EVIDENCE REPORT

GOOD PRACTICES IN ACCESSING AND DELIVERING ADAPTATION FINANCE TO SUPPORT SMALL ISLAND DEVELOPING STATES AND LEAST DEVELOPED COUNTRIES

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RESEARCH TEAM

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CONTENTS

Introduction

Adaptation finance is central to action on climate change, yet there are continuing problems with ensuring that it reaches the people and places it is needed most. Small Island Developing States (SIDS) and Least Developed Countries (LDCs) are among the world's most climate-vulnerable countries. However, they face challenges not only in securing sufficient financing to address the now-unavoidable impacts of climate change, but also in accessing high-quality, equitable finance that supports their self-determined needs and priorities. Equitable finance,[1] coupled with robust strategy and planning, is crucial to these countries addressing their unique risks and vulnerabilities and implementing effective adaptation strategies, according to their self-determined priorities.

The next two to three years are critical to transforming how adaptation finance is delivered, and it is vital to better understand and learn from current approaches to inform these much-needed changes. In June 2023 the LDC Group on Climate Change, the Alliance of Small Island States (AOSIS) and the Champions Group on Adaptation Finance (CGAF) jointly called for an evidence review of effective adaptation finance practices from the perspective of both the fund provider and recipient — a unique and often missing perspective on what is and is not working across the full finance pipeline. This collaborative approach to drafting this evidence review facilitated dialogue across climate finance providers and recipients, ensuring that both perspectives were equally represented and then united to inform key recommendations. This report draws out key insights and recommendations, based on seven case studies, which have been tested with key decision makers, including those from the LDC Group, AOSIS and CGAF and through processes including the Climate and Development Ministerial, and serves as the first edition in a rolling series documenting successes and lessons learned on climate finance access and delivery. While some of the case studies are still in early stages and have obtained limited hard evidence, initial findings are promising and are thus included in this review.

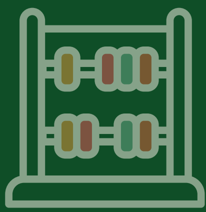
This evidence report is aimed at decision makers and experts across government and non-government sectors who are embedded in climate and nature finance discussions, including those related to the New Collective Quantified Goal (NCQG) on climate finance, and broader finance discussions taking place in 2024 and 2025 at the climate and nature conferences of parties (COP16, COP29 and COP30). Co-ordinated by the International Institute for Environment and Development and in partnership with E3G and SouthSouthNorth, this report is based on more than 12 months of surveys, interviews and analysis with country representatives and experts from the LDC Group, AOSIS and CGAF.

1 The World Bank states that equitable finance "promotes fair and impartial access to financial services and seeks to ensure that the allocation of capital and risk is efficient and equitable."

Key insights | what does the evidence reveal?

The following eight key insights summarise the main findings of this evidence review.

1. ADOPTING PROGRAMMATIC FINANCING AND IMPROVING NATIONAL CO-ORDINATION CAN EFFECTIVELY REDUCE TRANSACTION COSTS

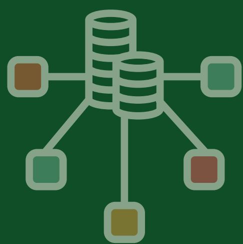


Moving from project-based to programmatic financing enhances the efficiency of climate finance by streamlining delivery, reducing transaction costs, minimising disbursement delays and aligning investments with national priorities such as national adaptation plans (NAPs) and nationally determined contributions (NDCs). Pooling adaptation funds, implementing robust national co-ordination mechanisms through a whole-of-government approach, and ensuring continuity and budgetary support to do so can ensure adequate and predictable financing for SIDS and LDCs.

2. STRENGTHENING AND SUPPORTING COUNTRY-LEVEL PLANNING AND BUDGETING SYSTEMS IMPROVES READINESS TO UTILISE FUNDS EFFECTIVELY

Early investments by finance providers and recipients in strengthening country systems and capacities significantly boost both access to and effectiveness of adaptation finance. Enhancing finance ministries' ability to collaborate across ministries on climate change, integrate climate considerations into risk assessments and move beyond conventional approaches can improve countries' readiness to utilise funds effectively. For true mainstreaming, finance ministries must be central to the process and can help develop 'bankable' projects aligned with nationally determined and owned investment strategies.

3. ACCELERATING EFFORTS TO MOBILISE INNOVATIVE FINANCE FROM ALL SOURCES IS CRUCIAL TO SCALING UP ADAPTATION FINANCE



Mobilising innovative finance mechanisms such as private financing from domestic and international sources, blended financing, and that from non-traditional sources is crucial for scaling up adaptation finance. Public finance alone cannot meet the growing adaptation needs of SIDS and LDCs. Pooling investments helps mitigate risks associated with these approaches. However, focusing excessively on new solutions can undermine effectiveness. Balancing proven methods and domestic expertise with targeted investments can support innovation, enhance resilience and deliver better results.

4. SUBSTANTIALLY IMPROVING TRANSPARENCY AND REPLICABILITY IN CLIMATE FINANCE DELIVERY ENHANCES EFFECTIVENESS AND BUILDS TRUST

Increased transparency in the quantity and quality of climate finance to LDCs and SIDS is essential for building trust, identifying successful approaches and enabling their replication and scaling. Yielding measurable progress towards recipient countries' climate and development goals ensures that resources are used efficiently, outcomes are monitored and commitments are met. This transparency supports systematic learning and the adaptation of best practices across similar contexts and regions.

5. URGENTLY ADDRESSING FINANCE ACCESS AND EQUITY CHALLENGES IS CRUCIAL TO ENSURING FUNDS REACH THE MOST CLIMATE VULNERABLE

The challenge for vulnerable countries is not only the quantity of finance but also the quality of finance delivered and equity in finance distribution. To enhance the quality and equity of adaptation finance, it is crucial to review application procedures from the recipients' perspective rather than imposing rigid processes from those providing the finance. A shared vision and collaborative effort between finance providers and recipients are needed to ensure that funds are designed by and effectively reach the most climate-vulnerable countries and communities.

