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Report

on

LEVERAGING MULTILATERAL CLIMATE FUNDS TO REDUCE INEQUALITY

by

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September 3, 2025

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Introduction

The five Multilateral Climate Funds (MCFs) are critical financial instruments that channel resources from developed to developing nations, thereby serving as a cornerstone of global climate action. Their establishment under the United Nations Framework Convention on Climate Change (UNFCCC), with one exception, is a testament to the international community's recognition of the principle of "Common But Differentiated Responsibilities and Respective Capabilities" (CBDR-RC). This acknowledges that while all nations share a common goal of addressing climate change, their historical contributions and capacities to act differ significantly.

In addition to provide a mechanism for financial transfer, these funds are a powerful lever for addressing and reducing the profound global inequalities exacerbated by climate change. MCFs are strategically utilised to support developing countries, focusing on integrating principles like a "Just Transition," and "Just Energy Transition," empowering marginalised groups, and rebalancing funding toward adaptation and loss and damage. This approach ensures that this sector of climate finance fosters a more just and equitable transition toward a sustainable future, ensuring that the benefits of climate action are shared equitably and that vulnerable communities are not left behind.

1. Multilateral Climate Funds – Creation and Establishment

The five MCFs, in order of their creation, are:

1.1. Global Environment Facility

Established in 1991, the GEF began as a pilot program to assist developing countries in addressing global environmental issues. It was later restructured in 1992 during the United Nations (UN) Rio Earth Summit, becoming a permanent, independent financial mechanism. The GEF serves as the financial mechanism for multiple critical international environmental conventions, including the UN Framework Convention on Climate Change (UNFCCC), the Convention on Biological Biodiversity (CBD), the UN Convention to Combat Desertification (UNCCD), the Minamata Convention on Mercury, and the Stockholm Convention on Persistent Organic Pollutants.[1] Its broad mandate embraces all facets of a healthy environment: biodiversity, climate change, international waters, land degradation, and chemicals and waste.[2]

1.2. Adaptation Fund

The AF was officially launched in 2001 under the Kyoto Protocol of the UNFCCC and became fully operational in 2007. Its distinctive mandate is to finance concrete adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change. A core principle of the AF is its strong emphasis on country ownership and its direct access modalities, which allow national entities to directly manage funds.[3]

1.3. Climate Investment Funds

The CIF was established in 2008 by developed countries and Multilateral Development Banks (MDBs) as a transitional financing mechanism. Designed to pilot new approaches to climate finance and scale up climate action in developing countries, the CIFs operate through six MDBs, including the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-

American Development Bank, and International Finance Corporation.[4] In a significant development for climate finance, the CIF Capital Markets Mechanism (CCMM) issued a $500 million three-year bond on the London Stock Exchange in January 2025. This issuance was oversubscribed by a factor of six, demonstrating strong market confidence. This issuance marked a step for a multilateral climate fund to directly tap international capital markets, leveraging future reflows from its Clean Technology Fund to accelerate funding for clean technology and sustainable infrastructure in developing countries.[5]

1.4. Green Climate Fund

The GCF was established in 2010 by 194 countries under the UNFCCC and became fully operational in 2015. It is recognised as the world's largest dedicated climate fund, with a mandate to achieve a balance between mitigation and adaptation investments in developing countries. Its overarching goal is to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development.[6]

1.5. Fund for Responding to Loss and Damage

The decision to establish the Fund for Responding to Loss and Damage was a historic outcome of the 27th Conference of Parties (COP27) of the UNFCCC in November 2022, following decades of persistent advocacy from vulnerable nations. It was officially operationalised at COP28 in November 2023, with the World Bank initially hosting its secretariat for an interim period of four years.[7] This fund is a critical new mechanism aimed at assisting developing countries particularly vulnerable to the adverse effects of climate change in responding to unavoidable economic and non-economic loss and damage, including from extreme weather events and slow-onset events like sea-level rise and desertification.[7]

2. Assets of the MCFs and Disbursement for Mitigation vs. Adaptation/Resilience

The collective financial scale of MCFs demonstrates their significance in global climate finance, though allocations between mitigation, adaptation, and loss and damage vary, reflecting different mandates, donor priorities, and the evolving understanding of climate finance needs.

