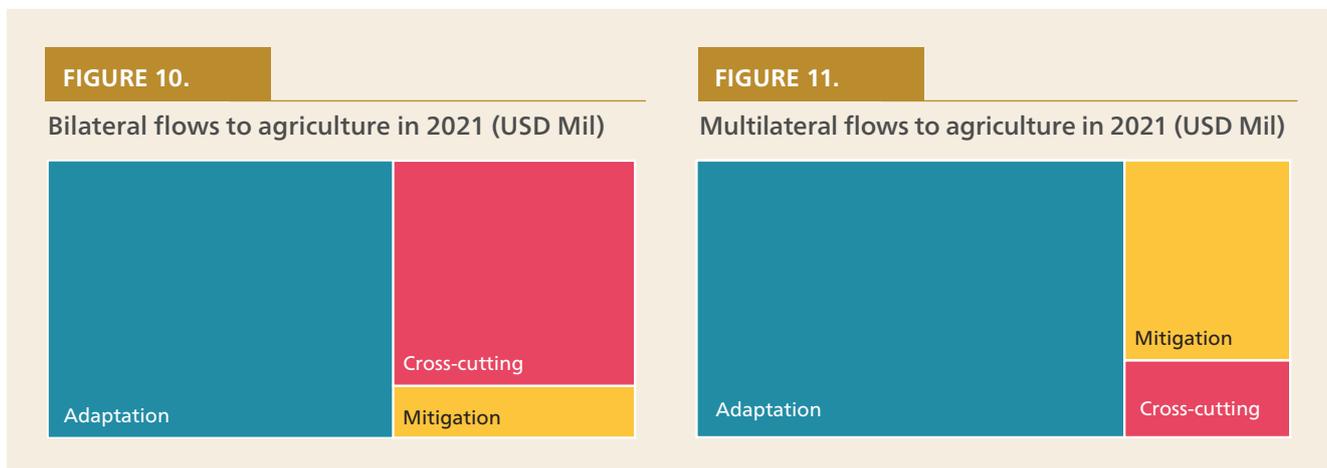
In terms of financial instruments, different provider types exhibit distinct preferences. In 2021, bilateral resource providers predominantly utilized grants, accounting for 76 percent of their contributions, while debt instruments constituted 24 percent of their funding. Conversely, multilateral partners displayed a strong inclination toward debt instruments, comprising 68 percent of their financial support, with grants comprising 29 percent. Although the private sector’s share of contributions to climate-related development finance for agrifood systems is limited, their entire contribution is in the form of grants.

In 2021, the allocation of grant flows reveals that the environment and biodiversity sector received the highest funding, followed closely by agriculture and food security. Sub-Saharan Africa emerged as the primary beneficiary, receiving 41 percent of grant contributions, primarily from bilateral resource partners, followed by global/interregional projects and Asia. As for debt instruments, there was a significant decrease in investments in Asia in 2021, plummeting from 51 percent of total flows in 2020 to just 28 percent. In 2021, the agriculture sector garnered the most funding through debt instruments, followed by environment and biodiversity, and forestry.

Most financed sectors by type of provider

The analysis reveals that bilateral resource partners tend to prioritize their contributions to the agrifood system sector for projects related to environment and biodiversity, while multilateral providers have a stronger emphasis on agriculture. For instance, in 2021, bilateral partners allocated 38 percent of their contributions to environment, compared to 34 percent for agriculture. In the same year, 48 percent of multilateral contributions were specifically directed towards agriculture, with only 8 percent allocated to environment and biodiversity. When it comes to financial support for agriculture, both bilateral and multilateral funding sources primarily prioritize actions related to adaptation.

In 2021, the largest bilaterally-funded sector was environment and biodiversity, followed by agriculture, and food security. Each of these sectors had a primary supporter. Germany played a pivotal role in funding activities related to environment and biodiversity, France concentrated its efforts on agriculture, and Japan prioritized contributions to food security.



Source: authors’ calculations based on OECD’s climate-related development finance dataset.

In 2021, when it comes to multilateral funding the agriculture sector received the highest level of financial support. The primary contributor to this funding was the World Bank, the second-largest contributor being the GCF. Following closely behind, the second and third most financially supported sectors were forestry and environment, as well as biodiversity. In both of these sectors, the World Bank took the lead as the principal contributor, and the GEF followed as the second-largest source of funding.