6. STRENGTHENING PEER-TO-PEER LEARNING AND KNOWLEDGE-SHARING PLATFORMS AT ALL LEVELS BUILDS CAPACITY AND ENHANCES SCALABILITY OF BEST PRACTICES

Strengthening peer-to-peer learning at all levels and providing resources to support people and teams to dedicate time to these processes are both crucial for building capacity and sharing best practices in adaptation finance. These practices can enhance national and regional capacities in SIDS and LDCs, while dedicated staffing ensures that relevant government and other financing entities can fully utilise these opportunities to scale and replicate successful climate adaptation strategies.

7. EXPEDITING THE ENABLING ENVIRONMENT FOR CORPORATE, PRIVATE AND PHILANTHROPIC CONTRIBUTIONS CAN DIVERSIFY ACCESS TO FINANCE

Proactive measures by finance providers to create an enabling environment for corporate and philanthropic contributions can enhance and diversify access to climate finance in vulnerable countries. Effective regulatory frameworks and incentives can further encourage private sector investment in climate resilience. Unlocking the role of domestic and local private entities, such as social enterprises, can support the sustainability of local solutions.

8. SCALING UP FINANCE FOR COUNTRY-LED MECHANISMS THAT DEVOLVE FUNDS ENHANCES EQUALITY AND EQUITY IN FINANCE ACCESS

Scaling up and pooling finance to support country-led delivery mechanisms can channel climate finance directly to local communities and bolster local planning through participatory approaches tailored to local systems. Effectiveness and equity are enhanced when these mechanisms foster mutual trust, accountability, transparency and alignment with national and local priorities, and help to advance the Principles of Locally Led Adaptation.

Recommendations

Outlined below are recommendations for donors or finance providers and recipient countries to help scale up and improve access to adequate and equitable adaptation finance for SIDS and LDCs. These recommendations are based on the evidence set out in the following sections.

Donors/finance providers

1. Deliver more and predictable climate finance from diverse sources into country-owned platforms like national funds to reduce transaction costs, enhance co-ordination, and align with national priorities and plans (for example NAPs and NDCs). This finance should provide immediate, flexible support while balancing short-term and long-term needs. Multilateral funds channelled through multilateral development banks (MDBs) alongside bilateral funds need to increase contributions towards adaptation to meet the growing needs of SIDS and LDCs.

2. Provide long-term support to strengthen policy, planning, budgetary and financial systems in LDCs and SIDS according to their needs, to improve the absorption and equitable delivery of adaptation finance.

3. Streamline application and reporting procedures across all forms of climate finance to expedite disbursement to SIDS and LDCs, ensuring ease for recipients while maintaining trust and accountability, rather than adhering to rigid donor-driven processes.

4. Scale up and deliver larger and more predictable amounts of finance specifically for local action that is aligned to the principles for locally led adaptation,[2] including through country-led mechanisms. For this to succeed, donors need to streamline application processes for local actors, engaging them as leaders in adaptation initiatives, and employing innovative technologies and financing methods tailored to local needs.

5. Minimise the risk to private finance providers by pooling their investment. Novel financing approaches such as national-level private sector investment facilities for green investments are potentially risky, since they do not yet have a proven track record in LDCs and SIDS. By pooling finance, finance providers can demonstrate commitment to the approach, without over-leveraging themselves and risking high losses on their capital investment.

2 https://www.iied.org/principles-for-locally-led-adaptation

Recipient countries

6. Strengthen national capacities including long-term policy, planning, budgetary and regulatory systems to ensure strong country ownership and engagement and support for local-level climate action.

7. Establish robust national funding platforms capable of co-ordinating and accessing diverse sources of climate finance, supported by capacity building and training to help local institutions manage and understand climate financing and reporting requirements.

8. Support piloting innovative approaches to scale up national adaptation finance, reducing access times, lowering transaction costs, simplifying compliance and enabling direct financial flows to vulnerable communities.

9. Strengthen the capacity of all line ministries, especially finance ministries, to integrate climate considerations into risk assessments and move beyond conventional approaches. By centralising finance ministries within the process, countries can better utilise funds and develop 'bankable' projects aligned with national investment strategies.

10. Create an enabling environment for businesses, investors and philanthropists to contribute towards the cost of adaptation in developing countries. This can be achieved by adapting future regulations to facilitate investments and encouraging a balanced approach to both adaptation and mitigation, by clearly defining national adaptation needs and providing an institutional mechanism to issue letters of approval for adaptation projects while removing unnecessary bureaucratic barriers that may exist.

Both donors/finance providers and recipients

11. Early investments in national institutions are needed to support the strengthening of country systems and capacities to improve access. For example, investing in public financial management (PFM) systems can demonstrate a country's readiness for more funding in the future.

12. Establish peer-to-peer learning platforms for learning at all levels (national, regional and international) to improve transparency, scalability and replication of successful adaptation finance practices.

13. Explore and agree on mechanisms to attract innovative and blended financing to stimulate domestic enterprises, including debt swaps, and enhance adaptation finance delivery. LDCs and SIDS with strong private sectors, national climate funds and development finance institutions (DFIs) could explore green financing facilities.

14. Create incentives, such as progressive tax policies and patient finance structures, to build resilient local enterprises, attracting private investment in adaptation while easing loan burdens on LDCs and SIDS.

15. Build evidence to demonstrate the viability of private finance facilities for adaptation, particularly in LDCs and SIDS, addressing the challenge of finding suitable business models for private investors to be able to make a financial return on adaptation investments.

WHAT MAKES FOR 'GOOD' ADAPTATION FINANCE PRACTICE?

