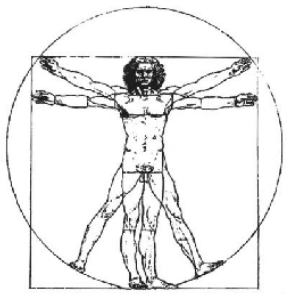

Beyond Projects

Transforming International Climate Finance for Systemic Impact

By Anju Sharma

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EXECUTIVE SUMMARY

Nearly four decades after the international community began confronting climate change as a global policy challenge, one fundamental challenge remains unresolved: *how can limited international public finance catalyse national and local climate action at the scale and speed demanded by an accelerating climate crisis?*

Global climate funds have mobilised tens of billions of dollars and supported thousands of projects across developing countries. While these investments have delivered important results, climate action remains fragmented, project-based and difficult to sustain at scale. The cumulative impact of individual projects, however successful, will not be sufficient to meet the scale of the climate challenge.

This paper argues that the answer to this challenge lies in fundamentally rethinking the purpose of climate funds.

The dominant operating model of international climate finance, and therefore of climate funds, remains rooted in the logic of official development assistance: finance flows through discrete, time-bound projects, success is measured by outputs, and countries repeatedly seek new funding. This model produces successful projects, but rarely lasting systems change. Action remains fragmented across siloed sectors, parallel governance arrangements and temporary financing. When projects end, many of the structures supporting them also disappear.

Financing an ever-growing portfolio of projects is therefore no longer sufficient in an era where climate finance needs are measured in the trillions.[1] This paper proposes a rethink of international climate finance and funds that is more consistent with the global ambition to accelerate transformational change: rather than primarily financing projects, climate funds should focus on supporting countries to build the institutions, financing mechanisms and governance systems through which climate action becomes a permanent feature of national development.

The experience of Enhanced Direct Access (EDA) and locally led adaptation (LLA) illustrates the importance of this transition.

While early EDA and LLA projects and programmes have demonstrated that devolving decision-making to communities and local governments can improve outcomes and maintain robust fiduciary standards and accountability, there is a growing risk that these innovations become narrowly interpreted as specialist small-grants windows for small community projects.

However, the original ambition of EDA and LLA was never simply to finance more and more small-scale community projects.

The goal was to demonstrate a different operating model to improve effectiveness and efficiency, one in which decision-making is progressively devolved to local actors while climate action becomes embedded within permanent national systems and financing arrangements. The objective was not to expand boutique grant programmes indefinitely, but

to ensure that the principles they embody—local leadership, subsidiarity, flexibility and accountability—become the standard way in which climate finance is delivered across all sectors and institutions.

While small grants will continue to play an important role in testing new approaches and building local capacity (particularly where national and local systems are not yet ready to channel finance to the local level), they should have a clear, long-term objective for systems change, with a defined pathway for absorbing pioneered approaches into permanent national systems and financing arrangements.

This requires a further evolution of the climate finance model, referred to as Climate Finance 3.0 in this paper. While climate finance is slowly evolving from a focus on projects (Climate Finance 1.0) to programmes (Climate Finance 2.0), it now needs to leapfrog to a deliberate focus on embedding climate resilience into national systems. (While this arguably also applies to emissions reduction, this paper focuses on adaptation and climate resilience.)

Most countries already possess policies, programmes and institutions that reach poor and vulnerable populations, including local governments, agricultural extension services, social protection programmes, public financial management systems, development banks, watershed authorities and community organisations. Rather than creating parallel climate structures, climate funds should help countries identify these existing systems, support them as they experiment with embedding climate resilience into their mandates and operations, and help them mobilise the additional finance needed to sustain those changes. Success should be measured not by the number of projects or the size of dedicated funding windows, but by the extent to which the principles and innovations they support inform national governance. In other words, climate funds should become catalysts for systems transformation, not permanent financiers of climate projects.

To support such a transition, this paper proposes four practical innovations.

First, National Climate Systems Roadmaps should replace project pipelines as the principal basis for countries to engage with international climate funds. Each roadmap would articulate a long-term vision for how climate action will be embedded across national institutions, public finance systems and local governance structures; identify which existing programmes and institutions offer the greatest opportunities for integration and effectiveness; set out a phased programme of climate integration and capacity development; and define a strategy for mobilising finance from multiple sources, both global and domestic.

Crucially, roadmaps must be authored and owned by the countries themselves. They must not become a climate version of the policy conditionalities attached to International Monetary Fund (IMF) and World Bank lending, in which externally prescribed reforms were made a condition of finance.

Second, climate funds should replace the current cycle of repeated project applications with a long-term systems model. Rather than returning every few years with new stand-alone projects, countries and climate funds would jointly review progress against the roadmaps in embedding climate action within national systems, identify obstacles to further integration, recommend course corrections where necessary and provide renewed support for the next phase of systems transformation.

This will shift the relationship between climate funds and recipient countries from one based on successive projects to one centred on supporting long-term systems change, progressive integration of climate change into national systems, continuous learning and adaptive management.

Third, climate finance should strengthen existing national systems that already support vulnerable people rather than creating parallel climate-specific delivery mechanisms. This includes local governments, public financial management systems, development banks, agricultural services and social protection programmes. Embedding climate finance within national systems must not, however, lead to recentralisation: communities and local governments must retain genuine authority over local investments. National systems should provide the architecture through which finance flows, but local actors should determine how that finance is used.

Finally, success should be measured differently. Rather than measuring success through individual project outputs, success should be measured by systems transformation: whether climate considerations have become integrated into national planning, budgeting, fiscal transfers, public investment systems and local governance; whether communities exercise greater influence over investment decisions; and whether countries are mobilising significantly larger flows of domestic, multilateral and private finance for climate action. This paper proposes new metrics, including a Climate Finance Multiplier and a Systems Embedding Ladder, to capture this broader transformational impact.

