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Institute for Energy Economics and Financial Analysis

Enhancing Access to Multilateral Climate Funds by Developing Countries: A Way Forward

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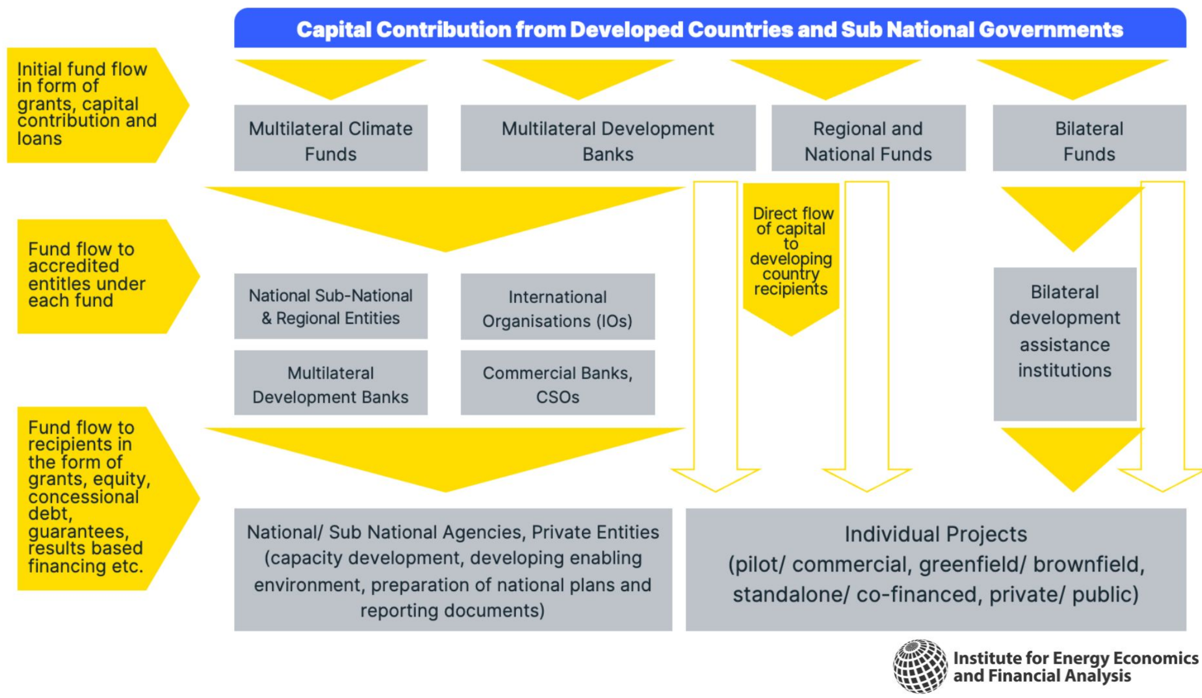
Global Public Sources of Climate Finance

A rich and varied architecture of public institutions is involved in raising, channelling and deploying finance for climate-related activities from the developed world for the developing world countries. These institutions are financing flows through several funds and institutions across countries using bilateral and multilateral channels and various financial instruments. Multilateral funding happens within and outside the United Nations Framework Convention on Climate Change (UNFCCC)[1] and Paris Agreement financial mechanisms. Climate finance also flows increasingly through bilateral, as well as regional and national channels and funds. A large number of actors are a part of this architecture across the developed and developing world.

Figure 1: Architecture of Global Public Climate Finance



Source: IEEFA Analysis

Within the context of the UNFCCC, developed countries had made a climate finance commitment to jointly mobilise US$100 billion per year by 2020 to help developing countries meet their climate change commitments.[2] While this goal is yet to be achieved, even if achieved, the quantum of capital required by developing nations to transition is exponentially higher.

In 2021 (last reported year), total climate finance provided and mobilised by developed countries for developing countries amounted to US$89.6 billion, showing a 7.6% increase over the previous year.

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[1] To facilitate the provision of climate finance, the Convention established a financial mechanism to provide financial resources to developing country Parties. The financial mechanism also serves the Kyoto Protocol and the Paris Agreement
[2] OECD. Climate Finance and the USD 100 Billion Goal.

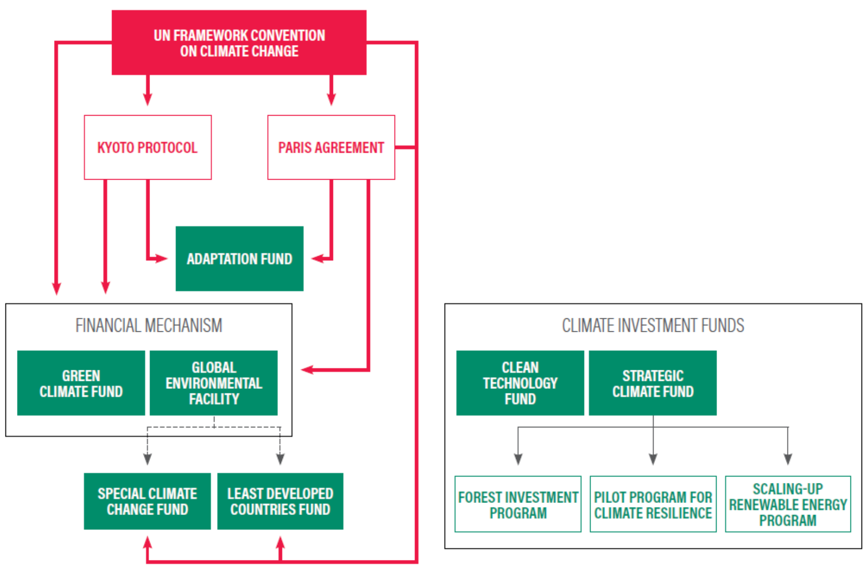
Public climate finance (bilateral and multilateral) almost doubled over 2013-21, from US$38 billion to US$73.1 billion, accounting for most of the total US$89.6 billion in 2021.[3]

