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POLICY BRIEF

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Access to climate finance for the most vulnerable

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1. Introduction

1.1 Background

Since the adoption of the Copenhagen Accord in 2009, international negotiations on climate finance under the United Nations Framework Convention on Climate Change (UNFCCC) have focused primarily on quantitative elements, in particular the amount of financial resources provided over a certain amount of time or the resources allocated to certain thematic areas. While some qualitative elements, such as predictability, sustainability, additionality, adequacy and accessibility of climate finance, have played a role in debates, overall they have not received the same level of attention.

The issue of accessibility of climate finance has increasingly entered the spotlight in recent years. While developed countries have continuously reported on their provision of financial, technical and capacity building support (e.g. in various iterations of Biennial Reports),

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developing countries have increasingly stated that resources have not reached their countries as indicated. Even though more and more multilateral and bilateral delivery channels and initiatives for climate finance support have been created, many countries, in particular the most vulnerable countries, namely Least Developed Countries (LDCs) and Small Island Developing States (SIDS), feel excluded from the big streams of resources that are urgently needed to address the impacts of the climate crisis.

This policy brief aims to provide an in-depth analysis on the issue of accessibility of climate finance. The brief relies on publicly available literature and data, as well as input received from stakeholders during a dedicated thematic roundtable[1] in which negotiators and representatives from National Designated Authorities (NDAs), implementing entities, NGOs and academia from LDCs and SIDS shared their experiences and perspectives.

The policy brief is structured as follows: First, we attempt to develop a proper definition of "access" and the various national, sub-national, regional and local recipients and stakeholders that are involved in funding application processes. Second, we explore the assertion that resources are not reaching countries and that access is limited. We do this by examining actual amounts, and the geographical and thematic distribution of climate finance. Third, while taking into account the steps already undertaken by the UNFCCC and the international community to tackle some of the issues brought forward, we outline some of the existing gaps and challenges that become apparent when analyzing the numbers and hearing from some of the affected countries. Last but not least, we formulate recommendations on how the accessibility of climate finance can be systematically increased at the national level and more prominently promoted in international debates on climate finance.

1.2 "Access to climate finance" in UNFCCC processes and initiatives

"Access" in the UNFCCC and Paris Agreement

The issue of accessibility to climate finance is enshrined in key documents underpinning the international climate policy process, namely the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. The preamble of the UNFCCC, adopted in 1992 following the Earth Summit in Rio de Janeiro, states that "all countries, especially developing countries, need access to resources required to achieve sustainable social and economic development." The Paris Agreement goes further in concretizing this, stating that institutions serving the Paris Agreement and UNFCCC "shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States."[2] The Paris Agreement further specifies that capacity building should enhance the ability of developing countries, "in particular countries with the least capacity, such as the least developed countries, and those that are particularly vulnerable to the adverse effects of climate change, such as small island developing States" to take climate action and facilitate "access to climate finance."[3]

"Access" in the Long-term finance (LTF) process of the UNFCCC

Under the UNFCCC negotiation process on long-term climate finance, Parties have also addressed the issue of access to climate finance. In 2013, the 19th Conference of the Parties to the UNFCCC (COP19) in Warsaw decided to continue deliberations on long-term finance for the period 2014-2020, building on the "Work Programme on Long-Term Climate Finance" launched two years earlier.[4] One of the three elements of these deliberations included annual in-session workshops on climate finance. In 2018, COP24 in Katowice decided to continue with these in-session workshops after 2020 under the workstream of Article 9.5 of the Paris Agreement, moving to a biennial workshop rhythm starting in 2021.[5]

From 2017 to 2019, the in-session workshops featured a segment on "Facilitating enhanced access to climate finance." Various aspects of the challenges faced by developing

1 The roundtable was organized on 16 September 2021 by the Climate Finance Advisory Service, with 12 participants from a wide variety of stakeholders including negotiators, National Designated Authorities (NDAs), implementing entities, academia and CSOs.
2 See Paris Agreement Article 9.9.
3 Ibid. Article 11.1.
4 Decision 3/CP.19 para 12.
5 Decision 12/CMA.1 para 8.

countries in accessing financial resources, as well as ways to address these, were discussed. Some of the issues that were stressed were:

- Accreditation processes to multilateral channels of climate finance remain complicated, time-consuming and unharmonized, and access policies often do not reflect the realities faced by developing countries in preparing funding proposals.[6]

- There is difficulty in differentiating adaptation from development, and lack of clarity about what constitutes incremental costs of adaptation, which poses a challenge to developing countries, particularly those with limited technical capacity, in preparing project proposals that can be approved for funding by multilateral climate funds, such as the Green Climate Fund (GCF).[7]

- There is a lack of communication among relevant stakeholders in recipient countries, which needs to be overcome if these countries are to successfully translate their needs into action and improve their access to finance. There was an urgent need identified for a 'whole-of-government' approach – reaching horizontally across sectors and institutions, and vertically from local to national – to enhance coordination across all relevant actors and build the necessary buy-in for climate finance-related policies and measures.[8]

- There is a need for enhanced engagement with local communities in preparing and implementing climate projects, especially for adaptation, to reflect their needs and priorities, and ensure the effectiveness of projects and that climate finance is directed where it is most needed. While national governing systems and country ownership are important, local communities, including indigenous peoples and women's groups, require better access to international climate finance.[9]

- Capacity-building and readiness support for accessing climate finance should be more specifically designed to address the needs of the recipient countries and be provided across the entire project cycle.[10]

COP26 Catalyst for Climate Action (C4CA) and Task Force on Access to Climate Finance

In preparation for COP26, and following a set of consultations conducted in early 2021, including during a "Climate and Development Ministerial" in March, the incoming COP presidency from the United Kingdom has launched the "COP 26 Catalyst for Climate Action" (C4CA) initiative. The aim of C4CA is to provide a framework to convene programmes, projects and expertise on capacity building across five thematic areas:

- Mitigation Action
- Adaptation Action
- Access to Finance
- Transparency
- Carbon Markets

The thematic area "Access to Finance" aims to unpack the overarching capacity building issue and to understand in detail the issues that climate finance recipients, especially vulnerable and least developed countries, are facing and the practical challenges and support they need to access finance. Complementing the work of the C4CA workstream on access to finance is the "Taskforce on Access to Climate Finance" (hereafter the Taskforce) which resulted from the Climate and Development Ministerial in March. The Taskforce, led by a 12-member Steering Committee,[11] aims to address the need to improve current arrangements for access to climate finance by developing "a new, programmatic approach" to climate financing "based on partners' own national climate action plans and priorities, supported by coherent, programmatic finance from multilateral and bilateral partners."[12] According to the concept note, the Taskforce intends to achieve the following key deliverables in its first phase, up to COP26:

1. A practical new approach to public climate finance, in which finance is

a. Aligned behind the national climate plans of countries, with those plans fully integrated into national planning and budgeting processes, factoring in the impacts of climate change and alignment to Paris goals, and linked to regional and local delivery – ensuring that the deployment of climate finance is country-led and owned.

6 See UNFCCC (2019).
7 Ibid.
8 See UNFCCC (2017).
9 See UNFCCC (2019).
10 See UNFCCC (2018).
11 Steering Committee Members include Belize, Bhutan, Fiji (Co-Chair), Germany, Malawi, Rwanda, Senegal, Sweden, UK (Co-Chair), USA, as well as the Green Climate Fund and World Bank Group.
12 See UK Government (2021).

b. Coordinated more effectively between the various sources of public finance for climate action (bilateral, multilateral, domestic) and existing climate finance initiatives, as well as key recipient stakeholders such as national and local governments, delivery and implementing partners and civil society.

c. Programmatic in nature, with climate finance focused on longer-term, coherent, country-led programmes rather than piecemeal, project-based support.

