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MDB Reform For More And Better Climate Finance Data, Allocation, Local Ownership And Impact

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Financing for
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Abstract

The mobilisation of adaptation finance remains constrained by fragmented metrics, misaligned incentives, and institutional barriers within Multilateral Development Banks (MDBs) lending structures. Despite growing recognition of the need for locally-led adaptation approaches, current financial mechanisms are shaped by (geo)political top-down donor priorities and private sector risk-return calculations. MDBs play a pivotal role in this landscape but remain structurally constrained – by their traditional originate-and-hold lending model, their reliance on sovereign lending, and the imperative to maintain AAA credit ratings (Bougrea & Vermeiren 2025).

Recent G20 MDB reform discussions, including the Capital Adequacy Framework (CAF) review, have focused on optimising MDBs balance sheets while maintaining financial sustainability. However, despite the growing urgency of climate resilience investments, adaptation finance remains peripheral in these debates.

This proposal argues that MDB reform must be explicitly linked to the development of standardised, locally-led adaptation finance metrics, which can enhance both capital mobilisation and climate resilience outcomes. Building on ongoing MDBs reform efforts, this brief proposes three key interventions.

Keywords: Multilateral Development Banks, Adaptation Finance, Capital Adequacy Framework, Data and Efficiency, Blended Finance, MDB reform

Diagnosis

The global imperative to mobilise adaptation finance¹ faces systemic constraints, significantly hampered by misaligned incentives, fragmented metrics, and institutional barriers within Multilateral Development Banks (MDBs). Despite substantial discourse around locally-led adaptation (LLA), current financial mechanisms overwhelmingly prioritise top-down, donor-driven agendas and private-sector interests shaped by risk-return calculations (Gabor 2021: 430; Fisher 2023: 162). Consequently, adaptation financing often fails to reach vulnerable communities, exacerbating inequalities and limiting climate resilience (Fisher et al. 2015:14).

Institutionally, MDBs are constrained by their traditional "originate-and-hold" lending models. While historically effective for sovereign lending, this model inherently limits scaling private capital mobilisation due to the cautious risk profiles mandated to preserve AAA-credit ratings (Bougrea & Vermeiren 2025: 4-5). The longstanding reliance on sovereign loans and credit stability limits MDBs from extensively adopting more innovative financial instruments, such as large-scale securitisation or pooled investment vehicles (Convergence et al. 2022: 29). Although MDBs increasingly advocate for blended finance and project derisking – strategically using public resources to catalyse private sector participation – these initiatives have generally yielded limited outcomes. Despite targeted efforts, private finance mobilisation by MDBs remains marginal, accounting for a mere fraction of the \$4 trillion annual financing gap to meet global Sustainable Development Goals (SDGs) and climate resilience targets (UN Inter-Agency Task Force 2024: 3).

¹ Financial resources, by all public and private actors from global to local scales, to increase resilience to the impacts of current and projected climate change (IPCC, 2022).

Another critical issue lies in the fragmented, externally-driven metrics governing adaptation finance. Existing adaptation tracking methodologies, such as the OECD Rio Markers and Joint MDB Methodology for Adaptation Finance Tracking, reflect donor-dominated criteria that often fail to accurately capture localised needs and vulnerabilities (Coger et al. 2022: 6; Fisher 2023; Nowak et al. 2024). These metrics assess finance based on the funder's stated intentions, internal tagging, and project design-phase objectives, frequently misaligning with ground realities. As a result, projects may meet donor standards while inadequately addressing local climate risks (Fisher 2023:164). Emphasising locally-owned criteria would address accountability gaps and improve the legitimacy and effectiveness of adaptation finance.

The adaptation finance data landscape also remains opaque, lacking transparency and limited granular tracking (GCA 2024: 29; Kraus et al. 2024). This opacity fosters information asymmetries between MDBs, recipient governments, and private sector actors, further diminishing investor confidence. Although initiatives such as the Global Emerging Markets Risk Database (GEMs) aim to enhance transparency, MDBs' reluctance to fully disclose disaggregated data limits their effectiveness (MDB Joint Taskforce 2024: 6). Without comprehensive, publicly accessible data platforms, adaptation finance struggles to demonstrate clear risk-adjusted returns attractive to investors.

The geopolitical context further complicates matters. The current 'securitisation agenda' emphasises transforming MDB loans into marketable securities attractive to global institutional investors (Bougrea & Vermeiren 2025). However, significant institutional resistance exists within MDBs due to legal restrictions, such as the non-transferability of preferred creditor status, and fears of exacerbating regional lending inequalities by disproportionately securitising profitable loans in middle-income countries (MDB Joint Taskforce 2024: 7). Such initiatives sideline least-

developed countries, where adaptation financing is most needed yet perceived as less marketable (Nowak et al. 2024: 879).

In addition, there is a notable institutional inertia within MDBs regarding transitioning from direct lending towards "originate-to-distribute" models that facilitate large-scale portfolio derisking (Bougrea & Vermeiren 2025). Despite political rhetoric, internal and external stakeholders express limited enthusiasm for fundamentally restructuring MDB business models to scale private capital mobilisation through securitisation. This inertia stems partly from concerns about weakening MDBs' development role and exposing them to the instability of market-driven finance (Gabor 2021: 435).

Furthermore, capacity constraints and inadequate technical support hinder developing countries' ability to effectively engage with MDB-driven adaptation finance mechanisms (Coger et al. 2022: 12). Many countries lack robust public financial management systems required for budget tracking and accountability to international donors. MDBs have not provided sufficient technical support for building comprehensive, locally informed monitoring and evaluation systems. This undermines national ownership of adaptation processes and reduces the effectiveness of finance flows in promoting sustained, community-driven climate resilience (Fisher et al. 2015: 20).

