



# Integrating Climate Action into Development Finance

November 2024

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# Abstract

Both the 2030 Agenda for Sustainable Development and the Paris Agreement highlight the linkages between the global development and climate agendas and call for international support to developing countries. What are the links between development finance and climate finance? How are climate considerations integrated into development finance? This paper shows that donors have increasingly mainstreamed climate action across sectors and areas of development co-operation. While total development finance to developing countries increased strongly over 2013-2022, *climate-related development finance* grew even faster. The growing integration of climate objectives across sectors, paired with the strong absolute growth in total development finance, has thus driven the strong increase in climate-related development finance. This suggests that climate has moved to the centre of the international development co-operation agenda.

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# Key findings

International support to address climate change is inherently connected with sustainable development. Both the 2030 Agenda for Sustainable Development and the Paris Agreement highlight the linkages between development and climate agendas and call for international support to developing countries.

Climate and development finance figures serve different purposes: the former assesses progress against the goal of USD 100 billion provided and mobilised. Development finance figures should not be confused or used for this. To understand the financial resources actually made available to developing countries, it is essential to understand both, the climate and development finance values.

At the same time, just as between climate action and sustainable development, there are strong interlinkages between climate and development finance. The analysis presented in this paper is a starting point to a better understanding of the ways that support for development and climate are interlinked. It provides a data picture of how climate-related development finance is evolving in the context of increasing volumes of total development finance, as well as basic interlinkages and relationship with climate finance and progress towards the goal of USD 100 billion of climate finance provided and mobilised.

- Over 2013-22, total official development finance (ODF) grew from USD 216 billion to USD 356 billion, an increase of USD 140 billion.<sup>1</sup> Alongside this increase in absolute volume, both the mainstreaming of climate action within development finance and the integration of the climate and sustainable development agendas strengthened, with climate-related development finance growing strongly from bilateral and multilateral sources alike.
- Over the same period, climate finance tracked to assess progress towards the USD 100 billion reporting rose from USD 52 billion in 2013 to USD 116 billion in 2022 (OECD, 2024<sub>[1]</sub>). Most of this increase was driven by international public climate finance, which increased from USD 39 billion to USD 91 billion in 2013-22.
- Official bilateral climate-related development finance was largely balanced between adaptation and mitigation in 2020-21, with respective shares of 39% and 36%, while a 25% share was committed to activities addressing both objectives. In 2022, the adaptation share dropped to 28%; the mitigation share rose to 40%, activities targeting both adaptation and mitigation increased to a 32% share. This 2022 drop in the adaptation share was due to a more substantial jump in bilateral mitigation-related and cross-cutting development finance. Absolute volumes of bilateral adaptation-related development finance continued to increase substantially from 2021 to 2022. Climate change mitigation is still more likely to be the primary objective of a commitment than is adaptation, which is more often a secondary objective.

The analysis further looks at the evolution of the distribution of climate-related and total development finance figures for sectors, instruments and income groups. This serves to assess potential effects of the growing focus on the climate agenda on distributional patterns of development finance overall.

- The data indicate that climate objectives are increasingly mainstreamed across sector groups of development co-operation. This means that a growing integration of climate objectives across sector combined with the strong absolute growth of total development finance are driving the increase in climate-related development finance. No relationship is found between the evolution of climate-related development finance and the sector distribution of total development finance: The sectoral allocation of development finance is shaped by a multitude of factors but appears to be independent from the evolution of climate-related development finance.
- The grant share of total development finance remained stable over 2016-22. It increased in bilateral climate-related and in total development finance as well as in multilateral climate-related and total development finance. While both bilateral and multilateral development finance increased over this period, the growth of multilateral development finance was particularly strong. The non-grant share of multilateral development finance is substantially higher than that of bilateral development finance, which explains why the total grant share did not increase. The data do not provide any indication that the grant share of climate-related development finance is a factor that could explain the grant share of total development finance.
- The share of total ODF allocated to least developed countries (LDCs) has remained stable. The share of commitments to LDCs has even increased in both climate-related and total multilateral development finance while remaining stable in climate-related and total bilateral development finance. The data do not provide an indication that the increasing focus on climate would have affected the allocation of development finance to different income groups in the period under observation.

# 1 Introduction

International support to climate change adaptation and mitigation is inherently connected with sustainable development. Both the 2030 Agenda for Sustainable Development and the Paris Agreement highlight the linkages between development and climate agendas, and both call for international support to developing countries. Indeed, the activities and actors supporting development and climate action in developing countries largely overlap. In this context, OECD DAC members committed in paragraph 13 of the 2021 DAC Declaration to “greater accountability and transparency in how we define, account for and report official development assistance (ODA) related to climate, biodiversity and the environment, and in climate finance more broadly” (OECD, 2021<sup>[2]</sup>). These are more relevant than ever in light of the increasingly adverse effect of climate change on economies, societies and livelihoods around the world.

Overall, the vast majority of activities that underlie climate finance reporting are also accounted as development finance with climate objectives. The differences between development and climate support relate to what part of and how these activities are captured and reported. These distinctions also relate to different monitoring processes, data pipelines and accounting methodologies used in the climate and development contexts<sup>2</sup>.

Building on and complementing extensive methodological work, this paper provides an initial presentation, and concrete data picture in line with the transparency commitment in the DAC Declaration, though this data picture remains incomplete and needs to be further enhanced.

Climate and development finance figures serve different purposes: the former assesses progress against the goal of USD 100 billion provided and mobilised. Development finance figures should not be confused or used for this. To understand the financial resources actually made available to developing countries, it is essential to understand both, the climate and development finance values.

To provide greater transparency on climate and development finance, it is key to show their values and their relationship. This is because, as noted, both often relate to the same activity but measure different aspects of this activity. In particular, climate finance tracked by the OECD in the context of the USD 100 billion goal only considers climate-specific amounts (i.e. that share of a broader development activity that is spent on climate). Moreover, for multilateral public finance and private finance mobilised by multilateral interventions, it only considers the share that is attributable to developed countries in recognition that the USD 100 billion goal is a goal for developed countries only (OECD, 2024<sup>[3]</sup>).

Different figures result from the different perspectives and objectives. Showing these is essential to enhancing transparency and understanding of the relationship between climate and development finance. Without seeing the overall picture, it is possible to assess one dimension but not the relationship between the two or the reality of financial resources made available through development finance in support of climate action in developing countries.

The focus of the analysis in this paper is on official financial resources made available to developing countries – finance that includes climate components or objectives as well as such finance that does not. This provides better picture of the development finance resources deployed to support climate-resilient, low emission, sustainable development pathways in developing countries and thereby



contribute to transparency and enhanced understanding. It is not intended to assess any quantitative commitments and should not be used in this way.

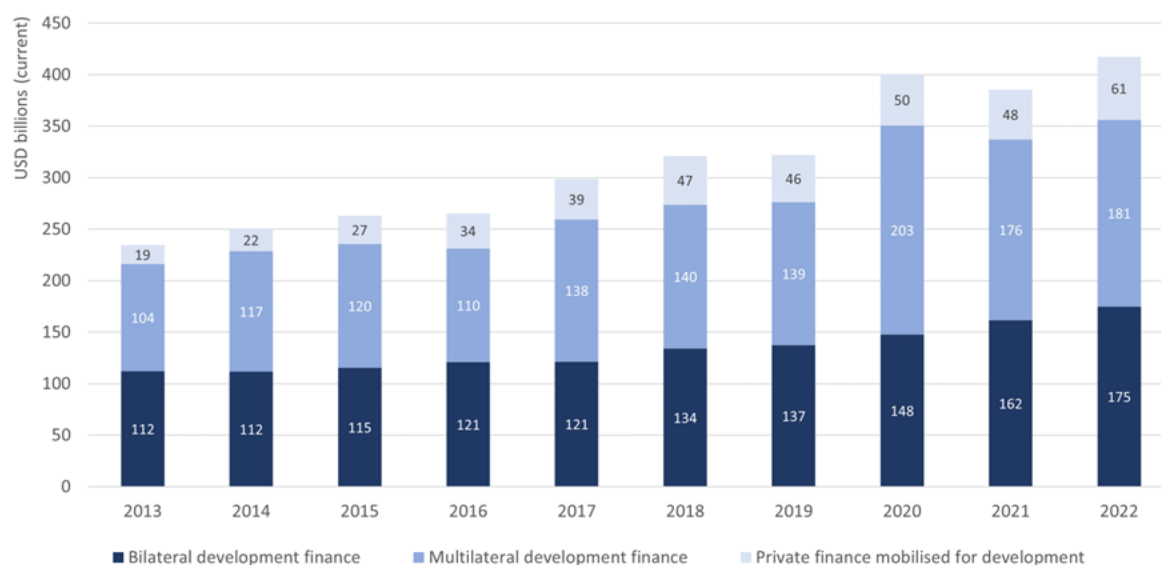
To allow for an integrated picture of the resources made available to developing countries in support of sustainable development and climate action, further work will be required to provide concrete evidence on how the different measures of climate and development finance relate. Moreover, while the analysis covers a limited time frame, dynamics and patterns are subject to continuous evolution in climate finance and development finance. In addition, the findings pertain only to the period assessed and may change in the future. Only future analysis based on new data can reconfirm whether these findings continue to be valid over the long term or need to be adjusted.