2. A set of Principles and Recommendations on Access to Climate Finance that will

a. Underpin and guide the new approach to climate finance and provide the basis for country partners and finance providers to trial the new approach in five initial pioneer countries.

b. Set out recommendations to partner countries on the sorts of integrated, investable planning processes that are needed to deliver effective access to climate finance linked to broader national planning.

c. Set out recommendations to funding providers (including the dedicated climate funds, bilateral and multilateral donors) on wider institutional reforms to the current climate finance system.

3. Agreement by five pioneer countries to trial the new approach in cooperation with providers of climate finance.

4. Input into related access discussions in other forums.[13]
The work of the Taskforce will extend beyond COP26. It will build on the lessons learned with the five pioneer countries to iterate the Principles and Recommendations and new approach, and then extend this approach to a wider set of countries, while continuing to engage partner institutions and initiatives, to deliver system-wide change.[14]

13 Ibid.
14 Ibid.

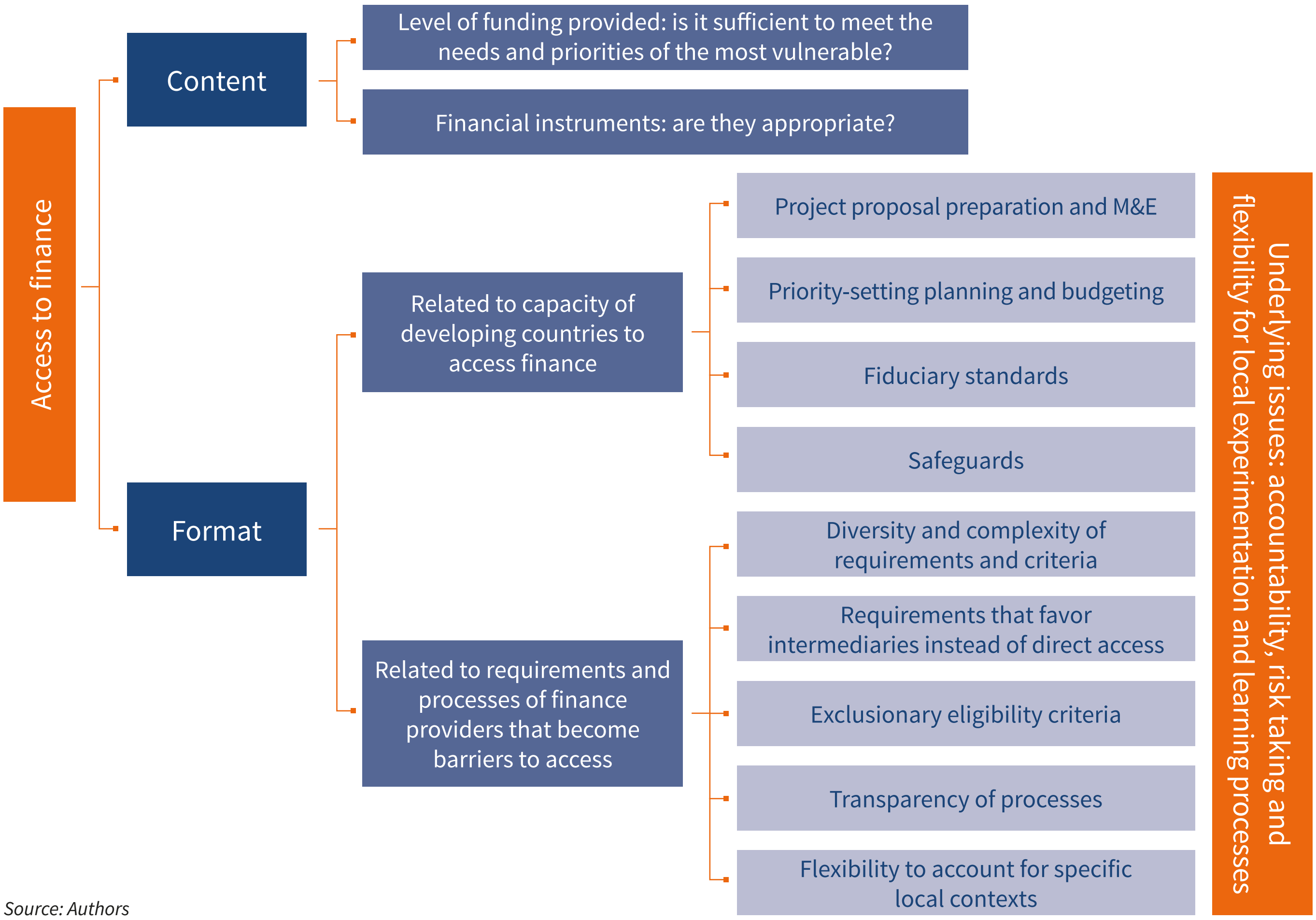
2. Access to climate finance for Least Developed Countries and Small Island Developing States

2.1 Defining "access"

Discussions about access to climate finance have focused on a number of issues, including the ability of developing countries, especially the most vulnerable countries, including LDCs and SIDS, to access different sources of finance, the level of access, and access to finance for adaptation (and not just mitigation). Discussions have also focused on whether or not, and to what extent, climate finance reaches its intended beneficiaries directly and how much decision-making power local actors have over the use of these resources. To structure the discussion about access to climate finance, participants of the thematic roundtable organized for this policy brief suggested distinguishing between format and content. Format refers to issues in accessing finance due to specific capacity needed, or issues related to access mechanisms, bureaucracy, the amount of effort required, or different levels of access windows. Content refers to the question of whether provided funds are sufficient to address the major needs of recipients and whether the resources are provided as appropriate financial instruments. Format will be dealt with in this section, while content will be dealt with in section 2.2. ***(Figure 1)***

Many of the format-related barriers faced by developing countries are highlighted in discussions about access. Some of these barriers focus on the capacity of developing countries' institutions to comply and meet the requirements and criteria of the different donors and sources of finance. This includes the capacity for priority-setting, planning and budgeting, project and programme proposal preparation and monitoring and evaluation. It also includes the ability of developing countries' entities to comply with the requirements for accreditation to multilateral climate funds, e.g. the GCF or the Adaptation Fund (AF), with respect to fiduciary standards, track record of project management, environmental and social safeguards, gender and other policies.

Figure 1: Elements that define access to finance



Source: Authors

When it comes to format, much of the focus on improving access to finance has been on building capacity of developing country institutions to comply with funders' requirements, especially at the national level. This is the strategy commonly adopted by donor countries, climate funds and other finance providers. Less attention has been given to improving access to climate finance (and capacity building) at the sub-national level, and for non-government and local organizations, as well as the local private sector.

However, there is another perspective on format, which focuses not on the capacity of developing countries to comply with the funding requirements established by donor countries and financial institutions, but on the funding requirements themselves and the processes to obtain funding. From this perspective, such requirements are seen as barriers to access when they are not transparent or flexible enough, or too diverse and complex to navigate the full range of access modalities and mandates, or include eligibility criteria that exclude certain countries from accessing specific sources of finance, usually bilateral ones.

