Backgrounder

Climate change, Drylands and pastoralism

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Going local: fast tracking climate finance to the most vulnerable

Decentralised financing mechanisms channel funds to the local level, empowering communities to respond to climate change

To respond to the impacts of climate change, developing countries need climate finance in the right quantities, delivered at the right speed. Finance is being channelled to local communities to some extent, but it's neither enough nor at the pace needed by the poorest, most vulnerable nations. At the same time, most climate finance is being invested in large-scale projects that take considerable time to design, finance and deliver; this is slowing climate action further.

Perceived barriers and blockades

Smaller-scale decentralised projects can have a big impact. They are more appropriate for funding local activities that deliver action rapidly and give communities a greater say in how climate finance is spent. But investors perceive barriers to investing locally, including:

- Local investments are risky
- Local investments incur high transaction costs
- There is insufficient capacity at the local level to develop and manage projects.

Delivering climate action through decentralised systems can be more effective because of the accountability, efficiency and sustainability of investments that are identified and delivered by local actors — local governments, community

KEY TERMS

Climate finance: public and private finance that funds climate adaptation and mitigation action.

Nationally Determined Contributions (NDCs): national plans for how parties to the United Nations Framework Convention on Climate Change (UNFCCC) will reduce carbon emissions and adapt to the impacts of climate change.

Least Developed Countries (LDCs): Countries across the world with the lowest levels of socio-economic development.

Devolved climate finance (DCF): A mechanism that uses decentralised structures to get climate finance into the hands of sub-national government for investing in projects that respond to the needs of climate vulnerable communities.

VITAL STATISTICS

- Implementing the LDCs' plans for adapting to climate change and reducing emissions (ie their NDCs) will cost an estimated US$93.7 billion each year (IIED, 2016).
- The global community has committed to delivering US$100 billion annually to developing countries by 2020 to respond to the effects of climate change. Currently, less than a third of international climate finance is reaching the LDCs (OECD, 2014).
- Less than ten per cent of international climate finance is prioritised for the local level (IIED, 2016). To be effective in helping poor communities build resilience and tackle the effects of climate change, many more climate funds need to reach local communities.

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organisations, NGOs, local businesses and others. Distributing finance through these smaller systems means action can be deployed more quickly, and address local concerns and priorities.

These systems also engage with national financial aggregating agencies that provide funds to a range of smaller projects or local agencies. For investors, dealing with one single agency — rather than a range of smaller ones — avoids high transaction costs, often perceived as a barrier for channelling local finance.

What success looks like

Nurturing innovative local financial mechanisms can help deliver climate action at pace and scale. Some examples include:

- **Devolved climate funds** set up by an alliance of government and non-government bodies in Kenya, Tanzania, Mali and Senegal are decentralised mechanisms designed to help local governments and communities access global and national finance for community-prioritised investments. The funds connect communities with formal national planning systems and build local ownership in how the funds are managed. They have been instrumental in channelling finance rapidly to vulnerable low-income communities at the local level, ensuring sustainability and managing risks. Until recently, line ministries and national departments struggled to receive viable proposals from sub-national levels. The devolved climate finance approach bridges this gap and builds local capacity to develop investment projects. The funds in these four countries also provide a positive example of managing fiduciary risk at the local level.
- **Urban poor** funds pool community savings and provide an accessible form of finance for urban poor groups. IIED has been collaborating with non-state actors such as the Asian Coalition for Housing Rights and Slum/Shack Dwellers Association to organise urban poor groups to access development finance for improving basic services.
- **Decentralised energy projects through aggregation platforms** can play a key role in delivering decentralised energy projects more effectively, by bringing together a range of projects under an umbrella funding arrangement thus reducing the transaction cost of delivering several energy projects at smaller scales. IIED has been building evidence on a range of such aggregation platforms, operating across several countries such as IDCOL in Bangladesh, AEPC in Nepal and the GETFIT energy model in Uganda.

These examples show that climate finance can be effectively delivered to and channelled through local systems. Yet ensuring that funding takes local needs and priorities into consideration will require significant changes to the way international and national public or private finance is spent. This may require:

- Identifying innovative decentralised financing mechanisms that can be scaled up and replicated
- Enabling de-risking policy and financial instruments that can encourage local public and private investments
- Identifying and nurturing inclusive national agencies with experience of working with local communities. Working with one single national agency can also reduce transaction costs of distributing funds through several agencies.

What IIED is doing

Drawing on our experience of more than 25 years of work on local finance, IIED is building international awareness of the benefits of decentralising finance, and strengthening local capacities to access and manage those resources. We will continue to work with national governments, civil society and the private sector to review the successes and challenges of a range of different local financing methods. We are also developing a methodology to find out how much development and climate finance actually flows to the local level.

- Funds delivered locally are achieving real change. Since 2012, devolved climate funds have been invested in 240 community-prioritised projects reaching 1.5 million people.

WHY IS THIS IMPORTANT?

Climate finance — international, national and local sources of funding for climate mitigation and adaptation — is critical for delivering the Paris Agreement. But to date, climate finance is not being delivered in the right quantity or at the pace needed. Nor is it reaching the poorest communities on the front line of climate change.

Local communities understand local concerns and priorities but too often lack the finance, authority or voice to act effectively. To build their resilience to the impacts of climate change, communities need to be included in decisions about how money is spent and have enough funding to act effectively.

Evidence shows the effectiveness of climate finance when delivered through local systems, therefore increasing the impact of every dollar of climate finance disbursed. It is crucial to work with national governments, civil society and the private sector to nurture these innovative local financing mechanisms that can mobilise climate finance at speed, and reach the poorest and most vulnerable.

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FIND OUT MORE

IIED's work on local climate finance is undertaken by our Climate Change Group and partners. For information see www.iied.org/money-where-it-matters-local-finance-implement-sustainable-development-goals-paris-agreement and the following publications: *Delivering real change: Getting international climate finance to the local level* (http://pubs.iied.org/10178IIED); *Devolved Climate Finance* (http://pubs.iied.org/17440IIED); *Resilience Building in Tanzania: Learning From Experiences of Institutional Strengthening* (http://pubs.iied.org/10129IIED).