Geographical distribution of resources and preferences by type of providers, with a focus on SIDS

In the year 2021, sub-Saharan Africa emerged as the primary beneficiary of financial support directed towards climate-related initiatives in agrifood systems. The region received a substantial 53 percent of these funds from bilateral donors, with noteworthy contributions coming from countries like Germany and EU institutions. Additionally, 43 percent of the financial support for climate-related agrifood projects in sub-Saharan Africa originated from multilateral partners, with the World Bank as the dominant contributor in this category.

The private sector is emerging as a contributor to climate finance in sub-Saharan Africa, although the private sector's contribution represented a comparatively smaller portion at 4 percent. It marked the highest proportion of contributions among regions with a specific geographic focus. In comparison, Asia saw private sector contributions at 3 percent, and Latin America and the Caribbean at 1 percent.

The consistent support over the years from these diverse sources underscores the collaborative efforts needed to address the unique challenges that climate change poses to food security and agricultural sustainability in sub-Saharan Africa.

Asia stands out as the only region where financial contributions from multilateral organizations exceed those from bilateral sources. In the year 2018, this distinction was particularly pronounced, with multilateral flows surpassing bilateral ones by more than double. The World Bank played a fundamental role in this, committing substantial funds to major projects in countries like India and Indonesia for agricultural development and in Bangladesh for fisheries. In total, these commitments amounted to a significant USD 2 billion allocated to these crucial sectors. Nonetheless, by 2021 there was a notable decline in overall contributions, bringing multilateral flows and bilateral flows to an equitable level, each amounting to USD 1.9 billion. This shift reflects the changing landscape of climate-related finance in the region.

Latin America and the Caribbean has seen a steady increase in both bilateral and multilateral contributions, with bilateral funding representing the majority at 57 percent and multilateral funding at 42 percent. Over the period from 2000 to 2021, Germany emerged as the largest bilateral contributor, followed closely by France and Norway. On the multilateral front the IDB led the way with contributions from the World Bank, and the GCF following suit.

Within Europe, there has been a noticeable decline in multilateral flows following a peak of USD 1 billion in 2019. Conversely, bilateral contributions have been steadily increasing since 2017, with an average annual growth rate of 25 percent. In 2021, bilateral flows reached their zenith at USD 821 million, representing a substantial 75 percent of the total financial support to the region, while multilateral flows constituted only 25 percent. This surge in 2021 was primarily driven by substantial projects aimed at enhancing water supply in Türkiye, funded by Japan.

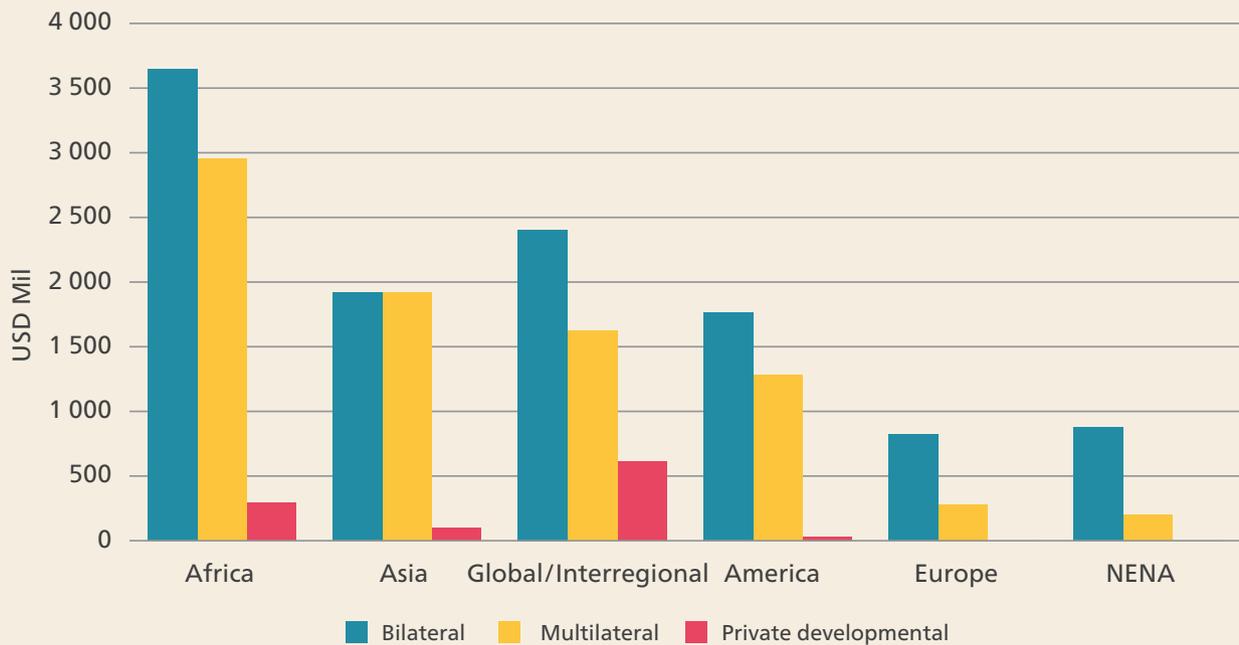
Contributions to the NENA region have demonstrated sensitivity to fluctuations tied to the approval of large projects, which often align with the funding cycles of resource partners. Starting in 2018, there was a significant increase in bilateral contributions, reaching a peak of USD 873 million in 2021, comprising 81 percent of the total financial flows to the region during that year. This peak was driven by substantial projects funded by France and Japan in Morocco to support rural development and climate resilience in rural areas, and by Germany and Jordan to bolster water supply in areas with a high influx of Syrian refugees.