This second perspective considers developing countries' specific contexts, and whether funding requirements are flexible and adapt to these contexts. Within this perspective, barriers to access for the most vulnerable are identified, including:

- Requirements that tend to favor either international and/ or multilateral organizations and their expertise, thus resulting in more funding being channeled through intermediaries instead of giving developing countries direct access.

- Requirements that favor developing countries with specific characteristics, for example a certain size or income level, which makes it easier for them to comply with requirements like levels of co-finance, leveraging of private sector investment, etc.

- A lack of transparency of the processes for allocating funding that can result in additional barriers to access, especially when the full range of criteria are not available or well communicated (e.g. the lack of well-defined adaptation approach for reviewing funding proposals, at the GCF).

- A demand for high standard and long-term climate data in funding proposals, that has been a big issue for LDCs and other countries that are unable to fulfil the climate rationale adequately. These countries lack long-term data and information necessary, yet funds like the GCF demand strong scientific information.

Additionally, these discussions often go beyond the national and government level, to look at how these requirements do not account for the realities of sub-national organizations, the local private sector, civil society and local communities.

Underlying these discussions are two issues: accountability, and the definition and purpose of climate finance. The need for accountability to donor countries can explain the current requirements for accessing climate finance, as well as their diversity. The need for accountability to beneficiaries and affected communities can explain the push for simpler and more equitable access requirements and processes, as well as more devolved decision-making and management of this funding.The tension between these two visions of accountability is illustrated in discussions in multilateral funds that have relatively equal representation of developed and developing countries, like the GCF and the AF. In these funds, decisions related to funding requirements, investment criteria and decision-making processes are often discussed as a compromise between donor requirements and priorities, and the need to prevent these from becoming additional barriers for developing countries' access to finance, as well as the need to allow for more devolved decision-making.

The other discussion, which revolves around the definition and purpose of climate finance, is concerned with the level of risk that should be acceptable in climate projects, as well as the degree to which climate finance is flexible and fosters an enabling environment for local experimentation and learning processes that promotes transformative action and solutions. This is also the basis for a call for more decision-making power and agency to be devolved to developing countries, at the most appropriate level, including the local level, as well as for it to be more gender sensitive and inclusive. It also includes the need for longer-term commitments that can deliver on the necessary outcomes and impacts, as opposed to short-term interventions that focus solely on outputs and results.

2.2 Status quo of access to climate finance in LDCs and SIDS – quantitative analysis

This section provides a quantitative overview of historic climate finance flows from bilateral and multilateral channels, including multilateral development banks (MDBs) and key climate funds to LDCs and SIDS. It also includes an analysis of the thematic and sectoral distribution of the provided resources and describes the applied financial instruments.

LDCs and SIDS constitute a substantial part of the world's population, while generating only a marginal share of economic output. At the same time, LDCs and SIDS face some of the highest rates of vulnerability to climate change, due to insufficient levels of adaptation and susceptibility to climate change-induced extreme weather events and disasters.

As a share of the developing country total, SIDS represent about 1% of the population and generate 1% of GDP. LDCs represent 17% of the population but generate only 3.3% of the respective GDP (see the following Table 1).

Table 1: LDC and SIDS population and GDP as a share of developing country total

	Population 2020	GDP 2019 (in USD)
All developing countries (in billion)	6.4	34,020
LDCs (in billion)	1.1	1,130
LDC share of all developing countries	16.6%	3.3%
SIDS (in billion)	0.06	385
SIDS share of all developing countries	0.95%	1.1%

Source: Authors, based on World Bank (2021); Note: developing countries are represented by Non-Annex 1 Parties to the UNFCCC 1992, LDC represents UN (2021) definition, SIDS list is based on AOSIS (2020) definition, some SIDS are also LDCs

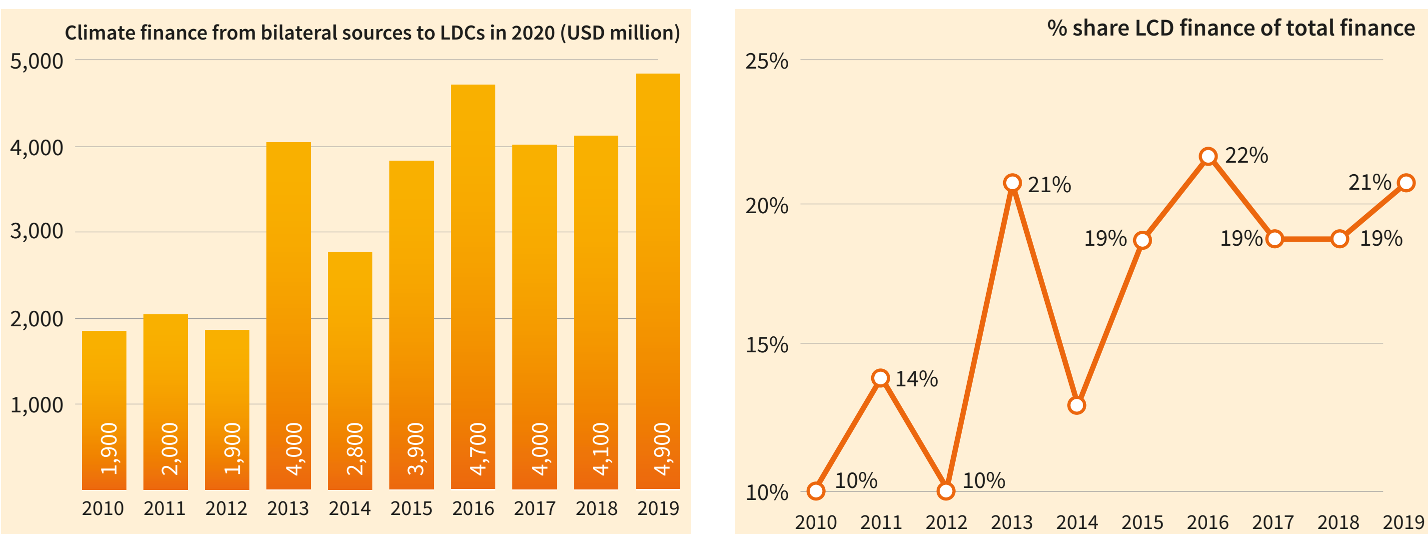
The Climate Risk Index (CRI) 2021[15] lists six LDCs and one SIDS among the ten most affected countries in the year 2019.[16] These countries were mainly impacted by tropical cyclones, hurricanes, floods and landslides. In a twenty-year assessment of the period 2000-2019, the CRI lists four LDCs and two SIDS among the ten most affected countries.[17] It is important to note that not all of the impact can be attributed to anthropogenic climate change effects, insufficient adaptation also plays a key role.