Within public climate finance, multilateral public climate finance attributable to developed countries has grown the most since 2013, overtaking bilateral public climate finance in 2019. Multilateral climate finance flows through two primary channels: multilateral climate funds (MCFs) or the capitalisation of multilateral development banks (MDBs).

Multilateral Climate Funds and Climate Finance

Within the wider contours of developed nations' US$100 billion commitment, a small portion of climate finance flows through UNFCCC-linked multilateral climate funds. The Global Environment Facility (GEF) and Green Climate Fund (GCF) are the two operating entities under the financial mechanism of UNFCCC that provide financial support to the activities and projects of developing countries. Other special funds established include the Adaptation Fund under the Kyoto Protocol (AF), the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF). Additionally, the World Bank established the Climate Investment Funds (CIF) along with UNFCCC-linked funds to channel climate capital to developing countries.

Figure 2: Major Multilateral Climate Funds and Relationship to International Climate Agreements



Source: UNFCCC

These funds' finance architecture has differing governance structures, modalities and objectives.

[3] OECD. Climate Finance Provided and Mobilised by Developed Countries in 2013-2021. 2023

They exhibit diverse thematic focuses and operational structures. While GCF tackles mitigation and adaptation, GEF prioritises mitigation, and AF, LDCF, and SCCF specialise in adaptation. Accordingly, Funding types and amounts offered by MCFs also vary. GEF relies heavily on grants but offers limited non-grant options, whereas GCF balances loans and grants equally and AF solely provides grants. Average contributions across GEF, LDCF, SCCF, and AF remaining below US$7 million. The capitalisation mechanisms significantly impact risk tolerance and fund mobilisation by MCFs. Grant-based funds like GEF, LDCF, SCCF, and AF possess greater flexibility, enabling support for risky ventures, as no repayment is expected. Conversely, CIFs and GCF, while primarily funded through grants, also accept loans and capital contributions, which constrain their risk appetite due to repayment obligations. All funds, except CIFs, maintain formal links to the UNFCCC and receive guidance from the Conference of Parties (COPs) on their policies, program priorities, and eligibility criteria. There are commonalities among funds on fiduciary management, environmental and social safeguards, and gender considerations, with all funds mandating environmental and social impact assessments and local consultations.

Most funds require developing countries to collaborate with accredited entities (AEs) in formulating climate change project/program proposals. Proposals are then submitted and evaluated, culminating in board decisions on project/program approval. MCFs rely on AEs to implement funded initiatives. Except for the CIFs, which were set up to operate through MDBs, the funds require entities to become accredited to receive and disburse funding. Traditionally, accreditation went to international entities like the World Bank or the UN. Later, developing country institutions were also accredited. This is known as "direct access".

Operation Details of Major Multilateral Climate Funds	
Green Climate Fund GREEN CLIMATE FUND	The GCF is the world's largest multilateral climate fund. Established at COP16 in 2010, it became the second operating entity of the financial mechanism of the UNFCCC, alongside the GEF. The GCF prioritises a "country-driven" approach, with developing nations leading program creation and execution through their National Designated Authorities (NDAs). It has a mandate to invest 50% of its resources in mitigation and 50% in adaptation in grant equivalent. MDBs, banks and UN agencies can access the GCF's funds. Countries and regions can also directly access the funds through accredited national/regional entities. The GCF has over 200 AEs to assist developing countries in designing and implementing climate projects. The GCF receives funding from country contributions through replenishment cycles. For its second replenishment cycle (GCF-2), developed countries and public, non-public and alternative sources have pledged (to be converted into contribution) US$12.8 billion. As of 2023, the GCF has made cumulative funding decisions for projects, readiness programs, and project preparation facilities of US$14.8 billion.[4] Its strategic plan for 2024-2027 aims to help developing countries translate their Nationally Determined Contributions (NDCs), NAPs and Long-term Climate Strategies (LTS) into climate investments and programming. The GCF board governs and oversees the fund's management. The 24-member board comprises equal numbers of developed- and developing-country representatives.

[4] World Bank. GCF Financial Report. September 2023

Global Environment Facility

GEF, the oldest climate fund, has served as an operating entity of the financial mechanism of UNFCCC since the convention entered into force in 1994. GEF works around five focal areas – biodiversity loss, chemicals and waste, climate change, international waters, and land degradation. Participating donor countries provide the facility's funding, and 18 accredited agencies make the funds available to developing countries to develop and implement projects.

