

# Beyond Technical Tweaks: *Rethinking Access to Climate Finance*

## ADDRESSING INTERSECTING BARRIERS FOR SMALL ISLAND DEVELOPING STATES AND LEAST DEVELOPED COUNTRIES

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Despite widespread consensus that vulnerable countries face unique barriers to accessing climate finance, views differ as to exactly what the problem is. Without a shared understanding, reform efforts risk targeting symptoms rather than causes. This briefing argues that access challenges result from an intersection of demand, supply, and structural problems, and that 2026 provides a unique opportunity to address all three elements. As COP31 President of Negotiations, and in partnership with the Pacific, Australia can galvanise action to make tangible progress on access for Small Island Developing States (SIDS) and Least Developed Countries (LDCs), effectively kickstarting the implementation of the New Collective Quantified Goal (NCQG) on climate finance.

“Access” refers to many things within the politics of climate finance. For example: eligibility for finance from specific funds or banks; the process for receiving finance from those institutions and the involvement of local stakeholders in those processes; or the ability of a country to attract private investment. Parties across the climate finance system agree that access to finance is a problem, particularly for Small Island Developing States (SIDS) and Least Developed Countries (LDCs). However, the lack of a common conception of the issue creates a barrier to real political progress.

We know that most developing countries across regional and income groups struggle to access the external finance they need for climate action in a timely and efficient manner. However, SIDS and LDCs face a further unique set of challenges. Firstly, due to a combination of high perceived risk, small economic size, currency risk, and limited capacity,

they struggle to access capital markets. Secondly, the most pressing needs for many SIDS and LDCs are for investments in resilience, many of which provide public benefits that are not captured in a revenue stream and are therefore unlikely to attract private capital even if it were accessible. This further increases vulnerability and fiscal stress during climate events, and drives the high degree of reliance that many SIDS and LDCs have on international public funds. Finally, it becomes a self-reinforcing cycle, where higher degrees of vulnerability further constrain access.

Their reliance on public funds means that conversations about improving access for SIDS and LDCs often focus on the ability for a country to receive climate finance from Multilateral Development Banks (MDBs), Multilateral Climate Funds (MCFs), or bilateral institutions. As a result, it is tempting to focus access discussions on technical fixes for making these international public funds flow more efficiently. However, simply focusing on adjusting application criteria at the MCFs or shifting eligibility at the MDBs misses the bigger picture of barriers to access, and ignores the political choices that established these systems in the first place.

