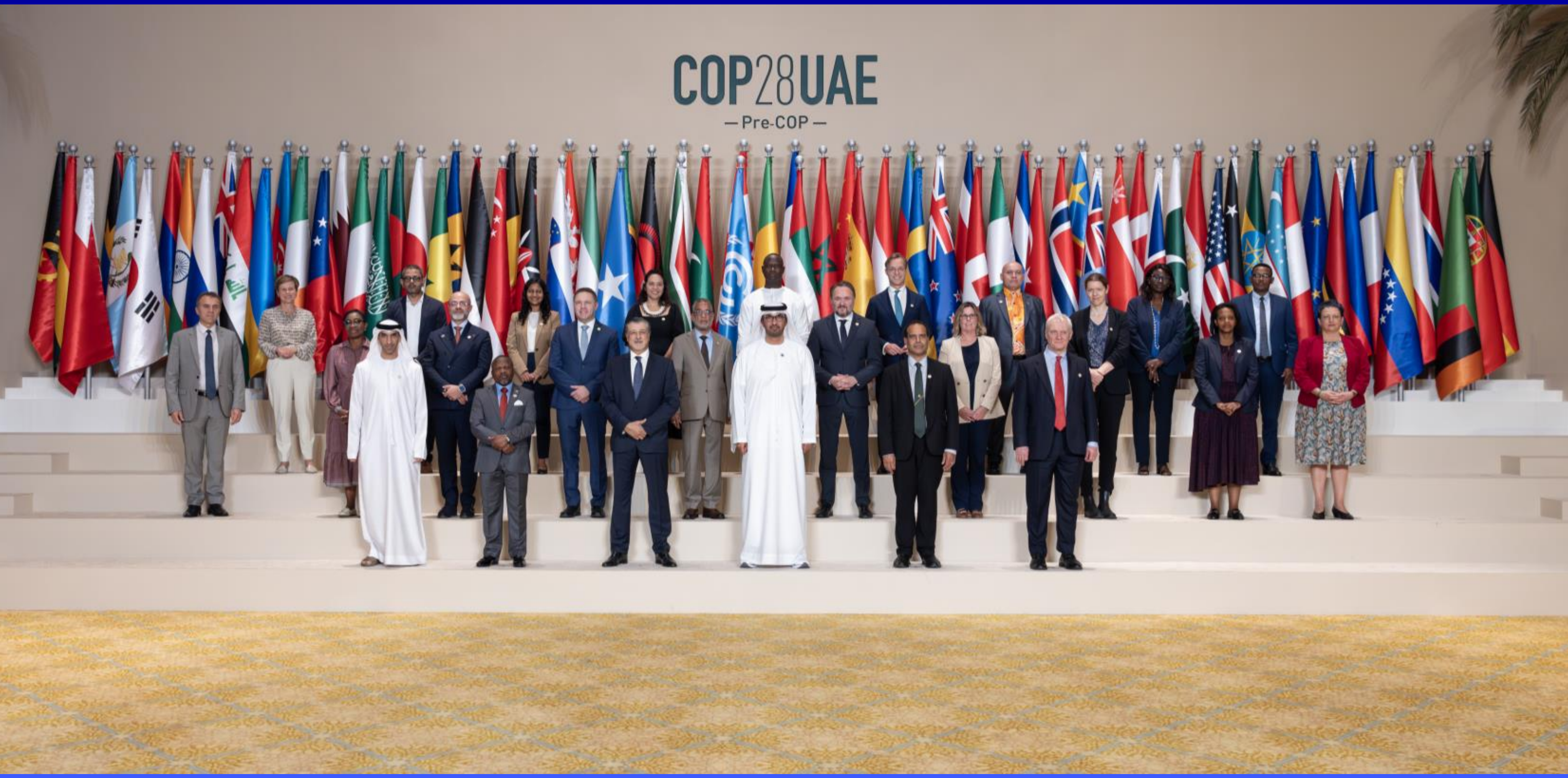

Report: Climate and Development Ministerial (C&DM) Technical Experts: Programmatic, accessible and scaled adaptation finance for LDCs and SIDS

Monday 17 – Wednesday 19 June 2024

In partnership with

The Foreign, Commonwealth and Development Office (FCDO), the Department for Energy Security and Net Zero (DESNZ), the International Institute for Environment and Development (IIED), Third Generation Environmentalism (E3G) and SouthSouthNorth (SSN)

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SOUTH SOUTH NORTH
TOWARDS CLIMATE RESILIENCE

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Introduction and Background

1 This Wilton Park event brought together a range of policy makers and technical experts to progress the goals agreed at the Third Climate and Development Ministerial (C&DM3) in October 2023.

