JANUARY 2018

MICROFINANCE FOR CLIMATE RESILIENCE AND ADAPTATION

PPCR RESEARCH BRIEF

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INTRODUCTION

Microfinance is a critical enabler of climate resilience. This research brief uses a case study approach to document best practice and innovation on climate directed microfinance mechanisms that have arisen from a variety of variety of Pilot Project for Climate Resilience (PPCR) funded country interventions. These range from Tajikistan, Mozambique and Jamaica, as well as a number of other country examples. In order to spread the knowledge net wider it also includes innovative finance mechanisms utilized outside of the PPCR.

The PPCR is strongly oriented toward community level resilience building and therefore microfinance has a central role to play in enabling adaptation responses among poorer communities who are also often the most vulnerable to climate change and variability.

The research brief establishes the case for micro climate finance and provides tangible examples of mechanisms and solutions currently in place. These examples capture both processes undertaken to design the mechanisms, as well as examining the efficacy of the structure and form of the mechanisms themselves. Box 1 captures an overview of the research brief.

BOX 1

Microfinance Research Brief: Overview

This publication highlights the experiences of a few countries within the PPCR Community of Practice (COP) in relation to the design and approach of the PPCR, under the broader umbrella of the Climate Investment Funds (CIF).

Purpose. This publication is intended to support evaluative learning. Its purpose is to a) help countries and institutions involved in the PPCR to identify and leapfrog potential pitfalls in their approach, and b) contribute to potential refinements to the design and approach of microfinance solutions.

Audience. The primary audience is all PPCR countries, CIF involved Multilateral Development Banks, and CIF staff. The secondary audience extends across the climate change and resilience community.

Co-creation. This brief was created through a collaborative effort involving the PPCR Learning Partner and stakeholders to the PPCR COP. Its origins lie in discussions and information shared at the PPCR Regional Learning Exchange for Latin America and the Caribbean, held in Grenada in September 2017. The information gathered here has since been supplemented as a result of conversations with other PPCR stakeholders in other regions. Currently a draft version, it will be refined and improved in light of feedback from the PPCR COP, through moderated discussions on the PPCR COP Facebook Page and reviews by contributing countries and the CIF Evaluation and Learning Initiative.

WHAT IS MICROFINANCE?

The heart of microfinance is that it provides access to basic financial services by financial institutions to people who otherwise do not have access to traditional banks. Microfinance offers a mechanism to overcome these hurdles of non-access through innovations that include group lending, peer monitoring and joint liability, as well as access to very small loan amounts, frequent repayments, and the establishment of compulsory savings accounts by loan recipients. Its underlying vision is a development perspective where low-income households are able to have permanent access to a broad range of high quality and affordable financial services offered by a range of providers able to finance income-producing activities, build their assets, stabilize consumption, and protect against risks.

Women are among the most vulnerable and poorest members of low-income societies. Women in poor rural regions are also known to be more reliable borrowers of credit than men. Microfinance therefore helps significantly to empower them, and it is no accident that **68% of global microfinance** customers are women. They also tend to invest in sectors that improve their families' welfare, such as education and healthcare. Some microfinance institutions have developed savings and insurance products specifically for women to help save for health expenses and facilitate their role as caregivers. Mobile banking services have been designed to reach women who face access constraints. Hence microfinance has given women additional income earning opportunities, increased their independence, and improved their status both within their families and their broader communities.

Microfinance has the following key characteristics:

- It involves the delivery of small loans and other financial services to low income and otherwise disadvantaged groups or individuals, with compulsory, frequent payments.
- In doing so it helps the poor develop alternative livelihood opportunities, build up their assets, establish or develop a business, and protect against risks.
- Its aim is to alleviate poverty by stimulating economic growth through entrepreneurial initiative.
- Hence it promises to overcome hurdles through innovations.
- Microfinance institutions are entities ranging from community-based organisations to more formal entities such as non-governmental organisations (NGOs) and banks.
- Microfinance products typically include micro-credit, micro-deposit, and micro-insurance schemes. These also may be integrated with non-financial services such as health and education.
- As a development mechanism, the delivery of microfinance is perceived as an attractive vehicle for facilitating adaptation.
- This goes beyond simply ensuring adequate finance and requires a developmental country-wide, political economy approach.
- This is because it requires adequate systems for policy, planning and budgeting to ensure country readiness in order to access, govern and deliver appropriate funding.
- Country readiness is shaped by each country's political economy - the ways in which various actors work with ideas, power and resources to develop and implement policy.