Through the evidence review process, ten innovative design features have been identified as 'good practice'. These innovations encompass efforts by both finance providers and recipient countries to improve adaptation finance delivery. Reflecting the complexity of adaptation finance, it's important to note that this list is neither prescriptive nor exhaustive, and the features often overlap and complement each other. Not all features must be present for effectiveness, and none is inherently more important than another. Adaptation finance initiatives may incorporate multiple design features, offering finance providers various options for structuring financial allocations, and designing specific investments in collaboration with recipients to maximise impact and meet their needs and capacities.

It is crucial to note that while there is no one-size-fits-all solution for adaptation finance, because effectiveness, efficiency and equity in climate finance is country and context dependent. The insights from this paper are broadly applicable to many contexts in SIDS and LDCs, including fragile and conflict-affected states (FCS). The following sections explore the design features in more detail with examples of existing initiatives making progress in these areas in SIDS and LDCs.

Figure 1. Ten 'good practice' design features that may help scale up and enhance adaptation finance delivery

INNOVATIVE DESIGN FEATURES

1. *Programmatic financing through country platforms*

This approach involves shifting from traditional project-based financing to long-term planning, with cross-government and cohesive planning to support multiple investments under a single finance package. It includes budgetary support, financing for climate policies, backing national delivery mechanisms aligned with shared climate and development visions, and the funding of large-scale adaptation programmes. The goal is to elevate the ambition and scale of adaptation finance to align with a country's broader goals and priorities.

New Zealand's country flexible financing (CFF) modality is a good example of this programmatic approach. New Zealand's CFF directly finances five Pacific SIDS to implement their national climate strategies autonomously. This represents a departure from traditional climate investment, where donors typically fund projects designed by multilateral development banks or international non-governmental organisations (NGOs). CFF enables recipient countries to shape investment priorities while receiving donor support for strategy implementation.

Box 1.1. New Zealand's country flexible finance (CFF) approach

New Zealand introduced the CFF mechanism in 2022 under its new International Climate Finance Strategy — Tuia te Waka a Kiwa. New Zealand's CFF approach aims to support scaled-up climate action by providing SIDS in the Pacific with direct financing and greater autonomy to use these financial resources to deliver on national climate change priorities. The implementation of CFF is country-led and tailored to each nation's specific context and readiness level. Five countries — Samoa, Fiji, Cook Islands, Tonga and Vanuatu — have been selected for direct CFF based on the readiness of their financial management systems.

GOOD PRACTICES AND LESSONS LEARNT

- CFF responds to Pacific countries' requests to have **more predictable and flexible climate finance and greater autonomy over how they use climate finance to meet their priorities**. It moves beyond providing project funding to use a mechanism that utilises a partner government's systems to plan, deliver and report on funding, and align the provision of climate finance more closely to a partner's implementation pipeline.
- CFF **strengthens Pacific SIDS' public financial management (PFM) systems**, enhancing their ability to access and manage climate finance. A second component of CFF is the Climate Finance Capacity Support Programme (CFCSP) which works to improve national planning.
- This modality **facilitates the channelling of finance through unique institutional arrangements within each country**. For example, New Zealand funds Tonga through the Tonga National Climate Trust Fund, managed by the Department of Climate Change within the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC).
- CFF offers **built-in flexibility, enabling donors such as New Zealand to scale up financial contributions aligned with country strategies rather than specific projects**. It encourages the pooling of resources among donors to fund larger, longer-term investments beneficial for achieving NDC and NAP objectives.

- Although this modality is promising, **funders face delivery risks due to capacity constraints in LDCs and SIDS, which may hinder their ability to absorb the finance.** Administrations in SIDS and LDCs are small, with significant time and capacity constraints on human resources. CFCSP works to address these risks by supporting Pacific countries to access personnel and other support to scale up delivery of their climate change priorities. The programme operates in 15 Pacific countries and territories and is responsive to the unique needs and priorities of these countries.

Rwanda's green investment facility, Ireme Invest (see Box 9.2), Antigua and Barbuda's Sustainable Island Resource Framework Fund (SIRF Fund) (see Box 4.1), the LDC Initiative for Effective Adaptation and Resilience (LIFE-AR) (see Box 3.1) and the efforts of the Taskforce on Access to Climate Finance (see Box 2.1) are some other examples of programmatic financing.

2. *Pooled financing*

Pooled financing involves investments from multiple finance providers contributing to a single programme, policy or adaptation finance delivery mechanism in recipient countries at the national level. This approach can significantly increase the volume of available finance, support larger or long-term adaptation projects, reduce transaction costs for recipient countries and help direct finance to better meet the needs and priorities of said countries. However, challenges include aligning different institutional financing priorities, navigating political or financing cycles, integrating reporting systems, and enhancing inter-agency co-ordination, all of which can hinder pooled financing efforts.

Several case studies illustrate effective pooled financing, including the Task Force on Access to Climate Finance investments in Bangladesh, Fiji, Jamaica, Mauritius, Rwanda and Uganda (see Box 2.1). Another successful example is Rwanda's private sector green finance facility, Ireme Invest, which is capitalised by multilateral and bilateral donors[3] and jointly managed by the Rwanda Green Fund (FONERWA) and Development Bank of Rwanda (BRD) (see Box 9.2). Moreover, the Kathmandu Declaration on Green, Resilient, Inclusive Development (GRID) is an emerging and promising initiative led by the Government of Nepal in collaboration with a diverse group of development partners[4] that aims to pool an estimated US$7.4 billion to channel climate finance towards national priority areas to support a more sustainable, efficient, resilient and inclusive development pathway for Nepal. As the initiative matures, it is likely to offer valuable lessons for future efforts in enhancing access and delivery of adaptation finance for other similar contexts.

