Guiding Principles for the Preparation of Financing Strategies for Climate Change Adaptation in Developing Countries

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Photo: United Nations Environment Program (UNEP)/Marcus Nield. A UNEP project in the Dolakha region of Nepal is training communities on how to use nature-based solutions and ecosystem restoration to adapt to the worsening impacts of climate change.

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Foreword

The 4-year Mobilizing Development Finance for Strategic and Scaled-up Investment in Climate Adaptation research project (2019–2022) was implemented by the International Institute for Sustainable Development (IISD) in partnership with the African Centre for Technology Studies in Kenya, Prakriti Resources Centre in Nepal, and Libélula in Peru. The project was supported by Canada's International Development Research Centre. A Project Advisory Committee comprised of representatives from the African Development Bank, Asian Development Bank, Inter-American Development Bank, World Bank, International Development Research Centre, Institute for Climate Economics, and governments of Kenya, Nepal, and Peru provided strategic advice on research directions and outputs.

The research project explored common challenges to scaling up finance for adaptation across different contexts from the perspective of select developing countries and multilateral development banks. The research provided insights into barriers that limit the use of development financing to address national adaptation priorities and identified opportunities to overcome these constraints.

Executive Summary

A growing number of developing countries have prepared or are planning to prepare financing strategies for adaptation to help fund the actions needed to address the increasingly obvious impacts of climate change. Adhering to the guiding principles described in this document could increase the effectiveness of these strategies in helping to secure needed financing for adaptation.

Guiding principles 1 to 3 are particularly relevant to the process of preparing and implementing financing strategies for adaptation. The process by which financing strategies for adaptation are prepared and implemented should

1. Be country driven and fit for purpose.
2. Engage ministries of finance and planning.
3. Take a participatory and inclusive approach.

Guiding principles 4 to 7 inform the development of the content of a financing strategy for adaptation. Whether articulated through a formal document or not, countries should ensure that their financing strategies for adaptation

4. Identify the best and most strategic uses of various sources of finance and different financial instruments for adaptation.
5. Are aligned and consistent with other processes that are relevant to financing climate adaptation, including national development priorities and other financing strategies.
6. Identify actions to improve the enabling environment to scale up finance for adaptation.
7. Set out processes to implement the strategy and measure its success.

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Abbreviations and Acronyms

COVID-19	coronavirus disease 2019
GCF	Green Climate Fund
GEF	Global Environment Facility
GRID	Green, Resilient and Inclusive Development
IISD	International Institute for Sustainable Development
INFF	Integrated National Financing Frameworks
MDB	multilateral development bank
MEL	monitoring, evaluation, and learning
MINAM	Ministerio del Ambiente / Ministry of Environment (Peru)
NAP	National Adaptation Plan
NDC	nationally determined contribution
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change

1.0 Introduction

Countries are increasingly dealing with the impacts of climate change, which are growing in intensity and frequency. Accelerated investment in measures that increase resilience to these impacts is needed to limit their adverse consequences. For developing countries, a critical limitation on their ability to address these climate challenges is insufficient access to financial resources. Their domestic budgets are constrained, and as described in Box 1, the flows of international finance for climate change adaptation fall far short of the growing need. Consequently, the gap between the volume of finance available to support adaptation action in developing countries and that which is required is growing.

Many developing countries are taking steps to address their adaptation finance gap by preparing or planning to prepare dedicated strategies to increase finance and mobilize resources to deliver on the priority adaptation actions identified in their National Adaptation Plan (NAP) processes and nationally determined contributions (NDCs). These financing strategies for adaptation[1] typically set out a coordinated national approach that identifies financing options for initiatives that work toward the achievement of adaptation priorities. Developing countries have adopted various approaches to these strategies, including the preparation of documents that set out discrete financing strategies for climate adaptation and general financing strategies for climate action that include adaptation (Murphy, 2022).

Box 1. The gap in finance for climate change adaptation

The *Adaptation Gap Report 2022* estimated annual adaptation needs in developing countries to be between USD 160 billion and 340 billion by 2030 and USD 315 billion and 565 billion by 2050. This need dwarfs the estimated USD 50 billion in flows of finance for adaptation in 2020 (Climate Policy Initiative, 2022). The United Nations Environment Programme (2022) reported that the adaptation finance gap in developing countries was five to ten times greater than international adaptation finance flows in 2021, and the gap is widening.

Further complicating this situation, many developing countries face a debt crisis that severely limits their ability to address the adaptation financing gap (United Nations Conference on Trade and Development, 2022). Future efforts to address the adaptation finance gap also are expected to be negatively impacted by the economic impacts of the COVID-19 crisis and the Russia–Ukraine war, which have raised energy and food prices and disrupted international supply chains (Global Center on Adaptation, 2022).

[1] The phrase "financing strategy for adaptation" is used in this report as a descriptor of nationally coordinated approaches to identify and encourage the scaling up of financing for climate adaptation priorities. The term encompasses the various finance, investment, and resource mobilization plans, strategies, and roadmaps that include an objective of increasing financing for climate adaptation priorities.

The growing interest by developing countries in the preparation of financing strategies for adaptation likely is influenced by the increasingly obvious negative impacts of climate change in communities around the world and their lack of sufficient funding to implement adaptation priorities that would reduce these impacts (United Nations Conference on Trade and Development, 2022; United Nations Development Programme, 2021). Interest in the preparation of financing strategies for adaptation may also be influenced by an increase in international financial and technical support for NAP and NDC processes that has encouraged developing countries to enhance their adaptation planning frameworks, including financing modalities and financing strategies (United Nations Framework Convention on Climate Change [UNFCCC] Secretariat, 2022).

Regardless of the motivation, financing strategies are increasingly recognized as a necessary element of a country's approach to implementing NDCs and NAPs (Songwe et al., 2022; Tall et al., 2022). For example, if a developing country has a NAP, the financing strategy can help its government clearly identify and communicate its investment priorities for specific adaptation actions over the short, medium, and long terms. It can also identify financing approaches, such as financial instruments and how different sources of finance will be strategically combined (Murphy, 2022).

Countries are taking a variety of approaches to the development of their financing strategies for adaptation—reflecting their individual circumstances, including the status of their adaptation planning processes. While appropriate, this diversity of approaches makes it challenging to compare good practices with respect to their development and content, as well as to determine if these financing strategies are truly effective in helping to close the adaptation financing gap. However, some general guidance for the preparation and content of financing strategies for adaptation could help ensure that the growing number of financing strategies for adaptation are effective in achieving their end goal: increasing the amount of financing being invested in developing countries' prioritized adaptation actions.

As a step toward the development of good practice guidance for financing strategies for adaptation, this report presents seven guiding principles that could assist developing countries as they move forward in preparing their strategies. These principles were identified based on lessons from a review of financing strategies for adaptation completed by Murphy (2022) and described in Box 2, complemented by insights from three country case studies (see Appendix 1). The formulation of these principles was informed by input from experts within organizations that support developing countries in preparing financing strategies for adaptation.[2]

[2] Expert input was provided by representatives from the African Development Bank, Asian Development Bank, Institute for Climate Economics, and International Development Research Centre. Interviews with representatives from the Green Climate Fund (GCF), the World Bank, and the United Nations Development Programme provided critical insights that informed the formulation of the guiding principles.