2.1. Global Environment Facility

Since its establishment in 1991, the GEF has provided over US$21.7 billion in grants and successfully mobilised an impressive additional $119 billion in co-financing for more than 5,000 projects in over 170 countries.[1] GEF's funding is mainly geared towards mitigation, however, for climate change adaptation specifically, the GEF has allocated funding through various mechanisms, including the Strategic Priority for Adaptation (SPA), the Least Developed Countries Fund (LDCF), and the Special Climate Change Fund (SCCF).[8]

These funds have supported crucial activities such as vulnerability and adaptation assessments (Stage I), capacity building (Stage II), and concrete adaptation projects on the ground, particularly in Least Developed Countries (LDCs).[8] GEF does not have a single overarching mitigation-adaptation split, as adaptation is funded through these dedicated, separate trust funds. The GEF has provided approximately $2.2 billion in grants through the LDCF and $388 million through the SCCF, specifically for adaptation projects.[38]

2.2. Adaptation Fund

The Adaptation Fund has an exclusive focus on adaptation, distinguishing it from other MCFs with broader mandates. As of August 2025, it has committed $1.3 billion[36] in grants for concrete adaptation and resilience programmes in developing countries. These programmes support 183 projects on the ground and benefit an estimated 46 million total beneficiaries, with approximately half of these beneficiaries located in Least Developed Countries (LDCs) or Small Island Developing States (SIDS), highlighting its focus on the most vulnerable.[9] Since its establishment, the Fund has mobilised over $890.7 million, with $720 million allocated for concrete adaptation and readiness projects/programmes as of October 2019, with 49% of the allocated amount already disbursed, indicating a strong implementation rate for adaptation initiatives.[10]

2.3. Climate Investment Funds

The CIFs have attracted $12.5 billion in pledges from donor contributions since their establishment. As of December 31, 2023, they have approved $7.4 billion in funding, which is expected to leverage a substantial $64.6 billion in co-financing, demonstrating a co-financing ratio of 1:8.7. This indicates the CIFs' significant catalytic role in mobilising additional finance.[11] The CIF comprises two main funds: the Clean Technology Fund (CTF), which primarily supports mitigation efforts through large-scale investments in renewable energy, energy efficiency, sustainable transport, and industry decarbonisation;[12] and the Strategic Climate Fund (SCF), which supports climate resilience (adaptation) through programmes like the Pilot Program for Climate Resilience (PPCR) and other thematic areas like sustainable forest management and scaling up renewable energy in low-income countries.[13]

While the overall mitigation-adaptation breakdown for the entire CIF portfolio is not explicitly detailed in aggregate, the CTF's focus is clearly on mitigation, while SCF programmes like the PPCR are dedicated to adaptation.[14] As of March 2024, the CTF has received approximately $6.31 billion in pledges, with cumulative funding commitments of $5.44 billion for projects, project preparation, and other expenses.[39] Whereas for SCF, there are approximately $3.5 billion in pledges, net cumulative funding commitments of $2.55 billion.[40]

2.4. Green Climate Fund

As of October 2024, the GCF has committed a cumulative $15.9 billion to 286 projects in 133 developing countries, with its current portfolio value, including co−financing, standing at a significant $61.5 billion.[15] This makes it a major player in global climate finance. Reflecting its mandate for balanced investment, the GCF's portfolio allocation in grant equivalent terms as of October 2024 stands at 56% for adaptation ($5.6 billion) and 44% for mitigation ($4.3 billion). Notably, 65% of its adaptation finance is allocated to vulnerable countries, including LDCs, SIDS, and African States, exceeding its initial target floor of 50% for adaptation investments in these particularly vulnerable regions.[15]

2.5. Fund for Responding to Loss and Damage

As the newest fund in the multilateral climate finance architecture, the FRLD is in its nascent stages of operation and resource mobilisation. As of April 2025, it approved initial start-up financing of US$250 million in grants, intended for disbursement by the end of

2026. This funding is exclusively focused on addressing loss and damage, providing crucial support for immediate, intermediate, and long-term recovery, reconstruction, and rehabilitation efforts in the most vulnerable countries affected by climate change impacts.[16] Unlike other MCFs that fund mitigation or adaptation, the FRLD addresses the unavoidable consequences of climate change that go beyond what adaptation can address. As of June 30, 2025, a total of USD 788.80 million has been pledged to the FRLD, mainly contributed by UAE, Germany, and UK.[37]

Table 1 provides a summary of the five MCFs.

To meet global climate goals, significant investments are required. For instance, government plans today call for investing at least US$95 trillion in energy systems over the coming three decades (2016–2050).[18] Redirecting and increasing investments to ensure a climate-safe future would require reaching US$110 trillion by 2050, or around 2% of average annual gross domestic product (GDP) over the period.[18] Of that total, over 80% needs to be invested in renewables, energy efficiency, end-use electrification, and power grids and flexibility.[18] If viewed in annual terms, US$3.2 trillion needs to be invested in the global energy system every year to 2050.[18] A substantial portion of these investment requirements corresponds to medium- and low-income countries, as they need to replace existing fossil generation capacity and also meet their growing energy demands. While this presents a critical opportunity for building sustainable energy infrastructures in these regions, it also poses a risk of additional carbon lock-in if investments into fossil infrastructures continue.[18]