The GEF's fund is replenished every four years in an intergovernmental negotiating process. For its eighth replenishment period (GEF-8, 2022-2026), 29 donor governments pledged US$5.3 billion, the largest to date.[5] Over the past three decades, the GEF has provided more than US$20 billion, of which close to US$10 billion was for climate projects.[6] Its main governing body is the Council, which comprises 32 members appointed by constituencies of member countries (14 from developed, 16 from developing, and two from economies in transition).

Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF)

From GEF-5 onward, the GEF council decided to channel all adaptation programming to the LDCF and SCCF. The GEF manages these two funds. The GEF-8 adaptation strategy for the LDCF/SCCF focuses on agriculture, food security and health, water, climate information services, and nature-based solutions.

The LDCF aids least-developed countries by offering grants to implement National Adaptation Programs of Action (NAPAs) – country-driven strategies for addressing their most urgent adaptation needs. It also supports implementing National Adaptation Plans (NAPs) and other UNFCCC work programs. The SCCF supports Small Island Developing States (SIDS) with grants for adaptation, technology transfer and capacity-building projects, including efforts to improve climate information services.

Adaptation Fund

The Adaptation Fund was established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol. Financing for AF comes mainly from sales of certified emission reduction (CER) credits under the Clean Development Mechanism (CDM).[7] However, the collapse of CDM carbon trading prices meant funding did not reach the anticipated scale. The fund also receives contributions from governments, the private sector and individuals, with funding from Germany leading the overall funding for AF.

The AF pioneered the direct access model of accrediting agencies, allowing recipient countries to directly access its funds through national and regional implementing entities, ensuring that country needs and priorities drive projects. Countries can also access financing through the multilateral implementing entities (MIE). Since 2010, AF has committed over US$1.2 billion to climate change adaptation and resilience projects and programmes. The fund's second medium-term strategy (2023-2027) focuses on

[5] GEF. Who We Are.
[6] GEF. Climate Change Catalyzing Transformation. November 2023
[7] Under CDM mechanism, emission-reduction projects in developing countries can earn CERs. These credits can be traded and sold by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol.

	promoting locally based and locally led adaptation and scaling up funded activities and results, among other goals.[8] The Adaptation Fund Board (AFB) supervises and manages the fund. The board has 16 members and 16 alternates. Most members (about 69%) represent developing countries.
Climate Investment Funds	The World Bank administers the CIFs, established in 2008, but they operate in partnership with regional development banks, including AfDB, ADB, EBRD and IDB. Countries must have an active country programme with one of the five MDBs to receive CIF funding. The CIFs have a total funding available of US$10.2 billion. They include a Clean Technology Fund (CTF) with US$6.9 billion in contributions and a Strategic Climate Fund (SCF) with US$3.3 billion in contributions.[9] CTF focuses on transformation in developing countries by providing resources to scale up the demonstration, deployment, and transfer of low-carbon technologies. The CTF supports low-carbon technologies in transport, renewable energy and energy efficiency. The SCF comprises the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling Up Renewable Energy Program in Low-Income Countries (SREP). PPCR integrates resilience, FIP addresses deforestation, and SREP supports scaled-up renewable energy deployment for increased access and economic opportunities. While the CIFs have a "sunset clause", its indefinite postponement has led to recapitalisation talks for the CIFs. The CTF and SCF are each governed by 16-member trust fund committees, and the SCF has 12-member subcommittees for each of its three programs. Developed and developing countries have equal representation within all committees.

Table 1 below lists the largest multilateral climate funds, including the GEF, GCF, AF and CIF, with details on their funding mechanism, geographical scope, fund focus, implementing entities and funding processed as per the latest available numbers.

[8] Adaptation Fund. Medium-Term Strategy 2023–2027. December 2022
[9] World Bank. Financial Intermediary Funds.

