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IN PARTNERSHIP WITH ITALY

Principles and Recommendations on Access to Climate Finance

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Introduction

Developing countries have long been calling for access to climate finance to be improved. Mechanisms for accessing climate finance are often slow, complex, resource intensive, uncertain, and project based. Insufficient coherence in donors' offers also leaves developing countries unable to access or utilise the support they need on climate action and sustainable development, offering a piecemeal response to partner countries' needs. In many cases, current arrangements prevent a fully integrated approach to climate, development, and green growth.

At the Climate and Development Ministerial, convened by the UK COP26 Presidency on 31 March 2021, participants recognised the urgent need to streamline access to climate finance, with greater individual and collective action required both before and following COP26.

The Taskforce on Access to Climate Finance (Taskforce) was created in response to these longstanding calls for reform from developing countries. It proposes a new approach which builds on established commitments on climate finance, the Sustainable Development Goals and aid effectiveness.[1] The new approach aims to deliver a transformational step change in access at the national and local levels and to spur a related shift in the wider public climate finance architecture, improving the predictability, flexibility, transparency, affordability, and speed of disbursement of climate finance. To support the delivery of this new approach the Taskforce has developed the following Principles and Recommendations which are designed to guide providers and recipients in how climate finance could be accessed, programmed, and used.

Three key concepts underpin the proposed new approach on enhanced access:

- ***Programmatic and coordinated approach.*** Whilst the modality will depend on local context, the aim for all is to facilitate long-term, coordinated and more predictable provision of climate finance around a nationally owned unified vision.

- ***Coordination with existing initiatives***. Wherever possible the new approach aims to work with, and build on, existing initiatives, plans and structures, enhancing coherence while supporting and amplifying efforts already underway. This may include the NDC Partnership, including its climate finance taskforce, and NAP Global Network.

[1] The Busan Partnership for Effective Development Co-operation and the Paris Declaration and Accra Agenda for Action

- ***Inclusivity***. The new approach seeks to use climate finance to address the most urgent local needs and support the most vulnerable countries and populations within them.

The Taskforce's Steering Committee oversaw an evidence review, which drew on the experience on the ground of developing countries and literature from both the developed and developing world. It provided guidance throughout the process of drafting the Principles and Recommendations, helping to set out the core challenges with access to climate finance and design a new approach. The Steering Committee includes equal representation from climate vulnerable developing countries, and bilateral and multilateral finance providers.

These Principles and Recommendations are intended to guide implementation in the first five 'pioneer' country trials of the new approach and provide the basis for recipients, climate finance providers and other partners to jointly take forward and institutionalise this approach. Lesson learning from those trials will inform further refinement of the Principles and Recommendations, as the new approach is progressively rolled out across additional climate vulnerable countries.

Principles

Principle 1 – Country Ownership: Programmes and projects should be owned and driven by recipient governments and the communities they intend to benefit, with national priorities framing providers' support.

Principle 2 – Harmonisation of Processes and Alignment of Finance: Processes associated with every stage of accessing climate finance should be streamlined and coordinated to offer a more strategic, coherent, and efficient approach for recipients. Climate finance should be aligned behind integrated national plans and architecture.

Principle 3 – Responsiveness to Country Needs and Climate Vulnerability: Climate finance should clearly respond to the self-defined needs and priorities of recipients, including those countries and communities with the greatest immediate needs and the lowest capacities to access funds, consistent with the goals of the Paris Agreement, including pursuing efforts to limit the temperature rise to 1.5°C.

Principle 4 – Flexibility and Innovation: Adopt more innovative and agile approaches alongside proportionate risk management processes to deliver climate finance which better responds to variations in local capacity and need.

Principle 5 – Transparency and Accountability: Climate finance should be more predictable, transparent and yield measurable progress towards recipient countries' climate capabilities and climate goals.

The Taskforce will support the application of the Principles and Recommendations by providers and recipients, including in pioneer countries, through supporting coordination, monitoring and reporting progress made in applying the Recommendations; and by setting out steps to institutionalise the Principles and Recommendations across the climate finance architecture where appropriate. It will also plan the next phase of the Taskforce's work, which will include broadening the Taskforce's scope to engage and facilitate private finance flows. This new approach has been developed by the Taskforce Steering Committee, which will seek to learn lessons from the pioneer country process and iterate the Principles and Recommendations further. We encourage others to use the Principles and Recommendations as a part of their delivery methods.

