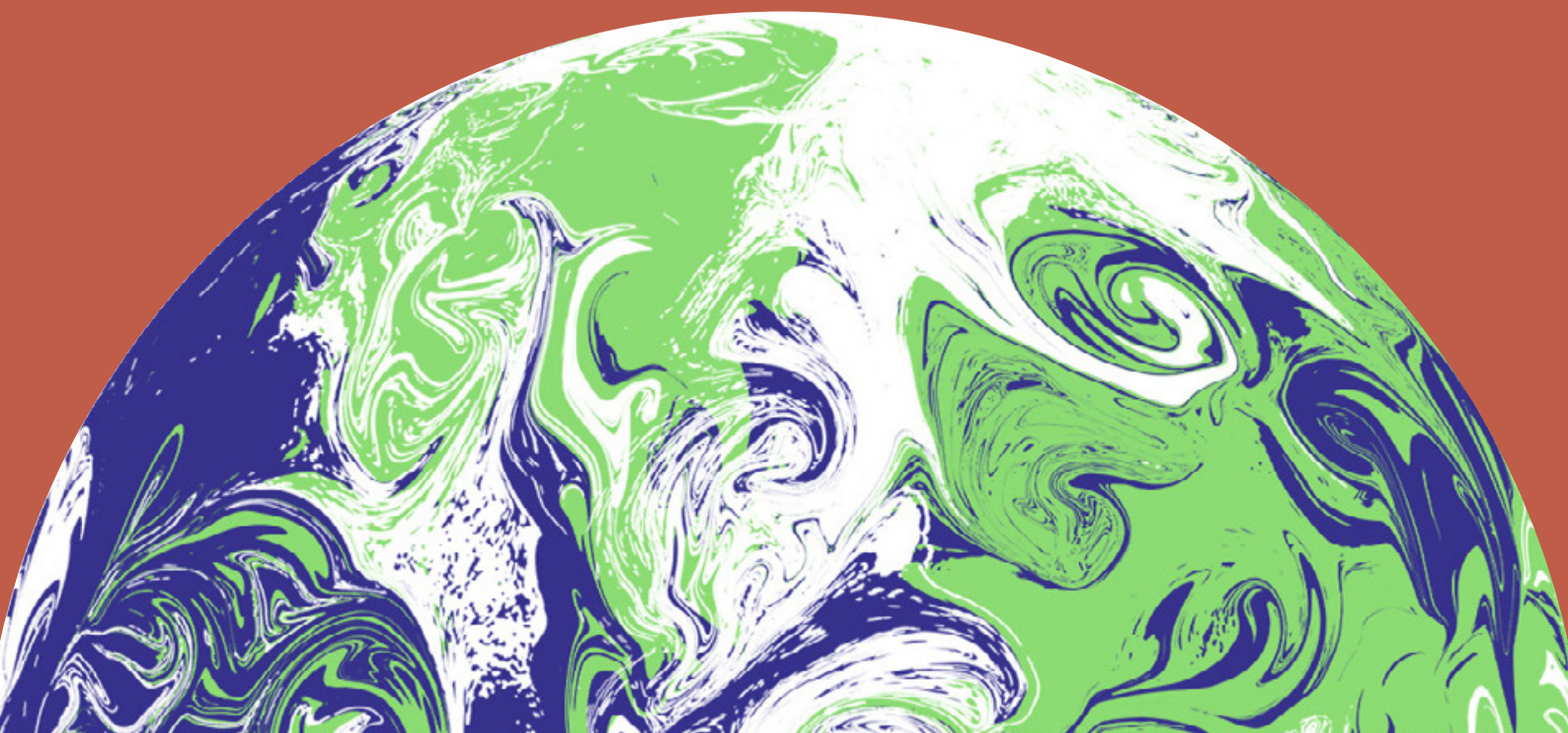


**COP26 CATALYST
FOR CLIMATE
ACTION**

Final Recommendations on
Capacity Building for

Access to Finance



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY



Wilton Park

These recommendations were developed by the COP26 Catalyst Action Group on Capacity Building for Access to Finance, which includes representatives from the countries and organisations shown below.