MICROFINANCE FOR CLIMATE RESILIENCE IN THE PPCR

The rise of climate finance initiatives is reshaping the political landscape in developing countries. New incentives and governance structures have reshuffled priorities and power. Within countries, various actors negotiate for climate finance and influence its delivery. The incentives they derive from their mandates, organisational structures, procedures and policies, and from their resources and knowledge base, can strengthen these decision-making coalitions.

Applying a microfinance approach to financing climate resilience requires adapting these key characteristics to the specific terrain of climate resilience and adaptation in a particular country's political economy. Decision makers need to understand this political economy in order to assess climate finance country readiness, and deliver plans that have wide stakeholder support. Clarity about the **political economy of climate investments** can help leaders build opportunities for consensus, avoid obstacles and pick more equitable and representative investments.

The US$1.2 billion PPCR is a funding window of the CIF for climate change adaptation and resilience building. It was established in 2008 and provides programmatic finance to support country efforts to integrate climate resilience into development planning and implementation. This is done through a country led programming process, which results in an investment plan (i.e. the Strategic PCR, or SPCR). It also provides additional funding to put the plan into action and pilot innovative public and private sector solutions to pressing climate related risks. Each PPCR pilot country, in collaboration with the Multilateral Development Banks, has been implementing the revised results framework since 2014.

The PPCR is meant to empower countries to approach climate resilience in a programmatic manner. Moving beyond project by project activities that have limited potential to effect national or sector wide transformations, the PPCR programmatic approach entails a long term, strategic arrangement of linked investment projects and activities. The aim is to achieve large scale, systematic impacts and take advantage of synergies and co-financing opportunities.

The PPCR Monitoring and Reporting system is based on four principles: country ownership, stakeholder engagement, use of mixed methods (qualitative and quantitative), and learning-by-doing. The revised results framework contains 11 indicators, five of which are core indicators. The other six are optional indicators. Among the five core indicators, two track progress on climate resilience mainstreaming at the national level, whereas the remaining three track progress at the project level and are aggregated at the investment plan (programmatic) level. Country results on these five core indicators are aggregated and synthesized annually.

PPCR funding is provided in two stages
(see following page):
Stage 1: Prepare a Strategic Programme for Climate Resilience

- Involves a planning grant supporting preparation of a proposal for a SPCR.
- The SPCR includes funds for two types of investment: i) technical assistance and ii) investment finance.
- Technical assistance is for countries to integrate climate resilience into national and sectoral development plans, and incudes grant funding for policy reform, capacity building, and long-term institutional strengthening.
- Investment finance is for on the ground investments that focus on up to three themes or sub-regions within the country. It is a combination of grants and loans.

Stage 2: Implement programmes

- ***Provides financing of up to US$60 million in grants and up to US$50 million in loans for actual investments.***

