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Introduction

Figure 1: Flooding in a Climate-Vulnerable Community

Adaptation to the increasingly severe impact of climate change is imperative for vulnerable nations' resilience to survive. The amount of adaptation required in developing countries to address their adaptation needs will be around $310 billion annually by 2035, and $365 billion annually considering national adaptation plans. But adaptation financing still lacks this requirement significantly, and the gap is forecasted to range between 284 to $339 billion a year by 2035, based on the currently available adaptation finance of around $26 billion annually. There has been a decrease in adaptation finance despite increasing needs, as the annual finance in 2023 was down to $26 billion from $28 billion in 2022, and about 58 percent of this finance comes in form of loans and not in form of grants. There is also another burden associated with loans that climate-vulnerable developing countries face because of being more vulnerable in the face of climate change. Climate-vulnerable developing countries have increased borrowing cost because of their vulnerability to climate change, as the members of V20 (Vulnerable twenty group) paid $62 billion in additional interest alone between 2007 and 2016. Vulnerable countries cannot invest in building the infrastructure and early warning mechanisms and social protection mechanisms without appropriate financing that will ensure that they can resist against floods, droughts, and heat waves. Therefore, the issue of bridging the climate finance gap is no longer a question of charity but it is an essential one. The Baku to Belem Roadmap project that seeks to mobilize $1.3 trillion in climate financing up to 2035 in the form of grants and non-debt financing points toward how this gap could be addressed. Ultimately, it is possible to say that the closing of the climate finance gap for adaptation purposes will strengthen the resilience and human security of nations against the adverse effects of climate change.

Background

The first climate finance pledges took place in 2009 when developed countries promised to work together in order to generate $100 billion annually for developing countries by 2020. This goal was further adopted in the Paris Agreement. At COP29 in Baku, countries agreed to a new goal which came to be known as New Collective Quantified Goal (NCQG). It increased the previous target and made it a goal of at least $300 billion annually by 2035. They also committed to a larger goal of $1.3 trillion annually in total climate finance. However, many developing countries were dissatisfied with the deal made at Baku. Some even went to the extent of calling it a betrayal, considering that their demands for funding were $500 billion. Moreover, analysts found out an error within the figure itself since developed countries have chances of meeting the goal of $300 billion Without spending an additional dollar since the figure includes all the money that had been pledged previously by developed countries. This makes the gap between the promise and the reality much larger than expected. According to United Nations Conference on Trade and Development (UNCTAD), the developing countries would require about $900 billion annually until 2025, while $1.46 trillion annually until 2030. Since the Paris Agreement aims to limit global warming to 1.5 degrees Celsius above pre-industrial levels. However, developing countries continue to face growing climate-related risks and require adequate funding to adapt to these impacts. The gap between the funding needed and the funding available therefore remains a major challenge.

Problems Raised

Shortage of Adaptation Finance

Climate finance is still characterized by mitigation finance, whereas adaptation programs have been having financing problems. This is because most adaptation programs, including flood prevention, drought control, and resilience-based infrastructure, offer social benefits and do not give financial returns directly, thus not being appealing enough for private investors. According to the UN Environment Program's Adaptation Gap Report 2025, international public finance for adaptation in developing countries was reduced to approximately $26 billion in 2023, compared to $28 billion in 2022, and the adaptation finance gap is expected to amount to between $284 and $339 billion per year by 2035. In addition, UNEP has discovered that the majority of the adaptation finance requirements lie in sectors usually financed by public money.

Difficult Access to International Climate Finance

Although international climate funds provide financing opportunities for developing countries, many of these countries still face difficulties in accessing them. Different climate funds have different application procedures and eligibility criteria, making it difficult for developing countries to determine which fund is most suitable for their projects. Furthermore, some developing countries may lack the institutional capacity needed to meet these requirements. These barriers will lead to the slow process of financing and ensure that the vulnerable states do not receive the required funding on time. As a result, the states with better institutional capacity may be better positioned to access available funds.

Debt Burdens from Climate Finance

Another challenge is that climate finance is often provided through loans rather than grants, which can increase the debt burden of financially vulnerable developing countries The UNEP Adaptation Gap Report 2025 indicates that about 58% of international public adaptation finance in 2023 was delivered via loans, including non-concessional loans. While loans offer significant finance amounts for large projects, they may create further financial burdens for those nations that have been dealing with the problem of debts. This creates a difficult situation in which developing countries need more funding to adapt to climate change but may also become more indebted when accessing that funding.

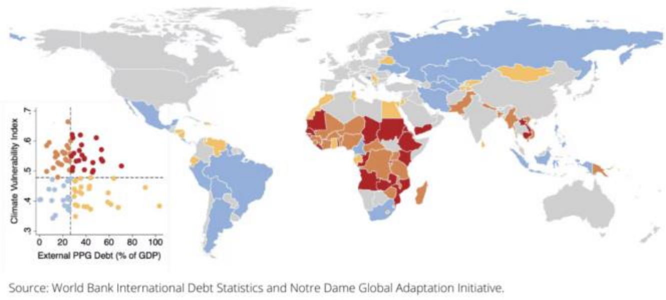

Figure 2: Climate Vulnerability and Debt Risks in Developing Countries

International Actions

Adaptation Fund

Adaptation Fund was created with the objective of funding real adaptation and resilience activities in developing countries, especially in the most vulnerable communities. An important feature of the Adaptation Fund is that of Direct Access, through which accredited national organizations in developing countries are able to implement adaptation funds directly without using only international implementing organizations. Since the fund was established, over $1.6 billion has been allocated to 226 activities in 110 countries, benefiting more than 90 million people.