Table 1: Largest Multilateral Climate Funds Globally

<table>
<tr><th>Fund</th><th>Fund focus</th><th>Mechanism of UNFCCC/ Paris Agreement</th><th>Secretariat</th><th>Funding Geographical Scope</th><th>Funders</th><th>Implementing entities</th><th>Funding type available</th><th>Funding Received[1] (US$ mn)</th><th>Funding Processed[1] (US$ mn)</th></tr>
<tr><td>Green Climate Fund</td><td>Adaptation and Mitigation</td><td>Yes</td><td>Independent secretariat</td><td>All developing country Parties to the UNFCCC</td><td>45 countries, three regions and one city for initial resource mobilisation</td><td>121 (national and international)</td><td>Grants, concessional loans, equity, guarantees and results-based finance</td><td>17,778</td><td>14,778</td></tr>
<tr><td>Clean Technology Fund</td><td>Mitigation</td><td rowspan="2">No</td><td rowspan="2">World Bank</td><td rowspan="2">Middle-income and developing countries</td><td rowspan="2">Australia, Canada, France, Germany, Japan, Spain, Sweden, United Kingdom and United States</td><td rowspan="2">AfDB, ADB, EBRD, IADB, and WB</td><td>Grants concessional loans, equity and guarantees</td><td>6,927</td><td>5,162</td></tr>
<tr><td>Strategic Climate Fund</td><td>Mitigation</td><td>Technical advisory, equity, grants, loans, guarantees, currency hedging</td><td>3,278</td><td>2,550</td></tr>
<tr><td>Global Environment Facility</td><td>Adaptation and Mitigation</td><td>Yes</td><td>Independent secretariat</td><td>Developing Countries</td><td rowspan="3">Participating donor countries (total 40 to date) via the World Bank</td><td rowspan="3">18 GEF Agencies (primarily MDBs and UN Agencies)</td><td>Grants, blended financing and policy support</td><td>22,016</td><td>20,778</td></tr>
<tr><td>Least Developed Countries Fund</td><td>Adaptation</td><td>Yes</td><td>GEF</td><td>Least Developed Countries</td><td>Grants</td><td>1,844</td><td>1,751</td></tr>
<tr><td>Special Climate Change Fund</td><td>Adaptation</td><td>Yes</td><td>GEF</td><td>Vulnerable Countries</td><td>Grants</td><td>375</td><td>366</td></tr>
<tr><td>Adaption Fund</td><td>Adaptation</td><td>Yes</td><td>GEF</td><td>Eligible Developing Countries</td><td>8 European countries led by Germany, EU, and Certified Emission Reductions sale proceeds</td><td>56 entities, including National, Regional and Multilateral Entities</td><td>Grants</td><td>1,588</td><td>1,180</td></tr>
</table>

Source: Fund Reports, IEEFA Analysis;

[1] Funding received and processed as of the last reporting done by trustee; Funding received also includes income earned on funds

Challenges in Accessing Funds from Multilateral Climate Funds

While there are a multitude of funds focussed on varying climate aspects with a wide geographical scope, their success in unlocking private capital and, more importantly, in increasing their kitty has been limited over the years on account of various factors.

Cumbersome and Lengthy Disbursal Processes

Access to funds on account of the multiplicity of rules, overlapping mandates, lengthy disbursal process, absence of a clearer definition of green energy, lack of capacity for monitoring and reporting of data by AEs, etc., has resulted in limited disbursal of funds to developing countries. The lengthy disbursal process is a problem, particularly for the private sector, which can leverage this capital but needs low turnaround time and faster decisions. For instance, despite having a private sector facility (PSF) by GCF, it can take years from the application to actual disbursal. As of July 2022, only 9 of the 26 private sector AEs had any funding activities.[10] The GCF itself lists a nine-point process for an idea to investment cycle in private sector projects.[11]

Multiple Mandates Inhibiting Scale

The biggest challenge with most of these climate funds is having multiple mandates on mitigation and adaptation. Many developed countries with different preferences for technologies, sectors, and political economy conditions have created different funding requirements. It becomes challenging for a single project to qualify all the requirements. Moreover, the scale of funding is abysmally low compared to the rules and funding modalities required to access the funds.

Inefficient Readiness Programs

Current readiness support programs for both countries and national AEs have fallen short of requirements. Effective readiness programs should focus on building the ability to strategically plan and mobilise finance, access various forms of funding, deliver and execute activities efficiently and monitor/report on financial expenditures and transformative impacts. For instance, less than a quarter of Green Climate Fund's Readiness Program has been allocated to fragile or conflict-affected countries, where the readiness gap is the highest.[12] Similarly, The Adaptation Fund has made efforts to support readiness and has contributed to readiness packages in fragile states but these are not big or long-term enough to overcome the barriers to access on their own.

[10] Heinrich-Böll-Stiftung. GCF, Private Sector Finance in Focus. July 2022
[11] GCF. Private Sector Financing.
[12] IFRC. WHERE IT MATTERS MOST. 2022

Under-Prepared National Entities

While the developing countries' departments and ministries are not well prepared to tackle MCF negotiations and ask, the accredited national entities have also proven inadequate in navigating the various fund access rules and objectives. MCFs are more comfortable with MDBs and their governance process. MCFs are more comfortable with the selection criterion and evaluation of projects by MDBs. Still, in their absence, MCFs have limited confidence in the individual countries' accredited agencies to channel funds. Often, the reporting from these accredited agencies has not been done correctly and has taken several months, leading to less disbursal of funds in the next round. For instance, despite the GCF having made progress by accrediting 62 developing country institutions for direct access, as of 2021, 42 of these had not yet received any project funding.[13]

Lack of Catalytic Interventions to Spur Climate Investments

Grants account for nearly 80% of aggregate commitments made by the climate financial intermediary funds (FIFs). Overall, using non-grant instruments outside of loans—like guarantees or equity—has been limited. While grants are essential for some purposes, they do not necessarily lead to high co-financing ratios, which means mobilising private capital. Further, while there are funds that only provide grants, those could be limited to specific geographies and causes or could have difficult competitive eligibility conditions restricting access. MCFs must channel more catalytic instruments such as credit, risk and currency guarantees.