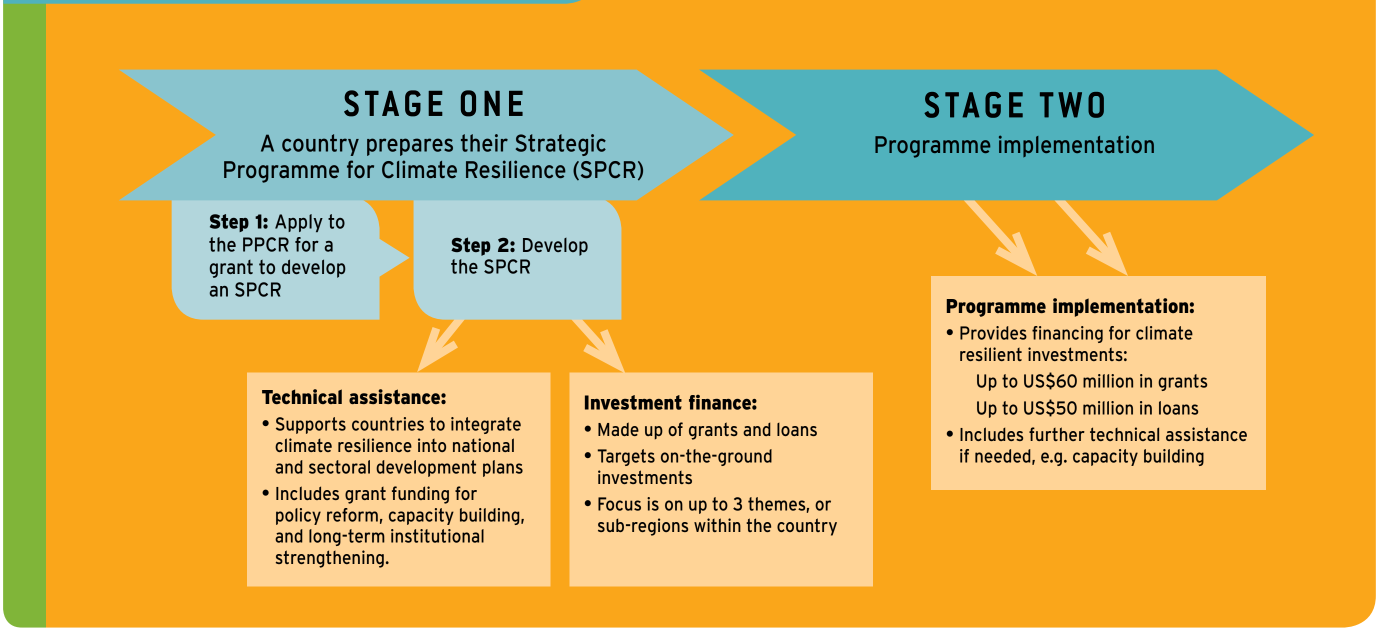


FIGURE 1. The PPCR funding mechanism

Microfinance and adaptation

Planning for, and responding to climate change is often hampered by an 'adaptation deficit'. This is caused by a lack of institutional, financial or technological capacity to adapt effectively. In addition, there is a lack of effective delivery mechanisms to channel climate finance resources at the sub-national level, particularly to target the poor who are also often the most vulnerable to the impacts of climate change. This is where microfinance for climate resilience can play an important role as it is an attractive vehicle for facilitating adaptation.

Transformational Change

The meaning of "transformational" change can be described in opposition to "incremental" change. The latter is common to development interventions: it seeks to *avoid* disruptions to systems, whereas transformational changes are designed explicitly to achieve system disruption. There have been various attempts to define what transformation looks like in a practical sense. However, some of the most common suggestions refer to activities that are adopted at a much larger scale or intensity; that are truly new to an area or system; that cause a transformation to places and shift locations; and have lasting (sustainable) outcomes.

Climate change is widely recognized as necessitating transformational change in many sectors and institutions. Incremental change is insufficient as a response to climate change, given how it overwhelms existing system coping capacity and/or reveals large vulnerabilities in regions, populations or resource systems. In the case of water resources, climate change is likely to significantly increase human exposure to droughts and floods, alter seasonal patterns of water availability, and affect water quality and the health of aquatic ecosystems and ecosystem services. Existing approaches and institutions for managing water resources need fundamental changes if they are to adapt to this new reality.

Using microfinance is an important means of achieving transformational change in building climate resilience. The case studies in this brief show for example that microfinance can be used to educate financial institutions and the public alike about the opportunities available for enterprise development through climate resilience building and adaptation in water resource management..

