

## **\*Consultation draft\***

# **GCF/NDC Partnership Climate Investment Planning and Mobilization Framework**

Draft: November 30, 2023

## **The rationale for the framework**

Building on the foundations established over the last decade, global climate action has transitioned from the phases of direction-setting and planning to a focus on implementation and learning. The Paris Agreement, along with its Rulebook, is currently in the process of being implemented. Most participating Parties have submitted a second or updated version of their Nationally Determined Contribution (NDC). Additionally, many have developed national adaptation plans (NAPs), Long-Term Low-Emission Development Strategies (LT-LEDS), and other planning instruments at national, subnational, and sectoral levels. Simultaneously, the inaugural Global Stocktake of the Paris Agreement is underway, and Parties are gearing up to comply with the Enhanced Transparency Framework.

In this context, there has never been a greater need for countries and the international climate finance community to unite and expedite the implementation of NDCs, NAPs, LTS, and other national strategies. The aim is to translate these strategies into tangible investments that benefit people and communities, contributing to climate ambition over successive cycles.

To address this imperative the Green Climate Fund (GCF) and the NDC Partnership have collaboratively developed a 'climate investment planning and mobilization framework' (the Framework). This resource serves as a non-prescriptive guide, bringing together the collective experience of climate investment planning and mobilization. Its purpose is to provide a common reference point and language for countries, as well as providers of climate finance and support, to navigate the progressive steps involved in moving from planning for the implementation of NDC/NAP/LT-LEDSs to identifying and mobilizing finance for investment needs. The Framework is also designed to facilitate the successful implementation of climate projects, programs, and investments.

The Framework explicitly recognizes that different countries and financiers may begin at various entry points, and progress may not follow a linear trajectory. Feedback loops are deemed critical for learning and impact. Furthermore, investment planning is acknowledged as a dynamic and iterative process, shaped by each country's unique context, ambition, and capabilities. The intent of the Framework is to articulate the stages and steps through which investment planning and mobilization may generally advance. This, in turn, equips developing countries to better identify the necessary steps to translate their priorities into investments, including associated support requirements. Simultaneously, support and finance providers are better equipped to operate complementarily.

## Overview of the Framework

The Framework categorizes investment planning and finance mobilization into six stages and eighteen components, specifying steps and outcomes for each stage, along with indicative support needs (Figure 1). A few key features of the framework include:

- **Integrated Financial Planning:** It focuses on integrating financial planning for the implementation of NDC/NAP/LT-LEDS and other policy instruments with climate components in alignment with the country's development priorities.
- **Emphasis on Coordination and Implementation Mechanisms:** The framework recognizes the critical role of well-capacitated national coordination and implementation mechanisms. This involves key stakeholders such as planning and finance ministries, national development banks, and national implementing entities.
- **Value of Evidence-based Decision-Making:** It highlights the importance of an evidence-based approach underpinning the identification of adaptation and mitigation investment needs. This evidence serves as a crucial input to investment design and approval processes.
- **Navigating Policy-Financial Intersections:** The framework aims to navigate the often complex 'bridge' between policymakers/planners and financial actors. It aims to differentiate pathways for engaging public finance, blended finance, and private capital to scale-up private capital inflows and optimize the use of catalytic national and international public finance.

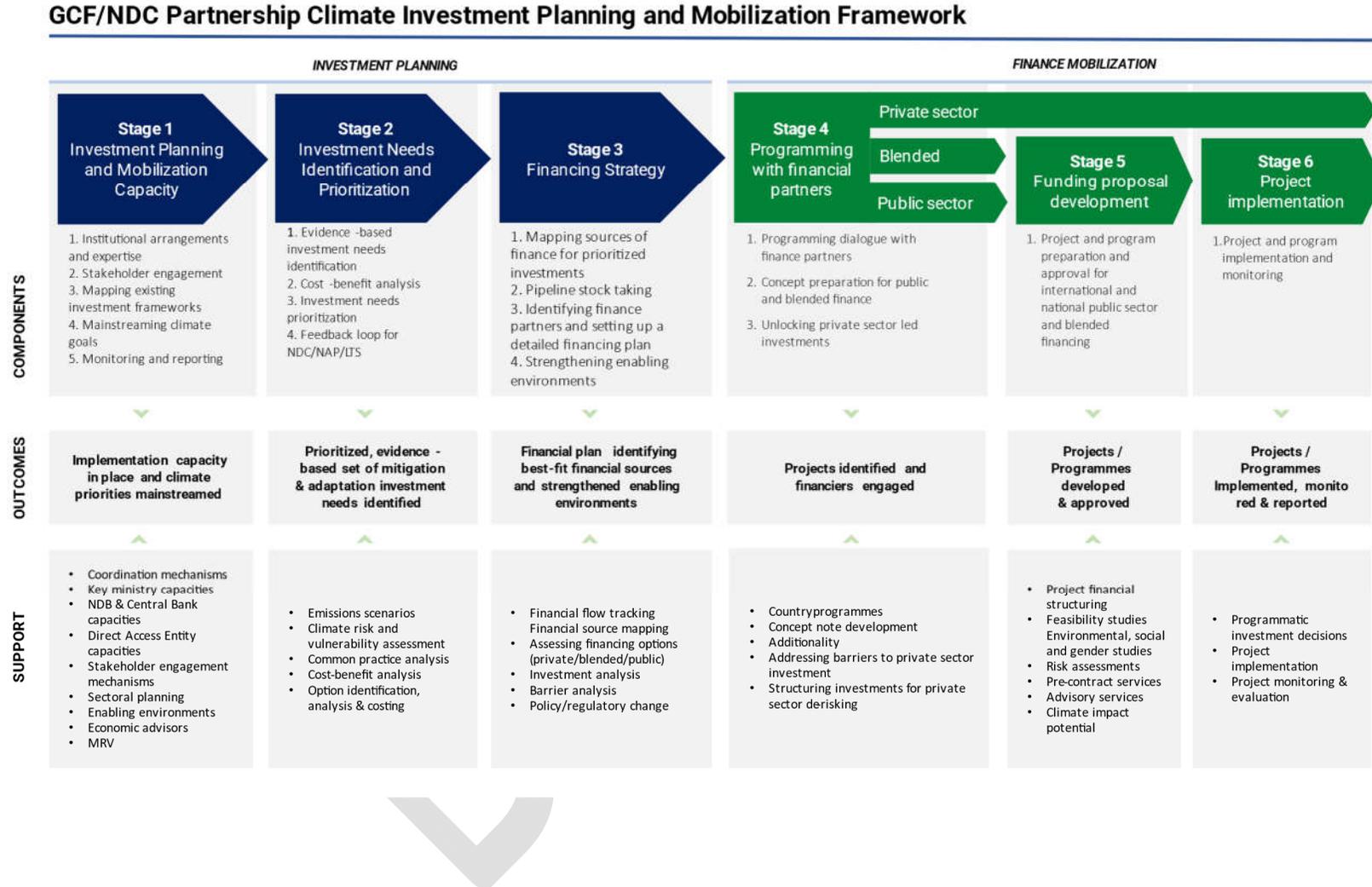
Overall, the framework empowers countries to identify and prioritize their climate finance needs, tapping into both private and public, as well as national and international sources. The investment planning process aims to strengthen countries' capacity to attract and mobilize climate finance, providing a foundation for an iterative planning process within a robust institutional framework led by the government.

