Climate Compatible Growth

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Data-to-Deal: An Emerging and Effective Approach to Supporting LMICs in Climate Transition

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Summary

Developing nations face many challenges in securing climate finance at the scale needed. An emerging approach – known as 'Data-to-Deal' – highlights the importance of providing countries with sustained and holistic support along the entire investment pipeline, from upstream technical plans to downstream financing strategies. In practice, this entails securing high-level political support for decarbonisation, laying the foundations of institutional capacity in-country, aligning climate objectives with broader development plans, and undertaking deliberative quantification of scenarios. It also involves engaging inclusively across stakeholder groups, strengthening the policy and regulatory environment, and developing credible investment plans and financing strategies.

Key Policy Recommendations

- When international organisations are preparing to support low- and middle-income countries (LMICs) to create investment cases that will be credible to climate finance providers, they should increasingly structure this support using the Data-to-Deal framework.
- Country stakeholders should be technically equipped and empowered to determine their own consensus-based and nationally-owned decarbonisation pathways.
- High-level leadership should drive a process of cross-government collaboration, with the Ministry of Finance engaging from an early stage with the critical line ministries.
- Capacity-building efforts in-country should be sustained over time, building individual technical skills, as well as strengthening relevant institutions, with the central involvement of local academia.

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Introduction

Delivering on the mid-century climate goals laid down in the 2015 Paris Agreement calls for a massive increase of climate finance flows relative to current levels [1]. The financing gap is particularly challenging for LMICs which have secured less than a quarter of global climate finance flows to date [2].

Such countries often face formidable barriers to unlocking climate finance – including the absence of high-level political support, weak institutional capacity, and disjointed planning processes. Other barriers include limited access to data and modelling tools to support rigorous technical analysis, little stakeholder engagement, inadequate policy frameworks, and the lack of a clear financing strategy.

This policy brief sketches an emerging approach to engaging with countries on the climate transition; this approach is known as Data-to-Deal [3]

The term **Data-to-Deal** *refers to actions taken throughout an entire process that runs from* **data** *collection, system modelling, and development planning, all the way through to national financing strategies and project finance arrangements to the agreement of a* **deal** *(investment), all driven by a strong stakeholder engagement process.*

The most mature example of this approach is Costa Rica, which mobilised over US$2 billion of climate finance based on a systematic process of technical analysis and stakeholder engagement costing a mere US$200,000 over a period of just three years [3]. The approach has also been successfully applied in Cyprus [4], and is increasingly being adopted across Latin America, in countries such as Chile, Dominican Republic, and Uruguay [5]. Data-to-Deal currently provides the guiding framework for Climate Compatible Growth's ongoing National Partnership engagements in Ghana, Kenya, Lao PDR, Vietnam and Zambia, and is increasingly being adopted by international organizations [6].

Without being narrowly prescriptive, the Data-to-Deal pipeline provides a framework of options to help countries enhance their core capabilities according to national circumstances. The Data-to-Deal engagement process can be broken down into seven stages (see **Figure 1**). Different countries will find themselves at different stages, and suitable entry points will vary from one case to another. Each stage is briefly characterised below; while for those wishing to go further, a more extensive description is also available [6].

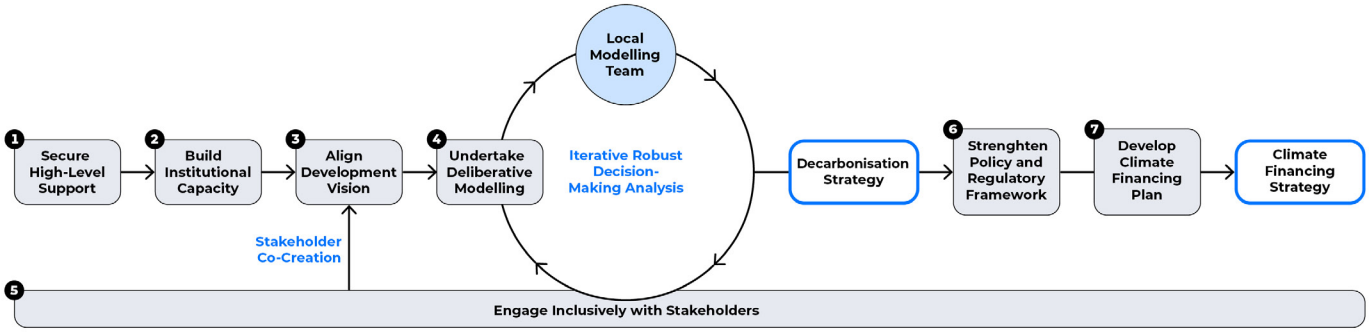

Figure 1: Visualisation of the Data-to-Deal investment pipeline

Politics: Securing high-level support for decarbonisation

Given the cross-cutting nature of climate change, a high-level political mandate is particularly important because it helps to align policy priorities, ensure consistency across different areas of planning, and enable collaborative cross-sectoral workflows. Otherwise, ineffective horizontal coordination on climate change, among national government departments, can create a siloed culture. This poses challenges for securing funds to implement Nationally Determined Contributions (NDCs) and associated policies [7].

A significant hurdle in securing political commitment lies in the misconception that emission reduction policies are not drivers of social and economic development, but rather constitute a burden or restriction on the development process.

Once a mandate for decarbonisation is established, the formation of a central coordination team is recommended. This will drive effective collaboration among ministries, advocate for the decarbonisation process within government, and act as a hub for facilitating collaboration, understanding, and alignment among various domestic and international entities. The team should ideally encompass a diverse group of stakeholders, including government officials, academics, researchers, businesses, civil society organisations (CSOs), and relevant experts.