In the context of global and interregional projects, bilateral flows have played a dominant role, representing 76 percent of total contributions. While there was a peak in bilateral flows in 2019, these have been decreasing since. Key resource partners in 2021 included Germany, Norway, and the Kingdom of the Netherlands, providing support to global programmes and initiatives such as the Global Risk Financing Facility, Climate Support Facility, and the CGIAR (Consultative Group on International Agricultural Research).

The total financial support directed towards Small Island Developing States (SIDS) in 2021 reached USD 457 million. This funding was comprised of 62 percent from bilateral sources, with significant contributions originating from countries such as Australia in the Pacific region, France in the Caribbean region, and Japan in the AIMS countries (Small Island Developing States of the Atlantic, Indian Ocean,

FIGURE 12.

Sources of contributions to agrifood systems in 2021



Source: authors' calculations based on OECD's climate-related development finance dataset.

Mediterranean and South China Sea) region. Furthermore, the GCF and the GEF emerged as the primary multilateral providers of resources to SIDS. These institutions primarily directed their funding toward emergency projects and initiatives related to environmental preservation and biodiversity conservation in these vulnerable island nations. Allocation of contributions to projects exhibited a distinct pattern, with a majority of 62 percent channeled into initiatives that supported adaptation efforts. Only 15 percent of the funding was dedicated to projects focusing on mitigation, while the remaining 23 percent was allocated to cross-cutting actions, which encompass initiatives that address multiple aspects of climate change challenges. In general, contributions to SIDS are subject to fluctuations, and the reported flows often correlate with the approval and execution of specific large-scale projects designed to address the unique climate-related vulnerabilities and development needs.

In focus: instruments that can mobilize climate finance flows towards agrifood systems

In recent years, a series of instruments have proven to be particularly effective in strengthening the flow of climate finance towards investments focused on sustainable and climate-smart agriculture, in projects that favour primarily agricultural small and medium-sized enterprises (SMEs) and smallholder cooperatives. These dedicated facilities and programmes can be quite effective in mitigating the risks associated to a wide variety of investments in the domain of climate-smart agriculture, such as those seeking to achieve the rehabilitation of degraded farmland, the introduction of smart irrigation technologies in agri-production, the uptake of resilience-building practices among farmers, and many others. Although the list below is by necessity not exhaustive, given that a comprehensive analysis of such instruments does not represent the main focus of this study, it can provide a general idea of the types of facilities that have proven quite effective in mitigating or overcoming the core constraints that limit the deployment of climate finance capital in agrifood systems in developing countries. Among the most relevant instruments, we can highlight:

- **Technical Assistance Facilities.** Designing and implementing investment projects that pursue goals related to climate-smart agriculture usually requires specialized expertise in a range of technical areas that are completely outside of the purview of most public or private investment funds. This includes expertise in areas such as agronomy, disaster risk reduction, renewable energy engineering, and biodiversity conservation, among several others. That is why the majority of investment funds holding the specific mandate of deploying capital in climate-smart agriculture are partnered with a dedicated Technical Assistance Facility (TAF). This is usually a grant-funded facility (with capitalization ranging between USD 3 to 10 million) charged with making the necessary technical expertise available to enable investments in specific sub-domains of sustainable agriculture. These facilities, which are usually overseen by **an autonomous service provider** that has substantial experience in the management of sustainable agriculture projects, are either able to leverage an already existing pool of experts in-house, or can rely on a network of external consultants that can be hired on a temporary basis, depending on the technical needs of each specific investment project. Among the different types of support that a TAF might provide to its partner investment fund, we can mention:
 - ▶ *supporting the design of an investment project and the identification of co-investors:* TAFs provide their technical expertise to ensure that each investment project is designed and managed in a way that maximizes the intended positive socioenvironmental impacts in the agricultural sector, and not just

the intended financial returns. They also support the identification of public and private entities that might be interested in co-investing in a specific climate-smart agricultural project together with the partner fund, often carrying out the first approach with these entities and initial intermediation between them and the fund;