The Framework also serves the purpose of helping countries identify knowledge and capacity gaps, offering support needs at each stage. This facilitates support providers in delivering tailored and complementary offerings to address those needs, referencing available support, including through programs like the GCF's readiness program and the NDC Partnership.

## A Living and Evolving Resource

The Framework and accompanying guide are presented as living resources, expected to evolve through ongoing consultation, input, and learning from countries, financiers, support providers, and other users. The following 22-page guide introduces the stages, components, and steps in investment planning and mobilization at a top-line level. Over time, this document is intended to be complemented by an online resource library, offering detailed guidance, terms of reference for specific support outputs under each stage, training videos, case studies, and best practices. This platform could serve as a navigation tool, mapping support providers under each stage/step, and providing links to detailed information on specific finance sources, such as investment criteria/processes of different financiers. The online platform will be built collaboratively, incorporating stakeholder input and serving as a tool to compare countries' progress and identify gaps in securing access to climate finance.

Figure 1. GCF/NDC Partnership Climate Investment Planning and Mobilization Framework



## Investment Planning

Climate investment planning refers to the process of developing a strategy for identifying and allocating financial resources to investments or projects with the goal of achieving specific climate objectives. This planning process involves assessing and addressing capacity gaps, identifying and prioritizing investments, and creating a roadmap for catalysing available public and private financial resources in a way that aligns with climate goals.

### Stage 1: Investment Planning and Mobilization Capacity

Effectively implementing a country's climate objectives and planning NDC/NAP/LT-LEDS-aligned investments relies on robust institutional capacities, expertise, efficient coordination, stakeholder engagement arrangements, and the successful integration of climate priorities into broader development and investment planning processes. This process is often iterative and is expected to evolve in parallel with other stages.

The aim of this stage is to secure the institutional capacities and structures necessary for effective climate investment planning, resource mobilization, and the implementation of climate objectives, as well as the mainstreaming of climate priorities.

#### Component 1. Institutional arrangements and expertise

Countries have various options for institutionalizing climate investment planning processes. The institutional configurations and setups adopted for the development, coordination, and execution of climate investment plans can promote robust accountability, encourage government-wide collaboration, and facilitate the exchange and collection of information essential for climate investment planning.

##### Step 1: Map out public entities linked to investment planning, their mandates, roles, and existing institutional arrangements.

Mapping public-sector entities can allow decision-makers to identify all key institutions involved in planning, delivering, and monitoring investment planning and mobilization. These institutions may include the agency responsible for NDC coordination, line ministries in sectors relevant to NDC targets (e.g., energy, transport), bodies responsible for national budgeting and planning, such as the Ministry of Finance, and national development banks. It is crucial to ensure that the identified bodies also incorporate experts in gender, youth, and social inclusion.

This exercise serves to clarify mandates and roles within a complex institutional landscape. Mandates are derived from existing functions outlined in institutional regulations, such as general planning or budgeting functions. Roles, on the other hand, are assigned for specific tasks within the development and execution of the climate investment plan. Countries are encouraged to assess the role that public bodies will play across all investment planning components. For each component, the identified public body could either take on a leading role in developing that aspect of the NDC investment planning process (e.g., consolidating information, writing reports, etc.), or a supporting role focused on providing information to another public body responsible for consolidation.

### Step 2: Analyse and address institutional arrangements and expertise gaps.

Mapping public entities involved in the investment planning process can help identify gaps and overlaps in institutional arrangements and assess whether the required expertise is in place. In cases where existing mandates are deemed inadequate to establish leadership within an existing institution, such as the Ministry of Finance or the Ministry of Environment, countries might consider establishing a cross-cutting public body, such as a central office within the executive branch, with a dedicated mandate for accessing and mobilizing climate finance.

If existing mandates or expertise are insufficient to fulfil specific roles across various components, countries may contemplate establishing specialized units or fostering expert collaborations with academia, research institutions, or similar stakeholders. Expertise in climate science, economic analysis, risk assessment, financial instruments and structures, gender, and monitoring and evaluation will be crucial.

### Step 3: Define a coordination role or system for climate investment planning and identify actions to formalize roles.

Having a central coordination role and mechanism defined can be a critical ingredient to the success of climate investment planning and mobilization, ensuring efforts across the country are well directed and monitored. This will involve assessing who is best placed to act in a central coordinating role according to their mandate and expertise, typically a central agency with convening responsibilities and capacities, and determining the format of a mechanism to ensure cross-government coordination. The coordinating body's mandate should include a review of existing institutional arrangements and coordination mechanisms to analyse their effectiveness and propose improvements.

Decision-makers are encouraged to establish the necessary steps to formalize the specific roles identified. This process should consider the support and commitment from relevant public bodies, prioritizing NDC investment planning and ensuring alignment with broader strategic objectives, including gender and social inclusion, sustainable development goals, and others.

#### **Highlight box: The critical roles of Finance/Economy Ministries and national development banks.**

As planners of economic policy and national budgets, ministries of Economy and Finance play central roles in enabling the necessary investments at scale to achieve goals outlined in NDCs/NAPs and LT-LEDs. These ministries are ideally positioned to conduct macroeconomic assessments related to proposed climate policies, determine investment needs for NDC/NAPLT-LEDs, and develop policies and instruments to attract private sector investments. By overseeing national budgets, ministries of Finance can secure allocations for climate change priorities.

