Briefing

Climate change; Governance

Keywords:
Climate finance, financing local adaptation, climate resilience, local level finance, local communities

iied | IUCN National Committee of The Netherlands | WWF

Issue date
November 2020

Policy pointers

Donors, aid agencies and international intermediaries must drastically rethink the way they provide climate finance, pursuing a localised, people-centred, gender-just and socially inclusive approach that transfers power to local actors.

Donors and their intermediaries must reform their systems to provide finance programmes that go beyond five-year funding cycles, take risks and learn from mistakes to build institutions that can deliver finance effectively and at scale.

Development actors should capitalise on the opportunities for remote learning provided by the pandemic to focus on supporting longer-term institutional capability.

We must also work with local organisations to construct a strong impact narrative that will demonstrate their effectiveness, reflect on their successes and use their experiences to show that climate action is most effective and sustainable when driven from the bottom up.

Building local impact for better access to climate finance

There is an urgent need for better delivery mechanisms and institutions that can channel climate finance to local actors, as they are the ones who can deliver more targeted, context-relevant and appropriate climate adaptation outcomes. The shake-up of priorities brought by COVID-19 creates an opportunity to reorientate development finance flows towards a more localised approach. IIED has worked with local institutions through the pandemic, using the 'Money where it matters' (MWIM) framework to support their capabilities to mobilise and manage increased volumes of climate finance. Examining emerging evidence from this work and broader evidence from our MWIM research, this briefing sets out why donors and development actors should support local actors and how local institutions can develop joined-up, equitable and locally appropriate responses to the challenges they face.

With the world facing 'super wicked' crises of climate, nature and inequality,[1] local communities have the knowledge and skills to tackle the adverse impacts of climate change and the interrelated problems of poverty, rising inequality, ecosystem degradation and biodiversity loss. Participation by women's and other traditionally underrepresented groups increases the effectiveness of technical assistance,[2] contributes to social justice,[3] poverty reduction and sustainability,[4] and improves the impact of climate finance.[5,6]

But persistent gender norms reinforce discrimination and exclude traditionally marginalised groups from climate-related decision making, increasing inequality and vulnerability. Local communities also lack the long-term finance required to scale up or sustain their own adaptation actions. Development efforts are not capitalising on the wealth of local experience; finance is not getting to the people who need it; and time is running out.[1]

Only 10% of climate finance is committed to reach the local level. Of the 20% that reaches Least Developed Countries (LDCs), the lion's share is channelled to the national, rather than local, level.[7] Similarly, despite some of the largest donors and aid providers committing to channel at least 25% of international humanitarian assistance directly to the local level by 2020, 97% still flows via international organisations. This adds layers of intermediation, diluting both the funds that reach the local level and local organisations' ability to control them.[8] To unlock communities' accumulated know-how and allow them to play their vital role in transformative action, local actors need greater and better financial and technical support.

A joined-up, equitable and locally appropriate response

'Improving Access to Climate Finance: towards local impact', a joint project between IIED, WWF Netherlands and IUCN NL under the 'Shared

Resources, Joint Solutions' (SRJS) programme, provided remote technical support to the Agência de Desenvolvimento Económico Local de Sofala (ADEL Sofala) and the Environmental Conservation Trust of Uganda (ECOTRUST) (Box 1). These trainings built greater understanding of how to develop impact narratives, which communicate an institution's relevance, successes and tangible impact to donors, community-level stakeholders and other external actors. They also gave our partners the tools to consider how to deliver climate finance equitably and in ways that increase the agency of communities.[7]

It is time for a drastic rethink of climate finance provision and support for local partners

A broken climate finance system

With high levels of intermediation between donors and recipients, the climate finance system is not fit for purpose. As funds wend their way to their final destination, international, national and local actors along the chain syphon off administrative and management fees,[7] chipping away at the final amount left for meaningful investment. Interventions and mechanisms are designed far away from the communities they supposedly serve — one evaluation of the Green Climate Fund portfolio, for example, found that 40% of funding proposals failed to describe how they had consulted stakeholder groups during design.[9] First-hand knowledge of the interplay of climate impacts with environmental and cultural contexts and intracommunity politics is critical to a project's success or failure; yet those with that knowledge get little opportunity to plan, influence and decide how adaptation funds are managed.

Box 1. The project stakeholders

Under **SRJS**, a five-year strategic partnership (2015–2020) between IUCN NL, WWF Netherlands and the Netherlands Ministry of Foreign Affairs, over 50 nongovernmental and civil society organisations in 16 low- and middle-income countries together with international partners have worked together to safeguard healthy, biodiverse ecosystems to improve climate resilience, safeguard water supply and improve food security. Central to this work is the interface of climate and nature.