Ultimately, climate finance must move beyond the project paradigm. The legacy of today's climate funds should not be measured by the number of projects completed, but by whether they leave countries with stronger national systems, empowered local governments, climate-responsive public finance systems and governance arrangements capable of financing climate resilience for decades to come.

1. CLIMATE FINANCE HAS OUTGROWN THE PROJECT MODEL

The central question facing international climate finance therefore remains unresolved: *how can scarce international public finance catalyse climate action at the scale, speed and permanence demanded by an accelerating climate crisis?*

Tens of billions of dollars have been invested in adaptation and mitigation through the Green Climate Fund (GCF), the Adaptation Fund, the Global Environment Facility (GEF), the Climate Investment Funds (CIF) and other bilateral and multilateral initiatives. While these investments have generated valuable knowledge about what works, international public climate finance will always represent only a small proportion of the resources required. Developing countries' adaptation needs alone are estimated at US$310–365 billion a year by 2035, 12–14 times current international public adaptation finance flows.[2] Their total climate finance needs run into trillions.[3]

If the funds cannot finance the climate transition, their greatest contribution cannot simply be to fund an expanding portfolio of successful projects. Instead, their comparative advantage lies in helping countries build the institutions, financing systems and governance arrangements that can sustain climate action and mobilise finance from many different sources long after individual projects have ended.

1.1 The project model has reached its limits

The dominant operating model of international climate finance remains the project.

During the formative years of climate (and development) policy, projects offered a practical way to test innovation, manage fiduciary risk, build national capacity and demonstrate feasibility and results. The project model offered a neat package: clearly defined objectives, dedicated financing and measurable results.

The challenge, however, is not to demonstrate isolated examples of success. Climate change is a structural development challenge that affects every sector of the economy and every level of government. The challenge is to make approaches that support climate resilience part of the ordinary way governments plan, finance and deliver development.

Building resilience can therefore no longer be the responsibility of individual projects or ministries. Rather, it must become a routine function of ministries of finance, planning agencies, local governments, infrastructure authorities, agricultural services, social protection systems and public investment processes.

1.2 The limits of project success

Projects demonstrate solutions, but they cannot, by themselves, transform systems. They are temporary by design, with dedicated funding, specialised implementation arrangements, defined geographic boundaries and fixed implementation periods. When funding ends,

implementation teams are dissolved, dedicated financial mechanisms wind down operations and external support ends.

Too often, successful innovations remain confined to pilot sites; technical expertise dissipates; monitoring systems are discontinued; and countries subsequently return to climate funds with proposals for new projects addressing similar problems in different locations.

While the project may have performed exactly as intended, success at the level of the individual project does not necessarily translate into transformation at the level of national systems. For instance, a project may have financed a hundred community adaptation initiatives in a country. While this is a valuable achievement, the transformational change necessary to address the climate challenge successfully is to enable every local government in the country to support vulnerable communities in building climate resilience.

1.3 Climate action remains fragmented

The continued dominance of the project model has contributed to another challenge: fragmentation.

Climate finance frequently establishes parallel implementation units, dedicated coordination structures, separate monitoring systems and project-specific financing mechanisms. These arrangements can improve implementation efficiency during the lifetime of a project, but they do not necessarily strengthen the institutions responsible for delivering public services over the long term.

This fragmentation is increasingly inconsistent with the nature of the climate challenge. Climate resilience cannot be delivered through isolated adaptation programmes operating alongside mainstream development. It must become integrated into the systems that already determine development outcomes: national planning processes, public financial management, local government, infrastructure investment, agricultural extension, disaster risk management and social protection. The goal should be to integrate climate risk into the work of existing institutions, policies and programmes, not to increase inefficiency by creating new ones.

2. CLIMATE FINANCE 3.0: A NEW OBJECTIVE

The limitations of the project model point to a more fundamental question: what are international climate funds ultimately trying to achieve?

The answer, so far, has been implicit rather than explicit. Climate funds have sought to finance projects and programmes that reduce emissions, strengthen resilience and build national capacity, based on an assumption that transformational change will emerge through the cumulative effect of successful pilots.

This assumption rarely holds. Experience suggests that successful projects often remain isolated examples of good practice while the national systems responsible for planning, budgeting and delivering development continue to operate in fundamentally the same way.

Meanwhile, climate change has become a defining development challenge that affects every sector of the economy, every level of government and every aspect of public investment. Responding effectively requires national systems that routinely integrate climate resilience into planning, budgeting and service delivery.

The objective of climate funds should evolve accordingly.

The first generation of climate finance focused on demonstrating that climate action was possible by financing demonstration, pilot or model projects. The second generation now seeks to scale these experiences through larger programmes, stronger national institutions and increased access to climate finance through important innovations such as Direct Access, EDA and readiness finance, recognising that country ownership and local leadership were fundamental to effective climate action.

The third generation of climate finance, Climate Finance 3.0, should focus on transforming the systems that determine how countries plan, finance and govern climate change and development. International climate funds should, therefore, increasingly finance the transformation of the systems through which climate action is delivered. Scarce grant resources should be used to help governments strengthen the national systems that shape investment decisions, allocate public resources, govern development and mobilise finance from multiple sources.

Projects will remain important, but their primary value will lie in helping national systems learn, adapt and integrate climate change. This evolution can be summarised as three distinct generations of climate finance (see Table 1).