Similarly, national development banks are well-placed to catalyse climate finance at scale from the private sector through their actions. These banks provide public financing with a certain risk appetite and can establish incentives to attract private investors for specific climate investments. Moreover, their considerable experience in large investments at the local level makes them a key partner in identifying, understanding, and overcoming local barriers to climate investment.

## Component 2. Stakeholder engagement.

A multistakeholder engagement strategy strengthens climate investment planning and mobilization while garnering support from diverse stakeholders. Critically, it serves as a tool for early identification of national implementing entities and guides capacity-building efforts. A multistakeholder strategy involves mapping and engaging relevant stakeholders in essential activities, while considering their objectives.

### Step 4: Map stakeholders and engagement points.

Assigning responsibility for stakeholder mapping and engagement is essential in overseeing stakeholder involvement across the NDC components. This could involve designating a leading agency or delegating the coordination of stakeholder engagement for specific components and subcomponents of NDC investment planning to the relevant public bodies identified in the institutional map.

Stakeholder mapping is a crucial step for identifying a broader set of actors outside of the government who will be involved in the climate investment planning and mobilization process, as well as for pinpointing relevant points of engagement. Stakeholders can be categorized into the following groups: cross-cutting ministries or agencies (e.g., ministries of finance, environment, or gender/inclusion affairs, investment promotion agencies), sectoral leads (e.g., representatives from relevant sectors), subnational authorities, development partners (e.g., multilateral banks), the private sector, academia and civil society (e.g., representatives from relevant organizations and non-governmental organizations), the financial sector, affected communities, and indigenous peoples. It is also vital to consider possible national implementing entities for climate investments.

### Step 5: Develop a stakeholder engagement plan.

Developing a comprehensive stakeholder engagement plan can facilitate the staged involvement of relevant stakeholders in the planning and execution of initiatives aimed at achieving climate-related goals and commitments. Where applicable, it is suggested to engage stakeholders at the subnational level and/or adopt sectoral/thematic approaches (such as biodiversity, water, and food systems nexus points).

### Step 6: Analyse and address gaps between stakeholder/programming partner capacity and expertise.

Once key stakeholders are identified, especially those involved in the delivery of climate investments, assessing stakeholder/programming partner capacities and expertise can assist a country in making early decisions to direct support toward building or strengthening needed capacities. Special attention should be given to the capacity and expertise of potential national implementing entities, including those in the local financial and private sectors. Measures such as training and capacity-building initiatives, knowledge sharing, collaboration, or other strategies can ensure that all stakeholders are aligned and can contribute effectively to investment planning and mobilization.

### **Component 3. Mapping existing investment frameworks.**

Decision-makers are encouraged to consider how climate investment planning aligns with existing investment frameworks and efforts led by national institutions, MDBs, multilateral climate funds, existing country engagement programs, and other sources of finance, as they have ongoing processes that might help secure financing. Assessing existing policies, strategies, and plans can lead to the identification of potential gaps in sectoral planning that can be addressed in future iterations of the climate investment plan.

#### **Step 7: Map existing investment frameworks to identify and validate investment priorities of existing investment frameworks.**

Mapping existing investment frameworks (e.g., MDB investment plans, GCF Country Programme, green/sustainable finance roadmaps, etc.) involves systematically identifying what ongoing development and climate investment plans are already being worked on with a variety of partners, including multilateral climate funds, private sector investments, MDBs, and other development partners, allowing for identification of opportunities and gaps.

Once investment frameworks have been mapped, decision-makers are encouraged to identify their priorities to seek alignment and leverage current efforts in mobilizing climate-aligned finance. These priorities and alignment with the finance partner may be validated through consideration of the factors in stages 2 and 3, in which case the country may be ready to move to investment mobilization with the relevant finance partner. In other cases, this mapping may provide an opportunity to review the coherence or robustness of prior investment priorities, their alignment with potential sources of finance, and other barriers to investment.

#### **Step 8: Map and list systemic investment barriers**

Mapping systemic investment barriers (national & sectoral) involves identifying and documenting obstacles that hinder climate-aligned investments. This process entails creating a comprehensive inventory of challenges, categorizing them into various types (e.g., technological, policy, socio-economic), and analysing their impacts and underlying causes. By doing so, decision-makers should be better positioned to develop targeted strategies to facilitate investments, promote economic growth, and enhance the investment climate. The mapping can draw from existing analyses, such as the investment frameworks identified previously.

### **Component 4. Mainstreaming climate goals.**

Planning and mobilizing climate-aligned investments will be most sustained and impactful if the country's climate goals as outlined in NDCs/NAPs/LT-LEDSs, and their logic of climate-impact, are fully integrated into wider economic and development planning. This entails comprehending long-term systemic changes that may be needed in economic and social infrastructure to shift toward low-emission and climate-resilient development and building fair transition pathways into sectoral planning and finance frameworks. Mainstreaming may also be supported by identifying potential opportunities for greening the financial systems and ensuring a programmatic approach to climate investment planning and mobilization. Such an approach will aid countries in mobilizing external resources and redirecting internal finance flows in alignment with climate targets.

### Step 9: Map national and sectoral planning, budgeting, and finance frameworks and their synergies with climate goals implementation.

Mapping existing national and sectoral planning, budgeting, and finance frameworks involves systematically identifying and analysing the various financial and investment frameworks within the public sector to discern opportunities and gaps. This comprehensive process includes scrutinizing public sector initiatives like sectoral planning, finance, and budgeting frameworks designed to promote the greening of the financial system.

### Step 10: Create a strategy to integrate climate goals into national and sectoral planning policies/budgeting/investment frameworks, addressing gaps.

Developing a roadmap for integrating and aligning climate goals with national and sectoral planning policies, budgeting, and investment frameworks involves several essential steps. This task encompasses assessing current frameworks to identify existing alignment with climate objectives and gaps in these policies. The roadmap should establish alignment targets and associated timelines, clearly defining concrete implementation roles for the various stakeholders involved.

