Access to climate finance

Workshop report (theme 2)

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About the event

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Workshop report (theme 2)

On Tuesday 23 February 2021, IIED convened a workshop on **access to climate finance** with 52 participants from developing and developed countries, and prior to that a dialogue with southern experts only on Friday 19 February 2021. The outcomes from that workshop are summarised in this report and will feed into the Climate and Development Ministerial Event being hosted by the UK Government in March 2021.

The workshop discussion was guided by three questions. The key challenges and priority solutions discussed against each of the three questions is captured below.

Emerging priorities on access to finance

Section 1. What is the role of climate finance and what principles would provide an equitable framework for climate finance given the diverse capacities of vulnerable countries?

Challenges

Climate finance is not balanced as agreed under the Paris Agreement, with adaptation finance at 20% of overall climate finance flows and only 14% and 2% of climate finance going to Least Developed Countries (LDCs) and Small Island Developing States (SIDS) respectively.[i] Of the flows to LDCs, over 50% is in the form of loans.[ii] Less than 10% of global climate finance is committed to local action, with only 3% supporting decentralised energy and under 2% for forests.[iii] Despite progress in climate funds setting out requirements on gender, the workshop felt inclusion is under-supported in reality. Disbursement rates from global climate funds are also low at 35% overall, and even worse for LDCs, SIDS and Fragile and Conflict-Affected States (FACS).[iv]

Development finance itself is scarce, particularly in light of the COVID-19 pandemic. OECD estimates that even if members of the Development Assistance Committee (DAC) keep the Official Development Assistance (ODA) to the same Gross National Income ratios as in 2019, ODA could decline by up to 14 billion.[v] Even without the pandemic, estimates suggest the finance needed to meet the Sustainable Development Goals (SDGs) as US$1 trillion in concessional finance, which requires an increase of 750% from current levels.[vi] Currently only 51% of ODA is aligned to the goals of the Paris Agreement. Given limited finance, the workshop felt funding needs to deliver unprecedented value for money through responding flexibly and coherently to the real needs on the ground, not externally set priorities.

Given small flows, climate finance must focus on transformation. Climate finance is a small flow compared to development cooperation, private finance and to the estimated costs of delivering the SDGs alongside the Paris Agreement, the workshop agreed with the multilateral funds position of climate finance supporting a transformation or a paradigm shift, to tip climate action into a viable investment for development and private actors. In practice, success criteria are framed around volume of results, which the workshop felt incentivises technical solutions “helicoptered in” rather than building capabilities or enabling local experimentation. Demonstrating additionality is easier for mitigating emissions than for adapting development to its impacts, and the workshop noted that in practice contributors (see end note 1) mainstream significant climate finance into development programmes – so demonstrating additionality was only a requirement on poor countries. Criteria of co-funding and leverage of private investment are easier for countries with larger budgets and larger markets. These criteria collectively appear to create the unintended consequences that smaller, vulnerable countries find it harder to access climate finance and the workshop emphasised this was particularly true for poorer communities across all countries as well as women, young people and Indigenous peoples.

Defining the purpose of climate finance to improve the criteria for investment. Whilst there is no clear definition on what climate finance is, the workshop felt focusing on the purpose of climate finance would broker a functional definition and change the criteria for investment. If climate finance is to help support the rapid transformation needed for societies to thrive, the workshop felt it must reflect that purpose in the terms and requirements on which it is made available – so it can strengthen climate capabilities, de-risk experimentation, and to be the 'sandbox' for government, enterprise and grassroot organisations.

Priority solutions and how they could be delivered

1. **A functional definition of climate finance.** The workshop reached strong consensus that defining the purpose of climate finance would change the terms on which it is managed. There was agreement that climate finance should enable transformation, take risks to experiment and to build capabilities and institutions for the future in each country. It was emphasised that this means **strengthening the agency** of those experiencing climate impacts, whether that is vulnerable countries or local actors from vulnerable communities in those and wider countries. It was also clear from discussions that this requires finance to be flexible to respond to the diversity of contexts and to changing contexts. It was proposed that actors managing climate finance should be clear where decisions made, and devolve authority over resources to the country and down to local actors as appropriate.

"Not all finance is created equal. Public climate finance must do what others won't, not helicopter in solutions."