MICROFINANCE MODELS FOR ADAPTATION IN PPCR COP

The critical question is understanding how microfinance interacts with adaptation in practice. The best way to do this is through a comparative case study approach. This approach will explore alternative models adopted and implemented, using PPCR COP, in a variety of different countries – Jamaica, Tajikistan, and Mozambique. Their experience is captured in the following case studies.

The three case studies presented below demonstrate some of the challenges that PPCR countries have faced in providing access to micro-finance where it is most needed. In some instances, solutions to these challenges are demonstrated, whilst in other instances, where solutions have yet to be found, the lessons learnt may assist countries to anticipate similar potential challenges. These lessons are:

Jamaica	Extending a line of credit through a mutual bank
Tajikistan	Strengthening capacity and leveraging further funds
Mozambique	A state-run process of disbursement

The case studies have been further analysed in terms of the need for adaptation, the type of PPCR model applied, and the reason for choice of a particular model. Operating structure, projects, risk management and knowledge management are also addressed, as critical aspects of PPCR project design.

Farmer Randy Finnikin (Jamaica) used a Climate Change Line of Credit to access funds for an irrigation system for his onion farm.

JAMAICA CASE STUDY
Extending a line of credit through a Mutual Bank

CASE STUDY 1

CONTEXT: As a small island developing state (SIDS) in the tropical hurricane belt region of the Atlantic Ocean Jamaica is particularly vulnerable to the effects of climate change. Climate change impacts are felt in increasingly unpredictable weather patterns - rising sea and air temperatures, more frequent and severe hurricanes resulting in storm damage, droughts, flooding, landslides, biodiversity loss, agriculture impacts, reduced freshwater.

NEED FOR ADAPTATION: Concerted adaptation efforts are required to mitigate against increased and recurring loss of life, property and livelihoods. Accessing and distributing funding for adaptation and resilience building efforts is a serious challenge to Jamaica as a small island and a developing country.

Colonel Khan Finance Mechanism Talk

PPCR MODEL: Using a private sector cooperative Mutual Bank as the intermediary institution.

