



MDBs' partnerships with international climate funds

Complementarity and coherence in the context of international climate finance architecture reform

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1. Introduction

The international climate finance architecture is a complex landscape in which multilateral development banks (MDBs) play a prominent role. In addition to bilateral climate finance flows, donor countries provide international climate finance directly to MDBs, as well as to multilateral climate funds such as the Green Climate Fund (GCF), Global Environmental Facility (GEF), Adaptation Fund (AF) and Climate Investment Funds (CIF), which MDBs also tap into for project finance. This raises questions about the efficiency and effectiveness of the international climate finance landscape, as well as concerns with regard to complementarity and coherence.

Recently, the call for a process of reform of the international financial architecture (IFA) has gained significant momentum among the international community. This IFA reform process is

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not limited to climate-change-related finance; however, climate-change-related issues are an important focus area. Currently, the reform agenda includes several climate-finance-related elements, such as reforms of the MDBs to make them fit for the purpose of serving global public goods including climate change; reforms related to the MDBs' capital adequacy¹ frameworks; and the Bridgetown initiative (which includes various elements but relies most heavily on the use of special drawing rights to provide emergency liquidity, suspension of interest payments in case of (climate) disasters, expansion of lending to developing countries and acceleration of private investment).

When making the MDBs fit for purpose, several questions need to be answered, one of them concerning their role within the international climate finance landscape. So far, the World Bank's evolution roadmap falls short in answering this question. Moreover, some countries regard the current reform agenda with concern. Developing countries in general fear that access to grant financing will become even more restricted, whereas low-income countries specifically are concerned about less concessional finance being available if climate vulnerability is included as a criterion. This scenario would imply that highly vulnerable middle-income countries would also obtain access to more concessional finance. The Summit for a new Global Financing Pact, which took place in June 2023 and attempted to promote an array of international financial reforms, was an important step to kick off discussions about the MDB reform process.

This paper looks in more detail at the MDBs' role in the broader climate finance architecture, in the context of potential reform. We look at why MDBs seek to access finance from the CIF and the United Nations Framework Convention on Climate Change (UNFCCC) climate funds, which are the GCF, the GEF and the AF, to implement climate change projects, instead of directly using their own funding.

This discussion brief also looks into the rationale and logic of MDBs in tapping into the above-mentioned climate funds and related benefits and positive impacts (including implications for mobilised co-finance), as well as how this relates to the MDBs' climate goals. On the other hand, this

paper also poses the question of whether MDBs tapping into climate funds is the most effective use of those funds and whether this has implications for other actors, especially direct access entities.² This also leads to the question of whether potential reforms of the MDBs would free up those resources for other actors or whether it would entail an even stronger reliance by MDBs on these funds.

Finally, we also look into how current incentives for MDBs to tap into climate funds are explained by structural problems and policies or other obstacles and barriers within the MDBs.

Role of MDBs and climate funds

MDBs are supranational financial institutions established by member states consisting of developed and developing countries, which are their shareholders. Their goal is to lend at lower interest rates than commercial banks and to support social and economic development, including energy, infrastructure, education, and environmental sustainability projects. MDBs usually lend to lower-middle and middle-income countries, while low-income countries have also access to grants. In addition to the amount of capital paid in by member countries, MDBs raise finance on international capital markets to lend for development. Beyond their focus on development, MDBs also track their climate finance and are committed to align themselves with the goals of the Paris Agreement.

Dedicated climate funds operate with a focused climate mandate and support low-emission and climate resilient development, in contrast to MDBs, which cover a much larger sphere of development activities. Climate funds generally provide funding with higher levels of concessionality than MDBs do. Some climate funds only provide grant finance, while other climate funds provide a range of concessional financial instruments.

1 Capital adequacy refers to MDBs and other financial institutions having an adequate amount of capital to absorb losses in case borrowers do not repay loans or if the market value of liquid assets falls. Capital adequacy gives security that the MDB will have sufficient resources to repay creditors. The riskier an MDB's assets are, the more capital is needed to support them.

2 Direct access entities are usually national institutions in developing countries that are nominated by their country to obtain accreditation with a climate fund to directly apply for project funding without using multilateral institutions (such as MDBs or UN agencies) as intermediaries.

2. Methodology

This research focuses on only the five MDBs (World Bank Group (WBG), European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), Asian Development Bank (ADB) and Inter-American Development Bank (IDB)) that are currently in partnerships with all UNFCCC climate funds (GCF, GEF and AF) as well as the CIF.

We conducted comprehensive desktop research on these five MDBs' portfolios with the respective climate funds; the conditions on these MDBs' access to resources from the climate funds; and other publicly available information on the rationale these MDBs have for entering into partnerships with these climate funds. The desktop research was complemented by information obtained through interviews with MDB staff responsible for the respective MDBs' partnerships with the GCF, GEF, AF and CIF.³ The main questions posed during each interview addressed the opportunities that the climate funds provide to the specific MDBs, including the benefits of tapping

into the climate funds' resources. The MDBs were also asked how their partnerships with climate funds enhance access to finance for their respective clients. We also enquired whether they enter into partnerships with climate funds in order to finance specific types of projects (including specific financial instruments, sectors, etc.).

In relation to these answers, we asked the MDBs about internal institutional barriers to implementing the identified projects from their own funding. If such barriers were identified, we posed the question of which potential changes, reforms and/or improvements were needed to overcome these barriers, keeping in mind the objective of simplifying the present international climate finance architecture. Finally, we posed the question of whether addressing these identified potential changes, reforms and/or improvements would be relevant to the ongoing debates on IFA reform.

3. Limitations and suggestions for complementary research

The insights collected in this research mainly represent the MDB staff's perspectives on their partnerships with the above-mentioned climate funds. To provide a complete picture of these partnerships, this research would need to be complemented by further interviews with staff from the respective climate funds; national focal points for MDB cooperation in the banks' client countries; and national focal points overseeing their countries' portfolios and engagement with the respective climate funds. Future research should thus complement the insights presented in this discussion brief.

Another interesting component to research further is the question of why subregional development banks (e.g. the Western African Development Bank (BOAD), the Central American Bank for Economic Integration (CABEI) or the

Development Bank of Latin America and the Caribbean (CAF)) enter into partnerships with certain climate funds and not with others, and whether these partnerships differ from the partnerships of the MDBs under focus in this research.

Nonetheless, the insights gained during the research for this discussion brief already provide valuable information on the rationale of the WBG, EBRD, ADB, AfDB and IDB for entering into partnerships with the GCF, GEF, AF and CIF and how these partnerships have benefited the MDBs and their client countries. Thus, while we acknowledge that further complementary research needs to be conducted, the research enables us to provide initial recommendations for reform of the international climate finance architecture (including reforms of the MDBs).

³ Generally, there was strong interest from MDB staff in our research, and we interviewed several people within each MDB who work on partnerships with the above-mentioned climate funds. Only the perspective of EBRD staff is not covered by this discussion brief as they did not reply to our interview requests.

4. Status quo of MDBs' partnerships with the GCF, GEF, AF and CIF

a) Green Climate Fund (GCF)

GCF offer

The GCF channels climate finance using a range of different financial instruments including grants, loans, equity and guarantees. Even though co-financing is standard practice, the GCF does not require it in its projects and programmes. It does not prescribe financial instruments and models, but instead evaluates their need and use on a case-by-case basis. It provides finance for adaptation, mitigation and crosscutting projects.