Table 1. Summary of Multilateral Climate Funds

Fund Name	Primary Focus	Funding/Assets Available (as of latest data)	Mitigation-Adaptation Mix
Global Environment Facility	Addressing global environmental issues across biodiversity, climate change, international waters, land degradation, and chemicals/waste.	Over $21.7 billion in grants and $119 billion in co-financing mobilised for 5,000+ projects since 1991. Specific adaptation funds: ~$2.2 billion (LDCF), ~$388 million (SCCF).	Primarily geared towards mitigation, and also provides dedicated funding for adaptation through specific trust funds (LDCF, SCCF). No single overarching split.
Adaptation Fund	Financing concrete adaptation projects and programmes in developing countries particularly vulnerable to climate change. Strong emphasis on country ownership and direct access.	US 1.3 billion committed in grants for adaptation and resilience programmes as of August 2025. Over US890.7 million mobilised since establishment.	Exclusively focused on adaptation.
Climate Investment Funds	Piloting new approaches to climate finance and scaling	$12.5 billion in pledges from donors. $7.4 billion approved	Comprises the Clean Technology Fund (CTF) for mitigation

	up climate action in developing countries through MDBs.	funding as of December 2023, leveraging $64.6 billion in co-financing. CTF: ~$6.31 billion in pledges, $5.44 billion commitments. SCF: ~$3.5 billion in pledges, $2.55 billion commitments.	and the Strategic Climate Fund (SCF) for adaptation. Roughly 68% mitigation, 32% adaptation overall.
Green Climate Fund	Promoting a paradigm shift towards low-emission and climate-resilient development pathways in developing countries, with a mandate for balanced investment.	$15.9 billion committed to 286 projects as of October 2024, with a portfolio value of $61.5 billion including co-financing.	Mandated to achieve a balance: 56% adaptation ($5.6billion) and 44% ($4.3 billion) as of October 2024.
Fund for Responding to Loss and Damage	Assisting developing countries particularly vulnerable to the adverse effects of climate change in responding to unavoidable economic and non-economic loss and damage.	Approved initial start-up financing of $250 million in grants (as of April 2025). Total of $788.80 million pledged as of June 2025.	Exclusively focused on loss and damage.

3. How Can Multilateral Climate Funds Contribute Towards Reducing Inequality?

Multilateral Climate Funds have a critical role to play in addressing and reducing global inequalities, which are often exacerbated by climate change impacts. The climate crisis disproportionately affects the poor and marginalised, who have contributed least to the problem and are most vulnerable to its consequences. Therefore, leveraging MCFs effectively requires strategic approaches that prioritise equity, inclusivity, and direct support to affected communities. This section will delve into how the *quality of finance* – and not just the quantity – is paramount in addressing inequality through climate, biodiversity, and Sustainable Development Goal (SDG) investments.[17]

3.1. Institutionalising a Just Transition Framework

A Just Transition provides a crucial and comprehensive framework to bridge climate, environment, and development goals by compelling a thorough consideration of the distributional impacts of climate projects and policies. This ensures that the global shift to a low-carbon, climate-resilient economy does not inadvertently create new inequalities or exacerbate existing ones. Instead, it aims to create equitable opportunities, protect vulnerable workers and communities, and support economic diversification in regions historically dependent on fossil fuel industries. Robust concessional funding for programmes directed at these goals, including social protection as a standard component of projects, is an obvious pathway to address inequality.[17]

3.2. Social Protection Mechanisms and Robust Risk Assessments

These are vital tools that force a critical examination of climate projects, prompting fundamental questions about who truly benefits, who bears the costs, and who is included in the decision-making process. Integrating these considerations ensures that climate interventions are designed with equity at their core, safeguarding vulnerable populations from negative consequences and ensuring their active participation in climate action. Social protection projects, for instance, can play a critical role in supporting marginalised groups by providing safety nets and building resilience against climate shocks, though their effectiveness hinges on adequate funding and careful design to reach the most vulnerable.[19]

Other methods that can significantly contribute to reducing inequality through climate finance include:

3.3. Environmental and Social Frameworks

These ESFs are designed to support green, resilient, and inclusive development by strengthening protections for people and the environment in investment projects. They focus on crucial areas such as labour rights, gender equality, climate change considerations, biodiversity conservation, community health and safety, and robust stakeholder engagement.[20] By rigorously applying ESFs, MCFs can ensure that projects minimise negative social and environmental impacts, promote equitable outcomes, and uphold human rights throughout their lifecycle, thereby directly addressing potential inequalities.

