

---

# Grants



Grants are direct transfers of funds to an entity to support a project, company, or policy. Grants are typically used to support projects with low commercial potential or to help establish a project or fund it to make it investment-ready.

Grants are a long-standing financial tool across development and humanitarian sectors. In the climate finance context, they are applied in three main ways:

- **Development grants:** Non-returnable, direct support for climate or development outcomes where no commercial solution exists.
- **Technical assistance (TA) grants:** Build institutional and stakeholder capacity for climate investment (sometimes returnable if tied to bankable outcomes).
- **Project preparation facilities (PPFs):** Fund project design and feasibility to attract concessional or private climate finance (sometimes structured as returnable).

## RISKS ADDRESSED

- **Credit Risks:** Improves sovereign risk profile by funding institutional capacity and public financial management reforms; reduces default risk by financing climate priorities without adding to debt stock.
- **Liquidity Risks:** Provides fiscal space for urgent climate adaptation, resilience, and recovery projects without repayment obligations; funds technical assistance and project preparation, freeing scarce fiscal resources for other priorities.
- **Market Risks:** De-risks projects by covering upfront costs and absorbing volatility that private actors will not; anchors blended finance structures, crowding in private capital for climate investments.

## SECTORAL RELEVANCE

- **Climate adaptation and resilience:** Community-based adaptation, resilient infrastructure, coastal protection, ecosystem restoration.
- **Energy transition:** Early-stage renewable energy projects, feasibility studies, grid integration, and upgrades pilots.
- **Agriculture and food security:** Climate-smart agriculture, sustainable land management, drought resilience.
- **Disaster risk management:** Project preparation for early-warning systems, contingency planning, and resilient reconstruction.
- **Public finance and debt management for climate:** Grants for climate budget tagging, fiscal risk assessments, and climate-informed debt strategies.

## TYPES OF INSTRUMENT AND PROVIDERS

### A. Philanthropic and crowd platforms

- **Foundations:** [Bill & Melinda Gates Foundation](#) (see also [committed grants](#)), [Ford Foundation](#), [Rockefeller Foundation](#), [Open Society Foundations](#): fund governance, climate justice, and resilience projects.
- **Impacts Funds/NGOS:** Acumen Fund, Root Capital, Ashoka – provide grants plus TA to make climate SMEs or local financial institutions investment-ready.
- **Crowd-sourced Platforms:** GlobalGiving, DonorsChoose, Kiva Microfunds – channel smaller-scale climate or resilience projects directly to communities, often <\$500k per project.

### B. Multilateral development banks (MDBs)

- [World Bank \(IDA/IBRD\)](#): Provides pure grants to low-income IDA countries, often for capacity building and adaptation planning.
- Regional Development Banks: [AfDB's](#) African Climate Change Fund, [ADB's](#) Climate Change Fund provide targeted grant support for project prep and TA.

### C. Vertical climate and environment funds (VCEFs)

- [Green Climate Fund \(GCF\)](#): World's largest climate fund; ~42% of portfolio grants (adaptation, readiness, project preparation). Direct access for accredited national entities.
- Global Environment Facility (GEF): Long-standing provider of environmental/climate grants, with a focus on biodiversity, land degradation, and adaptation.
- Adaptation Fund: 100% grant-financed, focused on small-scale adaptation projects.
- [Climate Investment Fund \(CIFs\)](#): Mix of concessional loans and grants for renewable energy, resilience, and forests. [OECD](#)

### D. Bilateral donors

- USAID, JICA, KfW, AFD, FCDO, EU grants: Finance TA, feasibility studies, and adaptation pilots.
- Japan International Cooperation Agency (JICA): Leading new grant initiatives for Pacific Islands focused on resilience and adaptation.
- EU Global Gateway: Provides grant elements within blended packages to support green infrastructure and climate transition.

### E. Technical assistance providers

- UNDP, [OECD-DAC](#), [Convergence](#), [Climate Policy Initiative](#) (CPI), I4CE – build capacity, develop standards, share knowledge.

## DEBT SUSTAINABILITY

**Direct effect:** Grants reduce the need to borrow for climate priorities, easing repayment burdens.

**Indirect effect:**

- Support climate-related project preparation. This can improve creditworthiness and attract concessional/market finance.
- Finance reforms in fiscal governance and climate budget system. This can lower long-term refinancing risks.
- Prevent fiscal crowding-out by covering climate investments without diverting funds from core debt service.

**Example:** GCF readiness grants help MoFs design climate investment frameworks that guide concessional loans, improving debt sustainability.

## INTERNAL CAPACITY REQUIREMENTS

### A. Minimum requirements

- Fiduciary controls, annual audits, project management capacity.
- Basic M&E and ability to comply with donor reporting standards.

### B. Requirements for full integration

- Multi-year strategic planning; donor portfolio management.
- Dedicated M&E unit, innovation systems, South-South learning.