The workshop agreed that climate finance should be framed around delivering the outcomes not just results. Providing agency to vulnerable countries and vulnerable people to shift their development pathway would mean privileging support to organisations with local reach and connections, who are able to aggregate local communities' priorities and respond flexibly to diverse contexts. Success would mean finance reaches where it is most needed behind the **principle of subsidiarity**, and this implies greater support to the local level for communities and social enterprise. The Paris Agreement also specifies adaptation should be **gender sensitive and inclusive**, and this requires the functional definition to be serious about **social transformation.**[vii] And this definition needs to be **described in plain words** so it can be translated into local phrases to bring wider understanding.

"Climate finance should be an incentive for countries and the private sector to move towards sustainable development and climate action."

Further research: Bring together perspectives from the Climate Investment Funds (CIF) learning process on how transformation has been supported with existing analysis of how successful proposals to the multilateral climate funds have argued for the transformational value of an investment and how decisions were made at the Boards. This would deepen the development of a robust yet pragmatic definition. Explore the ideas of transformational change in respect to power and agency for national partners and women, young people and other excluded groups specifically to test the value of these options.

2. **Reframing risk and the incentives of climate finance contributors.** Business as usual approaches to climate finance are set up to cater to donors' incentives and risk tolerance. This puts a high burden on recipients to prove that interventions' meet different donors' funding criteria and their fiduciary capability. The vulnerable countries who have attracted more climate finance have often had patient and risk tolerant sustained support behind their vision – largely from bilateral funds. The Green Climate Fund (GCF) for example is highly risk averse, requiring recipients to prove their track record of fiscal management before providing support. The Multilateral Development Banks (MDBs) are less risk averse and provide longer term support, but largely provide loans which means it is the recipient Ministries of Finance who hold the risk and the requirement to keep

"Climate finance is currently managed the same way as conventional finance. The logic of the climate response is not translated into how it is managed. The risk profile doesn't fit"

debt at sustainable levels. The workshop noted that international intermediaries' proposals may look like value for money but they do not report how much resource reaches national and local actors. The workshop also noted that the requirements of multiple bureaucracies are left for recipients to manage, instead of being harmonised by the power holders.

The workshop proposed donors and fund managers need to understand and share the risks recipients face, not just manage their own. There is a huge early investment of resources to develop multi-stakeholder innovative programmes and the more consultation taken, the more expectations are raised. The political risk for donors is in the misuse of funds and in low disbursement rates. For recipients, the risk is in the time it takes to navigate multiple bureaucracies – their own, the intermediaries, and the donors – to agree the programme and then to deliver effective outcomes, including to adjust with a changing context and learning. The more bureaucratic red tape there is, the less likely it is that learning will lead to adjustments throughout delivery. Which in turn means delivery partners are less likely to look for unintended consequences or ask whether the intervention was the right one, not just if it is being delivered. It also means the final delivery partners and the communities themselves are required to hold all the cumulative risk profiles of those above in the finance chain. The workshop felt that given the purpose of climate finance is to support innovation, to experiment and allow failure, risk tolerance is critical.

"Patient and predictable funding should be combined with the understanding that climate finance should allow people to innovate and to fail."

Success criteria frame the fund holders' risk tolerance, and so these need to change from a risk averse focus on quick delivery for disbursement rates and the volume of results. Climate finance is intended to reduce risks for communities, and this means being longer-term, risk seeking and flexible support that frames success in terms of strengthening national and subnational institutions' capabilities and rapid learning from experiences on the ground. Value for money would also be negotiated between the donors' framing of volume of results for money spent to countries' own aspirations of having the agile institutions capable of accessing finance, anticipating shocks and responding to the unexpected.

"Collectively we are viewing risk differently now. Might we be able to build a different risk framework after a pandemic that hit us so hard?"

Further research: Exploring what a shared risk profile might look like between fund holders and the grassroots federations and locally connected intermediaries could offer insights into what this would look like practically. This idea has also emerged as a priority from organisations signing up to the Principles for Locally-led Adaptation, so that cohort would usefully be encouraged to develop approaches.

3. **Reset criteria for investment and resolve contested terms.** Additionality for climate finance was agreed at COP15 in Copenhagen in 2009 for the donors, not the recipients.[viii] The multilateral climate funds are, however, applying this to proposals. The workshop felt that for adaptation particularly, success is to transform development into climate resilient development and suggested donors agree given the level donors are mainstreaming.[ix] Another challenge to proposals has been whether this is distinguished from business-as-usual development. The workshop proposed that the onus should be on the fund holder to communicate examples of what does and does not qualify as adaptation or loss and damage versus development-as-usual.