3.4. Paris Alignment Method for Development Policy Operations

This method integrates climate change and development into long-term strategies (LTS) and Nationally Determined Contributions (NDCs). It ensures that development operations are aligned with both mitigation and adaptation goals, and are context- and time-specific. This holistic approach helps to identify and address potential inequalities arising from climate policies and investments, promoting a more equitable and sustainable development pathway that considers the social dimensions of climate action.[21]

3.5. Country Climate and Development Reports

These reports are instrumental in supporting the preparation and implementation of NDCs and integrating the green transition into core analytical work, including macro-fiscal and poverty assessments. CCDRs help countries undertake key policy and institutional reforms to accelerate climate action, with a dual focus on both climate and development. They are crucial for ensuring that climate strategies contribute directly to poverty reduction and shared prosperity by identifying vulnerable populations, assessing differentiated impacts, and designing targeted interventions that address specific inequalities.[22]

3.6. Country Platforms

The objective of country platforms is to facilitate coordination and collaboration among various stakeholders, including governments, development partners, and the private sector, to achieve sustainable development goals and climate objectives. These platforms are country-led coordination mechanisms that bring together national development objectives – including inequality reduction, poverty alleviation, and social equity – with climate objectives. This fosters integrated planning and resource mobilisation, ensuring that climate action contributes to broader equitable development outcomes and avoids siloed approaches.

A key element of these platforms is the "programmatic approach", which is defined as a long-term, country-owned, and transformational process that supports a series of activities and projects within a single strategic framework. This approach is designed to produce systemic, large-scale change and is often used to address complex, multi-sectoral challenges like climate change. It also helps to "crowd-in" private finance by de-risking investments through policy and regulatory reforms.[41]

The concept of country platforms has gained renewed prominence as an effective mechanism to respond to the needs identified in the 2023 Global Stocktake of the UNFCCC. The "next generation" of these platforms is characterised by three essential elements: a strong political commitment anchored in national priorities, an aligned investment plan, and coordination across domestic and foreign financial institutions to mobilise funding at scale. By integrating climate and development challenges, these platforms are designed to facilitate profound structural changes. Prominent examples include the Just Energy Transition Partnerships (JETPs) in countries like South Africa, Indonesia, Vietnam, and Senegal, as well as multi-sectoral platforms initiated by Egypt, North Macedonia, and Bangladesh.[35]

Table 2 provides a summary of the existing country platforms.

Table 2. Summary of existing country platforms[41]

Country	Platform Name	Country Leadership	Brief Description	Thematic Focus	Key Programmatic Elements	Key Partners
Bangladesh	Bangladesh Climate and Development Platform (BCDP) Launched April 2024	GoB Ministry of Environment, Forest and Climate Change (MOEFCC)	A government-led platform to implement Bangladesh's climate agenda by generating a robust pipeline of climate projects and a financing strategy, aiming to improve public investment management, financial risk management, and climate spending.	Climate adaptation, resilience, and mitigation actions aligned with plans.	Takes a "whole of government" approach aligned with Bangladesh's NAP 2023–2050, Delta Plan 2100, and NDCs. It uses a programmatic approach with monitoring and reporting systems.	ADB, the World Bank, IFC, MIGA, IMF, AIIB, AFD, the EU and the EIB, GCF, the Government of South Korea, JICA, and the UK.
Brazil	Brazil Climate and Ecological Transformation Investment Platform (BIP) Launched October 2024	Ministry of Finance as lead ministry in partnership with Ministry of Environment and Climate Change, , Ministry of Development, Industry and Foreign Trade, and Ministry of Mines and Energy.	A government-led platform to connect projects and financial institutions to support Brazil's climate goals, fostering public-private collaboration and increasing transition investment in key sectors.	Nature-based Solutions & Bioeconomy; Industry & Mobility; Energy (with numerous defined subsectors)	Aligned with Brazil's NDCs and government plans, including the Ecological Transformation Plan and Plano Clima. It uses project screening criteria for environmental impact, capital mobilization, and socio-economic co-benefits.	GFANZ, GCF, UNDP, MDBs, IFIs
Egypt	Country Platform	Government of	A country-led program	Water, food, and energy	Programmatic approach	AfDB, EBRD,