### Step 11: Assess opportunities to green the financial systems.

Building upon the roadmap for integrating climate goals into national and sectoral planning policies, budgeting, and investment frameworks, countries may also explore opportunities to guide and facilitate the redirection of public and private investment flows towards climate-

#### **Highlight box:** Lessons from the Readiness Support for Greening Central Banks Initiative.

Climate change poses the ultimate systemic risk to financial markets, with potential disruptions including sharp declines in asset prices, reduced profitability in key sectors, diminished public finance, and unforeseen impacts on the insurance industry. Central banks, acting as market regulators and supervisors, uniquely stand poised to address the financial and economic risks associated with climate change. At COP26, the NDC Partnership launched the Readiness Support for Greening Central Banks (GCB) Initiative in response to developing countries' requests. This initiative equips central banks with knowledge, institutional capacities, and systems to adopt precautionary approaches to climate risk, promote green investments, and address the climate finance gap.

Through the GCB, central banks align their mandate and supervisory tools with the latest science to mobilize finance for NDCs and long-term strategies, ensuring financial stability crucial for poverty reduction and equity, as climate change and financial crises disproportionately impact vulnerable communities. To date, the NDC Partnership has engaged with 17 central banks in 24 countries, providing coordinated support to 13 through partnerships with various organizations. However, support commitments are still needed for the remaining four countries, and additional support for central banks' requests is mobilized through the Partnership Action Fund administered by WRI and UNOPS, with financial contributions from several governments.

aligned pathways. This encompasses various areas, including Public Financial Management (PFM), Public Investment Management (PIM), Public Administration and Management (PAM), and Public Procurement, among others. It may also involve working with key actors in the financial system, such as central banks and regulators, to more systematically integrate climate risks into decision-making. These steps will be at each country's discretion.

## **Component 5. Monitoring and reporting.**

Monitoring ongoing and planned financial flows is crucial to ensure that there are sufficient resources distributed appropriately to meet climate objectives. Reporting can offer significant input for future iterations of investment planning and mobilization outputs. The process of monitoring and reporting introduces transparency and accountability to public spending, facilitates coordination with investors and development partners, and improves decision-making for future investment planning, prioritization, and mobilization.

### **Step 12: Establish and communicate the monitoring strategy.**

Communicate the monitoring strategy to relevant stakeholders. Communication enhances transparency and institutional buy-in, potentially generating further incentives for stakeholders to provide the required information in a timely manner. Ensure that communication emphasizes the dynamic nature of the investment planning process. The rationale for the monitoring strategy is to track progress and improve the process over time. The establishment of monitoring strategies and tools should leverage current institutional and partner efforts in this direction.

### **Step 13: Identify stakeholders for data collection and assess and address gaps to deliver required data.**

Identifying the public bodies that need to regularly collect information, determining the type of information required, and understanding their needs for regular updates is key to monitoring and reporting progress. Ensure integration within existing partner project programs to ensure the sustainability of data collection and monitoring efforts.

### **Step 14: Develop a monitoring tool.**

Countries can opt to establish a centralized monitoring tool to track progress, with the goal of encompassing all relevant financial flows, including public finance, grants, and funds obtained from financial institutions and MDBs. This tool should accurately represent the sources of secured financing and align with the process of matching these financing sources. Having a single monitoring tool for tracking progress towards both mitigation and adaptation targets, as well as financing, facilitates coordination with stakeholders and the ongoing review of financing priorities. The development of such a monitoring tool presents an opportunity for comprehensive data collection and tracking, which can extend to broader strategic objectives like gender mainstreaming. The tool should also incorporate crosscutting indicators that go beyond financial flows.

## Stage 2: Investment Needs Identification and Prioritization

Countries may need to develop additional evidence and analysis to translate high-level directions in climate policy instruments into more concrete, prioritized measures with sufficient specificity and rigor to attract finance. These measures serve as a basis for analysing financing needs, structuring investments, and beginning to identifying potential funders or investors. This work also helps countries view their investment planning through the lens of what is required for system-level transformation, putting the country on a path to meet its climate targets rather than merely planning isolated investments. The targeted outcome of this stage is to use the information in NDC/NAP/LT-LEDS, together with further evidence and analysis, to identify a prioritized set of mitigation and/or adaptation investment needs.

### Component 1. Evidence-based investment needs identification.

The climate investment planning process is designed to lead to a well-defined set of investments and supporting activities that unlock the mitigation and adaptation actions necessary to achieve climate targets, and avoiding maladaptive responses. These needs should be grounded in a robust understanding of desired mitigation and adaptation impact and the country's objectives established in their NDC, as well as any national or sector strategies related to climate (NAP/LT-LEDS).

[Step 1: Extract information from climate-development policy instruments and understand what further evidence/analysis may be needed to formulate investments.](#)

NDCs, NAPs, LT-LEDS, National Communications, and other climate-development policy instruments serve as the natural starting point for understanding the evidence base for investment planning and prioritization of investment needs. To assess their robustness in supporting investment proposals and to identify any required further analysis or gaps to be addressed, countries can refer to the steps below, associated terms of references, and related resources. At this point, countries may also seek to develop analysis that facilitates longer-term systems-level transformation if they have previously examined investment needs through a more incremental, short-term, or single-sector lens.

[Step 2: \[Adaptation\] Conduct climate change risk and vulnerability assessments.](#)

A Climate Change Risk Assessment (CCRA) is a crucial exercise that enables a country to comprehend its vulnerability to climate change and prioritize climate action planning. The spatial, temporal, and sectoral scales of conducting a CCRA do not allow for a universal framework. However, a robust CCRA should be carried out at a sectoral and sub-national scale most relevant to the sector, allowing countries to identify, prioritize, and design adaptation interventions effective in reducing vulnerability and climate change-related risk, increasing resilience, and avoiding maladaptation. CCRA should be grounded in well-evidenced scientific and observed data on climate change, as well as relevant socio-economic data, at the scale needed to support investment decisions. It would typically:

1. Contain a context-specific analysis of climate change hazards, exposure, vulnerability and overall risks;

2. Include historical and future trend or instances of climate change event/hazard and impacts;
3. Present mapping of vulnerability hotspots of climate change hazards;
4. Analyze potential non-climatic factors and the adaptive capacity to climate hazard risks and impacts;
5. Propose a potential list of interventions designed to improve resilience and reduce the risk of impact, including any current projects underway or completed;
6. Lead logically to enabling policies, funding sources and mechanisms for climate action (it must inform decisions);
7. Be conducted in an interdisciplinary and participative manner, involving international and local experts as well key stakeholder and decision makers;
8. Be an integral part of an adaptation process (with a clear link to any existing adaptation planning and ongoing adaptation activities).