No plausible increase in international public climate finance will ever be sufficient to finance the global climate transition. The resources managed by climate funds will remain small compared with the investment required to build climate-resilient economies.

The comparative advantage of climate funds therefore lies not in becoming larger project financiers, but in becoming more effective catalysts. Their greatest contribution is to help countries build the institutional capacity to attract, coordinate and deploy finance from many different sources. A relatively modest grant that helps establish a permanent climate-responsive fiscal transfer system, for instance, may ultimately have far greater impact than a much larger stand-alone project whose benefits diminish once external funding ends.

The role of projects, models and pilots will remain important, but their overall goal becomes different. Integrating climate change into national systems requires experimentation, learning and adaptation over time. Projects, therefore, become vehicles for systems innovation, a beginning rather than an end, supporting countries to experiment with new approaches to planning, budgeting, governance and public finance, and enabling governments to identify how climate resilience can become integrated into existing systems.

Table 1: Climate Finance 3.0: The evolution of climate funds beyond projects

Climate Finance 1.0	Climate Finance 2.0	Climate Finance 3.0 (proposed)
Demonstrate climate action	Scale climate action	Transform systems for climate action
Finance individual projects	Finance programmes and national facilities	Support climate-responsive institutions, programmes and policies
Success measured through project outputs	Success measured through programme outcomes	Success measured through the transformation of national systems
Parallel project implementation arrangements	Stronger national ownership and programme management	Climate resilience embedded within existing national systems
International finance primarily funds activities	International finance supports national programmes	International finance catalyses domestic and external finance from multiple sources
Scale achieved through replication	Scale achieved through programme expansion	Scale achieved through systems embedding
Climate funds remain project financiers	Climate funds support programmes	Climate funds support systems transformation for long-term impacts and resilience

While the specific changes will vary between countries, the objective remains the same: helping existing national systems evolve so that climate resilience becomes part of their routine functions rather than an externally funded addition. International climate funds are uniquely placed to support this process because they can absorb risks that domestic institutions are often unable or unwilling to take.

3. THINK LOCAL, EMBED NATIONAL

The experience of Enhanced Direct Access (EDA) and locally led climate action, specifically locally led adaptation (LLA), illustrates the importance of this transition.

One of the most significant advances in international climate finance over the past decade has been the recognition that decisions about adaptation should be taken as close as possible to the people experiencing climate impacts. This principle underpins country ownership, Direct Access, EDA and LLA. Although these approaches differ in design, they share a common premise: communities and local governments should exercise meaningful influence over the decisions that shape their resilience.

The growing popularity of EDA and LLA has, however, exposed a fundamental choice about how they are understood by climate funds and national governments. They can be treated as specialised funding modalities (implemented through dedicated windows, community

projects and small grants programmes), or they can be understood as principles of governance that should shape how all climate finance is planned, financed and delivered.

This distinction is critical. The transformative potential of EDA and LLA lies in the governance model and the principles they represent, not in the specific financial instruments through which they are delivered.

Small grants, dedicated funding windows and pilot projects are not the objective. The original ambition of EDA was to ensure that people living with climate risks have a meaningful voice in the institutions and investments that affect their future.[4]

3.1 The small grants trap

However, there is a growing danger that as EDA and LLA become institutionalised within climate funds, they are increasingly equated with dedicated small-grants windows. Several EDA initiatives have been designed as community grant facilities or local adaptation funds that operate outside national development institutions, with temporary governance arrangements.[5]

While such programmes play an important role in reaching underserved communities and demonstrating new approaches, they risk narrowing the ambition of both concepts. If local leadership becomes synonymous with small grants, it is implicitly confined to small projects, while the largest public investments—in infrastructure, water, agriculture, urban development and social protection—continue to be planned and governed through conventional top-down processes. An approach intended to transform the governance of climate finance risks becoming just another niche funding window within it.

3.2 Reclaiming the original ambition

The more ambitious interpretation is to see EDA and LLA as prototypes for how climate finance should operate across government. Their principles—subsidiarity, local agency, participation, flexibility and accountability—should progressively become embedded in national planning systems, public financial management, fiscal transfers, sectoral investment programmes and development finance institutions. The objective is not to expand the number of EDA or LLA projects indefinitely, but to ensure that the principles they embody become the standard way that public institutions make climate investment decisions.

This also changes what is meant by scaling up. True scale is achieved by embedding these principles within the national systems that already allocate public resources, and by supporting them to develop the capacity they need to deliver meaningful change.

Achieving this scale requires climate change to be integrated into national systems. Planning systems must become more responsive to community priorities. Public financial management must provide predictable and flexible resources for local action. Fiscal transfer systems must reward climate-resilient investment. Public investment processes must value locally identified solutions. Development finance institutions must become better equipped to finance local resilience.

Climate funds should, therefore, judge transformational success not by the number of community projects they finance, but by whether they have helped countries redesign the systems through which climate finance is governed. The enduring legacy of EDA and LLA should not be thousands of successful local projects, but public institutions that routinely place local leadership at the centre of climate action.

3.3 Projects with a long-term purpose

None of this means that projects have no place. Small grants, in particular, remain one of the few instruments that can reach community organisations, women's groups, informal enterprises and local institutions that are not yet able to access public budgets or national financing systems. Projects can finance experimentation that governments are not yet ready to take on, build local capacity and confidence, give communities direct experience in managing and accounting for finance, and generate evidence of what works in specific contexts. In fragile and conflict-affected settings, or where local government systems are weak, they may, for some time, remain the most practical way for finance to reach the local level.

Projects should, however, be designed from the outset with a clear, long-term objective for systems change. Each project should be clear about which institution, policy or financing system it is intended to inform or change; the evidence it will generate; the capacities it intends to build to be sustained within national systems; and the pathways and timeframe for the functions it finances to transfer to domestic systems such as intergovernmental fiscal transfers, local government budgets or national development banks.

