From Silos to Synergies: Aligning Multilateral Climate Funds with Inequality Reduction

Global Solutions Initiative's Solution Lab T20 Policy Brief

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Background

The world has been witnessing a significant shift in the geopolitical and geo-economic landscapes over the past couple of decades, with a transition toward multipolarity and a collective global effort at confronting the polypandemic. The United Nations' (UN) Summit of the Future in 2024 and its Pact for the Future, the Conferences of the Parties (COPs), Finance for Development 4 (FFD4), and other efforts seek to change the world for the better. Defining "better" has been an agreeable issue; it is experiential, the lived realities of global populations in their various categories. For ease of reference, the UN defines development – one of its "main priorities" – as "a multidimensional undertaking to achieve a higher quality of life for all people" (UN, A/RES/51/240).

This definition places the improvement of the lived realities of the collective global population at the center of all its efforts on development, including global governance. These efforts seek to confront the polypandemic of crises, including but not limited to inequalities, poverty, food security, and human security. These are matters in which Chapter 1 of the UN Charter mandates the global governance system to achieve progress. It mandates this based on a set of values: democracy, peace, sovereignty, representivity, legitimacy, and development. The UN definition of development goes further to add "sustainability": "Economic development, social development, and environmental protection, which are interdependent and mutually reinforcing components of sustainable development" (UN, A/RES/51/240).

Deep inequalities persist in today's world – both between countries and within societies. Currently, 71% of the global population live in countries where socio-economic inequality is rising, and the wealthiest 1% have more wealth than the bottom 95%. These structural disparities are not just a development concern – they pose direct risks to the effectiveness and fairness of climate action.

Brazil's G20 Presidency in 2024 placed poverty, inequality, and financing challenges at the heart of the global agenda. South Africa's 2025 G20 Presidency has further elevated the urgent question of how to scale up investments for climate-induced disaster response and align these with inequality reduction.

The dire impacts of climate change are on the rise, with each year breaking the record set by the previous. However, the people least financially protected and who contribute the least to climate change are the ones taking the hardest hits. In an era of tight fiscal constraints and rising global needs, the imperative is clear: climate finance must be optimized to advance both the climate agenda and the social agenda.

In this context, GIZ, in collaboration with the Global Solutions Initiative, has launched a Solutions Lab to develop recommendations to align the investments of multilateral public climate funds – such as the Green Climate Fund (GCF), Climate Investment Funds (CIF), and others – more effectively with the objective of reducing inequalities. The Solutions Lab operates on the premise that these funds possess both the mandate and the flexibility in their funding approaches to drive transformational change aligned with climate goals and social justice.

Multilateral climate funds were established to operationalize the commitments of the Paris Agreement and the Sustainable Development Goals (SDGs). However, these funds operate in a context of multidimensional, multiscale inequalities: economic, gender-based, spatial, racial, and intergenerational. Due to the siloed design of funding and implementation, interactions between climate and environmental investments and inequality dynamics are often overlooked. As a result, there is a risk that opportunities to align climate, environmental and inequality goals are missed. In fact, there is the danger that climate investments may even reinforce or exacerbate existing inequalities by increasing unequal access to resources, deepening exclusion from benefits, or raising exposure to risk, harms, and externalized costs.[1]

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[1] Dorman, D. R., & Ciplet, D. (2022). *Sustainable Energy for All? Assessing Global Distributive Justice in the Green Climate Fund's Energy Finance.* Global Environmental Politics, 22(3), 25–49. https://doi.org/10.1162/glep_a_00659

Although relatively small in volume compared to other public and private finance flows, multilateral climate funds possess unique catalytic strengths in advancing systemic transformation:

- They help reduce the cost of capital for climate- and equality-aligned investments.
- They support policy reform, project preparation, and institutional capacity-building at national levels.
- They mobilize additional finance by de-risking private investment and partnering with development finance institutions and multilateral development banks (MDBs).

These objectives must be more intentionally leveraged to ensure that investments disbursed through multilateral climate funds do not unintentionally deepen inequality but instead are proactively used as instruments to improve social and economic inclusion.

To do this, the Solutions Lab proposes recommendations to ensure that multilateral climate and environmental funds actively contribute to reducing inequalities through their design, implementation, and governance. These recommendations reinforce the existing guidance of the **G20 SFWG Finance Report** and **the Multilateral Climate Funds Action Plan**, with the intent to contribute to ongoing efforts that bridge the gap between global climate finance frameworks and social and economic justice outcomes.

1.) Optimize and maximize committed and disbursed climate and environment finance and related official development assistance (ODA) through enhanced coordination and synergies among climate funds

To reduce fragmentation and maximize the impact of multilateral climate funds' investments in inequality reduction, the G20 should lead efforts to enhance coordination and synergies across multilateral climate, biodiversity, and SDG funds through the following actions:

Develop a Strategic Alignment Framework

- Establish a coordination framework within the G20 Sustainable Finance Working Group (SFWG) to:
    - identify synergies and differences of different funds' objectives so complementarity can be maximized and tensions managed, with reference to trade-offs with inequality outcomes. The objective is an integrated framework augmenting the Multilateral Climate Funds Action Plan by systematically integrating social and inequality dimensions into current impact assessments and reaching future coordination.