COP29 and the New Climate Finance Goal

During COP29 in 2024, nations made an agreement about the new climate finance objective. Developed nations committed to taking the lead in contributing at least $300 billion each year up to 2035, which is three times more than the previous goal that was $100 billion a year. In addition, all parties were invited to strive for scaling up climate finance contributions from both public and private sectors up to $1.3 trillion every year until 2035.

Figure 3: COP29 Climate Conference in Baku, Azerbaijan, 2024

Improving Access to Climate Finance

International climate funds have also introduced programs to help developing countries overcome difficulties in accessing finance. For example, the Green Climate Fund (GCF) provides Readiness and Preparatory Support to strengthen countries' institutional capacity, improve their ability to prepare climate projects, and help national institutions become accredited to access GCF funding directly. As of 15 August 2026, the program had cumulatively approved 902 readiness requests across 142 countries, with approximately $781 million committed in readiness resources.

Key Players

Developed Countries

Developed countries, such as the United States, Germany, France, Japan, and the UK, are very significant in the provision and raising of climate finance for developing nations. According to United Nations Framework Convention on Climate Change (UNFCCC), developed Party countries should raise funds that will help developing nations address climate change, while also taking the lead in mobilizing finance from public and private sources. This makes these countries important contributors to closing the gap between the amount of climate finance needed by developing countries and the amount currently available.

Green Climate Fund (GCF)

Green Climate Fund (GCF) is the biggest climate fund for developing nations and also the second-largest source of climate financing in the international scale. It directs at least half of its adaptation funding to particularly vulnerable countries, including Least Developed Countries (LDCs), Small Island

Developing States (SIDS), and African States. In 2026, the Green Climate Fund has committed over $20 billion in 134 developing nations.

Multilateral Development Banks (MDBs)

Multilateral Development Banks (MDBs), which include the World Bank, African Development Bank (AfDB), and the Asian Development Bank (ADB) play a significant role in providing climate finance to countries of the world. In 2023, the MDBs committed $125 billion in climate finance, of which $27.7 billion was dedicated to climate adaptation. The MDBs lend, grant, guarantee, and give technical assistance to help develop climate adaptation infrastructures and other projects. These institutions are key drivers in mobilizing additional financing both publicly and privately, thereby being important stakeholders in resolving the problem of climate finance gap in developing countries. However, accelerating the share of finance allocated specifically to adaptation remains a critical priority for these institutions.

Figure 4: Multilateral Development Banks Discussing Climate Finance at COP29

Possible Solutions

Increase Grant-Based Finance for Highly Vulnerable Countries

Developed countries and international financial institutions should increase the use of grants and highly concessional finance for climate adaptation projects in financially vulnerable developing countries. While loans can provide significant funding, relying heavily on debt can place additional pressure on countries that already have limited fiscal capacity. Grants can support projects that provide important social benefits but generate little direct financial return, while concessional finance can provide more favorable terms than standard loans. This approach would increase adaptation funding while reducing the risk of debt burdens. The Organization for Economic Cooperation and Development (OECD) identifies concessional finance as an important tool for increasing adaptation finance, while United Nations Environment Programme (UNEP) also emphasizes the need to increase adaptation finance without increasing the debt burden of vulnerable countries.

Create a Simplified Climate Finance Access System

International climate funds should simplify their application procedures and provide more technical assistance to developing countries. Different funding institutions often have complex suitability requirements, while some developing countries lack the institutional and technical capacity needed to prepare projects and meet these requirements. International providers could therefore offer support for project preparation, financial management, and other requirements needed to access climate finance. The OECD specifically identifies fragmented funding systems, complex eligibility requirements, and capacity constraints as barriers to adaptation finance and recommends strengthening countries' capacity to access and use available funding.

Attract More Private Investment

The international financial organizations and climate funds must make use of blended finance and risk-sharing approaches to facilitate the engagement of the private sector in climate adaptation efforts. Many adaptation projects are difficult to finance commercially because their financial returns are uncertain or limited. Public finance can therefore be used to reduce part of the risk for private investors through tools such as guarantees, concessional finance, and insurance. Based on the findings of the Adaptation Gap Report 2025 of UNEP, the private sector has the potential to invest around $50 billion annually towards adaptation efforts.

Key Terms

Climate Adaptation

Actions taken to reduce the harmful effects of climate change and help countries and communities adjust to its impacts, such as floods, droughts, and heat waves.

New Collective Quantified Goal (NCQG)

The new international goal to provide at least $300 billion in climate finance to developing countries each year by 2035.

Concessional Finance

Loans or financing offered on more favorable terms, such as lower interest rates.

Grant-Based Finance

Financial support for climate projects that generally does not need to be repaid, helping countries avoid additional debt.

V20 (Vulnerable Twenty Group)

A group of climate-vulnerable developing countries that works on climate-related financial challenges.

Non-Concessional Loan

A loan provided on or near normal market terms rather than at significantly reduced rates.

Concessional Finance

Financing offered on more favorable terms, such as lower interest rates or longer repayment periods.

Blended Finance

The combination of public or concessional finance with private investment to reduce risks and attract more private capital.

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