As elaborated in this report, financing strategies for adaptation in developing countries should

1. Be country driven and fit for purpose.
2. Engage ministries of finance and planning.
3. Take a participatory and inclusive approach.
4. Identify the best and most strategic uses of various sources of finance and different financial instruments for adaptation.
5. Be aligned and consistent with other processes that are relevant to financing climate adaptation, including national development priorities and other financing strategies.
6. Identify actions to improve the enabling environment to scale up finance for adaptation.
7. Set out processes to implement the strategy and measure its success.

Section 2 of this report sets out and discusses guiding principles 1 to 3, which are particularly relevant to the process of preparing financing strategies for adaptation. Section 3 explores guiding principles 4 to 7, which can inform the development of the content of a financing strategy for adaptation. Both sections present illustrative examples of the application of these guiding principles. Section 4 provides concluding comments.

Box 2. Trends in financing strategies for adaptation

In 2022, the International Institute of Sustainable Development (IISD) released the report, *The Landscape of Financing Strategies for Adaptation in Developing Countries*, which provided insights from an in-depth review of 24 financing strategies for adaptation prepared by developing countries (Murphy, 2022). Key findings from this review of financing strategies for adaptation include the following:

- Most of these strategies were country driven. Developing countries had adopted various approaches to preparing these strategies, and almost all included broad stakeholder engagement.
- Some countries identified a financing gap and ways to fill this gap using domestic and international sources of finance, while others did not identify a financing gap—perhaps because they did not have information about the amounts of public finance already mobilized to support adaptation priorities or ready access to detailed cost estimates for specific adaptation actions.
- Few financing strategies for adaptation included an analysis of which type of financing and financial instruments are the most appropriate for various adaptation initiatives.
- Very few financing strategies included processes to monitor and evaluate their success.

2.0 Process-Related Guiding Principles

Consistent with adaptation planning processes more broadly, how financing strategies for adaptation are prepared and implemented can significantly influence their effectiveness and potential to help close the adaptation finance gap. Like the NAP process, it should be country driven, participatory, inclusive, gender responsive, multi-sectoral, coordinated, continuous, iterative, and guided by the best available information (Hammill et al., 2019). Specifically, as elaborated in the remainder of this section, the process by which financing strategies for adaptation are prepared and implemented should

1. Be country driven and fit for purpose.
2. Engage ministries of finance and planning.
3. Take a participatory and inclusive approach.

2.1 Be Country Driven and Fit for Purpose

Like the adaptation planning process, the approach taken to prepare and implement a financing strategy for adaptation should be determined by a country based on its needs, priorities, capacities, and desired outcomes. For many countries, a critical foundation for a financing strategy for adaptation is the NAP. These plans set out governments' adaptation goals and can provide guidance for the priorities to be articulated in the financing strategies.[3]

The strategy also should be fit for purpose. Some are high-level strategies that aim to build awareness and high-level political buy-in, such as the Melanesian Climate Finance Strategy 2019–2021. It set out broad actions and next steps and helped to secure support for the "design of a financing vehicle to catalyze and mobilize private sector investment together with partners" (Melanesian Spearhead Group, 2019; UNFCCC, 2021, p. 11). Others, such as Cambodia's NAP financing framework and implementation plan, included a detailed costing of adaptation actions (General Secretariat of National Council for Sustainable Development, 2017). Moldova evaluated the costs of inaction, identified the size of potential investment, and estimated economic returns to identify priority adaptation actions to inform its climate adaptation investment plan (World Bank Europe and Central Asia, 2016). Peru's approach to a strategy for financing adaptation is comprised of many elements, including the NAP, NDC, NDC financing strategy, and Climate Change Framework Law (see Box 3).

Increasingly, financing strategies for adaptation are moving beyond a stand-alone project-based approach by encouraging a move toward transformational adaptation that involves "larger system-wide change (as compared with in-system change)" (Intergovernmental Panel on Climate Change, 2022, p. 2,619). Such a financing strategy could consider the policy context, institutional

[3] Forty-five countries (including 20 least developed countries) had prepared their NAPs and submitted them to the UNFCCC as of May 2023 (United Nations Climate Change, 2023a).

capabilities and needed capacity building, alignment with national development plans, priorities for domestic budget allocation, and opportunities for co-investment through international finance (climate and development) and private investment. For example, the Government of Egypt is developing a climate investment plan that moves from a project-by-project basis toward a systemic model to scale up finance for climate priorities, including adaptation (Green Climate Fund [GCF], 2022).

A country-driven and fit-for-purpose approach should be prepared in a manner that is mindful of available resources and responds to a stated need of the government. Funders and development partners need to be flexible to ensure that the financing strategy is relevant, will be of use, and is based on the needs, perspectives, and priorities of the developing country.

Box 3. Peru's strategy for financing adaptation: A process comprised of many elements

Peru's strategy for financing adaptation comprises many elements, recognizing that a document is only one aspect of an approach to scale up finance for adaptation priorities. The Government of Peru, led by the Ministry of Finance with input from the Ministry of Environment (MINAM), was preparing a national climate finance strategy in 2023. The strategy is expected to include an estimate of the finances needed to implement the country's 2020 updated NDC, including adaptation actions, and each sector is expected to identify available sources of finance for the priority adaptation actions. The climate finance strategy will be informed by the chapter on finance in the 2021 NAP that estimated the costs of implementing the priority adaptation actions, calculated the financing gap, and identified potential sources of finance for these adaptation actions, including the national budget, bilateral and multilateral providers, and the private sector. Other work includes economic assessments of adaptation measures and the preparation of guidelines for the strategic and complementary use of international climate funds, including reporting requirements.

Source: Calero & Lahud, 2022; Government of Peru, 2018; MINAM, 2021; MINAM official, personal communication, July 4, 2023.

Practical Actions

- Use existing NAP and NDC processes to develop a common understanding of finance for adaptation and what is needed at various levels of government to scale up this finance.
- Ensure that financing strategies for adaptation build on and are informed by available information and work to date. This can include NAPs, NDCs, climate change action plans, and climate change policies and laws, as well as data on climate finance, cost and economic assessments of adaptation options, and climate risks. In addition, assessments undertaken by development partners and research institutions can provide valuable information.

- Ensure that development partners remain flexible in the delivery of technical assistance programs and ensure that the preparation of a strategy is a government priority, meets an expressed need, and is aligned with ongoing processes on finance for climate change and national development priorities.

