Voices for Just Climate Action (VCA): Mobilising finance for local climate change solutions

Final Discussion Paper
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1. Introduction

“Climate action is needed at the international, regional and national level, but how can the delivery of international climate finance be improved so that it is more effective in reaching the local level” (Soanes et al., 2017).

Local communities are expected to be most affected by the impacts of climate change owing to a lack of adaptive capacity (IPCC, 2014). There is also likely to be a disproportionate effect mostly on women within these local communities. The role of women as change agents and protectors of natural environments and resources is often ignored (Price, 2021). Despite the impacts of climate change being felt more acutely at the local level, climate finance decision-making continues to be made at a high level with local actors playing a minor role in defining the interventions and the subsequent management of funds (Coger et al., 2021).

At present, most local financing is reliant on public climate finance delivered in a top-down manner. The true quantum of climate and development funding that reach the local level is not known but is estimated to be less than 10% or US$1.5 bn of international, regional, and national funds between 2003 and 2016, which indicates a major imbalance in the flow of these funds between national and local levels (Soanes et al., 2017). This is also demonstrated by current Green Climate Fund (GCF) access. By the end of 2020, of the 103 Accredited Entities (AE), only six are Civil Society Organisations (CSOs) accounting for only 4% of approved projects (Hirsch, 2021).

A lack of detailed tracking and detailed disclosure related to disbursement, channels, uses and ultimate recipients of funds is cited as a key reason for the inability to provide a more accurate estimate. In addition to the issue of tracking, a significant portion of current flows being received, is in the form of loans (40 percent of which are non-concessional over the period 2017-2018) and non-grant instruments, raising grave concerns about the increased indebtedness of developing countries and the over-estimation of the real value or assistance provided by climate finance to developing countries (Carty et al., 2020). The current methodologies that track climate finance flows do not discount the additional payback of non-grant instruments adding further strain on local communities which are the most vulnerable to the impacts of climate change.

There is a growing body of knowledge that is currently focused on the issue of climate finance access by CSOs and local organisations for implementation of climate change solutions at the grassroots level. The issue has been recognized by many actors culminating in the endorsement of the Principles for Locally Led Adaptation in January 2021, signifying the need to change the status quo and promote greater decision-making capacity and authority with local stakeholders (Soanes et al., 2021).

This discussion paper aims to enable greater discussion, solutions, and action on climate finance issues at the local level. This paper aims to provide a comprehensive overview of promising climate finance instruments that have or can be used for increasing local climate finance at scale. The discussion paper aims to cover the following objectives:

- Discussing the successes and barriers inhibiting the financial flows reaching the local level as well as possible measures to reduce these barriers.
- Reviewing selected climate finance mechanisms used in a local financing context.
- Evaluating any promising blended finance solutions where public climate finance has been used to stimulate private sector flows.
- Outlining recommendations that could stimulate greater local climate finance for communities.
2. Successes and barriers of public climate finance reaching local climate solutions – A top-down view

According to Soanes et al. (2017), “Evidence from international development, bilateral and climate funds\(^1\) that focus on reaching local communities has shown that local programmes can deliver a ‘triple win’, producing more sustainable results at lower cost, developing local capacity, and generating climate positive local economic development benefits, such as improved livelihoods, reduced pollution, and access to clean energy.” Several studies have been undertaken aimed at providing greater insights into the successes and challenges associated with finance reaching the local level. The following successes and barriers in financing local climate solutions were identified based on a literature review with key sources including Soanes et al. (2017), Restle-Steinert et al. (2019), Carty et al. (2020), Price (2021), Coger et al. (2021), Both ENDS (2017) and Hirsch (2017). This success and barriers are summarized in Table 1.

Table 1: Success and Barriers in reaching local climate solutions

<table>
<thead>
<tr>
<th>Successes or enablers</th>
<th>Barriers or challenges</th>
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<tr>
<td><strong>Baselines and Targets</strong></td>
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<tr>
<td>Priorities/goals for locally relevant results (measured at the household and community level) create a framework that places greater emphasis on community-focused engagement and resilience interventions and leads to more investment in local projects. The USAID’s Local Solutions programme, which has set an ambitious target of 30% of its total funding portfolio to reach the local level, has resulted in increased levels of local funding within its portfolio. This is a good example of the positive impact of setting deliberate and ambitious targets for financing at the local level.</td>
<td>The prevailing ‘metrics of success’ incentivises investment into large, centralised projects to the detriment of wider [albeit smaller] decentralised local investments serving the poor and vulnerable rural communities. This is also especially needed for adaptation projects at the local level.</td>
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<td></td>
<td>Donor governments, UN agencies and MDBs are failing to sufficiently prioritize locally led activities. It is not mandatory for donors and intermediaries to report on how much of their climate finance is spent at the local level, resulting in a lack of transparency around the ultimate end use and end-user of climate finance.</td>
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<td></td>
<td>Poor oversight of policies for local finance have led to no negative incentives (sanction) for non-compliant financial intermediaries. There is no international goal or target for local financing and very few financial intermediaries have set internal targets for local financing.</td>
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<td><strong>International climate finance policy</strong></td>
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<tr>
<td>Enable more direct investments or strengthen direct access channels - provides opportunities for local entities and projects to directly access available funds without lengthy and complex processes and multiple administrative layers.</td>
<td>Business as usual finance policies and practices of climate and development funds who continue to channel funding through traditional financial intermediaries (such as MDB and UN agencies) with no specific priority to direct financial flows to the</td>
</tr>
</tbody>
</table>