3 The International Monetary Fund (IMF), the European Investment Bank, Agence Française de Développement, the International Finance Corporation, and the governments of Sweden, Germany, Denmark and the United Kingdom.

4 The Asian Development Bank (ADB), the Association of International NGOs, Australia, the European Union, Finland, France, Germany, the International Centre for Integrated Mountain Development, the IMF, Norway, the Republic of Korea, Switzerland, the United Kingdom, the United Nations, the United States of America and the World Bank Group.

Box 2.1. Taskforce on access to climate finance

The Taskforce on Access to Climate Finance was convened by the UK COP26 Presidency in 2021, in response to calls by developing countries stating that the existing global climate finance architecture needed reforming. Hence, this taskforce aims to transform the delivery of climate finance to developing countries, including LDCs and SIDS. The taskforce is based on five principles: 1) country ownership, 2) harmonisation of processes and alignment of finance, 3) responsiveness to country needs and climate vulnerability, 4) flexibility and innovation and 5) transparency and accountability. The taskforce operates under the guidance of a steering committee co-chaired by Rwanda (formerly Fiji) and the United Kingdom, comprising representatives from climate-vulnerable nations, bilateral and multilateral finance providers, dedicated funders, and other relevant organisations. The taskforce's main workstream involves partnering with an initial five countries — Bangladesh, Fiji, Jamaica, Rwanda and Uganda — and an anchor donor to trial a new climate financing approach that aligns with national climate plans and strategies. Examples include:

Bangladesh: The UK as the anchor donor is exploring a whole-of-government approach to developing a pipeline of climate projects with an integrated financing strategy, as well as a project preparation facility to improve finance investment in adaptation initiatives.

Fiji: The UK as the anchor donor is supporting Fiji in operationalising its NAP and ocean policy through a programmatic approach, aiming to increase private sector investment and pilot green and blue bonds. Fiji also seeks to share lessons and build regional capacity through peer learning with other Pacific Island countries.

Jamaica: The US and UK, as anchor donors, are exploring a programmatic approach to financing Jamaica's climate plans, potentially establishing a climate finance hub that includes a project preparation facility and green finance facility to specifically target resilient infrastructure projects.

Rwanda: Germany and Sweden, as anchor donors, are supporting Rwanda's Green Fund to develop a pipeline of climate investments through a programmatic approach.

Uganda: The UK, as anchor donor, has established a climate finance unit within the Ministry of Finance, Planning and Economic Development in Uganda to track climate budgets and explore innovative financing for blending public and private climate finance.

In addition to these five initial countries, the taskforce has started scoping work in Mauritius to enhance public financial management systems and introduce innovative financial instruments such as disaster risk financing and climate-resilient debt clauses.

GOOD PRACTICES AND LESSONS LEARNT

- The taskforce **demonstrates a new approach that addresses the underlying challenges LDCs and SIDS face in accessing climate finance** — including fragmented financing, a project-based approach to finance delivery and investment priorities being set by finance providers rather than recipients — by adopting a programmatic approach, departing from traditional project-based climate financing.
- Finance providers like development finance institutions (DFIs) and bilateral donors **can learn from the taskforce's programmatic approach to deliver finance in alignment with national government priorities.**
- Rather than creating new programmes and initiatives, the taskforce **channels financial resources towards initiatives owned and tailored to a country's context**, which are then prioritised by the recipient countries.
- Yet, there exist **several broader systematic barriers that hinder access to adaptation finance in SIDS and LDCs that the taskforce could address through its partnership with finance providers and recipients**. These include (but are not limited to) developing core definitions of climate finance, working with climate funds to develop shared accreditation processes for international climate funds, simplifying direct and enhanced direct access financing modalities, and simplifying and streamlining climate finance reporting procedures.

3. National delivery mechanisms for local action

National delivery mechanisms are transparent and accountable governance, management and financial arrangements that facilitate local adaptation, either by helping local actors prioritise adaptation actions or by channelling flexible finance into local actors' hands for their own adaptation investments.[5] Such mechanisms must aim to strengthen national systems and support government-led delivery mechanisms to build a track record of making tangible adaptation investments. Over time, these systems can be used to address adaptation investment needs and to deliver finance smoothly to the local level via national budgeting and co-ordinated international financing.

One example of a public delivery mechanism is channelling climate finance through existing national social protection systems. These systems already target the most vulnerable in society, including the poorest, the elderly and children through public works, employment guarantee schemes, pensions and school feeding programmes. Another example is building on national decentralised planning systems, to work with local authorities and local communities to create integrated management approaches to building climate resilience. The LIFE-AR approach in Bhutan, Burkina Faso, Ethiopia, The Gambia, Malawi, Uganda, Nepal, Benin, Madagascar and Senegal seeks to strengthen country-owned systems, institutions and capabilities for the long-term and sustainable delivery of climate finance for adaptation to the local level. This case study is detailed in Box 3.1 below.

Box 3.1. LDC Initiative for Effective Adaptation and Resilience (LIFE-AR)

LIFE-AR is one of three initiatives led by the LDC Group to actualise the LDC 2050 Vision: for all LDCs to be on climate-resilient development pathways by 2030 and to deliver net zero emissions by 2050, supported by long-term predictable financing. LIFE-AR supports participating LDCs to strengthen their national and sub-national delivery mechanisms to align with the LDC Vision offers, particularly the investment of at least 70% of climate finance behind community priorities for climate-resilience-building activities.

LIFE-AR frontrunner countries — Bhutan, Burkina Faso, Ethiopia, The Gambia, Malawi, and Uganda — are setting up governance platforms using a whole-of-government and whole-of-society approach, in alignment with NAPs and NDCs, to identify and strengthen existing local delivery mechanisms in line with the LDC Vision offers. This includes local government planning and public financial management systems — the systems that provide funds to local government to facilitate local development.