Government of
Antigua and Barbuda



Government
of Sweden



Government of
the Cook Islands



ADAPTATION FUND

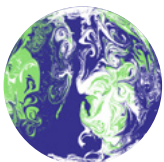


Government of
Bangladesh



**COP26 CATALYST
FOR CLIMATE
ACTION**

**Final recommendations on
Capacity Building for
Access to Finance**



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY



Wilton Park

The Access to Finance Action Group was established in August 2021, as part of the COP26 Presidency's COP Catalyst for Climate Action, which is a convened framework for engagement on capacity building. The Action Group was established to develop proposals for practical solutions and systematic changes to support capacity strengthening for access to finance, building on existing initiatives.

Discussions within the Action Group and with other stakeholders during the Global Gathering and regional climate weeks often came back to the issue of the fragmentation in the current model of international climate finance provision. The wide range of requirements, criteria and processes to access finance from different sources and channels, increases the need to build capacity for developing countries to meet all of them. Therefore, many discussions focused on the need to reduce this fragmentation and move towards a less complex and more harmonised model of climate finance provision, that would reduce capacity-building needs. This points at a strong link between the proposals of the Action Group and the work of the Task Force on Access to Finance and frames the need for simplification of the climate finance architecture as a necessary step in improving capacity-building, by reducing the need for it.

Additionally, beyond simplification of the model of climate finance provision, conversations also focused on the outcomes of the current model. Many stakeholders considered that, by not being flexible enough and adapting to the needs and realities of developing countries, the current model of climate finance provision has been unsuccessful in addressing the needs of the most vulnerable.

Therefore, many have suggested that capacity is also lacking on the side of finance providers to create models and processes that meet the objectives for which they were created. Consequently, the focus of the Action Group's recommendations is on building capacity for both those seeking finance and providers of finance.

Finally, the recommendations have tried to address many challenges to transformative and sustainable capacity building, identified during the different consultations. These have included a focus on the individual level, short term and one-size fits all approaches, and narrowly targeted interventions that only focus on central governments. The Action Group has tried to respond to these challenges by proposing solutions that promote long-term, country-driven, integrated, programmatic and continuous capacity building that builds on existing processes and focuses on the institutional and systemic levels. As such, some recommendations have focused on topics that are not specific to access, but that need to be addressed if access to climate finance is to be improved. A strong focus has been given to addressing the "brain drain" in developing countries, to ensure that capacity is sustainably created and retained.

The Action Group has prepared an initial set of short, medium and long-term recommendations, based on a dialogue that included a range of partners from developing and developed countries, climate funds and Civil Society Organisations. It is important to note that "long-term" in this case needs to be understood in the context of the urgency of climate action and the consensus that we only have this decade to achieve important changes. **Therefore, these recommendations will require accelerated timeframes for their implementation, without compromising their sustainability.** When we talk about the length of a recommendation, we mean the recommendation's implementation period; however, a recommendation's impact must always be considered when planning and implementing these recommendations.

Recommendations for implementation in the short-term

1. Developing guidance for sustainable and transformative capacity building for access to finance

The Access to Finance Action Group recommends the development of guidance, potentially in the form of a checklist, to support the development and implementation of capacity-building initiatives, in a non-prescriptive manner. This guidance would turn the principles for sustainable and transformative capacity building into actionable steps. This document should address both providers and recipients of finance, to identify actions relevant to each. The guidance should also address the whole lifecycle of a climate finance project, as well as the development of relevant national processes, including:

- i. the establishment of whole-of-society approaches and stakeholder engagement processes;
- ii. understanding of finance providers' processes;
- iii. financial and budgetary management, both at the project level as well as national budgets (recommendation 5);
- iv. collection, management and use of climate data;
- v. identification of climate finance needs;
- vi. development of funding proposals;
- vii. monitoring, evaluation and reporting, etc.

There could be an opportunity to explore how this guidance could support and build on the work of the Paris Committee on Capacity-Building (PCCB) and its recently formed PCCB Network. As for their implementation, ensuring buy in from providers and recipients of support will be key, and will require providers and recipients engaging in dialogue to promote change (see recommendation 6).

2. Improving coordination for the implementation of continuous, progressive and iterative capacity-building processes to improve access to finance

Transformative capacity building requires that individual initiatives follow principles such as being driven by countries' needs, and that they are integrated, programmatic and continuous. It also requires that all stakeholders, including recipients and providers of support, coordinate their interventions, to ensure that new initiatives complement or build on existing processes, thus ensuring continuous, progressive and iterative capacity building. This requires coordination between entities providing capacity-building support, as well as between these and developing country governments and within governments themselves.