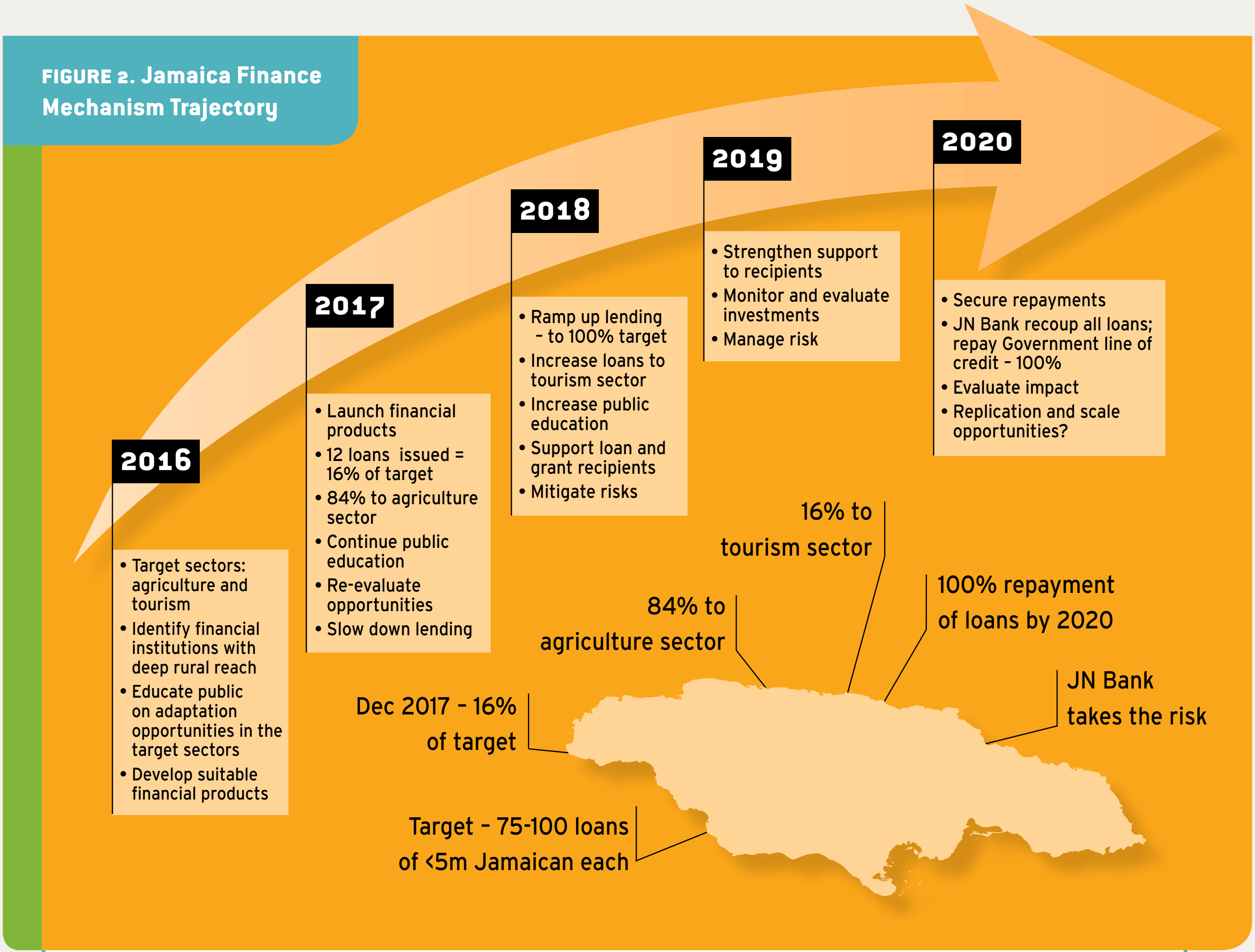
PPCR FINANCE AND IMPLEMENTING MECHANISM: The Planning Institute of Jamaica (PIJ) is the main focal point providing finance for piloting climate change adaptation measures. The Ministry of Economic Growth and Job Creation (Ministry) is the implementing agency for the PPCR, reporting to the PIJ. The Ministry works with implementing partners, mostly government agencies, and of particular interest, a lead private sector institution. The Ministry followed the example model of the Government of Jamaica in providing loan financing to the private sector (Approved Financial Institutions - AFI) through the Development Bank of Jamaica (DBJ). The AFI then on-lends to enterprises under the conditions established by the Government. The DBJ monitors the AFI to ensure adherence to the conditions.

In March 2017 the Inter-American Development Bank (IADB) allocated US$17.5 million (J$2 billion) to the Adaptation Programme and Financing Mechanism (AP&FM) project, one of five falling under PPCR in Jamaica.

REASON FOR CHOICE OF THE MODEL: In order to achieve targeted reach, it was regarded as important to find a financial institution with access to rural areas, commitment to providing support after loans were granted, and willing to provide green loans, or financing for environmentally sustainable enterprises, and grant finance. The government therefore engaged in a pre-selection scoping exercise of all financial institutions to find appropriate partners. A mutual bank, JN Bank, was chosen because it had a deep reach into communities across Jamaica, including those in rural areas. In addition, being a mutually owned cooperative, it accepted lower profits and was able to offer lower lending rates than competitors.

OPERATING STRUCTURE: Through a ministerial open tender process, private sector banks were requested to partner to disburse finance directly to affected communities and small businesses for climate change adaptation. JN Small Business Loans Limited (JNSBL) was appointed to provide competitive loans through the extension of a line of credit in the form of loans to farmers and small enterprises and grants to communities in the tourism and agricultural sector - Jamaica's most vulnerable sectors to climate change. All loans and grants are under J$5 million, and are underwritten by funds from the PPCR.