2.2.1 Bilateral contributions

The OECD DAC database provides information about bilateral climate finance contributions from DAC members. The numbers show that LDCs have received between USD 4 and 5 billion annually since the year 2013. Compared to the total reported climate finance, this represents a share of 15-20% over the last seven years. Thus, bilateral climate finance flows to LDCs did not increase but remained on a constant level since 2013. ***(Figure 2)***

With respect to climate finance flows to SIDS, the reported numbers show a similar picture to that of LDCs. Total bilateral flows have fluctuated between USD 300 and 600 million annually since 2010. Compared to the total climate finance provided through bilateral channels, the share of finance flowing to SIDS has decreased from about 3% in 2013 to about 1.5% in 2019. ***(Figure 3)***

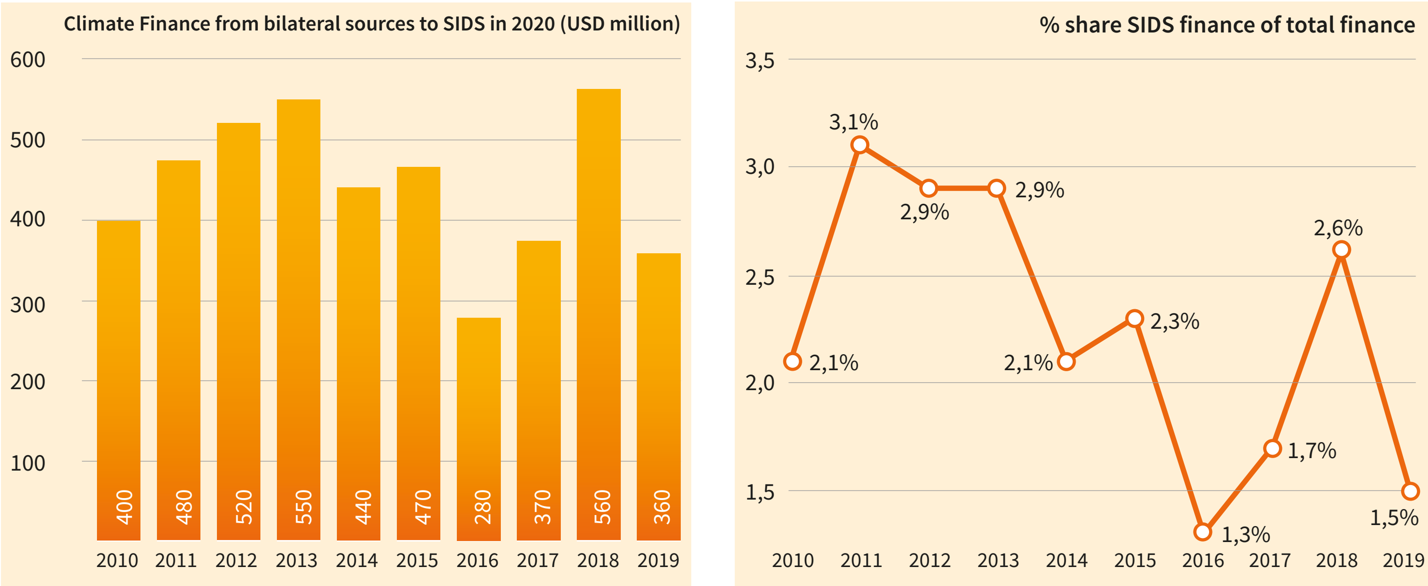
Figure 2:



Source: Authors, based on OECD DAC 2021, principal climate finance weighting = 100%, significant climate finance weighting = 50%

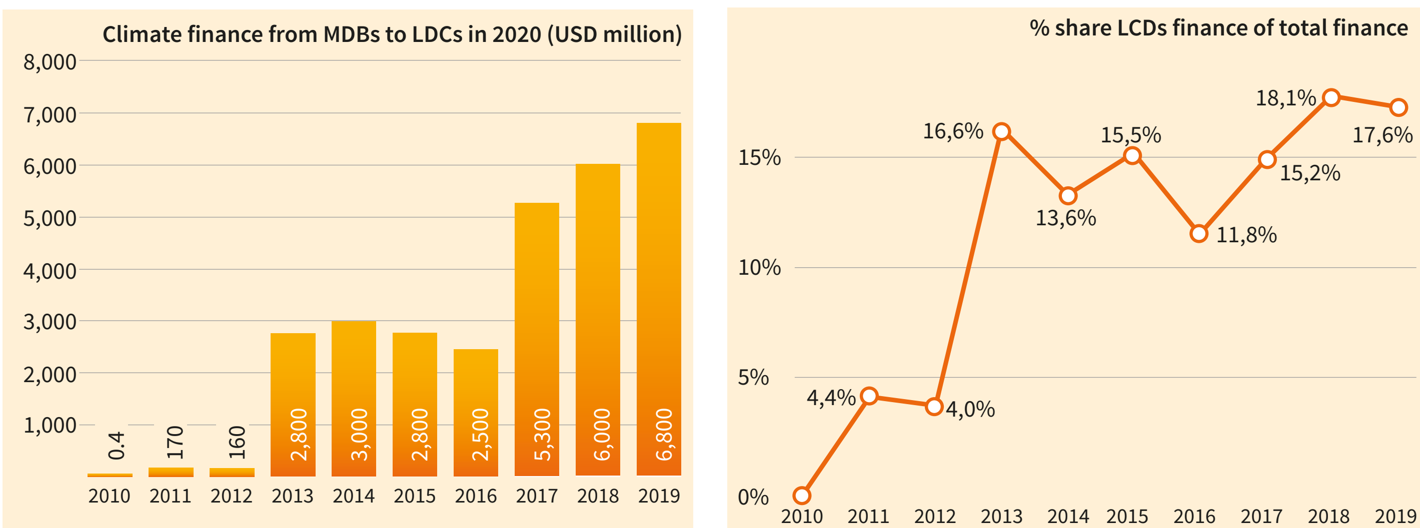
15 See Germanwatch (2021).
16 Mozambique, Zimbabwe, the Bahamas, Malawi, Afghanistan, South Sudan and Niger.
17 Myanmar, Haiti, Mozambique, the Bahamas, Bangladesh and Nepal.

Figure 3:



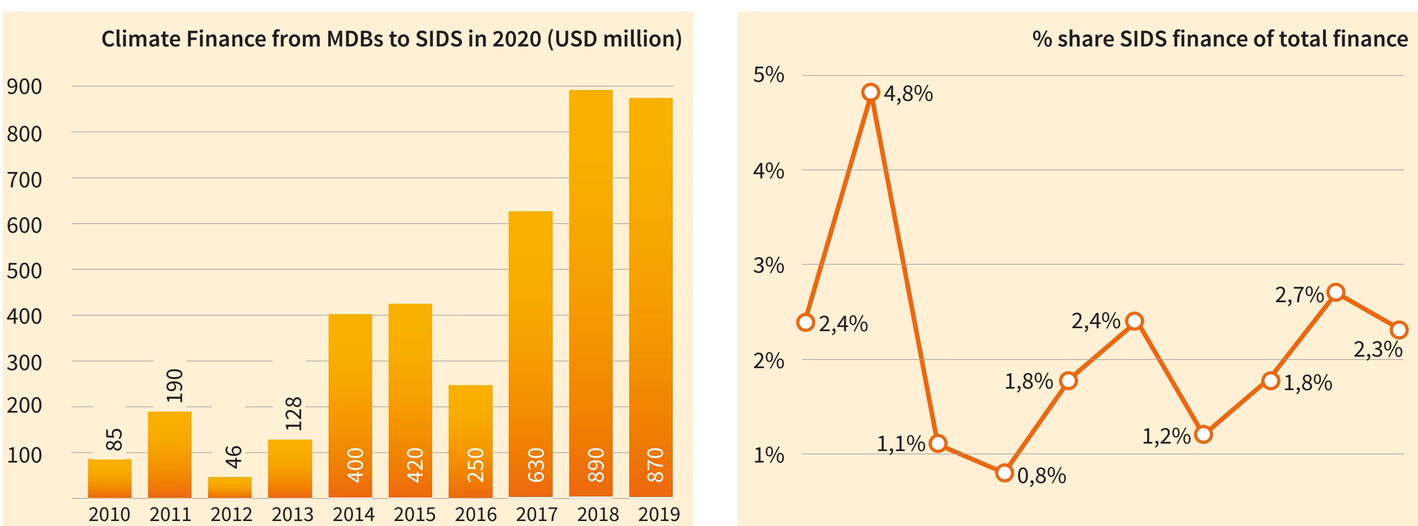
Source: Authors, based on OECD DAC 2021, principal climate finance weighting = 100%, significant climate finance weighting = 50%; Note: some SIDS are also LDCs