## 2 Overall trends in climate-related development finance

Development finance – both bilateral and multilateral – has increased significantly from 2013-2022. A growing share of development finance activities also supports action on climate change. Climate finance tracked towards the USD 100 billion goal increased, and the goal was exceeded for the first time in 2022 (OECD, 2024<sup>[1]</sup>). Development finance activities that support climate action contribute, in full or in part depending on the nature and focus of the activity, to the accounting of the USD 100 billion goal. This chapter provides a high-level overview of the evolution of total development finance and climate-related development finance and how this relates to climate finance.

Climate-related and total development finance, encompassing ODF and private finance mobilised for development as captured in OECD statistics, rose from USD 235 billion in 2013 to USD 417 billion in 2022<sup>3</sup> (Figure 1). Within this finance, total ODF from bilateral and multilateral donors grew from USD 216 billion to USD 356 billion, a USD 140 billion increase between 2013 and 2022. In addition, private finance mobilised for development captured in OECD development finance data grew from USD 19 billion in 2013 to USD 61 billion in 2022.

**Figure 1. Total official development finance and private finance mobilised, 2013-22**



Note: The figure excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support).

Source: OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

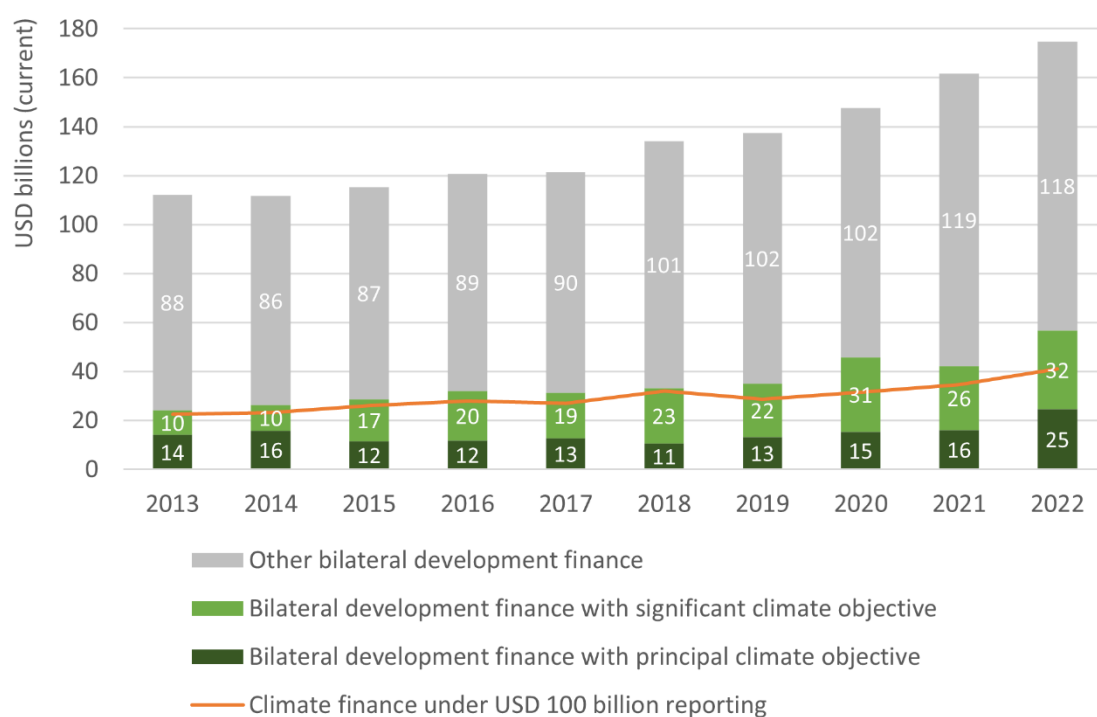
Mainstreaming of climate action within development finance and the integration of climate and sustainable development agendas has strengthened as both bilateral and multilateral development

finance recorded strong growth in 2016-22. Due to methodological differences in the reporting of bilateral climate-related development finance and multilateral climate-related development finance, these are presented separately for climate-related activities.

Official bilateral development finance increased from USD 112 billion in 2013 to USD 175 billion in 2022,<sup>4</sup> while official bilateral climate-related development finance rose from USD 24 billion in 2013 to USD 57 billion in 2022<sup>5</sup> (Figure 2). Total official development finance from multilateral providers grew from USD 104 billion in 2013 to USD 181 billion in 2022. Official multilateral climate-related development finance (i.e. as reported by these institutions and not adjusted to volumes attributable to developed countries) rose even more steeply from USD 17 billion in 2013 to USD 61 billion in 2022 (Figure 3). This evolution is also observed in the latest OECD (2024<sup>[5]</sup>) Multilateral Development Finance report, which identifies a significant increase in climate-related development finance from multilateral development banks (MDBs). As discussed in Box 1, USD 25 billion in private climate finance was mobilised for climate action in 2022.

Figure 2 illustrates trends in bilateral climate-related development finance according to whether climate is the principal objective or a significant (or secondary) objective. It shows that early in the 2013-22 period, a majority of climate-related development finance targeted climate as a principal activity; with time, such, finance with climate as a significant (or secondary) objective grew more strongly and by the end of this period, represented the biggest share of development finance. It should be noted that ODA is the main component of bilateral official development data, representing over 95% of the total in the reference period, and that DAC members are required to report climate objectives (Rio markers) for their ODA though not for non-concessional bilateral flows. These latter flows might also be subject to stricter confidentiality rules. This is reflected in the value for climate finance provided by bilateral international public sources, which is shown by the orange line in Figure 2. Climate finance starts at close to the same level as bilateral climate-related development finance in 2016 but increases considerably less than the climate-related development finance that contributes to this climate specific finance value.<sup>6</sup>

**Figure 2. Total official bilateral allocable development finance and official bilateral climate-related development finance (by principal and significant objective) and bilateral public climate finance, 2013-22**

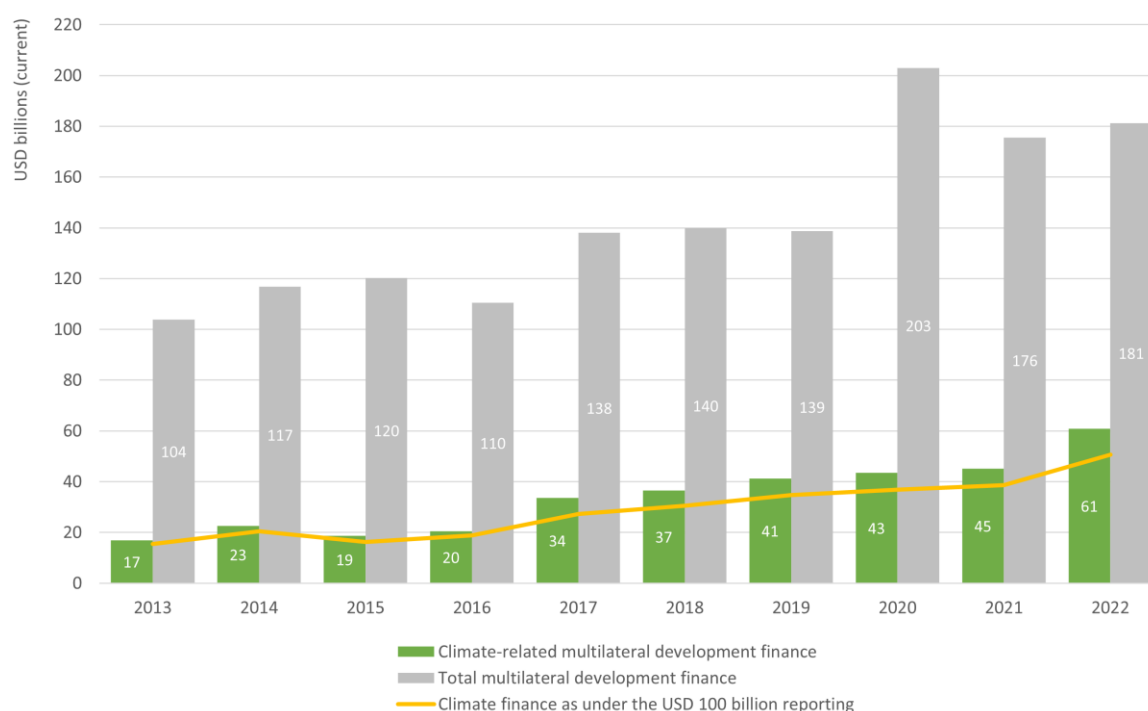


Note: The figure excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support). The orange line shows climate-specific values, which are not necessarily based on Rio marker reporting.

Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>; OECD (2024<sup>[1]</sup>), *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*, <https://doi.org/10.1787/19150727-en>; OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

For multilateral climate-related development finance, the data also show higher values with respect to the amounts accounted for in the assessment of progress towards the goal of USD 100 billion (Figure 3). Importantly, the vast majority of multilateral climate-related development finance – i.e. commitments contributed by MDBs, which represented around 90% of total over 2016-22 – is already reported in climate-specific terms. A key factor explaining the difference between the value for multilateral climate-related development finance and the values tracked for multilateral sources in the USD 100 billion reports is that the latter only account for the share that is attributable to developed countries. However, this factor is partly compensated by the fact that the geographical scope of the USD 100 billion goal tracking includes volumes of climate finance to developing countries beyond the current list of ODA-eligible countries, as detailed in the OECD (2024<sup>[1]</sup>) report on climate finance provided and mobilised by developed countries in 2013-22. Such volumes may be considerable for some multilateral providers.

**Figure 3: Official multilateral climate-related and total development finance compared to multilateral public climate finance, 2013-2022**



Note: Multilateral development finance includes climate components for MDBs and most multilateral institutions, and the full value for the remaining multilateral institutions that report data with the Rio markers methodology.

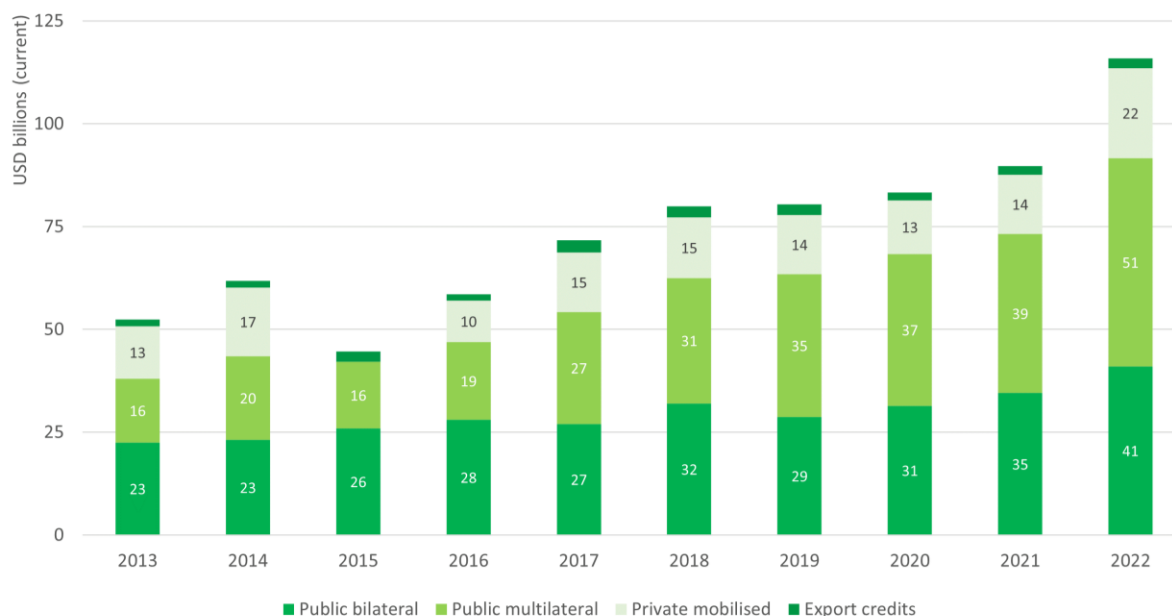
Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>; OECD (2024<sup>[11]</sup>), *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*, <https://doi.org/10.1787/19150727-en>; OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

A concrete example can illustrate how these values are accounted. The African Development Bank (AfDB) in 2022 approved a USD 102.6 million loan to with a climate-specific component of 20%, or USD 20.5 million. For the purpose of the USD 100 billion estimate, only 61.2% of the climate-specific value of this USD 20.5 million (i.e. USD 12.5 million) is attributed to developed countries. This USD 12.5 million will thus be accounted towards the USD 100 billion goal. The financial transaction received by the recipient is in the form of a USD 102.6 million loan, within which the climate-specific value of USD 20.5 million is embedded, a part of which (USD 12.5 million) is attributable to developed countries (OECD, 2024<sup>[3]</sup>).

Figure 2 and Figure 3 illustrate how larger volumes of climate-related development finance translate into smaller values under the USD 100 billion goal in different ways for bilateral finance and for multilateral finance. Climate finance as accounted under the USD 100 billion goal increased from USD 52 billion in 2013 to USD 116 billion in 2022 (Figure 4). The year 2022 was thus the first year during which climate finance exceeded the USD 100 billion mark. While the USD 100 billion goal was set to encompass finance from a variety of sources, official climate-related development finance is by far the largest source. This highlights the natural and necessary interlinkages between development and climate action in developing countries. Capturing only climate-specific values counting towards the USD 100 billion goal and attributable to donors means that the volume of financial transactions underlying the USD 100 billion figure is substantially lower than the total project values as recorded in ODF statistics.



Figure 4: Climate finance under the USD 100 billion reporting 2013-22



Source: Authors' representation based on OECD (2024<sup>[11]</sup>), *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*, <https://doi.org/10.1787/19150727-en>.

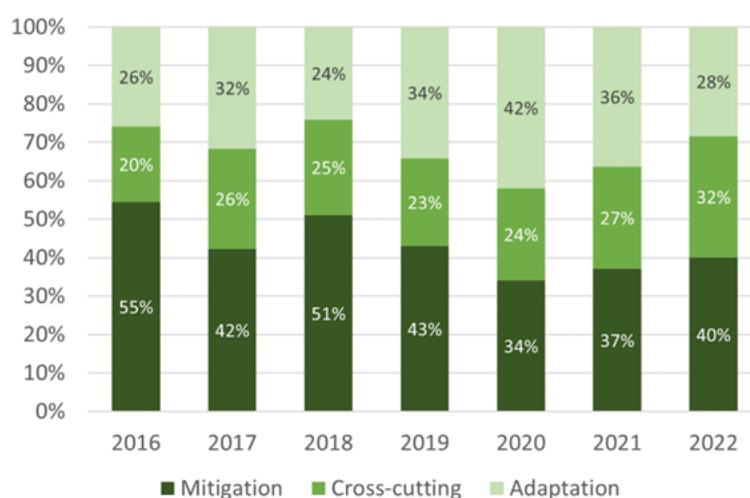
## Adaptation and mitigation

Achieving a balance between climate finance for mitigation and climate finance for adaptation is an explicit aim of the Paris Agreement<sup>7</sup>, and LDCs in particular have stressed the importance of increased support for adaptation. Beyond the global aim for a balance, many donors have made individual commitments with regard to adaptation delivered through their development programmes and financing.

Between 2016 and 2021, the share of bilateral providers' adaptation-related development finance showed a trend increase and that of their mitigation-related development finance showed a trend decrease (Figure 5), reaching a balance in 2020-21. This balance shifted away from adaptation in 2022, with the share of bilateral development finance related to mitigation activities increasing from 37% in 2021 to 40% while the share of adaptation-related commitments dropped from 36% to 28%. An increase in cross-cutting activities, including both adaptation and mitigation, from a 27% to a 32% share, largely accounts for the shifts, though more so for the increased mitigation-related share. In terms of absolute volumes, however, bilateral adaptation-related development finance rose from USD 15 billion to USD 16 billion between 2021 and 2022.

At the same time, the composition of bilateral climate-related development finance for adaptation and mitigation differs. For bilateral development finance that supports mitigation only, climate was the principal objective in 45% of commitments in 2016-22. For activities that exclusively support adaptation, only about 25% of commitments had climate as a principal objective during this period. Mitigation-related development finance was therefore much more likely to focus on climate change as a primary objective than adaptation-related development finance (OECD, 2024<sup>[7]</sup>).

**Figure 5. Shares of official bilateral climate-related development finance committed, by theme, 2016-22**

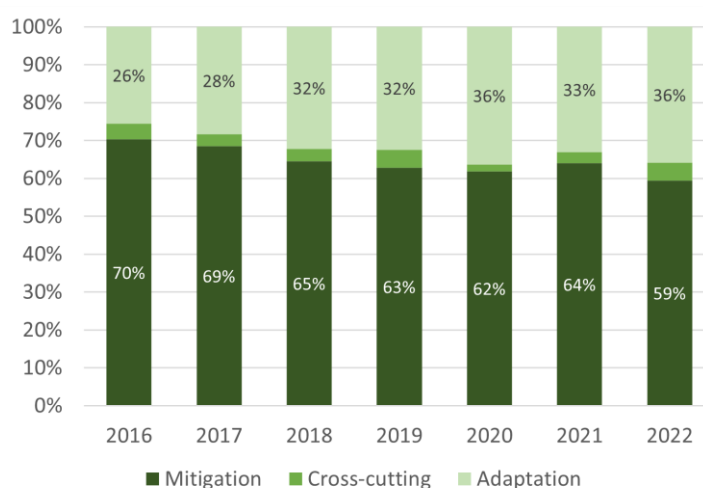


Note: Due to rounding, not all percentages in each column might add up to 100%.

Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>

Mitigation-related development finance represented a larger share of multilateral climate-related development finance than of such finance from bilateral providers throughout the 2016-22 period (Figure 6). At the same time, the multilateral share showed a clear, secular trend decrease from 70% in 2016 to 59% in 2022; an equivalent increase of ten percentage points was observed in the share adaptation-related development finance, which rose from 26% to 36% over the period.

**Figure 6: Shares of official multilateral climate-related development finance committed, by theme, 2016-22**



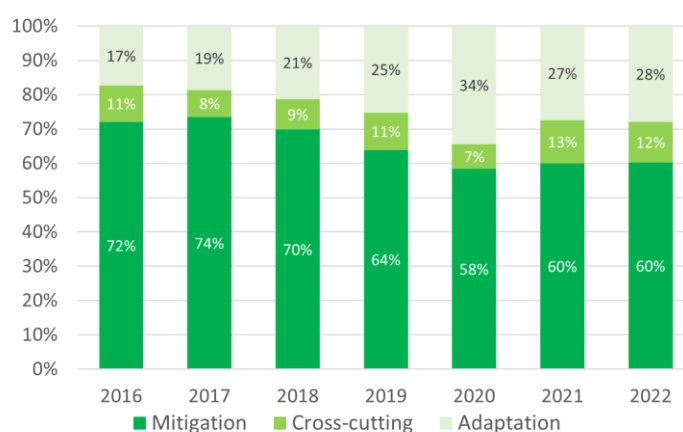
Note: Due to rounding, the percentages in each column may not add up to 100%.

Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>

Overall, the data show that since 2016, when there was a significant imbalance in climate and climate-related development finance between adaptation and mitigation activities, this gap has narrowed considerably over time. For bilateral climate-related development finance, adaptation and mitigation achieved a balance in 2020-21, before the mitigation share jumped again in 2022 and clearly exceeded the adaptation share. In multilateral climate-related development finance, the mitigation share is higher, due in part to methodological factors, but there is also a clear trend towards greater balance of adaptation and mitigation finance.

A comparative look at the USD 100 billion reporting also shows there is a sustained trend increase in the share of climate finance going to adaptation relative to mitigation (Figure 7). While still below the adaptation shares of both bilateral and multilateral climate-related development finance, it started from a lower base, and had a higher growth rate.

**Figure 7. Shares of climate finance under the USD 100 billion reporting, by theme, 2016-22**



Note: Unlike Figures 5 and 6, which only consider ODF, this figure includes public climate finance, private finance mobilised and export credits. Due to rounding, percentages in each column might not add up to 100%.

Source: Authors' representation based on OECD (2024<sup>[1]</sup>), *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*, <https://doi.org/10.1787/19150727-en>.

While an increasing focus on adaptation is evident overall, two key factors help explain the difference between the shares of climate-related development finance and climate finance under the USD 100 billion reporting going to adaptation and mitigation. One is that the USD 100 billion goal has a broader scope in terms of underlying financing sources. Resources provided through ODF have a higher adaptation share than those of other sources contributing to the USD 100 billion goal, which include notably private finance mobilised as well as a small share of export credits, which represent 3% of the total climate finance reported under the USD 100 billion commitment in 2016-22. Private finance mobilised has a particularly high mitigation share (Box 1). A second factor is that bilateral climate-related activities are more likely to support adaptation as a significant (i.e. secondary) objective of the activities. This translates to a smaller climate-specific value than is the case with mitigation activities, which are much more likely to focus on climate as a primary objective and thus result in higher climate-specific values. Most OECD-DAC members apply different coefficients to Rio markers data to obtain climate-specific values to submit to the UNFCCC (OECD, 2024<sup>[8]</sup>). In most cases, activities marked with a significant Rio marker are therefore transformed into lower climate-specific values than activities marked as having climate as a principal objective.

## Differences of substantive scope between development finance and climate finance

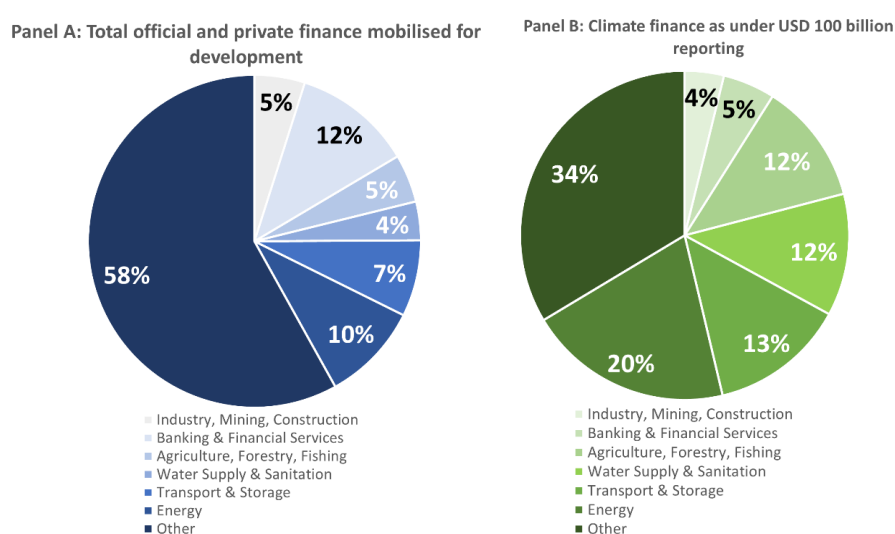
There are clear differences between climate-related development finance and what is represented in climate finance figures under the USD 100 billion reporting, though these two types of finance share a substantive focus on climate action. Within total development finance, climate-related development finance is the base from which climate-specific contributions are accounted into the USD 100 billion goal for most but not all donors that report on both measures (OECD, 2024<sup>[8]</sup>).

Total development finance, on the other hand, serves to support sustainable development across a much broader range of development objectives, as set out in the 2030 Agenda. Ambitious global climate action is indispensable for sustainable development as reflected in the 2030 Agenda, which understands climate action as an integral part of sustainable development, and the Paris Agreement, which expressly aims to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty.

In view of these deep and inherent linkages between climate action and broader sustainable development objectives and given the adverse effects of climate change on sustainable development, a lack of understanding of how they relate concretely may give rise to misconceptions and misunderstandings. Moreover, questions have been raised about possible implications of an increasing focus on climate action within development finance.

Comparing the sectoral allocation of climate finance and development finance highlights the differences in their scope and focus. In 2016-22, the energy, transport and storage, water supply and sanitation, and agriculture, forestry and fishing sectors represented only one-quarter of commitments of both ODF and private finance mobilised for sustainable development (Figure 8, panel A). However, these are the four largest sectors for climate finance under the USD 100 billion goal reporting, representing well above 50% of the total for the 2016-22 period (Figure 8, Panel B). Moreover, the “other sectors” grouped together under the climate finance reporting as making individually only relatively limited contributions to climate finance under USD 100 billion goal account for more than half of development finance and private finance mobilised for development.

**Figure 8: Selected sector shares of total ODF and private finance mobilised, 2016-22**



Note: Panel A excludes non-allocable ODA (e.g. debt relief, in-donor costs and general budget support).

Source: OECD (2024<sup>[11]</sup>), *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*, <https://doi.org/10.1787/19150727-en>; OECD (2024<sup>[4]</sup>) OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/sc>.

As set out above, the strong growth of development finance has been underpinned substantially by increased volumes of climate-related development finance. It can, however, have an impact on priorities and allocation within development finance. It makes sense that climate projects are more highly concentrated in sectors with high adaptation and mitigation need and/or potential. But development finance has a broader role, serving to support the full range of sustainable development objectives. Therefore, it is important to understand the extent to which the higher degree of concentration observed in climate finance affects climate-related development finance, which accounts for an increasing share of total development finance, and by extension affects overall allocation patterns of development finance.

At the same time, the USD 100 billion accounting was developed to monitor a much more specific and narrow goal. As such, it does not lend itself to analysis of possible effects on development finance overall. Instead, dynamics would be visible within development finance – i.e. how the evolution of climate-related development finance plays out in total development finance. Chapter 3 looks at this evolution, assesses the potential effects of, climate-related development finance on total development finance, and elaborates on their sector distribution, financing instruments and income group allocation.