Conditions for the MDBs to obtain GCF funding

To access finance from the GCF, all organisations, including MDBs, need to go through an accreditation process, to become accredited entities. The fund uses this process to assess the applicant's policies, procedures and track record, and to ensure it has the capacity to undertake projects and programmes of different sizes,⁴ financial instruments⁵ and environmental and social risk categories, referred to as the accreditation scope. The assessment is made against the GCF's own standards. These standards include the fund's Gender Policy and Indigenous Peoples Policy. The GCF accredits national, regional and international entities.

The final stage of the accreditation process involves legal arrangements, where accredited entities sign an Accreditation Master Agreement (AMA) with the GCF.⁶ This document sets out terms and conditions for organisations using GCF resources. These terms and conditions include covenants to comply with rules, policies and procedures that enable organisations to comply with the funds' own standards, policies and procedures, across all projects and programmes.

The accreditation term at the GCF is five years, and it begins when the signed AMA becomes effective. After this period, entities need to be re-accredited to remain GCF-accredited entities and continue to access GCF funding.

MDBs' project portfolios with the GCF

The portfolio allocation of the GCF changes after each Board meeting, when new projects are approved for different accredited entities. A look at the status of the GCF's portfolio as of April 2023⁷ gives a snapshot of its distribution. This snapshot shows that the portfolio is highly concentrated on international entities (80% of the total portfolio) and, within these, on a few accredited entities, most of which are MDBs. Of the MDBs, the World Bank accounted for the largest volume of funding allocated to international accredited entities, with around 12% of total GCF funding. It is followed by the EBRD (11%), ADB (10%) and IDB (8%). One explanation for this is the accreditation scope of these entities, which are able to manage larger projects, and their ability to reach more countries, particularly compared to national entities.

Accredited MDBs

All MDBs considered in this brief are currently accredited to the GCF.

1. African Development Bank (AfDB)

It was first accredited in March 2016, but it is not clear when its AMA became effective.

The AfDB currently has eight approved projects, of which five focus on specific countries and three include multiple countries. Many of the AfDB's projects target least-developed countries (LDCs).

2. Asian Development Bank (ADB)

It was first accredited in March 2015 and was re-accredited by the GCF Board in July 2022.⁸

The ADB currently has 12 approved projects, of which 10 focus on specific countries and two include multiple countries. Many of the ADB's projects target Small Island Developing States (SIDS).

4 GCF projects are classified by size, including Micro (projects up to USD 10 million), Small (projects between USD 10 million and USD 50 million), Medium (projects between USD 50 million and USD 250 million) and Large (projects above USD 250 million).

5 This links to the different fiduciary functions for which entities are accredited. More detail on the accreditation scope can be found in the GCF's Accreditation framework of the GCF, April 2023: <https://www.greenclimate.fund/sites/default/files/document/accreditation-framework-gcf.pdf>

6 GCF, Entity accreditation, no date: <https://www.greenclimate.fund/accreditation/process>.

7 In the document presented at the 36th meeting of the GCF Board, Status of the GCF portfolio: Approved projects and fulfilment of conditions, June 2023: https://www.greenclimate.fund/sites/default/files/document/gcf-b36-inf02_0.pdf

8 The decision by the GCF Board to re-accredit the ADB was taken in July 2022, but the AMA was not signed until a year later, in July 2023, after which it became effective.

3. European Bank for Reconstruction and Development (EBRD)

It was first accredited in July 2015 and was re-accredited by the GCF Board in July 2022.

The EBRD currently has seven approved projects, of which four focus on specific countries and three include multiple countries.

4. Inter-American Development Bank (IDB)

It was first accredited in July 2015 and was re-accredited by the GCF Board in March 2023.

The IDB currently has eight approved projects, of which four focus on specific countries and four include multiple countries.

5. World Bank

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), known commonly as the World Bank, were accredited in July 2015, but it is not clear when its AMA became effective.

The World Bank currently has 12 approved projects, of which eight focus on specific countries and four include multiple countries.

The International Finance Corporation (IFC) was also accredited in March 2016 but currently has no projects approved.

Rationale for MDBs to obtain GCF funding

Accredited entities submit funding proposals (FPs) to the GCF using a standardised template that goes through a review process before approval by the GCF Board. As part of this template, accredited entities are required to explain the value added of the GCF funding and justify the need for the type of funding requested. This section of the FP explains why GCF funding is needed for the project to be implementable, and usually focuses on the additionality of GCF financing and justifies the instruments and levels of concessionality requested. Therefore, it can give a good overview of the reasons why MDBs request funding for specific projects and programmes, which are linked to their feasibility in specific country contexts and the needs of the recipients.

Looking at a selection of the MDBs' portfolios of GCF-funded projects and programmes, some key justifications emerged for the use of GCF finance. Nineteen FPs were reviewed, representing all MDBs included in this paper.⁹ These were selected to include adaptation, mitigation and crosscutting projects and programmes, as well as a combination of national and multi-country ones. Since the IDB, ADB and AfDB were included, this ensured broad regional coverage; this was complemented by two EBRD multi-country programmes also covering Eastern Europe. Projects and programmes targeting SIDS and LDCs were also selected.

One of the reasons for requesting GCF funding often cited by MDBs is the existing debt levels of the beneficiary countries, which makes the highly concessional finance provided by the GCF necessary if climate-related projects are to be implemented without an increase in already high or unsustainable levels of debt. Fiscal constraints faced by the public sector are another common explanation. These constitute a barrier to the financing of climate-related projects from countries' own budgets, especially in the face of competing development priorities.

In some cases, especially for projects that focus on energy access and power generation in lower-income countries, the high levels of concessionality are also needed to ensure that electricity remains affordable for the local population, given the otherwise high cost of capital. This is likely to also affect other public services such as water and sanitation. Addressing the high cost of capital is especially relevant for LDCs and SIDS, for which limited market size is an issue.

Grant finance is also needed, as part of a mix of instruments, in projects and programmes to finance specific components or activities that are key to the success of a project but do not generate revenue. These include activities related to capacity building, technical assistance and the development of enabling environments through policy reform and planning processes, as well as activities related to market creation or transformation.

Grant and highly concessional finance is also used to address market distortions and failures, especially for resilience. It is used to finance specific adaptation activities that have social,

⁹ For the AfDB, four FPs were reviewed: FP092, FP093, FP114 and FP178. For the ADB, four FPs were reviewed: FP008, FP36, FP085 and FP154. For the EBRD, three FPs were reviewed: FP025, FP043 and FP140. For the IDB, three FPs were reviewed: FP020, FP048 and FP173. For the World Bank, four FPs were reviewed: FP044, FP071, FP074 and FP204.

economic or environmental returns but no financial returns – for example, community-based early warning systems or water supply projects – as well as to pay for the incremental costs of resilience. This allows MDBs to design more complex projects that target different barriers and areas, with different financial instruments.

Concessional GCF finance is also used to provide more patient capital compared to other potential sources of finance. It is needed to finance long-term investments in sectors such as forestry and land use, as well as for ecosystems and ecosystem services, where returns on investment take time to materialise.