Designed in this way, projects become a deliberate stage in the transition rather than an end in themselves. They test and demonstrate; government counterparts are involved from the start; the most effective approaches are absorbed into permanent fiscal and planning systems; and, over time, the share of local climate finance flowing through national and local government systems grows while the share flowing through stand-alone projects declines. Success is measured not only by the number of grants disbursed, but by whether the approaches they pioneered have become part of how public institutions allocate resources to build the resilience of the most vulnerable.

4. NATIONAL CLIMATE SYSTEMS ROADMAPS

If climate funds are to move beyond financing projects towards supporting systems change, then countries need a different framework for engaging with international climate funds.

Instead of asking "what projects should we develop over the next five years?", countries should ask: "what should our institutions, financing systems and governance arrangements look like twenty years from now if climate resilience is fully embedded in national development?"

Answering this question requires a national long-term vision rather than project lists and pipelines. Climate funds could support countries to develop National Climate Systems Roadmaps as the principal framework for long-term engagement.

4.1 A vision for a climate-responsive state

Perhaps the most valuable role climate funds can play is helping countries answer a question this is rarely asked: what would a fully climate-responsive system of government look like?

A National Climate Systems Roadmap would focus on how countries will permanently embed climate action within the national systems that govern development. Countries already have Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs) and sectoral climate strategies, but these documents rarely review national systems or reflect on how climate resilience should eventually be reflected across institutions, public finances and governance. They rarely reflect on questions such as:

- How ministries of finance should allocate resources to address the challenges of climate change.
- How fiscal transfer systems should reward resilience.
- Which public finance systems influence climate-relevant investment.
- Which existing institutions, policies and programmes need to integrate climate considerations into their routine operations.
- What new institutions, policies and programmes are necessary to fill gaps.
- Which governance arrangements best target the needs of the most climate vulnerable.
- How a "whole of society" approach can be implemented, so local governments and communities share responsibility for investment decisions.
- Which existing systems and programmes already reaching poor and vulnerable populations need to be strengthened as a response to climate change.
- What mechanisms will sustain these changes and investments over time.

Once countries have developed a vision of how climate resilience should ultimately become part of the way government works, and a pathway to get there, projects then become instruments for achieving that vision, not the vision itself. They become stepping stones towards systems transformation rather than isolated investments, contributing to a clearly defined pathway towards a more climate-responsive system of governance.

4.2 Starting from systems that already work

If Climate Finance 3.0 is about strengthening national systems, another question is: which systems?

The project approach has often been to create dedicated climate institutions, establish new financing mechanisms or develop parallel implementation arrangements designed specifically to deliver climate outcomes. While these can be valuable for demonstrating innovation or overcoming institutional constraints, they are rarely designed to endure beyond the life of a project.

Climate Finance 3.0 must start from a different premise. Every country already possesses a network of public institutions that shape development outcomes every day. Local governments, ministries of finance and planning, agricultural extension services, social protection programmes, public health systems, water authorities, disaster risk management agencies, development banks and public investment systems already reach millions of people through established mandates, budgets and long-standing relationships with citizens. Most were not designed with climate change in mind, but they already possess something that climate projects struggle to create from scratch: permanence, legitimacy and scale.

The objective is, therefore, not to replace these institutions with parallel (mostly impermanent) climate structures, but to help them evolve so that climate resilience becomes part of their core mandate.

National Climate Systems Roadmaps would begin by identifying the systems that already perform critical development functions and assessing how they can progressively integrate climate resilience. Depending on national circumstances, this might include integrating climate change into public financial management, intergovernmental fiscal transfers, local government finance, agricultural advisory services, social protection systems, infrastructure planning, watershed management, development finance institutions or disaster risk management. The roadmap would then identify the policy measures, institutional changes, capacity investments and financing arrangements needed to embed climate resilience within these systems over time.

The distinction is fundamental. Climate change is not a temporary challenge; yet climate projects are, by definition, temporary. Dedicated implementation units, consultants and reporting systems often disappear once funding ends. Climate resilience, by contrast, must become a routine responsibility of the institutions that will continue operating long after individual projects have closed. Agricultural extension services should routinely advise farmers on climate-resilient practices. Infrastructure agencies should routinely assess climate risks when planning investments. Social protection programmes should routinely respond to climate shocks. Ministries of finance should routinely budget for climate resilience. Local governments should routinely integrate climate risk into planning and service delivery. These should not be exceptional activities financed through climate projects; they should become ordinary functions of government.

Climate Finance 3.0, therefore, shifts the focus from creating new silos and structures to strengthening the national systems that already shape development. The objective is to ensure that the systems governments rely on every day become capable of delivering climate-resilient development as a matter of routine.

4.3 Sequencing systems change

Countries differ enormously in their governance arrangements, administrative capacity, fiscal systems and political economy. A National Climate Systems Roadmap would recognise that systems transformation is a long-term process requiring careful sequencing. It would identify: institutions, policies and programmes ready to mainstream climate change; areas where pilot initiatives are needed to test new approaches; opportunities to integrate successful innovations into national policy and budgets; milestones for scaling integration

across sectors and levels of government; and longer-term goals for integration across national systems and financial sustainability.