\(^1\) The Global Environment Facility’s (GEF) Small Grants Programme, The Forest Investment Programme’s (FIP) Dedicated Grants Mechanism, DFID financed Decentralised Climate Funds in Kenya – County Climate Change Funds, The Local Disaster Risk Reduction Fund in Bangladesh, The Global Fund for Aids, Malaria and Tuberculosis (Global Fund), The UN Capital Development Fund (UNCDF), The Caribbean Development Bank’s Basic Needs Trust Fund (BNTF), and The World Bank’s Community-Driven Development (CDD) initiatives.
<table>
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<tr>
<th>Successes or enablers</th>
<th>Barriers or challenges</th>
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<tr>
<td>Direct access channels work best where recipients are able to articulate their needs in funding applications and who have sufficient capacity and resources to manage the disbursed funds themselves.</td>
<td>Local level, partly due to the higher transaction costs associated with smaller scale, local projects. A lack of sufficient and simplified direct access modalities that inhibit local actors from accessing climate finance. It is too difficult for local actors to comply with the fragmented and onerous rules and conditions of different international donors.</td>
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<tr>
<td>Locally administered funds - promotes allocation decisions of available funds at the local level, taking into account their knowledge of local contexts and needs and engagement with local stakeholders. A prime example of this is small grants funds (see below for further details).</td>
<td></td>
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<tr>
<td>Design and implement simplified access and approval processes or frameworks for local actors and intermediaries who [often] have weaker financial management systems or limited track records in managing climate and development funds. The complex and time-consuming accreditation process for the GCF is a commonly highlighted barrier to CSO access.</td>
<td>Complex climate finance disbursement architecture leads to ineffective and inefficient local financing. Climate finance from international and national sources are often lost within the complex in-country layers of administration and disbursement channels due to corruption and misappropriation in recipient countries.</td>
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<tr>
<td>Institutional capacity development and support</td>
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<tr>
<td>Capacity building and technical assistance for local institutions and supporting the establishment of networks between local entities - This is necessary to ensure that local actors are capacitated (in a sustained manner) to better understand the landscape of climate (adaptation) finance available to them and to strengthen their capacity (technically and operationally) and governance and fiduciary requirements of donors. Furthermore, to develop the skills to better articulate their needs based on robust data and project proposals thereby improving their chances of accessing the available climate finance.</td>
<td>Lack of local [institutional] structures and capacities (skills) at the local level. A lack of local structures and skills or experience in local institutions prevent local actors from meeting the stringent governance and fiduciary requirements of international donors or from developing robust project and funding proposals that clearly articulate the demand and need for [locally appropriate] adaptation finance to the allocation decision-makers. Limited local-level management and fiduciary capacity and inadequate sustained capacity building support is a key barrier to financing at the local, given donors’ and financiers’ concerns over financial mismanagement and fiduciary capabilities.</td>
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<td>CSO engagement and community participation, including gender dimension</td>
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<td>Participatory funding and oversight structures that promote the active engagement of local communities in the design, appraisal and evaluation of climate and development projects. Participatory funding structures - support better channeling of funds to the local level by involving more local players and communities in key decisions of the respective financing instrument. For climate and development finance to be responsive to the needs of vulnerable people, local communities need to take a lead in climate change and development-related decisions that affect them.</td>
<td>Available funds are not adequately adapted to local needs and context-specific vulnerabilities. There is a mismatch between the conditions and priorities of available funds and the requirements and realities on the ground at the local level, including gender dimensions. This is partly due to a lack of participatory mechanisms that seek to involve and engage a wide range of local level actors in [project planning and design] and funding allocation decisions.</td>
</tr>
<tr>
<td>Gender equality needs to be at the forefront of local action and climate finance spending. Women are important actors</td>
<td>Lack of adequate data on gender equality and responsiveness of climate financing. e.g., the biennial reports submitted by</td>
</tr>
<tr>
<td>Successes or enablers</td>
<td>Barriers or challenges</td>
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<tr>
<td>in their communities and are key agents of change in building the resilience of their communities, e.g. resilience of smallholder farmers or deploying decentralised renewable energy systems.</td>
<td>developed countries to the UNFCCC do not include data on gender. For bilateral finance, multilateral organizations are not required to provide gender markers as a basis for estimating the extent to which climate finance accounts for gender equality.</td>
</tr>
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</table>

**Instruments and programmatic approaches**

<table>
<thead>
<tr>
<th>Grants used in combination with innovative financial and risk mitigation instruments, (such as performance bonds, equity, guarantees, and other credit enhancement instruments such as subordinated loans) have significant potential to attract greater local municipal and private sector investment at scale.</th>
<th>Risk averse investment strategies continue to prioritise traditional low-risk investments approaches, instead of using higher risk specialised financial instruments (such as blended finance structuring techniques and risk mitigation instruments such as guarantees) to crowd in local public and private finance.</th>
</tr>
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<tr>
<td>Inclusive and innovative funding instruments that allocate funds according to competitive elements or performance-based elements - competitive and performance-based mechanisms or instruments promote local innovation and creativity in project design, development and implementation, as well as prioritise projects that demonstrate local needs/vulnerabilities and desired impact outcomes, including gender dimensions.</td>
<td>Inappropriate or unrealistic co-financing targets or requirements crowds out local communities or actors who are unable to raise the co-finance and results in a preference by international donors and financiers to engage with national-level partners who can meet the co-financing targets.</td>
</tr>
<tr>
<td>Using a programmatic approach to deliver many small projects creates significant scale and impact. Even though the investment sizes are small, a programmatic approach has the potential to bring together many implementers to deliver low-carbon, climate resilient investment at scale at the local level. e.g., World Bank’s Community-Driven Development approach.</td>
<td>Lack of aggregation mechanisms for local projects inhibits financing at scale of small projects by international donors and intermediaries, such as MDBs, due to relatively high transaction costs.</td>
</tr>
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**Small-grants funds**

| According to Both ENDS (2017), small grants funds that are set up locally can form the link between large [international] donors and grassroots organisations with origins and strong networks in [local] communities. Large international funds, who claim that large amounts of small donations are not feasible, are able to delegate the disbursement of small grants to regional and local small grants funds. Small grant funds that maintain close contact with local people and their needs, are able to respond quickly and effectively to crises using inclusive and participatory approaches, based on the demands of local groups or communities. Small grants funds ensure that local recipient organisations are empowered to decide where and how the grants are spent, while supporting these organisations with information and knowledge sharing, building networks and joint lobbying activities. | Funding from large international funds, donors, governments and development banks mainly flow to large corporate and governmental clients and seldom flow to small grassroots groups and organisations due to the onerous and/or bureaucratic requirements of international funds and donors or their intermediaries. While awareness of the important role of small grant funds is increasing, large international funds like the GCF and bilateral and multilateral donors have not effectively and adequately leveraged the local expertise, knowledge and networks of small grant funds and their local partners. |
3. Local financing approaches (bottom-up)