### Box 1. Private finance mobilised

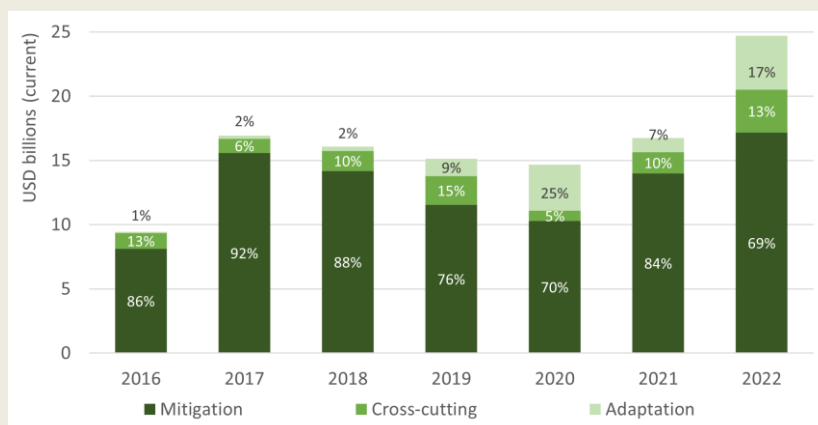
Mobilised private climate finance captured in OECD development finance reporting rose from USD 9 billion in 2016 to USD 25 billion in 2022, and represents 40% of the total private finance mobilised for development overall. Most mobilised private finance reported refers to development activities by multilateral institutions, which also account for a large share of the overall growth in private climate finance mobilised.

Over the period, the majority of the mobilised private climate finance supported climate change mitigation. The mitigation share peaked at 92% in 2017 and dropped to 69% in 2022, the lowest share recorded (Figure 9)

The dominant share of mitigation reflects the traditional focus of development finance mobilisation approaches and instruments on project finance investments for mitigation infrastructure. While representative of development finance mobilised for sustainable development, this strong mitigation focus should not be taken to be representative for general private investment patterns into mitigation or adaptation.

The vast majority of private investment, for instance, takes place not through project finance but through balance sheet financing of private businesses, whether smallholder farmers or multinational companies. This is largely outside the scope of ODF and essentially provided through domestic financial systems. A key priority for development finance providers is more effective mobilisation of finance for adaptation through direct blended finance interventions as well as enhanced support for the enabling environment.

**Figure 9. Mobilised private climate finance by theme 2016-22**



Note: Due to rounding, not all percentages in the columns might add up to 100%.

Source: OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

# 3 Dynamics and effects of the increased climate focus on overall development finance

In recent years, climate action increasingly became a focus of international co-operation and development finance alike. As shown in the analysis in Chapter 2, climate-related development finance increased over the 2013-2022 as both bilateral and multilateral providers strove to mainstream and integrate climate considerations into development finance. In consequence, climate-related development finance increased as a proportion of the total and in absolute terms. This trend is an achievement on the road towards a more sustainable future. At the same time, it raises questions as to the possible impacts and dynamics of this increased climate focus on allocation patterns and priorities in development finance overall.

These allocation patterns are subject to a multitude of factors. As it has in the past, the sector breakdown of development finance is likely to evolve in the future in response to evolving development needs, priorities and contexts. The purpose of the following analysis is to understand how the integration of climate considerations into development finance is occurring and to determine if any evidence points to any concrete effects on distribution patterns of development finance that might be related to this integration. While this chapter looks at the distribution of climate-related and total development finance by sector, instrument and country income group, the analysis is not intended to make any statements on the appropriateness of allocation patterns or to attempt to explain overall allocation outcomes, which are shaped by a multitude of factors.

## 1. How has the sectoral allocation of climate-related finance and development finance evolved?

Different sectors of development finance typically correspond to different priority areas for development spending. They range from social sectors, productive sectors and infrastructure to humanitarian or governance sectors.<sup>8</sup> Sector allocations of development finance result from a range of factors and their interactions, among them policy choices, economic and institutional factors, and other exogenous aspects. The traditional concentration of climate finance in a subset of sectors, together with the strong increase in climate finance and the accompanying increase in the share and volume of development finance targeting climate objectives could potentially have an effect on allocation patterns of development finance overall.

While it may be impossible to establish a model that accounts for all factors that determine the sector allocation of development finance, the key question for this analysis is whether an increased climate focus has produced any observable effects on these sector allocation patterns. The increased focus on climate can take place within sectors through integration and mainstreaming of climate objectives into different sector groups. Or it can take place between sectors, through a greater focus on sectors with

higher shares of climate objectives in ODF than on sector groups with lower shares of climate-related financing.

To address the question of potential effects of the intensified climate focus in development finance, the analysis in this chapter considers the following macro sector groupings: infrastructure, production, social, governance, humanitarian, multisector and other.<sup>9</sup> Figure 10 shows the evolution of total ODF across these seven sector groupings.

Between 2016 and 2022, the infrastructure sector received the largest share (24%) of total ODF commitments among the seven groups. It was followed by the social and production sectors, each accounting for about 21% of ODF commitments during the period. The data further show that all sector groups recorded an increase in the absolute volume of ODF over the course of the period of analysis, although with considerable variation. The infrastructure group, the multisector group and the other sectors group, for instance, showed no discernible growth pattern while the production, governance and humanitarian sector groups showed an increase of 50% or more during this period.

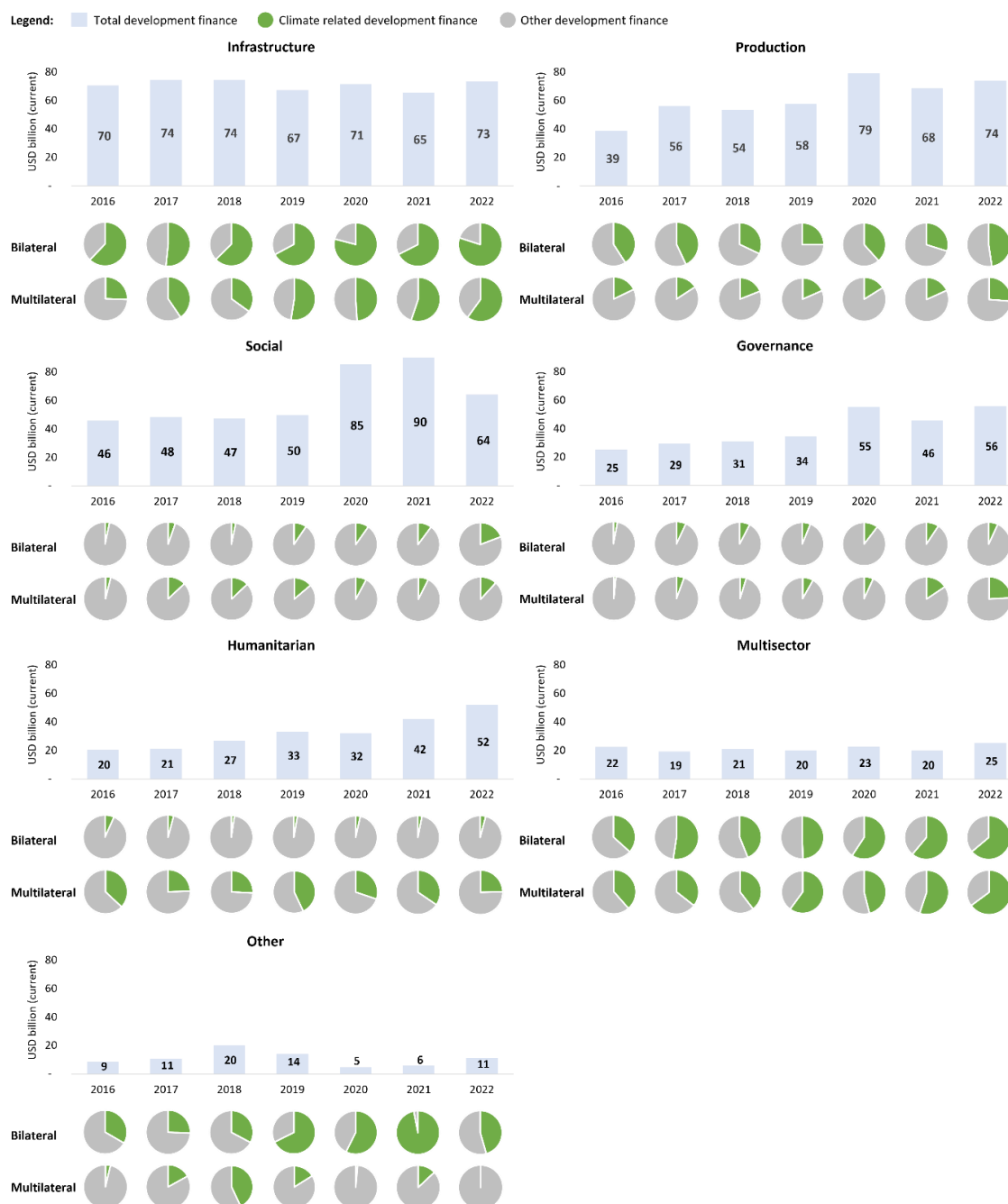
Figure 10 shows climate-related development finance as a share of total development finance for each sector group year by year over 2016-22 and for bilateral and multilateral providers. The infrastructure and multisector groups had the highest shares of climate-related development finance followed by the production sector. The picture for the other sector groups is mixed, with the social, governance and humanitarian sector groups showing much lower levels of climate-related commitments. The data also clearly show an increase of both bilateral and multilateral climate-related development finance within all sector groups except the humanitarian sector. These shares increased from very different base levels as well as within increasing absolute volumes of climate-related development finance in most of the sector groups. The data therefore clearly point to a mainstreaming of climate considerations within sectors.