ADEL Sofala, a regional institution working on economic development in Mozambique, develops and seeks finance for projects that benefit excluded or disadvantaged groups and emphasise sustainable livelihoods. Its 14 member institutions facilitate access to microfinance and provide a range of services, trainings and technical assistance.

Nongovernmental environmental conservation organisation **ECOTRUST**, provides conservation finance, promotes natural resources and enhances social welfare by supporting innovative and sustainable environment management across Uganda. Working with communities and stakeholders to conserve natural resources and biodiversity, its key strategies include financial intermediation, capacity support and direct involvement in selected conservation activities.

Effective, long-term adaptation requires strong local institutions that can access funds and channel them to where they are needed most. But these institutions need to be built up. There is a **missing middle** in climate finance provision — local institutions either do not yet exist or lack the support they need to learn, grow and adjust over time to build a track record that would enable them to scale up operations rooted in deep local knowledge.[10]

This missing middle is the result of systemic failures to adequately activate, empower, capacitate, and resource national and subnational actors — including governments, banks and NGOs — despite their ability to deliver transformative adaptation where it is needed most.[10] Working through local institutions with strong knowledge of environmental contexts opens up the possibility of applying nature-based solutions to the climate, nature and inequality crises, regenerating ecosystems and addressing biodiversity loss while offering new opportunities for community resilience. But power over finance and spending decisions remains at the top, among donors and national governments.[11] We need a reimagined climate finance landscape that will shift away from business as usual to prioritise the most vulnerable (Table 1).

It is time for a drastic rethink of climate finance provision and support for local partners. Donors, aid agencies and international intermediaries must consider how their planned activities place power in the hands of local institutions. Tokenistic consultation and minimal involvement in design must end: local actors need to make critical decisions around prioritisation, spending and management. Donors and intermediaries should reflect on how they can pursue a localised, people-centred and socially just approach that transfers power to local actors.

From COVID-19 to climate action

The pandemic has repeatedly shown how effectively organised local actors can harness community knowledge and energy during immediate disaster responses.[12] Community-based organisations have rapidly been able to bridge informal economies and customs to deliver advice, masks, local testing and emergency financial support in ways that traditional programmes struggle to do. Their direct proximity to those most affected enables them to work in line with the principle of subsidiarity: that local development and adaptation decisions are best made at the lowest effective and most appropriate level. As well as enabling those with most knowledge and experience to lead decision making, this approach allows for experimentation and learning.[13]

The subsidiarity principle also applies to climate change. If local actors can mount effective responses to COVID-19, given adequate resources, they should be able to do the same to both slow and fast-acting climate hazards.[14] As states plan their recoveries to the pandemic, they have a window of opportunity to reform policies to ensure they tackle these challenges in more equitable and effective ways.

Applying MWIM with local partners

Preliminary evidence is emerging from the SRJS work supporting local institutions to build their capabilities over time.

An analytical framework: our joint project used the MWIM principles and building blocks as a flexible framing device[15] to analyse operations and objectives and to refine or develop strategic direction for local institutions and delivery mechanisms. The building blocks — shifting incentives, aggregating local action, building trust and long-term capabilities — provide a basis on which institutions can develop practices they can strive towards to deliver sustainable, locally led solutions at scale (Figure 1). Using them can help institutions develop the capabilities they need to draw down and manage larger sums of climate finance and improve finance quality by ensuring mechanisms are closely aligned with specific community needs.

Local partners must be able to translate their impact into results that vulnerable communities can tangibly understand. But they also need to translate them upwards, to ensure donors and larger intermediaries better understand their relative impact on the ground. We used the MWIM building blocks as domains of change to help ADEL Sofala and ECOTRUST develop a deeper understanding of their own visions, missions, operations, impacts and results. This also led to strategic examination of enabling and/or constraining sociopolitical contexts.