2.2 Engage Ministries of Finance and Planning

The preparation and implementation of a financing strategy for adaptation should take a whole-of-government approach, whereby it is agreed, prepared, and implemented through a coordinated approach across relevant ministries and subnational governments. While adaptation is often the purview of ministries of environment and/or climate change, an effective approach to scaling up finance needs to include various departments—particularly those that are most climate sensitive, such as agriculture, natural resources, health, and water. In addition, whole-of-government approaches help to clarify how subnational governments can mainstream and embrace adaptation in their plans and budgets.

That said, a whole-of-government approach requires sufficient resources and financing, which points to the critical role of finance and planning ministries in the development and implementation of financing strategies for adaptation. There is emerging evidence that the engagement of finance ministries in the development of these strategies leads to stronger linkages with national planning and budgeting processes, as well as with providers of international finance (such as multilateral development banks [MDBs]). For example, the engagement of these ministries is essential for ensuring that public expenditures are consistent with national goals for adaptation (Jarmillo & Saavedra, 2021), economic and fiscal policy tools are used to incentivize action on adaptation, finance for adaptation is mobilized from various sources (The Coalition of Finance Ministers for Climate Action, 2022), and adaptation is mainstreamed in plans and budgets. Ministries of finance are central to setting up processes to translate needs and opportunities identified at the local level into a national list of priority adaptation actions and investments (Tall et al., 2022). In addition, ministries of finance can be instrumental in establishing dedicated funds and encouraging financial intermediaries to promote a shift toward climate adaptation considerations. See Box 4 for an example of a program in Kenya led by the National Treasury that aims to scale up subnational funding for climate change actions.

Practical Actions

- Closely collaborate with and identify roles and responsibilities for relevant government departments, such as those responsible for finance, planning, climate change, and relevant sectors, as well as subnational governments.
- Engage ministries of finance in identifying and assessing fiscal risks from climate change impacts and use the information to assist with the prioritization of adaptation investments for the financing strategy.

- Involve ministries of finance in translating climate policies and plans into costed adaptation strategies and identifying sources of finance for priority actions in the strategies.

Box 4. Kenya County Climate Change Funds: Scaling up finance from the national and subnational governments to address climate change priorities

County Climate Change Funds are being established in Kenya's 47 counties through the Financing Locally Led Climate Action (FLLoCA) Program, which is led by the National Treasury and Economic Planning. County Climate Change Funds aim to increase finance for local adaptation actions that are identified and prioritized by communities. The establishment and implementation of the funds build on lessons learned from a previous program in five counties that set up county funds using grant finance from bilateral development partners channelled through the Adaptation Consortium.

The FLLoCA program aims to help the National Treasury and county governments to set up processes for sustainable and predictable finance for climate change priorities. This process includes enacting county climate fund legislation that commits subnational governments to allocate 1% to 2% of their annual development budgets to support community-prioritized adaptation and resilience initiatives.

Funded by domestic and international sources, FLLoCA is financed through a contribution of USD 75 million from subnational county governments, USD 5 million from the national government, a World Bank concessional loan for USD 150 million, and grant finance of USD 21.4 million provided by the governments of Denmark and Sweden.

The County Climate Change Funds and the FLLoCA program deliver on Kenya's National Climate Change Action Plan, which is the 5-year implementation plan for Kenya's NAP and NDC.

Source: Ministry of Environment and Forestry, 2023; Wachira et al., 2021.

2.3 Take a Participatory and Inclusive Approach

A financing strategy for adaptation should be prepared and implemented using a participatory and inclusive approach that includes representation from across government, the private sector, development partners, and civil society, including women's groups and vulnerable communities. A participatory and inclusive approach can increase buy-in across stakeholder groups and help the government to mobilize resources to implement its adaptation priorities. In particular, the engagement of representatives of all genders and social groups is essential for ensuring that the financing strategy meets the needs of the most vulnerable groups.

The preparation of a financing strategy can use existing stakeholder engagement processes. For example, Colombia's Financial Management Committee was established in 2016 as a subcommittee of the Intersectoral Commission on Climate Change (Climate Action Tracker, 2023) and led the preparation of the 2017 National Strategy of Climate Finance (Comité de Gestión Financiera Del Si Clima, 2017).

Development partners, including MDBs, the GCF, and the Global Environment Facility (GEF), could be engaged during the preparation of strategies, with the aim of encouraging these partners to align their country strategies with government-determined adaptation financing needs, consider adaptation across their investment portfolios, and create greater coordination and coherence across the projects and programs of various partners. Engaging development partners can help to identify potential flows of grant and concessional finance, which are critically important for adaptation, particularly to meet the needs of vulnerable communities, address climate disasters, and implement adaptation action at the local level (Songwe et al., 2022). Engaging development partners early may also increase their potential to provide technical assistance to support the preparation of financing strategies for adaptation and/or project proposals arising from the strategy.

The preparation and implementation of the strategy also could be informed by a "platform" or overarching body that brings together the key stakeholders (Songwe et al., 2022) that could work toward scaling up investment for adaptation. For example, Egypt has established a platform to mobilize financial and technical resources for the water–food–energy nexus (see Box 5), which demonstrates the concept of country platforms that was set out by the Group of 20 (G20) Eminent Persons Group on Global Financial Governance (2018).

Box 5. Egypt's country platform for the Nexus of Water, Food, and Energy Program

The Government of Egypt signed agreements in 2022 that aim to scale up financial and technical assistance to implement priority actions established under its country platform for the Nexus of Water, Food, and Energy Program. The program aims to implement priorities set out in the country's climate change strategy and accelerate the implementation of the country's NDC, including scaling financing and investments for adaptation projects. The platform aims to unlock finance opportunities by coordinating the inputs of the government and development partners, identifying and building on interlinkages between climate action and development efforts, attracting private finance through such instruments as blended finance schemes and credit enhancement, and designing and structuring doable and implementable climate change projects. The platform promotes country ownership and guides a coordinated effort of stakeholders that include the government, MDBs, bilateral partners, UN agencies, and financial institutions.

Source: Government of Egypt, 2022; Ministry of International Cooperation, 2023.

Practical Actions

- Establish or work through an existing overarching body to oversee and provide guidance on the preparation, implementation, and monitoring of the financing strategy. The oversight body could include governments, development partners (including MDBs), private sector financial institutions (including national development banks), private sector associations, and civil society organizations. Its operation could be supported by development partners.
- Engage development partners in the preparation of the strategies to encourage the alignment of their financing decisions and programming with adaptation needs identified in the government's financing for adaptation strategy.

3.0 Content-Related Guiding Principles

A financing strategy for adaptation should be viewed as more than simply a document. Rather than a linear process that leads to a published strategy, it can be conceived as a matrix of interlinked actions that serve to increase the likelihood of a country being able to secure new funding for its adaptation priorities from international sources of finance—both public and private. One element of this interlinked matrix of actions may be a formal strategy document that communicates a government's overall approach to financing its adaptation priorities. If a strategy document is prepared, a lengthy document is not a necessity but may be the preferred approach. Decisions about the need for a formal strategy document and its length will depend upon the status of a country's adaptation planning process and the availability of data and analysis to inform its preparation.