**Highlight box:** Why scale of analysis matters for investment planning.

The outcomes of a Climate Change Risk Assessment (CCRA) may be utilized to define entry points for promoting cross-cutting, multi-sectoral, and inclusive interventions that address complex, interacting climate risks while delivering economic and non-economic co-benefits, in accordance with the UNFCCC and the Paris Agreement. These interventions are typically formulated and implemented across various sectors (e.g., agriculture, water, energy, transport, etc.) and scales (e.g., national, subnational, watershed/basin level, etc.). Given the diverse and intricate socioeconomic and climate contexts at different scales and sectors, the optimal combination of proxies and metrics for conducting a CCRA may vary. Therefore, to ensure more tailored and concerted climate adaptation actions that address the needs of communities, a sector-specific multiscale assessment of climate change risks is recommended. This is crucial for guiding the development of adaptation planning and providing the scientific foundation for countries to attract climate finance for implementing the most suitable actions to reduce vulnerability to climate change-related risks, enhance resilience, and avoid maladaptation at multiscale.

**Step 3: [Mitigation] Identify the country's emission scenarios for identifying mitigation potential.**

Emission scenarios represent possible pathways that a country might take in the emissions of greenhouse gases (GHGs) in the future. By making assumptions about how society will develop, including factors such as population growth, it becomes possible to estimate trends in emissions that could reveal priority mitigation interventions. For instance, if trends indicate a systemic decline in emissions from a particular sector and an increase in another, a country may choose to prioritize the sector with increasing emissions.

The determining factors for emission scenarios are known as driving forces. The primary forces that 'drive' a country's future emissions include population growth, changes in energy use, economic and technological development, and land use change.

Building on existing emission inventories and modelled emission scenarios, a country can identify the most significant mitigation potential across its economy and begin developing a potential list of interventions that would lead to GHG mitigation.

#### Step 4: Conduct a common practice analysis.

Undertake a study that analyses the extent to which a mitigation/adaptation technology or practice has already diffused in the identified priority intervention sectors, including whether public, private, or blended finance was used for those interventions. Once potential mitigation and adaptation interventions have been identified, this top-down analysis serves as an important indicator for countries to ascertain if and what type of similar technologies or practices have already been deployed in the country. Determining the nature of the finance (concessional, private sector, or blended) will provide initial insight into appropriate financial instruments.

#### Step 5: Identify potential climate mitigation and adaptation investment needs on a macroeconomic/sector level.

The steps outlined above should lead to a validated set of potential climate mitigation and adaptation investment needs for the country in question, responsive to the country's climate change challenges and unique circumstances. At this point, the investment needs are characterized in general terms at a macroeconomic/sector level, rather than as specific interventions or investments, allowing greater flexibility at the financial planning stage.

## Component 2. Cost-benefit analysis.

Cost-benefit analysis (CBA) is valuable in planning and implementing climate projects as it helps translate potential climate impacts into economic terms as relevant to key decision-makers. It ensures efficient resource utilization by selecting projects based on their potential and considering long-term and broader societal impacts. This is especially crucial in the context of climate change, where effective action and resource allocation are essential for transitioning to zero emissions and climate-resilient pathways.

#### Step 6: Undertake a cost-benefit analysis of the proposed mitigation and adaptation measures (macro-economic/sector level).

Policymakers rely on economics to guide decision-making on the risks posed to society by climate change. In adaptation, economists often use Integrated Assessment Models (IAMs) to estimate the future costs of climate change impacts, such as heatwaves, flooding, and drought, based on evidence gathered under CCRA, versus the economic benefits of preparing for them. In mitigation, models can also estimate the costs of proposed mitigation actions versus reference scenario development goals.<sup>1</sup>

#### Step 7: Communicate the risk of doing nothing and the cost of proposed mitigation and adaptation measures concerning economic development.

<sup>1</sup> Please refer to <https://unfccc.int/topics/mitigation/workstreams/response-measures/modelling-tools-to-assess-the-impact-of-the-implementation-of-response-measures/integrated-assessment-models-iams-and-energy-environment-economy-e3-models#MERLIN> and any best practice examples

The cost-benefit analysis will translate climate change risks and opportunities into economic and financial terms, helping to prioritize specific climate adaptation and mitigation measures when compared to a baseline of inaction. Communicate these results to the policymakers and public entities linked to climate investment planning and execution, as identified in Stage 1.

### **Component 3. Investment needs prioritization.**

Prioritizing NDC investment needs helps direct financing to areas with the most potential for mitigation and adaptation, aligning with broader national priorities. This prioritization should involve a consistent and transparent multicriteria assessment, using both qualitative and quantitative data to evaluate the strategic alignment of investments, their contributions to climate targets and sustainable development goals, and their feasibility. Extensive stakeholder engagement is crucial in this process, as it improves data sharing to select relevant criteria and indicators and increases buy-in, creating a more robust prioritization methodology.

#### **Step 8: Map current and planned investment flows, the secured financing level, and the financing gap.**

Reviewing currently planned climate change investments, sector policies, and investment plans, as well as national policy documents related to these investments can help governments understand two things. First, whether ongoing investments are positive, negative, or neutral in their contributions to climate goals, providing an overview of the country's climate action. Second decision-makers are encouraged to comprehensively assess public and international financing already secured for NDC investments at the national and subnational levels, reviewing government budget data and donor spending plans. This can help countries start better understanding potential gaps and opportunities across crucial sectors for achieving climate targets, as well as better understanding investment needs. To avoid overestimating available funds, countries may categorize investment activities based on sensitivity analysis.

#### **Step 9: Define the investment needs prioritization process and methodology.**

The prioritization methodology selects and uses a set of criteria, indicators, and weights to prioritize a portfolio of investment needs. When developed through stakeholder consensus, a prioritized portfolio can facilitate the streamlining of resources and implementation, increasing buy-in. The methodology may differ for investments in projects and in supporting activities that build the enabling environment, as well as for public and private sector investments, as these may express different needs.

#### **Step 10: Prioritize investment needs using the defined methodology.**

As countries establish their prioritization methodology, they can utilize decision-support tools such as CBA, cost-effectiveness analysis (CEA), and/or multicriteria decision analysis (MCDA). The final weighting of criteria will be determined by each country's climate target priorities.

