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## Policy pointers

**Based on the subsidiarity principle,** countries should identify a range of delivery mechanisms to collaboratively finance locally led adaptation action at scale.

**Donors and aid agencies** should take an institutional approach to climate finance, strengthening or developing a set of delivery mechanisms to fund robust, agile and locally led adaptation at scale.

**Governments should** promote coordination — and at best, convergence — between delivery mechanisms for more integrated and locally led adaptation that reaches the whole of society.

**Donors and aid agencies** active within a given country or region should collaborate to support delivery mechanisms that suit their climate and development financing capabilities.

## Calling for business unusual: mechanisms for delivering change

The climate finance system is failing to respond to the triple crises of poverty, nature and climate. Going further and faster on climate action requires a whole-of-society response and more and better finance that reaches local levels. So, what needs to change? This briefing outlines a reimagined climate finance system led by agile, flexible, pro-poor and locally led adaptation financing institutions from across society that will facilitate more sustainable adaptation actions, and put decisions and resources into the hands of the people and places that need them most. Governments, civil society and the private sector must work together to identify and strengthen mechanisms to deliver a comprehensive adaptation response that will address poverty, restore degraded landscapes and adapt to climate change impacts. Donors and aid agencies must work together to coordinate their support.

Climate finance can help initiate the systemic change needed to tackle the interconnected and complex global challenges of the climate emergency, inequality and biodiversity loss. Central to this change are locally led solutions that either systematically engage local actors — from local authorities, enterprises and community organisations to communities, households and individuals — in adaptation investments or enable them to lead decisions over these investments. This approach can help address the marginalisation of the voices that matter most while tackling the triple crises more effectively, efficiently, sustainably and accountably. Yet in 2003–2016, less than 10% of global climate fund finance was dedicated to local action.<sup>1</sup>

We need to move beyond small, isolated community-based adaptation initiatives.<sup>2</sup> We must focus instead on developing and strengthening institutions and the mechanisms they use to deliver or facilitate sustainable,

locally led adaptation solutions at scale, as well as interact with different levels of governance to address more systemic risks.

### What is a delivery mechanism?

**Delivery mechanisms** are transparent and accountable governance, management and financial arrangements that facilitate local adaptation, either by helping local actors prioritise adaptation actions or by channelling flexible finance into local actors' hands for their own adaptation investments.<sup>3</sup>

These mechanisms are based on the **subsidiarity principle**, where local development and adaptation decisions are made at the lowest effective level (unless it would be more effective to do so at a higher scale). This allows those with most knowledge and experience to lead decision making.

Delivery mechanisms should strengthen local actors' capabilities to consider climate risks over

different timescales. They should also help shift incentives so local actors can make choices that perform better over longer time horizons and cost-effectively aggregate local adaptation actions at scale.<sup>4</sup>

Because climate change impacts, vulnerabilities and socioeconomic situations vary, different delivery mechanisms will suit different contexts. This briefing identifies several delivery mechanisms — led by the state, private sector and civil society — that

can help communities prioritise their adaptation investments (Figure 1).

## *Delivery mechanisms can facilitate locally led adaptation at scale and help reduce poverty and restore biodiversity*

### State mechanisms

State institutions can reach the poorest and most marginalised people at scale through existing governance and financing architectures. These include centrally run programmes delivering resources directly to local communities, enterprises, households or individuals and those run by local authorities.

**Decentralisation:** most countries have already decentralised some level of political, administrative, financial or market decisions from central to local government, providing a ready-made framework for locally led adaptation. In Kenya, Senegal, Tanzania and Mali, devolved climate funds empower local authorities and communities to lead adaptation planning and make investment decisions. They all have four components: funds, adaptation planning committees, community-level participatory planning committees and robust monitoring, evaluation and learning tools. They prioritise 90% of funds for investment in public goods such as wells, agricultural inputs, solar and afforestation to address development deficits and build climate resilience, with most investment decisions at community level. Kenya is scaling out its County Climate Change Fund, which has delivered £2.4 million to locally led adaptation since 2011, nationwide. The five participating counties to date have committed 2% of their own development budgets to the fund.<sup>5</sup>

**Adaptive and shock-responsive social protection:** developing countries spend more than US\$500 billion on social protection every year, supporting hundreds of millions of the poorest and most marginalised people through cash transfers, public works and/or employment guarantees. By better integrating climate risk management, these programmes could help

build people's climate resilience by placing cash and adaptation decisions in their hands.<sup>6</sup> India's flagship Mahatma Gandhi National Rural Employment Guarantee Scheme spends roughly US\$8 billion annually. It guarantees 100 days' paid labour to any rural household demanding it — plus another 50 in response to climate shocks — building small rural infrastructure that can increase resilience to climate shocks. It is also testing how to further integrate climate risk management into wages and small infrastructure in six states.<sup>7</sup>