Whether articulated through a formal document or not, countries should ensure that their financing strategy for adaptation

- identifies the best and most strategic uses of various sources of finance for adaptation;
- is aligned and consistent with other processes that are relevant to adaptation finance, including national development priorities and other financing strategies;
- identifies actions to improve the enabling environment to scale up finance for adaptation; and
- sets out processes to implement the strategy and measure its success.

3.1 Strategically Use Various Sources of Finance and Financial Instruments

An effective strategy needs to consider the best and most strategic uses of various sources of finance for adaptation. It should recognize that finance for adaptation can come from a wide assortment of sources, expanding beyond dedicated climate funds, such as the GCF and the Adaptation Fund (see Box 6). Songwe et al. (2022) emphasize that a financing strategy should "utilise the complementary strengths of different pools of finance to ensure the right scale and kind of finance and to reduce the cost of capital rather than simply focusing on the aggregate number" (p. 30).

Box 6. Potential sources of finance for adaptation priorities

Financing strategies for adaptation can incorporate a wide range of public and private, domestic and international sources of finance to fund the planning, implementation, and monitoring of adaptation actions.

Government budget allocations (public national and subnational)

- Public sector financial resources that are raised and managed by the government and allocated for adaptation through domestic budgets.
- A financing strategy can consider the strategic use of domestic public finance, including encouraging national ministries as well as subnational governments to prioritize climate adaptation activities in their plans and budgets and identifying opportunities to use domestic funds to scale up finance for adaptation from both development partners and the private sector.

Dedicated climate funds and development finance (public international)

- Public funds provided through bilateral and multilateral providers, the majority of which are developed countries. These include climate funds and official development assistance and can also include grants, loans (concessional and non-concessional), guarantees, equity, and insurance.
- A financing strategy for adaptation can guide development partners by highlighting priorities for international public finance and encouraging them to work in a coordinated manner to finance programs that converge with these nationally identified needs. The strategy can also set out a government's priorities for the most effective use of international public funds, particularly the use of grant funds to meet the needs of the most vulnerable populations, as well as the use of concessional loans to reduce risks that inhibit private investment and reduce the cost of capital. As well, it can encourage development partners, such as MDBs, to integrate climate change adaptation needs and priorities in relevant development finance flows—further advancing the goal of having all international public investments help build the adaptive capacity and resilience of the country.

Private investment and the private sector

- Private financiers provide financing to private enterprises for adaptation action and can finance government interventions. Private enterprises invest in their own climate resilience and supply the goods and services that build the resilience of others.
- The strategy can explore options to better engage the private sector in adaptation, including the identification of fiscal incentives and financial risk-mitigation instruments to encourage private sector participation and mobilize private investments in adaptation. Making the business case for adaptation interventions can include identifying where there are potential revenue streams and how action can help companies deal with expected climate risks and impacts. The strategy can include an analysis of how public sector support can best leverage private sector investments in climate adaptation, such as through the use of innovative financial instruments like guarantees and blended finance. As well, it can point to the potential role of MDBs in helping countries use innovative financial instruments.

Source: informed by Gouett et al., 2023; Parry et al., 2017.

Along with these potential sources of finance, a finance strategy for adaptation can identify the type of finance required, potential actors involved, and potential financial instruments needed to implement specific adaptation priorities. This is similar to the "grand match" financing strategy proposed by Bhattacharya et al. (2022) that examines domestic and international finance from the private and public sectors to scale up finance for climate and sustainable development. Saint Lucia's NAP financing strategy provides an example of a first step in a strategic approach to scaling up finance for adaptation (see Box 7).

Box 7. Saint Lucia's Climate Financing Strategy Under the National Adaptation Planning Process

Saint Lucia's 2020 NAP financing strategy aimed to mobilize technical and financial resources to implement the priority adaptation actions identified in the country's NAP. The strategy assessed potential sources of NAP finance (both private and public, domestic and international), undertook a strategic assessment of how these various sources of finance align with NAP priorities, and mapped key actors and roles. It set out an iterative process—including translating priorities into project concepts and proposals, engaging with development partners, engaging with the private sector, tracking expenditure on climate change adaptation, and building capacity to scale up and use finance for adaptation—to enhance the country's efforts to finance the NAP process and priority adaptation actions.

Source: Government of Saint Lucia, 2020.

Importantly, a strategy will need to assess the best use of public investment, both domestic and international. This approach can include assessing the targeted use of public finance by identifying the best use of domestic, grant, and concessional funds to meet the needs of the most climate-vulnerable communities and populations. In addition, grant and concessional funds can be directed toward initiatives that are more innovative and geared to learning and help to drive transformative change. The financing strategy can also set out the rationale for scaling up the flows of grant funds, particularly for countries with high debt burdens that are challenged to take loans to address adaptation needs.

The strategy could identify opportunities to use both national and subnational public finance, as well as opportunities to attract private investment, including by using innovative financial instruments. The *Sharm El Sheikh Guidebook for Just Finance* calls for approaches that address the synergies between climate finance and other types of financing—recognizing that grant climate finance may be "more effective at targeting the root causes of vulnerability to climate change" (Ministry of International Cooperation, 2022, p. 30). Other finance flows, such as development finance flows and domestic finance, can be used to address other adaptation priorities.

Practical Actions

- Adopt a strategic approach to finance that sets out a clear prioritization of adaptation investment needs, the types of finance best suited to meeting those needs, the most strategic use of grant and concessional finance, and the actions needed to access this finance.
- Identify adaptation actions that have worked (i.e., they have decreased climate vulnerability and/or increased adaptive capacity) and could be replicated through the use of proven financing vehicles and approaches.
- Identify why the priority actions are good investments from an adaptation perspective (e.g., costs, adaptation benefits, co-benefits, and returns on investment), which helps to provide the adaptation rationale in finance proposals.
- Identify those adaptation projects that have a potential revenue stream and could have a private investment component. Evaluate where public finance can be blended with private finance or can be used to attract private investment to adaptation priorities.
- Identify sources of finance for adaptation priorities that are most likely to generate equitable benefits for people of all genders and social groups.

3.2 Be Aligned With Other Financing Strategies and Processes

Financing strategies for adaptation need to be aligned and consistent with other finance processes to be most effective.[4] This alignment can include strategies to finance NDCs/mitigation actions, biodiversity, disaster risk reduction, and Sustainable Development Goals (SDGs) and Integrated National Finance Frameworks (INFFs). It can also include the investment plans of the GCF, GEF, and MDBs, including Strategic Programs for Climate Resilience.

Critically, strategies for financing adaptation need to be linked to the broader financial landscape of a country and be aligned with its national development planning and budgeting process. The financing strategy for adaptation should be based on a realistic assessment of a country's funding capacity, its wider macroeconomic situation, and the fiscal space available to fund measures. This assessment helps governments understand what adaptation measures can be supported with domestic funds, as well as their ability to mobilize funds and take on loans to finance adaptation actions. It also can guide governments to integrate and align adaptation in their budgeting and planning processes. Furthermore, the mobilization of (domestic or international) resources for adaptation that are aligned with national development priorities can encourage political buy-in and the uptake of adaptation actions across ministries, including finance and planning. The example of Nepal (see Box 8) illustrates the importance of considering a country's broader financing framework when preparing a financing strategy for adaptation.

