

Key points

Diverse sources of finance for the least developed countries (LDCs) need to be mobilised by capitalising on alignment and partnerships of different types of funders.

Urgent and coordinated debt restructuring is needed to unlock fiscal space in the LDCs for climate adaptation and sustainable development.

External adaptation support must be aligned with national and local priorities, and support mechanisms or initiatives that already exist at the country level.

Trade frameworks and policies need to be reformed to enable fair market access for those adapting to climate change, including through knowledge sharing and capacity strengthening.

Breaking down siloes: reforming financing and trade for climate adaptation in LDCs

The least developed countries (LDCs) face a three-pronged challenge in accessing finance for climate adaptation: escalating impacts, shrinking domestic fiscal space and dwindling international aid budgets. External debt, high capital costs and highly intermediated financing mechanisms – where financing has to pass through many actors, each with their own transaction costs and conditions – hamper adaptation and resilience efforts. Concessional finance and trade must evolve to address these challenges. International financial architecture reforms should integrate debt relief, de-risk private finance, help mobilise domestic resources and include a reoriented trade agenda to support climate-vulnerable economies. This briefing identifies critical gaps and synergies to leverage finance and trade for climate adaptation, and outlines a pathway towards equitable, scalable and country-led adaptation finance. It draws on recent dialogues with, and insights from, policymakers, financial institutions and philanthropic leaders.

During 2025, the availability of grants and concessional finance to support climate adaptation in LDCs has sharply declined. This is despite the agreement to the New Collective Quantified Goal on Climate Finance (NCQG) (see Box 1) at the 29th Conference of the Parties (COP29) of the United Nations Framework Convention on Climate Change (UNFCCC). The latest Organisation for Economic Co-operation and Development (OECD) statistics, released in June, estimate a drop of 9–17% in development finance in 2025, adding to a 9% cut in 2024.¹ The figures also show a disproportionate impact on LDCs, whose net bilateral aid flows fell 3% in real terms compared to 2023. This backdrop makes it vital to improve the efficiency and effectiveness of how finance is channelled – for example, by

holding donors to account for their commitments – and looking for synergies with trade measures that can support green, inclusive growth.

Over this year, IIED has been promoting debates and LDC engagement in discussions around financial and trade architecture reform. This includes organising a programme of events at the World Bank/International Monetary Fund (IMF) Spring Meetings in April and at the UN Fourth International Conference on Financing for Development in June/July, co-hosting a Climate Resilience Finance Summit during London Climate Action Week in June, supporting dialogues at the Africa Climate Summit and engaging in the United Nations General Assembly and Climate Week NYC in September.

We have collated a range of key insights from stakeholders from low-income countries, bilateral donors, multilateral financial institutions, philanthropies and private investors that policymakers need to consider. These will be central to the success of the 'Baku to Belém Roadmap to 1.3T' – a joint initiative launched by the COP29 and COP30 presidencies to identify and implement strategies to achieve the NCOG targets by 2035² – and to supporting the resilience of the poorest countries.

Box 1. The New Collective Quantified Goal on Climate Finance (NCOG)

The NCOG agreed at COP29 consists of two parts: public financing of at least US\$300 billion annually by 2035; and overall finance mobilisation of US\$1.3 trillion annually by 2035. The total mobilisation of finance can come from public and private sources. The goal was described by Simon Stiell, executive secretary of United Nations Climate Change, as “an insurance policy for humanity [...] But like any insurance policy it only works if premiums are paid in full, and on time. Promises must be kept, to protect billions of lives.”¹⁴

A more cohesive approach for different types of adaptation finance

While synergies do exist between public bilateral, multilateral, philanthropic and private capital, many efforts remain siloed – leaving domestic revenues, climate, development and humanitarian funding streams fragmented. In a time of shrinking official development assistance (ODA) financing, we need coherence. This includes using diverse streams of finance to align with national priorities and global objectives. In this context, private sector investments are often seen as an untapped pool of finance. But this is only partially true; in many cases private investments are not appropriate in the LDC context, as where there is opportunity private investors are commonly deterred by real and perceived risks. In the absence of effective risk-mitigation instruments, LDCs are paying the highest price for survival, something commentators have recognised as wildly unfair.

The triple crisis of debt, climate and nature makes ODA critical to supporting climate investment in many LDCs. Public bilateral finance is key for investing in the enabling environment (through training and human capacity, strengthening institutions, upwards and downwards transparency and accountability systems, stronger fiduciary standards and improved governance across all processes) and for other public goods where it is difficult to attract private finance.

Multilateral financial institutions have a crucial role to play in the space between investing in the enabling environment, funding projects and

scaling up delivery. For example, the role of the International Development Association (IDA) arm of the World Bank is to leverage finance – not just fund projects. For every US\$1 from shareholders, IDA can generate US\$3–4 for clients.³ But this requires a strategic shift from project level thinking to a programmatic approach to building resilient economies. To scale adaptation finance, blended finance tools need to be deployed more effectively. Guarantees, catalytic funds and insurance mechanisms should be expanded. However, the Gaia Fund warned that multilateral development banks “are undercutting the spirit of blended finance. In less challenging contexts, they must stop crowding out private solutions”.⁴

Philanthropic capital can play an important catalytic role in unlocking private investment in developing countries. This is because they can take risks that governments and multilateral institutions cannot, and that the private sector would not. Through grants and other risk-tolerant tools, philanthropies can help build markets for products that have transformative climate resilient development benefits. This may include investing in upstream research and development for innovative solutions, providing technical assistance to prepare bankable projects, and contributing first loss capital or guarantees to get innovative projects off the ground.