4.4 Roadmaps, not conditionalities

A roadmap that sets out to embed climate change in national institutions, public finances and governance raises a legitimate concern. International finance has been tied to institutional reform before. From the 1980s onwards, structural adjustment programmes and the policy conditionalities attached to IMF and World Bank lending required borrowing countries to undertake prescribed reforms—often to public expenditure, subsidies, the civil service and the role of the state—as a condition of continued disbursement. Experience, including the IMF's own subsequent reviews of conditionality,[6] showed that reforms designed externally and imposed as a condition of finance were frequently poorly owned, weakly implemented and reversed once the finance ended. They also eroded trust in, and the legitimacy of, the very institutions they sought to strengthen.

National Climate Systems Roadmaps must not become a climate version of this model. Their value depends entirely on ownership. A roadmap drafted by consultants to satisfy a climate fund, or one that ties the release of finance to a prescribed list of reforms, would simply replace a pipeline of externally shaped projects with a pipeline of externally shaped reforms. Several design principles can guard against this risk (Table 2):

- Country-authored, not fund-approved. The roadmap should be a national document, developed through the country's own planning and political processes and owned by government, parliament and citizens. Climate funds can support its preparation but should not approve its content or set its priorities.
- Shaped from the local level. Local governments, communities, civil society, women, youth and Indigenous Peoples should help shape the vision and priorities, consistent with the principles of LLA, so that the roadmap reflects the ambitions of the country's citizens, not only those of central ministries.
- Built on existing national plans. Roadmaps should draw on NDCs, NAPs, national development plans and budget cycles rather than introducing a new, standardised template that every country must complete in the same way.
- Milestones set by countries. Countries should define their own integration milestones and pace of change, reflecting national circumstances and the political economy.
- No prescribed reforms as triggers for finance. Continued support should depend on credible effort and learning, not on the adoption of specific reforms in a prescribed form or by a prescribed date. Where progress stalls, the response should be dialogue, adjustment and targeted support, not suspension of finance.
- Mutual accountability. Joint reviews should assess the performance of climate funds—the predictability of their finance, their responsiveness and the transaction costs they impose—as well as the progress made by countries.
- Transparency. Roadmaps and joint review findings should be published, so that accountability runs to citizens and not only to funders.

Ultimately, the test is simple: if external finance was withdrawn, would the country still want to pursue the changes set out in its roadmap? If the answer is yes, the roadmap is genuinely national. If not, it has become a conditionality.

Table 2: Policy-based conditionality vs. National Climate Systems Roadmaps

	Policy-based conditionality (as historically practised)	National Climate Systems Roadmap (proposed)
Who defines the changes	The lender, often drawing on standardised reform packages	The country, through its own planning and political processes
Basis for change	Prescriptions applied across many countries	A national vision for a climate-responsive state, built on NDCs, NAPs and development plans
Role of finance	Disbursement conditional on prior actions and benchmarks	Predictable support for progress against country-defined milestones
When progress stalls	Finance delayed or suspended	Joint dialogue, adjustment and targeted support
Pace of change	Set by the programme timetable	Set by national circumstances and political economy
Local voice	Limited and negotiated mainly with central ministries	Local governments and communities help shape priorities
Accountability	Borrower accountable to lender	Mutual: countries and climate funds accountable to each other and to citizens

4.5 From climate finance to climate finance multipliers

The National Climate Systems Roadmaps will not achieve systems transformation unless it is accompanied by sustainable financing. One of its most important functions, therefore, would be to articulate how different sources of finance will progressively support embedded climate action.

The roadmaps would be supported to identify how institutions will progressively mobilise finance from domestic public expenditure; international sources; local government revenues; multilateral development banks; development finance institutions; private investment; philanthropic organisations; insurance mechanisms; carbon markets; and other innovative financing instruments, where appropriate. Each phase should include a corresponding financing strategy.

This also changes how the impact of climate funds should be understood. Today, success is often measured by the volume of finance approved or disbursed. A systems perspective places greater emphasis on identifying possible sources of finance, strategies to leverage them, and

ways to overcome barriers to access. For example, a relatively modest climate fund investment that enables a national development bank to integrate climate risk into its lending portfolio may ultimately influence billions of dollars of future investment.

Climate funds should therefore seek to maximise what might be termed a Climate Finance Multiplier—the extent to which relatively limited grant resources catalyse sustained investment from multiple financing sources by integrating climate change into national systems.

Ultimately, the purpose of a National Climate Systems Roadmap would be to provide a long-term blueprint towards nationally owned, financially sustainable systems that continuously deliver climate-resilient development. This transition requires an equally fundamental change in the relationship between climate funds and recipient countries. The next section argues that this calls for replacing repeated project applications with a long-term systems model built around regular learning, adaptation and renewal.