[4] See Murphy (2023) for further discussion of the role of alignment in successful strategies for financing climate change adaptation.

In addition, financing strategies for adaptation should draw on the analysis and learning set out in related initiatives, such as the Vulnerable Group of 20 prosperity plans and strategies, as well as technical reports developed under the Needs-based Finance Project delivered by the UNFCCC Secretariat (Aroha, Financial Futures Center, & Global Center on Adaptation, 2022; United Nations Climate Change, 2023b). Common adaptation priorities across various financing strategies can provide consistent messaging to potential technical and financial partners that deliver international public finance (both climate and development finance streams) and work to overcome fragmentation in the delivery of climate and development finance for adaptation and other purposes.

Box 8. Financing strategy for adaptation in Nepal: The need for alignment

The Government of Nepal's 2020 NDC committed to preparing a NAP financing strategy. Drawing on the financial and technical support provided by the GCF through its NAP Readiness Programme, the government plans to use the existing NDC and NAP processes to formulate its financing strategy for adaptation. The NAP financing strategy will build on Nepal's 2020 NDC, 2021 *NAP Summary for Policy Makers*, the framework for tracking official development assistance and climate finance, and the national-level climate change budget code.

To effectively move forward, the government will have to address policy crowding and a lack of alignment between adaptation policies. Overlapping policies and strategies related to financing strategies for adaptation have been prepared or are planned, with the preparation of these strategies often supported by different development partners. Three 2021 government documents set out needed adaptation actions: the vulnerability, impact, and adaptation assessment in Nepal's *Third National Communication to the United Nations Framework Convention on Climate Change*; the *Vulnerability and Risk Assessment and Identifying Adaptation Options: Summary for Policy Makers*; and the *National Adaptation Plan: Summary for Policy Makers*. The three documents identify different priority adaptation actions, although there is consistent identification of sectors because they are guided by the 2019 climate change policy.

In addition, the financing strategy for adaptation will need to be an element of and feed into the NDC climate finance strategy, which in turn should be aligned with the strategic plan for Green, Resilient and Inclusive Development (GRID), as well as the implementation plan and financing strategy for the country's SDGs. Nepal's NAP process is active and participatory, but greater alignment of adaptation priorities across documents, processes, and programs is needed before embarking on a process to prepare a financing strategy for adaptation. Alignment helps to provide consistent messaging to governments (national ministries and provincial and local governments) and development partners about adaptation financing priorities and needed technical assistance.

Source: adapted from Chhetri, 2021.

Practical Actions

- Assess the government's fiscal space and macroeconomic situation to provide a clear understanding of its ability to finance adaptation actions.
- Coordinate and align the financing strategy for the adaptation process with relevant financing strategies—such as those developed to mobilize resources for national development plans, SDGs, NDCs/mitigation, disaster risk management, and biodiversity.
- Involve finance, planning, and relevant line ministries and subnational governments in the preparation of financing strategies for adaptation. This approach can help adaptation practitioners convey priorities and build awareness of the importance of taking adaptation action. It can help to ensure that climate risks are considered in national investment decisions and create high-level buy-in of the need to allocate budgets to address these risks.
- Ensure that adaptation planners and practitioners participate in processes to develop financing strategies for SDGs and national development plans to increase the likelihood of SDG and national investments that are resilient to climate change.

3.3 Identify Actions to Improve the Enabling Environment

The strategy should include investments and actions that address barriers to and improve the enabling environment for scaling up finance for adaptation. This approach includes putting in place the policy, regulatory, informational, and institutional frameworks that are needed to move to a climate-resilient development path. For example, Peru's climate change law guides the approach to be taken to improve access to climate finance (see Box 9).

In addition, the financing strategy for adaptation could include actions that build capacity in targeted areas. Developing countries need to build institutions and develop human capabilities to create the policy and regulatory environment for adaptation action; prepare, implement, and monitor adaptation projects; and design and implement systemic and programmatic financing strategies. Capacity building is likely needed across a range of stakeholders, including to increase the presence of domestic accredited entities that can access climate finance from sources like the GCF.

The enabling environment is particularly important to create the incentives for and direct private sector investment toward adaptation priorities. Regulatory and policy measures could include fast-tracked permitting for adaptation actions (Crawford & Church, 2019), building codes and land-use planning, subsidies for resilient technologies, and requiring the disclosure of climate risks, including physical climate risks, among public companies. Another important element of the enabling environment is the availability of climate data and the ability to analyze that data to anticipate climate risks and identify actions to minimize the impacts of identified risks on investments and projects.

Box 9. Peru's Climate Change Framework Law

Peru's 2018 Climate Change Framework Law and its 2019 regulation stipulate that the government will prepare a cost-benefit analysis, identify mechanisms to improve access to finance, develop a system to track finance for climate change, and report on finance raised for climate change. In addition, the law sets out a public budget approach that mandates all levels of government to incorporate climate change considerations into their public budget and spending decisions and assess all investment projects for climate risks and vulnerabilities.

Source: Calero & Lahud, 2022; Government of Peru, 2018.

Practical Actions

- Provide data and information—such as climate risks, costs of adaptation action, and expected returns and benefits of adaptation action—to guide the assessment of adaptation investment opportunities by sector ministries, subnational governments, and the private sector.
- Collaborate with the private sector to assess regulatory and policy gaps in enabling private sector adaptation and identify recommendations and needed actions to address these gaps (Tall et al., 2022). Identify needed incentives and policies/frameworks to encourage companies to invest in building resilience in their businesses and encourage financiers to consider investments in adaptation.
- Identify and communicate priority capacity-building needs, which could include improved skills in quantifying and tracking the adaptation returns on investment, preparing pipelines of bankable projects, and/or tracking finance for adaptation.

3.4 Set out Processes to Implement the Strategy and Measure its Impact

The financing strategy can set out the institutional arrangements and processes to manage the implementation of the strategy and monitor and measure its impact. While recognizing that most adaptation finance will be needed for sectoral interventions, the financing strategy should include an appropriate budget for oversight and coordination; project preparation, including costing of priority actions; and monitoring, evaluation, and learning (MEL) related to the strategy.

MEL of the strategy can help countries understand its impact. For example, did the strategy help the country to scale up finance for adaptation priorities? Which initiatives provided the greatest value (adaptation impact) for money? Where do financing gaps remain? The financing strategy should set out a framework for monitoring and evaluating the progress and the results of the strategy (see Box 10 for a brief overview of the monitoring and review building block of the Maldives' climate financing strategy). This information will provide learning and input for future NAPs and adaptation finance strategies.