LIFE-AR frontrunner countries have established decentralised whole-of-society adaptation and resilience approaches, with communities prioritising activities to be implemented. Within the 'test and evolve' phase of the initiative, the innovations introduced to strengthen national and local institutions and the systems in place to channel climate finance to local priorities (through countries' climate finance delivery mechanisms) will be assessed and adapted as necessary prior to their wider scale out. A second wave of countries — Benin, Madagascar, Nepal and Senegal — officially signed up for LIFE-AR at COP28. They will be supported to review and strengthen their institutions, systems and capabilities, drawing on the lessons from the frontrunner countries on how to effectively develop long-term adaptation finance delivery mechanisms in their own countries.

5 https://www.iied.org/sites/default/files/pdfs/migrate/17749IIED.pdf

Specific examples of country-led delivery mechanism trials:

- The Government of **Uganda** is in the process of establishing a performance-based devolved climate fund mechanism at district level.
- **Burkina Faso** has introduced innovations to their local government development planning and budgeting systems to ensure the integration of climate information and community adaptation priorities.
- The Government of **Bhutan** is being supported to strengthen its development planning and budgeting process to adopt a river-basin catchment approach to channel and deliver climate financing and gradually increase its own financing and management to become self-sufficient.

GOOD PRACTICES AND LESSONS LEARNT

- LIFE-AR's ten-year strategy helps **shift thinking from short-term projects to longer-term programmes**. This approach has brought development partners together to collectively support a single strategy with a single reporting framework, reducing the reporting burden. LDCs and development partners feed into the reporting, to capture joint efforts to achieve a shared LDC vision.
- LIFE-AR is designed to strengthen in-country institutions, systems and capabilities that **empower communities by involving them in decision making for adaptation and resilience investments**. It supports national delivery mechanisms to channel finance to local levels, and strengthen governance arrangements for its allocation, ensuring investments align with local needs and systems.
- LIFE-AR is designed to **channel climate finance directly to the local level through country-specific mechanisms**. This approach aligns local adaptation actions with national development plans, NAPs and NDCs, providing proof of concept for locally led adaptation principles[6] while delivering the LDC 2050 Vision.
- LIFE-AR is seeking to trial 'business-as-unusual' practices and is **inviting development partners and climate funds to simplify donor financial reporting**, through the agreement of standard reporting protocols.
- **Establishing co-ordinated approaches and delivery mechanisms for adaptation finance to reach the local level requires significant co-operation, collaboration and capacity building.** A key lesson from LIFE-AR's implementation in the six frontrunner countries is that setting up effective institutions at national and sub-national levels is complex and time-consuming. In the past this has been seen as simply an environmental ministry issue, but this cross-cutting challenge requires involvement from multiple ministries and stakeholders.
- While LIFE-AR promises countries long-term, predictable and pooled adaptation funding, frontrunner countries report falling short of their financial needs. Donors have committed to supporting the initiative until 2028, aiding long-term planning, but the **current funds are insufficient to sustain momentum**.

6 https://www.iied.org/sites/default/files/pdfs/migrate/17749IIED.pdf

4. Channelling finance through established national climate funds

Many countries including SIDS and LDCs have established national climate funds as components of their climate strategies and sustainable development plans. These funds, encompassing climate funds, trust funds and pooled funds, serve as critical mechanisms for directing finance toward the achievement of national climate objectives. In LDCs and SIDS, these funds are crucial in co-ordinating and delivering financial support aligned with national priorities for climate action and sustainable development.

The Sustainable Island Resources Framework Fund (SIRF Fund) (see Box 4.1, below), established by Antigua and Barbuda, is an illustrative example of a national climate fund that channels climate finance accessed through multiple donors and domestic resources to pool funds (see also the section on pooled financing on page 11). Similarly, as also highlighted in the pooled financing section, Rwanda has built on a decade of success delivering projects through its national climate fund with its green finance facility, Ireme Invest (see Box 9.2). In Rwanda, this signifies the evolution of national climate funds from entities that primarily deliver finance through grants to entities with greater maturity capable of using more complex financing structures for green investment.

Box 4.1. Antigua and Barbuda's Sustainable Island Resources Framework Fund (SIRF Fund)

The SIRF Fund, established in 2019, is the national climate fund of the Government of Antigua and Barbuda. The fund can access finance from a variety of different public and private sources and use both conventional and innovative financial instruments — including grants, concessional loans, debt-for-nature swaps, equity and insurance — to make climate-related investments in Antigua and Barbuda that align with national climate priorities. The fund plays an integral role with international climate institutions, holding direct access accreditation to the Adaptation Fund (AF) and the Green Climate Fund (GCF) as a National Implementing Entity.

GOOD PRACTICES AND LESSONS LEARNT

- Designed to **align with national climate policies** such as NDCs, the SIRF Fund plays a crucial role in advancing climate targets and integrating climate considerations across all sectors.
- The SIRF Fund **pools finance from both domestic and international sources to support national priorities**. It has received capital from international climate finance sources including the GCF, the AF, and Global Environmental Facility's (GEF) Special Climate Change Fund, as well as bilateral funds from countries like UAE and China. The fund actively seeks additional financing from international and bilateral partners, while **also leveraging domestic sources** such as national park fees, pollution charges, carbon credits, taxes, environmental levies and fees.
- The SIRF Fund **employs a variety of financial instruments** to achieve Antigua and Barbuda's climate objectives. These include grants, highly concessional (low-interest) loans, debt-for-nature swaps, equities, and insurance. While grants and loans have been primary so far, the fund plans to expand its use of other instruments in the future, enhancing its capacity to support sustainable development through innovative financing mechanisms.
- However, **capacity constraints hinder the rapid operationalisation of the fund.** The initial operationalisation of the SIRF Fund was challenged by a shortage of experienced and well-trained staff, as well as limited overhead resources due to inadequate funding.