Conversely, the data do not support a supposition that the increase of climate-related development finance was accompanied by a shift of the allocation of financing across sectors. The most pronounced growth rates of total ODF were recorded in sector groups with comparatively low climate-related shares such as governance and humanitarian, while growth rates were more stagnant in the sectors with the highest climate shares. Nonetheless, there was strong ODF growth in production sectors.

The data presented in Figure 10 also show some variability in the sectoral evolution of climate-related development finance and total development finance. The social sector group, notably, exhibits a quite volatile pattern. After rising from USD 46 billion in 2016 to USD 50 billion in 2019, development finance in this sector group jumped to USD 90 billion in 2021 before declining to USD 64 billion in 2022, which was itself still a significant increase over 2016-19 levels. There was also observable heterogeneity within the social sector group, with the health sector accounting for a large share of the 2020 increase in total development finance while commitments to education, another key social sector within the group, declined. The response to the COVID-19 pandemic may have driven this evolution (OECD, 2024<sup>[5]</sup>). Likewise, from 2022 onwards, the war against Ukraine could impact allocation patterns.

Nonetheless, the trend increase of climate-related development finance has continued even with these variations and the potential factors behind them, and no relationship between them and the evolution of climate-related development finance is visible. Rather, the data show that the increase is driven by a growing integration of climate objectives across sector groups paired with strong absolute growth of total development finance volumes.

**Figure 10. Official climate-related finance and total official development finance by macro sector, 2016-22**



Note: For bilateral providers, the share of climate-related development finance corresponds to the total face values of relevant activities over total bilateral development finance for each sector. For multilateral providers, the share of climate-related development finance corresponds to the climate components of projects over total multilateral development finance for each sector. The panels in this figure exclude non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support).

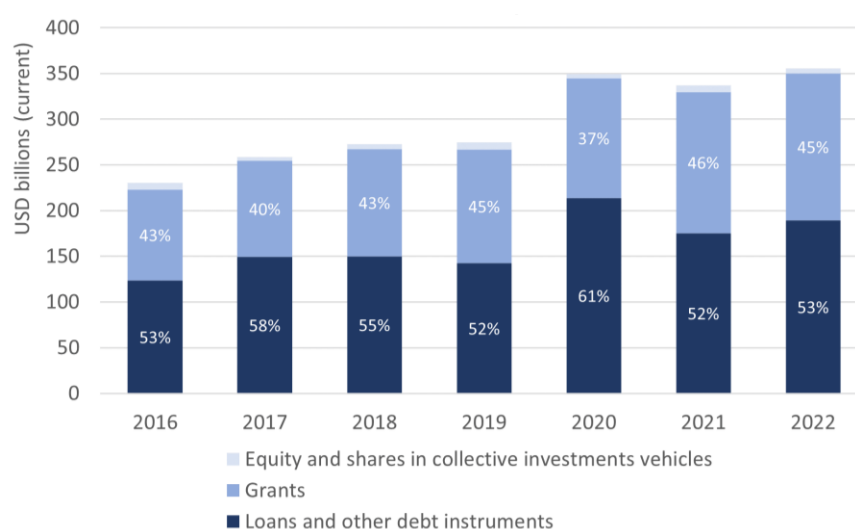
Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>; OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

## 2. How have grant shares in climate-related finance and development finance evolved?

Amid challenges with debt sustainability and debt management capacity in many developing countries, questions about grant spending and concessionality of development finance are a major concern and priority for developing countries. The prevalence of non-grant financing in climate finance, mostly in the form of development finance loans, has received considerable attention. There are concerns about climate finance being heavily loan financed, which raises the question of whether this is also evident for climate-related development finance and if so, whether there is an effect on the financing instruments used in development finance overall.

Overall development finance data show that between 2016 and 2022, 37%-46% of total ODF was provided as grants. In the same period, between half and two-thirds of ODF was provided as loans and other debt instruments (Figure 11). This pattern was broadly stable over the seven-year period: the grant share of total development finance in particular, despite some year-to-year variability, remained essentially stable and there is no indication of a declining trend.

**Figure 11. Total official development finance by instrument, 2016-22**



Note: This figure excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support). Due to rounding, percentages in each column might not add up to 100%.

Source: OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

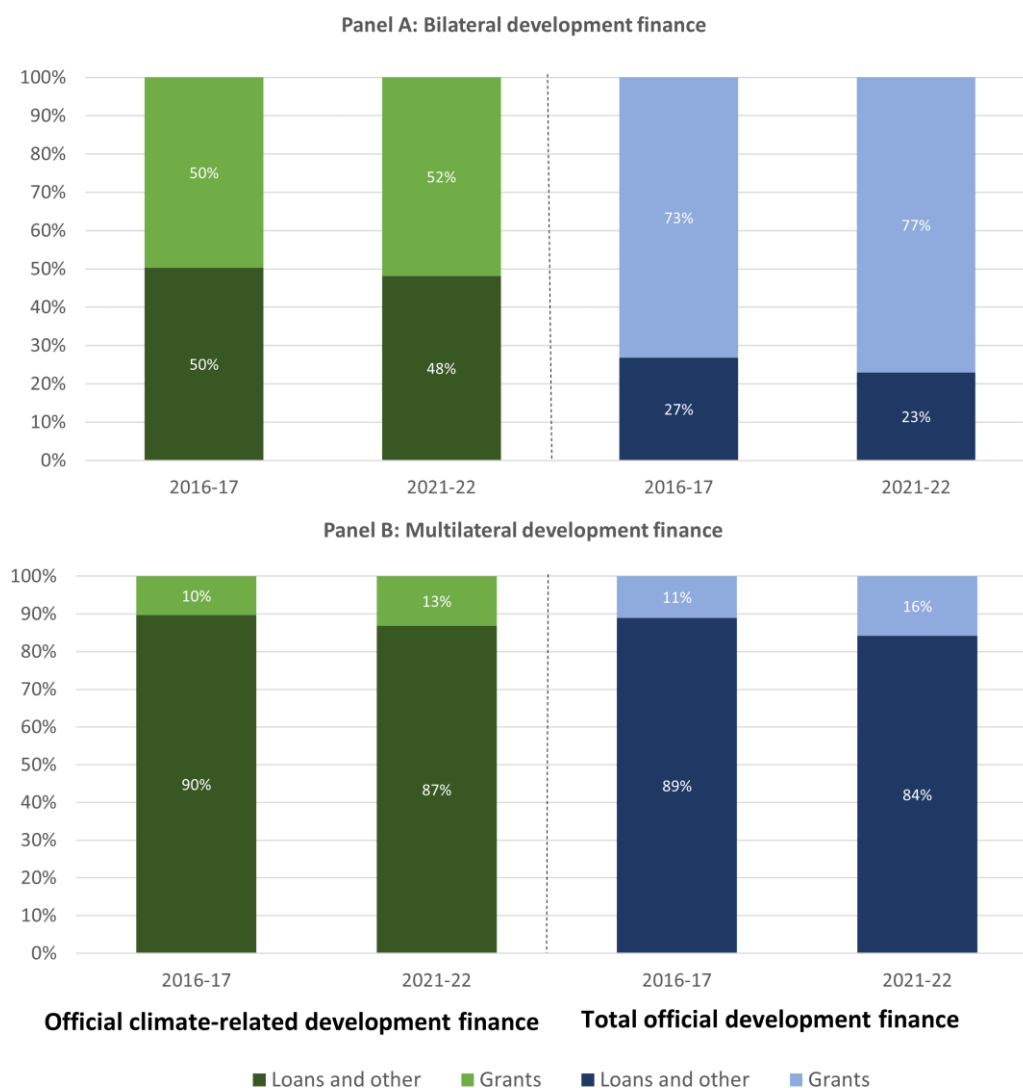
A further observation from the data is that there are fundamental differences in the grant and non-grant distribution of bilateral versus multilateral development finance, with grant shares considerably higher in bilateral finance (Figure 12). The reason is that multilateral development finance is largely made up of MDB financing, which is essentially loan-based finance.<sup>10</sup> For bilateral development finance, on the other hand, grants are the most widely used instrument. As shown in Figure 12 the share of grants in total bilateral climate-related development finance grew from 73% in 2016-17 to 77% in 2021-22, and the grant share in total multilateral ODF rose from 11% in 2016-17 to 16% in 2021-2022.