2 The meeting brought together participants from Least Developed Countries (LDCs), Small Island Developing States (SIDS), bilateral climate finance providers, development finance institutions, climate funds, private sector representatives (insurers, asset managers, banks) and civil society organisations.

3 The Climate and Development Ministerial process was initiated in 2021 by the UK as COP26 President designate to bring together climate and development ministers to better address the priorities of climate-vulnerable countries.

4 In October 2023, in the lead up to their COP28 Presidency, the UAE, alongside the UK, Vanuatu and Malawi, hosted C&DM3 to agree a shared approach to reforming the adaptation finance architecture.

5 Technical and political C&DM discussions led to the drafting and launch of a vision and three thematic workstreams:

a) Enhancing country-owned programmatic financing
b) Easing access to adaptation finance
c) Scaling finance from all sources

6 Thirteen countries and institutions have endorsed this vision and committed to work together as a coalition to drive forward progress and report back at the 2024 Climate and Development Ministerial (date and location to be confirmed).

7 This Wilton Park event focused on how to further progress the three thematic workstreams agreed at C&DM3 ahead of the 2024 Ministerial meeting.

Key points

8 Participants agreed on the **urgent need for action**, and the scale and immediacy of the challenge.

9 **Participants noted that C&DM membership is open to all LDCs, SIDS, climate finance providers and financial institutions** who wish to improve the provision of accessible, scaled adaptation finance to LDCs and SIDS. For further details please contact the C&DM secretariat at cdm@iied.org.

10 Participants noted that the international climate finance system needed **reform to rapidly improve support for climate vulnerable developing countries**. Capacity constraints within LDCs and SIDS and the complexity of the finance landscape often led to delays in accessing finance. Multilateral and bilateral providers of finance should be urged to adjust their systems to support LDCs and SIDS' access to adaptation finance at pace, rather than relying on developing countries to work within finance providers' processes.

11 We are faced with both **a sprint and a marathon to achieve adaptation outcomes**. We must address immediate needs while also building capacity to improve long term planning and implementation . Building capacity takes time and current measures to help speed up access at scale are not delivering sufficiently. To deliver access at the pace required we need flexibility while maintaining transparency and accountability.

12 **Monitoring and Evaluation (M&E) requirements from finance providers needed to be proportionate and realistic and would ideally be consistent across donors.** At present they place unnecessary burdens on finance recipients that can paralyse their capacity to deliver.

13 **Programmatic approaches represented an important means of delivering scale and coherence of adaptation finance.** This included taking a whole-system approach to planning adaptation needs and accessing finance, rather than tackling and financing projects one by one. Different SIDS and LDCs were at different stages of advancement. As a leading member of the C&DM, Vanuatu had relatively developed plans, as did the pioneer countries of the Taskforce on Access to Climate Finance (e.g. Jamaica and Rwanda), a programme which was an outcome the first C&DM. Learnings from these approaches should be captured and shared, while recognising the context-specific nature of adaptation.

14 The **lack of human resources and resulting technical capacity** in many LDCs and SIDS compounded the problem. Lessons learned in international development financing have not been applied in climate finance. Local expertise should be supported and developed, including managing the poaching of key staff – particularly project managers – by international partners. The climate finance architecture currently incentivised the use of 'fly-in-fly-out' consultants to draft finance applications. This meant scarce funds were used to pay consultant fees, as well as leading to a lack of ownership, and therefore implementation, of the plans within government. Permitting the use of external funding for local officials' salaries could help reduce outsourcing and build long-term local capacity.

15 **Many National Adaption Plans (NAPs) and Nationally Determined Contributions (NDCs) needed greater coherence, realism and prioritisation**. They needed to be longer-term, more flexible in approach and designed in a way that remained stable with changes in governments. Finance ministries often had more cross government influence than other line ministries, including environment ministries. **Involvement and buy in from finance ministries** working alongside Ministries of Environment and other relevant line ministries was crucial to the financing and therefore implementation of national plans.

16 An 'NDC 3.0' process could **combine NAPs and NDCs, and take action to turn them into more investable propositions**, e.g. by engaging domestic and international investors on strategies and business models for financing and implementation. Few countries had costed plans with clear indicators, and it was unclear how investors currently accessed or made decisions on investment in these plans. Vulnerability scoring would be helpful.