- ▶ *providing pre- and post-investment support to investment recipients*: this could include, on one hand, providing capacity building to potential investees (such as an agricultural SME) of the partner fund to enhance their overall investment readiness. It could also imply strengthening the capacity of enterprises that have already received an investment from the partner fund, so that they become better able to integrate and make use of technologies and practices linked to climate-smart agriculture. These capacity building efforts can significantly reduce the overall risk associated with the investment, while also maximizing the impact it can achieve in terms of positive socioenvironmental effects;
- ▶ *promoting a more accurate monitoring and evaluation of the investment's impact*: properly assessing the impact achieved by the partner fund's investment in specific areas associated with climate-smart agriculture can prove to be a quite complex and technical task. Consider, for example, being able to accurately assess the improvements in farmers' resilience against natural disasters, or the reduction in GHGs generated by agri-production practices. In this sense, the TAF could provide additional expertise to refine monitoring and evaluation, as well as make use of alternative data sources to carry this out effectively, such as remote sensing data (Benni, 2023b).

There are various examples of dedicated TAFs that have shown significant results in recent years, in both de-risking and amplifying the impact of investments in sustainable agriculture carried out by their partner Funds. These include the TAF of the [Land Degradation Neutrality Fund](#), which supports agricultural investment projects focused on land restoration and sustainable land use, as well as the TAF of the aforementioned [AGRI3 Fund](#), which supports projects focused on sustainable agricultural production and the strengthening of smallholders' livelihoods.

■ **Facilitator and accelerator programmes for climate-smart investment.** These programmes are usually developed to address the issue of information asymmetry that contributes to keeping apart agricultural actors in search of investment capital (e.g. agri-SMEs, large value chain enterprises in downstream segments of value chains) and impact investors looking for potential tickets where their capital can be deployed, so that it can be used to achieve sustainability-related goals. To this end, facilitator programmes carry out demand-led mapping exercises at country level to identify interesting investment opportunities and recipients for investment in climate-smart agriculture, and then match these recipients with a pool of suitable domestic and international investors. Depending on the nature of these programmes, this is done either for free or in exchange for a fee.

As pointed out by the World Bank (2016), one of the core advantages of these types of programmes is that they can significantly contribute towards reducing both the transactions costs and the risks faced by investors, as well as support them in selecting the most appropriate interventions that can achieve positive socioenvironmental and climate-smart outcomes, in line with their mandate. To enable this approach, it is critical to ensure that there are **clear standards and guidelines** in place that allow to properly screen for potential climate-smart investments and make comparisons between different tickets. These guidelines should include: "precise metrics, indicators, and monitoring and evaluation tools that can identify, assess,

and measure the potential financial return, level of risk, and social, economic, and environmental impact of an investment” (World Bank, 2016). Accelerator programmes usually add a **strong capacity building component** to this process, focusing their efforts on filling specific capacity gaps faced by potential investee businesses and thereby increasing their chances of attracting suitable investment capital.

Among relevant examples of such programmes that have emerged in recent years, it is important to mention the [AICCRA Zambia Accelerator Programme](#), which was launched in 2021 by CGIAR for a three-year period with funding from the World Bank. The objective of the programme is to provide grant funding and technical assistance to agri-SMEs deemed to have a high potential to introduce **climate-smart practices and technologies in their production models**, such as off-grid solar irrigation, drought-tolerant seed varieties, and integrated agriculture systems. The capacity building and financial de-risking provided by the programme ultimately seeks to strengthen the investment readiness of these enterprises, as well as help them to connect with a range of suitable investors such as impact and blended finance funds focused on climate-smart agriculture (CGIAR, 2022).

■ **Partial credit guarantee schemes.** These types of financial facilities have proven quite popular in the agricultural sectors of developing countries over the past two decades, although it has only been in recent years that some of these credit-enhancing instruments have begun to focus specifically on incentivizing investments in climate-smart agriculture. At its core, a partial credit guarantee scheme (PCGS) seeks to provide guarantees to actors that do not easily have access to conventional credit from the private financial sector, by covering a share of the default risk of the loan. If the borrower defaults, the lending financial institution can rely on the PCGS as a third-party guarantor to obtain a full or partial repayment. This can be particularly useful, for instance, for actors such as agri-SMEs or farmer cooperatives that often have scarce access to conventional types of collateral demanded as guarantee for a loan (such as land titles or fixed assets). For investments in climate-smart agriculture, which are usually accompanied by a higher degree of risk and cost for investors compared to “non-green” agricultural projects, PCGS can prove to be quite effective in **improving the risk/return profile of such investments** to a point where private investors finally become willing to mobilize their capital (AFI, 2022).

