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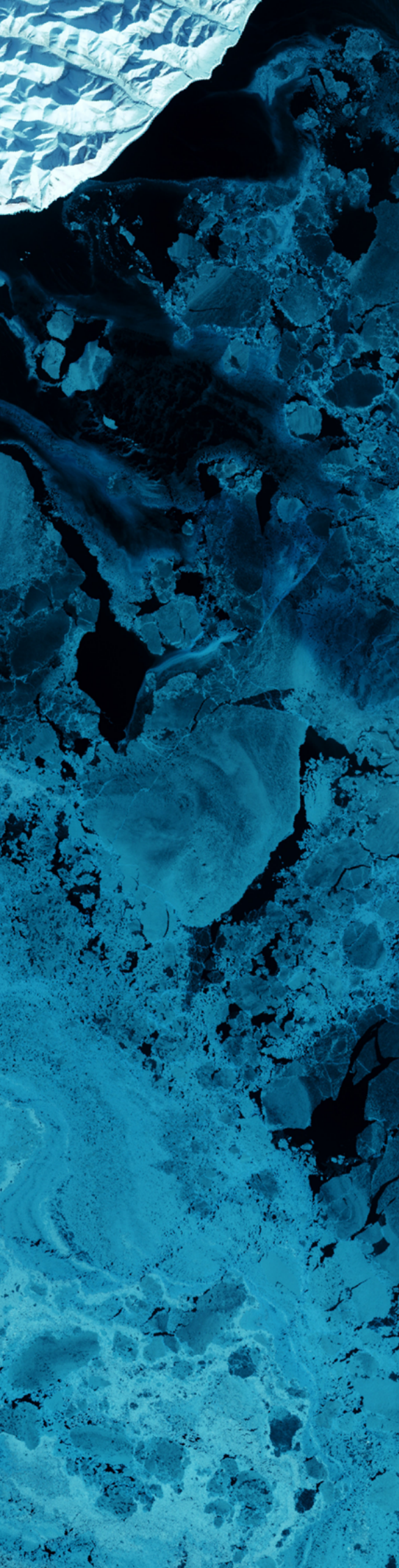
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## LESSONS IN MULTILATERAL EFFECTIVENESS

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**Pulling Together:  
The Multilateral Response  
to Climate Change**  
VOLUME I | [Overview](#)



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The study also benefitted from exchanges with experts from the OECD and the Subsidiary Body for Scientific and Technical Advice (SBSTA) of the UNFCCC, as well as from global partnerships and think tanks, IDDRI, the NDC-Partnership, and WRI.

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# TABLE OF CONTENTS

## ACKNOWLEDGEMENTS

i

|   |          |
|---|----------|
| <b>Overview</b>   | <b>1</b> |
| Climate change is the defining challenge of our time  | 2        |
| The response has many positive facets   | 3        |
| Integrating climate action into strategies and country programmes   | 4        |
| Scaling up climate finance  | 5        |
| Supporting countries beyond financing: knowledge, capacity building, partnerships   | 6        |
| The response does not, however, meet the scale of the challenge<br>– some key lessons for acceleration  | 7        |
| Lesson 1: Lack of “whole-of-government” NDCs and LTSs hinders progress on<br>the climate change agenda.   | 8        |
| Lesson 2: The focus on measuring climate finance may distract<br>from thinking climate as part of broader development.                              | 9        |
| Lesson 3: The Paris goals cannot be achieved without a massive scale-up of private sector-led<br>investment in climate change.                      | 10       |
| Lesson 4: Transformational technology is key for moving towards a carbon neutral world but the<br>R&D required lies outside the mandate of the MOs. | 12       |
| Lesson 5: Well-designed partnerships are important. Their coordination and consolidation are<br>essential.  | 13       |
| Lesson 6: Reducing support to fossil fuels brings challenges<br>for transition that must be recognised.   | 14       |
| Looking beyond the lessons – questions for further enquiry  | 15       |

# OVERVIEW



**The Multilateral Organisation Performance Assessment Network (MOPAN) is an independent network of 20 countries<sup>1</sup> sharing a common interest in improving the effectiveness of the multilateral system.** MOPAN commissioned this analytical study to build upon its well-established performance assessments, adding value by offering a contribution to system-level learning about the multilateral response to climate change. This study is one of the first in a series of *Lessons in Multilateral Effectiveness* being conducted by MOPAN on a range of salient topics related to the multilateral system.

## Climate change is the defining challenge of our time

Growing concerns over climate change have led the international community to increase commitments to reducing greenhouse gas emissions. Such concerns culminated in 2015 with the adoption of the Paris Agreement at COP 21, which set the triple long-term goal of limiting global warming to well below 2 degrees Celsius, pursuing efforts to limit it to 1.5 degree Celsius, and increasing the ability to adapt, and aligning finance flows with a pathway towards low greenhouse gas emissions and climate-resilient development. The same year, governments signed the 2030 Agenda for Sustainable Development, comprising 17 Sustainable Development Goals (SDGs) including SDG 13 on Climate Change. **Multilateral Organisations (MOs) and the Multilateral System (MS) are key actors and partners in supporting countries achieve these goals.**

The level of country commitment presently varies. The world is not currently on track to limit global warming to under 2 degrees Celsius, and far off track for the 1.5 degree Celsius goal. G20 countries, which currently account for about 72% of GHG emissions, have a key role to play in reaching the Paris climate goals. The picture is changing rapidly and not all data are reliable, but in 2018, the developed G20 countries accounted for about 14% of the global population and 25% of GHG emissions, while the emerging G20 countries accounted for about 49% of the global population and 47% of GHG emissions.<sup>2</sup> The developed countries have the greatest capacity to reduce emissions rapidly, to pilot and scale up carbon neutral and climate resilient approaches to development, and to work with developing countries to grow their economies on inclusive, low carbon, sustainable growth paths. At the same time, the large G20 emerging economies such as India, Indonesia, Brazil, and above all China, which now accounts for about one-quarter of global GHG emissions, can also significantly contribute by scaling up their levels of ambition. The MS, for its part, has broadly responded through partnerships, research, capacity building, knowledge and information sharing, and advocacy. MOs have also responded by scaling up their financial and technical support for climate adaptation and mitigation in both low- and middle-income countries.