Case studies of financing approaches developed and used by local NGOs and CBOs for local resilience interventions are described below, including key enablers and the barriers that they seek to address. The following case studies are based on selected stories from the Voices from the Frontline project, managed the Climate and Development Knowledge Network (CDKN), Price et al., (2021) and Sager et al., (2021).

3.1.1. Village Savings and Loan Association Savings Groups - community driven microfinance

Savings groups (SG), which form part of registered Village Savings and Loan Associations (VSLA), are identified as an important grassroots finance mechanism for accessing savings and loans in order to purchase essentials such as food and healthcare-related supplies during the Covid-19 related lockdown(s) and natural disasters, but also essential for expanding the livelihoods of the rural poor. “…the community savings approach is proving to be a consistent and sustainable method to provide the rural poor with access to finances, act as a safety net and a source of social solidarity – even during an unprecedented health and economic crisis.”, (Saqiah Kabir, World Vision Bangladesh, 2020). Saving groups and microfinancing schemes should not be seen as a replacement of global climate finance flows that are needed at the community level. It is doubtful that community schemes in isolation at the local level will be sufficient to meet the financing needs of communities. Therefore, saving groups and microfinancing options should be seen as a complementary financial source to global climate finance, widening the pool of available financial resources.

As evidenced by numerous FVL stories, during the Covid-19 lockdown, the savings groups have demonstrated their resilience and resourcefulness (ability to leverage their deep local knowledge) by swiftly adapting their processes, such as using cellphones to communicate, reducing the size of gatherings, scaling up hygiene protocols, creating social funds for Covid-19 and revising lending methods to cope with the physical restrictions brought about by Covid-19 lockdown. The successes or enablers of the VSLA SG microfinance model and the barriers it addresses, are presented in Table 2.

Table 2: Successes of local financing by VSLA SGs and barriers addressed

<table>
<thead>
<tr>
<th>Key successes or enablers</th>
<th>Barriers or challenges addressed by VSLA SGs</th>
</tr>
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<tbody>
<tr>
<td>The VSLA model offers flexible and swift self-funding mechanism for the exploitation of</td>
<td>The VSLA SG’ addresses the following barriers to accessing finance:</td>
</tr>
<tr>
<td>profitable opportunities and essential expenditure, such as school fees, medical supplies</td>
<td>• High cost of traditional finance.</td>
</tr>
<tr>
<td>or weddings. This flexibility and agility of VSLA SG is possible because the VSLA model is</td>
<td>• Significant or onerous collateral requirements.</td>
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<tr>
<td>based on a system of self-regulation and relies on the profound appreciation of the</td>
<td>• Rigid and inflexible conditions of traditional financiers and donors.</td>
</tr>
<tr>
<td>motivation, behaviour (professionalism) and ambition of group members; aspects which</td>
<td></td>
</tr>
<tr>
<td>traditional financiers fail to address adequately.</td>
<td></td>
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<tr>
<td>Affordable and gender-sensitive: The VSLA SG enables its members, largely women from</td>
<td></td>
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<tr>
<td>poor rural or informal settlements, to (i) pool their money on a weekly basis (through</td>
<td></td>
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<tr>
<td>collective savings), (ii) offer and/or access these savings as loans, for expanding</td>
<td></td>
</tr>
<tr>
<td>livelihoods (income generation) and (iii) to earn interest on these loans. By pooling their</td>
<td></td>
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<tr>
<td>own money, members are able to reduce the total net cost of borrowing, making it much more</td>
<td></td>
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<td>affordable.</td>
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3.1.2. Tresor Women Warrior profit-driven and community-based microfinance

Tresor Woman Warrior (TWW) is a women empowerment initiative run and led by women in The Gambia in West Africa. The initiative was inspired by a local, Ms. Aji Kumba Daffeh Kah, who decided to help the women of Jalangbang achieve food and financial self-sufficiency, primarily through agriculture. Tresor Woman Warrior provides its members with land and seedlings to grow crops and provides essential training and skills development, including financial management and entrepreneurship.

The TWW foundation owns 6 poultry farms, 6 agricultural farms and 5 commodity and/or convenient stores, which represents the primary sources of income for its outreach activities. Uplifting women to financial freedom is one of the core pillars of TWW. One of the ways in which TWW does this is through an innovative microfinancing scheme, where TWW not only invests in the business ideas of these women, but also in building their capacity to manage their own finances and develop essential business skills in order to become successful entrepreneurs. The successes to local financing of TWW's profit-driven microfinance model and the barriers it seeks to address, are presented in Table 3.