Another important use of GCF funding is to address risk perceptions and attract private capital. These risks can be linked to specific sectors, countries, technologies or models, especially for models and technologies that are new¹⁰ and have not been tested. For example, GCF funding has served to test new business models where the more traditional models do not work, such as with rural electrification in LDCs. Some projects and programmes aim to have a “demonstration effect”, by proving that investments in certain regions and sectors can work, and thus attract private sector finance. This concessionality can address the barriers linked to unfavourable financing terms that result from perceived risks.

GCF funding is also used to provide more concessional terms through on-lending via local financial intermediaries, especially in local currencies. This also addresses the high cost of capital at the national and local levels, while also providing financial intermediaries with resources and de-risking instruments that they cannot access directly in the markets, enabling them to match the requirements of local businesses, including by extending loans from their own resources in the future.

MDBs’ own analysis of external climate finance access confirms that this finance mostly serves to address market

failures or market barriers to private investment, and to incentivise governments to engage in climate activities, particularly in cases of budget constraints.¹¹

b) Global Environmental Facility (GEF)

GEF offer

The GEF does not focus only on climate change but it is one of its focal areas: it was established to assist in the protection of the global environment and to promote environmentally sustainable development. It administers other funds, including the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). In its climate change work, it focuses largely on mitigation. It funds adaptation work using other specialised trust funds, including the LDCF, the SCCF and its Small Grants Programme (SGP).¹²

The GEF channels climate finance using a range of different financial instruments including grants, concessional loans, equity and guarantees. Grants remain the main instrument, with the majority of projects in the GEF database (5,791 out of 5,900)¹³ using grants, while 109 use non-grant instruments. The GEF’s use of instruments beyond grants has evolved, and includes the establishment of a Non-Grant Instrument (NGI) window, which started in GEF-4 (2006–2010) and has grown from an initial USD 40 million to USD 196 million in GEF-8. The share of NGIs has also evolved, though not in a linear way, as shown in Figure XX. However, it is clear that debt instruments have become less relevant as equity and risk mitigation instruments have become more important. The goal of the NGI is to expand private sector investment.¹⁴ This work has mostly been done through the MDBs.

¹⁰ Often the idea of a technology or model being new is very country-specific. Certain models might already work in other countries and regions but are considered new in beneficiary countries.

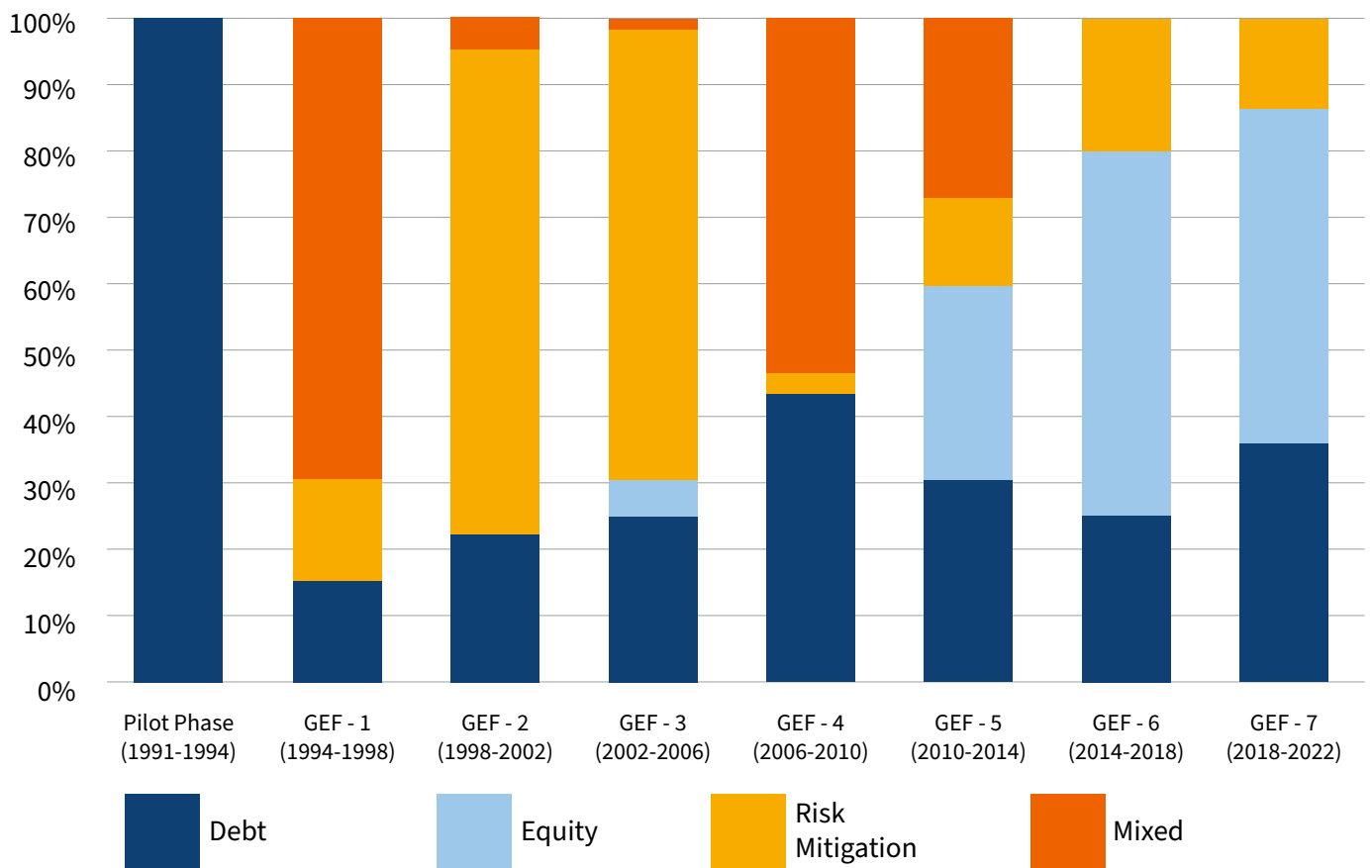
¹¹ IDB, Analysis of External Climate Finance Access and Implementation: CIF, FCPF, GCF and GEF Projects and Programs by the Inter-American Development Bank, January 2021: <https://publications.iadb.org/en/analysis-external-climate-finance-access-and-implementation-cif-fcpf-gcf-and-gef-projects-and>

¹² Climate Funds Update, Global Environment Facility (GEF): <https://climatefundsupdate.org/the-funds/global-environment-facility-gef/>

¹³ As of 22 September 2023.