Among recent examples of PCGS that have sought to foster investments in climate-smart agriculture, it is important to mention the [Sustainable Landscape Guarantee Programme](#) launched in 2018 in India by the Rabo Foundation, a social fund of the Dutch banking conglomerate Rabobank, together with USAID. This 15 million-dollar facility is seeking to de-risk investments by two local financial institutions in projects, led by agri-SMEs and farmer cooperatives that focus on sustainable landscape development, reforestation, and biodiversity conservation. Initial results show that the PCGS has been quite effective **in increasing the risk appetite of the partner financial institutions** for types of investments that are quite atypical for them, promoting an institutional change among these financial providers that brings them to finally view climate-smart agriculture as a potentially profitable avenue in which to deploy their capital (CFA Institute, 2021).



Conclusions

- Understanding adequate sectorial allocation of climate finance is a crucial step to achieving the global climate goal while at the same time responding to local needs and context. Increasing financial contributions towards agrifood systems can enhance climate actions to mitigate further impacts of climate change, and build resilience of agrifood systems and people depending on them.
- The regional variations in climate finance flows highlight the dynamic nature of climate finance allocations and the different priorities and challenges faced by each region. While some regions experienced substantial growth, others faced reductions in funding, underscoring the need for region-specific strategies and interventions to address climate change impacts and foster sustainable agrifood systems.
- This disparity in focus between bilateral and multilateral providers with regard to climate objectives highlights how the priorities given to addressing climate-related challenges differ. While bilateral partners have pursued a more evenly distributed approach across various climate objectives, multilateral organizations have placed a stronger emphasis on projects aimed at climate adaptation.
- Agrifood systems received only USD 19 billion targeting climate change in 2021, and transforming sustainable small-scale agriculture requires substantial additional investment.
- In 2021, climate-related development finance for agrifood systems primarily depended on bilateral and multilateral sources, with the private sector playing a limited role.
- Blended finance, which combines concessional funds with private and public investment, has gained popularity in incentivizing climate-smart agricultural projects with notable financial returns and environmental and social impacts. The effectiveness of addressing climate change within agrifood systems centers on a comprehensive and targeted approach to financing. By strategically allocating resources across various components of the agrifood systems, we can work towards achieving climate change mitigation and adaptation goals while simultaneously promoting sustainable food production and food security.
- Understanding the preferences and strategies of resource partners on how to utilize financial instruments is crucial to identifying and designing effective climate finance instruments that can address the diverse challenges posed by climate change, and foster sustainable and resilient transformation of agrifood systems. It allows for tailored approaches that align with the specific needs and priorities of different regions and sectors in the global fight against climate change.



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Annexes

Annex A. List of Creditor Reporting System (CRS) purpose codes used to define agrifood systems in the analysis

| Purpose code | Analysis sector |
|---|------------------------------|
| Agrarian reform | Agriculture |
| Agricultural alternative development | Agriculture |
| Agricultural co-operatives | Agriculture |
| Agricultural development | Agriculture |
| Agricultural education/training | Agriculture |
| Agricultural extension | Agriculture |
| Agricultural financial services | Agriculture |
| Agricultural inputs | Agriculture |
| Agricultural land resources | Agriculture |
| Agricultural policy and administrative management | Agriculture |
| Agricultural research | Agriculture |
| Agricultural services | Agriculture |
| Agricultural water resources | Agriculture |
| Agro-industries | Agriculture |
| Non-agricultural alternative development | Agriculture |
| Rural development | Agriculture |
| Fertilizer minerals | Crop production |
| Fertilizer plants | Crop production |
| Food crop production | Crop production |
| Industrial crops/export crops | Crop production |
| Plant and post-harvest protection and pest control | Crop production |
| Statistical capacity building | Cross-cutting |
| Textiles, leather and substitutes | Cross-cutting |
| Women's rights organisations and movements, and government institutions | Cross-cutting |
| Disaster risk reduction | Emergency/Resilience |
| Emergency food assistance | Emergency/Resilience |
| Biofuel-fired power plants | Energy |
| Clean cooking appliances manufacturing | Energy |
| Energy education/training | Energy |
| Fuelwood/charcoal | Energy |
| Modern biofuels manufacturing | Energy |
| Solar energy for isolated grids and standalone systems | Energy |
| Biodiversity | Environment and Biodiversity |
| Biosphere protection | Environment and Biodiversity |
| Environmental education/training | Environment and Biodiversity |
| Environmental policy and administrative management | Environment and Biodiversity |
| Environmental research | Environment and Biodiversity |
| Site preservation | Environment and Biodiversity |