Table 3: Successes of local financing by TWW microfinance and barriers addressed

<table>
<thead>
<tr>
<th>Key successes or enablers</th>
<th>Barriers or challenges addressed by TWW microfinance</th>
</tr>
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<tbody>
<tr>
<td>The TWW microfinance scheme is similar to a revolving credit fund, with a profit share mechanism. Instead of interest charges on loan advances to members, TWW shares in the returns (profits) and risks associated with a project or business venture.</td>
<td>The TWW profit-driven microfinance model seeks to address the following barriers to accessing finance:</td>
</tr>
<tr>
<td>Risk management mechanism. Small loans are provided to groups of around 10 women who collaborate on a project, instead of individuals. This funding approach reduces the risk of default as the group is responsible for repayment of the loan.</td>
<td>• Lack of empowerment of women to pursue economic freedom and improvement. Women that are financially independent are in a better position to access finance.</td>
</tr>
<tr>
<td>Funding is combined with capacity building and technical assistance. Loans are only disbursed after development of a business plan for funding and after capacity building and training of the group members on financial and business literacy, technical skills (organic farming, soap making, animal husbandry, trading, etc.), technology adoption and mentorships.</td>
<td>• High cost of traditional finance.</td>
</tr>
<tr>
<td>Profit-driven microfinance supports an expanding and sustainable pool of local finance. The respective groups of women borrowers are required to share the profits generated with TWW. Fifty percent (50%) of profit generated is contributed into the TWW “revolving fund” for disbursement of new loans to existing or new members of TWW, creating a sustainable and expanding pool of funding.</td>
<td>• Prohibitive collateral requirements - women often lack ownership of capital assets such as land, equipment and livestock that could serve as collateral.</td>
</tr>
<tr>
<td>Aggregation and extension support services improve smallholder farmers’ viability. TWW foundation also acts as an aggregator by buying agricultural commodities</td>
<td>• an alternative solution to the interest-based microfinance system, which is frowned upon in terms of Islamic law – The Gambia is a majority Muslim country.</td>
</tr>
</tbody>
</table>
produced by members of TWW and selling the commodities to third parties for higher prices than what the individual women or groups of women could achieve on their own.

3.1.3. Kiva crowdfunding platform in partnership with local field partners - Mozambique case study

Kiva is an international not-for-profit organisation, with a mission to expand financial access to underserved communities by facilitating loans through crowdfunding from social impact lenders (i.e., individual around the globe) and thereby unlocking private capital, reducing the cost of financial services, and addressing the underlying barriers to financial access experienced by millions of poor, unbanked and underserved people in developing countries.

The Kiva crowdfunding platform enables financial access, which covers a very broad spectrum of activities – for example, it allows students to borrow money for tuition fees, entrepreneurs to start businesses, smallholder farmers to purchase equipment and families to pay for essential healthcare (kiva.org).

Field Partners (such as iDE, a global donor funded not-for-profit organisation active in Africa, Asia and Central America) are essential to facilitating access to finance to underserved communities via the Kiva crowdfunding platform. iDE works at the grassroots level and its approach is driven by building inclusive, resilient and competitive markets, focused on agriculture (developing entrepreneurs in the agriculture value chain), water, sanitation and hygiene (developing WASH markets for the sale of latrines, water filters and hand washing devices) and climate and resilience (building resilience to climate change).

In Mozambique, iDE’s objective is to improve the living standard of people by extending agricultural services to households located in remote rural areas, while simultaneously addressing issues related to gender equality, nutrition, food security and resilience to climate change. One of iDE’s core roles is to support these entrepreneurs to bridge the gap from subsistence to commercial farming and to facilitate access to finance. The successes or enablers of the Kiva crowdfunding mechanism and the barriers that it addresses, are presented in Table 4.

Table 4: Successes of local financing by Kiva crowdfunding and barriers addressed

<table>
<thead>
<tr>
<th>Key successes or enablers</th>
<th>Barriers or challenges addressed by Kiva crowdfunding mechanism</th>
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<tbody>
<tr>
<td>Partnerships with local Field Partners are essential. Kiva collaborates with a global network of Field Partners (developmental and/or microfinance organisations) who work within local communities in remote areas in emerging or developing economies. These partnerships enable Kiva to reach more potential local borrowers and deliver greater locally-led social and environmental impact.</td>
<td>Specific barriers to finance being addressed by KIVA crowd-funded loans and iDE support:</td>
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<td>• Agri-sector (especially farming) is viewed as high risk, especially in areas that are prone to natural disasters, such as Mozambique and Bangladesh (amongst others).</td>
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<tr>
<td></td>
<td>• High cost of debt finance from traditional banks and microfinance lenders with high and inflexible collateral requirements.</td>
</tr>
<tr>
<td></td>
<td>• Variability of income due to seasonality of agri-businesses that limits access to finance due to the perceived high risk of borrowers’ income (less stable or constant).</td>
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<tr>
<td></td>
<td>• Women are deprived of accessing loans, as they do not own land or other major assets that may serve as collateral and they must rely on the men in their family or community to provide</td>
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| Combining capacity building and technical assistance with finance facilitation. These Field Partners are vital to Kiva’s work on financial inclusion, as they provide essential services on the ground, such as (i) entrepreneurial training and financial literacy, (ii) vetting of potential borrowers and (iii) loan administration. This serves to ensure that finance is accessed and disbursed in a responsible manner. |                                                                                                                                  |
Deep engagement with local communities and entrepreneurs. An extensive vetting process and sustained training (for at least one year), means that Field Partners (such as iDE) develop a deep relationship with potential local beneficiaries leading to more effective engagement and partnership with local communities in the planning and design of resilience interventions.

Revolving nature of Kiva loans drives greater social impact and sustainability. Kiva investors (lenders) are usually motivated by social impact and loans are often interest free. These investors typically lend money to projects in increments of US$25 or more and often lend multiple times into new projects. On average, lenders revolve their money 11 times, before either withdrawing their money or donating their money to Kiva.

Gender-sensitive dimensions. In the example of iDE Mozambique, women farmers/entrepreneurs are encouraged to apply for loans, by offering more flexible terms such as longer grace periods for capital repayment or longer loan tenors and lower collateral. Asset finance for women (for the purchase of farming equipment or implements), is also encouraged as this equipment can be used as collateral.

Innovation - group loan pilot via Kiva. iDE is piloting community or group project loans in Mozambique, which aims to create greater scale and financial inclusion (allows those individuals who would not otherwise qualify, to access funding within a group structure). This is a good example of an innovative, yet simple approach to enhancing access to finance at the local or community level.

collateral/guarantees, which is often withheld due to gender-based restrictive cultural norms.