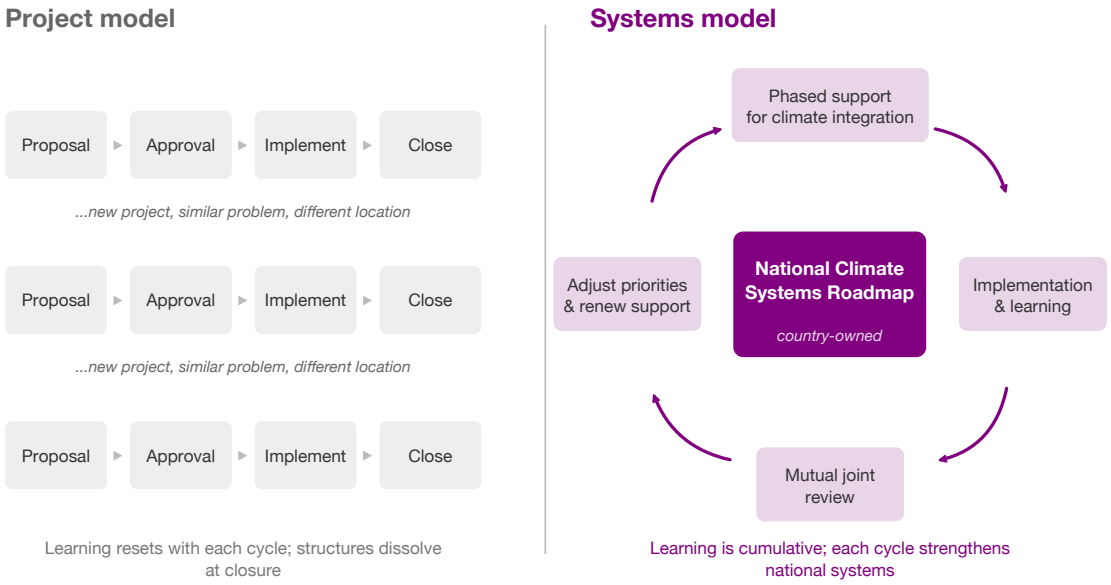
5. FROM PROJECTS TO SYSTEMS

If National Climate Systems Roadmaps redefine what climate funds should support, they will also need to redefine the relationship between the funds and recipient countries. Today, this relationship is largely transactional. Countries prepare funding proposals, climate funds assess and approve them, projects are implemented and evaluated, and the cycle begins again with new proposals. This inevitably encourages both countries and climate funds to focus on successive projects rather than long-term systems change.

Under the proposed Climate Finance 3.0 model, climate funds would establish long-term financing arrangements centred on a national vision for systems transformation, reflecting the ambitions of the country and its citizens, and articulated through the National Climate Systems Roadmap. Repeated project applications would be replaced by periodic joint reviews aligned with national development planning cycles, enabling countries and climate funds to jointly assess progress, identify barriers and agree on priorities for the next phase of climate integration.

These reviews would be mutual, assessing the performance of climate funds as well as of countries, and they would not make finance conditional on externally prescribed reforms (see “Roadmaps, not conditionalities” above). Figure 1 contrasts this systems model with the current project model.

Figure 1: From a repeating project cycle to a cumulative national systems model



This shift reflects the nature of systems transformation itself. Strengthening governance systems, public finance arrangements and national institutions is fundamentally different from delivering projects. Reform is iterative rather than linear, requiring experimentation, political commitment, continuous learning and adaptation over many years. Progress is rarely predictable and cannot be fully designed within a five-year project cycle.

This systems model creates the continuity needed for this process. Rather than being defined by the projects they seek to finance, countries articulate the future national systems they wish to build, with climate funds supporting that vision over time. Individual investments remain important, but they are understood as successive steps towards an agreed long-term objective rather than isolated interventions.

5.1 Learning becomes cumulative

A key limitation of the current project-based model is that learning within national systems typically stops once a project concludes. While lessons are documented in final evaluations, these findings often serve only to inform the design of entirely new initiatives.

A systems model fundamentally changes this dynamic. Learning becomes cumulative: successful changes are scaled up, less effective approaches are refined, and unforeseen opportunities are integrated into subsequent phases of work. As a result, systems transformation evolves into a continuous process of adaptation, rather than a series of disconnected interventions.

In practice, systems transformation rarely follows a predictable course. Reforms that look straightforward in theory frequently face political, administrative or financial barriers during implementation. Conversely, some initiatives deliver better results than expected and open new possibilities not identified at the outset. The standard project model struggles to

accommodate this reality: each new project requires a fresh cycle of design and approval, even when the underlying systemic challenges remain unchanged.

By contrast, a systems model treats learning as an ongoing, cumulative asset. Insights from one phase directly shape the next stage of climate integration, and successful innovations are reinforced and embedded into regular practice, while less effective methods are adjusted or phased out. Systems transformation becomes a continuous cycle of learning and improvement, not just a sequence of separate projects.

5.2 Financing progress, not perfection

A systems model also changes how future funding decisions are made. Renewed support should not depend primarily on whether every planned activity has been completed. The new approach recognises the unpredictable nature of systems change—some changes progress rapidly, while others encounter political or administrative obstacles that require time and adaptation. These realities are characteristic of systems change rather than evidence of project failure.

Climate funds should therefore assess whether countries are making credible progress towards embedding climate action within national systems, learning from experience and maintaining commitment to long-term climate integration. The objective is sustained evolution of national systems, not perfect implementation. Where integration progresses more slowly than planned, the response should be dialogue and adjusted support rather than the suspension of finance—the opposite of the disbursement triggers that characterised policy-based conditionality.

5.3 Adaptive rather than prescriptive finance

A systems model also creates greater scope for adaptive management, as climate risks evolve, political contexts change, governments change or new technologies emerge. A rigid project design agreed several years earlier may not remain the most effective response in these circumstances.

Long-term arrangements should, therefore, include mechanisms that allow countries and climate funds to adjust priorities as experience accumulates, while maintaining a clear commitment to the overall objectives of the National Climate Systems Roadmap. This flexibility is particularly important where integration involves multiple institutions and levels of government.

5.4 A different role for accreditation

This approach also has implications for the accreditation and access models of climate funds. Accreditation has traditionally focused on whether institutions possess the fiduciary, environmental and social safeguards required to manage projects.

If climate funds increasingly support systems transformation, accreditation should also recognise an institution's capacity to convene partners, coordinate climate integration, facilitate learning, and mobilise finance from multiple sources. Managing systems change

requires capabilities that extend beyond project management alone. Strengthening these capabilities should become an explicit objective of climate fund support.