Embed Distributive and Restorative Justice Principles

- Require that investment projects demonstrate contributions to:
    - Distributive justice: fair distribution of resources, risks, costs and benefits.
    - Restorative justice: addressing historical exclusion and environmental harm.
    - Social co-benefits: such as gender equality, job creation, or improved access to services for marginalized groups.

Enhance Access to Funds for Countries in Need

- Develop transparent, needs-based allocation systems that consider multidimensional inequalities. For example, use a Multidimensional Vulnerability Index (MVI) to guide access to both development and climate finance, ensuring that climate vulnerability – not just income level – determines eligibility and prioritization.

2.) Strengthen Safeguards, Standards, Governance, and Monitoring Frameworks and Stakeholder Engagement

To maximize the effectiveness of climate investments in reducing inequality, the G20 should propose adjustments to funding mechanisms by integrating inequality-sensitive safeguards, standards, governance, and monitoring frameworks and stakeholder engagements throughout the investment cycle.

This requires the following:

- Replicate the CIF's best practice of incorporating just transition and demonstration of benefit-sharing to reduce inequality and transformational change into investment plans, across other MCFs and the MDBs.
- Enhance the effectiveness of criteria used by the GCF and Adaptation Fund for project prioritization and selection, such as "vulnerability" and "impact potential", by explicitly tying them to inequality indicators (e.g. HDI, Gini coefficient, Multidimensional Poverty Index).
- Harmonize indicators across funds and integrate standardized vulnerability indices such as ND-GAIN, INFORM, and the MVI to inform funding decisions and project design.
- Apply robust, justice-focused environmental, social, and governance (ESG) criteria to inform the design, approval, and oversight processes of all investment projects.
- Strengthen **Country Platforms** facilitated by the concerned countries with the support of MDBs and development agencies for contextualized climate investments to achieve national investment coordination platforms that serve:
    - as a conduit for aligning international climate finance flows with the specific socio-economic contexts of each country, based on needs assessments for basic service provision (energy access, housing, health, education, connectivity);
    - as structured fora for aligning the efforts of multiple development partners and their various development aid targets, especially social protection, international financial institutions, and national agencies, to reduce fragmentation;
    - to establish cross-sectoral investment pipelines that jointly deliver climate and equality outcomes;

    - to collect country-driven evidence that can shape national priorities and align with social protection schemes to inform funding criteria, project selection, and performance evaluations; and
    - to promote country-led investment strategies to overcome fragmented project-based funding and act as accelerators of a country's financial commitments.
- Request mandatory multi-stakeholder involvement, including civil society, Indigenous Peoples, and traditional communities at every stage of the investment cycle implementation.
- Expand the share of finance flowing through local and national entities ensured by the respective fund management and MDBs by:
    - Simplifying accreditation processes;
    - Introducing light accreditation tiers for small and low-risk entities;
    - Providing targeted readiness support and capacity building; and
    - Promoting partnerships between International Access Entities (IAEs) and Direct Access Entities (DAEs) to support implementation and enhance local capabilities.
- Create funding windows specifically for Indigenous Peoples, traditional communities, and local groups.
- Recognize that while safeguards and standards are essential for accountability, they should not become barriers to entry for DAEs, such as local governments, community-based organizations, and Indigenous-led institutions. A "proportional safeguards" approach should be applied, where the stringency of standards is tailored to project scale, risk level, and the capacity of the implementing entity.
- Harmonize monitoring and evaluation to assess the impact of investments on inequality reduction:
    - Track how investments are disbursed, with a focus on tracking distributional effects of climate investments to ensure benefits are equally shared, with data disaggregated by income, gender, geography, and other vulnerability markers.

- Establish platforms and encourage projects to also share insights from underperforming or challenging initiatives, to support learning and build stakeholder trust.

3.) Promote Tax Justice and Climate-Aligned Debt Solutions

Tax and debt policies shape the national fiscal space for efforts geared to reduce inequalities. As such, they are critical levers for mobilizing additional finance to be disbursed with the goal of aligning climate and environmental investments with the reduction of inequalities and countries' own financial contributions. It would also allow social protection to accompany climate investments and biodiversity-related interventions. The G20 should advance tax justice and promote climate-aligned debt solutions.

- Support the UN Tax Convention to reform global tax rules and increase domestic resource mobilization for climate action.
  - Lead on the adoption of a coordinated minimum effective taxation standard for ultra-high-net-worth individuals.
- Commit to explore and implement opportunities to tax the fossil fuel industry (e.g., aviation, shipping, fossil fuels) and other high emitting sectors, to pay for domestic climate action and international climate finance support, as applicable.
- Evolve Debt Sustainability Assessments (DSAs) to include climate vulnerabilities, inequality considerations, and institutional capacity, moving beyond narrow macroeconomic metrics.
- Advocate for climate-aligned debt restructuring mechanisms that reduce debt burdens and free fiscal space for climate and inequality action.
- Implement debt-for-climate and SDG swaps, enabling countries to redirect debt service payments toward investments that address climate resilience, SDGs 1–6, and local development priorities.