The Access to Finance Action Group therefore recommends the development of mechanisms to strengthen ongoing coordination at the international and at the national levels, to improve the impacts of capacity-building initiatives in improving access to finance. Opportunities to enhance existing mechanisms should be reviewed.

- i. At the international level, high-level coordination between the different climate funds (i.e. The Green Climate Fund, the Adaptation Fund, etc.) could be strengthened, as well as between them and other bilateral and multilateral providers of capacity-building, like the World Bank and other Multilateral Development Banks (MDBs). Existing initiatives, like the GCF and GEF coordinated engagement, should be reviewed first, to ensure anything created does not become an additional level of bureaucracy and is action-orientated.

- ii. At the national level, recipient governments could establish platforms or strengthen existing platforms to coordinate capacity-building activities, with a focus on building the capacities needed to access finance, with support from international agencies. This would ensure the institutional set-up for coordination of all support received, considering that the topic of access to finance cuts across different ministries, agencies and levels of government. Coordination at national level would also ensure that approaches are tailored to country needs across a range of stakeholder groups.
- iii. Additionally, successful coordination would require establishing interlinkages between the international and national levels, to promote the exchange of knowledge and benefit from each other's experience. This will require regular consultations between national level institutions and the international level, to better understand capacity-building needs for access as well as appropriate approaches.

This recommendation could be added as part of the guidance for sustainable and transformative capacity building, mentioned before. There is scope to consider how this work could build on the PCCB and the PCCB Network of existing initiatives to improve coordination and collaboration, as part of their mandate.

3. Create a mechanism that can identify and match the demand and supply of capacity building

Detailed information on existing capacity building initiatives is not always readily available and widely known to potential recipients. At the same time, information on the existing capacity building needs of developing countries is not always known to potential providers. Therefore, a mechanism that can identify and match the supply and demand of capacity building could help improve the provision of capacity by matching the needs of recipients with the existing offer of capacity from providers, thus improving coordination.

The Access to Finance Action Group recommends the creation of such a mechanism, potentially in the form of a capacity-building hub that triages capacity building and readiness support requests to providers of the needed type of support. This could build on the PCCB's existing Capacity Building Hub.

4. Capacity building for climate mainstreaming in Multilateral Development Banks' activities

Multilateral Development Banks (MDBs) provide billions of dollars in development finance to developing countries, every year. The level of climate finance provided by MDBs has been rising, reaching US\$38 billion of financial commitments to low and middle income countries in 2020¹. Additionally, MDBs have committed to supporting the alignment of financial flows with the objectives of the Paris Agreement, and have started developing methods and tools to this end². MDBs have made progress in these processes, but still have some work to do to mainstream climate into their operations, in line with Article 2.1c of the Paris Agreement.

1. [Link to reference 1](#)

2. [Link to reference 2](#)

Recommendations for implementation in the short-term

To this end, MDBs need to continue their process of climate mainstreaming, to ensure integration of both climate change mitigation and adaptation in the projects and programmes they finance, as well as into all their operations. This will also ensure that more finance for adaptation and mitigation flows to developing countries.

The Access to Finance Action Group therefore recommends promoting climate mainstreaming, through capacity building aimed both at the MDBs themselves, as well as at government agencies in developing countries, and especially National Development Banks (NDBs). This would require MDBs working closely with NDBs and other relevant agencies in developing countries, to promote cross learning for climate mainstreaming.

- i. MDBs could support the development and transfer of the tools and methodologies for climate mainstreaming in development projects, thus building the capacity of NDBs to undertake these;

NDBs and other developing country agencies could support the MDBs in adapting these tools and methodologies to local contexts and developing better approaches to support developing countries, in a manner that accounts for these differences. This would improve MDBs capacity to account for local contexts in their work.

5. Improving mainstreaming of climate change into budgeting and governance processes

Mainstreaming climate change needs to go beyond project finance, to include all national and international flows, in line with Article 2.1c of the Paris Agreement. At the national level, this can be achieved by mainstreaming climate into governments' planning and budgeting processes and governance. Integrating climate action in budget/planning processes can facilitate prioritizing climate action, strategic and programmatic consideration of climate priorities, and thereby access to finance.

The Access to Finance Action Group therefore recommends that climate finance providers strengthen their support to initiatives that seek to mainstream climate into those processes, based on lessons learned and successful experiences, and in close collaboration with national governments. The Helsinki Principles could be a good basis for this work³, which would involve supporting the development of tools, guides and assessments for macroeconomic forecasting and fiscal planning; integration of climate in policy and budget processes (green budgeting, procurement and public investment management); amongst others.