To mobilise resources at a scale commensurate with the challenge requires significantly scaling up domestic resource (public and private savings) mobilisation, tapping the vast global savings pool, and leveraging private sector investment. A far greater effort is needed. This includes engagements reflecting a “whole-of-government” and “whole-of-society” approach that involve enabling policies and broad stakeholder engagement and greatly increased investment at every level from local to global. Country and organisations leadership can play a key role in moving the climate agenda forward with clearly articulated

1 As at 1 July 2021: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Arab Emirates, the United Kingdom and the United States; Qatar is an observer.

2 Climate Watch. 2020. GHG Emissions. Washington, DC: World Resources Institute (Available at: <https://www.climatewatch-data.org/ghg-emissions>); FAO 2020, FAOSTAT Emissions Database; CO<sub>2</sub> Emissions from Fuel Combustion, OECD/IEA, 2019; World Development Indicators, The World Bank, These estimates include LULUCF, of which most G20 countries are “net sequesterers.”

messages, support for operationalising pertinent actions, and “soft power” including convening capacity and advocacy. But broader support is needed to pursue truly transformational change that includes strong civil society participation and effective partnerships among researchers, private industry and governments.

## **MOPAN examined the climate response of multilateral organisations**

**The impacts of global warming that have driven a growing response from the MS are the background for this study.** The United Nations Convention on Climate Change (UNFCCC) entered into force in 1994, ratified by 197 parties, including all United Nations member states. It sought to stabilise greenhouse gas concentrations at a level that would prevent dangerous anthropogenic interference with the climate system.

**The purpose of this study is to review how MOs and the MS more generally are responding to climate change within the context of the Paris Agreement and SDG 13, and the upcoming COP 26.** More precisely, the study seeks to provide insights into the “direction of travel” of MOs and, through them, the MS, by studying how selected MOs work with countries to address the challenge of climate change. The study provides key lessons and policy options for acceleration of climate action as the international community prepares for COP 26.

**This study is a learning exercise** as it seeks to provide insights into the constraints and opportunities faced by the MOs, countries, and the broader MS in addressing climate change. It is not an evaluation and does not specifically assess the effectiveness of the different MOs as regards Paris alignment, nor does it compare the performance of various MOs.

**The study builds on 11 MO analyses and five country analyses that are complemented by global perspectives.** The MOs selected for analysis represent the variety of roles in tackling the climate change agenda and include international financial institutions (IFIs) – the African Development Bank Group (AfDB), the Asian Development Bank (ADB), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), and the World Bank Group (WBG) including the International Finance Corporation (IFC), as well as the International Monetary Fund (IMF) – UN agencies including the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and the International Fund for Agricultural Development (IFAD), and two vertical funds – the Global Environment Facility (GEF) and the Green Climate Fund (GCF). As climate action occurs at country level, any MO response is largely shaped by the “demand” of developing countries for assistance. The country analyses therefore review in greater depth the response of the MS to the climate action priorities of five countries representing a variety of climate change contexts and challenges – Brazil, Ethiopia, India, Indonesia, and Jamaica. The MO and country analyses relied primarily on a review of MO climate-related strategies, MO country programmes, and country-specific documentation. The MO analyses benefited from feedback from MO staff members who were interviewed by the study team from Centennial Group International and reviewed draft versions. Finally, the global perspective was gathered from reviewing broader climate related studies and research undertaken by international institutions and the research and NGO communities. Interviews were also conducted with experts from the Organisation for Economic Co-operation and Development (OECD) and the Subsidiary Body for Scientific and Technical Advice (SBSTA) of the UNFCCC, as well as from global partnerships and think tanks, the Institute for Sustainable Development and International Relations (IDDRI), the NDC-Partnership, and the World Resources Institute (WRI). A reference group of MOPAN members from Denmark, Germany and Sweden guided and advised the study team.



## The response has many positive facets

### Integrating climate action into strategies and country programmes

All the MOs being studied have adopted goals consistent with the mandates of SDG 13 and the Paris Agreement. Most have incorporated climate change explicitly into their development strategies, policies, and safeguards. Most MOs have been working on climate change for two or more decades. Since 2015, they have accelerated their “direction of travel” by raising the level of ambition of their strategies and action plans. The IMF will publish its first climate change strategy in June 2021. MOs have integrated the principles of the Paris Agreement into their policies, safeguards, and project appraisal criteria; most now incorporate climate risk profiles in their country strategies and project reviews and support climate action through country programmes. In addition, using common methodologies, they estimate the impact of their projects in terms of GHG emissions avoided or added, or adaptation benefits. Impact methodologies are less well defined for adaptation than for mitigation, in part because adaptation benefits are often hard to distinguish from “good development”. The EIB and WBG routinely use carbon shadow pricing in project economic appraisals and a number of other IFIs are doing so for GHG-intensive sectors.