FIGURE 2. Jamaica Finance Mechanism Trajectory



PROJECTS: The focus is on adaptation support in agriculture and tourism. A major thrust has been communication and sensitisation of opportunities to potential clients in these sectors. The aim is to have 75 to 100 loans, issued and repaid, by 2020. Thus far 12 loans have been granted totalling US$300,000. Ten of these loans have been in agriculture and 2 were granted to small hotels in tourism sector to help them retrofit solar pumps to their water systems. The upcoming year is critical in terms of ramping up loans and grant issuances based on earlier learnings.

The agricultural projects will support:

- 1,800 dams constructed
- 250 communal rainwater harvesting systems installed
- 3 rain water ponds and post-harvest storage and processing facilties rehabilitated
- 5 aquaponic systems installed
- 3 greenhouses / shade houses established
- 6,400 metres of grass and live vegetation barriers created

For further information see this **video** *produced by PPCR Jamaica.*

RISK MANAGEMENT: The IADB is not involved in implementation, but plays a close monitoring role. The Ministry, through the Project Executing Unit (PEU) of the Adaptation Programme and Financing Mechanism for the PPCR (AP&FM-PPCR) sets the framework, provides guidance to, and monitors the work of the JNSBL.

Rainwater harvesting Blue Mountain

The JNSBL is required to pay back funding to the government, through recouping the loans made to public members, which incentivizes it to be thorough and proactive, exercising due diligence. The Ministry then needs to pay the money back to the IADB.

It is important for the model to manage expectations and perceptions, and for recipients to perceive the loans as a commercial process rather than as coming from government, even though the funds ultimately come from the Ministry. This is because government funding is seen as 'free money' and thus recipients are not keen to pay the money back.

The JNSBL uses a rigorous screening process. Once a decision is made, accepted applicants are given six months to start repaying the loan. The facility, now in its second year, is still in its infancy, is learning as it goes along, and is intentionally operating slowly in terms of loan decisions in this early phase.

Two technical coordinators in the PEU provide support to clients, follow up on progress to monitor investments and minimize risks. Working closely with clients acts as a safeguard, providing an early warning system, alerting the JNSBL ahead of potential loan default situations. This is working to its advantage to promote loan repayment.

However, given that the programme has to be completed (with all loans repaid) by 2020, the intention is to now radically ramp up project allocations (especially in the lagging tourism sector) in order to meet the targets set. The JNSBL also has a monitoring initiative, using a variety of indicators, including gender based ones, to track progress.

CHALLENGES: A main challenge is ensuring poor communities were aware of, and had access to, the funding made available through the PPCR. This included ensuring that loan interest rates were reasonable and acceptable.

The existing capacity of NGOs, community groups and micro, small and medium sized enterprises required setting a viable loan ceiling that could be effectively handled and met by customers.

The willingness of financial institutions to invest in climate change adaptation enterprises was a significant challenge. There was little understanding on their part about business opportunities that could be made available and were unwilling to extend loans without collateral.

Climate finance access is usually at the project level and then filters down to the community level. The big challenge is closing the gap to ensure easily accessible finance.

OBSTACLES AND BARRIERS: Several obstacles to promoting microfinance required addressing, including:

- Risk averseness towards borrowing money of micro and small enterprises, especially in the agricultural sector
- Lack of knowledge about the impacts of climate change
- Lack of knowledge about the potential benefits of climate change adaptation measures
- Slow uptake of loans due to low awareness levels across both target sectors, with greater public understanding of the adaptation opportunities in the agricultural sector.

SOLUTIONS: Ensuring access by poor rural communities to the appropriate institutional mechanisms required high levels of education and sensitization of recipients about the funding institution and the opportunities available. In order to make loans affordable, further negotiations were necessary with the Jamaican Central Bank, which required them to set aside certain fees and to absorb various costs to reach the target 4% interest rate.

Through the partnership collaboration, a solution was developed to address the capacity issues of NGOs, community groups and SMEs that maximizes both access to finance through the JNSBL network across Jamaica, as well as affordability. The J$5 million loan ceiling was based on an estimation of the costs involved in implementing projects at the scale and level related to the capacity of NGO, community groups and micro, small and medium sized enterprises.