17 We regularly saw that **effective adaptation was driven from the local level**. But the current financial architecture did not empower local level action: *why should my grandmother adapt to the bank – the bank should adapt to my grandmother*. The innovative approach taken by initiatives like LIFE-AR (the LDC Initiative for Effective Adaptation and Resilience) and LoCAL (the Local Climate Adaptive Living Facility) builds trust with recipient communities; it should be further developed.

18 **Several participants noted that new sources of grant finance needed to be identified and drawn upon**, including alternative financing methods such as fossil fuel levies.

19 There was a clear need to draw on local, domestic and international private sector finance as well as – but not replacing – public finance. Public finance had a key role to play in helping build an enabling environment and mobilising private sector investment. **We needed an 'everything, everywhere, now' approach in terms of traditional, new and innovative sources of climate finance**, with these acting in conjunction to finance national and local priorities. The Wilton Park event saw a range of proposals put forward on strengthening private sector engagement in adaptation finance.

20 There was a need to mainstream adaptation and resilience within existing private finance flows. For example, supporting local SMEs such as agribusiness to uptake more climate resilient practices; ensuring that investment in schools, homes and hospitals was better aligned with increasing climate stresses and shocks; ensuring that city mayors and planning processes created regulation that aligned urban expansion with extreme heat and other climate risk factors; and ensuring that adaptation was integrated into PPPs for critical energy, water and transport infrastructure.

Potential actions for Wilton Park participants

1. **Integrate finance ministers into climate planning**. Acknowledging the need for finance ministries to be bought in to programmatic approaches to adaptation finance, the C&DM could move to include both Climate and Finance Ministers. This could be done through coordination with the Coalition of Finance Ministers for Climate Action, The Vulnerable Twenty Group (V20) and similar ministerial groupings.
2. **Support to Central Banks to help integrate heightened climate related risk into their fiscal risk modelling**. Include more joint working between the Climate and Development Ministerial and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).
3. **Explore role of insurance in covering residual risk that cannot be adapted to and building resilience by providing risk protection that can help minimise impacts on credit ratings from increased climate shocks**. For example, a market study by the global insurance group Howden has shown that $300m in grant-based premium could unlock $25bn of coverage for the most vulnerable SIDS, covering losses above 10% of GDP. This could have a knock-on effect to credit ratings, bringing down the wider cost of capital in climate vulnerable countries through insurance.
4. **Consider expanding country platform approaches for adaptation**. This should build on the range of existing work underway, including the Taskforce on Access to Climate Finance and the G7 Adaptation Accelerator Hub, as well as learning from the establishment and implementation of Just Energy Transition Partnerships (JETPs). This could help turn a National Adaptation Plan (NAP) into National (and sub-National) Adaptation Programmes linked to long-term economic development plans that embed climate risk and adaptation across institutions, and coordinate donors and investors behind priority investments to build long-term resilience.
5. **The C&DM should consider engaging with the CIFs to offer recommendations for the design of the in development Climate Resilience Programme** to ensure it supports a programmatic "country platform" approach to adaptation for LDCs and SIDS in a way which promotes locally-led solutions and can scale wider sources of investment.

6 **Draft a guide to mobilising adaptation finance for SIDS/LDCs through programmatic planning approaches**. This guide would review best practice on how programmatic approaches have mobilised finance. This guide should be aimed at both public and private sector finance. This should complement similar initiatives including the NDC Partnership (NDCP) and the GCF's Climate Investment Planning and Mobilization Framework (CIPMF) launched at COP28.

7 **Consider innovative finance solutions to overcome barriers to investment in adaptation and resilience, for example, the Adaptation Benefits Mechanism (ABM) established by the African Development Bank**. The ABM would create cash flow for adaptation projects through improved use of Article 6.8 for non-market approaches under the Paris Accord. These benefits would be created to be bought by the private sector and used to report on their climate action via the Enhanced Transparency Framework or their ESG commitments.

8 **Increase communications to improve awareness of reform within the Green Climate Fund (GCF), particularly from LDCs and SIDS**. The new Executive Director of the GCF is leading an ambitious approach to reform, addressing longstanding concerns to streamline access and accelerate delivery. It will be important to amplify successes whilst continuing to encourage reform, in particular through LDCs and SIDS voices at the GCF board. Encouraging the funds to take an ambitious approach to complementarity and coherence will deliver wider reforms and greater impact.