**No MOs still support new investments in coal-powered energy and most will only support investments in gas under limited conditions.** Some MOs note that gas as a transition fuel can provide important local economic, health, and environmental co-benefits, including as a substitute for wood fuel or kerosene. The EIB, working primarily with developed countries and operating within the framework of the European Union Green Deal, has gone the furthest of the IFIs: it will support no new investments in gas after 2023.

**All MOs have strengthened their capacity to address climate change.** Most have organisational units dedicated to climate, some of which are part of broader environment and/or green growth departments. Some have also increased the number of climate specialists in relevant sectors and in country offices, and have provided climate training to non-specialists. Several also have brought dedicated climate finance specialists on board. Most argue, however, that staffing is still a constraint.

**MO support for climate action differs by the nature of the organisation.** Multilateral development banks (MDBs) are investment-focused but they also support policy dialogue and capacity building. Although many of their investments are leveraged by climate funds, the majority of the MDBs’ climate finance comes from their own resources. IFAD focuses on climate-smart agriculture with a particular emphasis on adaptation. UNDP operations, supported largely by the climate funds, finance a range of investment and capacity building projects. UNEP programmes focus on technical innovation and multi-country partnerships, supported by bilateral donors as well as the vertical funds. The climate funds provide financial resources to support climate action by all MOs except the IMF, which supports climate action through analysis, policy advice, and knowledge products.

**Country development and climate priorities underlie the MO response in all countries.** Ethiopia, for example, has incorporated green, resilient growth into its broad development strategy for a decade, and there are strong synergies between climate action on adaptation, low-carbon development, and poverty alleviation. Indonesia, on the other hand, is using its ample domestic coal resources increasingly, although some progress has been made, with support from MOs, in switching to renewables such as geothermal energy. However, the rising international demand for palm oil combined with weakly enforced regulations has led to the ongoing clearing and burning of forests and peatlands, increasing GHG emissions, and local air pollution.

All MOs are increasingly prioritising climate change action in their country strategies and there has been co-operation around large-scale programmes. For example, in Jamaica, a country highly vulnerable to catastrophic tropical storms whose economy depends on beach tourism, joint support by the IDB, the WBG and the IMF, and the use of climate funds have helped strengthen the country's disaster response capacity. Climate-related MO action in Ethiopia, vulnerable to drought and where 80% of the population lives in rural areas, focuses on large sustainable land and water management, climate-smart agriculture programmes, and improving access to clean energy.

Many MOs also measure and account for the climate impacts of their own internal operations as part of their commitment to corporate social responsibility. Most MOs began reporting these emissions before 2010; the AfDB is currently estimating its baseline. Most MOs also have demonstrated net carbon neutrality over the last ten years by offsetting their emissions through a variety of instruments. These include investments in climate-neutral or net negative projects such as forestry or green energy, renewable energy credits (RECs), certified emissions reductions (CERs), and emissions trading with other organisations.

### Scaling up climate finance

Since 2015, MOs have substantially increased the share of climate finance in their operations and the proportion dedicated to adaptation. MDBs have used a common methodology to track adaptation and mitigation finance since 2011, and the 2018 Joint Declaration on Paris Alignment has given further impetus for closer collaboration. They have set and mostly met annual targets for climate finance although the picture is more mixed for 2020 when resources had to be diverted to tackle the impacts of the COVID-19 pandemic. Climate finance as a share of MDB operations has risen from an average of around 20% in 2015 to roughly 33% in 2019, representing a total of USD 50 billion.<sup>3</sup> The share of adaptation in climate finance has increased substantially for some MOs, to 40% in 2019 for the IDB and the WBG, and over 50% for the AfDB. Some MOs have noted that increasingly demanding targets for climate finance in a resource-constrained environment may have, in some cases, resulted in skewing resource allocation towards climate at the expense of other development priorities (for example, education or improved public sector financial management). Many interventions address both climate and broader environmental and development objectives that are best addressed in a more integrated way.

The three largest dedicated climate funds – GEF, the Climate Investment Funds (CIFs) and the GCF – had provided a key role in leveraging investment for the other MOs under study. Since 1992 the GEF has provided a total of USD 8.5 billion in climate finance and leveraged USD 66 billion in co-financing.<sup>4</sup> It has enabled MOs to pilot new approaches in mitigation and in adaptation in a range of areas. Since 2008 the CIFs have provided a total of USD 8.6 billion in grants and concessional loans, leveraging USD 53 billion of co-financing, 57% public and 43% private.<sup>5</sup> They include dedicated programmes for clean technology, climate resilience, renewable energy in less developed countries, and improved forest management. Since 2011, the GCF has committed USD 8.3 billion, leveraging USD 30 billion in co-financing, including from the private sector.<sup>6</sup> Its funding is split 50:50 across adaptation and mitigation, including programmes with cross cutting benefits. Half of the adaptation funds are earmarked for particularly vulnerable developing countries.