Recommendations

Country Ownership:

Programmes and projects should be owned and driven by recipient governments and the communities they intend to benefit, with national priorities framing providers' support.

Country ownership has long been recognised as a key principle in the success of development partnerships and strengthening ownership in climate will ensure improved access. By prioritising country ownership and facilitating the meaningful participation of marginalised groups, climate finance can contribute to a recipient vision and plan for low-carbon, climate-resilient development.

Recipients should:

1. **Clearly articulate climate action priorities, based on existing climate planning, and progressively mainstream these** within national development and growth strategies and associated sector policies, economic recovery plans, investment plans, medium term expenditure frameworks and annual budgets, to ensure an economy-wide approach to climate action planning. These should consider risks and develop relevant scenarios to manage risk. Where feasible, ensure these plans are connected to sub-national priorities and budgeting processes. Plans should include prioritised and robustly costed financing needs and/or also identify broader reform measures required for successful implementation. Plans should align with relevant global climate targets, including, but not limited to, the ambitions outlined in the Paris Agreement. *At the start of the trials in pioneer countries, the Taskforce will support recipients in the development of an upfront statement setting out which climate action priorities each trial will focus on and how these will be embedded in national planning*

Providers should:

2. Respect country and sub-national leadership and ensure climate finance is being channelled **to support recipient climate action priorities,** including the climate-compatible priorities of national development plans through national and broader stakeholder engagement (see also Recommendation 4).

3. **Distribute climate finance through country systems and institutions to the maximum extent possible and broaden the range of recipients at a national and sub-national level**. This encompasses national and local government structures as well as local civil society and businesses, including through use of support to government budgets and direct access funding. Utilise recipient systems to distribute climate finance to the greatest extent possible, with support and long-

term capacity building delivered by international intermediaries where necessary. *As a part of the Taskforce's trials, in cooperation with pioneer countries, providers will aim to strengthen the capacity of domestic institutions to deliver climate finance programmes.*

4. Use climate finance to help **strengthen national and sub-national capacities in the long-term** to identify and articulate climate action priorities, and to coordinate, integrate, implement, and monitor these. Providers may consider exploring increasing support to government budgets or creating coherent readiness programmes to support learning-by-doing in recipient country institutions, as well as prioritising support for existing capacity building initiatives such as NDC Partnership, NAP Global Network and other networks that facilitate south-south learning. *As a part of the Taskforce's trials in pioneer countries, providers will aim to identify and align available sources of readiness support that can strengthen the programmatic approach in each pioneer country.*

Recipients and providers should both:

5. Where extant climate plans are not yet sufficiently detailed, ambitious, or integrated into cross-government processes to support a programmatic approach, **work together and in conjunction with existing initiatives to support the development of plans which can then underpin a new programmatic approach** to achieve long term goals. In the interim providers and recipients should establish which existing national strategies should guide programmatic climate finance, depending on how and where countries have invested in planning, coordination, and consultation.

6. **Strengthen engagement with subnational governments, civil society organisations and micro-, small- and medium-enterprises to establish meaningful participation in decision-making processes.** New interventions should seek to work within and alongside existing locally led initiatives and crowd-in local expertise during design, implementation, and delivery. Climate finance processes should actively consider, and consult with, marginalised and particularly vulnerable populations, such as young people, the elderly, women, indigenous people, and affected communities in the climate finance system. Recipients should devolve decision making to the lowest appropriate level to drive locally led climate action and providers should support LDCs as they work towards LDC Vision 2050. Both providers and recipients should consider how to apply the Principles for Locally Led Adaptation. Providers should support this process through technical assistance for the vertical integration of national and sub-national climate priorities and application of Recommendation 14.

Harmonisation of Processes and Alignment of Finance:

Processes associated with every stage of accessing climate finance should be streamlined and coordinated to offer a more strategic, coherent, and efficient approach for recipients. Climate finance should be aligned behind integrated national plans and architecture.

Taken together these Recommendations are intended to create a new coherent and less burdensome approach to financing climate and significantly improve access through coordination and scale among providers, including a streamlined set of requirements for those seeking funding; and implemented according to partner government's existing official (sound and evidence-based) planning documents.

Providers should:

7. **Align support behind a partner country's climate action priorities** (see Recommendations 1 to 4). Support recipients in their efforts to identify a consistent set of country-led climate plans and national priorities which will frame climate finance flows.