¹⁴ GEF, GEF Blended Finance Global Program and Non-Grant Instruments Policy Update, November 2022: https://www.thegef.org/sites/default/files/documents/2022-11/EN_GEF_C.63_12_GEF%20Blended%20Finance%20Global%20Program%20and%20NGI%20Policy%20Update_%20__1.pdf

Figure 1: GEF NGI portfolio distribution by financial product¹⁵



The GEF does have a co-financing requirement. The current requirement for the GEF’s overall portfolio is a ratio of USD 7 in co-financing for each dollar in GEF financing, and for the portfolio of projects and programmes approved in upper-middle-income countries and high-income countries that are not SIDS or LDCs the requirement is to reach a ratio of investment mobilised to GEF financing of at least 5:1. However, “no minimum thresholds and/or specific co-financing or investment sources should be imposed in the review of individual projects or Work Programs”.¹⁶ In practice, the GEF has been able to achieve much higher ratios for many of its projects, ranging from 12–20%, with average private sector share of co-financing of approximately 46%, in its last three cycles.¹⁷

Conditions for MDBs to obtain GEF funding

The GEF has a more limited number of implementing agencies through which it channels funding. At its inception, the GEF worked with only three agencies: the World Bank and two UN agencies, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). It has now expanded its partnerships to include 18 agencies. The majority of these agencies are international organisations, including all the MDBs included in this study. The process of accreditation to the GEF, unlike that of the GCF, is not always open. Many of the current agencies were accredited through a pilot launched in 2011.¹⁸ This pilot included a review of the ability of new agencies to meet the GEF’s fiduciary standards, Environmental and Social Safeguard Standards and gender mainstreaming criteria.¹⁹

15 GEF, GEF Blended Finance Global Program and Non-Grant Instruments Policy Update, November 2022: https://www.thegef.org/sites/default/files/documents/2022-11/EN_GEF_C.63_12_GEF%20Blended%20Finance%20Global%20Program%20and%20NGI%20Policy%20Update_%20_1.pdf

16 GEF, Updated Co-financing Policy, June 2018: https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.54.10.Rev._01_Co-Financing_Policy.pdf

17 GEF, Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies, June 2023: https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf

18 GEF, Accreditation to the Global Environment Facility (GEF): How Your Institution Can Become a GEF Agency and Have Direct Access to GEF Funding, no date: <https://www.thegef.org/sites/default/files/documents/Agency-Accreditation-Brochure.pdf>

19 GEF, Draft Procedures Manual for the Accreditation of GEF Project Agencies, May 2011 https://www.thegef.org/sites/default/files/council-meeting-documents/C.40.Inf._04_Draft_Procedures_Manual_For_Accrediting_GEF_Agencies.May_10.pdf

After the assessment process, the GEF signed Memoranda of Understanding (MoUs) with the selected agencies. Although the documents related to the pilot suggest a term of five years for accreditation, after which re-accreditation is required, details of this process are not available.

MDBs’ project portfolios with the GEF

The share of the GEF portfolio by agency has evolved considerably since its pilot phase, driven partly by the expansion of the number of agencies the GEF works with. The share allocated to the MDBs dropped from 60.4% during the pilot phase to just 20.7% for GEF-7, as shown in Table 1 below.

The biggest change has been in the share of the World Bank, which is one of the first three agencies the GEF worked with. The World Bank had the largest share of the portfolio until GEF-3, after which it was overtaken by the UNDP. As new agencies were accredited, some of them increased their share – particularly the Food and Agriculture Organization (FAO), which went from 0.6% in GEF-3 to 15% in GEF-7. But so did the UNEP, which was also one of the original three. The decreasing share of the portfolio allocated to MDBs is largely explained by the World Bank’s diminishing share, while the rest of the MDBs have not considerably increased their shares since accreditation.

Table 1: Share of the GEF portfolio allocated to the MDBs²⁰

| | Total share | Pilot Phase | GEF - 1 | GEF - 2 | GEF - 3 | GEF - 4 | GEF - 5 | GEF - 6 | GEF - 7 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| World Bank | 29.90% | 60.40% | 64.80% | 53.80% | 48.90% | 26.50% | 19.20% | 16.20% | 16.40% |
| ADB | 1.40% | – | – | 0.60% | 1.60% | 3.40% | 1.20% | 1.30% | 1.40% |
| AfDB | 1.00% | – | – | – | – | 0.40% | 2.10% | 2.20% | 1.10% |
| EBRD | 0.80% | – | – | – | – | 1.40% | 1.50% | 1.40% | 0.80% |
| IDB | 1.90% | – | – | – | 0.90% | 3.50% | 5.00% | 1.90% | 1.00% |
| Total all MDBs | 35.00% | 60.40% | 64.80% | 54.40% | 51.40% | 35.20% | 29.00% | 23.00% | 20.70% |

1. African Development Bank (AfDB)

The AfDB currently has 63 approved projects,²¹ 52 of which target climate change.²² The climate change projects have different funding sources, with the majority coming from the GEF Trust Fund (21), while others come from the LDCF (26), the Multi Trust Fund (three) and the SCCF (two). 40 of these projects are national, 10 are regional and two are global.

2. Asian Development Bank (ADB)

The ADB currently has 97 approved projects, 56 of which target climate change.²³ The climate change projects have different funding sources, with the majority coming from the

GEF Trust Fund (37), while others come from the LDCF (11), the Multi Trust Fund (four) and the SCCF (four). 34 of these projects are national, 14 are regional and eight are global.

3. European Bank for Reconstruction and Development (EBRD)

The EBRD currently has 31 approved projects, 25 of which target climate change.²⁴ The climate change projects have different funding sources, with the majority coming from the GEF Trust Fund (21), while others come from the Multi Trust Fund (one) and the SCCF (three). 17 of these projects are national, four are regional and four are global.

²⁰ Source: authors, adapted from the GEF’s Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies, June 2023: https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf

²¹ For all MDBs, these approved projects include some that are approved at the concept level, as well as completed and cancelled projects.

²² 13 target multiple focal areas.

²³ 16 target multiple focal areas.

²⁴ Three target multiple focal areas.

Table 2: Summary of Shares by Agency Type (as of 30 March, 2023)²⁵

| Agency | Total share | Pilot Phase | GEF - 1 | GEF - 2 | GEF - 3 | GEF - 4 | GEF - 5 | GEF - 6 | GEF - 7 |
|--------------------------|-------------|-------------|---------|---------|---------|---------|---------|---------|---------|
| Founding Agencies | | | | | | | | | |
| UNDP | 35.2% | 36.9% | 30.7% | 34.9% | 35.9% | 39.8% | 39.9% | 37.6% | 27.9% |
| UNEP | 13.3% | 2.7% | 4.6% | 10.2% | 11.0% | 11.9% | 12.7% | 15.0% | 19.5% |
| World Bank | 29.9% | 60.4% | 64.8% | 53.8% | 48.9% | 26.5% | 19.2% | 16.2% | 16.4% |
| First Expansion | | | | | | | | | |
| ADB | 1.4% | – | – | 0.6% | 1.6% | 3.4% | 1.2% | 1.3% | 1.4% |
| AfDB | 1.0% | – | – | – | – | 0.4% | 2.1% | 2.2% | 1.1% |
| EBRD | 0.8% | – | – | – | – | 1.4% | 1.5% | 1.4% | 0.8% |
| FAO | 6.4% | – | – | – | 0.6% | 3.1% | 7.5% | 7.6% | 15.00% |
| IADB | 1.9% | – | – | – | 0.9% | 3.5% | 5.0% | 1.9% | 1.0% |
| IFAD | 1.2% | – | – | – | 0.8% | 2.7% | 0.4% | 2.4% | 1.2% |
| UNIDO | 4.7% | – | – | 0.6% | 0.3% | 7.4% | 8.9% | 6.1% | 4.8% |
| Second Expansion | | | | | | | | | |
| BOAD | 0.1% | – | – | – | – | – | – | 0.6% | – |
| CAF | 0.3% | – | – | – | – | – | 0.04% | 0.3% | 1.2% |
| CI | 1.3% | – | – | – | – | – | 0.6% | 1.7% | 4.1% |
| DBSA | 0.3% | – | – | – | – | – | – | 1.4% | 0.2% |
| FECO | 0.0% | – | – | – | – | – | – | 0.1% | 0.04% |
| Funbio | 0.1% | – | – | – | – | – | – | 0.4% | 0.04% |
| IUCN | 1.0% | – | – | – | – | – | 0.2% | 2.3% | 2.8% |
| WWF-US | 0.9% | – | – | – | – | – | 0.7% | 1.4% | 2.6% |