**Climate financing needs present major challenges.** Needs change over time. Solar energy costs, for example, are now far lower than they were even a decade ago, and directly competitive with most fossil

3 MDB Climate Finance Annual Reports.

4 Report of the GEF to the 26th Session of the Conference of the Parties.

5 <https://www.climateinvestmentfunds.org/>

6 <https://www.greenclimate.fund/>

fuel-powered energy. Views diverge on how to count the commitment to deliver USD 100 billion of climate finance annually to developing countries, as highlighted by the independent expert group on climate finance in their recent report.<sup>7</sup> The enabling policy environment also influences costs. However, estimates of global annual climate financing needs currently range between USD 1 to USD 4 trillion, while the current annual provision of MO climate finance is USD 55 billion and of climate funds USD 3 billion.<sup>8</sup>

These figures highlight three challenges. First, the mobilisation of resources at the required scale will need massively scaled-up domestic resource (public and private savings) mobilisation, tapping the global savings pool, and leveraging private investment. Scaling up domestic resource mobilisation has implications in turn for increasing tax and other revenues. Second, policy reforms are required to motivate economy-wide climate-friendly actions and to enable private investment in climate change. Third, transformational change, including through new technologies and techniques, is needed. The figures on climate financing needs can be compared with annual spending on energy in 2019, which totalled USD 3.7 trillion (oil), USD 2.7 trillion (power, all sources), USD 0.6 trillion (gas) and USD 0.2 trillion (coal), for a total of USD 7.2 trillion, which is far greater than the “highest” estimate of annual climate finance needs.<sup>9</sup>

### Supporting countries beyond financing: knowledge, capacity building and partnerships

**All MOs support and disseminate climate-related analysis and other knowledge products that can help build consensus for climate-friendly policy reforms.** The focus of these knowledge outputs, often prepared through partnerships with countries and/or scientific institutions, varies according to the MO and covers a very wide range. UNEP produces flagship publications such as the annual Emissions and Adaptation Gap Reports. The regional IFIs focus on areas that are of particular interest to their developing member countries. The IMF produces knowledge products that assess the impact of climate change on the macro-economic and financial sectors. MOs share good practices through a multitude of partnerships, learning events, investment and technical assistance operations, and through their knowledge work and policy dialogue.

**Climate advocacy requires co-operation among multiple stakeholders.** These include civil society and local communities as well as NGOs, local and national governments, think tanks, private corporations, and the MOs that work with many of these same stakeholders through their operational programmes. While the WBG and regional development banks engage widely with ministries across sectors on the climate and development agenda, the IMF has a particular role to play with ministries of finance and economic planning in explaining the fiscal and macro-economic risks of climate change and the benefits of policy reforms in favour of low-carbon, climate-resilient growth. Understanding and influencing public opinion more broadly is also important. While international NGOs play a role in advocating for greater climate action by MOs and developing country governments, they have more scope to work at country and sub-national levels in developing countries to help build support for climate friendly policies.

**All MOs support member countries in fulfilling their NDCs and broader Paris Agreement commitments.** Many countries lack GHG inventories or accurate means of estimating adaptation or mitigation costs. There is a multiplicity of grant-funded channels but one of the largest, the GEF Capacity-Building Initiative for Transparency (CBIT), aims to strengthen transparency-related activities under Article 13 of the Paris Agreement. The NDC Partnership, hosted by WRI, is a coalition of governments and international institutions

7 [https://www.un.org/sites/un2.un.org/files/100\\_billion\\_climate\\_finance\\_report.pdf](https://www.un.org/sites/un2.un.org/files/100_billion_climate_finance_report.pdf)

8 “Vivid Economics” 2020 Transformative Climate Finance Options <https://www.vivideconomics.com/casestudy/transformative-climate-finance-a-framework-to-enhance-international-climate-finance-flows-for-transformative-climate-action/>

9 <https://www.iea.org/reports/world-energy-investment-2020/key-findings>



that aim to support countries to achieve climate and SDG targets. Overall, there is room for consolidating the number of NDC co-ordination and support instruments, as each comes with its own administrative costs and reporting requirements. Long-Term Strategies (LTSs) have attracted less attention and demand, despite the important contribution they can make to driving and shaping the short-term actions outlined in NDCs and in integrating climate action into broader development strategies. Thus far, only 29 countries, of which six are developing countries, have submitted LTSs.

**While all MOs are in favour of innovation and new technologies in principle, their operating frameworks constrain practical support, especially by IFIs.** These frameworks include stringent procurement policies, concerns about operations perceived to be “safeguards risky,” especially those involving restrictions on land use or resettlement, and pressure to deliver rapid results. Furthermore, research and development (R&D) is not within the core mandate of most of the MOs under study; but support for testing and piloting innovations, and accepting that some will fail, is a key element in meeting global climate goals. To accelerate technological change in support of increased climate action, co-operation between publicly funded researchers and private corporations is often necessary. Yet public budgets in areas such as energy research and low-carbon industrial processes have not kept pace with their critical importance as a means for tackling the climate change challenge.

### **The response does not, however, meet the scale of the challenge – some key lessons for acceleration**

**While MOs and the MS more broadly have responded to the challenge of climate change in their work in developing countries, meeting Paris goals requires that the current pace of country engagement accelerate.** Despite ongoing efforts, the challenge of slowing and reversing climate change remains greater than ever. Current trajectories indicate that the goal of keeping the rise in global temperature below 2 degrees Celsius is highly unlikely to be met; the goal of 1.5 degree Celsius is even less likely to be met.<sup>10</sup> NDCs vary widely in their level of ambition and few in developing countries are supported by LTSs. The COVID-19 pandemic has resulted in a temporary reduction in global GHG emissions however, it is already apparent that carbon emissions are rebounding as result of the short-term crisis response.<sup>11</sup>

<sup>10</sup> IPCC, UNEP, Emissions Gap Report 2019; BCG Analysis.