The focus should be on initiatives that build the necessary enabling environments (policies, legal frameworks, review of internal processes, etc.), as well as initiatives that build on these enabling environments to implement new processes, systems, etc., through capacity building. Mainstreaming in this sense should also go beyond improving the use of domestic resources for climate action; it should have a catalytic role in attracting more finance from different sources.

3. [Link to reference 3](#)

At the national level, developing countries could use climate finance cells or coordinating groups, including stakeholders in national and local government and civil society, to incorporate capacity-building needs into wider climate finance planning and develop a strategic vision to plan for the long-term use of climate finance flows. This in turn will strengthen in-country capacity to own and drive access to climate finance according to country needs and priorities.

6. Organisation of a forum for climate and development finance providers

To promote capacity building approaches that are truly transformative and sustainable, there needs to be a shift in the way that capacity building is planned and implemented, not only within the UNFCCC, through its financial mechanism, but including all bilateral and multilateral agencies and initiatives.

The Access to Finance Action Group recommends the organisation of a high-level forum for finance providers on the implementation of Article 9 of the Paris Agreement, and its related capacity-building implications, as a means to start a comprehensive dialogue on aligning the current climate finance architecture with the Paris Agreement. The main objective of such a forum would be to establish a dialogue between providers and recipients of climate finance, to address the fragmentation of the current model of climate finance provision and to reach agreements on how to balance the priorities, objectives and needs of both providers and recipients of finance, and its implications for capacity building. This forum could also be a first step in ensuring buy-in for the implementation of other Action Group recommendations, including the use of guidance to plan and implement better

capacity building initiatives, better coordination between recipients and providers, and amongst providers of capacity-building and finance. Some high-level topics that could be addressed include:

- i.** synergies on how to deliver finance in a more coherent manner;
- ii.** addressing the conventional understating of financing climate finance projects, including the topic of risk and how to use macroeconomic policies to minimize risks;
- iii.** financial instruments for climate change.

The high-level forum would be aimed at decision makers, so would include the governing bodies of all finance providers, and not stop at managerial levels, like Secretariats.

7. Promotion of peer-learning for access to finance

Peer learning can be a successful strategy to build capacity, while avoiding top-down approaches not always adapted to local contexts and needs. Successful communities of practice that strengthen developing countries' capacities to access finance already exist; though often have a relatively narrow focus on specific sources (e.g. the Adaptation Fund's Community of Practice for Direct Access Entities⁴).

The Access to Finance Action Group recommends strengthening existing communities of practice, particularly south-south networks, and expanding their work, including through coordination between them. There could be an opportunity to explore how this recommendation could continue to build on existing peer-to-peer learning initiatives run by the PCCB Network.

4. [Link to reference 4](#)

Recommendations for implementation in the medium to long-term

8. Addressing the “brain drain”

Capacity building sometimes focuses on the individual level, by developing skills through workshops, trainings and other educational programmes. However, in developing countries, an important issue for organisations is the “brain drain”, whereby individuals that have developed their skills leave their organisations, and sometimes their countries, taking their skills and leaving these organisations to start the capacity building process again. In order to ensure that the capacity needed by developing countries to access finance is maintained, it is therefore not enough to focus on building individual skills and capacity. Capacity building initiatives and developing country organisations need to address the “brain drain” through institutional capacity building.

The Access to Finance Action Group therefore recommends that support for developing countries include a stronger focus on the institutional and systemic levels, by

- i. strengthening developing country’s national institutions that can build capacity in a sustainable manner, including universities, research centres and entities dedicated to building capacity for the civil service⁵. Regional training centres could also be contemplated or strengthened, to additionally promote stronger regional ties. Exchange programmes or placements in donor countries’ institutions could be established to create knowledge on the climate finance allocation processes of donors;
- ii. strengthening the organisational capacities institutions to create, retain and transfer the knowledge acquired and created;

- iii. supporting the review of procurement processes and manuals, to ensure the hiring of more national experts when external services are needed ; and
- iv. supporting developing countries in addressing incentives to retain personnel, including salary levels, benefit packages, career development and opportunities, etc.