"Climate finance is the opportunity to build hope for the next

The workshop raised concerns around who defines vulnerability, suggesting wider perspectives are needed than just top-down assessments. UNFCCC decisions over the years have used the phrase "particularly vulnerable" to describe a subset of developing countries for prioritisation, the LDCs, SIDS, and Africa states.[x] However, some countries within this category do better than others and the workshop felt additional support to those falling behind should be incentivised. The workshop also felt that funders should also be alert to the hidden vulnerability of poor communities and excluded groups in the better-off countries where wealth is concentrated in the hands of a few.

The LDCs have proposed a shift to Business Unusual in their asks and offers of the LDC 2050 Vision and under the LDC Initiative for Effective Adaptation and Resilience (LIFE-AR).[xi] More than 40 governments, multilaterals and NGOs have signed up to the Principles for Locally-led Adaptation that also set out an approach for better quality support. These principles, alongside the agreed functional purpose of climate finance, offer ideas for criteria. For example, making longer term commitments – the workshop noted that transformational change is decadal and not 2-3 years. The workshop emphasised that good design with multi-stakeholders can take 3-4 years and that early support – whether bilateral or readiness funding – should be designed to take this into account. Another example the workshop emphasised for funding criteria would be to **promote subsidiarity in decisions and to incentivise on-granting to local actors**, to ensure finance reaches smaller organisations connected to or managed by communities. The workshop also highlighted tackling structural inequalities as another critical principle – to ensure women, young people, Indigenous peoples, and other excluded groups were supported to influence local and national decisions – as well as how funders considered their issues.

Further research: As with solution 1, there would be value in testing the implications of criteria changes on past fund decisions as well as on their project pipelines. Developing guidance on what would and would not be approved would also help those designing programmes and developing the proposals to shape their approaches to respond to the criteria.

4. **Increase the influence of climate finance on other investment.** The workshop felt that influencing development and investment flows requires focusing in-country to build the national architecture that could both influence flows and strengthen demand to contributors/donors. The workshop noted the emerging consensus that all ODA should align with the Paris Agreement and that private investment should disclose both transition and physical risk.[xii] It was proposed that domestic and international investment should also disclose what was Paris Aligned [see section 3 below]. Considering falling levels of ODA, the workshop concluded that this reinforced the proposition that climate finance is reframed to be risk tolerant support for innovation that shifts development pathways to be able to absorb shocks, adapt to trends and transform systems.

“Every dollar spent has to have climate thinking.”

Focusing on the enabling environment in-country was seen by the workshop as enabling countries to bring capacity together from different sources and working through the complementary roles of different actors. It was recognised as essential to develop this vision across government and indeed the whole of society, but that to influence investment Ministries of Finance (MoF) and Central Banks held a critical role.

The workshop noted that demonstrating the value of climate action to MoF can take longer term investment as well as solid evidence on the costs of climate impacts. Testing the robustness of long-term development plans against vulnerability analysis has also proven effective in building broader understanding. The workshop noted to influence private investment, there was value in a specific effort to engage banks and social entrepreneurs in-country and so shape the discourse of economic growth.

There was also strong consensus around the value of multi-stakeholder platforms that bring the decision makers on climate (nationally designated authority or NDA) together with the MoF to share power and build understanding. This should also enable the inclusion of the voices of women, children and young people. These platforms would be given the mandate to build the core architecture, systems and delivery mechanisms to access climate finance for incentivising the transformation in society, economies and ecosystems required by climate change.

Further research: Whilst there is a significant body of research in the value of all finance being Paris Aligned, there is less on how this influence can be brought about in poorer countries. An evidence review of the approaches that work in LDCs and SIDS, with less power to influence private investment and fewer bilateral connections could have value to deepen analysis of options.

Section 2. What roles should the different climate finance providers and intermediaries play to improve access by vulnerable countries?

Section 1 highlights the need to shift the role of climate finance from simply the volume of results – which leads to risk aversion – to taking a more patient and risk-tolerant approach to climate financing, to strengthen the climate capabilities and de-risk experimentation by government, local enterprises and grassroots organisations. As the in-country architecture is nurtured, fiduciary capability strengthened and agile institutions available, climate finance can be leveraged at scale by influencing development and investment flows.