Preparation: Laying the foundations of institutional capacity

As attention turns towards implementation, a problem commonly encountered is a lack of in-country capacity, knowledge, and skills to undertake critical analysis including modelling. This leads to an excessive reliance on external consultants. To avoid this, it is important both for *practitioners* to be proficient in the relevant analytical methods, and for national *institutions* to embed the skills and capacity needed locally, to provide adequate local context and detail while building country ownership of decarbonisation plans. The required capacity and skills include consensus building, technical analysis, scenario development, and effective translation of modelling results into policy insights.

It is important to prolong capacity-building efforts until in-country capacity becomes robust and self-sustaining. This is best achieved through an approach that develops capacity across multiple institutions, rather than focusing on a single entity. Ideally, capacity-building should involve government institutions where decisions are made, and research institutions where longer-term technical expertise can reside, thereby safeguarding against capacity loss during political transitions.

Vision: Aligning climate objectives with broader development goals

Before modelling efforts begin, the country must identify the broad development aspirations that provide the context for any discussion of long-term national decarbonisation targets.

Building on this foundation, it should be possible to co-create narratives that provide the basis for alternative future modelling scenarios, through an extensive and iterative consultation process.

This helps to foster consensus-building, enhance transparency, empower stakeholders, and build trust in the process. As a result, the subsequent modelling process will be more robust. Countries should have full ownership of the modelling exercise and associated skills, with non-prescriptive guidance from international partners. In-country modellers and stakeholders possess valuable understanding of the local context, including political, economic, and social factors. This nuanced knowledge needs to be incorporated into the scenario development process to add value.

Modelling: Undertaking the data-driven quantification of scenarios

A robust modelling process is of paramount importance in informing the design of the strategy. This encompasses technical, economic, and social dimensions of decarbonisation scenarios, using sectoral and macro-economic modelling tools. Adequate attention should be given to modelling *demand* as well as supply. To ensure political support, it is important to undertake analysis of sectoral interlinkages between energy plans and other sectors such as agriculture, land use, forestry, waste, and industry. It is also crucial to incorporate social aspects – such as poverty, justice, and gender – which can help garner stakeholder buy-in and align with the mandates of international financial institutions.

The absence, or at least inaccessibility, of high-quality data often threatens to compromise the reliable calibration of models. To address this challenge, close collaboration between the modelling team and government ministries is essential both to provide the modelling team with the best data currently available and to afford government ministries guidance on prioritisation of future data collection efforts.

Consultation: Engaging inclusively across stakeholder groups

Deep, iterative, and transparent stakeholder consultation is an indispensable element throughout the entire Data-to-Deal pipeline. It plays a critical role in fostering consensus and shaping a shared vision for the country. This entails engaging with society at large on the decarbonisation strategy, to ensure that the chosen approach aligns with social, political, and environmental considerations and achieves a balanced solution.

To this end, the central coordination team needs to begin effective engagement with all relevant stakeholders from the early stages of the national decarbonisation process. In addition to the relevant line ministries, the Ministry of Finance and International Financial Institutions (IFIs) play a crucial role and should be involved in a timely manner to ensure that conditions for securing finance can be met as the process advances.

Operationalisation: Strengthening the policy and regulatory framework

Once a decarbonisation strategy is developed, it is important to identify and address any related gaps in the policy environment. Governments play a critical role in establishing an enabling environment for policies and regulations to support climate-aligned investment. Well-

designed policies facilitate capital mobilisation by reducing downside risks. These include articulating a clear strategic vision, supported by tangible short-, medium- and long-term milestones and strong accountability frameworks.

The macro-economic implications of the climate transition also need to be understood and managed. These may include an overall increase in investment, as well as a shift in its sectoral composition, with potential consequences for economic growth and employment, as well as possible impacts on vulnerable groups. Given the prevalence and fiscal significance of fuel taxation and energy subsidisation, the transition will also call for adjustments to a country's fiscal systems to ensure that revenue bases are preserved and fiscal incentives support the chosen trajectory.

Finance: Developing investment plans and financing strategies

Given the urgency of climate goals, the decarbonisation plans developed by line ministries are likely to represent a surge in investment relative to historic levels. The Ministry of Finance needs to convert such plans into specific financing requirements, evaluating whether the associated debt service costs are affordable relative to sector cashflows [8]. The greater the country risk, the higher the cost of capital and the larger the burden of financing a particular plan.

Ministries of Finance must tap into a diverse range of capital sources, including domestic and international, as well as public and private [9]. To ensure an efficient use of available financing options, there must be clear guidance on the role of public funds, the use of state guarantees, and the suitability of different financing instruments.

An important part of the process is to realign existing streams of finance towards decarbonisation objectives. For example, energy spending under the national budget should gradually shift towards supporting the transition while gradually winding down support for fossil fuel-related infrastructure.

As well as estimating financing costs of investment projects, it is important to quantify associated long-term benefits – both financial (such as fuel savings) and economic (such as carbon savings) – as these will affect the viability of the projects and guide the allocation of scarce concessional finance.

Conclusion

This brief summarises a longer paper that demonstrates that – for governments seeking to secure climate finance and for organisations seeking to invest – there is now a proven approach that can be adopted to create country readiness conditions. Data-to-Deal provides a blueprint for the international community to follow. By means of this approach, countries are empowered to build an investment case on the firm foundation of data and evidence-based modelling tools. Furthermore, potential investors can have the confidence that their funds are being used strategically and will provide tangible returns on investment. Last but not least, international organisations can design technical assistance efforts according to a system that focuses on building long-term capacity and delivering nationally owned transition pathways.

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