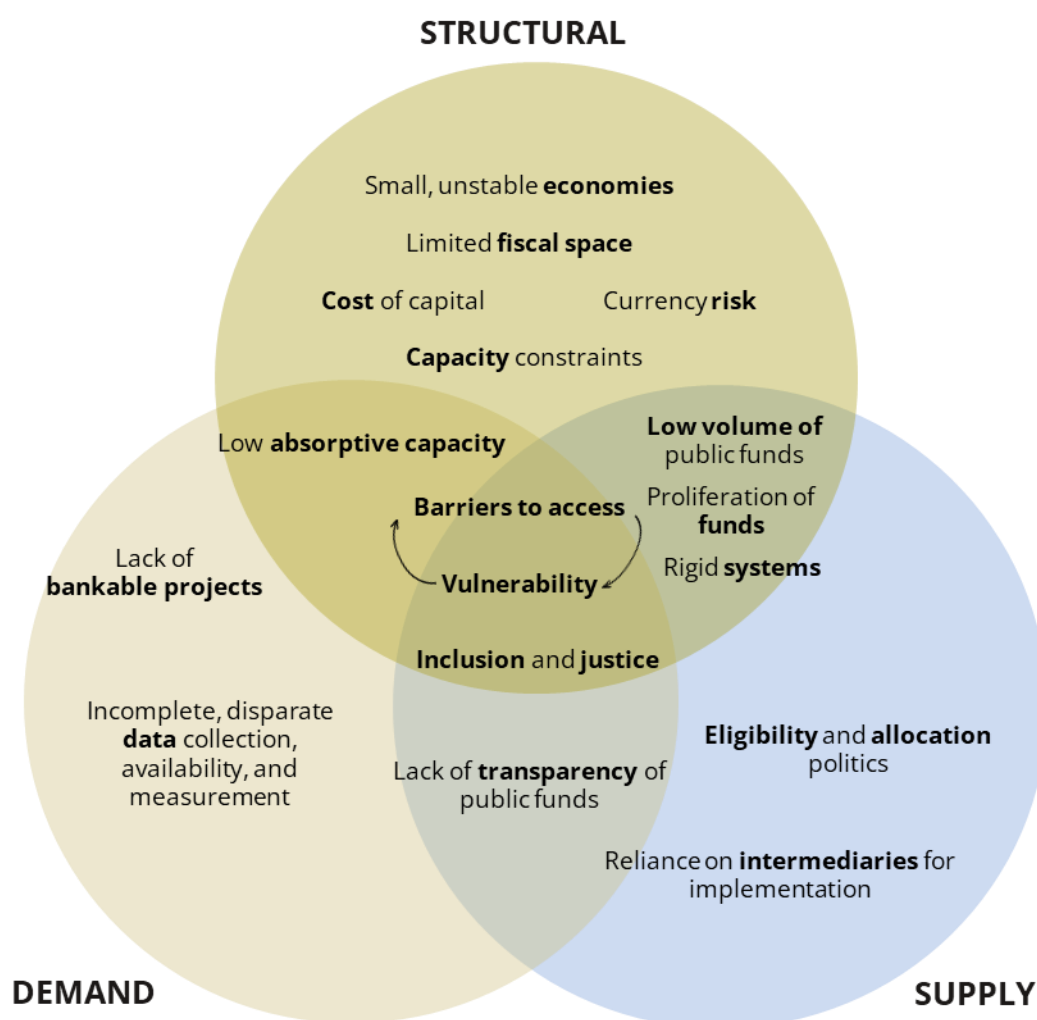
These barriers do not operate in isolation, as figure 1 illustrates. Structural conditions create reliance on a complex, fragmented system of public funds, while constraints on the demand side limit what countries can credibly propose and absorb. As climate impacts intensify, the cycle accelerates, making it harder to build the resilience that would reduce exposure in the first place. While the perfect should not be the enemy of the good when it comes to taking action to ease access for the most vulnerable, it is important to situate any approach within the intersecting structural, supply, and demand challenges that span all sources of finance.

## Structural conditions and challenges

SIDS and LDCs' structural challenges are not governance deficits or recipient-side failures but features of small island and least developed economies that determine whether and how countries can access finance in the first place. They include:

- ▶ **Small, unstable economies:** Financial systems are often nascent, with institutions and fiduciary standards still evolving, adding to economic fragility. Remoteness and high reliance on imports leads to high cost of implementation.
- ▶ **Capacity constraints:** Institutional capacity gaps in SIDS and LDCs limit project design, procurement, and implementation.

## Intersecting barriers to access



**Figure 1: Structural, supply and demand barriers intersect to constrain access to climate finance in SIDS and LDCs.**

The structure of the international financial architecture creates an array of additional barriers for SIDS and LDCs in accessing finance. These can include:

- ▶ **Limited fiscal space:** High debt, weak revenue, and aid dependence limit public investment in resilience.
- ▶ **High cost of capital:** High borrowing costs and low or new credit ratings leading to high perceived risk raise financing costs.
- ▶ **Currency risk:** Foreign exchange volatility and remoteness (particularly for SIDS, which face heavy import reliance) raises implementation and repayment risks.

These issues, which themselves are interconnected, make it very difficult to borrow capital or attract foreign investment in building resilience. They also make it difficult for SIDS and LDCs to absorb finance that is available, effectively reducing demand. The Bridgetown Initiative and other efforts to reform the international financial architecture have shed light

on these challenges, but structural conversations can often be siloed from the more institutionally-focused discussions in climate finance negotiations. In fact, the two are inherently linked.

## Supply challenges

The constrained supply of international public finance is rightfully situated at the centre of most climate finance discussions. However, there are a variety of issues in the design and governance of supply, in addition to volume, that affect access. These include:

- ▶ **A proliferation of fragmented climate funds** (including within the MDBs).
- ▶ **Relatively rigid and diverse access modalities** (both a supply and structural challenge).
- ▶ **Complex allocation politics:** Access shaped by income status and donor priorities, and eligibility criteria unrelated to climate vulnerability.
- ▶ **Reliance on intermediaries:** Dependence on intermediaries slows and complicates financial delivery and implementation and can limit local control over projects.
- ▶ **Lack of transparency of public funds:** Delayed reporting and a lack of disaggregated data make it difficult to comprehensively track funding and means SIDS and LDCs lack clear signals for proposal design (both a supply and demand challenge).