4. Inter-American Development Bank (IDB)

The IDB currently has 81 approved projects, 47 of which target climate change.²⁶ The climate change projects have different funding sources, with the majority coming from the GEF Trust Fund (43), while others come from the Capacity-Building Initiative for Transparency (CBIT) Trust Fund (two), the Multi Trust Fund (one) and the SCCF (one). 37 of these projects are national, eight are regional and two are global.

5. World Bank

The World Bank currently has 995 approved projects, 359 of which target climate change.²⁷ The climate change projects have different funding sources, with the majority coming from the GEF Trust Fund (318), while others come from the

LDCF (13), the Multi Trust Fund (14) and the SCCF (14). 303 of these projects are national, 28 are regional and 28 are global.

The IFC currently has 40 approved projects, 23 of which target climate change.²⁸ The climate change projects all have the GEF Trust Fund as their funding source. 13 of these projects are national, four are regional and six are global.

Rationale for MDBs to obtain GEF funding

For MDBs, the importance of GEF finance follows a similar logic to that of the GCF. It provides grant and concessional finance to de-risk investments and drive innovation. It has served as a mechanism to test blended finance initiatives and to test new financial mechanisms in areas such as sustainable

²⁵ Source: authors, adapted from the GEF's Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies, June 2023: https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf

²⁶ An additional 12 target multiple focal areas, some of which include climate change.

²⁷ An additional 88 target multiple focal areas, some of which include climate change.

²⁸ An additional five target multiple focal areas, some of which include climate change.

land management and biodiversity. However, where the GCF finance is often used for scale, GEF finance helps drive equally important smaller-scale projects that are more tailored to realities on the ground, and would probably not be possible without the GEF. GEF finance can also be accessed to design projects. GEF has also supported the MDBs' mainstreaming of environmental and climate-related activities through the bank's operations, in order to provide the global environmental benefits that should be generated by standard projects.

c) Adaptation Fund (AF)

AF offer for MDBs

The AF finances small-scale adaptation projects on a full grant basis. AF projects need to specifically address the most vulnerable communities, and no co-finance is required for the implementation of projects. Single-country projects are limited to USD 10 million per project or a maximum of USD 14 million for a regional project. However, there are two main limiting factors for MDBs in accessing funding from the AF: 1) there is a cap of USD 20 million per country for single-country projects, and 2) of the AF resources, half is reserved for direct access entities (national or regional implementing entities), and multilateral implementing entities such as the MDBs considered in this research cannot access these reserved resources. Also, considering the overall scarcity and uncertainty of available AF resources, these limiting factors might have an even greater impact. However, a small amount of AF resources is set aside for Large Innovation Grants (up to USD 5 million per project) under the AF Innovation facility, which MDBs are also eligible to access and for which the two above-mentioned limiting factors do not apply.

Overall, AF resources are scarce and uncertain as the AF does not have a regular replenishment process as do other funds such as the GCF and the GEF – which are both operating entities of the financial mechanism of the UNFCCC, while the AF is not. The AF previously served the Kyoto Protocol and now also serves the Paris Agreement. The AF was originally designed to be funded by a 2% share of proceeds arising from the sale of Certified Emission Reductions (CERs), generated under the Clean Development Mechanism (CDM) of the Kyoto Protocol. Yet the revenue from these sources has remained

very low. That is why the Parties of the Paris Agreement decided that the AF should also be financed from a 5% share of proceeds from the mechanism established under Article 6.4 of the Paris Agreement and from a variety of voluntary public and private sources. However, the details of the administrative system necessary to make the Article 6.4 mechanism work are complex and will take some time to establish, and it is not yet clear what volume of resources will actually be generated and provided to the AF. So, the fund continues to rely heavily on voluntary contributions in the short term. Even if the fund reaches its 2023 annual resource mobilisation target of USD 300 million, the scarcity and uncertainty of future AF resources will continue to be a limiting factor for MDBs accessing the AF.

Conditions for MDBs to obtain AF funding

In order to access resources from the AF, the MDBs and all other multilateral, regional and national implementing agencies must undergo an accreditation process. The accreditation process of the AF aims to ensure that they align with the AF's fiduciary standards and that environmental and social safeguards are effectively applied by the entity. The accreditation is then valid for five years, after which the MDBs and other entities have to undergo a re-accreditation process.

All five MDBs considered in this research have obtained a first accreditation with the AF. The World Bank (IBRD) and the ADB have already successfully undergone a second re-accreditation process with the AF, and the AfDB and the IDB are currently in the process of obtaining their second re-accreditation with the AF, while the EBRD is still taking part in the first re-accreditation process.

The World Bank (IBRD) was the first bank to become accredited with the AF, in March 2010, followed by the ADB, which obtained its first accreditation in June 2010. In April and September of 2011, the IDB and the AfDB respectively obtained their first accreditations. The EBRD did not obtain its first accreditation with the AF until a few years later, in March 2014; this first accreditation expired in March 2019, and the EBRD is still in the process of its first re-accreditation. By contrast, the other MDBs (WB/IBRD, ADB, AfDB and IDB) successfully re-accredited with the AF within a relatively short time after their first accreditations had expired (from one week up to eight months). Interestingly, the second

re-accreditation stage seems to be taking/have taken much longer for these MDBs compared to their first re-accreditations. This could be due to the high transaction costs (especially with regard to required human resources) that the re-accreditation process entails for the MDBs. By that point, the banks probably tend to shift their focus more towards the GCF. At the same time, the AF has strengthened its safeguards, standards and policies (e.g. its Gender Policy) over time, and entities in the process of re-accreditation have had to show they adhere to these strengthened accreditation standards. However, the MDB staff we interviewed as part of this research confirmed their continued interest in the AF and where applicable

their continued efforts to obtain further re-accreditations with the AF.

In order to obtain AF funding as an accredited entity with the AF, MDBs have to submit fully developed project proposals to the AF Board, which reviews the funding proposals and decides whether or not to approve projects. However, if a project is not approved, the applicant is usually asked to improve the project proposal and resubmit it during the next AF project submission period. After a project has been approved by the AF Board, the respective MDB needs to sign a legal agreement with the AF before the project starts.