<sup>11</sup> See, for example, <https://www.nature.com/articles/s41558-020-0797-x>

## Lesson 1: Lack of “whole-of-government” NDCs and LTSs hinders progress on the climate change agenda.

Countries drive the development and climate change agenda but NDCs are not always owned by the “whole-of-government.” Commitments to addressing climate change vary across countries, but they require full national ownership, including in the ministries of finance and economy that control resource allocation and sit at the apex of decision making. However, in a good number of countries, ministries of the environment are the ones that often primarily develop NDCs.

LTSs are optional under the Paris Agreement but essential for addressing short- and long-term climate and development goals. LTSs can allow for development of MO Paris Agreement-aligned pathways, based on sectoral plans and fully embedded in the broader national development agenda. They can help governments to: (i) plan for climate resiliency and net-zero carbon emissions informed by science; (ii) sequence and update their NDCs; (iii) anticipate and better manage trade-offs, and (iv) design the policy and investment roadmaps needed to make it possible to achieve their climate goals in line with the Paris Agreement objectives. However, the LTSs’ response to date has been limited, suggesting that MOs need to step up and co-ordinate their support for LTSs formulation, including policy formulation, structuring financing, and implementation.

MO influence over policy varies by country and may be limited in the larger middle-income countries. Until recently, the Brazilian government, for example, was committed to reducing deforestation in the Amazon and the Cerrado. The current federal administration, however, makes short-term export revenues for large-scale commercial farming and ranching activities a priority, even at the cost of increased forest clearing and burning. In Indonesia, bilateral agencies as well as the WBG and the ADB have co-operated around a USD 2 billion long-term programme to assist the country in transitioning to a more inclusive, sustainable energy sector. However, the programme has had mixed success, due in part to changing government priorities and frequent changes in ministerial responsibility.

The current leaders of several key MOs that have been effective in transforming the climate agenda in their organisations could strengthen the dialogue. These leaders have clearly expressed their commitment to the goals of the Paris Agreement and the 2030 Sustainable Development agenda, as illustrated by the recent IMF-World Bank Spring Meetings, and have highlighted the urgency of the need to address the climate change challenge in key international fora. Such leadership could be usefully deployed in country dialogue with governments to raise the visibility of climate issues and the urgency of developing strategies and action plans to align the most energy intensive and “climate unfriendly” sectors of the economy with mitigation and adaptation pathways consistent with the Paris Agreement.

### Opportunities moving forward

- **Recognising that countries drive the climate agenda, MOs and other parts of the MS need to focus on support for developing NDCs and LTSs that are integrated into broader country development strategies.** The engagement of key sector ministries and ministries of finance and planning in this process is essential. The IMF could usefully engage directly with governments and other MOs in articulation of LTSs. It is in an excellent position to lay out the economic impact of climate change to country leaders, ministers of finance, economics, and planning, and central bank governors to bring climate issues to the foreground and build commitment of core government agencies to LTSs.
- **Country commitment at the central leadership level is vital. Where it is lacking, MOs should look for other entry points and use opportunities to remain engaged.** Examples include enhancing policy dialogue and maintaining a consistent message together with, or by supporting actions specific climate

relevant sectors or at the sub-national level, including in cities. Co-ordination among MOs, including around policy advocacy, is especially important in countries like India, China, Indonesia, and Brazil, where there is the most to gain from realigning broad sectoral policies with NDCs and LTSs consistent with a 1.5 degree Celsius target. More generally, MO leaders need to engage not only at the global level but also at country level, and particularly with leaders in those countries where ambition for addressing climate change is lagging.

- **Recognising that MOs can only influence countries to a certain extent, there is scope for stronger engagement between MOs, NGOs and civil society at country level.** MOs should work with NGOs and civil society to engage more on enhanced climate-related awareness-raising and advocacy, including on such crosscutting issues as the public health and welfare impacts of climate change and different policy approaches. But civil society itself, as an important element in the broader MS, has a key role to play in creating demand for reforms and inter-generational equity on climate change. There is room for stronger partnerships between international and local NGOs.

## **Lesson 2: The focus on measuring climate finance may distract from thinking climate as part of broader development.**

**Climate finance has been scaled-up and shifted towards adaptation, but financial flows for adaptation and mitigation are not directly comparable.** As a share of total climate finance, adaptation has increased and covers a broad range of areas from disaster risk reduction, improved weather and climate forecasting and coastal resilience, adaptation in agriculture, land and water resource management, to climate resilient infrastructure, flood management and improved urban planning. The challenge is that these interventions are generally part of broader development programmes and there are differences between the way mitigation and adaptation flows are calculated. Mitigation flows are assessed on the basis of total cost, as the intervention normally implies a switch in technology or fuel affecting the whole investment; adaptation flows are evaluated on the basis of the incremental cost of augmenting the design of an infrastructure or landscape intervention to make it climate resilient. Furthermore, many climate-friendly investments, including in improved land and water management, climate-smart agriculture and city greening, contribute to both adaptation and mitigation. Adaptation flows may therefore be “undercounted” if narrow definitions of climate finance are used.

**“Good development” can improve the enabling environment for climate action and needs to remain a priority.** Improved public sector financial management, for example, although not generally “mapped” to climate action, can help mobilise domestic resources for adaptation and there must be a greater focus on mobilising domestic resources. Moving forward, concessional financing could usefully be focused largely on adaptation and building climate resilience, where the public good benefits outweigh direct revenue earning benefits and are long-term, as well as on lower income, vulnerable low-emitting countries and the small island developing states (SIDS). It should be recognised, however, that some MOs, especially the MDBs, have a limited appetite for adaptation investments perceived as risky, especially those which carry reputational or safeguards risks involving restrictions in land use, for example in areas such as urban flood management. For mitigation, concessional finance could focus on “pushing the envelope” on the introduction of new and innovative technologies.