Figure 4:



Source: Authors, based on OECD DAC 2021

Figure 5:



Source: Authors, based on OECD DAC 2021; Note: some SIDS are also LDCs

2.2.2 Contributions by MDBs

Donor reporting on climate finance flows from MDBs shows a similar picture to that of bilateral contributions ***(see Figure 3)***. The volume provided to LDCs substantially increased between 2016 and 2017. Since then it has slowly increased to almost USD 7 billion in 2019. The relative share compared to the total MDB provisions has fluctuated between 12% and 18% since 2013. ***(Figure 4)***

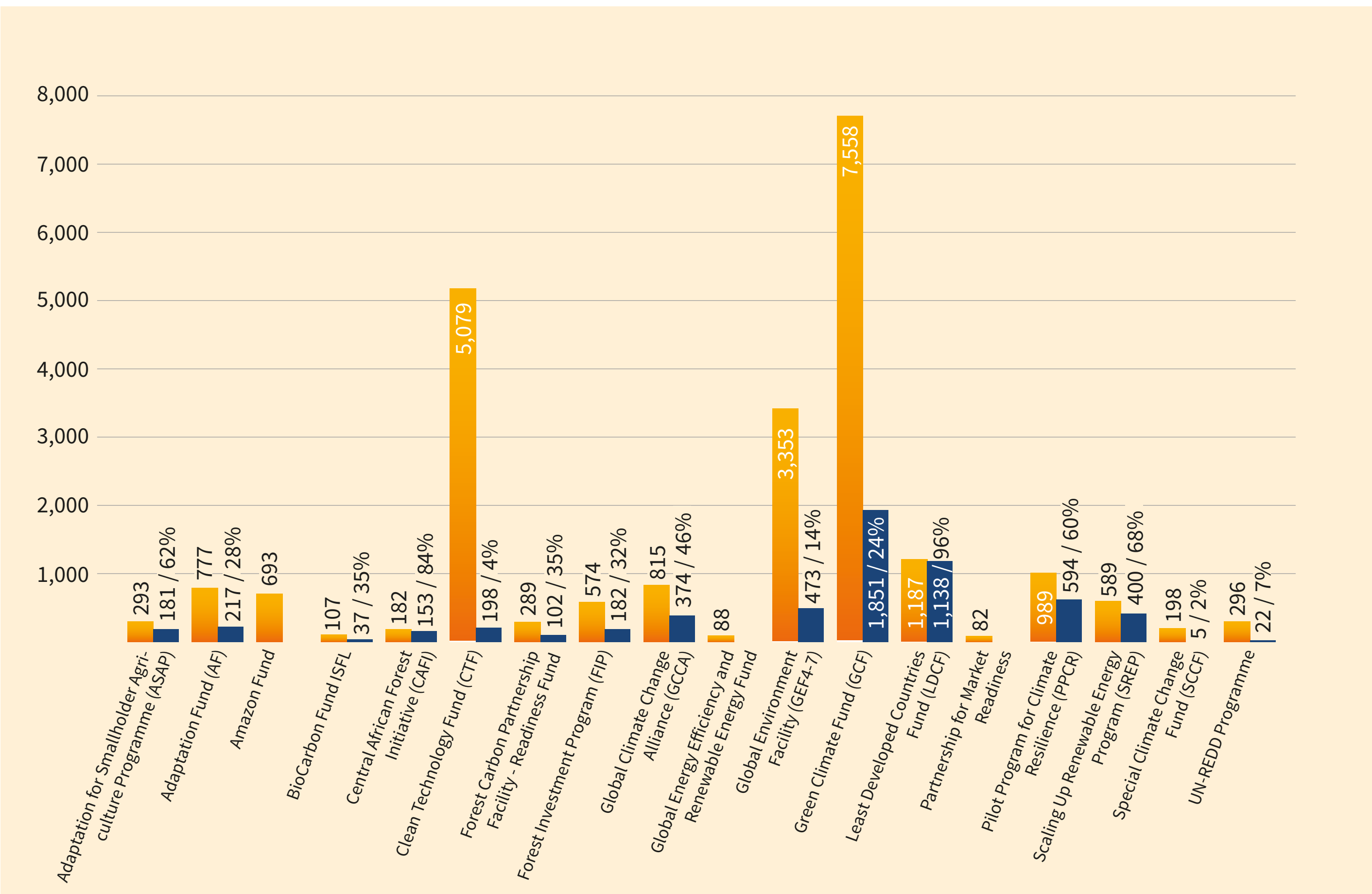
Analysis of reported MDB climate finance provisions to SIDS shows a strong increase in the total volume from 2016 to 2018 ***(see Figure 4)***. The share of total climate finance mobilized by MDBs has fluctuated on a low level of 1-2.5% during the last six years.

The OECD has compiled information on the focus and instruments of international climate finance flows to SIDS and LDCs from 2016 to 2018 ***(see Figure 8)***. Despite the strong adaptation needs of these country groups, the focus has been on mitigation finance. In terms of instruments, grants represented a minor share for both SIDS (49%) and LDCs (just 33%). The majority of climate finance to LDCs and SIDS consisted of concessional and non-concessional loans.