| Purpose code | Analysis sector |
|--|-----------------|
| Fishery development | Fishery |
| Fishery education/training | Fishery |
| Fishery research | Fishery |
| Fishery services | Fishery |
| Fishing policy and administrative management | Fishery |
| Basic drinking water supply | Food security |
| Basic drinking water supply and basic sanitation | Food security |
| Basic nutrition | Food security |
| Food assistance | Food security |
| Food safety and quality | Food security |
| Food security policy and administrative management | Food security |
| Household food security programmes | Food security |
| NCDs control, general | Food security |
| Other prevention and treatment of NCDs | Food security |
| Research for prevention and control of NCDs | Food security |
| School feeding | Food security |
| Forest industries | Forestry |
| Forestry development | Forestry |
| Forestry education/training | Forestry |
| Forestry policy and administrative management | Forestry |
| Forestry research | Forestry |
| Forestry services | Forestry |
| Livestock | Livestock |
| Livestock/veterinary services | Livestock |

Annex B. List of recipient countries and regions

| Recipient country | Region |
|----------------------------------|--------------------|
| Africa, regional | sub-Saharan Africa |
| Angola | sub-Saharan Africa |
| Benin | sub-Saharan Africa |
| Botswana | sub-Saharan Africa |
| Burkina Faso | sub-Saharan Africa |
| Burundi | sub-Saharan Africa |
| Cabo Verde | sub-Saharan Africa |
| Cameroon | sub-Saharan Africa |
| Central African Republic | sub-Saharan Africa |
| Chad | sub-Saharan Africa |
| Comoros | sub-Saharan Africa |
| Congo | sub-Saharan Africa |
| Côte d'Ivoire | sub-Saharan Africa |
| Democratic Republic of the Congo | sub-Saharan Africa |
| Djibouti | sub-Saharan Africa |
| Eastern Africa, regional | sub-Saharan Africa |
| Equatorial Guinea | sub-Saharan Africa |
| Eritrea | sub-Saharan Africa |
| Eswatini | sub-Saharan Africa |
| Ethiopia | sub-Saharan Africa |
| Gabon | sub-Saharan Africa |
| Gambia | sub-Saharan Africa |
| Ghana | sub-Saharan Africa |
| Guinea | sub-Saharan Africa |
| Guinea-Bissau | sub-Saharan Africa |
| Kenya | sub-Saharan Africa |
| Lesotho | sub-Saharan Africa |
| Liberia | sub-Saharan Africa |
| Madagascar | sub-Saharan Africa |
| Malawi | sub-Saharan Africa |
| Mali | sub-Saharan Africa |
| Mauritania | sub-Saharan Africa |
| Mauritius | sub-Saharan Africa |
| Middle Africa, regional | sub-Saharan Africa |
| Mozambique | sub-Saharan Africa |
| Namibia | sub-Saharan Africa |
| Niger | sub-Saharan Africa |
| Nigeria | sub-Saharan Africa |
| Rwanda | sub-Saharan Africa |
| Saint Helena | sub-Saharan Africa |
| Sao Tome and Principe | sub-Saharan Africa |
| Senegal | sub-Saharan Africa |
| Seychelles | sub-Saharan Africa |
| Sierra Leone | sub-Saharan Africa |
| Somalia | sub-Saharan Africa |
| South Africa | sub-Saharan Africa |
| South of the Sahara, regional | sub-Saharan Africa |
| South Sudan | sub-Saharan Africa |
| Southern Africa, regional | sub-Saharan Africa |
| Sudan | sub-Saharan Africa |