While boards at the MCFs have taken steps to streamline applications and reporting, little has been done to harmonise these processes between funds, structurally simplify supply of climate finance by merging funds, or to more meaningfully diversify institutional roles to reduce duplication and better cater to vulnerable countries.

## Demand challenges

While needs for climate finance in vulnerable countries are substantial, this does not always translate into concrete demand for projects. For SIDS and LDCs, many demand-side constraints are not independent failures but downstream effects of the structural conditions described above. Limited institutional bandwidth, fiscal thinness, and administrative compression can shape what countries can credibly propose and absorb.

Specific demand-side barriers include:

- ▶ **A lack of “bankable” projects:** Limited capacity to develop investment-ready pipelines.
- ▶ **Small size of projects** relative to fund thresholds.
- ▶ **Incomplete, disparate data collection, availability, and measurement:** Lack of access to local data to prove climate impacts or to meet reporting requirements for public funds.

- **Absorptive capacity constraints:** Institutional constraints limit effective use of funds (both a demand and structural challenge).

Issues of **inclusion and justice** sit at the center of demand, supply, and structural barriers to climate finance. Marginalised groups most in need of finance are frequently underrepresented in the processes through which finance is sourced and allocated, further concentrating barriers among those with the least institutional voice. This is a core tenet of vulnerability, which interacts in a positive feedback loop with barriers to access. Barriers to access increase vulnerability, and vulnerability creates further barriers to climate finance flows: this creates a reinforcing vulnerability trap that is difficult to escape.

## State of play

Despite significant remaining barriers, the efforts of SIDS and LDCs to put climate finance on the international agenda for years have resulted in significant political airtime for the issue. Under the 2024 Brazilian presidency, the G20 Sustainable Finance Working Group commissioned an independent high-level review<sup>1</sup> of the vertical climate and environment funds. Later that year, the New Collective Quantified Goal (NCQG) negotiations placed access front and centre, with three paragraphs urging access improvements in bilateral finance, the MDBs, and MCFs.<sup>2</sup>

This political attention has resulted in some progress, particularly for access to international public finance. The Adaptation Fund, CIF, GEF, and GCF published a joint action plan<sup>3</sup> committing to streamline and harmonise their operational procedures. Moreover, in 2024, the World Bank launched its Crisis Preparedness and Response Toolkit,<sup>4</sup> a suite of instruments designed to help countries respond to climate-induced disasters and address vulnerability. It is difficult to measure the impact of these measures, however, or to track progress on access over time. The OECD indicates a fourfold increase in international climate finance between 2016 and 2024 for LDCs,<sup>5</sup> reaching \$23.7 billion (down from a high of \$25.4 billion in 2023), and a 3.8x increase for SIDS, reaching \$3.8 billion in both 2023 and 2024. However, volume alone is an incomplete measure of access. More qualitative indicators on the process for receiving such finance are lacking, as is any kind of comprehensive tracking of the structural barriers such as cost of capital, fiscal space, or credit ratings and their impact on whether climate finance reaches SIDS and LDCs.

<sup>1</sup> IHLEG, October 2024, [Accelerating Sustainable Finance for Emerging Markets and Developing Economies](#)

<sup>2</sup> UNFCCC, [New Collective Quantified Goal on climate finance](#)

<sup>3</sup> Adaptation Fund, CIF, GEF, GCF, May 2024, [The Multilateral Climate Funds Action Plan on Complementarity and Coherence](#)

<sup>4</sup> World Bank Group, February 2024, [Crisis Preparedness and Response Toolkit](#)

<sup>5</sup> OECD, 21 May 2026, [Climate Finance Provided and Mobilised by Developed Countries in 2013-2024](#)

## Opportunities for progress in 2026

While real progress has been made in recent years, more must be done, and 2026 is a critical window to act. The **reduction** in ODA<sup>6</sup> and the shift of major providers to a more investment-focused approach puts grant-based finance for resilience – the primary need of the most vulnerable countries – at risk. In this context, it is even more vital that those countries are able to receive the finance that is available without undue burden.