#### **Step 11: Validate the set of investment needs prioritized through stakeholder engagement.**

The central government, together with sectoral agencies, experts, and other relevant stakeholders, convenes through sector-specific workshops to validate the complete set of prioritized investments, including planned and prospective projects and activities. At this stage, countries will also consider whether the set of investment needs aligns with existing efforts led by MDBs, existing country engagement programs, and other sources of finance, both to avoid overlap and to leverage ongoing processes for securing financing.

**Highlight box:** Priorities, investments, investments, projects – what to do when?

Different sources of finance will be looking to engage with climate investment ideas at differing stages of maturity. For example, some financiers might find it helpful to consider a fully developed project concept as part of their investment process. Others may seek to engage with countries earlier, through a country programming dialogue, to shape a pipeline of investments that is aligned with both the country's needs and financier's capabilities. For private sector investments, private sector actors involved will typically themselves engage in designing and structuring transactions that respond to an identified investment opportunity. One important consideration for actors at the investment planning level is not to 'overdevelop' project ideas before engaging key implementing actors.

## Component 4: Feedback loop for NDC/NAP/LT-LEDS.

As evidence-based climate analyses are conducted, providing a more granular and precise understanding of existing and forecasted climate impacts as well as mitigation and adaptation priorities, countries will have a strong baseline to further refine their commitments in future iterations of NDCs, NAPs, and LT-LEDS. Similarly, a prioritized set of investment needs to address those climate impacts will enable countries to incorporate financial and technical assistance needs into their climate planning documents.

### Step 12: Develop feedback mechanisms to update and enhance country climate policy instruments.

While undertaking activities under stage 2, countries will further develop climate change-based evidence for both mitigation and adaptation, generally at a sector-specific scale more conducive and informative for prioritized climate finance programming. This process will typically add more insight to what was done for NDCs, NAPs, and LT-LEDS, and is likely to yield outputs with implications for their future iterations. A feedback loop mechanism based on Monitoring, Reporting, and Verification (MRV) and Monitoring and Evaluation (M&E) systems should be established at this stage, incorporating these outputs as inputs to future strategic climate policy instruments.

## Stage 3: Financing Strategy

Building upon a set of prioritized investment needs, a country can conduct a more in-depth analysis of financing gaps, explore options, identify barriers and solutions, and assess the

comparative advantages of different sources of finance. With this comprehensive understanding, a country can initiate engagements with potential sources of finance and implementing partners to evaluate which financing options are best suited for various investment needs. The targeted outcome of this stage is a financing plan for a country's NDC/NAP/LT-LEDS prioritized investment needs, identifying pathways to best-fit finance.

## **Component 1. Mapping sources of finance for prioritized investments.**

To successfully catalyse finance for the identified gaps, climate investment plans need to include a comprehensive mapping of investment needs against available sources. The mapping exercise will also identify the type of financing for each source and its major characteristics, guiding optimal matchmaking.

### **Step 1: Map the climate finance ecosystem/architecture.**

Comprehensively map available international and national public and private finance sources for climate finance. This involves gaining initial insights into the investment criteria, risk profiles, and characteristics (such as the level of concessionality) associated with various potential sources of finance. Consideration of wider macroeconomic and financial cycles will also factor into this mapping and analysis – the cost of capital, availability of credit and equity, as well as availability of concessional public international finance are all affected by cyclical factors, and as such will influence the availability of different sources of finance at different times.

### **Step 2: Develop a preliminary mapping of how prioritized investment needs may match different potential finance sources.**

A key question in mapping investment needs to different potential financial sources is what is the risk-reward profile of the activity. Market assessments and financial analysis can help determine the revenue generation potential of prioritized investment needs. In addition, it is essential to assess other risks or barriers to the investment, and the nature of these risks (technology, policy, finance etc). This will aid in the assessment of potential for public, blended, or private finance – whether the investment is viable for private investment, whether it could be viable for private investment through policy-de-risking or blended finance interventions, whether it requires concessional finance to be viable, or whether it can only be funded through grants. Diverse sources of finance, based on their risk appetites and financing instruments, can then be weighted for each investment need.

Subsequently, a prioritization is conducted to identify the most suitable source of finance, considering factors such as revenue generation, cost-benefit, country readiness, opportunity for a blended approach, and available technical cooperation support. A draft financial plan will include a hypothesis on which investment needs may be best served by national budgets, international public or blended finance, or national or international private finance.

## **Component 2. Pipeline Stock Taking.**

Through a variety of nationally led or internationally supported efforts, climate investment priorities may have already been identified at the country, sector, or subnational setting. Some

of these priorities may be relevant for achieving NDC/NAP/LT-LEDS targets, and decision-makers should ensure that they are incorporated into the process.

### Step 3: Take stock of existing pipeline.

Conduct a detailed assessment of each investment need to identify ongoing pipeline development. This involves a comprehensive analysis of existing pipelines to determine the status of each investment requirement, its alignment with the preferences and objectives of potential financiers, while remaining flexible to explore other possibilities that may better meet future financial criteria.

## **Component 3. Identifying finance partners and setting up a detailed financing plan.**

Implementing the climate investment plan will require establishing strong partnerships with financiers and implementing partners. It is necessary to engage potential partners early to understand the value they can bring to the table to best determine how they can support investment priorities and elaborate a financing plan to match needs with offers.

### Step 4: Engage with potential finance partners from the public and private sectors.

Assess the appetite of finance partners by delving into their preferences, objectives, and willingness to invest in prioritized investment needs mapped through financial planning. Explore the potential instruments and investment sizes they are comfortable with (i.e., ticket size), considering their specific requirements and constraints. Examine their investment criteria and strategies, understanding the factors and considerations that drive their investment decisions. Furthermore, investigate the funding cycles of these finance partners, identifying the timing and frequency with which they allocate capital for investments to align your initiatives effectively.

### Step 5: Identify preliminary investment structures that could be leveraged by financing sources and partners.

Explore and utilize existing financing options and platforms such as national budgets, MDBs/DFIs, bilateral investments, private sector initiatives like RFPs, blended financing models, and other innovative market mechanisms. This involves a comprehensive analysis to align these mechanisms with investment goals and optimize financial support, including assessing national budget scope, MDB/DFI eligibility, bilateral agreements, and private sector engagement via RFPs. The aim is to combine various funding sources for a more impactful and sustainable approach, tapping into a wider range of resources and expertise to enhance the efficiency and effectiveness of initiatives and maximize their impact.