MDBs accredited with the AF:

➤ **AfDB:** no projects approved so far, no projects under review or in the pipeline

- Accreditation status: In Re-accreditation Process
- Accreditation expiration date: 20 April 2022
- Date of first re-accreditation: 21 April 2017
- Date of first accreditation: 16 September 2011

➤ **ADB:** no projects approved so far, no projects under review or in the pipeline

- Accreditation status: Accredited
- Accreditation expiration date: 21 June 2028
- Date of second re-accreditation: 21 June 2023
- Date of first re-accreditation: 31 July 2015
- Date of first accreditation: 16 June 2010

➤ **EBRD:** no projects approved so far, no projects under review or in the pipeline

- Accreditation status: In Re-accreditation Process
- Accreditation expiration date: 20 March 2019
- Date of first accreditation: 21 March 2014

➤ **IDB:** no projects approved so far, no projects under review or in the pipeline

- Accreditation status: In Re-accreditation Process
- Accreditation expiration date: 06 December 2021
- Date of first re-accreditation: 07 December 2016
- Date of first accreditation: 20 April 2011

➤ **WB (IBRD):** 2 projects approved so far (both already finalised), no projects under review or in the pipeline

- Accreditation status: Accredited
- Accreditation expiration date: 05 June 2028
- Date of second re-accreditation: 06 June 2023
- Date of first re-accreditation: 31 March 2015
- Date of first accreditation: 25 March 2010

MDBs' project portfolios with the AF

Even though all the MDBs that we considered as part of this research had obtained accreditation with the AF and were thus theoretically eligible to obtain AF project funding, only the WB (IBRD) has had approved projects (two) with the AF. One project in Belize amounted to USD 5.63 million of AF funding and was implemented in 2015–2022. And another

project in Argentina amounted to USD 4.22 million of AF funding and was implemented in 2015–2019. Interestingly, from the data available at the AF website it appears there are no further approved projects from these MDBs, and nor are there any projects in the active funding pipeline that is displayed on the AF website.²⁹

29 As of 18th of August 2023.

Rationale for the MDBs to not tap into AF funding

However, from the MDB interviews conducted for this research, we learned that some of the MDBs had developed project funding proposals that had been submitted to and approved by the AF Board. But these projects were ultimately not implemented as the respective MDBs could not sign the requested legal agreements with the AF. The legal agreements, which the AF asks all its implementing entities to sign before official project start dates and disbursement of funds, includes a clause that basically stipulates that in the case of, for example, misuse of funds during project implementation, the MDBs would need to reimburse those funds, a stipulation that was not acceptable to the legal offices of the MDBs. This is because in MDBs' usual practices, the receiving countries are responsible for any misuse of funds and potential requests for reimbursement.

Moreover, the transaction costs for developing AF funding proposals are very high compared to the very limited funding (up to USD 10 million) that applicants can obtain to implement a project.

Another barrier for MDBs in accessing AF funding relates to the MDBs' rather programmatic approach, including a variety of funding instruments and co-funding. The fact that the AF provides only grants and applies the principle of "funding on full adaptation cost basis of projects and programmes"³⁰ and the related requirement that an "AF project should be able to deliver its outcomes and outputs regardless of the success of other project(s)",³¹ might pose a barrier to MDBs. For example, the AF Board did not approve a project submitted by CABEL because the proposed activities to be financed by the AF would have been highly dependent on the success of the co-financed activities, and thus in conflict with the before-mentioned principle and related requirement. However, the AF's principle of "funding on full adaptation cost basis of projects and programmes" is important for developing countries, especially SIDS and LDCs, and weakening this principle might have undesired side effects for them. They fear that co-finance might become a requirement.

However, there still seems to be some ongoing interest in the AF from the MDBs. Some MDB staff also mentioned that even though they do not obtain project funding from the AF,

cooperation with the fund is still beneficial for the MDBs. By being accredited with the AF, the MDBs generate relevant knowledge on AF processes and on the implementation of adaptation projects more generally, which helps MDBs to mainstream adaptation to negative impacts of the climate crisis in their internal processes. This generated knowledge is also beneficial to the MDBs' clients as some MDBs have even been able to support AF direct access entities to obtain accreditation and prepare project proposals.

d) Climate Investment Funds (CIF)

CIF offer

Founded in 2008, the CIF is the only multilateral climate fund to work exclusively with MDBs as implementing agencies. It consists of two main trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), comprising targeted programmes aimed at specific climate change challenges and sectoral approaches. The CTF aims to enable clean energy transformation in developing countries and includes the Accelerating Coal Transition Investment Program and the Global Energy Storage Program. The SCF programmes address resilient development and include the Forest Investment Program, the Pilot Program for Climate Resilience and the Scaling up Renewable Energy Program, as well as four newer programs, namely the Renewable Energy Integration Program, the Nature, People and Climate Investment Program, the Industry Decarbonization Program and the Climate Smart Cities Program.

Overall, the CIF has received USD 11.3 billion from 15 contributing countries. The CIF's financing tools include concessional debt, equity, guarantees, local currency financing and grants to allow the MDBs to move into new markets, take on more risk and mobilise billions in additional private sector investment.

Conditions for MDBs to obtain CIF funding

There is no accreditation process as only the five MDBs considered in this research can access and implement CIF funding. Countries are eligible when meeting Official Development Assistance (ODA) eligibility criteria according to

30 AF, Full Cost Of Adaptation Reasoning And Co-Financing, March 2022, https://www.adaptation-fund.org/wp-content/uploads/2022/03/AFB.PPRC_.29.41-Report-on-the-full-cost-of-adaptation-and-co-financing_final.pdf

31 Ibid.

Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC) guidelines and by having an active MDB country programme (for this purpose, an “active” programme means that an MDB has a lending programme and/or ongoing policy dialogue with the country). All projects and programmes are subject to the environmental and social safeguards of the implementing MDBs. The MDBs apply “their own appropriate procedures in appraising, approving, supervising, monitoring and evaluating operations”.

MDBs’ project portfolios with the CIF

As of September 2023, the CIF portfolio comprised 434 projects in 79 countries.³² Overall, USD 7.5 billion in funds has been committed to country investments and regional programming, and is expected to leverage USD 64.3 billion in co-financing. The majority of funding is channelled through the CTF (USD 5.02 billion), followed by the SCF’s initial programmes the Pilot Program for Climate Resilience (PPCR) (approximately USD 1 billion), the Scaling Up Renewable Energy Program (SREP) (USD 650 million) and the Forest Investment Program (FIP) (USD 650 million).

1. African Development Bank (AfDB)

The AfDB has 45 projects in its portfolio, of which six have already been closed. 10 projects are regional/global projects, while 35 address individual countries. 15 projects are under the CTF, and 30 under the SCF (FIP 12, PPCR 11, SREP 7).

2. Asian Development Bank (ADB)

The ADB has 74 projects in its portfolio, of which 13 have already been closed. 57 projects target individual countries while 17 are regional/global projects. 26 CTF, 48 SCF (FIP 4, PPCR 30, SREP 14).

3. European Bank for Reconstruction and Development (EBRD)

The EBRD has 32 projects in its portfolio, of which none have been closed so far. 19 projects target individual countries while 13 are regional projects. 18 CTF, 14 SCF (FIP 2, PPCR 7, SREP 5).

4. Inter-American Development Bank (IDB)

The IDB has 81 projects in its portfolio, of which nine have already been closed. 62 projects target individual countries

while 19 are regional/global projects. 37 CTF, 44 SCF (FIP 11, PPCR 20, SREP 13).