Many developing country governments will need to build internal capacity to develop, implement, and monitor the effectiveness of their strategies for financing adaptation and could consider the costs of these functions in their strategies. For example, effective MEL may require improved tracking of finance for adaptation at the country level since a lack of data about finance flows for adaptation can constrain the ability of developing countries to determine the impact of their financing strategies.

Box 10. The Maldives' INFF: Monitoring and reporting on a gender-responsive climate finance strategy

The Maldives' INFF sets out a gender-responsive climate finance strategy that aims to mainstream gender considerations into climate adaptation and mitigation measures in all forms of development projects across all sectors of the economy. Building Block 3 sets out guidance for a monitoring and reporting system that includes:

- "regular assessments and diagnostics of financing gaps, risks, and binding constraints,
- articulation, implementation, and regular monitoring of the strategy, and
- establishment of required governance arrangements" (page 12).

The Theory of Change set out in the climate finance strategy was the basis for identifying financing objectives; the expected results over the immediate, short, and long terms; and the actions needed to achieve the expected results. Key indicators were developed to track progress on the implementation of the strategy's action plan and evaluate effectiveness. Templates were developed for annual reporting by lead agencies on the progress in completing tasks.

Source: Ministry of Finance, 2023.

Practical Actions

- Prepare budgets for the implementation and monitoring of the financing strategy in a manner that is coordinated with the implementation and MEL of a country's overall NAP process.
- Develop and/or strengthen domestic systems for tracking and reporting of finance for adaptation, which would enhance knowledge of domestic and international public finance allocations to adaptation, which sectors are receiving adaptation finance, and what financial instruments are being used.
- Prepare a framework for the MEL of the financing strategy as an element of the strategy and build the needed capacity to carry out the MEL of the strategy.

4.0 Conclusion

A well-defined financing strategy for adaptation can assist governments in clearly communicating their financing priorities for adaptation and, ideally, scaling up financing for these priorities. Once targets and measures have been defined in their NAP or NDC, countries can use financing strategies to strategically identify the financing approaches required to match priority adaptation needs. These strategies can help to ensure that financing priorities are driven by the needs of developing countries, as identified in their NAPs and NDCs, and they can help governments communicate these financing priorities to development partners.

But the financing gap for adaptation is large (as are the financing gaps for climate mitigation, the SDGs, post-pandemic economic recovery, and other national development priorities). For many countries, especially the most climate- and debt-vulnerable countries, the critical need is a scaling up of international public finance. A well-defined financing strategy for adaptation can assist these developing country governments in identifying the best use of this international public and private finance. These strategies can encourage the use of grant and concessional funds in a strategic manner that best addresses adaptation priorities, with an emphasis on the needs of the most vulnerable, and help countries provide the adaptation rationale in finance proposals.

Making the connection between the financing strategy for adaptation and the broader national financing landscape is critical to ensuring that the strategy has an impact and that it does not remain a document prepared by the ministry responsible for climate change that is not taken up by stakeholders. Ideally, a financing strategy for adaptation can help developing country governments and their partners get to the point where all investment considers climate risks and incentivizes the financing of adaptation action that ensures the achievement of national development goals in a changing climate.

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Appendix A. Summary of Case Studies

In 2020 and 2021, the African Centre for Technology Studies in Kenya, the Prakriti Resources Centre in Nepal, and Libélula in Peru undertook assessments of the actions taken in Kenya, Nepal, and Peru to prepare financing strategies for climate change adaptation. This appendix includes summaries of the three case studies completed by these organizations. The summaries identify key learning regarding what comprises an effective financing strategy for adaptation with the intent of guiding other countries that are preparing financing strategies for adaptation.

A.1 Kenya[5]

Status of Financing Strategy for Adaptation in Kenya

Kenya's Financing Strategy for Nationally Determined Contributions (NDC) was published by the Republic of Kenya in 2020 (Republic of Kenya & United Nations Development Programme, 2020). This document is one element of Kenya's approach to mobilizing finance for its adaptation priorities, which is guided by the 2017 National Policy on Climate Finance that set out guiding principles and key interventions needed to increase the mobilization of climate finance and to measure climate finance (National Treasury and Planning, 2017). The Climate Change Act 2016 provided for 5-year action plans and the establishment of a Climate Change Fund for the financing of priority adaptation and mitigation actions (Republic of Kenya, 2016). The National Climate Change Action Plan 2018–2022 is a 5-year implementation that sets out the priority actions to implement Kenya's NDC and National Adaptation Plan (NAP) 2015–2030 (Ministry of Environment and Natural Resources, 2016; Ministry of Environment and Forestry, 2018, 2020).

The financing strategy for Kenya's NDC addressed the financing needed to implement the priority adaptation and mitigation actions in the National Climate Change Action Plan 2018–2022. The strategy aimed to mobilize funding from public finance sources (domestic and international), increase private sector participation and investment in adaptation, and increase access to innovative financing mechanisms. The strategy considered the funding available through government sources, assessed funding gaps that require international and private sector support, and identified opportunities to address these gaps. The strategy identified a financing shortfall for adaptation, indicating that the Republic of Kenya required an estimated USD 8.69 million to implement the adaptation actions from 2019 to 2023. The financing strategy identified that more effort was needed to mobilize international funds for adaptation priorities and included an implementation plan with actions and key performance indicators to measure progress on implementing the actions over the short, medium, and long terms (Republic of Kenya & United Nations Development Programme, 2020).

5 This section is based on Wachira et al., 2021.

Despite identifying a gap in finance for adaptation and setting out the actions needed to address the gap, the strategy has not been implemented in a meaningful manner. Information was not available on the status of implementation and progress made in the short term (to December 2021), suggesting that there has been limited movement on the implementation of the strategy.

The Climate Change Directorate, housed in the Ministry of Environment and Forestry, led the development of the financing strategy for the NDC, working in cooperation with the National Treasury and Economic Planning and working through a participatory process. The Climate Change Directorate is responsible for coordinating climate change actions, including the preparation of the NDC, NAP, and national climate change action plans. The National Treasury and Economic Planning plays a leadership role in climate finance, including committing domestic financial resources for climate action and leading relationships with bilateral and multilateral development partners. It has begun to track the flows of climate finance and has taken steps to implement a budget code and a national climate fund (Odhengo et al., 2021).

Lessons Learned

The case study has increased understanding of what comprises an effective financing strategy for adaptation in Kenya. The key lessons learned to guide countries that are preparing financing strategies for adaptation are described below and elaborated in the full case study.

- **A financing strategy for adaptation is more than a single document** – The published document is only one of a constellation of policies, laws, and plans that make up Kenya's financing strategy for adaptation. The efforts to finance adaptation need to be aligned with climate policies, plans, and strategies, as well as with national development plans and strategies, such as the medium-term plans that deliver on the government's Vision 2030 agenda.
- **Country driven and relevant** – Development partners need to be flexible in the delivery of technical assistance programs. While a document setting out a financing strategy for adaptation might be considered a priority at the time of negotiating a technical assistance program, development partners need to be flexible to ensure that the document is still relevant and will be of use. Activities and deliverables related to a financing strategy for adaptation should be country driven, timely, and based on the needs, perspectives, and priorities of Kenya. Additionally, the financing strategy should have an implementation plan to ensure the strategy is actionable.
- **Coordination** – Enhanced coordination is required among the different actors at all levels, including the Climate Change Directorate, National Treasury and Economic Planning, and county governments. Improved coordination among stakeholders can help the government move forward to implement the strategy for financing adaptation. An overarching body, such as a joint sector working group, can help to improve the coordination of efforts to scale up financing for adaptation.

