

What is International Climate Finance?

Climate change is a global problem and requires all countries to take effective, concerted, and collective actions. In the early 1990s, countries joined the first international treaty, the United Nations Framework Convention on Climate Change (UNFCCC), as a framework for international cooperation to combat climate change. Under this treaty, it was recognized that not all countries are placed similarly in terms of their [‘capacity to prevent climate change and cope with its consequences’](#). Therefore, the agreement was that Parties with more financial resources (the Global North)¹ would mobilize finance to assist the Global South to meet the costs of climate change.

Climate finance refers to ‘local, national or transnational financing, drawn from public, private and alternative sources

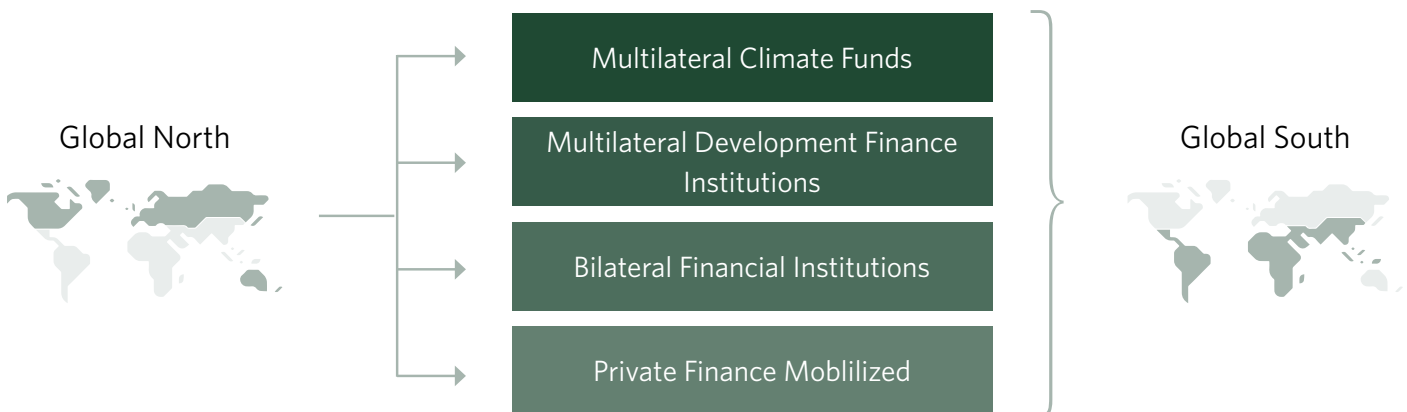
of financing, that seeks to support mitigation and adaptation actions that will address climate change.’

The definition above makes clear that transnational or international financing to support mitigation and adaptation actions is an important aspect of climate finance. Also, the idea is international climate finance mobilized needs to be “new and additional financial resources”, i.e., climate-related funding efforts over and above existing development financing commitments by the Global North.

In short, international climate finance refers to the financial resources provided by the Global North, and international institutions to support efforts by the Global South countries to mitigate and adapt to the impacts of climate change.

Channels of international climate finance

International climate finance flows through multiple channels.



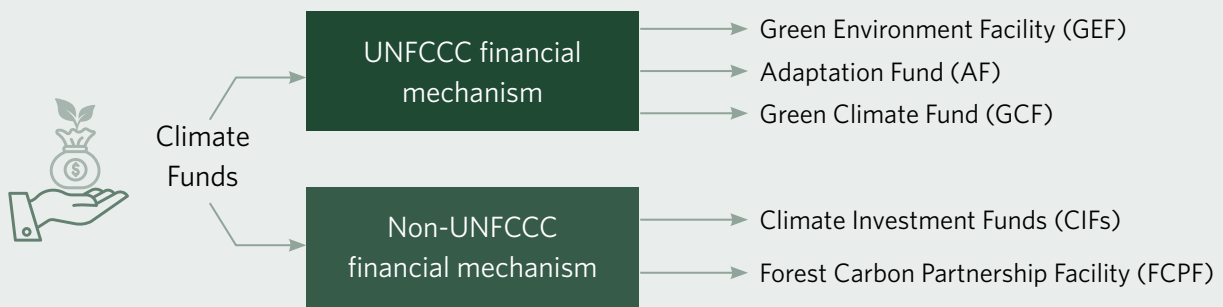
These include flows through:



Multilateral climate-dedicated funds (MCFs). These include funds that fall within the UNFCCC financial mechanism (such as the Green Environment Facility (GEF), Adaptation Fund (AF) and Green Climate Fund (GCF)). It also comprises climate-dedicated funds that are not directly under the UNFCCC (such as the Climate Investment Funds² (CIFs), Forest Carbon Partnership Facility (FCPF), etc.).

¹ The terms used in the literature are developed countries and developing countries, signifying what we mean by the terms Global North and Global South, respectively.

² This is a \$10 billion multi-donor trust fund, anchored by the World Bank.



Note: The schematic is indicative of multilateral climate fund flows and does not capture all MCFs and initiatives



The other important source of international climate finance is **multilateral development banks (MDBs)**. Many MDBs, such as the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IADB), the World Bank Group (WBG), etc. [have incorporated climate change considerations into their core lending and operations.](#)



In addition, climate finance also flows through climate finance initiatives established by several countries of the Global North as well as through **bilateral development finance institutions** such as Global Climate Change Initiative (GCCII), Global Climate Partnership Fund (GCPF), International Climate Finance (ICF), Internationale Klimaschutzinitiative (IKI), Nationally Appropriate Mitigation Action Facility (NAMA Facility), etc.



Finally, climate finance is also mobilised through **private channels**: As per the Organisation of Economic Development and Cooperation, this mainly refers to finance mobilized by bilateral and multilateral public climate finance from [private sources and those that are attributable to countries in the Global North.](#)

References

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To know more

1. What is climate finance? Grantham Research Institute on Climate Change and the Environment, LSE
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2. Global Landscape of Climate Finance 2021, Climate Policy Initiative
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