Philanthropies can also seek to address broader systemic challenges that can hinder investment. For instance, they can improve access to hyper-local climate data using innovative pilot technologies, helping banks and other investors price risk appropriately without a large uncertainty risk premium. This can also help improve access to a broader range of finance instruments for LDCs, such as parametric, or trigger-based, insurance.

Where ODA is shrinking relative to the need, philanthropies can go beyond gap filling and catalyse scalable, systemic solutions.

Debt relief for climate adaptation

LDCs commonly face prohibitively high borrowing costs – often three times higher than developed countries.⁵ These costs are unsustainable, particularly when even supposedly concessional finance is priced above medium-term growth rates. This high cost reflects a broader market failure that needs to be corrected by ensuring the costs of financing provided going forward are more reasonable and addressing the existing costly debt financing that has built up.

Around 50% of low-income countries are at high risk of, or are in, debt distress.⁶ In 2024, the World Bank found that developing countries spent a

record US\$1.4 trillion “to service their foreign debts” in 2023. This “squeezed the budgets of many countries in critical areas such as health, education and the environment”.⁷

During the 2025 World Bank/IMF Spring Meetings, the starkness of the debt and climate crisis was summed up by an LDC climate negotiator from The Gambia, Isatou Camara: “Imagine trying to build a seawall with a leaky bucket while a storm rages overhead”. This vividly captures the experience of many LDCs grappling with the escalating impacts of climate change while being financially burdened by expensive debt. For example, in The Gambia, debt servicing consumes nearly 40% of domestic revenue.⁸ Similar stories unfold across LDCs, where servicing debt limits investments in climate adaptation and resilience, and climate impacts simultaneously lead to growing debt.

The G20 Common Framework, intended as a solution for debt distress, has been criticised for being too slow and restrictive⁹ and is widely seen as ineffective. Without significant and timely debt restructuring, low-income countries do not have the resources for essential social spending or investing in climate and nature, which is detrimental to their overall development. Doing more to integrate climate resilience into debt sustainability assessments, as well as streamline and expand eligibility for debt restructuring initiatives, was a leading topic in conversations at the World Bank/IMF Spring Meetings in 2025.

Against the current backdrop of shrinking ODA, global economic turmoil and the rising cost of debt for the poorest countries, restructuring debt stocks could provide fiscal relief that allows for greater investment in climate and nature resilience. By seeking to both invest in resilience measures and correct the markets so that the poorest countries do not have to pay the most for borrowing, we can help prevent these issues arising in the future. This means integrating climate resilience into debt sustainability assessments and national financing strategies, coupled with public finance that de-risks the cost of capital – enabling LDCs access to capital at reasonable costs.

Finance to support national priorities

External finance is often tied to donor priorities rather than those of national and especially local stakeholders, undermining country ownership and locally appropriate action. More predictable, programmatic and country-led financing that aligns with LDC strategies and priorities is needed.

‘Country platforms’ – nationally led, programmatic financing mechanisms in countries – are increasingly acknowledged as important mechanisms for the coordination and delivery of external finance.¹⁰ A country platform is an existing initiative or well-established programme that provides a forum on which to build. They generally have active multi-actor and multi-sector connections and deliver finance to a range of programmes. Examples include Zambia’s Pilot Program for Climate Resilience, Rwanda’s Green Fund, Ethiopia’s Climate Resilient Green Economy Facility and Nepal’s Climate Change Support Programme.

More broadly, many countries are also building institutional capabilities through efforts to improve tax systems and public financial management. However, capacity gaps remain. Equally, resource mobilisation doesn’t happen in a vacuum. Domestic efforts need to be complemented by fair international tax rules and technical assistance.

Local financial institutions such as banks and pension funds also play a role. In one discussion at the 2025 World Bank/IMF Spring Meetings, a private investor made the salient point that local markets are where people meet their money. Ignoring them means missing a lot of investment potential.

Philanthropies could play a key role in supporting strengthening national institutions and platforms. For example, philanthropies can use their convening power to facilitate consultations with civil society, inter-ministerial task forces or regional coordinating bodies to ensure cohesive objectives, targets and activities are established. They are also uniquely placed to advocate for the rights of local stakeholders, including through storytelling and amplifying the voices of rights holders to ensure these perspectives are heard at the national and international levels.