Additionally, the allocation of funds on an annual basis will not serve the purpose. Multiyear partnerships are required for an investment to de-risk the technology or the sector so that sizeable investments can flow. Also, multiple funds with multiple requirements but similar mandates can be consolidated to make the process easier.

Project-Based Approach with Inadequate Systemic Transformation

Focus on a project-based approach inhibits developing systems, makes monitoring and verification difficult, inhibits in-house capacity building and sectoral capabilities and limits fund flow to technical assistance. Development of a strong project pipeline and funding of projects, which can be scaled up, is also a big gap. Rather than focusing on the number of projects, the focus should be on projects that can provide additionality and open doors for garnering more investment into other projects by other investors, especially private capital.

While most fund transfers have been through MDBs, finance flows channelled through regional and national entities remain low. Including more National Development Banks (NDBs) and other regional and local entities would also require technical assistance and capacity building of these organisations, which is also missing. The money flow for technical assistance has been low, limiting

[13] CFGD. Climate Finance Effectiveness: Six Challenging Trends. December 2022

countries to building in-house capacities to meet the funds requirement, and most of the time, they have to hire external consultants to do the required job, thereby acting as a deterrent.

Multiple Guidance for MCFs

The accumulation of COP guidance over the years poses challenges for the funds in prioritising and implementing guidance and reporting on progress in fulfilling their mandates. Lack of data on the implementation of Paris alignment approaches and on common standards in approaches to prevent greenwashing complicates the evaluation of approaches.

Climate funds need to play a catalytic role, but because of the above reasons, they have not successfully driven private capital.

G20 India’s Work on Enhancing Access of Climate Finance

India’s G20 Presidency and the New Delhi Leaders’ Declaration took serious cognisance of climate and climate finance issues. The Sustainable Finance Working Group (SFWG) during India’s G20 presidency has made recommendations on the following six areas:

1. Mechanisms for Mobilisation of Timely and Adequate Resources for Climate Finance
2. Policy Measures and Financial Instruments for Catalysing the Rapid Development and Deployment of Green and Low-Carbon Technologies
3. Scaling-up the adoption of social impact investment instruments
4. Improving Nature-related Data and Reporting
5. G20 Technical Assistance Action Plan
6. Overcoming data-related barriers to climate investments

India during its G20 Presidency pursued massive work on strengthening Multilateral Development Banks (MDBs) to push global investments for delivering on national priorities and providing expedited response to global challenges. To this the G20 Presidency recommended that there is a need to triple annual sustainable lending levels to US$390 billion per year by 2030 and adopt a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods.[14] India’s Presidency also focused on enhanced inclusion and collaboration by MDBs. For this, the Presidency recommended MDBs to move away from project approach to programmatic approach with national governments taking a strong lead. G20 also recommended MDBs assist countries in developing and operating country platforms to foster collaboration between

[14] G20 SFWG. The Triple Agenda: A Roadmap for Better, Bolder and Bigger MDBs. 27 September 2023

development partners for financing of key Sustainable Development Goal (SDG) issues. The G20 India Presidency also focussed on increasing the role of private sector. It called for enhancing the role of MDB's private financing arms to allow crowding-in of private investments for transformational change.

In addition, the G20 Presidency also called for tripling of concessional financing with more efficient disbursement of the same. A key recommendation to this effect was that "Channelling aid money through multilateral core activities rather than small-sized, fragmented bilateral aid programs is one of the easiest ways of improving aid effectiveness and value for money with no additional financial cost to donors." It also called for cross-border subsidy to be channelled through multilateral entities outside the MDBs, such as the Green Climate Fund or the Global Environmental Facility. These are to be deployed alongside proposed MDB supported country platforms for improved effectiveness.

G20 Recommendations for Multilateral Climate Funds

As per the G20 SFWG Group Deliverables, 2023[15], G20 India also made some key recommendations to enhance the role of multilateral climate funds and make their funding more accessible.

One key recommendation is on enhancing the impact of concessional financing of climate funds for roping in private investments. For this, the Presidency recommended the use of blended finance which involves strategic use of public or concessional finance to mobilise additional private financing by rebalancing risk-reward structures and increasing flexibility in raising resources.

Secondly, it recommends setting up public-private climate technology incubators and accelerators by public development banks and MCFs to address various technology risks. This should be transparently reported including ways to address the risk in bringing them to market so they can be easily replicated and scaled up.

Enhancing Access to MCFs– Role for G20 & Key Recommendations

There is an urgent need to simplify the multilateral climate finance system to ensure increased finance and access, lower risk perception and make monitoring effective. It is time for the impact of multilateral climate funds (MCFs) to increase exponentially. Key areas for action include the following:

1. Unlocking Scale by Mobilising Private Capital
2. Increasing Coherence and Collaboration
3. Enhancing Stakeholder Capacity
4. Increasing Operational Efficiency
5. Increasing Investments in Adaptation Projects

[15] G20 SFWG. Group Deliverables, 2023.