5. World Bank

The World Bank has 202 projects (IBRD 163 and IFC 39) in its portfolio, of which 45 have already been closed. 161 projects target individual countries while 41 are regional/global projects. 71 CTF, 131 SCF (FIP 37, PPCR 48, SREP 46).

Rationale for MDBs to obtain CIF funding

CIF’s concessional finance, similarly to finance from other climate funds, is used by the MDBs to test new business models and technologies. These funds have allowed the MDBs to implement programmes and projects that at first appeared too risky, thanks to their higher levels of concessionality, including lower interest rates and longer maturity periods than the MDBs can provide. Even though the CIF’s main focus is on mitigation, the funds have also been important for adaptation and nature-based solutions (NBSs), according to the MDB staff.

The interviews highlighted the important role the CIF plays beyond providing finance, through knowledge creation. Some examples include the development of thinking around programmatic approaches and transformational change: the CIF achieves this by serving as a platform to bring together countries and the MDBs in joint discussions that can bring about new ideas and create knowledge.

The MDBs use the CIF to develop programmatic approaches, as this approach was a core design element of the CIF; this has had mostly good results, as shown by a 2018 evaluation of the CIF’s programmatic approach.³³

The role of the CIF in the MDBs is confirmed by other sources. In particular, they confirm the role of its funds in scaling up and mainstreaming climate finance initiatives, as well as piloting new instruments and concepts. However, some challenges related to this business model of large investment projects have also been pointed out, particularly when it comes to reaching and engaging micro and small-scale actors.³⁴

³² As of August 2023.

³³ CIF, ICF, Evaluation of the Climate Investment Funds’ Programmatic Approach: Final Report and Management Response, October 2018: https://www.unclearn.org/wp-content/uploads/library/evaluation_of_the_cif_programmatic_approach_final_report_and_management_response1.pdf

³⁴ Itad, Evaluation of Transformational Change in the Climate Investment Funds, January 2019: https://www.itad.com/wp-content/uploads/2020/03/evaluation_of_transformational_change_in_the_cif_final_w_mresp_jan_2019.pdf

5. Common trends identified

MDBs' engagement with climate funds is partly driven by countries' demands

MDBs often explain their engagement with the various climate funds as being driven by countries' demand, as they respond to the expectations and requests of client countries for their specific climate-related needs to be addressed. In the case of the CIF, for which the MDBs are the only implementing agencies, countries require MDB's support to access CIF finance. For the other funds, where there is more competition from other accredited entities and agencies, the situation differs. For the GEF and the AF, where agencies beyond the MDBs can also access finance, and the amount of finance available per project is small, MDBs' role can be less significant, but still important for the implementation of specific projects.

The GCF, on the other hand, also accredits a wide range of other international, as well as national, direct access entities. The size of GCF projects can also vary significantly, but the fund is able to provide relatively large amounts of finance per project, compared to other funds. In this case, some developing countries express a preference for direct access entities. However, not all developing countries have direct access entities accredited, and the process of accreditation has been slow and costly for many direct access entities, due to capacity constraints. Under this scenario, the MDBs can fill a temporary gap for those countries that do not have direct access entities.

MDBs have a comparative advantage in designing complex regional multi-sector programmatic approaches

MDBs also see their engagement with the funds as the provision of a service to client countries. Especially for projects that are complex and require multiple sectors to be addressed in an integrated and holistic manner, the MDBs provide the capacity to formulate and implement such complex projects and programmes to those countries that lack this capacity themselves. Compared to national entities, they position themselves as able to provide scale and innovation to a degree that many such entities cannot. Because MDBs can access all these funds, they are also more likely to be able to harness the complementarity of the funds

to design programmatic and regional approaches that can drive scale.

MDBs can facilitate access to climate funds' resources for client countries that are not eligible for other concessional climate finance

Since some countries are not eligible for e.g. CIF funding or concessional IDA funding, MDBs can play an important role facilitating concessional climate finance from climate funds such as the GCF or the GEF, which have broader eligibility and allow the MDBs to design projects for those countries that cannot easily access concessional climate finance from other sources.

Funding from climate funds helps MDBs' clients focus on climate needs without compromising other priorities

In some cases, where the allocation of certain types of finance per country is limited, as is the case for the IDA-eligible countries,³⁵ using finance from the funds can help address these limited allocations of concessional finance, and address climate needs without compromising other development priorities.

MDBs entering into partnerships with climate funds has provided opportunities for mainstreaming climate in internal MDB processes

These partnerships influence both parties. For MDBs, accessing highly concessional funding from the climate funds has allowed them to test innovative financing structures, mechanisms and business models, therefore contributing to the driving of innovation within the MDBs themselves and the building of internal capacities, to enable them to progressively move towards more holistic approaches and portfolios that integrate climate considerations. Some of these innovations have led to changes in MDBs' own practices and learning. An example of this is the mainstreaming of climate-proofing that resulted from the MDBs' engagement with the CIF. Another is the changes in the MDBs' reporting requirements. Accessing climate funds has also allowed MDBs, especially regional ones, to increase the scale and ambition of their programmes, either by scaling up previous initiatives, for

35 More information on IDA allocation can be found in the IDA's How Are IDA Resources Allocated?, updated March 2023: <https://ida.worldbank.org/en/financing/resource-management>

which grant and highly concessional finance plays a key role, or by testing regional approaches. MDBs also define their partnerships with the funds as going beyond access to finance: these partnerships are also based on other types of collaboration, for example by serving as platforms to bring together different MDBs to create knowledge and bring about new ideas. In the case of the CIF, they are also used by MDBs as knowledge centres.

MDBs also have an influence on the climate funds' policies

At the same time, MDBs do not only see opportunities in entering into partnerships with climate funds, they also seem to have an influence on the climate funds. One example of this is linked to the need to comply with the specific policies and standards of some of the funds, particularly the GCF and the AF. MDBs perceive this as a barrier to accessing finance and express a preference to be allowed to use their own standards, as is already the case for their engagement with the CIF. Additionally, the challenge presented by the approval processes of these funds becomes more relevant when the amount of funding that can be accessed is limited, as in the case of the AF and the GEF.

A complex approval process paired with small amounts of funding raises transaction costs for the MDBs, making it less interesting for their teams to engage in project ideation and development. In the case of the GEF, the competition with other GEF agencies, especially UN agencies with better ties to the countries' focal points (usually the environment ministry)

and more capacity to design GEF projects, has led to MDBs calling for the GEF to facilitate MDBs' access to GEF finance, by, for example, establishing more dedicated windows for MDBs.³⁶ MDB staff also mentioned the general need for more flexibility in the implementation of climate projects, especially in cases where projects and programmes are implemented in fragile countries, where the original design of an activity is more likely to be adapted.

Partnerships with climate funds accelerate innovation within the MDBs, but do not address systemic issues

During the interviews, some MDB staff indicated that, through their own processes, they would eventually finance similar projects and programmes with their own resources, but that the additional highly concessional climate finance generated by the MDBs' partnerships with the funds help accelerate innovation for the MDBs. However, it is also clear that these partnerships alone cannot address the more systemic issues identified by the MDBs – for example, the limited IDA allocations, or the high costs of capital for some countries, especially those that, because of their level of income, cannot access highly concessional finance.