5.5 Towards enduring national capability

Perhaps the greatest advantage of a systems model is that it encourages climate funds to invest in enduring national capability rather than temporary implementation arrangements. Every cycle of engagement should leave behind stronger institutions and stronger human capacity: more capable ministries; better-trained and better-equipped public servants; more effective local governments; stronger public financial management systems; deeper community participation; improved coordination across sectors; and a greater ability to mobilise finance from domestic and international sources. Over time, countries become progressively more capable of planning, financing and delivering climate-resilient development through their own national systems.

Current rules can work against this objective. The GCF's guidance to Direct Access Entities on planning readiness support, for example, lists the salaries of the entity's own staff among non-eligible costs.[7] While the rationale is to avoid over-reliance on external grant funding and to ensure that institutions can sustain their activities once grant funding ends, the result is a paradox: readiness resources cannot pay for the people expected to retain and apply the knowledge that readiness funding is meant to impart. New competencies are either added to the workload of public servants who are already overstretched or held by short-term consultants who leave when the grant ends. A systems model would recognise that enduring capability ultimately depends on investing in people in permanent posts, for example through time-bound support for posts that are progressively absorbed into national budgets.

6. MEASURING SUCCESS DIFFERENTLY

Redefining the purpose of climate funds inevitably requires redefining how success is measured.

Today, climate funds assess performance primarily through project outputs, beneficiaries and direct impacts. These indicators remain essential for accountability, but they are insufficient for judging whether climate finance is achieving lasting transformation. A project may deliver all its planned outputs while leaving the underlying institutions, financing systems and governance arrangements unchanged. Similarly, a project with more modest immediate results may catalyse changes that permanently alter how a country plans, finances and delivers climate action.

Climate Finance 3.0, therefore, shifts the focus from measuring project performance to measuring whether countries are becoming progressively better able to finance, govern and sustain climate action through their own national systems.

6.1 Measuring systems transformation

Alongside conventional project indicators, climate funds should assess whether climate resilience is becoming embedded within national systems. Key questions include:

- Has climate resilience been integrated into national planning, budgeting and public financial management?
- Are public institutions changing the way they plan and invest?
- Have successful innovations been embedded within permanent government systems?
- Has domestic public expenditure on climate action increased?
- Has integrating climate change into national systems mobilised additional finance from public and private sources?
- Are countries becoming progressively more capable of planning, financing and sustaining climate action?

These indicators shift attention from completed projects to enduring national capability.

6.2 Measuring institutional resilience

Strong institutions must also be resilient. Indicators should assess whether they can anticipate climate risks, adapt to changing circumstances, respond to local priorities, allocate resources flexibly, and continue delivering climate action despite political, economic and climatic shocks.

6.3 Measuring locally led governance

If EDA and LLA are to become principles of governance rather than specialist funding windows, the degree of local leadership supported must also be measured differently. The current emphasis on the proportion of finance reaching local actors is important, but it captures only part of the picture. The more fundamental question is whether decision-making authority has genuinely shifted, and whether locally led decision-making has become embedded within the national systems that govern public investment. Indicators should therefore assess whether:

- Communities participate in setting investment priorities.
- Local governments exercise meaningful discretion over climate finance.
- Finance is sufficiently flexible to respond to local needs.
- Community participation and accountability have become institutionalised within government systems rather than remaining project-specific requirements.

6.4 Measuring catalytic finance

A systems perspective requires a broader understanding of financial impact. The success of climate funds should be measured not only by the grants they provide or the co-financing they leverage, but by the financial ecosystems they help create.

A Climate Finance Multiplier could: assess the extent to which climate fund investments catalyse additional domestic and international, and public and private finance; increase national budget allocations for climate action; embed climate resilience within routine public expenditure; and strengthen national and subnational financing systems capable of sustaining climate investment long after grant funding has ended.

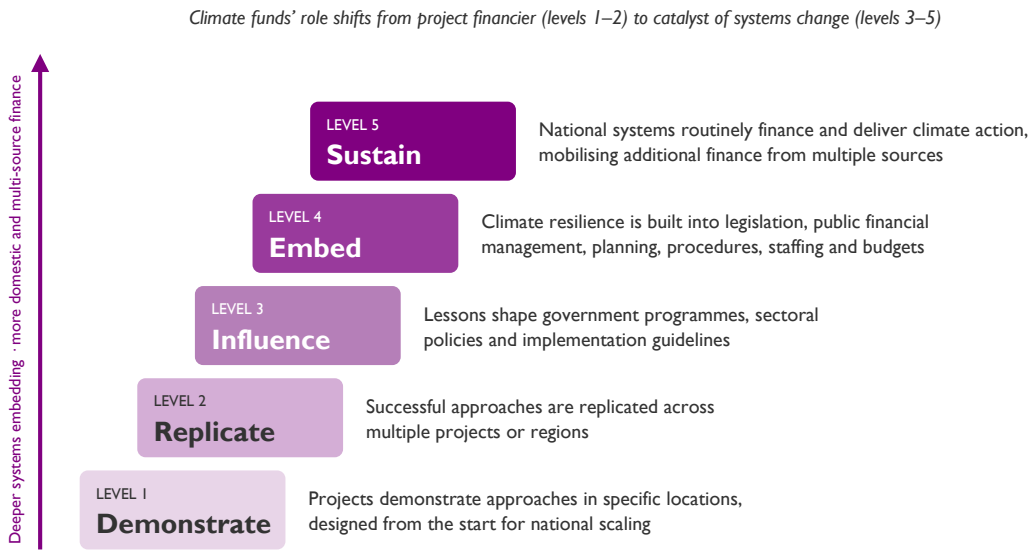
6.5 The Systems Embedding Ladder

Because systems transformation occurs progressively rather than all at once, one way of assessing this transition is through a Systems Embedding Ladder.