1. Unlocking Scale by Mobilising Private Capital

MCFs play a fundamental role in unlocking a large amount of climate funding from private sources. By de-risking projects through initial public support, MCFs are able to catalyse greater participation from private investors who may otherwise be hesitant to finance high-risk climate initiatives.

The Green Climate Fund (GCF), for instance, called for requests for proposals worth US$500 million for ideas to unlock private sector finance in developing countries.[16] Thirty best ideas were shortlisted for further development and the Request for Proposals was oversubscribed 36 times, with bids totalling more than USD 43 billion. The RFP provided early-stage equity, concessional lending, grants and guarantees, creating positive demonstration effects, and aimed at removing markets barriers to allow a flow of private financing.

Similarly, GEF's blended finance window helped catalyse private capital. GEF's blended finance window achieved co-financing ratio of 1:36 under GEF's eight funding cycle (2022-2026), higher than 1:21 for GEF's seventh funding cycle (2018-2022). The use of non-grant instruments has helped create the adequate risk-return profile for the private sector to co-invest with the GEF and other implementing agencies.[17]

Such catalytic support for climate projects has the potential to provide significant leverage on MCFs limited capital base.

Role for G20 and Key Recommendations

Develop Blended Finance Mechanisms: During India's G20 presidency, one key recommendation for MCFs was on enhancing the impact of concessional financing of climate funds for roping in private investments. For this, the Presidency recommended the use of blended finance which involves strategic use of public or concessional finance to mobilise additional private financing by rebalancing risk-reward structures and increasing flexibility in raising resources. Additionally, New Delhi Summit commitment included a pledge to facilitate low-cost financing for developing countries to transition to a low-carbon and low-emission future. G20 Brazil should build on this work firstly to capitalise MCFs through more low-cost capital, and secondly to seek how MCFs specifically can develop more blended finance interventions to catalyse private capital for climate solutions.

Support domestic institutions and country platforms: The work achieved for Multilateral Development Banks (MDBs) during the G20 India Presidency can be emulated for MCFs, such as enhancing stakeholder support. Report of the independent expert group of the G20 on strengthening multilateral development banks noted that MDBs must learn to adapt to country platforms and change their mindset for working together with national development banks and

[16] GCF. Mobilising Funds at Scale.
[17] GEF. The GEF and Climate Change - Catalyzing Climate Transformation.

financial institutions.[18] They need to take a supportive role, not a leadership role. This means focusing on high-stake urgent issues where governments have their own money and high-level commitment on the table. The G20 should capitalise on these recommendations and tailor them for adoption by the MCFs.

Develop results linked financing frameworks: G20 can also encourage MCFs to evaluate the increased use of result-based financing, especially on the lines of GCF's result-based financing pilot programme in 2017, which had a swift response from developing countries. The entire US$500 million envelope was exhausted in three years, with eight countries securing all the funding.[19] This has prompted GCF to plan for a possible second phase of the programme. Use of results based instruments help provide tangible results in the short and medium terms and incentivise development of transparent monitoring and evaluation practices among funded entities.

Create a credit guarantee platform: To boost clean energy uptake in developing countries hampered by high debt costs, the G20 should create a credit guarantee platform. Access to affordable private debt financing is a critical barrier, as nominal financing costs can be up to seven times higher on average than in developed nations.[20]A proposed solution is a Credit Guarantee Fund for the Global South, housed within existing climate funds or development banks. It would provide guarantees to reduce the perceived risks of climate projects, making them more attractive to private lenders. Rather than separate programmes across institutions, a coordinated credit risk mitigation platform financed by OECD members could consolidate efforts. This would streamline options for recipient countries and multiply investments by de-risking projects through upfront risk capital. In turn, this centralised facility could accelerate the global energy transition and its equitable distribution worldwide through greater private sector involvement.

2. Increasing Coherence and Complementarity

MCFs have worked together to enhance coherence and complementarity through information sharing and knowledge partnerships. The funds established the Annual Dialogue of Climate Finance Delivery Channels in 2017 to guide their collaborative efforts. The four key funds AF, GEF and CIF – released a joint statement at COP26 to increase complementarity and collaboration.[21] They committed to increasing synergies in programming, formalising a joint knowledge-sharing partnership to better leverage lessons from across the funds, harmonising approaches and building on existing outreach efforts. This was reiterated at COP28 with a commitment to develop an ambitious and concrete action plan to enhance access to climate finance.[22] The action plan will be endorsed in COP29.

[18] G20 SFWG. The Triple Agenda: A Roadmap for Better, Bolder and Bigger MDBs. 27 September 2023
[19] GCF. GCF results-based payments: Stepping stone to unlock private finance at scale. 1 June 2022
[20] IEA. Financing Clean Energy Transitions in Emerging and Developing Economies. 2021
[21] Adaptation Fund. A Joint Statement by the Secretariats of the AF, GCF, GEF and CIFs on Enhanced Complementarity and Collaboration. 3 November 2021
[22] GCF. Enhancing access and increasing impact: the role of the multilateral climate funds. 4 December 2023

According to the GCF, “complementarity refers to synergies among the various climate funds’ activities in similar sectors and themes (adaptation or mitigation), and even across regions of similar characteristics, with the aim of scaling up transformative actions. While coherence is about using country programmes to seek alignment with Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs).” The funds plan to have complementarity and coherence at the institutional and operational levels.