- Despite years of working towards establishing the SIRF Fund, the Government of Antigua and Barbuda estimates that **capitalisation is nowhere close to meeting their growing adaptation needs.** There is a **significant financing gap still that is not being met by international donors**.
- The **lack of harmonisation of reporting mechanisms between international funding entities is another challenge that exacerbates existing capacity constraints** within the SIRF Fund. For instance, the fund has received financial contributions from three multilateral entities (Adaptation Fund, GEF and GCF), each of which has a distinct application process, different reporting procedures, and different approval processes — none of which are aligned. This has placed an excessive burden on the already capacity-constrained and overworked staff at the fund's secretariat.

5. Strengthening public financial management (PFM) systems

Many countries need enhancements to their PFM systems to access and distribute climate finance effectively. As a precursor, or in conjunction with the provision of funds, finance providers can provide technical and financial support to strengthen national PFM systems through monitoring and evaluation procedures, governance and financial reporting.

As described in Box 1.1, in addition to providing direct finance to five countries through its CFF approach, New Zealand is working with ten more Pacific SIDS using the same approach to strengthen their public finance management systems so they can better absorb international climate finance into national government accounts, allocate and tag the finance for specific investments and deliver it through government systems, instead of processing it through individual projects. The approach also supports strengthening national planning, sectoral planning, investment planning, investment proposals and supplementation of specialist skills (for example procurement, monitoring and reporting) to address capacity constraints in the governments of Pacific SIDS.

Similarly, LIFE-AR (as detailed in Box 3.1) is working with six countries to establish national adaptation finance delivery mechanisms that aim to channel finance to local levels based on a broad consensus of how and where to prioritise adaptation finance.[7] The precise mechanism differs in each country. In Bhutan, for instance, the government is being supported in using its development planning and budgeting process to channel and deliver climate financing, and gradually increase its own financing and management in order to become fully self-sufficient. In Nepal, government policy mandates that 80% of adaptation finance reaches the local level, and donor projects such as Nepal Climate Change Support Programme (NCCSP)[8] and Climate Change Adaptation for Food Security in Karnali (CAFS Karnali)[9] comply with this, achieving more than 78% allocation to local initiatives.

7 https://www.ldc-climate.org/wp-content/uploads/2019/09/2050-Vision.pdf

8 NCCSP is a government-led programme to support adaptation planning and implementation at the local level, working in 14 highly climate-vulnerable districts.

9 A four-year project implemented by World Food Programme (WFP) Nepal with finance from the Adaptation Fund to strengthen local capacity to identify climate risks and design adaptive strategies, diversify livelihoods and strengthen food security for climate-vulnerable poor households in target areas.

6. Simplified and streamlined adaptation finance for national governments

Accessing finance often requires substantial time, finance and human resources from recipient countries, co-ordinating with finance providers, completing funding applications and fulfilling finance compliance procedures. Finance providers can reduce transaction costs by expediting the approval to disbursement process, streamlining and simplifying application procedures for LDCs and SIDS, and channelling finance directly through the preferred climate finance delivery mechanisms of these countries.

The CFF case study elaborated in Box 1.1 provides several good practices in streamlining adaptation finance provision to national governments. The disbursement model of CFF allows finance to be channelled through existing institutional arrangements and systems unique to each country. For example, New Zealand is providing finance to Tonga through the Tonga National Climate Trust Fund, a national entity created by parliament and managed by the Department of Climate Change within the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC) to channel finance to different actors — communities, NGOs and government ministries — depending on the size and scope of the investment.

7. Simplified and harmonised reporting procedures

LDCs and SIDS struggle with finance access due to extensive donor reporting requirements that overburden their already stretched human resources. Simplifying reporting with shorter, less frequent and harmonised formats and timelines while keeping the recipient at the heart of the process, rather than forcing rigid donor requirements, can ease access to adaptation finance.

The LIFE-AR case study (see Box 3.1) shows how the model, which pools donor finance behind a single national delivery mechanism, has been used to trial common approaches to reporting procedures. Most donors and recipient countries have agreed on a standard, unified reporting format that is submitted to all donors, which involves tracking finance (quarterly) and creating narrative reports on progress (twice per year). Outlier donors are expected to use their commitment to the Partnership Compact to pursue changes in protocol domestically to align with the LDC Vision. At the same time, standard operating procedures have been established to govern the whole initiative, to which all donors contributing to the initiatives have agreed to and to which it is expected that new donors will also adhere.

8. Simplified and quicker access for sub-national actors

Most public climate finance is channelled through national governments, which have many competing adaptation priorities. While supporting national governments is critical, ensuring that adaptation finance flows to the local level is of paramount importance. Many finance providers have localisation policies for their broader development assistance. These should also be applied to climate finance to help ensure adaptation actions are locally led and context appropriate. Providers can do this by improving access for these groups by enhancing finance availability at the sub-national level, streamlining application processes for local actors, engaging them as leaders in adaptation initiatives, and employing innovative technologies and financing methods tailored to local needs. One example of this is provider support for the LIFE-AR initiative, which is predicated on the delivery of locally led and contextually appropriate finance at the sub-national level, and disrupts the power structure of the usual donor-recipient relationship. However, as demonstrated by the LoGIC case, such efforts require strong national ownership to effectively channel finance to the local level.

For example, the SIRF Fund in Antigua and Barbuda (see Box 4.1) has accessed finance from the GCF using the enhanced direct access modality and channelled finance to vulnerable households and small businesses, which are considered high risk and would not typically be able to access loans from banks or co-operatives. This funding is provided in the form of revolving concessional loans to implement adaptation measures to ensure buildings are more climate resilient. The SIRF Fund also promotes gender equality in its financial disbursement, ensuring 50% of loans are awarded to female-headed households and that disabled people, elderly people and youth are included. This includes specific funding for single mothers through a special lending programme with flexible repayment options. Similarly, the Local Government Initiative on Climate (LoGIC), based in Bangladesh, is another good example of successful decentralisation of finance for adaptation, which has a dedicated resource — the Climate Resilience Fund — that is mobilised for the most vulnerable households. This initiative is embedded within the Government of Bangladesh and is owned and led by the Ministry of Local Government. Evidence indicates that funds from this project have reached very remote and isolated vulnerable localities in Bangladesh such as Bola and Kurigram. The programme has also demonstrated significant economic transformation, fostering new economic activities within these communities.