Borrowers fill out a loan application form and submit to the JNSBL. The JNSBL Staff specifically assigned to the Climate Change Adaptation Line of Credit (CCALoC) assist potential borrowers to navigate through the process, including implementing a communications strategy for the CCALoC.

The delivery of customised education, to and through, financial institutions was required to promote investment in SMEs to ensure more accessible funding to SMEs and poorer communities.

KNOWLEDGE MANAGEMENT: Education and training of and through financial institutions has played a major role in the programme. Financial institutions have been assisted in designing suitable products for poorer communities and SMEs, new types of technologies or investments that are more appropriate, and extension facilities to farmers.

The project is also implementing climate change awareness initiatives through its Communications Strategy. This deals with knowledge management, including the recent establishment of the Jamaican PPCR website. **Videos** are being made of lessons learned thus far.

A communication working group with communication officers of other projects has been established. There is also a focus on educating finance institutions. The PEU is deeply involved in training on the product technologies and investments SMEs, along with training the institutions.

The CCALoC is promoted by both the JNSBL and the PEU through exhibitions and advertisements in the media (mainly radio and television).

TAJIKISTAN CASE STUDY
Strengthening capacity and leveraging further funds

CASE STUDY 2

CONTEXT: Tajikistan is landlocked, and economically dependent on Russia. It struggles with poverty, corruption, uneven economic reforms, economic mismanagement and instability. Nearly 47% of its GDP comes from migrant remittances. The economy is highly vulnerable to external shocks. Tajikistan is extremely vulnerable to climate change as it is very dependent on glaciers for clean drinking water and hydropower. But these glaciers are disappearing.

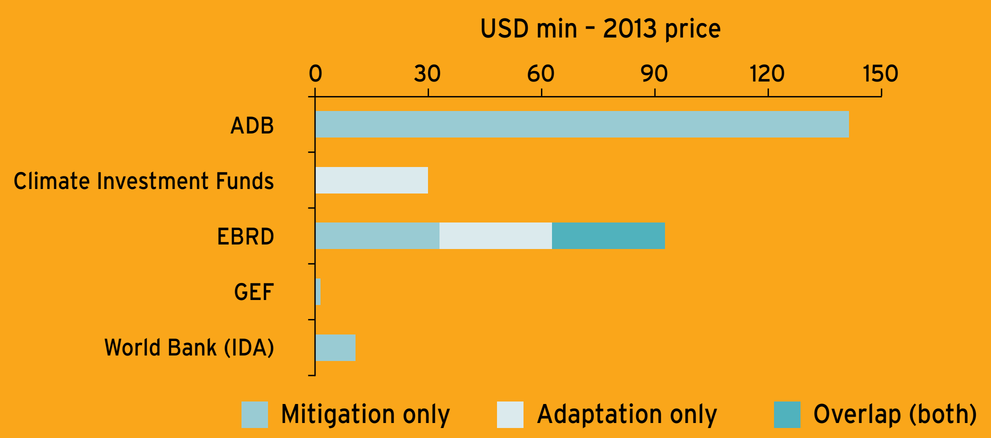
NEED FOR ADAPTATION: The priority actions or sectors for adaptation are energy, agriculture and forestry, eco system protection, water resource management, transport, and housing as well as disaster risk management. Reforestation is the only action listed as a priority for the unconditional mitigation contribution. Biodiversity and ecosystem protection may have co-benefits with reforestation.

PPCR MODEL: Dual model of strengthening and building absorptive capacity at government and community level through direct and indirect action, and leveraging further climate resilience funding on the back of demonstrated success. Capacity building involved: 1) Projects directly aimed at strengthening government decision making and absorptive capacity. 2) Using an NGO to operate at lowest level of communities with sub grants being directly disbursed to local populations (individuals, households and communities), and indirectly through disbursing funds to water user associations at the district or community level to prepare proposals

REASON FOR CHOICE OF THE MODEL: Multi-lateral Development Banks (MDB) had to actively lead the process due to limited capacities of the national institutions and the reshuffle of Government jobs that left the role of Government Climate Change Lead vacant for several months at a crucial time in the process.