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<th>3.1.4. Climate-specific local microfinancing</th>
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Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Beyond project financing, microfinance can also enhance knowledge of financial management at the community level. The most common type of microfinance focused on climate change has been index-based weather insurance targeted at small-holder farmers. More recently, product lines focused on decentralized energy, energy efficiency and water have become more common. There have also been cases where microfinance products have been developed focused on adaptation which has traditionally been difficult. For example, under IKI’s Microfinance for Ecosystem-Based Adaptation (M-EbA), local communities were provided with loans to undertake ecosystem-based adaptation. The familiarity of the community with microfinance allowed for loans to increase the overall income of borrowers in the long term while supporting vulnerability reduction.

Microfinance offerings are gaining momentum as a mainstream product line. However, it remains a contested climate finance option amongst certain actors with reservations usually centered around the issue of an increased debt burden on communities that are already vulnerable to the impacts of climate change. This concern is completely valid. However, noting that grant levels delivered through Official Development Assistance (ODA) have decreased,
particular in the wake of the COVID-19 pandemic, it is essential that a wider spectrum of financial options be considered.

To avoid exacerbated debt levels, microfinancing products are usually designed with community financial contexts considered. Microfinance is typically offered at more favourable terms and conditions that may include lower interest rates, long payback periods and flexible collateral arrangements. Other social and gender safeguards can also be incorporated into the design of microfinancing products. It is critical that microfinancing institutions be regulated under public financial law as there is often an issue with shadow or informal lenders that offer products at high interest rates resulting in less trust in microfinancing products.

More capacity building at the community level enabled by government policy can allow for the scaling of this product beyond the current market segment. Multilateral financial institutions also have a critical role to play in providing enabling incentives while implementing safeguards in the most vulnerable communities. Lastly, balanced microfinance products can deliver climate benefits and impact while being financially feasible and avoiding negative unintended consequences, if correctly designed. Ultimately, the protection of livelihoods in combination with climate benefits allows microfinance to create a multiplier effect thereby improving social well-being in communities.

3.1.5. Voluntary Carbon Markets (VCM)

The carbon market has traditionally been an avenue for institutions to meet their carbon liability under cap-and-trade systems in the Global North. Owing to the lack of domestic carbon pricing schemes, compliance enforcement measures, and effective demand-side policies, the carbon market and the price of offsets was suppressed for a large part of the last decade. With the increase in net zero commitments and pledges, there has been a growing interest in carbon offsets with a predicted increase in price of between 20 – 50 USD expected by 2030. As mentioned by Sager et al, as awareness of the social dimensions of sustainability grows, along with adoption of UN Agenda 2030, corporate buyers increasingly prefer projects with social co-benefits, such as community projects in developing economies. This is demonstrated by a greater spectrum of project types across agriculture, water and energy based at the community or grassroots level.

3.1.6. Climate Justice Resilience Fund (CJRF)

To overcome some of the top-down challenges of multilateral climate finance, some initiatives have focused on developing funds at the community level. For example, the Climate Justice Resilience Fund (CJRF) was initiated by the Oak Foundation in 2016 and capitalized with USD 20 million. The Fund aims to address disparities in climate finance access by offering grants to communities seeking to address impacts. The CJRF is specifically focused on women, youth, and indigenous peoples. The Fund recognizes that its success will be determined by not only funding community-based projects but also ensuring that projects are community-led. According to McGinn et al., (2020), the CJRF concentrates on developing leaders, movements and transformative change at the community level rather than project implementation in isolation. Some of the initial learnings from the mid-term review suggest that empowering the communities has ensured successful implementation while the co-learning environment will strengthen the strategies and impact of implementation. The CJRF also stated the need for multi-funder solutions noting that transformative change does not occur quickly and is often beyond the typical grant period. Therefore, climate finance must be committed over the long term to ensure that impact comes to fruition.

3.1.7. Blended finance approach to catalyse local private sector finance

During 2018, the GCF approved the Development Bank of Southern Africa’s (DBSA) Climate Finance Facility Programme funding application, with the total project value (including co-funding) amounting to US$170 million. The DBSA Climate Finance Facility Programme is a lending facility that aims to address market constraints and catalyse private sector funding for climate-resilient infrastructure investments in the Southern African region and is expected to
have a duration of 20 years. The lending facility proposes the use of a blended finance approach and will consist of credit enhancements focused on first loss or subordinated debt and tenor extensions to catalyse private sector investment in mitigation and adaptation projects.

The GCF funding of US$55.61m comprises US$55.0m of subordinated loans and US$0.61 of grants, while the balance of US$114.94m is co-finance as follows:

- Grant: US$ 0.61m (DBSA)
- Grant: US$ 0.33m (Convergence)
- Subordinated. Loan: US$ 55.00m (DBSA)
- Subordinated. Loan: US$ 59.00m (Other DFI)

The Climate Finance Facility has a climate investment focus with a crosscutting theme (both mitigation and adaptation) and the GCF results areas being targets include:

- Buildings, cities, industries and appliances
- Energy generation and access
- Health, food and water security
- Infrastructure and built environment
- Livelihoods of people and communities
- Transport

The target project size is projected to range between US$50m and US$250m.

The CFF programme is the first private sector climate finance facility in Africa using a pioneering green bank funding model, which seeks to de-risk and increase the bankability of climate projects in order to crowd in private sector investment. Eligible projects must have some transformative effect on local markets in terms of scale, improved private sector participation or other aspects. The use of concessional finance (such as grants, credit enhancement, guarantees, etc.) alongside public and private sector funding is expected to ramp up investment in local sectors traditionally considered to be less attractive or riskier, e.g., water sector, waste treatment and energy efficiency. Blended finance can be used (for a limited period) to support the establishment of new or emerging low-carbon markets and technologies.
4. Policy Recommendations

Policy recommendations aim to improve the financing modalities to promote greater local level climate and development financing. The policy recommendations posed below aim to cover a broad spectrum of stakeholders involved in mobilizing finance at the local level and is based on a review of the current grey and primary literature available on this topic.