Grant shares are lower in climate-related development finance than in overall ODF, with the difference mainly being evident in bilateral financing. While grant shares for multilateral climate-related and total development finance are almost equal, only about half of bilateral climate-related development finance is grant financed compared with about three-quarters in total bilateral development finance. Over 2016-



17 to 2021-22, the grant share increased slightly in both bilateral climate-related development finance (from 50% to 52%) and multilateral climate-related development finance (from 10% to 13%).

**Figure 12. Climate-related and total official development finance by instrument for bilateral and multilateral providers, 2016-17 and 2021-22 averages**



Note: The figure chart excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support). Due to rounding, percentages in each column might not add up to 100%.

Source: OECD (2024<sup>[6]</sup>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>; OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

The lower grant share in climate-related bilateral development finance is, however, essentially accounted for by the different sector distribution, and notably the concentration of climate-related finance in sectors with traditionally particularly high shares of non-grant finance in the case of bilateral development finance: For example, the grant share in bilateral development finance stood at only 25% and 43% in the infrastructure and production sectors, respectively – substantially lower than for total bilateral development finance. These sectors, however, together accounted for more than 60% of

bilateral climate-related development finance in 2016-22. The corresponding grant share in sectors with lower shares of climate-related development finance was significantly higher: grants made up 90% of bilateral development finance in social sectors, 92% in the governance sectors and 99% in humanitarian sectors in 2016-22.

Moreover, while the difference in grant shares is particularly pronounced when comparing bilateral climate-related development finance and total development finance, this difference is essentially a function of the different sector concentration of climate-related and overall development finance. The difference therefore does not reflect a characteristic of climate-related development finance as such but reflects overall patterns of development finance within respective sector groups.

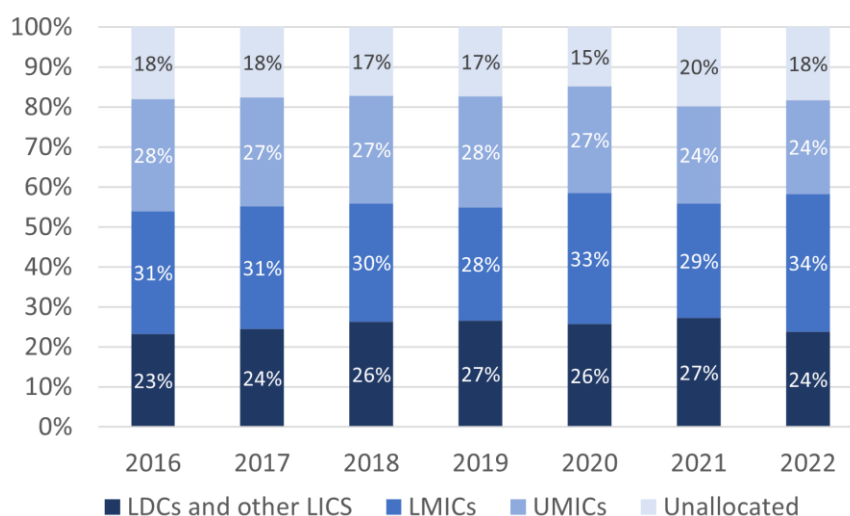
In sum, while the grant share in climate-related development finance is lower than in total development finance, the data do not support a move towards a higher use of debt instruments in development finance over time. Amid strong absolute growth in overall development finance, the grant share has been stable and has exhibited rather a tendency to increase; in climate-related development finance, grant shares slightly rose over the period analysed (Figure 12).

Given the debt challenges faced by many developing countries, however, ensuring debt sustainability will be essential. This is not just a function of debt levels, which are typically much more elevated in high-income countries, but of debt sustainability and debt servicing capacity related to cost of capital. At the same time, meeting investment needs for climate-resilient, low emissions sustainable development is essential, and non-grant finance that is financially, socially and environmentally sustainable will continue to play a key role for this.

### 3. How has the allocation to recipient country income groupings evolved in climate-related and total development finance?

Climate finance analyses have shown a relatively high concentration of climate finance in developing countries at higher income levels, such as upper middle-income countries (UMICs), compared with climate finance in country groups at lower income levels or with particular needs such as low-income countries (LICs) and LDCs. The strong focus on climate finance on the international agenda, reflected in the rapid increase of such finance, has raised questions as to whether this could have impacts on overall development finance allocation patterns that potentially could lessen the focus in overall development finance on countries most dependent on it.

The allocation of total ODF to different recipient country income groups is shown in Figure 13. The share allocated to LDCs stood at 23% in 2016, rising to between 26% and 27% from 2018 to 2022 before dropping to 24% in 2022.<sup>11</sup> Lower middle-income countries (LMICs) were allocated an average of approximately 31%. While no clear trend can be observed in the allocation shares of LDCs and LMICs over this period, the share allocated to UMICs shows a trend decline, starting at 28% in 2016 and gradually dropping to 24% in 2022.

**Figure 13. Total official development finance by recipient country income group, 2016-22**

Note: The figure excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support). Due to rounding, percentages in each column might not add up to 100%.

Source: OECD (2024<sup>[4]</sup>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

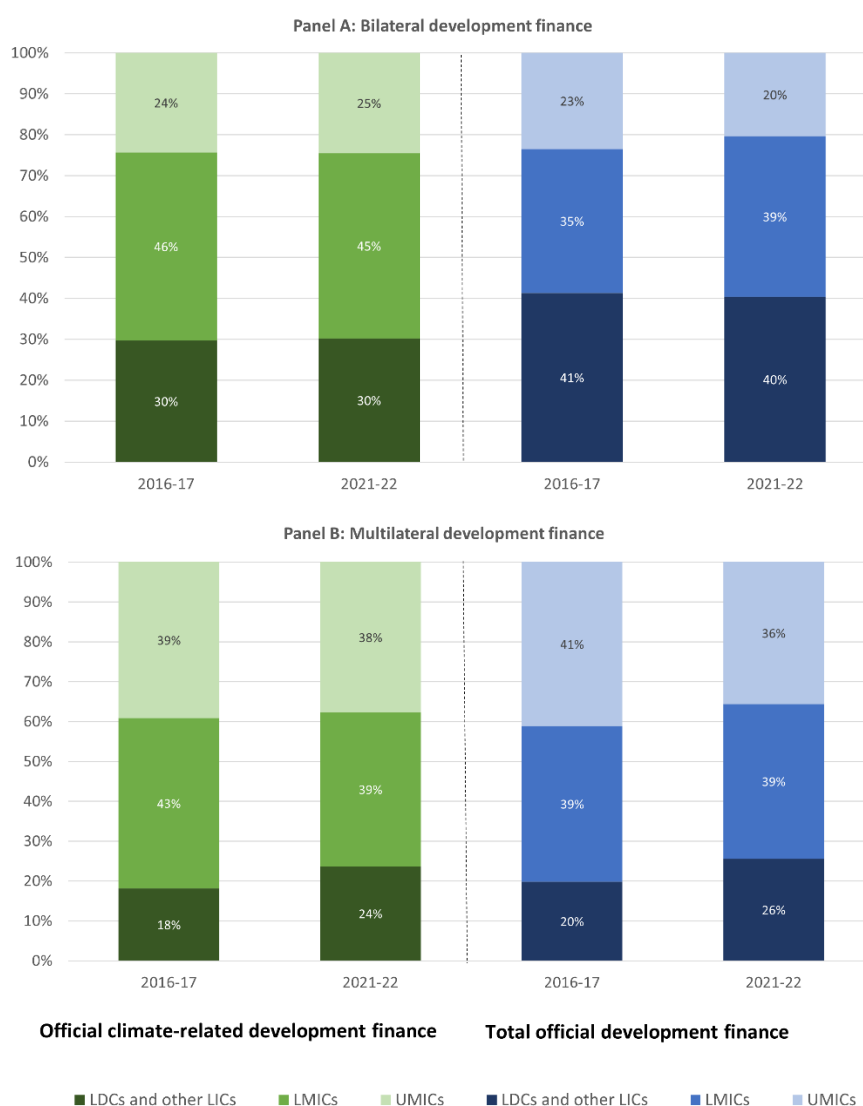
Differences also can be observed between bilateral and multilateral providers. Figure 14 shows the evolution of country-allocable ODF from bilateral and multilateral providers, factoring out the share of commitments that are not allocable by income group (unallocated finance is provided for activities such as those across several recipients at different income levels)<sup>1</sup>. Bilateral providers allocate higher shares of ODF to LDCs than do multilateral providers: in 2016-17, for example, about 40% of total bilateral ODF was allocated to LDCs, double the LDC share of multilateral ODF. At the same time, the LDC share of total multilateral ODF and country-allocable climate-related development finance increased from 20% in 2016-17 to 26% in 2021-22.

A different distribution of climate-related development finance emerges from separate analysis of bilateral and multilateral development finance and focused only on country-allocable development finance. The data show that for bilateral providers, the share of overall development finance allocated to LDCs is about 10% higher than it is in climate-related development finance. This is largely due to the higher share of climate-related development finance allocated towards LMICs. The share of climate-related development finance to UMICs has remained stable from 2016-17 to 2021-22 but declined in total ODF. In terms of multilateral development finance, the data show much less variation between total and climate-related commitments, particularly in the later years of this, while the share of multilateral climate-related development finance allocated to LDCs increased from 18% in 2016-17 to 24% in 2021-22.