- **Enabling environment** – A financing strategy can be an element of the enabling environment to improve flows of finance for adaptation. In addition, it can set out actions and approaches to improve the enabling environment for finance for adaptation, such as regulations and fiscal incentives.
- **Stakeholder engagement** – Early and ongoing engagement with relevant stakeholders is needed to ensure that the design of investment programs and projects is aligned with national priorities. This can include national ministries, county governments, international development partners, civil society, academia, and the private sector.
- **Engaging the private sector** – A financing strategy can consider how to encourage increased engagement of the private sector. This engagement can include the identification of fiscal incentives to encourage private sector investment in their own adaptation and an analysis of how public finance can best leverage private sector investments in climate adaptation, such as enhancing private sector capacity to prepare bankable adaptation project proposals.
- **Engaging development partners** – A financing strategy for adaptation can guide development partners by highlighting priorities for financing and encouraging development partners to finance programs that converge with these nationally identified needs. The strategy can also set out its priorities for the most effective use of international public funds, particularly grant funds and concessional loans. Development partners can also be engaged in the preparation of the strategies, which helps to direct their programming and funding toward adaptation priorities and encourages greater coordination and coherency across the projects and programs of various partners. Development partners also provide technical assistance to support the preparation of financing strategies and project proposals.
- **Domestic public finance** – A financing strategy needs to consider the strategic use of domestic public finance. Kenya's devolved governance system provides an excellent platform for encouraging subnational budget allocations for adaptation. At least five county governments have established county climate change funds that allocate 1% or 2% of the county development budget for adaptation. This allocation of domestic budgets to adaptation can play an instrumental role in scaling up adaptation financing.
- **Project proposal development** – Financing strategies can include detailed proposals for "bankable" adaptation projects.
- **Capacity-building needs can be identified and included in the financing strategy** – The Kenyan government needs to enhance capacities to design competitive adaptation programs that attract international financing, estimate the additional costs of adaptation, and identify and measure the transformational impact of adaptation actions.
- **Tracking finance for adaptation** – Ideally, a financing strategy should be informed by accurate information about the flows of finance for adaptation, including international climate finance, international development finance with adaptation co-benefits, and domestic budget allocations.

A2. Nepal[6]

Nepal's updated 2020 NDC committed to formulating a climate finance strategy by 2022 (Government of Nepal, 2020), and the 2021 NAP summary document indicated that the government would prepare a financing strategy to enable the implementation of the 68 priority adaptation programs at a cost of an estimated USD 47.4 billion to 2050 (Government of Nepal, 2021). These financing strategies would be guided by the National Climate Change Policy (2019) that is implemented by the Ministry of Forests and Environment (Government of Nepal, 2019), the International Development Cooperation Policy that is implemented by Nepal's Ministry of Finance (2019), and the 15th five-year development plan (2019/20–23/24) that is implemented by the National Planning Commission (2019). In the short term, the financing strategy for adaptation could be aligned with the Green, Resilient and Inclusive Development (GRID) approach that was endorsed in 2021 by the government and 17 development partners that have committed at least USD 3.2 billion in resources and support for the GRID approach that includes integrated climate and development priorities (World Bank, 2022).

The financing strategy for adaptation should be informed by the Climate Change Financing Framework and the climate change budget code to track climate change expenditures (Ministry of Finance, 2017). In addition, the National Planning Commission (2018) assessed the needs and costs and set out a financing strategy to achieve the national targets of the Sustainable Development Goals that included the estimated investment needed to address adaptation priorities.

The Climate Change Management Division of the Ministry of Forests and Environment coordinates climate adaptation activities across government agencies, levels of government, the private sector, and civil society organizations. This department is responsible for preparing the NAP and the financing strategy for the NAP. The Climate Finance Unit of the Ministry of Finance coordinates actions to increase finance for adaptation, including with international development partners, and manages the Climate Finance Steering Committee. The Ministry of Finance leads the preparation of the financing strategy for the NDC and negotiations with development partners regarding support for GRID priorities.

Lessons Learned

Key lessons to help guide the preparation of effective financing strategies for adaptation were highlighted through the case study. These lessons are described below and elaborated in Chhetri (2021).

- **A financing strategy is more than a document** – A long, published document setting out the financing strategy for adaptation is not necessary. The existing NAP and NDC processes can be used to develop a common understanding of finance for adaptation and what is needed at various levels of government to scale up this finance. Nepal should

[6] This section is based on Chhetri, 2021.

carefully consider allocating additional resources to a large separate process to develop a document setting out the country's financing strategy for adaptation.

- **Clarity of purpose** – A financing strategy helps national government ministries and departments and provincial and local governments to understand the importance of allocating budget lines for adaptation priorities and helps to communicate funding priorities for adaptation to development partners.
- **Build on existing processes** – The government intends to use the existing NDC and NAP processes to formulate its financing strategy for adaptation and will build on Nepal's framework for tracking official development assistance and climate finance, the national-level climate change budget code, and a financing strategy for the SDGs that includes adaptation.
- **Participatory and inclusive approach** – The formulation of a financing strategy for adaptation requires a participatory and inclusive approach so that all stakeholders can own it and help the government mobilize resources to implement the NDC and NAP priorities. Development partners, including multilateral development banks (MDBs), should be encouraged to provide input to the process, align financing decisions with adaptation needs identified in the strategy, and consider adaptation across their investment portfolios.
- **Coordination across government** – A financing strategy for adaptation should be agreed, prepared, and implemented through a coordinated approach across relevant ministries, particularly between the ministries responsible for climate change and finance. In addition, a coordinated and collaborative approach helps to clarify how provincial and local governments can embrace adaptation in their plans and budgets and improve interactions with development partners.
- **Encourage a strategic approach** – A financing strategy identifies the best use of domestic budget allocations and grant and concessional finance provided by MDBs and other development partners. The strategy can help the government communicate how domestic resources are used to address adaptation priorities to encourage development partners to scale up support. For example, the Government of Nepal has allocated and tracked substantial domestic resources from its fiscal budget to address the impacts of climate-induced disasters, such as floods and landslides.
- **Alignment** – Finance for adaptation priorities needs to be aligned with relevant national policies and priorities. In Nepal, the financing strategy for adaptation can be an element of—and feed into—the NDC climate finance strategy, which in turn should be aligned with the GRID strategic plan as well as the SDG implementation plan and financing strategy. A financing strategy needs to address policy crowding, whereby numerous overlapping policies and strategies related to financing strategies for adaptation have been prepared or are planned, with the preparation of these strategies often supported by different development partners. Alignment helps to provide consistent messaging to development partners about adaptation financing priorities and needed technical assistance.