4.1.1. Baselines and Targets

It is critical that local climate finance stakeholders determine an appropriate baseline of finance that reaches the local level and involves community participatory processes. This serves as a starting point to measure progress towards envisioned local climate finance targets.

In addition, specific indicators should be developed and integrated into financial reporting systems that capture financial flows that are received by local beneficiaries (Soanes et al., 2017). Prospective budget tagging could also integrate countries’ experience with climate budget tagging. Climate finance needs to be reported in a more transparent and appropriate manner that reflects the real value received by developing countries and the real contribution (climate specific net assistance or grant equivalent) made by developed countries.

4.1.2. International Climate Finance Policy

There is a need to revise international climate funds policies and processes to increase their willingness to invest in local grassroots organisations and/or local project opportunities. This may involve (i) designing and implementing simplified access and approval processes or frameworks for local actors and intermediaries who [often] have weaker financial management systems or limited track records in managing climate and development funds, (ii) implementing participatory funding and oversight structures that encourage active engagement of local communities in the design, appraisal and evaluation of climate and development projects and (iii) further exploration and execution of innovative financing instruments and/or structuring techniques such as blending finance (using donor grant funding in combination with highly concessional loans to attract local private sector capital at scale capital).

Greater focus can also be placed on gender equality and the recognition of vulnerable groups including indigenous people to ensure that all climate finance projects consider the different needs of women and men in objectives, design, budget and implementation of local climate finance processes. It is critical that gender equality markers be reported transparently. Flows must be enhanced for transformational adaptation finance through the integration of innovative funding principles from other sectors (Carty et al., 2021).

Community based projects may also be promoted through separate investment windows focused on specific project types. This must be prioritized for the Green Climate Fund, for example, through a Small Grant Facility. It is critical that separate investment windows focused on local financing are targeted to the needs and circumstances of communities. Separate investment windows could incorporate criteria such as: lower interest rates; lower collateral requirements; and longer tenor periods. This would ensure that debt levels are not exacerbated at the community level.

The Adaptation Fund (AF) is also a key multilateral source of climate finance and has been successful in delivering flows to the community level. The AF was established in 2001 with the purpose of providing financial support for adaptation projects and programmes in developing country Parties to the Kyoto Protocol. The Adaptation Fund is capitalized by national governments, private donors as well as a share of proceeds of Certified Emission Reductions (CERs) issued under the Clean Development Mechanism. Since 2010, the Adaptation Fund has programmed funds equivalent to US$ 850 million, a total of 123 adaptation projects. Elements such as the Enhanced Direct Access (EDA) and the Innovation Facility of the AF that ensures that funding flows to the local level are streamlined should be promoted in other multilateral climate funds.
4.1.3. Small Grants Funds - an essential link for the flow of funds from international donors to local organisations

At present, local climate finance mechanisms are linked to global sources indirectly. Typically, multilateral climate finance is transferred to national entities that either directly implement projects or devolve funds to executing entities which may be at the local level. It is possible that local executing entities may be financing facilities; however, these projects are not common. This is possibly owing to under-developed and informal nature of financing mechanisms at the community level which causes a mismatch in expectations related to financial management.

The current climate finance system has failed to adequately deliver finance at scale to the local level. However, small grants funds have been used as a successful mechanism to disburse funds from international donors to local grassroots organisations. Examples of small grant funds, include the Small Grants Facility (Adaptation Fund), Fundo CASA, Global Greengrants Fund, South Asia Women’s Fund and Urgent Action Fund, to name a few. Many others have been formed around the world, with the purpose of channeling funds (in smaller amounts) from large international donors to where it is needed most.

Large international funds and donors, like the GCF should set an ambitious target for the disbursement of funds through small grants funds, while recipient country governments should require international donors to allocate funds from multilateral and bilateral sources to the existing local network of small grants funds.

4.1.4. Partnerships between large international funds and local NGOs and CBOs

The Kiva crowdfunding example demonstrates the importance of working with local partners (field partners), who have strong local knowledge and intelligence and have built trust within local communities and organisations by investing in their development and upliftment through sustained and relevant needs-driven capacity building. These partnerships with local communities and/or organisations are essential for the efficient delivery, management and sustainability of finance to the local level.

Inter(national) climate funds can adapt their financing approach by partnering with suitable local organisations, (NGOs and CBOs) who work alongside communities to plan, design, finance and implement local resilience projects. Training and skills transfer will be an essential component of this to ensure that the base of local networks and skills can be expanded and the reliance on limited resources can be reduced.

4.1.5. Institutional Capacity Building and Support

It is critical that local climate finance support and integrate tailored [and sustained] capacity-building support to build local institutions’ capabilities. This ensures that the benefit of financing is beyond once-off project implementation catalyzing local economic growth and institutional capacity. Capacity building and support can also be provided to national climate and development focal points as these stakeholders must have the ability to oversee devolved financing and decision making. Considering the bureaucracy of many international climate funds, it is essential that suitable national and local level mechanisms be created by donors, governments, NGOs for communities that are most vulnerable to the effects of climate change.

4.1.6. CSO Engagement and Community Participation

It is essential that local climate finance efforts directly engage with beneficiaries and members of multi-stakeholder committees (nationally and locally). This will ensure a level of buy-in but also facilitate learning between financial and community stakeholders.
Local ownership can be promoted through transferring budget control to local entities while encouraging local participation through participatory budgeting approaches (Coger et al., 2021). In the context of the GCF, CSO engagement must be promoted in the context of country programming, readiness initiatives, and national adaptation planning.