2.2.3 Contributions by multilateral climate funds

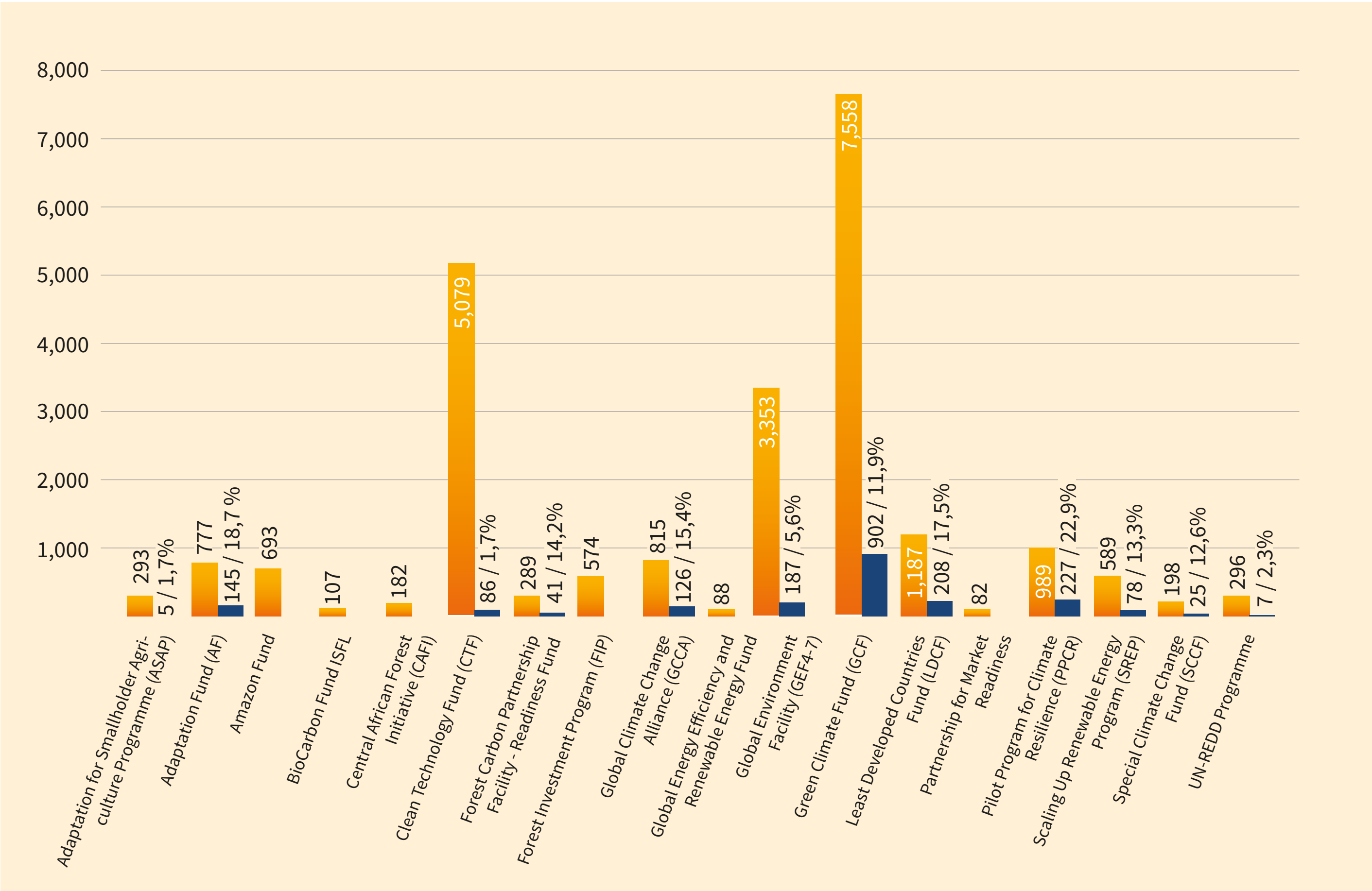
The following section outlines the provisions of multilateral climate funds to LDCs and SIDS. In total, LDCs have accessed about USD 5.9 billion since 2010 while SIDS received an approval of about USD 2 billion over the past 10 years.[18] Compared to bilateral and MDB finance, this represents significantly lower total volumes for LDCs (by a factor of 5 to 10 per year) and SIDS (by a factor of 2 to 4 in recent years).

Figure 6: Amount of approved funding for LDCs compared to total funding approved (2003–2020)



18 Data based on Climate Funds Update (2021).

Figure 7: Amount of approved funding for SIDS compared to total funding approved (2003–2020)



Source: Authors, based on Climate Funds Update 2021; Note: some SIDS are also LDCs

Regarding the share of received resources per climate fund, Figure 6 shows a highly heterogeneous picture. While some funds allocated more than 60% of their resources to projects in LDCs (e.g. ASAP, LDCF, CAFI, PPCR and SREP; see Figure 6 for full spelling of funds), LDCs are rather underrepresented as recipients of other funds (e.g. CTF and SCCF). The funds that provide the largest total volumes of international finance, such as the GCF or the GEF, seem to slightly underperform in allocating resources to LDCs according to the needs identified in section 2.2 above. This needs to be particularly flagged since these funds have specific allocation targets and access modalities for LDCs in place (see section 2.2.4 below).

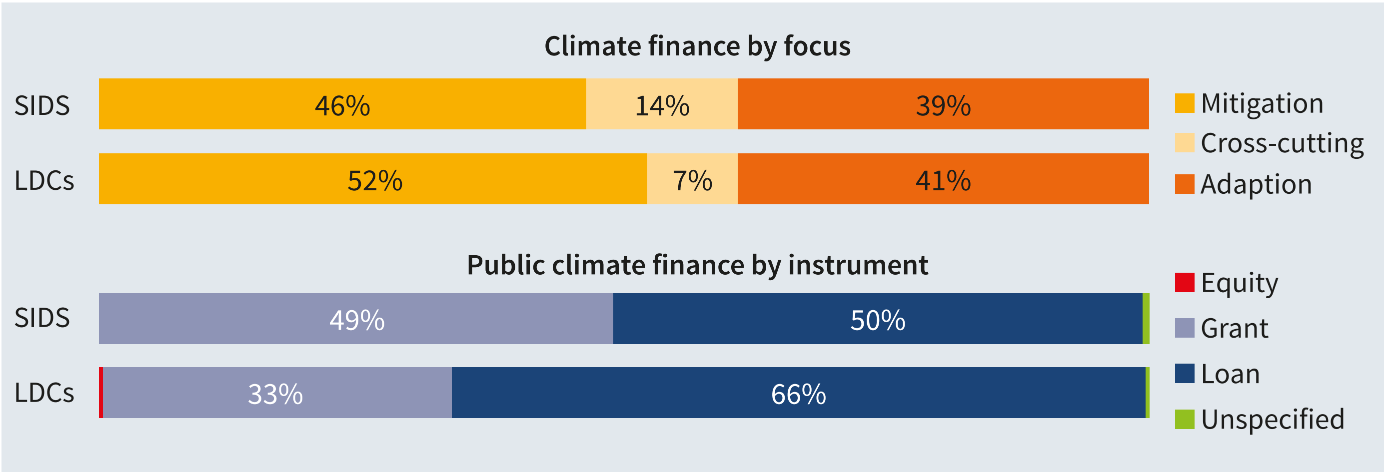
For SIDS, the numbers suggest better access to key multilateral climate funds. With an overall share of 8.8% of all approved funds since 2010, they have realized a higher share of access to financial support than with bilateral or MDB finance. ***(Figure7) (Figure8)***

2.3 Status quo of access to climate finance in LDCs and SIDS – qualitative analysis

This section returns to the issue of format (raised in section 2.1). It provides a qualitative analysis on access to finance, and looks deeper into access mechanisms and access windows, and the ease with which these can be navigated by developing countries, especially LDCs and SIDS.

As noted above, bilateral finance, as well as finance channeled through MDBs, represents a large share of total climate

Figure 8: Bilateral and MDB Climate finance to LDCs and SIDS by focus and instrument split; average of years 2016–2018



Source: OECD (2020), p.30

finance provided to LDCs and SIDS. The largest part of climate finance provided by developed countries to developing countries is channeled through bilateral channels.

Compared to other channels, like multilateral climate funds, the processes to access climate finance through bilateral channels are less transparent and more discretionary. Participants at the roundtable considered these funds to be too discretionary and their distribution often linked to the donor country's national interests and policy goals. Even though the application procedures are not as complex as that of the multilateral climate funds, the process is perceived as favoring the donor's interest and not necessarily addressing the particular vulnerabilities and needs of LDCs and SIDS. Additionally, because these funds are channeled through international agencies, usually from the donor countries, there is very little in terms of devolution of decision-making to the national level.

Findings from the OECD back up this point: the OECD has found that the geographic spread of concessional finance by bilateral providers, which includes climate finance, is mainly influenced by proximity and geopolitical ties, as well as being connected to either emergency responses or one-off interventions, at least in the case of SIDS.[19] It also tends to concentrate on a few countries, leaving many others underserved.