**Support for adaptation is best provided through systemic, long-term interventions that take into account the current trends in global temperature rises.** It would be useful for support provided to individual, small-scale interventions to include elements for testing scalability and transformative impact. There are several examples of small-scale adaptation projects that have succeeded over time in leveraging support for much larger scale programmatic efforts. Examples include sustainable land management programmes in

Ethiopia, coastal zone management in India, disaster preparedness in Jamaica, and the Great Green Wall of the Sahel. Nevertheless, countries and MOs alike need to prepare a “Plan B” that explicitly recognises and models the impact of a greater than 2 degrees Celsius temperature rise and the corresponding needs for increased adaptation in the relevant timeframe.

**The COVID-19 pandemic reduced resource availability for climate action in 2020 for some MOs but opportunities exist moving forward to focus on a green recovery.** Governments and MOs responded rapidly to the pandemic with programmes focusing first on the health emergency and then on protecting livelihoods as economies contracted. MOs argue, moreover, that the pandemic offers an opportunity to build back better, and to promote a green, resilient transition, and some have established technical-assistance support facilities in this regard. However, one analysis of support packages in 50 countries illustrates that “green spending” comprised only 18% of total outlays of nearly USD 2 trillion through end-2020.<sup>12</sup>

### Opportunities moving forward

- **The broader MS should focus more on moving beyond measuring “inputs” (climate finance) to assessing results for greater long-term resilience or transitions to carbon-neutral growth.** This should include the result of policy reforms as much as investments.
- **The focus on climate finance should not come at the expense of broader climate-friendly development.** Investment in policies and programmes with benefits in health, education, reduced workloads, better water quality, broader ecosystems health, and more liveable cities as well as broader governance and public sector management reforms should continue to be the focus; many of these will also have broad crosscutting climate benefits.
- **Domestic resource mobilisation has an important role to play in climate finance.** MOs should work jointly with countries on identifying specific policy actions in this regard including improving the efficiency of taxation systems and revenue capture and measures to increase domestic savings.
- **The authorising environment of MOs to invest in areas perceived to be “safeguards risky” needs to be improved.** MOs are particularly reluctant to engage in programmes that may involve resettlement, despite the safeguard processes that exist, because of potential reputational risks. But support in complex areas such as flood management and protection, urban and coastal land use and transport planning, needs to be scaled up to increase investment in adaptation and resilience.
- **The COVID-19 recovery period offers an opportunity for a greater integration of climate action and transition to greener, more resilient, inclusive development paths into broader development strategies.**

### **Lesson 3: The Paris goals cannot be achieved without a massive scale-up of private sector-led investment in climate change.**

MOs can supply only a fraction of the demand for climate finance. Domestic resource mobilisation is important and more likely if NDCs/LTSs are mainstreamed into broader government programmes. There is also a premium on leveraging every dollar spent to access new and additional finance. Crowding-in private sector finance through equity investments at the project level or nudging large-scale investments in climate-friendly and well-performing portfolios at the industry level will be essential to meet the Paris climate targets. The IFIs can use their expertise and convening power to help “green” the asset portfolios

<sup>12</sup> <https://ourworldindata.org/policy-responses-covid>; UNEP/Global Recovery Observatory, 2021.

of private investors and others, including commercial banks. Examples include building on the concept of Green Bonds, for which EIB, IFC and the WBG and the AfDB have played leading roles in market creation, and establishing climate-friendly index funds of Paris-aligned corporations.

**For private investors, clarity on both climate policies and the broader private sector investment climate is necessary.** NDCs need to be accompanied by clear sectoral implementing regulations, standards, and policies, including in pricing fossil fuels, performance standards and incentives to reduce uncertainty, and levelling the playing field for private investment. Consultations with the private sector are necessarily a key part of this process. A supportive investment climate and robust banking sector are also important “enablers,” along with property rights regimes, frameworks for public-private partnerships, and incentives to reduce risk for investment in new areas.

**Concessional public finance provided through a variety of mechanisms, such as blended concessional finance, risk-sharing facilities and pre-investment financing, can play a significant role in unlocking private finance.** “Brute force” subsidisation approaches are generally disfavoured for a variety of reasons. This argues for the internalisation of environmental costs and benefits in climate-sensitive markets through pricing, taxation, and regulatory approaches. A lack of adequate pre-investment and feasibility study financing hinder project pipeline development.

**Climate finance needs to be responsive to private sector investment criteria.** Climate financing mechanisms must be agile and quick-reacting, willing to tolerate substantial risk, able to commit funds in substantial size blocks to drive market transformation, support a wide range of instruments, and feature transparent and predictable decision-making. The private sector’s project cycle normally operates at a faster pace than most external public funding decision, with most investments moving from identification to approval in nine to 15 months.

**A remaining challenge is to ensure that investments provided through financial intermediaries are climate friendly.** These institutions cannot easily be subject to the same levels of scrutiny as the primary lending organisations. This is especially true for on-lending to micro, small, and medium-size enterprises (MSMEs). Nonetheless, relatively straight forward screening criteria and reporting requirements can ensure the application of “do no harm” principles.