Furthermore, the LIFE-AR initiative (see Box 3.1) aims to channel finance to the local level through a co-ordinated national and sub-national approach that is unique and applicable to each country. Some of the national delivery mechanisms through which finance could be channelled that could be tested through LIFE-AR include social protection systems and MSME support facilities, though the first cohort of participating countries all chose to use their decentralised planning systems. However, significant work is yet required to institutionalise LIFE-AR approaches by building institutional capacity in national and sub-national institutions to access and absorb funds.

The case study 'Unblocked Cash' (see Box 8.1, below) is a unique example of how innovative blockchain platforms have been used to rapidly disburse finance in the form of cash vouchers directly to disaster-affected communities in Vanuatu to help promote short-term coping and disaster recovery. However, other emerging innovative technological solutions also show promise and should be further studied, scaled up and integrated across geographies and sectors.

Box 8.1. The Unblocked Cash transfer pilot in Vanuatu

In 2019, Vanuatu piloted the 'Unblocked Cash' project, a blockchain-based cash and voucher assistance (CVA) programme aimed at enhancing resilience to climatic disasters. This innovative approach utilised distributed ledger technology (DLT) to transfer funds directly to disaster-affected individuals in vulnerable communities. Instead of traditional aid in the form of food supplies or vouchers chosen by the government, recipients were issued 'tap and pay' cards equipped with near-field communication (NFC) technology which allowed the system to cope with poor connectivity. This card was then processed by selected businesses and service providers using a smartphone app to receive payment directly to their bank account.

GOOD PRACTICES AND LESSONS LEARNT

- The Unblocked Cash initiative provided **direct support to the most vulnerable** disaster-affected individuals ensuring that marginalised groups such as single mothers, widows, people with disabilities and LGBTQ+ community members were prioritised.
- It empowered recipients to make choices that best suited their recovery needs by allowing them to purchase supplies from local vendors. This approach **strengthened local economies, fostered a sense of ownership** and promoted self-determination.

- Blockchain technology played a crucial role in **enhancing transparency and traceability in financial flows and accelerating delivery compared to traditional CVA methods**, by addressing challenges like high transfer costs, slow distribution, and payment reconciliation delays, leading to reduced operational costs for donors and timely support for disaster-affected people.
- While initially focused on short-term recovery, the use of blockchain allowed the Vanuatu government to **monitor evolving priorities and long-term adaptation needs in remote communities.** Real-time transaction tracking highlighted household priorities during a crisis (ie investments in agricultural tools to enhance food security). This enabled Vanuatu to re-evaluate and prioritise activities crucial for community resilience and recovery.
- However, an intervention that relies so heavily on technologies may not be appropriate for all members of a community, and special considerations need to be made so that specific vulnerable groups are not left behind from receiving post-disaster financial assistance. **Careful planning and engagement with communities to support financial literacy and troubleshooting ongoing challenges** with such new technologies will be required.

9. *Diversifying finance through private sector delivery*

Adaptation finance has traditionally relied on grants and concessional loans from public sources such as bilateral donors, climate funds, multilateral development banks and philanthropic organisations. These funds have never been sufficient to meet adaptation needs. As climate impacts worsen, public sources alone are unlikely ever to meet growing adaptation needs. The Adaptation Gap Report 2023[10] estimates that even with commitments to double adaptation finance by 2025 and ongoing deliberations on the New Collective Quantified Goal (NCQG), increases in international public finance will likely close only 5 to 10% of the existing gap. In this context, there is increasing recognition within the international climate finance community of the need to diversify funding sources, particularly by leveraging public finance to stimulate private sector investment in adaptation. While progress in this area has been gradual, several initiatives are now pioneering blended approaches to adaptation finance, being mindful not to worsen the debt burden of LDCs and SIDS. Examples include debt and equity financing, supporting national and local enterprises, investing in new adaptation technologies, and exploring innovative financial methods like blockchain (see Box 8.1) and digital payments.

10 https://www.unep.org/resources/adaptation-gap-report-2023

Two notable examples illustrate different approaches to diversifying adaptation finance through private sectors in SIDS and LDCs. The Acumen Resilience in Agriculture Fund (ARAF) (see Box 9.1, below) uses public finance to stimulate domestic enterprise and promote economic resilience for smallholder farmers. It pools funding from multiple donors to make debt and equity investments in agribusinesses that provide climate-resilient products and services in Ghana, Kenya, Nigeria and Uganda. Rwanda's Ireme Invest Fund (see Box 9.2) has launched a very different approach to using public finance to leverage private sector investment. This investment facility uses its own capital to provide concessional loans and equity, encouraging other private actors to co-invest in large-scale green investments in Rwanda.

Box 9.1. Acumen Resilience Agriculture Fund (ARAF)

ARAF is an innovative US$58 million impact fund aimed at enhancing the climate resilience of smallholder farmers in Ghana, Kenya, Nigeria and Uganda. ARAF utilises debt and equity instruments to strengthen climate adaptation efforts within the agriculture sector, setting itself apart from traditional development finance practices that rely solely on grant funding. ARAF strategically invests in early and early-growth stage agribusinesses across Africa that provide essential products and services to smallholder farmers. ARAF employs a hybrid financial approach, offering both debt and equity investments to early-stage and maturing agribusinesses. The goal of ARAF fund is to ensure that the private companies it invests in can become both commercially viable, with a scalable business model, and that it can help address agricultural value chain challenges such as high livestock mortality rates, low crop yields, post-harvest losses, low access to inputs and low market access.