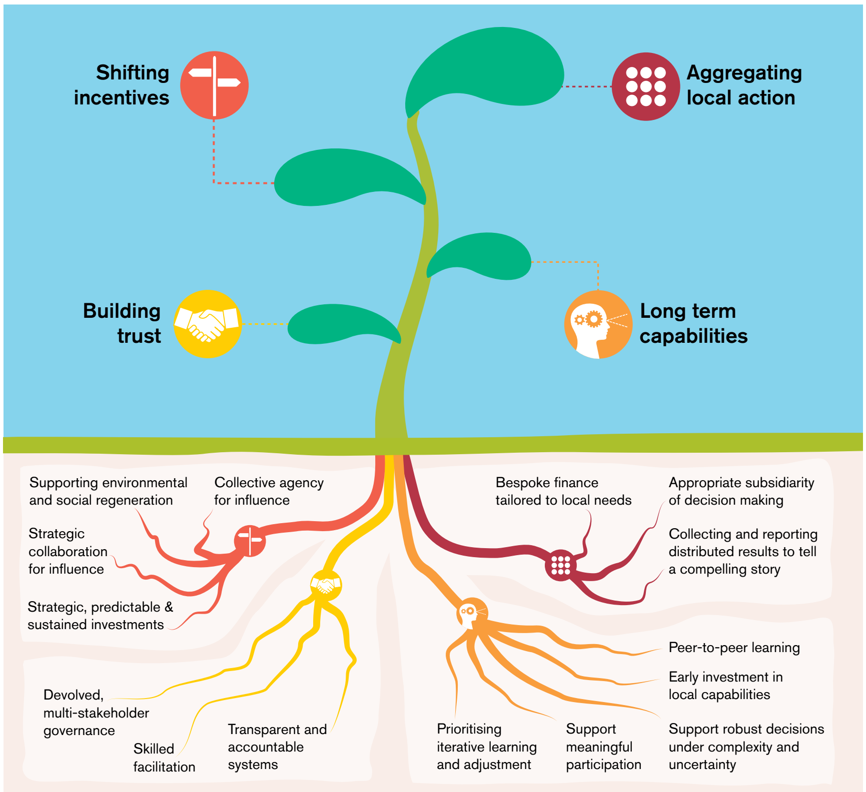
Patient, regular support: ADEL Sofala and ECOTRUST play an important role in facilitating local development processes in their respective landscapes. During the SRJS project, they mainly set their own learning agendas, facilitated by IIED. This allowed them to critically scrutinise and interpret their current and proposed strategic objectives, and decipher climate funds' often complicated access and reporting requirements, providing a viable route for mobilising additional finance. Taking place through regular engagements over many months at a pace largely dictated by the partners themselves, the process has enabled close consideration of local perspectives and valuable on-the-ground technical know-how.

Table 1. Business unusual: shifting to more effective climate action

	Business as usual	Business unusual
Scale and temporality	Investment myopia, funding short-term, siloed, sector-specific projects that are not coordinated or converged across mechanisms	Long-term (10-year+) programmes that reach across sectors and multiple levels
Governance	External actors lead and define most initiatives, often with one-size-fits-all solutions	LDCs and local organisations that include underrepresented groups are empowered to design, make decisions about, and monitor climate action and finance, allowing communities to lead
	Expensive interventions with layers of intermediaries and outside consultants	Builds LDC institutions and supports in-country capacity to stop relying on external intermediaries and consultants
Distribution	Only 18% of global climate finance reaches LDCs; only 10% to local level	Significant increase in finance to LDCs, especially to local level and most vulnerable; local prioritisation
Transparency, accountability	Prioritises upwards accountability	Includes transparency mechanisms and two-way accountability

A shift towards more effective climate action that prioritises the most vulnerable

Figure 1. Using the MWIM framework to build strong local institutions



Pandemic-related travel restrictions meant we delivered the project exclusively through virtual meetings, which have both drawbacks and benefits. While face-to-face interaction is valuable for building relationships, virtual engagement has allowed more regular contact time over a longer period. Engaging with partners remotely created a shift from fly-in/fly-out missions to more sustained support, putting ECOTRUST and ADEL Sofala in the driving seat and allowing them to consider strategic direction more thoroughly over time, and to integrate local perspectives more closely. Ongoing virtual engagements also allow for continuous feedback loops, leading to better co-creation. This is essential for generating buy-in from partners and assisting with learning objectives.[16]

Building a strong impact narrative: developing an impact narrative is a foundational step to understanding the types of information local partners can collate and present to demonstrate the value of activities. Neither ADEL Sofala nor ECOTRUST were adequately capturing activities and results, making it difficult to communicate their impact. ADEL Sofala uses two delivery mechanisms — the Local Economic Development Fund and the Accumulating Savings and Credit Associations — to give access to credit to over 25,000 people in small- and medium-sized enterprises, farm producer associations and marginalised groups working in the informal sector. ECOTRUST acts as an intermediary and is in a strong position to aggregate smaller projects to achieve both marketable and geographic scale. But neither organisation has a formalised framework or communications infrastructure for reporting this work to potential contributors, which would boost their ability to access finance.

Although both have policies and procedures that may be attractive to donors, they either document these across disparate internal documents or do not codify them at all. As a result, presenting evidence of robust fiduciary and social safeguards — essential for large-scale funding — is an ongoing challenge. Funds for scaled-up programming nearly always require careful, systematic documentation and reporting. As part of the SRJS project, both partners have scrutinised how they capture evidence and translate and leverage this information to appeal to existing and/or new climate finance funders.