	for the Nexus of Water, Food and Energy (NWFE) Program Launched July 2022	Egypt Ministry of Planning, Economic Development & International Cooperation	to accelerate Egypt's national climate agenda by mobilizing climate finance and private investments for a green transition.	nexus; green transition; sustainable transport	fully aligned with Egypt's National Climate Change Strategy 2050 and NDCs. It provides a mechanism to move "from pledges to implementation" with a coordinated reporting process.	IFAD, EIB, CIF, GCF, GFANZ Private Sector Finance Working Group.
Indonesia	Energy Transition Mechanism (ETM) Country Platform Launched November 2022	Indonesia's Ministry of Finance; PT SMI, which is the implementing entity for the ETM Country Platform.	A collaborative initiative to accelerate the transition from fossil fuels to clean energy by mobilizing financial resources and international support, including a focus on the early retirement of a coal-fired power plant.	National energy transition, including early retirement of fossil fuel power infrastructure, development of renewable energy, and support for just economic and social transition.	Mobilizes financing to support power sector commitments in Indonesia’s 2022 Enhanced NDCs under the Paris Agreement.	INA, ADB, CIF, World Bank, UNDP, IsDB, HSBC, Standard Chartered, JBIC, etc.
North Macedonia	North Macedonia Just Energy Transition Investment Platform (JETIP) Launched December 2023	Republic of North Macedonia Ministry of Economy/Ministry of Energy, Mining, and Raw Materials, in coordination with other government ministries	A platform to guide and support North Macedonia's transition from a coal-dependent electricity sector to low-carbon energy, with 2030 targets for coal phase-out and renewable energy development.	Decarbonization of the electricity sector and just transition (including coal phase-out, renewable energy development, grid improvements and just transition initiatives)	Aims to mobilize financing and support to achieve North Macedonia’s 2022 NDC commitments. Planning focuses on updating the National Energy and Climate Plan (NECP) to guide decarbonization, energy efficiency, and security goals.	EBRD, European Commission, CIF, World Bank, IFC, EIB, etc. and business chambers, trade unions and CSOs.
South Africa	South Africa Just	Republic of	A comprehensive effort	Six portfolios: (1)	Designed to support South	South

	Energy Transition (JET) Platform Launched January 2023	South Africa Presidency and Ministry of Electricity & Energy	to reduce South Africa's reliance on fossil fuels while fostering social and economic growth, serving as a platform to coordinate public and international financing for the JET Investment Plan.	Decarbonizing the electricity sector, (2) Mpumalanga just transition, (3) new energy vehicle (NEV) sector, (4) green hydrogen (GH2), (5) skills development, and (6) municipal capacity	Africa's 2021 NDCs and aligned with the South African Renewable Energy Masterplan (SAREM). The PMU produced an Implementation Plan (2023–2027), tracks projects, and maintains a robust monitoring, evaluation, and learning (MEL) system.	African development banks (IDC, DBSA), IPG (South Africa, France, Germany, UK, USA, EU), World Bank, IFC, AfDB, CIF, ACF, CPI.
Türkiye	Türkiye Industrial Decarbonisation Investment Platform (TIDIP) Launched November 2024	Ministry of Industry and Technology of the Republic of Türkiye (MoIT)	A platform built on low-carbon pathways to decarbonize key industrial sectors (steel, aluminum, cement, fertilizer) in Türkiye, aiming to deploy $5 billion in investments by 2030.	Industrial decarbonization (steel, aluminum, cement, and fertilizer sectors, with plans to expand to glass, ceramics, and chemicals)	Utilizes low-carbon pathway (LCP) roadmaps to guide investments. LCPs are aligned with Türkiye's 2022 NDCs. The platform provides technical assistance for stakeholder engagement and helps companies prepare decarbonization plans.	EBRD, World Bank Group, IFC, CIF
Viet Nam	Vietnam Just Energy Transition Partnership (JETP) Launched December 2022	Vietnam Ministry of Industry and Trade (MoIT)	A partnership between the Vietnamese Government, IPG, and private finance to accelerate the just transition and decarbonization of the electricity system towards a net-zero	Just energy transition, focused on the electric power sector	Aligned with Viet Nam's 2022 NDCs, aiming to accelerate the decarbonization of the electricity system. It coordinates investments and technical assistance, focusing on the policy enabling environment and	IPG (EU, UK, Japan, France, Germany, Italy, Canada, Denmark, Norway), GFANZ,

			future.		a developing a monitoring framework.	UNDP

3.7. Enhancing Inclusivity

Strengthening inclusivity is paramount for effective and equitable climate action. As highlighted by expert insights, the focus should be on vulnerable groups, as not considering them is likely to increase inequality and lower the likelihood of sustained project success.[23] While some MCFs have been mindful in programming to address gender and youth, there is a recognised gap in consistently and adequately addressing other marginalised groups.

3.1.1 **Persons with Disabilities**: People with disabilities, comprising as much as 15% of the global population (including the sick/injured, elderly, and others with mobility issues), are disproportionately vulnerable to the extreme weather events exacerbated by climate change. This heightened vulnerability stems from factors such as limited mobility, lack of accessible information, and exclusion from disaster preparedness and response planning. For climate change adaptation to be fully effective, it critically needs to consider and actively include these groups in all stages of project design and implementation.[23]

3.1.2 **Indigenous Peoples and Afro-descendants**: Indigenous Peoples are profoundly impacted by the climate and biodiversity crises, yet they are also hugely important in successfully addressing them. Prioritising IPs and Afro-descendants in climate and biodiversity investments means respecting their rights, recognising their traditional knowledge, and ensuring their free, prior, and informed consent (FPIC) for any projects affecting their lands, territories, and resources. This approach is vital for effective forest protection and sustainable development outcomes.[24]

Meaningful, continuous, and culturally appropriate stakeholder engagement, coupled with robust, disaggregated data collection in project design and implementation, are crucial to prevent the exclusion of marginalised groups from accessing project benefits and to ensure that climate interventions are truly inclusive and responsive to diverse needs.