Support provided for developing countries to review processes should be done in a way that accounts for their specific context and respects each country’s sovereignty. Ensuring buy-in from national governments will be key, for which awareness raising would be a first step.

9. Ensuring access to climate finance for the sub-national level and non-government stakeholders

Climate action is often carried out at the local level, especially for adaptation, and its success often requires participation from local governments as well as non-government stakeholders, including the local private sector, civil society and affected communities. However, in the past, research has found that less than 10% of climate finance committed by international climate funds was prioritised for local-level activities⁶.

The Access to Finance Action Group therefore recommends the inclusion of a focus on the local level in any capacity-building framework and capacity building initiatives aimed at improving access to finance. Capacity building aimed at improving flows to the local level should address all relevant stakeholders:

5. [Link to reference 5a](#); [link to reference 5b](#)

6. [Link to reference 6](#)

- i. Climate finance providers: strengthening their country-ownership approaches to go beyond the national level, and include stronger participation and meaningful consultation with the local level, during the design, implementation and evaluation of climate initiatives. Support the development of tools and approaches to channel project/programme and other finance to the most appropriate level, building on existing models like the Enhancing Direct Access (EDA) pilot of the GCF or other approaches that focus on devolving decision making on funding closer to where the issues are.
- ii. National governments: developing and implementing whole-of-society approaches, and implementing tools and approaches to channel more finance to the local level, including by focusing on creating/strengthening national intermediaries that can access finance and channel it to the most appropriate level and stakeholders.
- iii. Local stakeholders: building their capacities to access and manage finance directly (e.g. project/programme preparation, knowledge of different sources and modalities, skills to manage finance and monitoring, reporting and evaluating). When this is not feasible due to the complexity and high costs of building these capacities, local stakeholder's access to support for accessing finance can be improved through specialised services (provided by local or national governments, CSOs, private sector financial intermediaries, etc.).

Climate finance providers can support the national and local levels, in developing the necessary capacities.

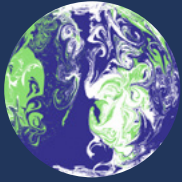
10. Capacity building aimed at climate finance providers

From previous recommendations on developing guidance for supporting sustainable and transformative capacity building, as well as from the potential outcomes of a high-level forum, the Access to Finance Action Group recommends the development of guidance aimed at climate finance providers, to address barriers to access.

To develop this guidance, an identification of funders' capacity gaps would be needed, using the guidance as a basis. Some initial topics that could be included are:

- i. capacity to deliver improved readiness support;
- ii. capacity to develop financing mechanisms that improve access (e.g. direct access and enhanced direct access);
- iii. capacity to improve communication and outreach to developing countries, to better inform them of the available financing windows and access criteria;
- iv. capacity to simplify processes for accessing finance, including faster processing times; and,
- v. improved risk management capacity, to improve access from regions or sectors perceived as high risk.
- vi. capacity to tailor their financial instruments to the needs and realities of developing countries.

This guidance could be broken down by donor type, and should include all multilateral and bilateral sources, whether they are climate specific or not.



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY

COP26 CATALYST FOR CLIMATE ACTION

COP26 Catalyst would like to thank the following members of the Action Group on Access to Finance, who worked throughout 2021 to consult stakeholders around the world in the development of these recommendations:

Sara Ahmed, Climate Vulnerable Forum & V20

Mahbub Alam, Government of Bangladesh

Bertha Argueta, Germanwatch

Mahamat Abakar Assouyouli, Adaptation Fund

Tshewang Dorji, GEF

Samba Fall, West African Alliance on Carbon Markets and Climate Finance

Claire Holzer Fleming, COP26 Unit, UK Cabinet Office

Mattias Frumerie, Government of Sweden

Emana Nsikan-George, Climate Focus

Lorena Gonzalez, World Resource Institute

Tove Gronberg, Government of Sweden

Nancy Lee, Wilton Park

Asad Maken, UNDP

Karl McAlinden, COP26 Unit, UK Cabinet Office

Meera Murali, COP26 Unit, UK Cabinet Office

Kim Obergfaell, Wilton Park

Mikko Ollikainen, Adaptation Fund

Michai Robertson, Government of Antigua and Barbuda

Ousmane Fall Sarr, West African Alliance on Carbon Markets and Climate Finance

Tessa Vaetoru, Government of the Cook Islands

The COP26 Catalyst for Climate Action is supported by the UK's International Climate Fund.



UK Government



Wilton Park