### Step 6: Prepare a detailed financing plan that identifies best-fit financial sources and barriers to be addressed.

Create a comprehensive plan aligning investment need with suitable sources of finance and capable implementing partners to optimize mobilization efforts and ensure impactful resource allocation. Prioritize each investment requirement, potential finance source, and identified

barrier, revisiting and updating plans periodically for strategic efficiency. Conduct a thorough analysis of barriers for each investment need, considering economic, technological, socio-cultural, implementation, and policy/regulatory challenges. This analysis, incorporating desk-based research and stakeholder engagement, helps identify actions to improve the enabling environment. Recognize variations in barriers based on the type of financing sought, involving relevant sectors and ministries to address barriers from the most critical to the least critical.

## **Component 4. Strengthening enabling environments and de-risking**

Barriers to investment constitute factors limiting resource mobilization against identified needs, presenting a crucial opportunity to enhance the risk-return investment profile of national economies and niche markets for NDC-aligned projects. This aspect offers potential for easy wins through readily available capacity support mechanisms, possibly incentivizing investment with minimal resources. For each priority investment, identify instruments and mitigation measures to overcome barriers, recognizing that barriers may vary between debt and equity, as well as between domestic and international sources of public and private finance.

### **Step 7: List, categorize, and sequence investment barriers by priority investment needs.**

High-priority investments can be systematically categorized based on shared barriers, streamlining the identification of common obstacles faced by investment needs with similar financing requirements. Once a shortlist of prioritized investments and associated barriers is established, seeking feedback from external stakeholders, including civil society and the private sector, becomes crucial. Engaging a diverse range of stakeholders, such as development partners, academia, civil society, and subnational entities, is essential to validate identified barriers and gain insights into their significance and urgency. The inclusion of gender and social inclusion specialists ensures a comprehensive understanding of barriers at both sectoral and project levels.

### **Step 8: Identify options to mitigate investment barriers and consolidate an implementation plan for prioritized measures.**

Identify the measures, such as regulatory/policy reform investments, fiscal instruments and incentives, and financial de-risking, that can target financing barriers identified to create an enabling environment for identified investment needs. These activities should contribute to transformational change through interventions targeting impact across sectors and improving confidence in the stability of policies and regulations over time. Technical working sessions on potential policy actions to tackle identified barriers should be targeted for linked discussions on policy and regulatory solutions. Flesh out the necessary regulatory reform and incentives to crowd private sector investments, sequence.

### **Step 9. Design and implement prioritized policies, and regulations for the enabling environments to crowd-in private sector climate investments.**

Once measures to address critical barriers have been identified, a country may seek support for designing and implementing these, or proceed to implementation. Action on enabling environments should be treated as a critical part of the country's financing strategy and progress monitored accordingly.

## Finance Mobilization

Climate finance mobilization refers to processes involved in raising and channelling financial resources to support prioritized activities and projects aimed at addressing climate change. This implies engaging with financiers to align project portfolios and pipelines with prioritized investments, structuring investments and project concepts. Depending on the investment prioritized and the finance landscape in the context, decision-makers can opt to tap resources from public, private, or blended sources.

### Stage 4: Programming with financial partners

Stage 4 marks a pivotal point in the climate investment process, where countries deepen engagement with selected financial partners to mobilize finance for their investment needs. Unlike Stage 3, Stage 4 involves specific project ideation and collaboration with funding and implementing partners. The steps taken vary based on whether the investment is intended for the public or private sector. For entities like the Green Climate Fund (GCF), outcomes at this stage should lead to the formulation of a GCF country programme, project ideas and concept notes. However, it falls short of a formal funding proposal, a step reserved for Stage 5. The targeted outcome of Stage 4 is a prioritized set of projects identified in collaboration with financiers and implementing partners, progressing project concept development.

#### Component 1: Programming dialogue with finance partners

Identifying key implementing partners with the expertise, capabilities, and resources is critical to designing and executing specific interventions, instruments, and financial structures essential for addressing investment needs. These partners should possess the technical know-how and capacity to effectively implement and manage the initiatives in question. Additionally, assessing their available resources, including financial capabilities, is essential to gauge their ability to execute the envisioned solutions successfully.

##### Step 1: Conduct programming dialogue with public and/or private sector financing and implementing partners.

Decision-makers may convene potential financiers and implementing partners around the financial plan developed under Stage 3 to deeply understand the requirements of their investment process and begin fleshing out specific investment/project/program ideas. These discussions aim to disseminate the plan, raise awareness about the efforts to remove investment barriers, and foster partnerships between decision-makers, financiers, and implementers. Organized around sectors or hotspots, these discussions cover a range of issues systemically through coordinated interventions. The goal is to facilitate an in-depth understanding of each partner's requirements and processes. The outcome of this dialogue should be ascertaining if there is alignment to proceed with concrete investment directions and project ideas, and fully understanding the next steps in project concept development.

#### Component 2: Concept preparation for public and blended finance

## Step 2. Engage with stakeholders to develop project ideas for consideration with the relevant public sector financing partner.

The next steps will often be to develop project/program concepts either as part of an investment program or plan with the specific financing partner, or through self-standing concept note. The best channel of engagement should be discussed with the relevant financing and implementing partners. Depending on the financier and the nature of the intervention, concepts may require technical assistance support for analytical work underpinning the concept design. Develop concepts closely with the financier to ensure alignment with their standards and requirements, facilitating prompt approval when needed. The project concept will be an important phase to test if the project idea is viable to be developed into a full funding proposal or not.

## Component 3: Unlocking private sector led investments.

Unlocking private sector-led investment entails identifying the project's requirements, objectives, and criteria and inviting suppliers to submit detailed proposals outlining how they would meet those requirements. This process involves designing and structuring the required vehicles or instruments to catalyse capital flows of finance.

### Step 3. Development and launch of Request for Proposals (RfPs)

In cases where the private sector is expected to lead in addressing investment needs, decision-makers may prepare and launch Requests for Proposals (RfPs) for the relevant pipeline of projects. RFPs will describe the investment needs, define the climate and development goals being pursued, and transparently lay out the process for evaluating the proposals.