### C. Pathways

- Phase 1 (0–2 years): Build capacity to channel grants through MoF budget systems.
- Phase 2 (2–5 years): Expand donor relationships, coordinate across line ministries.
- Phase 3 (5+ years): Provide technical assistance to peers; integrate grants into long-term fiscal planning.

## REGULATORY CAPACITY REQUIREMENTS

- **Minimum requirements:** Registration, ability to accept foreign grants, basic governance, and compliance with fiduciary standards.
- **Requirements for full integration:** Independent oversight mechanisms, risk management, alignment with international standards (CHS, IATI).
- **Pathways:**
  - Immediate (0–12 months): Aid coordination policy, donor consultation platform, audit systems.

- Medium-term (1–3 years): Harmonize donor reporting, adopt transparency platforms
- Long-term (3–7 years): Institutionalize grant management in national budgets; establish peer-to-peer learning platforms.

## FINANCIAL MARKET READINESS

### A. Shallow Markets

- **Characteristics:** Weak banking systems, high FX volatility, limited audit capacity.
- **Constraints:** High overhead, weak fiduciary controls, donor mistrust.
- **Solutions:** Channel grants via UN/INGOs; capacity-building grants before program grants; use mobile/digital payments.
- **Pathways:**
  - **Year 1-2:** Institutional mapping and capacity-building through international NGOs, UN agencies, or multilateral partners.
  - **Year 3-5:** Transition implementation to national partners such as line ministries, subnational governments, or accredited national entities.
  - **Year 5+:** Gradual shift to direct access through MoFs or national climate funds, with donors channeling grants directly into country systems.

### B. Emerging Markets

- **Characteristics:** Growing financial infrastructure, active CSOs, improving regulations.
- **Constraints:** High compliance costs, political volatility, FX exposure.
- **Solutions:** National partner implementation, PPPs, and regional coordination to harmonize donor practices.
- **Pathways:**
  - **Year 1:** stakeholder mapping
  - **Years 2-3:** pilots with strong donor support
  - **Years 4-6:** MoFs manage multi-donor portfolios
  - **Years 7-10:** regional leadership

### C. Mature Markets

- **Characteristics:** Advanced institutions, strong civil society, mature donor systems.
- **Constraints:** High operational costs; complex governance requirements; less need for basic grant support.

- **Role of Grants:** In mature markets, grants are not a priority for core financing. When deployed, they are best targeted at innovation pilots, frontier technologies, policy experimentation, or global knowledge leadership that can be transferred to EMDEs.

## PRICING CONSIDERATIONS

- **Cost drivers:** Overheads range from 10–20% in strong systems to 25–35% in fragile states and can rise higher in emergencies due to logistics and safeguards.
- **Concessional role:** Grants often serve as the concessional anchor in blended finance, reducing risk for private investors.
- **Examples:** GCF (42% of portfolio in grants), MDBs (7% of climate finance as grants to LMICs), Global Fund and GAVI (fully grant-based health programs).

## AVERAGE TIMEFRAME TO DEPLOY

- **Development/social grants:** 6–18 months design; 3–7 years implementation.
- **Climate/environmental grants:** 1–2 years design; 5–10 years implementation.
- **Research/innovation grants:** 3–12 months design; 2–5 years execution.
- **Capacity-building grants:** 6–18 months design; 3–10 years implementation.

## KEY CHALLENGES TO UPTAKE

- **Technical:** Complex donor reporting; weak national M&E/proposal capacity, limited baseline data to demonstrate additionality of funding.
- **Market:** Donor fragmentation; short funding cycles; dependency risks.
- **Legal/institutional:** Foreign funding restrictions; limited audit capacity.
- **Political economy:** Donor-local misalignment; elite capture; lack of exit strategies.

## HOW TO ADDRESS KEY CHALLENGES

- **Practical steps for Ministries of Finance (MOFs):**
  - Develop clear aid management policies; integrate grants into budgets.
  - Strengthen fiduciary controls, proposal capacity, and M&E systems.
  - Build donor coordination platforms to reduce duplication.
- **Roles of donors/DFIs:**
  - Provide predictable, multi-year commitments.
  - Simplify reporting, align with national systems, and fund capacity building.

## EXAMPLES

- [Rwanda Aid Coordination](#): 40% more effective aid, 30% lower transaction costs.
- [Ethiopia PSNP](#): USD 3.2 billion safety net with graduation pathways and insurance.
- [Ghana and Uganda AMP](#): Online transparency dashboard for all aid flows.
- [GCF readiness grants](#): Country-driven, integrate climate priorities with fiscal planning.

## RELEVANT SOURCES

- [World Bank \(2024\). IDA & Trust Funds](#)
- [Global Fund \(2023\). GAVI, GlobalGiving](#)
- [Gates Foundation \(2024\). Annual Report](#)
- [World Bank \(2013\). Ethiopia's Productive Safety Net Program \(PSNP\)](#)
- [OECD \(2025\). OECD DAC Blended Finance Guidance 2025](#)
- [OECD \(2024\). Development Co-operation Report 2024](#)
- [International Aid Transparency Initiative \(n.d.\). Homepage.](#)