9 **Tracking progress on climate finance access arrangements**. Given the fragmented nature of the climate finance architecture, it is currently difficult to track whether access to finance is improving (including access for LDCs and SIDS specifically). An independent body not attached to any fund or MDB could track institutional reform and report on progress and changes in a non-partisan, digestible and regularly updated way.

10 **Knowledge management**. There is considerable interest in a hub for knowledge sharing on adaptation finance which cuts through the huge volumes of information on the internet. This would be particularly helpful for LDCs and SIDS, whose points of contact are often overwhelmed by enquiries and workload. The work of the NDCP's Climate Funds Explorer is welcome in this regard.

11 **Enhance investor engagement with programmatic approaches/national adaptation programmes to help refine their design**. Governments often lack capacity and expertise to translate their NDCs/NAPs into investment plans, strategies, enabling environments and business models that will attract private sector investment. There is substantial private sector expertise ready to engage on a pro-bono basis. Investor scrutiny of plans at an early stage is likely to make their design more appealing to investors.

12 **Capacity building for domestic commercial banks to offer incentives for investment into adaptation**. This should focus on the development of adaptation taxonomies underpinned by risk data and analysis, which is currently a huge barrier to investment.

13 **Encourage innovative investment in insurance against Loss and Damage**. Research by insurance group Howden suggests that $5m in grant finance (per country) for six vulnerable countries to protect against the highest priority risks ('stop loss' cover) could unlock $1bn of cover from risk capital markets.

14 **Bolster human resources and technical capacity in LDCs and SIDS**. There is a significant and widening gap in the availability of local human resources in SIDS and LDCs to plan and finance adaptation solutions.

a) In the short term, explore whether a group similar to *Tax Inspectors Without Borders* could be established to provide pro-bono professional finance expertise to LDCs and SIDS.
b) In the long term, support training of key SIDS and LDC professionals via a range of public and private sector partners, including through secondments and scholarships.

15 **SIDS Climate Finance Aggregator**. Aggregation at the regional level has helped SIDS coordinate larger ticket size finance applications. Consider whether SIDS could aggregate their adaptation needs into a single programme application.

16 **Reverse engineering successful solutions to similar countries**. Projects such as the Cook Islands weather monitoring funding (Adaptation Fund) supports an intervention which is likely to be effective in other SIDS with similar geography, reducing the project design burden (while noting the variability of adaptation needs in differing contexts). The new Center for Access to Climate Finance launched by the Taskforce on Access to Climate Finance and the NDC Partnership aims to share lessons learned and models for enhancing access to finance for LDCs and SIDS.

17 **Regional centres for climate data and risk analysis**. Risk analysis is a key gap impeding adaptation investment decisions. Pooled resource would be invaluable. Establishing regional centres for climate data and risk could be one way of filling this gap, with the cost of establishing centres potentially counted as climate finance.

18 **Capacity building for risk analysis, advice and management in finance ministries or through an independent body**. Governments also need to develop risk analysis capacity within their planning systems. This could include hiring a chief risk officer as part of a climate finance division.

a) This possibility should be explored at the political level at the next C&DM ministerial.
b) A short impact study could be prepared on hiring a chief risk officer or setting up an independent body to assess and advise on climate risk, such as the Committee on Climate Change in the UK.
c) Donors should consider capacity building support to train risk officers in SIDS/LDCs, in line with local needs.

19 **Consider the role of the IMF RSF (Resilience and Sustainability Facility) arrangements to support adaptation action at scale in LDCs and SIDS.**

20 **A co-champion is needed for CDM workstream three (scaling finance from all sources) alongside Vanuatu**. C&DM members are encouraged to consider putting themselves forward for this workstream, for which Vanuatu is currently sole champion.

21 **Consider how to incentivise private investment flows to factor in adaptation and resilience**, for example, through regulatory institutions and reporting requirements.

22 **Support local financial institutions in LDCs and SIDS to lend to SMEs and firms in a way that incentivises more climate resilient investment**, e.g. the Africa Development Bank's (AfDB) green banks facility.

23 **Explore tax and subsidy reform.** Consider ways of raising more revenue through innovative tax, subsidy reform and levies on corporates and fossil fuel companies, following the polluter pays principle.

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Wilton Park is a discreet think-space designed for experts and policy-makers to engage in genuine dialogue with a network of diverse voices, in order to to address the most pressing challenges of our time.

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