### Step 4. Design and structure innovative / catalytic vehicles/instruments to de-risk investment for private capital in-flows

In instances where large amounts of capital are required to address systemic investment needs, partners may consider setting up vehicles or instruments, such as co-investment platforms, to de-risk investments and attract financing at the needed volumes. These vehicles may specifically target private sector capital but may also allow for financing from various sources, including development partners.

## Stage 5: Project & Program development

The outcome of Stage 5 is the development and approval of project proposals ready to submit to a financing partner for approval. The development of these proposals is usually a resource-intensive process of translating project concepts into complete climate finance proposal packages, including support studies, that meet the investment criteria of the targeted financiers.

## Component 1: Project and program preparation and approval for international and national public sector and blended financing

Project preparation is the process of translating investment needs into specific projects that are ready for financing and implementation. While identifying NDC investment needs, countries

pinpointed specific projects and activities at various stages of the investment cycle. These projects need to progress from the idea stage to a state of readiness for implementation, considering the identified source of potential financing and whether there is a need for technical or analytical support in developing these plans.

### Step 1: Determine the required project preparation steps.

Before detailed project preparation begins, it is crucial to consider the distinct standards of different financing sources. In some cases, involving potential funders from the outset is advisable. MDBs, for example, may assist with or lead the project preparation process. Private-sector projects, however, often involve investors who prefer handling project preparation steps themselves. In such cases, the analysis outlined below can serve for initial discussions with private-sector financiers about investment options before they proceed with due diligence and project preparation.

### Step 2: Seek project preparation support as needed.

Developing a climate finance proposal for public or blended finance often requires a set of studies such as feasibility, environmental and social safeguard studies, risk assessments and other analysis to be submitted at the same time as the proposal itself. Countries and implementing entities may face capacity constraints in developing these technical documents but financial and technical assistance is often available at this stage. The GCF's Project Preparation Facility (PPF), for instance, is designed specifically to support this stage.

The country should identify the implementing entity responsible for overall and specific components of project preparation. Additionally, it should be identified how this process will be funded and whether there is a need for technical assistance.

### Step 3: Project preparation

Project preparation should only occur if there is a plausible strategy for funding the project, even though the exact funding source and structure will be determined through this process.

The project preparation cycle will generally include:

- **Prefeasibility study:** An initial assessment of the project that sets its objective, scope, alternatives, analysis of alternatives, and preliminary identification of the project's affordability (value for money).
- **Technical configuration:** The technical solution needs to be fully developed, including the specific technologies, standards, technical design, project location, and required resources for the project delivery. Technical experts should prepare the project design, and external review processes should be conducted.
- **Feasibility study:** Once the full technical design has been prepared, feasibility studies need to be conducted to review the design, consider the project's impact, and identify any relevant risks. Feasibility studies may include financial/economic feasibility as relevant to the project
- **Project governance and risk allocation:** The project governance and ownership structure should be determined, including how fiduciary liabilities are shared between the government and other investors. At this point, decisions about whether the government

will deliver the project directly, a public-private partnership or private investors must be made.

- **Policy and legal review:** The relevant legal and policy framework in which the project will be delivered must be reviewed and the design adjusted accordingly. Key policy and legal risks should be identified, and the project structure should be adjusted if necessary.
- **Costing and budget preparation:** Project budgets need to be prepared by identifying and planning each activity and input required for the project and determining the cost of activities and inputs using previous comparable projects as a benchmark. Budgets should be prepared by headings matching the implementation agency's reporting and audit requirements.
- **Gender, social and environmental impact analysis:** Gender, social and environmental impact analysis should be conducted to identify, avoid, mitigate or minimize adverse gender, social and environmental impacts as well as increase positive outcomes in these dimensions.

Once the project preparation is complete, the climate finance proposal can be submitted for approval. The approval process may involve certain technical conditions or questions by the approval body to be addressed by the country or implementing entities. These may require further support or technical assistance so it is important to incorporate a budget for this contingency.

## Stage 6: Project (and program) implementation

The effective implementation of projects and programs requires the achievement of both climate and financial objectives. This entails adhering to a predefined logical framework as a strategic guide, delineating the necessary steps for success. It is crucial to ensure that the requisite capacities, knowledge, and skills are identified and made available throughout the implementation process.

### Component 1: Project and program implementation and monitoring

Project and program implementation and monitoring involves identifying capacity needs to equip stakeholders with the expertise for the successful execution of the initiative. Monitoring the implementation of investments through predetermined means and instruments is also key, as it provides valuable insights into progress and challenges, enabling stakeholders to make informed decisions. The data gathered during this monitoring phase has potential for future ambition setting and implementation planning, fostering an adaptive and responsive approach to achieving sustainable climate and financial goals.

**Step 1: Prepare for project implementation, making sure the right capacities, knowledge, and skills are acquired (seek capacity support as needed).**

Secure the appropriate capacities to facilitate the effective implementation, monitoring, and reporting of projects. This involves a meticulous assessment of the skills, expertise, and resources required at each stage of the project lifecycle. Ensuring that the right capacities are in place entails identifying potential gaps in knowledge or skills within the project team and collaborating organizations. Engage with relevant development agencies, NGOs, or international organizations that can provide valuable resources and insights, ensuring that the

project team is well-equipped to navigate challenges and capitalize on opportunities. This collaborative approach not only strengthens the project's implementation, monitoring, and reporting capabilities but also fosters a culture of continuous improvement and adaptability, which is essential for addressing the dynamic nature of project environments.

**Step 2 Monitoring, reporting & feedback loops, making sure the right capacities, knowledge, and skills are acquired (seek capacity support as needed).**

Climate finance partners generally use a results-based management approach to continuously monitor and evaluate the performance of its projects, programs and portfolio. This approach supports their need to assess whether its projects/programs are on or off track to deliver expected results based on data generated from monitoring and evaluations reports. Furthermore, it is always useful to report successful and unsuccessful activities during implementation as part of its knowledge management and feedback loops for other countries and entities to benefit from. The country or implementing entity should seek capacity support to fulfil these functions as needed.

The insights derived from monitoring and reporting activities contribute significantly to investment and implementation planning. They inform decisions on strategic capacity gaps, resource allocation, highlight areas that require additional attention, and provide evidence for refining the project's progress. Ultimately, adherence monitoring and reporting guidelines ensures that the monitoring and reporting processes become valuable tools for not only assessing the current project but also for steering it towards greater success and alignment with long-term climate and sustainability goals.