The eligibility criteria to access concessional finance can also limit access of some countries, especially SIDS, to climate finance. Eligibility does not exclude countries per se, but determines the level of concessionality of the finance they receive. Eligibility is mostly linked to the World Bank's income classification based on the gross national income (GNI) threshold, but also varies depending on the institution, with different income thresholds and exceptions applying. This creates a complex system that also changes over time, as countries' levels of income change. Because of this, some SIDS are now not eligible for concessional finance (ODA and IDA). However, as some of these countries have pointed out, accessing climate finance on non-concessional terms can be difficult for some countries due to their limited fiscal space and high levels of debt.[20]

Overall, for both LDCs and SIDS there is concern that as they move up to higher levels of income, their access to climate finance in concessional terms, which is especially relevant for adaptation, will decrease, while their vulnerabilities and needs remain unchanged or even increase. To address this issue, calls have been issued to identify methodologies to better account for the complex and diverse realities of different countries, especially middle-income countries, which might face difficulties accessing sufficient affordable financing to meet their needs.[21]

19 See OECD (2018).
20 See OECD (2018) and K4D (2019).
21 See UN (2015).

In response to some of these issues, the incoming COP26 Presidency's Task Force on Access to Finance included in its objectives the development of approaches to facilitate access to climate finance by reducing the fragmentation of the current model of climate finance provision and shifting the focus from a project-based engagement to a more programmatic response by donors. The Task Force is looking at reducing fragmentation at the country level by, for example, promoting a coordinated offer from bilateral and multilateral partners. However, this does not seem, at least in its proposal, to address issues linked to eligibility criteria or the discretionary nature of bilateral finance. In addition to the Task Force, there are some small initiatives from bilateral sources that are addressing some concerns around transparency and the devolution of decision-making, for example the International Climate Initiative (IKI) Small Grants.

The requirements and procedures to access climate finance from the entities that constitute the financial mechanism of the UNFCCC are different from bilateral and other multilateral channels, but they also present some challenges. These entities have specific mandates to provide climate finance, with a strong focus on providing finance to LDCs and SIDS, especially for adaptation.[22] To this end, they have developed policies, pilots and initiatives to address many challenges faced by developing countries to access finance, including capacity building, simplified procedures and stronger country ownership, and more devolved decision-making at the national and local levels.

Capacity building initiatives include readiness programmes, like those implemented by the AF and the GCF, aimed at strengthening developing countries' institutional capacities, governance mechanisms, and planning and programming frameworks,[23] as well as strengthening national and regional implementing entities to formulate projects, and receive and manage funds.[24]

Simplification of procedures has been implemented through pilots like the Simplified Approval Process (SAP) pilot scheme of the GCF, with mixed results. The GCF's Independent Evaluation Units evaluated the SAP pilot scheme in 2019 and found that SAP implementation still presented some shortcomings. They found that the SAP scheme had not translated into simplified requirements or accelerated processes, and that SIDS were underrepresented in SAP projects.[25] Many LDCs and SIDS continue to be dissatisfied with the current modality and requirements under the SAP for failing to meet the expectations.

The entities that constitute the UNFCCC financial mechanism have also addressed the issue of country ownership and established mechanisms to ensure finance reaches the local level. This has been done either through the fund's investment criteria, as in the case of the GCF, as well as through specific funding modalities, like direct access and enhanced direct access (for the AF and the GCF), and small grants for locally-led projects (in the case of the GEF). The impact of these initiatives in promoting country ownership is unclear. Direct Access Entities still face difficulties accessing funding: as of September 2021, only 21% of projects approved by the GCF was for national and regional Direct Access Entities,[26] while only two Enhanced Direct Access (EDA) projects have been approved since the Enhancing Direct Access pilot was launched in 2016.[27]

As noted previously, the level of climate finance that flows through funds like the AF and the GCF is still only a fraction of total climate finance. Addressing the main challenges of accessing finance faced by developing countries would require a review of the entire climate finance architecture, including bilateral and other multilateral organizations.

2.4 Gaps and Challenges

This section analyzes in more detail current gaps and challenges for LDCs and SIDS. It looks at fit-for-purpose requirements and approval processes; the provision of capacity building and readiness; multi-stakeholder consultations and participation; and prioritization and harmonization of access modalities and standards.

From the previous section, it is possible to conclude that one of the main challenges for LDCs and SIDS to access climate finance is the diversity of objectives, criteria and access modalities under the current climate finance architecture. This is coupled with the perception that many of these are not

22 See GCF (2011).
23 See GCF's website's section on Country Readiness.
24 See the Adaptation Fund's website's section on Country Readiness.
25 See the Green Climate Fund Independent Evaluation Unit (2020).
26 See the GCF's website's section on Project portfolio.
27 See the GCF's websites's section on Enhancing Direct Access.

fit-for-purpose, with the purpose being to provide developing countries climate finance based on their needs and taking into account their specific climate and economic vulnerabilities.

The roundtable participants emphasized the need to address the "elephant in the room": the imbalance between the relatively transparent procedures for accessing finance from multilateral climate funds and the lack of these from bilateral and MDB climate finance sources. The quantitative analysis of climate finance flows during the last decade strongly backs this assertion: in recent years, the approved resources for SIDS and LDCs from international climate funds are much less than those from bilateral and MDB finance (see section 2.2). The roundtable participants agreed that the political agenda of donor countries and intransparent access requirements for bilateral climate finance in particular, but also MDB finance, poses significant barriers for fair access for many LDCs and SIDS.

The large volume of funds with low concessionality, i.e. loans, was also perceived as inappropriate for many envisaged activities by LDCs, due to the lack of financial capacity to service loans, and by SIDS, due to their need for adaptation grants to address vulnerability.

The challenge was framed as a systemic one, whereby the current climate finance system has been driven and developed by donor countries and revolves around their interests. The governance structures of entities like the AF and the GCF, which provide for more equal representation of developed and developing countries in the Board, are a possible blueprint for a system that takes into account the needs and specific circumstances of developing countries. However, these types of sources still represent only a fraction of the current flows of climate finance. Moreover, they continue to have challenges in fully implementing the principles they are meant to uphold.

This last point can be illustrated by looking at the GCF. One major issue for LDCs and SIDS are the requirements of the GCF's approval process. At several stages of the process, countries can be disadvantaged due to their financial and institutional capacities. The current situation presents challenges for meeting the following criteria:

- **Type of funding:** The estimation of agreed full costs and agreed incremental costs due to climate change determine the concessionality of the funds provided. While the task of comparing the costs of a baseline scenario to a mitigation scenario seems rather simple, it can pose a significant challenge for many adaptation projects. In those contexts it is often particularly challenging to determine the share of incremental costs due to climate change impacts (see also discussion on vulnerability in section 2.2). A strict application of an "incremental" costs attribution for adaptation projects might even jeopardize many activities, for example, due to an unclear separation of the adaptation, "classical" development, and baseline shares of such projects. At the end of the day, this might lead to a situation where highly beneficial activities with unattributable adaptation elements would be impossible due to an overrated focus on "incremental adaptation shares".

- **Climate rationale for adaptation projects:** For a successful application, proposals need to "demonstrate that the emission reductions or adaptation impacts would not have been achieved without the proposed activities. Adaptation proposals also need to show that the proposed activities are an appropriate response to a specific climate change problem." This exercise is often based on complex methodological approaches that require solid and long-term data availability and modelling expertise. The roundtable participants reiterated the discouraging challenge of proving their vulnerability each time a request for funding is posted. Many developing countries, in particular LDCs and SIDS, also an uphill task of providing long-term hydro-meteorological data to provide the climate rationale for climate change adaptation actions. Around 30 years of climate data is usually sought to prove the climate rationale in GCF adaptation projects. During the roundtable discussion, participants emphasized that some multilateral and bilateral donors were also seeking this information to prove the climate rationale of adaptation projects. However, many countries like the LDCs lack adequate historical scientific data and are therefore unable to back their project proposals. This is seen as a big impediment to preparing and submitting adaptation funding proposals and access finance for adaptation actions.