A unique opportunity to change

The broken climate finance system means that potential innovative approaches remain untapped. The growing threat of climate and nature risks, coupled with the discourse of building back better after the pandemic, creates a unique opportunity for business unusual — a new approach to climate finance that can build long-term, sustainable local institutions able to access meaningful amounts of climate finance and channel them to where they are needed most. Donors and their intermediaries must seek to fill the missing middle with programmes that go beyond five-year funding cycles, take risks and learn from mistakes. Embracing ongoing learning and using in-country expertise is far more effective than traditional fly-in/fly-out technical assistance. Local actors can take this opportunity to demonstrate their effectiveness, reflect on their successes, systems and strategic direction to build a strong narrative, and use their experience to show that innovation is most effective — and indeed, most sustainable — when driven from the bottom up.

Barry Smith and Sam Greene

Barry Smith is a researcher in IIED's Climate Change Group. Sam Greene is a senior researcher in IIED's Climate Change Group.

Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges.

IUCN NL is the Dutch national committee of the International Union for Conservation of Nature, the world's largest and most diverse environmental network.

WWF is one of the world's largest and most experienced independent conservation organisations, with over five million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

Contact
Barry Smith
barry.smith@iied.org

80–86 Gray's Inn Road
London, WC1X 8NH
United Kingdom

Tel: +44 (0)20 3463 7399
www.iied.org

IIED welcomes feedback via: @IIED and www.facebook.com/theiied

ISBN 978-1-78431-856-7

This document has been published with support of the Shared Resources, Joint Solutions (SRJS) program, a strategic partnership between IUCN NL, WWF NL and the Netherlands Ministry of Foreign Affairs.

Notes

[1] Levin, K, Cashore, B, Bernstein, S and Auld, G (2012) Overcoming the tragedy of super wicked problems: constraining our future selves to ameliorate global climate change. *Policy Sciences* 45, 123–152. / [2] OECD (2008) DAC guiding principles for aid effectiveness, gender equality and women's empowerment. https://tinyurl.com/y2x6lo4v / [3] Okerere, C and Coventry, P (2016) Climate justice and the international regime: before, during and after Paris. *Wiley Interdisciplinary Reviews: Climate Change* 7(6): 834–851. https://tinyurl.com/yxhal6fj / [4] Salehi, S, Pasuki Nejad, Z, Mahmoud, H and Knierim, A (2015) Gender, responsible citizenship and global climate change. *Women's Studies International Forum* 50: 30–36. https://tinyurl.com/y6abtzpl / [5] Adams, L, Zusman, E, Sorkin, L and Harms, N (2014) Effective. Efficient. Equitable. Making climate finance work for women. ADB Gender & Climate Finance Policy Brief. https://tinyurl.com/y6oeblnl / [6] Wong, S (2016) Can Climate Finance Contribute to Gender Equity in Developing Countries? *Journal of International Development* 28(3). https://tinyurl.com/y2esyl8e / [7] Soanes, M, Shakya, C, Walnycki, A and Greene, S (2019) Money where it matters: designing funds for the frontier. IIED, London. pubs.iied.org/10199IIED / [8] van Abswoude, R and Heintze, P (2018) Dutch Review of the Grand Bargain Annual Meeting. The Global Humanitarian Assistance Report. Kuno, Netherlands. https://tinyurl.com/y6sa2qxx / [9] GCF IEU (2020) Independent Evaluation of the Green Climate Fund's Country Ownership Approach. Meeting of the Board, 10–12 March 2020, Geneva, Switzerland. Provisional agenda item 14(a). https://tinyurl.com/y2y6can2 / [10] Omari-Motsumi, K, Barnett, M and Schalatek, L (2019) Broken Connections and Systemic Barriers: Overcoming the Challenge of the 'Missing Middle' in Adaptation Finance. Global Commission on Adaptation Background Paper. https://tinyurl.com/y4twqswh / [11] Soanes, M, Patel, S, Rahman, F, Smith, B and Steinbach, D (2020) Good climate finance guide: lessons for strengthening devolved climate finance. IIED, London. pubs.iied.org/10207IIED / [12] Wilkinson, A (2020) Local response in health emergencies: key considerations for addressing the COVID-19 pandemic in informal urban settlements. *Environment and Urbanization* 32 (2). / [13] Ostrom, E (2014) A polycentric approach for coping with climate change. *Annals of Economics and Finance* 15 (1): 97–134. / [14] Soanes, M (2020) Calling for business unusual: mechanisms for delivering change. IIED, London. pubs.iied.org/17749IIED / [15] It is beyond the purview of this briefing to give a full overview of the framework. Please see Soanes, M (2019) Financing local responses to poverty, climate and nature. IIED, London: pubs.iied.org/17711IIED / [16] Ensor, J and Harvey, B (2015) Social learning and climate change adaptation: evidence for international development practice. *WIREs Climate Change* 6: 509–522.