- **Consider various sources of finance for adaptation** – A financing strategy can help a government attract finance for adaptation from a variety of sources, expanding beyond dedicated climate funds. Nepal, as a least developed country, expects international grant finance to make a significant contribution to addressing adaptation priorities. A financing strategy for adaptation can consider
    - **dedicated climate funds (public international)** – encouraging grant climate funds and other grant funds for adaptation, particularly non-revenue-generating adaptation projects.
    - **development finance (public international)** – ensuring that adaptation is considered in relevant development finance flows and that all international public investments help build the adaptive capacity and climate resilience of the country.
    - **government resources (public national)** – encouraging national ministries as well as local and provincial governments to prioritize climate adaptation activities in their plans and budgets.
    - **private investment and the private sector** – recognizing that private sector involvement in adaptation has been almost absent in Nepal, and work is needed to explore options to better engage the private sector in adaptation.
- **Building capacity is critical to attracting finance for adaptation** – A financing strategy can set out actions to build capacity to mobilize resources, including designing bankable and fundable projects that attract international financing, articulating the transformational impacts of adaptation, and costing adaptation actions. A financing strategy can consider how to build the capacity of subnational governments to assess climate risks and vulnerabilities, embrace adaptation in their planning and budgeting processes, and understand how to access finance for climate adaptation priorities.

A3. Peru[7]

Status of a Financing Strategy for Adaptation in Peru

In 2022, Peru was preparing its national climate finance strategy, which is expected to contribute to the achievement of the adaptation goals established in the country's NDC and NAP (Government of Peru, 2020; Ministry of Environment [MINAM], 2021). The Climate Change Framework Law, 2018 and its 2019 regulation identify key topics related to financing that should inform the development of the financing strategy, such as the preparation of a cost-benefit analysis, the identification of mechanisms to improve access to finance, the development of a system to track finance for climate change, the incorporation of climate change considerations into public expense/budget decisions and directives at all government levels, and reporting on finance raised for climate change (Government of Peru, 2018). It is anticipated that the strategy

[7] This section is based on Calero & Lahud, 2022.

will include a calculation of the country's financial needs to implement the updated NDC, and each sector is expected to identify available sources of finance for the priority adaptation actions.

The strategy is expected to be aligned with the country's NDC and NAP, which are overseen by MINAM, the national authority for climate change. The financing strategy for adaptation will also be aligned with the plans to deliver on the SDGs and Peru's National Competitiveness and Productivity Plan 2019–2030 under the Ministry of Economy and Finance. For example, the plan calls for the creation of strategies to finance measures that address climate change and ensure the achievement of national commitments in a manner that contributes to the aims of the United Nations Framework Convention on Climate Change (Government of Peru, 2019).

The national climate finance strategy will be informed by the NAP chapter on finance that estimated the costs of implementing the priority adaptation actions, calculated the financing gap, and identified potential sources of finance for these adaptation actions, including the national budget, bilateral and multilateral providers, and the private sector (MINAM, 2021). The financing chapter identified opportunities to improve access to financing from these various sources and presented a strategic approach to encouraging the best use of public and private finance to achieve adaptation goals.

The financing document is only one element of Peru's overall strategy to scale up financing for adaptation. Other work includes economic assessments of adaptation measures, the identification of financing mechanisms, improved tracking of climate finance, and the preparation of guidelines for the strategic and complementary use of international climate funds. The Climate Change Framework Law requires that sectoral ministries incorporate climate finance considerations into their plans and budgets and assess all investment projects for climate risks and vulnerabilities.

Lessons Learned

Calero and Lahud's case study provides key lessons that may guide Peru's ongoing efforts and those of other countries that are preparing financing strategies for adaptation, as described below.

- **A financing strategy for adaptation is a process** – A financing strategy for adaptation is comprised of many steps, and the document is only one element of the overall financing strategy. In Peru, this includes the identification of adaptation priorities during the NAP process, economic valuation of adaptation actions, tracking of climate finance, and legal requirements to incorporate the costs of adaptation and ensure resilient investments in the budgets of each sectoral ministry without making additional demands from the Treasury (public budget approach).
- **Strategic use of finance** – A financing strategy can help assess the best use of domestic public investments to meet adaptation needs and scale up finance for adaptation from international and private sources. In addition, the strategy can identify the best use of international public finance, particularly grant funds. A finance strategy can identify the type of finance required, potential sources of finance to implement adaptation priorities (including international public finance, domestic public finance, and national

and international private investment), potential actors involved, and types of financial instruments needed to implement specific adaptation projects. Peru's financing strategy is critical to fulfilling the requirement of the climate change law to use climate finance in a strategic manner that is in line with the NDC goals and Peruvian commitments to the United Nations Framework Convention on Climate Change. Sectoral ministries are required to assess climate risks in investment projects and to incorporate climate finance considerations into budgets.

- **Costing assessments and economic valuations** – A financing strategy should be informed by economic and costing assessments of adaptation priorities. Economic valuations help identify adaptation measures with positive values where investment is economically viable and can improve understanding of the impacts and benefits that result from investing in adaptation. To improve analyses, the strategy can encourage improved tracking of finance for adaptation and evaluating the benefits that result from increased finance. Costing of adaptation actions and undertaking economic valuations of adaptation actions can be challenging and may require capacity building.
- **Alignment** – A financing strategy should be aligned with national plans and policies, relevant sectoral plans, and other strategies to increase resources for government priorities, such as the SDGs and Peru's National Competitiveness and Productivity Plan.
- **Stakeholder engagement** – A financing strategy should engage a range of stakeholders and can use existing stakeholder engagement processes, such as Peru's Dialoguemos sombre las NDC (translation: Let's Talk About the NDC).
- **Private sector engagement** – A financing strategy can identify opportunities for private investment in adaptation and provide data and information—such as costs, returns, risks, and benefits—to help the private sector assess investment in adaptation. The financing process can promote dialogue between the government and the private sector and engage private sector representatives in producing data on adaptation investments.
- **Development partners** – A financing strategy can guide and inform the work of development partners by identifying priority adaptation actions for international public finance and by providing an analysis of the costs of the adaptation actions, the expected benefits, and why public finance is strategic for these actions.
- **Enabling environment** – A financing strategy needs to consider the enabling conditions, which can include technical studies; monitoring and evaluation systems; and awareness, promotion, and dissemination of information about adaptation actions. A strategy can identify actions to improve the policy and regulatory environment to encourage scaled-up finance for adaptation and provide guidance on priority needs for technical assistance in this regard.
- **Bankable adaptation projects** – A financing strategy should include a well-developed and extensive portfolio of adaptation projects that can be developed into concrete, bankable proposals by the government working with actors that provide funds, including MDBs and private investors. Adaptation measures with measurable goals and clear indicators are the first step to identifying specific financing needs.

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