4. Direct Funding Access to Indigenous Peoples and Local Communities

Providing direct access to funding for Indigenous Peoples and Local Communities (IPLCs) is essential for ensuring country ownership, fostering local innovation and reducing inequality, by empowering those most affected by climate change. This approach minimises administrative layers, bypasses lengthy bureaucratic processes, and allows funds to reach the grassroots level more efficiently and effectively, enabling locally-led adaptation and mitigation efforts. Various instruments used by MCFs to provide direct funding access are described here:

4.1. Global Environment Facility

The GEF's Small Grants Programme (SGP) is a highly successful example of direct community engagement. Established in 1992, the SGP provides direct financial and technical support to communities and civil society organisations (CSOs) for local environmental projects that address global environmental challenges while improving livelihoods. Since its establishment, the SGP has supported over 28,000 community-based projects in more than 135 countries, demonstrating a proven model for direct engagement and impactful results at the local level. Close to $955 million have been mobilised to co-finance these community-based SGP projects.[25]

4.2. Adaptation Fund

The AF introduced the Direct Access Modality in 2009, an approach that allows developing countries to access funds directly through accredited National Implementing Entities (NIEs) and Regional Implementing Entities (RIEs), rather than solely through multilateral agencies.[3] This modality significantly enhances country ownership, builds in-country institutional capacity for managing climate finance, and strengthens national systems. Beyond direct project funding, the AF also offers small grants (up to US$250,000), learning grants, and scale-up grants, further enabling direct funding to entities at national and sub-national levels, fostering local innovation, knowledge sharing, and replication of successful adaptation practices.[25] Furthermore, the Readiness Programme provides crucial capacity-building support. This programme assists National Implementing Entities (NIEs) in accessing adaptation funds, including through South-South cooperation, and offers technical assistance grants specifically for environmental and social safeguards and gender considerations.[27]

4.3. Green Climate Fund

The GCF has had a couple of pilot programmes that offer smaller grants. While these are not always directly toward Indigenous Peoples and Local Communities, the Enhancing Direct Access (EDA) instrument has US$200 million set-aside for 10 projects. Under EDA, "direct access entities nominated by countries can submit proposals to the Fund, which include public sector institutions or private sector entities, and non-governmental organisations operating at the regional, national or subnational level."[28] This mechanism aims to empower a broader range of national and sub-national entities, including CSOs, to access GCF resources. On the private sector side, GCF also had a Micro-, Small-, and Medium-Sized Enterprises (MSME) Pilot Program, also with a provision of US$200 million. That window has since closed, indicating a need for continued focus on such mechanisms.

4.4. Climate Investment Funds

The CIFs have demonstrated a commitment to direct community engagement through the Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities. This mechanism supports direct access for these groups, enabling them to participate directly in climate adaptation and mitigation work within their territories and resources, recognising their knowledge and vulnerabilities. Furthermore, the CIFs are increasingly incorporating a requirement for Just Transition considerations in all their projects, which inherently promotes equitable outcomes and benefits for affected communities by addressing the social and economic impacts of climate action, including job creation and livelihood diversification.[17]

4.5. Fund for Responding to Loss and Damage

As a very new fund, the FRLD is still developing its operational modalities and governance structures. While the fund’s governing instrument includes a small grants programme, it has not been prioritised for the startup phase due to pushback by some parties. While the overarching idea is to get money to communities, potentially through intermediaries, the current conflict is to ensure that the small grants programme, which is intended to happen sooner than later, is not further delayed and that community engagement is genuinely prioritised beyond superficial discussions during the startup phase.[29] Given its explicit focus on assisting vulnerable countries and communities in responding to climate impacts, there is a strong imperative and significant opportunity for it to integrate robust, simplified, and accessible mechanisms for direct and rapid funding to communities on the frontlines of climate impacts, ensuring immediate relief and effective support where it is most needed, without excessive bureaucratic hurdles.

5. Increase Funds for Adaptation and Loss and Damage

A significant rebalancing of climate finance allocations is urgently needed, with a stronger emphasis on adaptation and loss and damage. Currently, mitigation finance overwhelmingly outpaces adaptation finance. For instance, global adaptation finance reached $63 billion in 2021/2022, while mitigation finance totalled $1.15 trillion in the same period, representing a stark imbalance.[30]

This disparity is problematic because Adaptation and Loss & Damage disproportionately affect the most vulnerable populations and communities, particularly in developing countries, especially Least Developed Countries and Small Island Developing States, that have contributed least to global greenhouse gas emissions and bear its most severe and immediate consequences. These impacts include rising sea levels leading to displacement, extreme weather events causing infrastructure destruction and loss of life, desertification impacting agricultural livelihoods, and glacial melt threatening water security, all of which exacerbate existing inequalities and create new ones.