Overcoming these systemic constraints requires reorienting MDB practices and policies. Prioritising the development of standardised, locally informed adaptation metrics, reinforcing transparent data platforms, and mindfulness of institutional limitations, are essential steps. Crucially, aligning MDB reform processes with locally determined needs and reinforcing the technical capacities of recipient countries are foundational elements necessary for transformative adaptation finance. Without addressing these fundamental institutional and structural issues, MDB-driven adaptation finance will remain marginally effective,

failing to leverage the full potential of public and private resources towards equitable, climate-resilient futures (UNFCCC 2023: 35).

This brief reiterates and seeks to abide by the findings and recommendations of the 2024 G20 Roadmap 'Towards Better, Bigger and More Effective MDBs', the Biennial Assessment and Overview of Climate Finance Flows and the Global Stocktake.

Recommendations

Achieving these recommendations is ambitious, but not outside the realm of feasibility. Each proposal builds on existing MDB practices and reforms already under discussion, especially in the G20 Capital Adequacy Framework (CAF) reform debate, and the ongoing evolution of MDB lending and finance tracking approaches. The CAF agenda has tied capital optimisation with alignment in metrics and processes. Given the simultaneous development of Global Goal on Adaptation (GGA) indicators, this is an opportunity to define adaptation finance metrics globally that MDBs can work with.

1. Expanding adaptation finance through MDB (capital) optimisation

- **Promote multi-MDB joint financing frameworks to scale adaptation projects, especially in regions with high vulnerability but limited individual MDB presence.**
 - Individual MDBs often have limited capacity or strategic interest in vulnerable regions due to their financial risk profiles or geopolitical priorities. Combined institutional strength and joint financing frameworks enable pooling resources, expertise, and

risks, allowing MDBs to collaboratively finance larger-scale adaptation projects.

- **Incorporate CAF reforms such as callable capital**
 - MDBs' historically conservative risk profiles, maintained primarily to safeguard AAA credit ratings, restrict their ability to scale lending, especially during economic downturns when adaptation finance needs may intensify. By incorporating callable capital (pledged but not paid-in capital from member states) into risk assessments, MDBs can responsibly increase their risk appetites. This enables climate-responsive and countercyclical lending, supporting long-term resilience building rather than short-term market-driven considerations.
- **Establish a dedicated concessional finance window for adaptation, to ensure these are not sidelined by MDBs' increasing alignment with market-based approaches.**
 - Short-term market-driven financial flows often prioritise quick returns and largely overlook adaptation projects with longer time horizons or less immediate financial returns. A dedicated concessional window for adaptation allows MDBs to offer long-term, affordable financing tailored explicitly to these needs. Crucially, this window should be additional to existing operations, not a reallocation, to scale adaptation finance rather than merely reshuffling existing resources.
- **Scale and enhance hybrid financial instruments (e.g., AIIB Climate Adaptation Bond) through MDB callable capital more explicitly as a credit enhancement within defined risk tranches.**
 - This structure can attract large-scale institutional capital (e.g., pension funds, insurance companies) that has traditionally been reluctant to enter adaptation financing markets due to perceived uncertainties and insufficient returns. This does not entail a push for

activating callable capital, but rather aligns with CAF reforms advocating its more explicit use, within well-defined risk tranches to support high-impact adaptation instruments.

- **Develop clear guidelines and safeguards to ensure risk adjustments align with adaptation project outcomes rather than solely credit risk profiles.**
 - Currently, MDB risk adjustments predominantly reflect creditworthiness assessments rather than development outcomes or project effectiveness. This can inadvertently discourage investment in higher-risk but high-impact adaptation projects critical for vulnerable communities. Introducing guidelines and safeguards explicitly tying risk evaluations and financial terms to verified adaptation outcomes ensures that capital allocation aligns with meaningful, measurable resilience improvements, prioritising developmental impacts alongside financial stability.

2. Integrating locally-led adaptation finance metrics into MDB lending frameworks

MDBs should adopt scientifically grounded, needs-based and locally-developed adaptation taxonomies, to ensure that funding distribution has the greatest impact, while advancing investment-grade classifications that attract private investors. Ground-truthed metrics, determined within the local policy framework (such as national taxonomies), will reduce investor uncertainty and maximise investor local accessibility, results and local ownership.

- G20 countries should commit to a revision of the MDB Common Principles and Joint Methodology for Adaptation Finance Tracking.
- This revision should correct the donor-recipient paradigm in adaptation finance.

- Adaptation tagging and metrics should be based on country and local principles and criteria, in alignment with those set within the UNFCCC process.
- To do so, resources must be allocated for all countries to develop, in full ownership, a Green Taxonomy, strict and transparent M&E processes, and monitoring processes in their National Adaptation Plans, based on wide-spread local consultations.
- Capacity-building should be scaled-up for decentralised national entities of funding and project implementation to reach all climate fund accreditations and to access MDB finance.
- The next Joint MDB Methodology for Adaptation Finance Tracking should be a coherent and balanced tracking method that aggregates data from the decentralised taxonomies and their localised metrics.

3. Establishing a global adaptation finance data platform

A centralised database mapping adaptation finance flows would enhance transparency, address information asymmetries, and increase private sector confidence in adaptation finance.

- For this to work, MDBs should develop a large-scale tracking data platform with UNFCCC recognition that can integrate all climate finance tracking initiatives, similarly to the Total Official Support for Sustainable Development (TOSSD) initiative. The platform may be hosted at the UNFCCC Secretariat - integrating initiatives and data such as IATI, CFU, OECD-DAC and CDP-ICLEI Track.
- This platform requires a secretariat in each country, working with the government's climate budget tracking and public financial management systems to also track country and local climate finance.

- This platform should present projects awaiting funding and a facilitation for private funders.

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