| Recipient country | Region |
|---------------------------------------|---------------------------------|
| United Republic of Tanzania, Zanzibar | sub-Saharan Africa |
| Togo | sub-Saharan Africa |
| Uganda | sub-Saharan Africa |
| Western Africa, regional | sub-Saharan Africa |
| Zambia | sub-Saharan Africa |
| Zimbabwe | sub-Saharan Africa |
| America, regional | Latin America and the Caribbean |
| Anguilla | Latin America and the Caribbean |
| Antigua and Barbuda | Latin America and the Caribbean |
| Argentina | Latin America and the Caribbean |
| Barbados | Latin America and the Caribbean |
| Belize | Latin America and the Caribbean |
| Bolivia (Plurinational State of) | Latin America and the Caribbean |
| Brazil | Latin America and the Caribbean |
| Caribbean & Central America, regional | Latin America and the Caribbean |
| Caribbean, regional | Latin America and the Caribbean |
| Central America, regional | Latin America and the Caribbean |
| Chile | Latin America and the Caribbean |
| Colombia | Latin America and the Caribbean |
| Costa Rica | Latin America and the Caribbean |
| Cuba | Latin America and the Caribbean |
| Dominica | Latin America and the Caribbean |
| Dominican Republic | Latin America and the Caribbean |
| Ecuador | Latin America and the Caribbean |
| El Salvador | Latin America and the Caribbean |
| Grenada | Latin America and the Caribbean |
| Guatemala | Latin America and the Caribbean |
| Guyana | Latin America and the Caribbean |
| Haiti | Latin America and the Caribbean |
| Honduras | Latin America and the Caribbean |
| Jamaica | Latin America and the Caribbean |
| Mexico | Latin America and the Caribbean |
| Montserrat | Latin America and the Caribbean |
| Nicaragua | Latin America and the Caribbean |
| Panama | Latin America and the Caribbean |
| Paraguay | Latin America and the Caribbean |
| Peru | Latin America and the Caribbean |
| Saint Kitts and Nevis | Latin America and the Caribbean |
| Saint Lucia | Latin America and the Caribbean |
| Saint Vincent and the Grenadines | Latin America and the Caribbean |
| South America, regional | Latin America and the Caribbean |
| Suriname | Latin America and the Caribbean |
| Trinidad and Tobago | Latin America and the Caribbean |
| Uruguay | Latin America and the Caribbean |
| Venezuela (Bolivarian Republic of) | Latin America and the Caribbean |
| Afghanistan | Asia |
| Armenia | Asia |
| Asia, regional | Asia |
| Azerbaijan | Asia |
| Bangladesh | Asia |
| Bhutan | Asia |
| Cambodia | Asia |
| Central Asia, regional | Asia |

| Recipient country | Region |
|---------------------------------------|--------|
| China | Asia |
| Cook Islands | Asia |
| Democratic People's Republic of Korea | Asia |
| Far East Asia | Asia |
| Far East Asia, regional | Asia |
| Fiji | Asia |
| Georgia | Asia |
| India | Asia |
| Indonesia | Asia |
| Kazakhstan | Asia |
| Kiribati | Asia |
| Kyrgyzstan | Asia |
| Lao People's Democratic Republic | Asia |
| Malaysia | Asia |
| Maldives | Asia |
| Marshall Islands | Asia |
| Melanesia, regional | Asia |
| Federated States of Micronesia (the) | Asia |
| Micronesia, regional | Asia |
| Mongolia | Asia |
| Myanmar | Asia |
| Nauru | Asia |
| Nepal | Asia |
| Niue | Asia |
| Oceania, regional | Asia |
| Pakistan | Asia |
| Palau | Asia |
| Papua New Guinea | Asia |
| Philippines | Asia |
| Samoa | Asia |
| Solomon Islands | Asia |
| South & Central Asia, regional | Asia |
| South Asia, regional | Asia |
| Sri Lanka | Asia |
| Tajikistan | Asia |
| Thailand | Asia |
| Timor-Leste | Asia |
| Tokelau | Asia |
| Tonga | Asia |
| Turkmenistan | Asia |
| Tuvalu | Asia |
| Uzbekistan | Asia |
| Vanuatu | Asia |
| Viet Nam | Asia |
| Wallis and Futuna | Asia |
| Albania | Europe |
| Belarus | Europe |
| Bosnia and Herzegovina | Europe |
| Croatia | Europe |
| Europe | Europe |
| Europe, regional | Europe |
| Kosovo* | Europe |

* References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999).

| Recipient country | Region |
|-----------------------------------|-------------|
| Moldova | Europe |
| Montenegro | Europe |
| North Macedonia | Europe |
| Serbia | Europe |
| Slovenia | Europe |
| States Ex-Yugoslavia unspecified | Europe |
| Türkiye | Europe |
| Ukraine | Europe |
| Algeria | NENA |
| Bahrain | NENA |
| Egypt | NENA |
| Iran (Islamic Republic of) | NENA |
| Iraq | NENA |
| Jordan | NENA |
| Lebanon | NENA |
| Libya | NENA |
| Near East | NENA |
| Morocco | NENA |
| North of Sahara, regional | NENA |
| Oman | NENA |
| Saudi Arabia | NENA |
| Syrian Arab Republic | NENA |
| Tunisia | NENA |
| West Bank and Gaza Strip | NENA |
| Yemen | NENA |
| Developing countries, unspecified | Unspecified |