Section 2 of the dialogue and workshop built on these ideas of what climate finance should do, unpacking the challenges of accessing current climate finance providers and working with the major intermediaries channelling most of the funding, and workshopped possible solutions to overcome these issues.

Challenges

The climate finance landscape is highly fragmented and complex. Article 9 of the Paris Agreement states that "The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, 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 LDCs and SIDS...".[xiii] Yet, access remains anything but simple. The climate finance architecture within and outside the UNFCCC is hugely complex with over 100 providers,[xiv] including: bilateral donors, multilateral development banks, and multilateral climate funds serving the UNFCCC (the Global Environment Facility, Least Developed Countries Fund, Adaptation Fund and the Green Climate Fund) and outside (Climate Investment Funds). Each provider possesses different mandates, financial instruments and modalities to access funding which are often not tailored to vulnerable countries' needs. The workshop highlighted the complexity of climate finance, noting that national and subnational actors often find it too costly to engage directly with these climate finance sources. The workshop also noted the challenge of undergoing the process all over again with other sources. This can be de-motivating if further institutional re-structuring is requested. For example, on average it takes over 1,100 days to gain access to the GCF's resources from start to finish.

"If we've gained accreditation to the Adaptation Fund, why doesn't this gain us access to the GEF or GCF. They offer us fast-track accreditation, but this is anything but fast."

Climate finance remains dominated by the usual suspects – international intermediaries. Despite direct access being particularly important to the "country ownership" of climate finance – whereby climate finance is accessed directly without going through an intermediary – its' complexity means it remains overwhelmingly accessed by the international intermediaries. As a result, international intermediaries have amassed the trust, knowledge, skills and capacities to navigate the complex processes, but who largely operate outside national systems. For example, 81% of the GCF's finance is accessed by international intermediaries. UNDP, EBRD, the World Bank, ADB and FAO capture 15% of the GCF's portfolio. This does not look set to change, with only 34.3% of the GCF's pipeline of funding proposals from direct access entities, accounting for just 21% of new GCF funding sought.[xv] These are often not the most suitable to reach the people and places who need the funding most. Workshop participants noted that these international intermediaries risk using up the little climate finance that is available before national and subnational organisations have been able to navigate the complex system. Rather than identifying and patiently working with more suitable and potentially more transformational in-country intermediaries. Workshop participants emphasised that this comes back to how climate funders define "value for money", as outlined in Section 1. Even attempts to simplify procedures, such as the GCF's Simplified Approval Process, has overwhelmingly benefited international institutions, rather than taking the necessary risks to invest more in national and sub-

"There is too much focus on those intermediaries who can channel and spend the most money today – this has led to the GCF working through very business as usual intermediaries. We receive GCF funding through a long and complex chain of intermediaries."

national actors. International intermediaries accredited to the GCF are meant to build the capacity of direct access entities as part of their own accreditation rules, yet the workshop noted limited evidence of this is happening, as their work-plans remain private.

Climate funders are not prioritising or taking the risks needed to make access work. Many national and subnational institutions within vulnerable countries who do know their contexts best are unable to meet the stringent and specialised fiduciary capacities required. Most funders are not currently incentivised to take the risk needed to invest in and build the track records of these in-country institutions. The workshop confirmed that this goes beyond accreditation. Even once they have surpassed the stringent and onerous access criteria, it takes a long time to develop proposals deemed funder ready. Although these may be more creative and context specific that internationally designed climate programmes, they risk missing out on scarce resources as international actors capture the funds first. A key indicator of this problem is the lack of Enhanced Direct Access programmes, which seeks to increase the number of devolved climate finance approaches, approved or in the pipeline of the GCF. Just two Enhanced Direct Access programmes have been approved since the GCF began.

"Once the finance arrives it is way too late as the original context has evolved already."