6. Developed Countries Must Meet their Financial Obligations

Addressing global inequality through climate action is inextricably linked to the financial obligations of developed countries, rooted in principles of historical responsibility and equity. The international climate regime has long recognised that developed nations, having contributed the most to historical greenhouse gas emissions, bear a greater responsibility to lead in climate action and provide financial support to developing countries. These are reflected in:

6.1. United Nations Framework Convention on Climate Change

This foundational principle of international environmental law, enshrined in the UNFCCC, Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC), acknowledges that all countries have a shared responsibility to address climate change, but their capabilities and historical contributions to the problem differ. This differentiation implies that developed countries should take the lead in providing financial resources, technology transfer, and capacity building to developing countries, recognising their varying stages of economic development and vulnerability to climate impacts.[32]

6.2. Paris Agreement

Building on CBDR-RC, Article 9.1 of the Paris Agreement explicitly states that "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention." This article underscores the ongoing commitment of developed nations to provide financial support, emphasising the need for both public and private financial flows to achieve the PA's goals.[33]

6.3. Carbon Debt

The concept of "carbon debt" highlights the historical emissions accumulated by developed countries, which have disproportionately consumed the global carbon budget. This perspective argues that developed nations owe a significant financial and ecological debt to developing countries for their excessive historical emissions, which have fuelled their economic growth while contributing to the climate crisis now disproportionately impacting the Global South. Estimates suggest this carbon debt could be as high as $200 trillion, equivalent to approximately $5 trillion per year until 2050, representing the cost of climate damages and the transition to a low-carbon economy that developed nations should bear for exceeding their fair share of atmospheric space.[34] Fulfilling this obligation is not merely an act of aid; it is a matter of climate justice and a crucial step towards reducing global inequalities.

Meeting these financial obligations, both in terms of quantity and quality, is fundamental to building trust, fostering international cooperation, and enabling developing countries to pursue climate-resilient and low-carbon development pathways without compromising their development aspirations or exacerbating existing inequalities.

7. Recommendations

To effectively leverage Multilateral Climate Funds (MCF) for reducing inequality, and to ensure that global climate action is effective in addressing the climate crisis and is also just, equitable, and leaves no one behind, the following recommendations are put forth:

7.1. Prioritise and Deepen Just Transition Integration

All MCF projects and programmes should explicitly integrate and operationalise Just Transition principles, especially Just Energy Transition principles, from establishment to evaluation. This includes conducting comprehensive social and economic impact assessments, ensuring equitable distribution of benefits, providing robust social protection mechanisms (e.g., cash transfers, public works programmes) for climate-affected populations, and offering reskilling and alternative livelihood support for workers and communities affected by the transition away from carbon-intensive industries.

7.2. Strengthen Inclusivity and Meaningful Engagement of Marginalised Groups

MCFs should be required to consistently and adequately address the specific needs and vulnerabilities of all marginalised groups, including women, persons with disabilities, Indigenous Peoples, youth, and other vulnerable communities, across all their operations, from research and policy development to investment plan design and implementation. This necessitates fostering meaningful, continuous, and culturally appropriate stakeholder engagement processes, and implementing robust, disaggregated data collection and monitoring and evaluation throughout the entire project cycle to track equitable outcomes and ensure no one is left behind.

7.3. Scale-Up and Diversify Direct Access Modalities

Enhance and significantly expand mechanisms that provide direct funding to communities and local entities, building on successful models like the GEF's Small Grants Programme, the AF's Direct Access Modality, and the CIF's Dedicated Grant Mechanism. This empowers local actors, strengthens country ownership, and ensures that climate finance reaches those most in need, fostering local innovation, resilience, and self-determination. Explore and operationalise direct financing mechanisms for the newly established FRLD to ensure rapid and unburdened access for frontline communities, pushing for the prioritisation of its small grants programme.

7.4. Rebalance Funding Towards Adaptation and Loss & Damage with Grant-Based Finance

Advocate for a substantial and urgent increase in the proportion of funds allocated to adaptation and loss and damage, targeting up to 60% of overall climate finance. Critically, these funds must predominantly be provided in the form of grants, acknowledging the limited repayment capacity of vulnerable nations and communities and ensuring that critical support for immediate survival, recovery, and long-term resilience is accessible without exacerbating debt burdens.