In 2017, the funds developed an operational framework to increase complementarity and coherence, which had four operational pillars for collaboration at the board, activity, programming, and climate finance delivery levels.[23]

In one of its studies, CIF recommends exploring the possibility of blending and combining different types of financing from different climate funds to enhance complementarity.[24] For instance, in Kazakhstan, CIF has worked with the European Bank for Reconstruction and Development (EBRD) and GCF to accelerate energy transformation to renewable energy through the Kazakhstan Renewable Energy Finance Facility (KAZREFF). Similarly, GEF’s grant complemented the World Bank’s Clean Technology Fund (CTF) concessional credit line of US$625 to the State Bank of India for grid-connected rooftop solar loans.

Role for G20 and Key Recommendations

Common Source Blended Finance Data: The diversity of sources and instruments leads to fragmentation and duplication of efforts. G20 can guide the funds to increase collaboration by preparing common sources of blended finance data at the transactional level, developing common frameworks and sharing best practices.

Single Window for Concessional Products: G20 could guide the funds to enhance coherence along the lines of the World Bank’s recent work of creating coherence within its group institutions, which can be replicated by the United Nations Framework Convention on Climate Change (UNFCCC) funds or across climate funds.[25] Notably, the World Bank has condensed all its guarantee products (covering several kinds of risks) under one window, making access much easier and streamlining the whole process of application. The MCFs can also collaborate with MDBs to create country platforms for climate financing by keeping various factors such as institutional design and country systems in mind. This will allow more investors to finance climate related mitigation and adaptation projects in different countries.

Joint Project Review Committee: MCFs can look at establishing a collaborative platform or joint project review committee with representatives from major climate funds, multilateral development banks (MDBs), and relevant stakeholders to review project proposals collectively. This committee would assess the alignment of proposed projects with overarching climate goals, national priorities, and fund-specific objectives. By harmonizing project evaluation criteria and sharing insights from diverse perspectives, the committee can enhance coherence in

23 GCF. Operational Framework for Complementarity and Coherence.
24 CIF. Synergies Between Climate Finance Mechanisms. April 2020
25 World Bank. World Bank Group Prepares Major Overhaul to Guarantee Business.. 28 February 2024

project selection and optimize resource allocation across different funds. G20 can facilitate the creation of the broad contours of the committee.

Utilising MDB Data: G20 guidance for MCFs should also include the utilisation of appropriate data to price in risk while design instruments. MCFs should plan to utilise the private sector default data the World Bank plans to make public. The data will help MCFs create more tailored risk mitigations instruments as part of the blended finance mechanisms. The World Banks recently announced that it will publish private sector default data broken down by credit rating, as well as sovereign default and recovery rate statistics dating back to 1985.[26] Additionally, the MCFs should also release default data from their own operations to instil private sector confidence.

3. Operational Efficiency

To increase scale and access, it is pertinent that the MCFs eliminate operational inefficiencies and use replicable and scalable tools across funds to increase efficiency and effectiveness. Low accreditation rates and slow disbursements due to lengthy and complex processes have been widely recognised as hurdles to accessing funds. Even after accreditation, developing proposals deemed funder-ready takes a long time. It runs the risk of irrelevance as climate change scenarios are dynamic and rapidly evolving.

G20 should support the scaling up of finance via climate funds by emphasising regulatory consistency in accessing climate finance. Additionally, emphasis should be on building on the commonalities with MDB finance as most countries have experience receiving that financing for better reach of readiness programmes.

Role for G20 and Key Recommendations

Shifting to a Programmatic Approach: Climate funds should look at a more programmatic approach in most scenarios instead of a project-based one for operational efficiency. Climate funds help remove domestic barriers to financing for sectoral development as a spill-over effect of the projects undertaken. However, taking a programmatic approach of offering policy advisory and capacity building with project-based financial aid could help address regulatory, financial, and technical barriers and lead to development, unlocking other areas of finance and, in turn, have a much larger impact. Additionally, shifting to a programmatic approach instead of a project-based approach will help build long-term capacity for implementation, monitoring and evaluation.

Multiyear Funding: There is a need for a multiyear allocation of funding to avoid yearly work by a national government and specific ministries to compete for funding. If not used by countries, the focus must shift from “clawback” of funds to help in project readiness and preparation. Readiness programmes offered by MCFs should be a central piece of the multi-year

[26] Business Standard. World Bank to share more data to attract investors to developing countries. March 2024

programmatic approach. The programmes are pivotal in enhancing access to climate finance for developing countries. They help build and strengthen the capacity of national and regional implementing entities to receive and manage climate financing. All funds have been providing readiness programme support to accredited entities across regions.

Climate Funds to Leverage Capabilities of GIF: Initiate the work on recommendations in the G20 India Presidency to expand the Global Infrastructure Facility (GIF; project preparation facility). The GIF funding should be increased to collaborate better with the climate funds. The climate funds should actively leverage the capabilities of GIF, which can significantly reduce the time from due diligence or deal origination to final investment decision (FID).