## Opportunities moving forward

- **NDC/LTS formulation needs to engage more with the private sector to identify and help alleviate key constraints to up-scaling private investment in climate action.** LTSs need to include support for enabling policy environments for the private sector as well as public investments. Carbon pricing may be a highly effective policy option and the MOs should encourage its adoption, although at the country level, there is little consensus for this as yet. Climate finance needs to scale-up the leveraging of private sector finance by using grant and concessional resources strategically to support project development, de-risk, and aggregate investments, strengthen capital markets, and address policy, regulatory and pricing bottlenecks.
- **Effective private sector investment at scale also requires improvements in the enabling environment that go beyond what is typically addressed in NDCs.** These include removing price subsidies for fossil fuels, full cost-reflective purchase tariffs as necessary to encourage investment in renewables, development of a robust banking sector, a favourable environment for “doing business,” including clarity with respect to property rights and contract enforcement, and clear sector regulations. By publicising green



investors and funds and using scorecards to identify non-compliant actors, it may be possible to steer larger volumes of investment from the global savings pool toward emerging markets for sustainable energy, circular economy business models, and nature-based solutions.

### **Lesson 4: Transformational technology is key for moving towards a carbon neutral world but the R&D required lies outside the mandate of the MOs.**

Estimates of the costs of keeping temperature rise below 2 degrees Celsius have emphasised the financing gap but have not focused sufficiently on the potential of transformative technologies. Solar power is one good example. A mix of advances in technology, greater competition, changes in government policies, and support for investment in large markets such as China and India have helped to drive down costs so that solar powered energy is now becoming competitive with fossil fuel-powered energy. In a different sector, the rapid development of COVID-19 vaccines is another example. Public resources for the R&D of climate-beneficial technologies, such as new energy solutions, remain modest in many countries. This calls for strategic partnerships with R&D, science and technology and engineering enterprises to accelerate innovative, breakthrough technologies on the cusp of feasibility. Creating viable new technologies and realising significant market uptake is typically a lengthy process, and there needs to be commitment and tolerance for failure at every step from basic research, to testing, applied research, development, field testing, piloting, demonstration and commercialisation.

The early phases of the R&D cycle are outside the core mandate of the MDBs, but they can usefully support piloting new approaches and the transfer of technologies ready for commercial demonstration and scale-up in developing country environments. While IFI procurement policies generally favour mature technologies and widely available goods and services packages, there have been promising results in some areas. The IFIs' long partnership with the Consultative Group for International Agricultural Research (CGIAR), which was largely responsible for sparking the "green revolution" in agriculture, has more recently helped to test, develop, and roll out new technologies in the area of climate-smart agriculture.

Programmes focusing on "nature-based solutions" offer promising results that could benefit from greater focus and support from countries and MOs. Research and experience with earlier programmes of watershed restoration have highlighted the importance of solutions adapted to local ecosystems and that deliver multiple benefits for adaptation, mitigation and biodiversity recovery. Interest has grown in investments in green infrastructure, for example, such as coastal dune, mangrove, and wetland restoration in coastal areas. Healthy coastal ecosystems can also sequester vast amounts of carbon – up to 10 times the amount of carbon per hectare in terrestrial forests – in the form of "blue forests" and submerged organic sediments that have built up over millennia.<sup>13</sup> These need to be protected and accounted for. There is progress. Recent work has highlighted the potential of blue carbon certificates,<sup>14</sup> and Kenya, for example, has now included blue carbon in its NDC.<sup>15</sup>

### **Opportunities moving forward**

- **There is scope for greater public sector support for innovation in both mitigation and adaptation.** The experience with solar energy provides one example. In a different sector, the rapid development of vaccines in response to the COVID-19 pandemic offers another. Investing in innovation is not, however,

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13 <https://oceanservice.noaa.gov/facts/bluecarbon.html>, <https://doi.org/10.1038/s41586-021-03371-z>

14 <https://mpanews.openchannels.org/mpanews/issue/july-august-2020-221>

15 [https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Kenya%20First/Kenya%27s%20First%20%20NDC%20\(updated%20version\).pdf](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Kenya%20First/Kenya%27s%20First%20%20NDC%20(updated%20version).pdf),

an area of comparative advantage for many MOs, including the IFIs, given their generally modest appetite for risk. This requires the use of public sector resources as well as partnerships with research organisations, academia, and private industry.

- **There is also scope for more engagement in well-designed, integrated, nature-based solutions**, including in coastal and marine ecosystems. High value carbon sinks on land and sea must be targeted and protected from destructive practices that release these stores of carbon. They must be restored at scale to deliver sustained global and local benefits for climate, biodiversity, and food security.<sup>16</sup>
- **Greater involvement and innovative investment in “green and liveable cities” are needed.** The work on green buildings and e-mobility needs to be scaled up and complemented by better, more effective climate resilience-oriented land use and transportation planning.

### **Lesson 5: Well-designed partnerships are important. Their co-ordination and consolidation are essential.**

**The effectiveness of country mechanisms for co-ordinating development partners varies.** Some countries have well-established systems led by ministries of planning and with sectoral sub-committees, while co-ordination is less well organised in others. This can occasionally lead to a duplication of effort and to competition, especially for scarce concessional climate finance.

**MOs do co-operate through international networks and through country level work.** The CIFs and the MDB Climate Finance Paris Alignment platforms have been a particularly useful means for MDBs to collaborate, including on country programming. There has also often been good MO collaboration around key large-scale climate action programmes at country level. The GEF has financed useful pilots, and some have been scaled up. However, there may be greater scope for the IFIs to work more closely at country level with UNDP and UNEP and other GEF implementing agencies to identify and scale up opportunities derived from recent innovative pilot activities for climate change mitigation and adaptation.