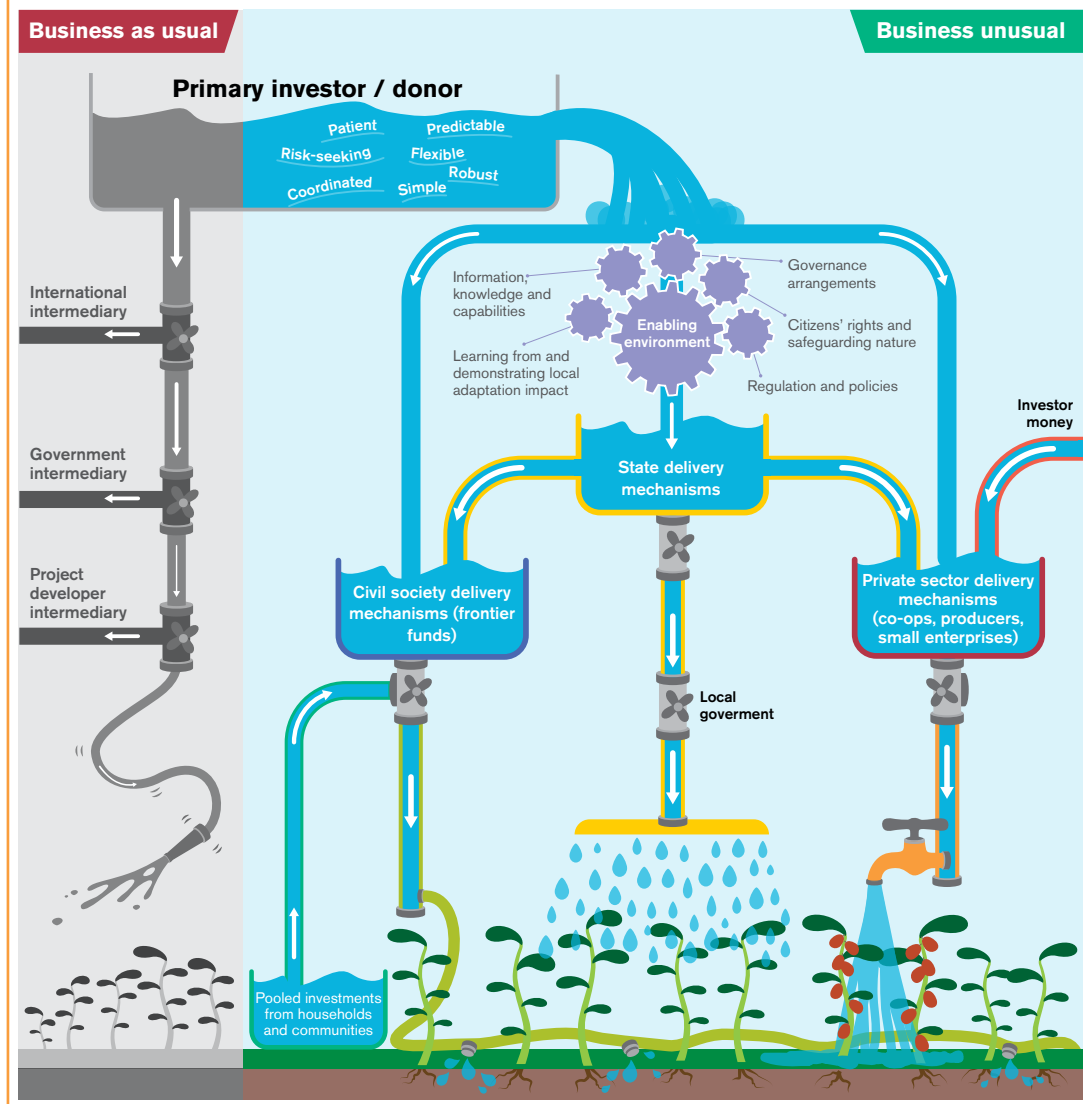
### Civil society mechanisms

Also known as frontier funds,<sup>8</sup> civil society delivery mechanisms are owned and led by grassroots organisations that are accountable to local communities. Taking many different forms across urban and rural landscapes, frontier funds generally help communities address issues of agency, power and rights to the land, natural resources and essential services that they need to reduce their vulnerability to climate change.