4. Enhancing Stakeholder Capacity

Limited resources with national AEs, such as national development banks, compared to big institutions like MDBs and UN agencies, has led to a large part of MCF financing channelled through the latter, even as the number of national and regional AEs has significantly increased. Enhancing stakeholder and country capacity to receive climate financing and scale it by replication are the key differentiators for international climate financing. Climate funds are making efforts in this regard, but more needs to be done.

Notably, AF and GCF have established the Community of Practice for Direct Access Entities (CPDAE) for accredited NIEs of the AF, which pioneered Direct Access and the accredited DAEs of the GCF. CPDAE enables knowledge exchange and experience sharing within NIEs and DAEs to increase entities' effectiveness in accessing resources and implementing adaptation and mitigation projects and programmes through direct access.[27]

Capacity-building efforts must focus on improving domestic entities' capacity and capabilities to initiate climate action. Creating better communication channels and mechanisms to incentivise AEs to take a more responsible role in originating climate projects and pushing climate funds accordingly is necessary. For instance, a revision in GCF's Readiness and Preparatory Support Programme (RPSP) strategy has been recommended to allow the AEs to build stronger pipelines and identify country-specific readiness needs, among other improvements.

Further, local-level institutions and local entities, such as urban local bodies, need to be involved in understanding the most appropriate use case for funds.

Role for G20 and Key Recommendations

Strengthening Role of AEs: The G20 could support international intermediaries to strengthen the role of national entities, such as mandatory mentoring of national and sub-national institutions for projects or programmes funded through climate funds and making climate finance strategies available in the public domain.[28] This could include aligning AEs with MDBs to

[27] AF. Community of Practice for Direct Access Entities.
[28] IIED. Access to Climate Fund. 23 February 2021

enhance their capacity and capabilities. This also requires MCFs to identify more than one AE to allow for enhanced capacity of a country to access funds. AEs should be accredited based on their unique mandates.

Developing Training Modules: The G20 can encourage funds to invest in monitoring and evaluation (M&E) training packages and modules to advance reporting on climate projects across different sectors, which is streamlined across funds and replicable.

5. Increasing Investments in Adaptation

The adaptation needs have been underestimated, and funding has also been limited due to the higher perceived risk and lower return. However, the need for adaptation financing is ever-increasing. Climate funds can find the balance in adaptation and mitigation funding by assessing the trade-offs and synergies in relation to climate change adaptation and mitigation.[29] Trade-offs require prioritisation between adaptation and mitigation, while synergies happen when both can interact with each other more effectively. Climate funds can provide an enabling environment for integrated climate action.

New and innovative approaches are needed to increase the disbursement of adaptation finance. Although innovative financing tools are in their infancy, they are increasingly becoming available and adopted by investors and development banks. These include disaster risk and catalytic and outcome-based instruments that climate funds must adopt. Additionally, the market needs to be developed to bring existing technologies and solutions for adaptation to new sectors, geographies, and users, particularly in developing countries. Financing and technical support to entities providing such solutions is imperative to create a wider market globally.

Climate funds are already supporting NAPs and that is a good starting point. The process should be streamlined to increase focus on climate change adaptation, identifying financing needs and capacity building needs. The funds can use that as the basis for identifying projects, programmes and areas of funding.

Role for G20 and Key Recommendations

Implementing Integrated Projects: The G20 can guide climate funds to identify and implement integrated adaptation and mitigation projects that would send out the right market signals for more such projects and eventually create an enabling environment. A key hindrance to adaptation finance is information asymmetry and the inability of many countries to collect data to prove climate vulnerability. The G20 can play an important role in resolving information asymmetry for adaptation finance by enabling data availability with interoperable metric frameworks to integrate the value of adaptation outcomes in assessment and returns.

[29] IISD. Addressing Climate Change Through Integrated Responses: Linking adaptation and mitigation. March 2022

Capacity Building Support for Adaptation Projects: The G20, via the vertical climate funds, can look at specific capacity building support for understanding adaptation projects and develop capacity building resources for adaptation similar to those for mitigation.[30]

Create Specific Funds to Commercialise Existing Solutions: To foster the development of adaptation solutions within the market and make adaptation financially feasible for private investment, it will be imperative to establish specific funds to commercialise existing solutions. The G20 should guide the funds to establish such funds. Climate funds can anchor such funds through catalytic capital, while the management and establishment of these funds can be by private equity firms with a track record in investing in growth-stage technology companies specialising in climate solutions. One example is the Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT), a private equity fund dedicated to climate resilience and adaptation. CRAFT invests in growth-stage technology companies addressing adaptation challenges and has secured a commitment of US$100 million from the GCF.

This fund employs a conventional growth equity investment fund model coupled with technical assistance to facilitate deploying climate resilience services and technologies in developing countries. Such fund structures serve multiple purposes. They help commercialise adaptation solutions, facilitate the transfer of technology and expertise from developed to developing countries, establish demonstration projects to cultivate local ecosystems and instil confidence in local financial institutions to finance adaptation projects.

[30] UNFCCC. Capacity Building Resources for Mitigation.

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