7.5. Enhance Transparency, Accountability, and Learning

Improve transparency around project outcomes, including systematic reporting on both successes and failures, and the specific impacts on inequality. This includes ensuring adequate **Access to Information**, which is crucial for project-affected communities and civil society to effectively engage with projects and hold institutions accountable. Inadequate access to information can undermine transparency and make effective engagement difficult.[28] Foster a culture of continuous learning from implementation experiences to adapt and improve future interventions, ensuring accountability for delivering equitable and impactful results. This includes making publicly accessible data on project impacts on vulnerable groups and the effectiveness of inequality-reducing measures. Empowered **accountability mechanisms** are essential to this process, as advocating for more climate finance and accountability should go hand-in-hand.[29]

7.6. Fulfil Developed Countries' Financial Obligations

Emphasise the historical responsibility of developed countries to meet and exceed their climate finance commitments under the UNFCCC and Paris Agreement, including the long-standing $100 billion goal and the new collective quantified goal. Acknowledge and address the concept of "carbon debt" by ensuring that financial contributions are commensurate with historical emissions and the disproportionate impacts faced by developing nations, and are in the form of grants.

7.7. Promote Active and Well-Represented Stakeholder Participation

Ensure active, equitable, and well-represented participation of stakeholders, especially from developing countries (including civil society organisations, Indigenous Peoples' organisations, and local community representatives), in the governance, strategic planning, and decision-making processes of all MCFs. This ensures that diverse perspectives and needs are genuinely integrated into climate finance strategies and that interventions are contextually relevant and locally appropriate.

7.8. Apply Analytical Tools for Inequality Reduction

Mandate the systematic application of robust analytical tools such as Environmental and Social Frameworks, Paris Alignment methods for Development Policy Operations, Country Climate and Development Reports, and Country Platforms. These tools should be explicitly used to identify, assess, and integrate inequality reduction objectives into all climate finance strategies and projects, ensuring that climate investments contribute to poverty eradication and shared prosperity.

7.9. Foster Knowledge Sharing and Capacity Building:

Encourage MCFs to strengthen their role in building climate expertise and institutional capacity in developing countries, particularly in areas related to inclusive and equitable climate action, gender-responsive approaches, and disability inclusion. This includes facilitating the sharing of best practices, lessons learned, and technical assistance to enable countries to effectively access, manage, and deploy climate finance in a manner that reduces inequality and builds long-term resilience.

By implementing these recommendations, Multilateral Climate Funds can significantly enhance their contribution to reducing inequality, and ensure that global climate action is not only effective in addressing the climate crisis, it is also just, equitable, sustainable, and leaves no one behind.

Table 3 provides a summary of these recommendations.

Table 3. Summary of Recommendations

Recommendation	Explanation
Prioritise and Deepen Just Transition Integration	Ensure all climate fund projects explicitly consider and support equitable social and economic outcomes during the shift to a low-carbon economy.
Strengthen Inclusivity and Meaningful Engagement of Marginalised Groups	Consistently address the needs of all vulnerable groups, including women, persons with disabilities, and Indigenous Peoples, through active participation and disaggregated data.
Scale Up and Diversify Direct Access Modalities	Expand mechanisms that provide funding directly to local communities and entities, empowering them to lead climate action.
Rebalance Funding Towards Adaptation and Loss & Damage with Grant-Based Finance	Significantly increase grant-based funding for adaptation and loss and damage to support vulnerable nations without exacerbating debt burdens.
Enhance Transparency, Accountability, and Learning	Improve public access to project information, report systematically on outcomes, and establish robust

	accountability mechanisms for equitable results.
Fulfil Developed Countries' Financial Obligations	Urge developed nations to meet and exceed their climate finance commitments, acknowledging historical emissions and carbon debt.
Promote Active and Well-Represented Stakeholder Participation	Ensure diverse stakeholders, especially from developing countries, are actively involved in the governance and decision-making processes of climate funds.
Systematically Apply Analytical Tools for Inequality Reduction	Mandate the use of frameworks like ESFs, Paris Alignment methods, and CCDRs to integrate inequality reduction into all climate finance strategies.
Foster Knowledge Sharing and Capacity Building	Strengthen climate funds' role in building expertise in developing countries for inclusive and equitable climate action, sharing best practices and technical assistance.

8. Conclusion

Leveraging multilateral climate funds effectively is essential for addressing the climate crisis as well as the profound inequalities it exacerbates. By integrating robust safeguards, such as Just Transition principles and meaningful inclusivity for marginalised groups, and by rebalancing funding towards grant-based adaptation and loss and damage, multilateral climate funds can become powerful instruments for equitable development. Enhancing accountability, promoting transparency, and ensuring the active participation of vulnerable communities in decision-making are critical steps to ensure that climate finance truly reaches those most in need, reduces inequality, and contributes to a more just and sustainable future. This strategic approach will ensure that global climate action is effective and fair and equitable for all.

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Acknowledgements

Appreciation is expressed to:

- Helena Aurellia for her research support
- Ladd Connell at the Bank Information Center for his insights
- Experts associated with the Multilateral Climate Funds who provided their views and inputs
- Rebecca Thissen, Global Advocacy Lead of CAN International for her analysis of finance issues
- Iskander Erzini Vernoit, Coordinator of the Finance Working Group of CAN International for his inputs