Lack of human resource support is a major blocker to successful direct access. The workshop noted a particular barrier to access is the lack of climate finance for human resources including staff salaries. When available, these administrative costs are mostly absorbed by international intermediaries and consultants, with limited amounts passed down to local actors despite their much greater need. In most cases climate finance is not allowed to be used towards staff salaries at all – despite strengthening human resources being central to enabling sustained and transformational change.[xvi] Even for capable institutions the additional human resource costs, especially on-top of business-as-usual programming, are huge, and the time taken to develop strong and innovative climate programmes is long. Although the workshop did note that national governments need to play a key role in solving national and sub-national human resource challenges, LDC's are particularly dependent on ODA, if this continues to fall their institutions may fall further behind. This is made even more challenging by the unwillingness of many climate financiers to collaborate with national and sub-national institutions to overcome access gaps, or to understand how to meet the required standards. Better practice was shared from the Adaptation Fund, who was said to be more approachable and flexible to the different contexts' institutions are from and operate in.

"Even once accredited there can be big gaps until project funding is secured. Even then we couldn't use the funds to grow our human resources. We found an innovative solution – but these solutions are not often available in poorer countries"

Access to climate finance between vulnerable countries is also highly unbalanced. Over 30% of LDC climate finance between 2014-2018 was committed to just two countries – Bangladesh and Ethiopia. Both have also been able to access the GCF and the Adaptation Fund directly and have benefited from significant bilateral and MDB support over long-periods. This has helped to build the capacity of their institutions and develop strategic investment opportunities for climate funds like the GCF. SIDS are dependent on regional institutions who are unable to cater to all the SIDS requirements. Only four national SIDS entities have gained direct access to the GCF. These national entities have limited human and financial resources, and readiness funding is not helping address the access gap.

"We need to reach more non-traditional actors including youth and social enterprise who can develop and scale-up innovative ideas and solutions. We need more diverse intermediaries capable of working at the local level."

"Supporting on-granting controlled in-country is essential, but the criteria to meet the on-granting standards for the GCF is incredibly hard. We need more innovative business models that can decide upon and deliver grants across society and inclusively."

Democratisation of climate finance access is very low. The workshop made the case strongly that the equity of climate finance is not only about flows between vulnerable countries, but also within vulnerable countries. Supporting and stimulating climate solutions from across the "whole-of-society" – both vertically and horizontally – is an inherently adaptive strategy, creating more climate solutions that can succeed where others naturally fail. Present in-country flows are dominantly distributed to central government actors, potentially missing many of the innovative climate solutions from local enterprise, local civil society and grassroots organisations. Potentially transformational resources like the GCF's "Enhanced Direct Access" which promotes devolution of sub-programme decision making to the national or subnational level, remain almost untouched. Workshop participants noted that this requires changes in the approach by developing countries, especially how multi-stakeholder and governance focussed their climate finance strategies and focal points are. However, climate funders are placing financial leverage and co-financing, not governance, at the heart of achieving transformational climate finance, and thus direct access and country-led on-granting and on-lending is not adequately prioritised as central to delivering transformational change. Access requirements do not recognise the heterogeneity of national and sub-national organisations within developing countries. This includes often publishing funding guidelines and requests for proposals only in English, let alone in local languages and jargon free. Further, funding scales are often incompatible with what local organisations can realistically manage. This hugely limits the pool of institutions that can gain access to climate finance, and therefore limits the scale and diversity of the climate response.

Priority solutions and how they could be delivered

The access to finance dialogue and workshop identified a series of solutions that could help improve the pathway to more direct access to climate finance by vulnerable country's institutions.

5. **Prioritise direct access and development of resilient and capable climate financing architecture as the means to achieve transformational results.** The role of institutional development, capacity building and direct access to climate finance needs to be at the forefront of climate financing strategies to achieve transformation or a paradigm shift. This requires shifting away from the present focus on creating "project" and "investment pipelines", to empowering agile national and sub-national institutions that can govern and finance inclusive domestic climate action at scale over time. This requires recognition by climate funders and recipient national governments that climate finance can help create the architecture needed to facilitate transformational change towards low-carbon climate-resilient societies but is unlikely to deliver it directly.

The workshop identified that this could benefit from a **dedicated accreditation strategy.** Currently accreditation criteria do not recognise the contexts and diversity of developing country institutions. Access should be made more flexible for national and sub-national institutions, including recognising the different in experiences, capacities and scale of public, private enterprise and local civil society. This includes climate funders explicitly recognising and setting out how to address the present subconscious bias that exists in favour of international versus in-country intermediaries. Climate finance should explicitly recognise it is a learning by doing approach for many direct access entities – taking an empowerment-based approach as trialled in the Forest Investment Programmes Dedicated Grants Mechanism, or even bilateral funders such as USAID's local partnership programme.