**Multiple partnerships stretch administrative capacity at country and MO levels. Consolidation is essential.** Many donor-supported facilities exist for advancing NDCs and LTSs, for example, but they are not well co-ordinated. The efforts generally involve capacity building for NDC development, costing, and reporting requirements, or facilitating the sharing and dissemination of progress regarding NDC implementation. There are multiple partnerships around NDC capacity building and multiple international partnerships, but they can occasionally crowd out the focus on country level action.<sup>17</sup> With the growing integration of climate considerations into the mainstream development agenda, present aid co-ordination framework agreements become increasingly relevant for co-ordinating climate action. The UNFCCC’s 2023 Global Stock-take could provide political space to strengthen co-ordination and consolidation of climate-related partnerships going forward.

16 Sala, E., Mayorga, J., Bradley, D. et al. Protecting the global ocean for biodiversity, food and climate. *Nature* 592, 397–402 (2021). <https://doi.org/10.1038/s41586-021-03371-z>

17 They include NDC Advance, Africa NDC Hub, NDC Invest, NDC Support Facility, Climate Promise, NDC Action Project, and NDC-P (NDC Partnership). Some partnerships focus on support for meeting broader transparency requirements, including the Initiative for Climate Action Transparency (ICAT) and the Capacity-building Initiative for Transparency (CBIT). Each facility comes with transaction costs and reporting requirements.

## Opportunities moving forward

- There is room for better co-ordination and consolidation of partnerships, including on NDCs, at both the international and country levels. MDB co-ordination and harmonisation with respect to Paris alignment is a good model.
- Reaching a common definition among MS members of land use change (LUC) is an area where progress remains to be made. As UNEP has highlighted, IPCC has articulated a definition and methodologies, but no a globally consistent, widely accepted country-level data set of LUC emissions seems to exist.<sup>18</sup> The issues are two-fold: first, definitions vary; second, country-level data are not robust and may not accurately measure year-to-year variations or carbon dynamics. Consequently, not all global databases include emissions from LUC, whereas in some countries they are a growing source of emissions. While the difficulties of data quality are recognised, FAO together with the research community and the SBSTA could foster an agreement on a common, easy-to-measure approach for LUC within Land Use, Land Use Change and Forestry (LULUCF) at the country level for inclusion in GHG databases, consistent with IPCC methodologies.

## Lesson 6: Reducing support to fossil fuels brings challenges for transition that must be recognised.

MOs have sharply scaled down support for new fossil fuel power and policies have evolved, but trade-offs remain. None of the MOs studied support investment in new coal-fired power plants. Natural gas investments used to be but are no longer considered climate finance despite the lower carbon content and higher efficiency of gas relative to coal. Some MOs still provide support to gas distribution and power generation under certain circumstances. For example, in rural and peri-urban areas, gas provides a clean alternative to wood as a cooking fuel; it reduces the workload for women, who are usually responsible for collecting wood, and can benefit health by reducing exposure to indoor air pollution and climate co-benefits by reducing forest and land degradation from excessive cutting for fuel.

Energy transformation requires a major shift in pricing, regulation, competition, and investment climate. MO support to the required policy reform is especially important. Some external critiques of the Paris alignment of MDB financing regard support for reforms promoting greater efficiency, full-cost pricing, and private sector resource mobilisation in countries where fossil fuels predominate as supporting the use of fossil fuels. On the contrary, these reforms support lower consumption, increase the overall operational efficiency of the energy and energy-intensive sectors, and improve the enabling environment for the shift to renewables. Furthermore, experience has shown that in a favourable policy environment and after an initial government-led demonstration phase, renewables can become a predominantly private sector business. Energy transformation will not go forward without a major underlying shift in pricing, regulation, competition, and investment climate.

Investments in gas-fired power generation projects, liquefied natural gas (LNG) import facilities, and gas distribution represent an area of growing challenge. MOs recognise the risk of “stranded assets” if and when demand for fossil fuels shrinks as a result of increased international commitments to limit the rise in global temperatures.

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18 UNEP Emissions Gap Report 2020, <https://www.unep.org/emissions-gap-report-2020>


## Opportunities moving forward


- MOs should provide greater clarity on the conditions under which they would support new midstream and downstream investment in gas, given its contribution to GHG emissions and the long-term risks of stranded assets.
- In the absence of a pathway for gas phase-out defined under LTSs, a number of criteria could be applied to limit consideration, on an “exceptional” basis, of natural gas investment activities. For some countries, for example, gas provides a clean energy alternative to fuel wood for cooking, with environmental and health benefits, especially for women.

## Looking beyond the lessons – questions for further enquiry

As the international community looks to boost climate action and builds on the policy proposals presented thus far, many additional questions would merit further enquiry to provide insights and ideas in support of the policy discourse and agenda to accelerate climate action. The following seven questions are presented for consideration and to be taken up by stakeholders going forward:

1. How could MOs provide further support in getting to 1.5 degree Celsius, recognising that countries must make most of the effort?
2. How can MOs more effectively address the most difficult adaptation challenges, especially in urban areas?
3. How can MOs be more effectively engaged in country-level policy reform?
4. What does it mean, in practical terms, to build back better post COVID-19? How can MOs support the effort effectively?
5. How can MOs effectively align their metrics to get more fine-grained reporting on results in terms of adaptation, mitigation, and overall resilience, moving from inputs to outcomes and impact?
6. How can the MOs take advantage of the shift toward demands for greater transparency and accountability in corporate and investor asset holdings that are not aligned with the Paris Agreement? Can MOs provide some synergistic incentives to catalyse a further shift towards green investing?
7. How can SDGs, Paris and Addis (and other relevant normative agendas) be harmonised better for coherent action?



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