4.1.7. Instruments and scale

To further the scale of local climate finance, (i) decision-makers must integrate funding modalities that can enhance the interest and participation of local private sector entities (specifically SMEs) and (ii) donors and intermediaries must adopt greater programmatic approaches to delivering climate finance for smaller projects at the local level. This will not only ensure scalability and lower transaction costs, but also enhance community livelihoods in the long term.

A programmatic approach will achieve better 'value for money' than individual project approach (piecemeal approach) due to savings related to standardised procurement and contracting processes, synergies across project design, project administration and project coordination, lower finance costs applicable to a portfolio of similar projects versus individual projects and lower costs related to knowledge sharing and retention.

Financing approaches should also integrate blended finance opportunities. Blended finance is usually described as an investment approach, rather than a financial structuring approach. The emphasis should be on using blended finance as a financial structuring tool whereby catalytic finance (usually grants from public and philanthropic sources) are used to attract private finance at scale (especially given the limited public finance available to address climate change).

Donor organisations and their partners or intermediaries should explore and implement innovative financing instruments, such as Performance-based Grants that encourage greater engagement and coordination with local organisations, including local government institutions. These instruments are focused on local outcomes (desired impact) rather than mere outputs (products or actions) and enable local organisations with limited experience and resources (but a high degree of accountability), to directly access performance-based funding (Jonas et al., 2019) that are supported by local government institutions to achieve positive local impact.

4.1.8. Scaling and supporting existing community-driven microfinance mechanisms

Community driven microfinance schemes have proved to be a vital financial lifeline for many of the poorest and most vulnerable people in developing countries, especially during the Covid-19 lockdowns and other crises caused by natural and climate-related disasters. As these savings groups rely largely on pooling their own savings, the scale of these village micro-finance schemes is very small and limited. The level of contributions determines how fast the village savings group will mature and how fast its members will build their resilience. The higher the contribution, the more money will be available for loans to members to diversify their diet, start income generating activities and invest in livestock etc. (CARE, 2015).

It is essential that donors, governments and the private sector support and co-fund existing and innovative microfinance mechanisms and similar vehicles to expand the reach and scale of relevant needs-driven finance for locally led projects. Scaling should be done carefully and in a responsible manner to ensure that it does not lead to over-indebtedness. Additional funding should aim to expand the pool of funds, without changing the key success elements of the VSLA model, as this would lead to failure. Also, additional funding could initially be restricted to micro or small grants on a matching basis, i.e., for every $1 saved by a new savings group, 1$ (or a multiple thereof) is contributed as a grant - this grant funding will result in a greater pool of funds available for loans for income generation activities or other designated projects and the grant money can be used as a revolving facility, which can grow over time and be utilised to support new or existing savings groups. Grants can also be used for training and capacity building of members of savings groups (mostly women) related to financial literacy and financial management, good nutrition and health,
climate smart agriculture, income generation or to pay for essential operating expenditure such as transport cost - to ensure that greater amounts of people and more communities are reached, especially in rural or remote areas.

The VSLA SG is a well-established microfinance mechanism in the informal economy of many developing countries and there is an opportunity (that goes beyond funding alone) to support and scale the impact of these savings groups. One way would be to introduce technology and related training to improve the efficiency of administrative and financial management systems of these savings schemes. Most savings groups in Uganda and Kenya, for example, rely entirely on manual processes and procedures, with documentation and tracking of savings, loan advances and repayments being managed almost entirely with multiple handwritten copies of paper-based documents.

4.1.9. National level entities as intermediaries between global and local climate finance sources

National level institutions have and will continue to play a critical role in ensuring financial flows reach the local level. Firstly, national level institutions are most commonly the initial recipients of financial flows from multilateral climate finance sources. Secondly, national level institutions focused on the implementation climate finance flows are also likely to be responsible for the programming of domestic sources. National level institutions involved in programming climate finance can support local access in the following ways:

- Ensuring that there is a clear programmatic strategy for local climate finance access and implementation including the identification of strategic project activities.
- Developing tailored financial instruments, mechanisms and modalities that allows for streamlined direct access at the community level; and,
- Undertaking detailed community engagement in implementation areas to ensure that programmatic efforts attain buy-in.
5. Concluding Remarks

Reported public climate finance for climate change adaptation in developing countries remains relatively low at 25% of total public climate finance (Carty et al., 2020), while it is estimated that less than 10% of public climate finance reaches the local level (Soanes et al., 2017). Equally worrying, is the findings that loans and non-grant contributions account for 80% of public climate finance (40% of which is estimated to be non-concessional), (Carty et al., 2020) and is contributing to the increased indebtedness of developing countries, with the poor and most vulnerable communities experiencing the greatest negative impact.

But there are encouraging signs - funding for adaptation to climate change, which represents a priority for the world’s poorest countries, increased faster in recent years, from around $9bn (20%) per year in 2015–16 to $15bn (25%) per year in 2017–18 (Carty et al., 2020). A lack of supply and access to finance for local resilience solutions are impeding the ability of poor and vulnerable communities (including the grassroots organisations who operate within these communities) to respond to crisis, such as the Covid-19 pandemic and other climate-related disasters, such as floods, cyclones and droughts. Several barriers or challenges to financing at the local level were identified from the literature review and can be broadly categorised into supply side and demand side factors represented in Figure 1 and Figure 2.

![Diagrammatic representation of demand side barriers or challenges](image-url)

Figure 1: Diagrammatic representation of demand side barriers or challenges
It is therefore important to recognise that to successfully address the barriers or challenges that inhibit finance towards the local level, the proposed recommendations outlined in the previous section, must be carefully considered from both the supply side (providers of finance and their intermediaries) and from the demand side (recipients of finance and related intermediaries and project developers).

In addition, no single intervention alone will address the persistent barriers that inhibit the scaling of finance at the local level, but rather a combination of measures must be devised and implemented to ensure the success of proposed enablers, for example: simplifying access modalities and processes of donors and their intermediaries, must go hand-in-hand with strengthening the management and fiduciary capacity of local actors, intermediaries and CSOs, as well as adequate technical capacity development and support for local project implementers, institutions and actors.