The workshop also emphasised the need for climate finance to be able **support greater human resources** within developing country institutions. Enabling greater use of climate finance in the human resource capacity of developing country institutions, especially for newly accredited institutions, and institutions seeking accreditation to global climate funds.

All climate funders could also bring in **access quotas.** Bilateral donors, MDBs and climate funds should put in place quotas for how much climate finance can be accessed by international intermediaries, similar to the Adaptation Funds 50% portfolio cap, or a minimum amount which must be accessed by national and sub-national institutions before international intermediaries can access funding.

Further research: Further investigation and dialogue is required to map out the subconscious bias, and potential strategies to overcome it, within climate funders and within developing country governments that lead to the present rush to use international intermediaries rather than to incubate domestic institutions. Further dialogue with climate fund secretariats on the ways in which accreditation strategies and empowerment approaches could be strengthened would be useful, including deeper learning from the experience of the Forest Investment Programmes Dedicated Grants Mechanism and the Adaptation Funds Enhanced Direct Access portfolio.

6. **Place strict rules on international intermediaries to support the transformation to direct access.** Presently international intermediaries dominate the climate finance system and the workshop noted that this is likely to remain the case for the foreseeable future unless the international intermediaries change the way they operate – working themselves out of a job, or at least changing their role away from operating as financial intermediaries and implementing entities.

The workshop identified several ways in which international intermediaries could be mandated and supported to help make this shift. Firstly, that all international intermediaries should have to **include on-granting and on-lending schemes** managed in-country. This should include placing rules on the present suite of international intermediaries so they are required to **mentor national and sub-national institutions,** including government, enterprise and grassroot organisations so they themselves can directly access climate finance. All international accredited entities should **partner and mentor** relevant national and/or sub-national institutions, helping them overcome the presently stringent access requirements, building their track records and supporting them to meet their human resource and staff costs. Workshop participants also noted that international intermediaries' **climate finance strategies – especially for mentoring – should be made public**. This will allow their support to national and sub-national institutions to be accountable and monitorable.

Further research: Further investigation into non-climate developed finance spaces and how they have fared in placing stricter rules on international intermediaries would be beneficial. For example, the Global Fund for Aids, TB and Malaria has placed rules on the roles of intermediaries. Further research would also be useful to understand the potential blockers of placing stricter rules on intermediaries, and the wider Aid Effectiveness Agenda which may need to be utilised to initiative a wider shift in the role and behaviour of international intermediaries, including ongoing debates on localising humanitarian aid.

7. **Harmonising, streamlining, simplifying and democratising climate finance access.** The workshop consistently raised that current access criteria are not fit for purpose. Building national and sub-national institutions' capabilities is critical, and international intermediaries can support this, but access criteria also needs to become more flexible and tailored to developing countries' needs, rather than catering for international institutions.

The workshop identified several areas that could be taken forward to improve harmonise and simplify climate finance access. Including **producing all funding procedures, policies and criteria in national, local and jargon-free languages.** Global climate fund, bilateral and MDB financing is overwhelmingly communicated in English. To properly serve developing countries and different segments of society within vulnerable countries in particular, significantly greater effort must be made to improve the translation and communication of climate finance access.

The workshop also raised that now would be a good moment to attempt to **unify access approaches.** Participants raised that access to one climate fund should mean access to all, with confusion over why they have to apply for accreditation for each climate funder they seek resources from. Unification of accreditation criteria across the main climate funds would mean access and successful financing with one, enables simple access to others. This includes enable direct access to funds such as the GEF – which currently do not allow direct access.

Finally, the workshop suggests that there should be renewed efforts to consider the climate finance system as a whole and what the differentiated roles within it are to create more impact with the limited resources available. This would include **more directly accessible small funding volume.** Workshop participants made it clear that the climate finance system should work in a collaborative and strategic way, seeing itself as a single rather than the current fragmented system. Ideas were raised, such as whether the Adaptation Fund should be significantly capitalised (over current replenishments) to be able to play a "*sandboxing*" role with smaller volumes of finance dedicated to national and subnational direct access entities, allowing track records to be developed before these national and locally led climate finance business models are taken to scale by larger sources such as the GCF. It was also raised that some climate funders may focus on supporting and scaling-up non-state approaches – especially those led by youth, women and social enterprise.