Enhance trade coherence and support for adaptation

Trade policy should complement adaptation goals. However, emerging green trade-related measures such as the European Union Corporate Sustainability Due Diligence Directive (CSDDD), EU Deforestation Regulation and Carbon Border Adjustment Measures risk harming LDCs. These measures, intended to promote sustainability, can restrict market access

Without significant and timely debt restructuring, low-income countries don’t have the resources for essential social spending or investing in climate and nature

for climate-vulnerable nations due to their dependence on natural resource exports.¹¹ While the European Commission does undertake social and environmental assessments of regulations, this seems to mainly focus on the implications for the competitiveness of EU-based businesses. More thorough assessment could help identify opportunities for green growth in LDCs and help target EU support behind this.

Another major source of support for LDCs to integrate into global trade is the Enhanced Integrated Framework (EIF). The EIF is a partnership of 51 countries, 26 donors and eight partner agencies working closely with LDC governments, development organisations, civil society and academics to “tackle the trade constraints of the world’s poorest countries”.¹² Since 2022, it has moved to a tailored, partnership-based approach, increasingly incorporating climate. The EIF now seeks to de-risk sectors, align with climate goals and build institutional capacity. Its focus is currently on supporting countries to identify trade-related climate risks and align investment strategies accordingly.¹³

The EIF approach prioritises local market knowledge and voices in policymaking, as well as strengthening national financial institutions. It is also shifting from donor–recipient to investor–partner language and practice. In addition, there is potential for the EIF to help countries manage and respond to the emerging green standards and support technology transfer by developing trade and investment frameworks.

EIF’s future role includes bridging aid-for-trade with climate finance, supporting countries in navigating new trade regulations and technology transfer barriers. Partnerships with institutions like the UN Technology Bank are emerging to support value-addition and low-carbon competitiveness.

Conclusions

Climate adaptation finance is a defining challenge for the 21st century. Inaction means worsening poverty and irreversible losses for some of the

world’s poorest countries and people. Equity, urgency and cooperation must guide our financial and trade systems. The time for small pilots and incrementalism is over. Now is the moment for bold, coordinated action to finance resilience and secure a just, climate-safe future.

To achieve this, we have identified several lessons emerging from the recent exchanges on finance and trade:

1. Diverse sources of finance in LDCs must be mobilised by capitalising on synergies and the strategic positioning of bilateral funders, multilateral institutions, philanthropic financing and private financiers. Public funders and national governments must create enabling conditions by developing de-risked investment pathways and designing risk mitigation instruments to support LDCs in improving transparency and accountability measures and safeguards.
2. Coordinated debt restructuring and domestic mobilisation are urgently needed to unlock sufficient fiscal space in the LDCs for climate adaptation and sustainable development. This must be supported with medium- and long-term measures that enable LDCs to access lower cost capital.
3. External adaptation support needs to be aligned with national priorities, as well as the priorities of marginalised local stakeholders, who are on the forefront of climate change adaptation. This should build on mechanisms or initiatives that already exist and which provide country platforms.
4. Trade frameworks and policies need to align with the adaptation needs of vulnerable countries to ensure fair market access, including through knowledge sharing and capacity strengthening.

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Notes

- ¹ OECD (2025) Cuts in official development assistance: OECD projections for 2025 and the near term. Paris. For more analysis on reductions in aid and impacts on low-income countries, see: Mitchell, I and Hughes, S (2025) Which countries are most exposed to US Aid cuts; and what other providers can do, Center for Global Development, 11 February. / ² UNFCCC, Baku to Belém Roadmap to 1.3T, www.unfccc.int/topics/climate-finance/workstreams/baku-to-belem-roadmap-to-13t / ³ World Bank (2024) An open letter on IDA21 to our shareholders, clients, partners, and the global development community. Statement, 5 December. / ⁴ MUFG (2023) GAIA – a climate and blended finance platform – gains momentum at Paris Summit for a New Global Financing Pact. Press release, 22 June. / ⁵ UN (2022) Financing for Sustainable Development Report 2022: bridging the finance divide. Interagency Task Force on Financing for Development. / ⁶ World Bank, Debt and Fiscal Risks Toolkit: Debt sustainability analysis, www.worldbank.org/en/programs/debt-toolkit/dsa. Accessed 22 September 2025. / ⁷ World Bank (2024) Developing countries paid record \$1.4 trillion on foreign debt in 2023. Press release, 3 December. / ⁸ Isatou F Camara, Ministry of Finance & Economic Affairs, The Gambia. Remarks at ‘Leveraging finance and trade in support of climate adaptation’ event, 24 April 2025, Dacor Bacon House, Washington DC. / ⁹ Setser, BW (2023) The Common Framework and its discontents, Council on Foreign Relations, 26 March. / ¹⁰ Gul, M, Holland, E, Hassan, A and Upson, L (2025) The realities of country platforms for LDCs and SIDS: ten key lessons. Climate & Development Ministerial. / ¹¹ Keane, J and Kolongo, A (2025) The EU’s delay on EUDR: a chance to reduce the risks of a green squeeze, ODI Global, 4 October. / ¹² EIF, Who we are, www.enhancedif.org/en/who-we-are. Accessed 22 September 2025. / ¹³ EIF Taskforce (2025) Recommendations of the EIF Taskforce. Geneva. / ¹⁴ UN Climate Change (2024) COP29 UN Climate Conference agrees to triple finance to developing countries, protecting lives and livelihoods. Announcement, 24 November.