**Urban poor funds:** over one billion informal urban settlement dwellers are marginalised from the formal support that should keep them safe, resilient and secure. Organised urban groups — or urban poor funds — help informal settlers collectively save and provide flexible grants and low-interest loans to upgrade their slums. They also help strengthen their capabilities and collective bargaining power around rights to land, housing and other services. Slum Dwellers International (SDI) is a federation of shack and slum dwellers across 33 countries that supports revolving funds owned and operated by informal urban settlers. In Zambia, SDI subsidiary the Gungano Urban Poor Fund is using cumulative savings of US\$804,000 to support implicit adaptation actions such as installing dry toilets in flood-prone areas, fitting solar energy systems and repairing houses after natural disasters.<sup>9</sup>

**Rural community development funds:** although many rural communities depend on natural resources for their livelihoods and climate resilience, in many places these are being degraded. Organised communities around the world are using community savings and revolving funds to protect them. The Dema Fund supports environmental justice for indigenous and traditional people, women, Afro-Brazilians and subsistence farmers affected by deforestation in Brazil's Amazonian state of Pará. Established in 2004, the fund manages almost US\$6 million, providing grants of up to US\$9,000 to help social movements claim their rights and invest in sustainable forest management to improve livelihoods and restore the degraded forest.<sup>10</sup>

Figure 1. Business unusual: a reimagined climate finance landscape



### Private sector mechanisms

Private sector delivery mechanisms leverage adaptation finance to support locally controlled enterprises, local authorities, households or individuals. Some also help local enterprises adopt more climate-resilient business models and deliver local adaptation alongside profitability.

**Formal finance:** suitable for larger local institutions with strong financial performance records, formal loans, equity, bonds and credit lines provide funds for investing in new adaptation assets that generate positive cash flows and emergency funds during climate shocks.<sup>11</sup> The Jamaica National Small Business Loan Limited's climate-smart loan programme lends local tourism and agriculture businesses US\$200,000–5 million to strengthen climate resilience and project viability.<sup>11</sup> Eligible investments include flood control, drip irrigation and solar or rain water harvesting systems. But many conventional banks do not lend to the poorest and most marginalised, and formal

financial services in most developing countries only reach 5–20% of the population.<sup>12</sup>

**Semi-formal finance:** poor people may be able to access microfinance loans. But while these can help improve a vulnerable household's livelihood asset base, their relatively high interest rates and repayment terms mean that, when provided unsuitably, they can raise indebtedness, which increases vulnerability.<sup>11</sup> With 11.5 million members worldwide, village savings and loan associations or business funds offer more suitable microcredit options in the form of collective savings developed by and for small enterprise associations.<sup>12</sup> BRAC, the world's largest microfinancier, provides microfinance for accessing financial services, managing and building assets, investing in small enterprises and supporting disaster coping capacity. It also offers capacity building. Its new Bangladesh Climate Bridge Fund provides microfinance for locally led adaptation to help nongovernmental organisations implement

climate resilience building activities in vulnerable urban slums.<sup>13</sup>

### Aggregators and business development

**funds:** forest and farm producers, decentralised renewables projects and other local enterprises are often too big for semi-formal instruments and either too small or lacking the track record for conventional bank credit. Aggregators or risk-sharing facilities, whereby producers or projects form larger groups, can help reduce transaction costs for these smaller organisations. Fedecovera, composed of 43 cooperatives representing 25,000 of Guatemala's poorest farmers, provides crucial incubation finance to its members. With a local rural bank as partner, Fedecovera provides concessional credit and guarantees worth US\$6.6 million to support sustainable business development and natural resource protection and restoration. Its accounting department also offers financial management training.<sup>12</sup>

### Implications for donors, aid agencies and governments

With the right tools and support, these delivery mechanisms — and others, such as community-driven development, climate risk insurance, social grant funds and decentralised energy aggregators — can facilitate locally led adaptation at scale and help reduce poverty and restore biodiversity. However, although many developing countries receive support for their adaptation investments and planning efforts, few take an institutional approach. We therefore recommend that:

- Developing countries collaborate across government, civil society and the private sector

to identify existing delivery mechanisms that can deliver pro-poor development and locally led adaptation, and use subsidiarity as the key principle to ensure they deliver sustainable development and adaptation decisions across different people, places and economies.

- Countries coordinate or converge their responses because no single mechanism can deliver resilient people, places and economies alone. For example, adaptive microfinance may only be effective if combined with other mechanisms, like devolved climate funds. Different mechanisms can also strengthen others — for example, grassroots mechanisms can help improve social protection programmes' vulnerability targeting.
- Donors and aid agencies can use climate finance to help existing mechanisms facilitate locally led adaptation or build new delivery mechanisms where necessary. To facilitate a coordinated response, donors will need to provide the 'missing middle' of climate finance (Figure 1).<sup>14</sup> Donors and aid agencies should seek to coordinate or converge their climate and development finance to achieve this.
- All parties work together to create an enabling environment to incentivise locally driven climate finance and action in scale and quality. This should focus on helping poor and marginalised people make informed decisions through deliberative processes.

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### Getting money where it matters

This briefing is part of our 'Money where it matters' series on what works in delivering local climate action. The series presents thinking from a range of actors' experiences, gleaned from evaluations, reports, interviews and stakeholder meetings. Read more at: [www.iied.org/mobilising-money-where-it-matters](http://www.iied.org/mobilising-money-where-it-matters)

### Notes

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