Further research: is required into the different roles that different climate finance institutions – bilateral funders, MDBs and climate funds, and the different institutions within these groups – should play, getting the most out of their niche and risk tolerance. WRI has previously undertaken research on the different roles of the main climate funds (*Future of Funds*), but another review, including bringing in greater voice from the LDCs, SIDS, grassroots communities and local enterprises given the different types of finance and access requirements for all these groups. This will also be crucially linked contributors willingness to capitalise different climate funds more equally, and possibly scale up the finance they channel through climate funds rather than through bilateral channels.

3. How can we build greater trust in quantity and quality climate finance flows and to track progress across the climate finance system?

Challenges

Donors have committed to providing US$100 billion a year by 2020 to support climate action in developing countries and will now begin discussing new long-term commitments. However, the way in which climate finance is currently reported obscures the true figures of climate finance flowing to recipient countries, which has negatively impacted trust between Parties in international climate negotiations.

The workshop found that transparency is a pre-condition for multi-directional trust; i.e. recipient countries can trust that the money being promised is being delivered, and that donors can accurately see how money is being spent. But, more needs to be done to improve trust and the manifold accounting and reporting practices has led to widely contrasting statements on climate finance under the UNFCCC (from the Biennial Reports and National Communications), and reported under the OECD DAC database, as well as other sources such as the International Aid Transparency Initiative (IATI). The workshop reflected on the following challenges:

No universal reporting standard for climate finance: The workshop discussed how the variety of reporting approaches across donors and intermediaries can make the data hard to understand, and hamper precise tracking of financial flows, or meaningful comparisons between developed countries' provision of climate finance. The figures under each of these reporting frameworks often diverge. It further muddles the tracking of any thematic or geographic gaps in the allocation of international climate finance. Unclear information on how money is being invested hinders recipients' ability to plan and deliver transformational approaches. The UNFCCC guidelines offer flexibility to developed countries on climate finance accounting. Each developed country can decide what counts as climate finance, and there is evidence of non-concessional loans being counted in the same way that grants are counted, despite the high interest rates. So far, developed countries have not been transparent and comprehensive in their reporting to the UNFCCC on their methodologies. The picture is further confused by the fact that accounting methodologies have changed over time in some instances. Similarly, climate finance figures contained in developed country's National Communications are sometimes different to figures provided in their Biennial Reports.

> *"The over-arching issue is that there we don't actually know what is being counted and what isn't, so it's not clear if the investment has reached us or not."*

Over-reporting of adaptation finance: The workshop discussed that adaptation remains substantially underfunded compared to mitigation, but at the same time, some donors are over-reporting their figures around adaptation investment. This is true for both bilateral and multilateral donors. There is limited application of quantitative reporting practices intended to earmark the incremental costs of adaptation.

For example, some bilateral donors report on the specific climate components under projects, whereas others report the entire project leading to over estimation of the investment specific to climate change activities.

Flaws in self reporting: The workshop pointed out that the current system for self-reporting using the OECD DAC Rio Markers is flawed and is subject to human error when inputting the data due to wide interpretation of the OECD DAC's definitions of adaptation. Indeed, the workshop found that donors are free to decide what counts as adaptation. It was noted that there is pressure to 'get money out the door' and invest in projects. This pressure can create the incentive to over report, particularly by the MDBs. At the donor country level there may also be political incentives and pressure to miscategorise, and lack of clarity or understanding on what activities can be considered as adaptation. Where data is being entered centrally by donors there are often different staff - sometimes junior staff lacking experience, technical climate change knowledge or training - leading to different reporting approaches. The OECD DAC reporting can be unreliable as projects are marked as "principal" or "significant" targeting mitigation or adaptation, whereas only smaller elements within that project can be said to genuinely target adaptation or mitigation, and not the whole project investment. The workshop raised concerns that these errors in reporting in the database make it hard to fully understand the intention of these investments.