GOOD PRACTICES AND LESSONS LEARNT

- ARAF is a good example of a private sector adaptation financing modality that can be replicated in other similar contexts. This initiative **provides proof of concept of an innovative private equity business model** that helps address the pressing need for increased private sector finance to support adaptation efforts in developing countries.
- While ARAF focuses on the agriculture sector, further examples of equity investment to support adaptation and resilience in other sectors could **strengthen the proof of concept for this innovative modality to get a more comprehensive understanding of how equity investment can support adaptation efforts** beyond agriculture.
- ARAF **operates on a patient capital approach, recognising the necessity of sustained investment over extended periods** to achieve substantial impact. With a 12-year investment horizon and plans to support agribusinesses for five to seven years, ARAF provides the long-term financial backing necessary for businesses to mature and scale their operations effectively.
- In addition to equity investments, ARAF **supplements its financial support with a dedicated technical assistance facility** (TAF) which provides grant finance to investees, alongside equity stakes, to enhance their capacity to deliver resilience-building initiatives. This includes funding for training programmes, extension services for smallholders, and improvements in internal systems and processes.
- **ARAF strategically invests in aggregator platforms — businesses that bundle multiple products and services together to offer holistic solutions** aimed at strengthening the resilience of smallholder farmers.

Box 9.2. Rwanda's green investment facility — Ireme Invest

Ireme Invest is an innovative financing facility leading the way in demonstrating that LDCs can spearhead efforts to mobilise private finance for green investment. The fund collaborates closely with the private sector to promote green investment to enhance the country's response to climate change. Ireme Invest is made up of two main components: a project preparation facility (PPF) and a credit facility. The PPF advances projects from feasibility to bankability by providing grants and equity to eligible early-stage investments. The credit facility offers loans and credit guarantees to green investment projects. Loans are offered at an interest rate of 12% for a tenor of up to 12 years and a possibility of a two-year grace period.

GOOD PRACTICES AND LESSONS LEARNT

- Ireme Invest is jointly managed by Rwanda's Fund for Environment and Natural Resources (FONERWA) and the Development Bank of Rwanda (BRD), acting as a **one-stop shop for private sector investment and serving as an integrated platform for project developers at different stages of investment readiness.** This allows eligible projects to receive support from early feasibility stage, moving them towards bankability, financing and implementation, with financial and technical support tailored to the different stages of the project cycle.
- Ireme Invest's **capitalisation strategy extends beyond international funding**. Rwanda has contributed its own financial resources with a US$22 million contribution from BRD, demonstrating a holistic approach that combines both international and domestic capital. This allocation of domestic finance shows the country's leadership in delivering on its climate objectives, despite its status as an LDC with more limited fiscal resources available than industrialised countries.
- Ireme Invest **demonstrates leadership in climate finance by embracing an innovative financing approach with increased complexity, highlighting a new way of doing business for national climate funds.** The first generation of national climate funds primarily accessed grant and concessional finance from other climate funds, DFIs and bilateral donors and used this money for public sector projects and programmes. Ireme Invest is moving to a more diversified and complex financing approach centred on private sector investment.
- A **longstanding challenge in adaptation finance has been finding business models that are suitable for private investors to make a financial return on adaptation investments.** At the time of writing, Ireme Invest had issued calls for proposals for climate adaptation projects, which will be a focus area under its climate-smart agriculture investment window. **More time is needed to see the success of Ireme Invest's investment in climate change adaptation.**

10. Debt swaps to reduce the burden on LDCs and SIDS

Many SIDS and LDCs face significant debt burdens, which restrict their capacity to invest in climate change actions, poverty reduction and sustainable development. 'Debt-for-nature' and 'debt-for-climate' swaps are emerging as potential mechanisms and opportunities for SIDS and LDCs to diversify and scale adaptation finance. In particular, such swaps have gained traction as part of the Bridgetown Initiative spearheaded by the prime minister of Barbados, Mia Mottley, which seeks to reform the global financial system so that it can better respond to current and future crises. Under the Bridgetown Initiative proposals, international donors could cancel debt for highly indebted nations — many of which are LDCs and SIDS — which would unlock domestic finance currently being swallowed up by debt repayment and divert it to domestic investments in climate-resilient development and ecosystem protection.

One proposed solution is debt-for-climate swaps, although these have not yet been extensively tested. The objective of debt swaps is to ensure that heavily indebted countries can access the scale of finance needed (on concessional terms) for the delivery of adaptation actions that can transform the systems used for tackling climate, nature and poverty crises coherently. Finance providers can collaborate with LDCs and SIDS, in alignment with the Bridgetown Agenda, to prioritise addressing the challenges of indebtedness while these countries pursue climate-resilient development pathways.

Though not yet widely piloted, at least one of the delivery mechanisms highlighted in Antigua and Barbuda's SIRF Fund (Box 4.1) has proposed using debt-for-nature swaps as a source of finance to meet the country's NDC implementation goals. Although it is not included as a case study in this report, a model for this type of financing arrangement is the 2016 Seychelles debt-for-nature swap, which restructured US$21.6 million of government debt in return for efforts to protect 30% of its marine area and to spend the savings from debt relief on ocean conservation work.[11] If deployed more widely and at scale, this type of innovative approach could unlock significant finance for climate-resilient investment in LDCs and SIDS. In fact, a recent analysis by IIED[12] found that more than US$100 billion of debt in developing countries could be freed up to spend on restoring nature and adapting to climate change.

11 https://thecommonwealth.org/case-study/case-study-innovative-financing-debt-conservation-swap-seychelles-conservation-and

12 https://www.iied.org/debt-swaps-could-release-100-billion-for-climate-action

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