At the first level, climate funds support projects that demonstrate successful approaches in specific locations but are designed for national scaling from the start. At the second level, successful approaches are replicated across multiple projects or regions. At the third level, lessons from these projects begin to influence government programmes, sectoral policies and implementation guidelines. At the fourth level, climate resilience becomes embedded within national systems through changes to legislation, public financial management, planning systems, administrative procedures, staffing, budgeting and governance arrangements.

At the fifth and highest level, domestic systems routinely finance and deliver climate action while mobilising additional resources from multiple national and international sources. Projects become a first step rather than the destination for climate funds, as they support countries to progressively climb this ladder. Figure 2 illustrates the ladder and the changing role of climate funds as countries progress.

Figure 2: The Systems Embedding Ladder



7. A DIFFERENT LEGACY

Climate Finance 3.0 is a new operating philosophy with a simple central premise: the role of climate funds should shift from project financiers to catalysts of systems transformation, and their success should be measured by whether countries have become progressively better able to finance, govern and sustain climate action through their own national systems.

To move beyond the project paradigm and deliver lasting, scalable climate action, international climate funds and developing countries should adopt the following four recommendations:

1. Replace project pipelines with National Climate Systems Roadmaps

Shift the basis for engagement from lists of discrete investments to long-term, country-owned roadmaps. These should articulate a vision for a climate-responsive state, identify existing institutions and systems with the greatest reach and capacity, outline the sequenced institutional and policy changes needed to integrate climate change, and define a clear strategy for mobilising finance from domestic budgets, multilateral development banks, private investors and other sources. Roadmaps provide a stable framework that guides all climate investments towards embedding resilience and low-carbon development into core government functions. Roadmaps must be country-authored and country-owned, with milestones set by the countries themselves; they should never be used to make finance conditional on externally prescribed reforms.

2. Replace short-term project cycles with a long-term systems model

Move away from transactional, project-by-project funding towards an enduring model focused on systems transformation. Agree on goals and milestones prioritised by countries, with joint reviews conducted in alignment with national planning cycles, to assess progress, address barriers and adapt approaches. Support should be renewed based on credible progress towards systems change, not only on the completion of pre-defined activities, which would allow for flexibility and continuous learning.

3. Leverage and strengthen existing national systems, not parallel structures

Prioritise support for institutions that already deliver services to people and communities, particularly the most vulnerable. Instead of building separate climate delivery mechanisms, help these systems integrate climate risk and resilience into their mandates, budgets and operations. This builds on established trust, reach and sustainability, while avoiding fragmentation and duplication. Small grants and dedicated local funding windows remain valuable, but each should have a clear long-term objective for systems change and a defined pathway for the approaches it tests to be absorbed into permanent national and local financing systems.

A critical prerequisite for this model is that communities and local governments should retain genuine decision-making authority over local investments. Embedding climate finance within national systems must not become synonymous with recentralisation. The objective should be to combine strong national institutions with predictable, untied finance that

reaches the local level, enabling communities and local governments to determine priorities, allocate resources and oversee implementation within nationally accountable frameworks. National systems should provide the architecture through which finance flows; local actors should determine how that finance is used.

4. Measure systems transformation, not just project performance

Climate funds should complement project-level monitoring with a systems transformation framework that measures systems embedding, locally led governance, institutional resilience and catalytic finance. Success should be judged not only by what projects achieve during their lifetime, but by whether they leave countries progressively better able to finance, govern and sustain climate action through their own national systems. A common Systems Embedding Ladder can be used to assess progress from successful pilots to fully institutionalised national systems.

Twenty years from now, the greatest achievement of today's climate funds should not be thousands of completed projects. It should be where countries' ministries routinely budget for climate resilience, where local governments receive predictable climate finance through national systems, where communities participate directly in public investment decisions, where development banks routinely finance climate-resilient infrastructure, and where climate considerations have become an ordinary feature of governance.

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[1] Standing Committee on Finance (2024). *Second report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement*. Bonn: UNFCCC. Costed needs in developing countries' NDCs total US$5.012–6.852 trillion cumulatively to 2030.

[2] United Nations Environment Programme (2025). *Adaptation Gap Report 2025: Running on Empty*. Nairobi: UNEP. Estimates the adaptation finance needs of developing countries at US$310–365 billion per year by 2035.

[3] Standing Committee on Finance (2024). *Second report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement*. Bonn: UNFCCC. Costed needs in developing countries' NDCs total US$5.012–6.852 trillion cumulatively to 2030. See also the new collective quantified goal on climate finance agreed at COP29 in Baku (2024), which calls on all actors to scale up financing to developing countries to at least US$1.3 trillion per year by 2035.

[4] Green Climate Fund (2015). *Decision B.10/04: Additional modalities that further enhance direct access: terms of reference for a pilot phase*. Songdo: GCF. The Adaptation Fund Board subsequently approved a pilot Enhanced Direct Access funding window for National Implementing Entities in October 2020.

[5] Examples include the GCF-funded 'Empower to Adapt' project in Namibia (FP024), implemented by the Environmental Investment Fund of Namibia, which includes a grant facility for community-based natural resource management networks, and the Eastern Caribbean EDA pilot in Antigua and Barbuda, Dominica and Grenada (FP061).

[6] Independent Evaluation Office of the International Monetary Fund (2007). *Structural Conditionality in IMF-Supported Programs*. Washington, DC: IMF.

[7] Green Climate Fund (2026). *Guide on Strategic Planning of Readiness Support: Direct Access Entities*. Readiness and Preparatory Support Programme: Operational Modalities for the 2024–2027 Strategy. June 2026. Section III, Eligible and Non-eligible Costs.