Project data is often scarce or poor quality: The workshop further noted that the poor availability of comprehensive data also means donor intentions are often hidden. Of particular concern was that project data is often not made available to civil society organisations by donors despite repeated requests. The workshop found that project data is critical understanding the intentions of donor projects and investments, holding donors to account by assessing performance. Meaningful project information is very important so that development partners will struggle to learn from each other and improve. Workshop participants highlighted the fact that despite efforts such as IATI project data is still not being shared amongst climate finance providers in order to more disseminate learning from projects and inform future programming. Project data is often tucked away in donor systems. There is no required project-level reporting under the UNFCCC for developed country reporting.

"Whilst the provision of detailed project data isn't a silver bullet, its big help in holding donors to account. More effort is needed."

Unclear what is being counted: In some donor countries' Biennial Reports they report finance that is only committed, but has not actually been disbursed yet. Whereas others will report disbursements. The workshop reiterated that this makes comparability near impossible across donors, but also means there is limited transparency around how the proportion of actual spend at any given time; *"We don't know what has arrived and what is coming..."* noted one participant. Another critical issue - which relates to that of definitions above – is that developed countries can decide what counts as climate finance meaning that non-concessional loans are being counted as climate finance in the same way that grants are counted, despite the high interest rates. There was broad agreement in the workshop that this was unfair for recipient countries.

Priority solutions

8. **Better availability of comprehensive project data.** The workshop found that there is the need for more detailed and publicly available project information as it paints a clearer picture of climate finance flows, but also what is working and what isn't which is fundamental for learning. Project documentation should be made publicly available and easily accessible, for example through IATI. This must apply to all actors involved in climate finance provision and implementation, including donors, intermediaries, implementing and executing entities. It also important that the intended climate-related outcomes and impact are expressly indicated in the project documentation. Within the project data, it is also important that the adaptation components are clearly separated from the elements which are not adaptation related so that the incremental investment in adaptation is made clear. This should then be used as the basis for the OECD-DAC reporting on that database also, so as to eliminate discrepancies across different sources. It also important that donors expressly and clearly indicate their intended climate-related outcomes and impact in the project documentation. Project documentation should also be transparent on decision-making as well as the instruments

used, not merely around reporting of volumes, but also how climate change activities are being planned and implemented.

9. **Agree a standard for accounting for climate finance.** Until there are universally and internationally agreed ways in which to account for climate finance, there will continue to be confusion on what can be counted as climate finance and different reporting practices leading to different statements on mobilised volumes.

10. **Independent analysis and verification.** The workshop noted that adequate technical assistance and financial support (including support for recruitment and training of personnel, consistent with Section 2) should be provided to recipient countries to help develop their reporting capabilities and data systems to help with multi-framework reporting requirements, and crucially to hold donor to account on their commitments. Greater transparency and independent analysis will also be crucial for building trust in climate finance. Independent analysis of the data would improve trust in the system and would foster better practice by donors, so maximising accountability and opportunities for learning. If donors want their climate finance commitments to be trusted, they must invest in improving the transparency of their reporting to allow independent analysis, including by recipients.

Areas for further targeted research for Section 3

Understanding the political economy of transparency: It is important not to fall into the trap pf thinking transparency can be solved by technical solutions alone. This is deeply politized issue, and there is need to unpack and expose some of the political economy issues that that may hinder transparency. Discussions around climate finance often take place in silos, but the interrelationship with ODA should be acknowledged more. (The workshop indicated a seemingly false division of development and climate finance, and the need to expose the realities.

Private sector disclosure of risk and Paris alignment: The workshop touched upon the need for private sector investors to fully disclose risk when investing in developing countries, as well as the degree to which portfolio investments will be Paris aligned. Currently there are a variety of Paris alignment methodologies and metrics. The work to develop a universal standard for climate finance could also set out the way in which portfolio investment can be aligned to avoid a deluge of different methodologies as in in the case of climate finance reporting. MDBs are already undertaking efforts in this respect through the Paris Alignment Working Group and a number of private sector organisations are also developing approaches, as are a number of think tanks (e.g. E3G). More effort is required to ensure a unified approach. There may also be the opportunity to making Paris alignment mandatory for private sector investments.

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On Tuesday 23 February 2021, IIED convened a workshop on access to climate finance with 52 participants from developing and developed countries, and prior to that a dialogue with southern experts only on Friday 19 February 2021. The outcomes from that workshop are summarised in this report and will feed into the Climate and Development Ministerial Event being hosted by the UK Government in March 2021.

Event Materials

Climate change

Keywords:
Climate finance, financing local adaptation, transparency, climate resilience

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