6. Conclusions

a) Recommendations for the MDBs role within climate funds

Overall, any future evolution of the climate funds should be driven by the needs of developing countries for accessible climate finance at the scale and of the quality best suited to meeting those needs. It should not be driven by the goal of facilitating access to finance for the MDBs. Even though our findings suggest that in some cases, for example for those

countries facing eligibility issues or lacking direct access entities, these two things are aligned, it is not always the case, and any changes in policy should be assessed against the need to drive more impactful climate action.

Our desktop research and interviews with MDB staff show that the differing policies from different funds make it harder and costlier for MDBs to access finance, and drive

³⁶ One example of this is the newly created Global Biodiversity Framework (GBF) Fund, which will be established under the GEF. The programming directions of the GBF Fund include an allocation of a minimum of 25% of its resources via MDBs.

fragmentation. More coordination would be welcome, and this would also benefit direct access entities in the case of the AF and the GCF. Some initial work on this has been done by the Taskforce on Access to Finance, established in 2021.³⁷ However, if harmonisation is to be promoted, it should not come about at the cost of high environmental, social and gender-related safeguards and standards. MDB safeguards and respective policies and standards should be evaluated and compared with the funds' safeguards to assess how fit for purpose they are in the climate space. Harmonisation should not weaken safeguards or related policies and standards that might be more suited for adaptation and mitigation objectives.

Considering the AF's focus on direct access, high transaction costs implied for MDBs and the MDBs' focus on bigger programmatic approaches using a variety of financial instruments, the MDBs should, rather opt for informal partnerships with the AF instead of accessing AF resources as entities accredited with the fund. Such informal partnerships with the AF could focus on knowledge exchange. The MDBs could use the resulting knowledge to support their client countries to access AF resources directly through national institutions. The knowledge generated through informal partnerships with the AF could also benefit the MDBs in their approach to mainstream adaptation efforts in their own institutions, as well as in developing concrete adaptation projects with support from other climate funding.

The CIF still plays an important role for the MDBs, especially considering its role as a platform for knowledge exchange and innovation. As a climate tool specifically designed for the MDBs, with a strong focus on middle-income countries and mitigation, it should evolve to rely less on highly concessional public climate finance and more on other sources. This is particularly the case considering how scarce this public climate finance is, and how it could be better deployed using other channels, while directing it to the countries and areas that are hardest to reach, such as low-income countries and resilience-related initiatives. In that sense, the recent Brasilia declaration on the future of the CIF,³⁸ which includes the CIF Capital Markets Mechanism (CCMM), could serve as a starting point for the CIF to evolve instead of sunset, as initially

planned, and to continue driving climate action in its focus areas, without competing with other mechanisms for scarce resources.

More generally, the MDBs do fill an important gap in access for countries that cannot access certain other sources of funding, like IDA funding or do not have accredited direct access entities, as in the case of the GCF. However, this large role should over time become more limited to those areas and countries that cannot reasonably be expected to be covered by national and regional institutions. Eventually, more focus should be given to direct access entities, so that they can develop the same level of capacity as the MDBs, as well as testing new instruments, models, technologies and practices, as the MDBs have done, and integrate the lessons learned from these partnerships into their own operations. Direct access to climate finance generally strengthens national institutions in developing countries and allows for greater ownership and self-determination. Direct access also generally allows for more money going directly to those countries, as resources are not used to cover administrative overheads for multilateral institutions, such as MDBs, which implement climate funds' projects.

In the short term, the MDBs can to a certain extent drive reform at the national or regional level by supporting local financial institutions to green themselves and to develop the capacity to de-risk investments, using climate funds' finance. Eventually, these national and regional institutions should use this knowledge to access finance from the climate funds directly and drive innovation themselves. The MDBs should continue to play this role for the local financial sector, as it is a key role in enhancing access to climate finance in developing countries. However, they should eventually play this role using their own funding and as part of their normal operations.

b) Reforms needed for the MDBs

In order to increase the availability of finance for climate action, and direct more of it through national direct access entities, MDBs need to rely less on climate fund finance and more on their own capital, including by increasing their own risk appetite and expanding the use of financial innovations. This is in line with the need for reform of the MDBs, which is already part of the discussions on reform, as highlighted by

37 More information can be found in the Foreign, Commonwealth & Development office document The Taskforce on Access to Climate Finance, no date: <https://unfccc.int/sites/default/files/resource/FCDO%20UK%20-%20Hannah%20Binci.pdf>

38 Gov.uk, Brasilia declaration on the future of the Climate Investment Funds (CIF), updated July 2023:

<https://www.gov.uk/government/publications/brasilian-declaration-on-the-future-of-the-climate-investment-funds-cif-joint-ministerial-statement/brasilian-declaration-on-the-future-of-the-climate-investment-funds-cif>

the work of the Independent High-Level Expert Group on Climate Finance and the MDBs' capital adequacy framework reform discussions.³⁹ This includes reforms leading to increased risk tolerance and expanded use of financial innovations to enhance the use of the MDBs' own capital.

At the same time, it is important to recognise that much of the reform agenda is heavily focused on middle-income countries, and risks leaving lower-income countries with continuing limited access to the finance necessary for climate action.⁴⁰ The role of the MDBs in lower-income countries should also be included as a focus of the reform agenda. For example, ways of increasing the availability of IDA funding could be explored, as well as the role of MDBs in engaging the local private sector in these countries.

c) Reforms needed beyond the MDBs

MDBs often use highly concessional finance from the climate funds to address systemic issues such as high levels of indebtedness, limited fiscal space, high costs of capital and high levels of risk perception. Even though this role is important in advancing climate action under these constraints, real transformation can only happen if the international community addresses these issues in a more systematic way, instead of offering piecemeal solutions. The IFA reform agenda is also considering climate as part of a broader discussion on global public goods and the international community will need to address similar systemic issues to preserve other global public goods such as biodiversity. The World Bank Evolution Roadmap introduced the idea of a trust fund for global public goods at the World Bank, which might be relevant in this context.

These different issues require reform of the whole financial architecture, addressing a broad range of issues. An important aspect of this is debt, for which the reform agenda has already proposed a host of solutions,⁴¹ and for which a common framework exists, although it still needs to be enhanced. Other important reforms are related to countries' eligibility to access concessional finance for climate action, and access to highly concessional funding, especially for adaptation, as well as for new technologies and models. Improved access should not only be linked to a country's level of income, but also to

its climate vulnerability. If MDBs would have more own highly concessional funding available, they would depend less on resources from the climate funds.

As the reform moves forward, the benefits and impact of MDBs accessing highly concessional finance from the climate funds would evolve. For example, if vulnerability is included as a criterion for assessing concessional finance in the MDBs, it could make accessing the highly concessional finance from the climate funds less relevant for the MDBs to implement projects and programmes in highly vulnerable middle-income countries.

39 Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science, Finance for climate action: Scaling up investment for climate and development – Report of the Independent High-Level Expert Group on Climate Finance, November 2022: <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf>

40 ODI, Multilateral development bank reform can – and must – benefit both low- and middle-income countries, April 2023: <https://odi.org/en/insights/multilateral-development-bank-reform-can-and-must-benefit-both-low-and-middle-income-countries/>

41 For example, it is included in the Bridgetown Initiative, the recommendations of the Independent High-level Expert Group on Climate Finance, The Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum, and the work of academia and civil society organisations.

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