Overall, climate-related development finance is less targeted than total development finance towards LDCs. However, the analysis does not show a decrease in the shares of development finance being allocated to LDCs over the period in either total ODF or in climate-related development finance. Rather, for multilateral finance, the shares allocated to LDCs increased between 2016-17 and 2021-22. More generally, the data do not support a correlation or causal relationship between the evolution of income group allocations in climate-related development finance and such allocations in total development finance. There is, therefore, no indication in the period under observation that the increasing focus on climate would have affected the allocation of development finance to different country income groups.

While the share of development finance for LDCs remained stable over the period analysed in this paper, poverty and inequalities persist. Increasing support to and better targeting of people and countries most in need will thus remain essential. Effective targeting to reduce poverty and inequalities is an especially important ambition given the increased climate focus in development finance. The share of finance going to LDCs, for instance, is only one indicator that should be looked at to analyse and evaluate the targeting of international support. The OECD's latest Development Co-operation Report (OECD, 2024<sup>[9]</sup>) provides more in-depth analysis of this aspect of development finance. In addition to shares of finance being allocated to LDCs, the report also looks at other indicators, beyond shares of finance being allocated to LDCs, such as geographic allocations of development finance according to per capita levels of extreme poverty, to guide providers and assess how development finance is targeting poverty and inequalities.

**Figure 14. Country-allocable official climate-related and total development finance from bilateral and multilateral providers, 2016-17 and 2021-22 averages**



Note: This chart excludes non-allocable ODA (e.g. debt relief, expenditure in donor countries and general budget support) as well as commitments that are not country allocable. Due to rounding, percentages in each column might not add up to 100%.

Source: OECD (2024<sub>[6]</sub>) Climate-related Development Finance (dataset), <https://webfs.oecd.org/climate/>; OECD (2024<sub>[4]</sub>) OECD Data Explorer, Creditor Reporting System, <http://data-explorer.oecd.org/s/c>.

In conclusion, the analysis shows that climate-related development finance is growing in volume and is increasingly mainstreamed into all sectors of development co-operation. It also shows that the increasing integration of climate objectives across different sectors that is driving this growth rather than shifts of such finance between sectors. Moreover, climate-related development finance has different shares of grants than overall development finance as well as slightly different income group allocations. However, the data do not provide indications that these different patterns in climate-related development finance would affect allocation patterns of overall development finance. There are no signs of a correlation with the evolution of climate-related development finance. Rather, the different picture emerging for climate-related development finance seems to be driven by other, non climate inherent

factors such as overall sector features with regard to grant shares. ODF to LDCs has remained broadly stable as has the share of grants in such ODF commitments.

The monitoring of the evolution of development finance flows to developing countries – in terms of their volume, grant shares and concessionality as well as their sectoral, regional and income group distribution – is and will continue to be a key dimension of development finance accountability. It is also critical to providing evidence on development finance. The focus on climate considerations in development finance has increased amid an overall rise in such finance. While there are a multitude of factors influencing allocation patterns, there is no indication that this increased climate focus has been a factor affecting allocation patterns of development finance overall.

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## Notes

<sup>1</sup> All figures in this paper are expressed in commitment terms and current prices. Total ODF includes official development assistance (ODA), as well as other official flows from both bilateral and multilateral development finance providers. ODF figures in this paper always exclude bilateral non-allocable ODA (i.e. general budget support, in-donor's country expenditures, debt relief, imputed student costs and administrative costs not included elsewhere). Non-allocable ODA is not eligible to be reported as contributing to climate change adaptation or mitigation through the Rio markers. Bilateral non-allocable ODA amounted to USD 38 billion in 2016 and USD 65 billion in 2022, in current terms.

<sup>2</sup> For a more detailed discussion on the relation between climate and development finance see: 'Increasing transparency between climate and development finance: questions and answers' (revised version forthcoming)

<sup>3</sup> See footnote 1 on data dimensions. To assure homogeneous comparison between development and climate finance, this paper uses, to the maximum extent possible, the same country listings adopted in the USD 100 billion report as well as current prices as used in that USD 100 billion report. In this context, multilateral data encompass all multilateral providers reporting climate-related development finance (CRDF) data to the OECD except for CGIAR, the Food and Agriculture Organization, the Global Green Growth Institute and the Islamic Development Bank, which are not included in the USD 100 billion figures. However, the USD 100 billion figures include the following providers that are not included in climate-related development finance data: the Asian Development Bank Special Fund, Asian Development Bank Credit Guarantee and Investment Facility, Inter-American Development Bank Special Fund, the International Investment Bank, the Multilateral Investment Guarantee Agency, and the Private Infrastructure Development Group. In addition, the USD 100 billion figures include recipients that are non-Annex I Parties to the United Nations Framework Conference on Climate Change (UNFCCC) beyond DAC ODA recipients, which are not included in the CRDF. Bilateral development finance also uses CRDF data but excludes the following providers as they are not included in the USD 100 billion figures: Azerbaijan, Kazakhstan, Korea, Qatar and the United Arab Emirates. The USD 100 billion figures include the following providers that are not included in CRDF data: Bulgaria, Croatia, Cyprus and Malta.

<sup>4</sup> These figures exclude bilateral non-allocable ODA (debt relief, expenditure in donor countries and general budget support).

<sup>5</sup> Climate-related bilateral figures are composed of the sum of activities reported with a principal or a significant climate objective with the Rio markers. The Rio markers are a qualitative assessment of the objectives of development co-operation activities. The sum of activities marked principal and significant is also referred to as the "estimate" or "upper bound" of policy objective-related aid. See page 134 in 'Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire' DCD/DAC(2024)40/FINAL

<sup>6</sup> For most but not all DAC members, climate finance reported to the UNFCCC is based on Rio markers data to which coefficients can be applied. For some members, notably the United States and Luxembourg, climate finance reporting follows a different process, and the projects reported to the UNFCCC and to the OECD might be different; such projects are only partially or not at all reported in ODF. For more information, see .

<sup>7</sup> Article 9 of the Paris Agreement states that the "provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies,

and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation". See [https://unfccc.int/sites/default/files/resource/parisagreement\\_publication.pdf](https://unfccc.int/sites/default/files/resource/parisagreement_publication.pdf).

<sup>8</sup> Beyond sectors, DAC members report policy objectives of aid through a series of policy markers (e.g. gender equality and inclusion of persons with disabilities) and Rio markers (e.g. biodiversity, climate change adaptation, climate change mitigation and desertification). As a general rule, policy and Rio markers can be assigned to activities in any sector.

<sup>9</sup> The approach for grouping the macro sectors is the same used for the 2022 OECD Multilateral Development Finance report, which uses Creditor Reporting System purpose codes to define sector clusters: governance includes governance and civil society (150) and general support (510); humanitarian includes emergency response (720), reconstruction relief and rehabilitation (730), and disaster prevention and preparedness (740); infrastructure includes water (140), transport (120), communications (220) and energy (230); multisector includes general environment protection (410) and other multisector excludes rural development (430); production includes banking and financial services (240), business and other services (250), agriculture, forestry and fishing (310), industry, mining and construction (320), trade policy and regulations (331), and tourism (332) and other multisector includes only rural development (43040); social includes education (110), health (120), population policies and reproductive health (130), and other social infrastructure and services (160); other includes developmental food aid (520), other commodity assistance (530), action related to debt (600), administrative costs of donors (910), refugees in donor countries (930), and unspecified (998).

<sup>10</sup> ODA accounts for a large majority (72%) of bilateral loans. Bilateral development finance loans need to meet concessionality criteria to be eligible to qualify as ODA. The minimum grant element for a loan to be considered ODA is differentiated by income group, so loans to LDCs and other LICs require a higher minimum grant element than those for middle-income countries (<https://one.oecd.org/document/DCD/DAC%282024%2940/FINAL/en/pdf>). The concessionality classification of MDB loans is defined by the financing window, and access to these windows is primarily determined by the income group status of the recipient. Between 2016 and 2022, 22% of the loans provided by MDBs were reported as concessional to the OECD. The terms provided through non-concessional MDB windows are for most developing countries substantially better than those available to them from capital markets. For information on lending terms for the World Bank regular International Bank for Reconstruction and Development (IBRD) window, see <https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/lending-rates-and-fees>. Information on the concessional International Development Association window is available at <https://ida.worldbank.org/en/financing/ida-lending-terms>.

<sup>11</sup> This information is based on the OECD income group categorisation conventionally used for analysis of official development finance. Further information on the income group status of different LDCs is available at <https://www.oecd.org/en/topics/oda-eligibility-and-conditions/dac-list-of-oda-recipients.html#list-updates>.