8. **Where possible, increase the use of multi-year programmatic approaches rather than single-project investments,** to maximise synergies between activities and, where appropriate, ensure scale of support is commensurate with ambition and flexibility. A range of tools and methods for implementation, including, for example, support to government budgets and supporting entire sectors should be considered on a case-by-case basis and prioritised as appropriate. *As a part of the Taskforce's trials in pioneer countries, providers will aim to make a multi-year programming offer as part of early strategic planning.*

9. **In consultation with recipients, map and review accreditation processes and funding requirements, including proposal and reporting templates, and monitoring and results systems with a view towards providing recommendations for standardising and streamlining approaches.** To the fullest extent possible, simplify project approval and accreditation procedures and consider improving the coherence of criteria across these providers and relevant climate funds. Ensure, accreditation and project information resources are available in plain and simple language and in nationally appropriate languages. *This process will be convened by the Taskforce, with support from external organisations as necessary.*

10. For countries with the lowest capacity, **providers should explore a phased approach which recognises the need for long-term capacity building** with some level of access granted to both respond to local needs and strengthen systems, alongside a broader package of capacity building support to facilitate greater access in the future. *As a part of the Taskforce's trials in pioneer countries, providers will seek to actively identify opportunities for a phased approach to facilitate greater national and sub-national access.*

Responsiveness to Country Needs and Climate Vulnerability:

Climate finance should clearly respond to the self-defined needs and priorities of recipients, including those countries and communities with the greatest immediate needs and the lowest capacities to access funds, consistent with the goals of the Paris Agreement, including pursuing efforts to limit the temperature rise to 1.5°C.

By responding to country needs and reassessing the relevant criteria and eligibility requirements for climate finance access, more resources will be dedicated to the most pressing and impactful activities, supporting vulnerable communities and those with the lowest capacity. This will increase the potential for access and will work in tandem with domestic sources of finances to ensure no one is left behind in the transition to a low-carbon and climate-resilient development pathway. Moreover, climate finance solutions should be adapted to complement the recipient governments' fiscal position.

Providers should:

11. **Work to prioritise adaptation finance for countries that are most vulnerable to the impacts of climate change,** especially those with low incomes and/or high exposure to climate hazards, including LDCs, SIDS and African nations. Providers should also consider engaging with initiatives which aim to improve climate finance delivery to the local level, such as the LDC Initiative for Effective Adaptation and Resilience (LIFE-AR).

12. **Focus grants and the most concessional adaptation resources on those with the greatest need and highest vulnerability,** to increase the accessibility of climate of climate finance. Providers should continue to report on their flows of climate finance in line with the Paris Agreement and UNFCCC reporting requirements and guidelines.

13. **Work to integrate climate considerations** across all new development interventions **to address the core drivers of climate vulnerability** and adjust existing programmes where appropriate. All new development interventions should be climate compatible.

Recipients and providers should both:

14. Ensure that, over time and through an iterative learning process where relevant **official climate plans are underpinned by a robust assessment of needs** which identifies risks, priorities and policy/funding needs to tackle them, drawing on the best available evidence to provide a common underpinning of official climate plans. (See Recommendation 19 for how recipients will be supported in achieving this aim). Providers should recognise limitations in the quality and availability of evidence and consider adjusting requirements where necessary. *The Taskforce will work with recipients to conduct a robust assessment of needs at the start of each of the trials in pioneer countries.*

15. **Explore opportunities to re-evaluate climate finance allocation models** to improve their ability to capture the range of factors comprising climate vulnerability and better differentiate the impact of climate on different groups.

Flexibility and Innovation:

Adopt more innovative and agile approaches alongside proportionate risk management processes to deliver climate finance which better responds to variations in local capacity and need.

The proposed programmatic approach will strengthen institutional delivery mechanisms and provide coordinated support at sufficient scale to enable providers and recipients to trial new and innovative approaches to improve the accessibility of climate finance.

Providers should:

16. **To the extent possible, take a more flexible and innovative approach to funding over long-term programmes.** *As a part of the trials in pioneer countries, the Taskforce will identify opportunities to utilise the approaches listed to deliver a more flexible and innovative approach.* This could involve:

    16.1 Incorporating disbursement mechanisms which improve the flexibility and predictability of financial support.
    16.2 Providing variable tranches which respond to performance while recognising the variability in time horizons and difficulty associated with achieving climate objectives across different contexts.
    16.3 Proactively supporting the trial of new delivery mechanisms and interventions by allowing space and resources for learning in order to further escalate innovative approaches to scale and stimulate transformational change.