Annex C. List of providers types and providers as per OECD DAC classification

Bilateral

| | |
|----------------|--|
| DAC member | Canada |
| DAC member | Australia |
| DAC member | Denmark |
| DAC member | Netherlands (Kingdom of the) |
| DAC member | Belgium |
| DAC member | United Kingdom of Great Britain and Northern Ireland |
| DAC member | France |
| DAC member | Norway |
| DAC member | Sweden |
| DAC member | Finland |
| DAC member | United States of America |
| DAC member | Switzerland |
| DAC member | Japan |
| DAC member | Portugal |
| DAC member | Italy |
| DAC member | Germany |
| DAC member | Luxembourg |
| DAC member | Spain |
| DAC member | Ireland |
| DAC member | Lithuania |
| DAC member | Poland |
| DAC member | EU Institutions (excl. European Investment Bank) |
| DAC member | Czech Republic |
| DAC member | Hungary |
| DAC member | Greece |
| DAC member | New Zealand |
| DAC member | Austria |
| DAC member | Korea |
| DAC member | Slovenia |
| DAC member | Iceland |
| DAC member | Slovak Republic |
| Non-DAC member | Romania |
| Non-DAC member | Latvia |
| Non-DAC member | Azerbaijan |
| Non-DAC member | Kazakhstan |
| Non-DAC member | Liechtenstein |
| Non-DAC member | United Arab Emirates |
| Non-DAC member | Estonia |

Multilateral

| | |
|-------------------------------|--|
| Multilateral development bank | European Bank for Reconstruction and Development |
| Multilateral development bank | Asian Development Bank |
| Multilateral development bank | World Bank |
| Multilateral development bank | Inter-American Development Bank |
| Multilateral development bank | EU institutions (European Investment Bank) |
| Multilateral development bank | African Development Bank |
| Multilateral development bank | Development Bank of Latin America |
| Multilateral development bank | Islamic Development Bank |
| Multilateral development bank | Central American Bank for Economic Integration |
| Multilateral development bank | Caribbean Development Bank |
| Multilateral development bank | Asian Infrastructure Investment Bank |

Multilateral

| | |
|-------------------------------|------------------------------------|
| Multilateral development bank | Council of Europe Development Bank |
| Multilateral development bank | Black Sea Trade & Development Bank |
| Multilateral development bank | IDB Invest |
| Multilateral development bank | International Finance Corporation |
| Other multilateral | FAO |
| Other multilateral | GEF |
| Other multilateral | IFAD |
| Other multilateral | GGGI |
| Other multilateral | GCF |
| Other multilateral | CIF |
| Other multilateral | Adaptation Fund |
| Other multilateral | NDF |

Private

| | |
|---------------|---|
| Private donor | BBVA Microfinance Foundation |
| Private donor | Laudes Foundation |
| Private donor | CIFF |
| Private donor | Open Society Foundations |
| Private donor | UBS Optimus Foundation |
| Private donor | MAVA Foundation |
| Private donor | Rockefeller Foundation |
| Private donor | Ford Foundation |
| Private donor | David & Lucile Packard Foundation |
| Private donor | Bill & Melinda Gates Foundation |
| Private donor | Swedish Postcode Lottery |
| Private donor | People's Postcode Lottery |
| Private donor | Charity Projects Ltd (Comic Relief) |
| Private donor | Bernard van Leer Foundation |
| Private donor | Oak Foundation |
| Private donor | Dutch Postcode Lottery |
| Private donor | William & Flora Hewlett Foundation |
| Private donor | McKnight Foundation |
| Private donor | Conrad N. Hilton Foundation |
| Private donor | Wellcome Trust |
| Private donor | Howard G. Buffett Foundation |
| Private donor | IKEA Foundation |
| Private donor | Norwegian Postcode Lottery |
| Private donor | John D. & Catherine T. MacArthur Foundation |
| Private donor | Carnegie Corporation of New York |
| Private donor | German Postcode Lottery |
| Private donor | Mastercard Foundation |
| Private donor | Bloomberg Family Foundation |
| Private donor | Margaret A. Cargill Foundation |
| Private donor | Bezos Earth Fund |
| Private donor | H&M Foundation |
| Private donor | Citi Foundation |
| Private donor | Gatsby Charitable Foundation |
| Private donor | Grameen Crédit Agricole Foundation |
| Private donor | Gordon and Betty Moore Foundation |
| Private donor | Fondation Botnar |
| Private donor | Arcadia Fund |