There is also now a political mandate within the UNFCCC for improving access, with a special assessment of access improvements mandated by the NCQG to take place in 2030. Provider countries, MDBs, and MCFs have three years to work with SIDS and LDCs to show demonstrable progress on this agenda. There is also an opportunity to further discuss this issue set in the new Climate Finance Work Programme, which the co-chairs are actively working with Parties to shape following its agreement at COP30. Outside the UNFCCC, the French G7 presidency is also encouraging members to take on some of the issues through its update of the G7 Accountability Framework.

Australia's partnership with the Pacific to host the pre-COP in Fiji provides an important opportunity to turn political attention into action, given SIDS' longstanding asks to improve access for the most vulnerable. While it is appropriate to retain a core focus on public international finance, Australia and the Pacific should encourage a range of actors to come forward to make commitments on what they will do by 2030 to improve access, in particular for SIDS and LDCs: MDBs, MCFs and bilateral providers, as well as the IMF and financial regulatory bodies that have the remit to address the structural challenges faced by small and least developed economies in accessing the capital they need to build resilience.

Opportunities include:

### Addressing structural barriers

**Improving instrument design to reflect the realities of SIDS and LDC contexts:** The structural conditions facing SIDS and LDCs (limited institutional bandwidth, fiscal thinness, and exposure to climate shocks) are not incidental to how instruments perform; they are the conditions under which those instruments must operate. Building on the G20 Vertical Climate and Environmental Funds (VCEF) review,<sup>7</sup> a structured assessment of how individual finance instruments from multilateral sources perform in the most vulnerable countries is still needed to identify potential design changes that better consider the structural conditions of SIDS and LDCs.

<sup>6</sup> OECD, 9 April 2026, [A historic decline in foreign aid: Preliminary 2025 ODA data](#)

<sup>7</sup> IHLEG, October 2024, [Accelerating Sustainable Finance for Emerging Markets and Developing Economies](#)

**Working systematically to open fiscal space in SIDS and LDCs through risk**

**management:** This could include expanding parametric risk insurance and debt for climate swaps, or expanding climate resilient debt clauses<sup>8</sup> (CRDCs) at the World Bank to automatically apply to all loans to LDCs, not just SIDS. The IMF should work to more proactively address debt vulnerabilities in countries facing liquidity risks, before they turn into solvency crises. This would enable greater investment in resilience in some SIDS and LDCs, and help break the feedback loop in which debt and climate vulnerabilities reinforce each other.

**Addressing supply barriers****Compacts among bilateral donors, MDBs, and MCFs to make specific access**

**improvements by 2030:** Australia could lead the charge in bringing bilateral donors together to detail how they plan to make access improvements, including those specified in the NCQG. This could include a commitment to make a certain percentage of their bilateral portfolio programmatic financing, for instance, or to increase transparency on how partner countries can pitch funding proposals. The MDBs and MCFs should undertake a similar process this year, coming to COP31 ready to announce an action plan for implementing the access-related calls to action in the NCQG. Access for SIDS and LDCs in particular should be an explicit, measurable criterion in these compacts.

**Developing and deploying a set of common indicators on access:** The MDBs, MCFs, and bilateral development finance institutions (DFIs) should work together – potentially supported by third party experts – to develop and deploy a set of access metrics to illuminate the bottlenecks and areas of progress in the process for receiving finance, in addition to the volumes ultimately committed. Creating a common dashboard for reporting such statistics could create a “race to the top” dynamic where institutions are competing to implement the most streamlined process. This should be supplemented by data on structural barriers affecting financing for climate, including cost of capital, fiscal space, and credit ratings.

**Addressing demand barriers**

**Consolidating and scaling support for capacity building in SIDS and LDCs:** Bilateral providers should work with MCFs and MDBs to better coordinate their support for capacity building and technical assistance in SIDS and LDCs in order to build up a pipeline of viable projects. This could include exploring creating a single readiness facility across the MCFs as a one-stop-shop for vulnerable countries looking for assistance in preparing projects for international finance.

<sup>8</sup> The World Bank, Updated November 2024, [Climate Resilient Debt Clause](#)

## ABOUT E3G

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We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

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