17. **Review risk management strategies and take into account the scale and risk levels of potential activities during accreditation and project approval processes to ensure strategies and processes are proportionate to the scale of funding and the complexity of outcomes**. Recognise the risks faced by recipients and facilitate the development and testing of more innovative interventions to address recipient countries' climate action priorities. *As a part of the Taskforce's trials in pioneer countries, providers will actively work to balance the scale and risk of potential activities with accreditation and project approval processes.*

18. Use public climate finance to establish or strengthen **an enabling environment to stimulate private flows of climate finance** where appropriate to recipient circumstances.[2]

[2] Phase two of the Taskforce's work will explore expanding the new approach/Principles and Recommendations to private climate finance.

Transparency and Accountability:

Climate finance should be more predictable, transparent and yield measurable progress towards recipient countries' climate capabilities and climate goals.

Improvements in climate finance transparency, particularly with regards to results will provide greater clarity and reassurance to providers and recipients alike, improving confidence, scale, and access.

Providers should:

19. **Improve predictability of funding** to the extent possible by sharing projected levels of public financial resources, as available, consistent with the guidance for the submission of information under Article 9.5 of the Paris Agreement. Where climate commitments are made, providers should make clear, as soon as feasible when and where these are intended to be disbursed.

20. Improve the transparency and accountability of climate finance disbursements to improve trust in the climate finance architecture. Moving towards **more timely, regular, and transparent provision of ex-ante and ex-post data** will also improve visibility and promote coordination and mutual learning. Providers will strive to:

    20.1 Timely and comprehensive reporting under existing arrangements such as the UNFCCC Biennial Reports, the Rio marker system, and the OECD reporting systems.
    20.2 Regularly record activities to the **International Aid Transparency Initiative**.
    20.3 Move towards a more consistent approach in data collection and reporting methods.

Providers and recipients should:

21. Identify shared **monitoring and evaluation plans for programmes and projects tackling climate and development** in partnership with research organisations in recipient countries to enhance the limited evidence base on the impact of climate-related programmes. This could involve developing common approaches, coordinating efforts, and sharing learning on the results and impact. Indicators should be co-designed to support national planning processes and evidence-based policymaking, as well as relevant international processes.

Recipients should:

22. Ensure **independent scrutiny of climate finance and climate-related development public finance** takes place throughout the budget process with civil society, parliamentarians, and audit functions as a part of broader engagement to facilitate meaningful participation by civil society as outlined in Recommendation 6.

Role of the Secretariat and Taskforce members in taking forward the Principles and Recommendations

The Taskforce Steering Committee will continue to operate, with support from its Secretariat, to implement and improve on the approach as set out in the Concept Note and Principles and Recommendations. On an ongoing basis, the Secretariat will:

- Coordinate work across the trials, to support pioneer countries and partner donors that will lead delivery.
- Support providers working with recipient countries to draft or improve a national plan to align climate financing behind, potentially supported by other organisations such as NDC Partnership, including its climate finance taskforce, and NAP Global Network. Build up evidence of what makes a successful national climate plan.
- Convene discussions on mapping, streamlining and standardisation of accreditation and other climate finance access processes, including as part of pioneer country trials.
- Help establish a reporting framework, where possible through existing frameworks, in each pioneer country. Use this to gather information and evidence on progress made during implementation, including by seeking inputs from providers, recipient Governments and wider communities. Report findings regularly to Steering Committee members and Pioneer countries.
- Consider how lessons learned could further improve the Principles and Recommendations and lead to multilateral and bilateral institutional change.
- Work with other recipient countries to share lessons widely, including through regional peer to peer learning, and continue to gather evidence on areas to prioritise for improvement.
- Welcome independent evaluation and scrutiny of the new approach.
- Publicly issue annual reports on progress and findings in applying the Principles and Recommendations, with the first stocktake ahead of COP27. This includes:
    - Annual inputs from providers and recipients regarding progress made on the application and institutionalisation of each of the Recommendations,

    - Using evidence gathered on progress to further improve the Principles and Recommendations and put proposals to the Steering Committee and the wider Climate Development Ministerial (CDM) community for views.

- Set out a clear roadmap for the next phase of implementation of the work of the Taskforce with a focus on refining and driving further implementation of the Recommendations to strengthen access to finance at scale.

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