Participatory engagement processes and structures for the design, planning and implementation of local projects must be sensitive and responsive to the specific local context, including gender dimensions and must ultimately involve a devolution of decision making to the local level to ensure adequate local ownership and accountability. It is important to note that despite the critical need for integrating community participatory engagements into project planning phases, financial support for this component remains a challenge. It is essential that grant-makers concentrate their efforts on funding for these phases of the project cycle thus mainstreaming community level considerations.
Annexure 1: References


Arnold, Margaret, Robin Mearns, Kaori Oshima, and Vivek Prasad, 2014. “Climate and Disaster Resilience: The Role for Community-Driven Development.” Social Development Department. World Bank, Washington, DC. https://www.gfdrr.org/sites/default/files/publication/850070WP0CDD0C0Box382145B000PUBLIC0.pdf


Annexure 2: Stories from Community Individuals

Village Savings and Loan Association Savings Groups - community driven microfinance

In southwest Bangladesh’s informal sector, savings groups have been providing economic support to their members, who are predominantly women. For Moyna, a member of a community savings group in Koyra, Bangladesh, the savings group has been life changing, as she was able to conveniently access loans to meet her daughters’ education expenses and to invest in the expansion of her vegetable garden.

In Central Uganda’s Gomba District, Twehayo Naume, aged 23, obtained practical training in construction from Women Climate Center’s International (an NGO), which enabled her to secure construction work within her community related to the safe construction and management of sanitation technologies, such as ecological toilets, lined Ventilated Pit Latrines and double leach toilets. Later, she was also able to train other youths in order to expand the roll-out of better sanitation in her community. Ms. Naume encouraged households to form clusters of ten households to facilitate joint resource mobilisation. Households in need of finance for sanitation projects were connected to Village Savings and Loans Associations for financial support (sanitation loans).

Tresor Women Warrior profit-driven and community-based microfinance

During the Covid-19 lockdown, TWW rallied and gathered the members of the community in Jalangbang and elsewhere, to inform them about the dangers posed by the Covid-19 pandemic and the need for proper hygiene and precautionary measures. TWW also provided soap and soap dispensers to its members. According to a local member of TWW, Mama Jobe, CBO’s such as the Tresor Woman Warrior are playing a vital role in [building the resilience of its members and community] protecting their members and members’ families from the virus [Covid-19], and so enabling them to continue farming in good health, and supporting their own food security and livelihoods. [emphasis added]

Kiva crowdfunding platform in partnership with local field partners - Mozambique case study

Amélia Rendição is a 51-year-old woman and farmer from the Sussundenga district in Mozambique. After a decline in her husband’s health in 2017, Amélia took over the management of their farm. She wished to expand the farm’s activities and with farm extension support from iDE, she enhanced the farm's horticultural production capacity and diversity. iDE also offered her provision of inputs, links to output markets, technical production assistance, and/or support to agribusiness management.

Amélia’s farming operations expanded and diversified so successfully that she became the district aggregator for other small-scale farmers. Amélia’s aggregation services and supply of agro-inputs assisted other farmers to better manage their farming costs and motivated them to engage in community-based savings and loans groups. With growing demand for fresh farm produce and given that many of the farmers live in remote areas with few transport options, Amélia (with the help of iDE) successfully accessed KIVA loans to purchase vehicles to strengthen her marketing and distribution activities.
Annexure 3: Additional Case Studies

Kenya’s County Climate Change Funds (CCCF)

The CCCF was developed specifically to direct climate finance to the local level for investment in climate change adaptation projects that address the priorities of local people in Kenya’s most climate change vulnerable arid and semi-arid lands. The CCCF’s approach relies on shared learning dialogues led by ward and county committees combined with capacity building in local institutions contributing to more equitable engagement and cooperation between communities and different layers of government, as well as improved coordination and allocation of resources at the local level. Key features include:

- Flexible and participatory approaches involving a diverse set of local stakeholders that improve planning and communication, governance structures and enable locally led action on climate resilience.
- Devolved adaptation finance managed by county governments who are better able to support locally prioritised adaptation investments using local knowledge and technical expertise.
- Promotion of cross-boundary and cross-border planning, critical for supporting locally relevant climate resilient development that are responsive to the pastoralist economies that often transcend administrative and national boundaries.
- Fosters peace and social relations between local actors, including government institutions.

World Bank’s Community-Driven Development (CDD) Approach

Community-driven development is an approach “…that gives control over planning decisions and investment resources to community groups and local governments.” (World Bank, 2014).

The CDD approach works on the premise of directly reaching very large numbers of poor people, without placing excessive demands on government line agencies. Traditionally this was done via government managed Social Funds that channeled grants to communities for small-scale development projects such as: socioeconomic infrastructure (e.g., building or rehabilitating schools, water supply systems, and roads), productive investments (e.g., microfinance and income-generating projects), social services (e.g., supporting nutrition campaigns, literacy programs, youth training, and support to the elderly and disabled), or capacity-building programs (e.g., training for civil and local governments), (World Bank 2009). As an example of the scalability of CDD, in Nigeria, the 3rd phase of the National Fadama Project covered all 37 states of the country, benefitting about 2.2 million households or about 16 million beneficiaries (World Bank 2014).

Principles of the CDD approach include, local empowerment, participatory governance, demand-responsiveness, administrative autonomy, greater local ownership and downward accountability, enhanced local capacity, and cost effectiveness (World Bank 2014). CDD projects can combine science-based data with local knowledge and expertise and especially local women empowerment to ensure more effective resilience outcomes. This approach also recognises the need to work across different levels to address the gap (policy, technical and information) that often exists between local or communities-led adaptation actions and national and sub-national planning. CDD’s promotion of bottom-up development approaches support demand driven responsiveness. CDD projects are also known for delivering cost-effective infrastructure and services and improved community ownership and maintenance of infrastructure assets.