- **Co-financing:** The GCF, like many funds, considers the amount of mobilized co-financing, either explicitly or implicitly, as an important factor to determine the efficiency of a proposed activity. If proposals compete within one round for scarce resources, the co-financing quota can be a decisive element of success. However, LDCs, as countries with the lowest GDP and income ratios worldwide, are highly limited in terms of their financial capacities and cannot compete in terms of mobilized funds by themselves. Thus, they are highly dependent on the favor of other donor institutions to provide co-financing. Although many SIDS have higher GDP and income ratios per capita than LDCs, they are among the most vulnerable countries and need to constantly deal with damages from climate change-incurred disasters. Several roundtable representatives stated that available funds are often required to fix damages from historic extreme events and are thus not available to increase institutional capacity or co-finance activities that would increase overall resilience. Trapped in these vicious circles, both LDCs and SIDS need fair participation options without having co-financing as a crucial factor for the success of funding proposals.

Given that the GCF foresees reforms that might further increase the stringency and decrease flexibility in meeting these requirements, it is important to note that these could translate into additional burdens and less access to GCF resources, particularly for LDCs and SIDS, given their limited capacities.

3. Recommendations

3.1. General

The challenges faced by developing countries, and especially by LDCs and SIDS, in accessing climate finance are linked both to the content and format of access, and pervade different sources and mechanisms. Therefore, any solutions to improve access to finance for the most vulnerable will have to address these different dimensions, and focus not only on building capacity in developing countries, but also on reducing barriers linked to the current climate finance architecture.
In terms of content:

- **Increase the level of finance provided to one that is adequate to meet the needs of the most vulnerable:** Climate finance provided and mobilized is still well below the levels agreed by developed countries for 2020, even without taking into account current disagreements with the methodological approaches to estimate these levels or their adequacy in terms of meeting the needs of developing countries. These levels need to be increased. Moreover, any new goals should be decided with the participation and agreement of developing countries, and with due consideration for their needs, circumstances and priorities. This will be particularly relevant during the negotiations for the post-2025 climate finance goal.

- **Provide finance through appropriate instruments:** The eligibility criteria of all sources, especially MDBs, which determine the type of instruments through which countries can access finance need to be revised as they often limit countries' access. In particular, the broad application of funding instruments with low concessionality can implicitly exclude countries with low financial capacities. There is a need to introduce vulnerability considerations in a more systematic and simpler way, such that it does not demand complex and burdensome data and methodological requirements from vulnerable countries.

In terms of format:

- **Reduce fragmentation of the current model of finance provision:** There is a clear need to reduce the fragmentation of the current model, as already identified by the COP Presidency's Task Force on Access to Climate Finance. However, the focus should not only be on the country level. Reducing fragmentation requires dealing with the complexity and diversity of criteria and requirements from different sources of finance by promoting greater transparency and alignment of access criteria and identifying ways of reducing the discretionary nature of bilateral sources. The Task Force's recommendations should therefore include a strong focus on how to reform the institutions of the current climate finance system to address many of the barriers identified here from the providers' side, including processes and requirements that are not fit-for-purpose, high levels of discretionality and lack of transparency. As part of its recommendations, the Task Force should also identify ways to move forward with these reforms after COP26.

- **Increase the levels of finance that flow through more devolved modalities:** A greater proportion of climate finance should be channeled using sources and modalities that give more decision-making power to developing countries, including at the local level and to non-government stakeholders. Examples of this include the EDA pilot of the GCF and existing small-grant initiatives, which are needed at a much larger scale. Examples also include entities with a more balanced representation of developing and developed countries in their decision-making bodies, which are better able to represent the needs and priorities of developing countries, as well better support country ownership and transparent processes and criteria.

- **Harmonizing and adapting the requirements and processes of the different sources to the capacities of LDCs and SIDS:** Climate funds like the GCF and AF need to continue simplifying their processes and ensuring that their specific requirements, like justifying the climate rationale for adaptation, or implicit and explicit eligibility criteria, do not turn into additional barriers to accessing finance for the most vulnerable. Funds' requirements and accreditation processes should also be harmonized to further simplify access. This could build on the results of the Task Force on Access to Climate Finance.

3.2. COP26 negotiations

The topic of climate finance will be a key issue during the upcoming negotiations at COP26. The inadequate level of finance provided and mobilized so far is likely to be the focus of much discussion in light of the failure to achieve the USD 100 billion goal. Negotiations concerning a new post-2025 goal will start, with this context likely informing these discussions.

- **The delivery plan for the USD 100 billion goal:** Developed countries, led by Germany and Canada, have begun working on a delivery plan for mobilizing the USD 100 billion a year, as a way of helping build trust before the negotiations start. However, these discussions are donor-led and it is not clear whether this delivery plan will address issues of access. The establishment of the delivery plan should be as inclusive as possible to ensure that any outcome is not determined in a top-down manner but reflects the needs and positions of developing countries, especially the most vulnerable. The qualitative aspects of access are clearly relevant to the delivery of any goal; therefore, any delivery plan should address these issues as well.

- **The post-2025 goal discussions:** As with the delivery plan, negotiations for the post-2025 climate finance goal should not only set a goal that better reflects the needs of developing countries, they should also focus on qualitative elements linked to access, including the channels through which finance will be delivered and whether these channels are fit-for-purpose, especially for delivering climate finance to the most vulnerable. In this sense, the process of determining the goal will be highly relevant and should be as inclusive as possible to ensure that any outcome reflects the needs and positions of the most vulnerable.[28]

- **Transparency in climate finance:** More transparency can be achieved by ensuring that the quantitative and qualitative information provided in accordance with Article 9.5 of the Paris Agreement is detailed enough to give clarity on the projected levels of finance, the channels and

28 For further information, see CFAS Policy Brief: Options for the post-2025 climate finance goal (2020).

instruments, as well as the regional, geographical and sectoral priorities, and the relevant factors that providers consider when evaluating proposals. Additionally, a link between the information reported in accordance with Article 9.5 and the information reported in accordance with Article 9.7 should be established, so that the relevant qualitative elements included for 9.5 are also reflected in the tables and reports under 9.7.

- These aspects should also be included and assessed through the **Global Stocktake,** to assess progress in climate finance provided and mobilized from a qualitative, as well as a quantitative, perspective. A qualitative assessment could include information on the implementation of initiatives to simplify and harmonize access and accreditation requirements and procedures, increase transparency of funding criteria and make provider institutions more responsive to the needs and realities of vulnerable countries. Other qualitative elements could be information about implementation of initiatives that focus on providing finance through sources and modalities that give more decision-making power to developing countries, paired with quantitative information on the levels of finance provided through these modalities and sources. Finally, it includes information about the provision of capacity building to improve access. On this and all aforementioned topics, information should be accompanied by assessments of the success of these initiatives, lessons learned and recommendations on how to improve them.

- **Guidance from COP26 to the operating entities of the Financial Mechanis**m of the UNFCCC should address the issues concerning the requirements, procedures and criteria that constitute barriers to access, including the need for harmonization, as detailed in the general recommendations.

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The Climate Finance Advisory Service (CFAS) offers negotiators, policy makers and advisors in the poorest and most climate vulnerable countries bespoke information and guidance to help them effectively participate in complex global climate finance negotiations.

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