PPCR FINANCE AND IMPLEMENTING MECHANISM: Initiated in 2009, Tajikistan is the first country in the Eastern Europe, Caucasus and Central Asia (EECCA) region to participate in the PPCR. At the outset, multi-stakeholder (banks, donors, civil society, academia, vulnerable sectors, etc.) workshops were

FIGURE 3. Major providers of climate related development finance 2013–2014 average – US$m. (OECD 2016)



PPCR financing in Tajikistan is administered through the MDBs: World Bank (WB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Climate Investment Funds (CIF), with WB leading the coordination between MDBs and the Tajikistan Government.

The lead coordinators for the Tajik PPCR process are based at the headquarters of the relevant MDBs in Washington, Manila and Tajikistan. In the Tajikistan Government the PPCR focal point is the Deputy Head, Department for Environment Protection and Emergency. The PPCR office provides information and bridging services and acts as a hub for Tajik PPCR projects.

The key financing facility to distribute PPCR funding for climate resilience is a partnership institution called CLIMADAPT, the Tajikistan Climate Resilience Financing Facility, with a focus on climate change adaptation. The EBRD, in partnership with the PPCR and with the support of the United Kingdom's Department for International Development (DfID), held the formal launch of CLIMADAPT in February 2016. CLIMADAPT helps Tajik households, SMEs and farmers cope with the effects of climate change and supports the country's transition towards a green economy. Through CLIMADAPT microfinance for climate resilience has become a specific focus of Tajikistan's PPRC initiatives to promote the private sector's resilience to the effects of climate change.

CLIMADAPT will loan up to US$10 million to finance small businesses, farmers and households through local partner financial institutions. The funding is provided by the EBRD and the PPCR in a partnership with private financial institutions. To overcome affordability constraints of local businesses and households, the CIF are providing US$5 million of concessional finance, which is blended with EBRD's US$5 million of commercial finance.

Government coordinates and liaises with stakeholders through the PPCR Secretariat. The coordination mechanism of PPCR has a steering group with civil society representation.

OPERATING STRUCTURE: The credit line operates through Tajik banks and microfinance institutions for on-lending to final beneficiaries – households, SMEs, farmers, and communities. The local financial institutions are: Bank Eskhata; Humo, the third-largest non-bank microfinance institution in the country; IMON International, the country's largest microfinance institution, and Tajikistan's First MicroFinance Bank (FMFB). A loan of US$1 million to FMFB was made in equal shares by EBRD and CIF PPRC to finance investments in climate resilience technologies in the commercial and residential sectors. FMFB provides a full range of banking services through its nationwide network of 7 branches and 29 banking service centres. The network covers all regions of Tajikistan, including remote parts of the country, where the presence of other financial intermediaries is limited.

The programme consists of two phases. Phase 1 included technical assistance activities to strengthen Tajikistan's capacity and evidence base and help refine investment needs. A full assessment of phase 1 has been completed. Phase 2 is meant to implement investments in the priority sectors identified in Phase 1.

The SPCR was developed under the PPCR and approved in 2010 with support from the MDBs. Six major sectors were identified for investment. The CIF provided US$50 million towards this program in 2011. The level of national ownership and coordination of the project attracted various multilateral funds, who later provided additional co-financing. Between 2013 - 2014 US$286 million per year of climate-related development finance was committed to Tajikistan. In 2015, available funding was US$120 million. Projects include the rehabilitation of hydromet services with technical assistance and capacity building support from the ADB.

For climate resilience investments below US$300,000, CLIMADAPT has a list of eligible equipment and material. This provides clear guidelines as to what classifies as a climate resilience project. Equally, it makes small and medium sized transactions very efficient. A dedicated climate resilience assessment, that identifies climate risks and offers technical solutions, is offered to clients with investments over US$300,000.

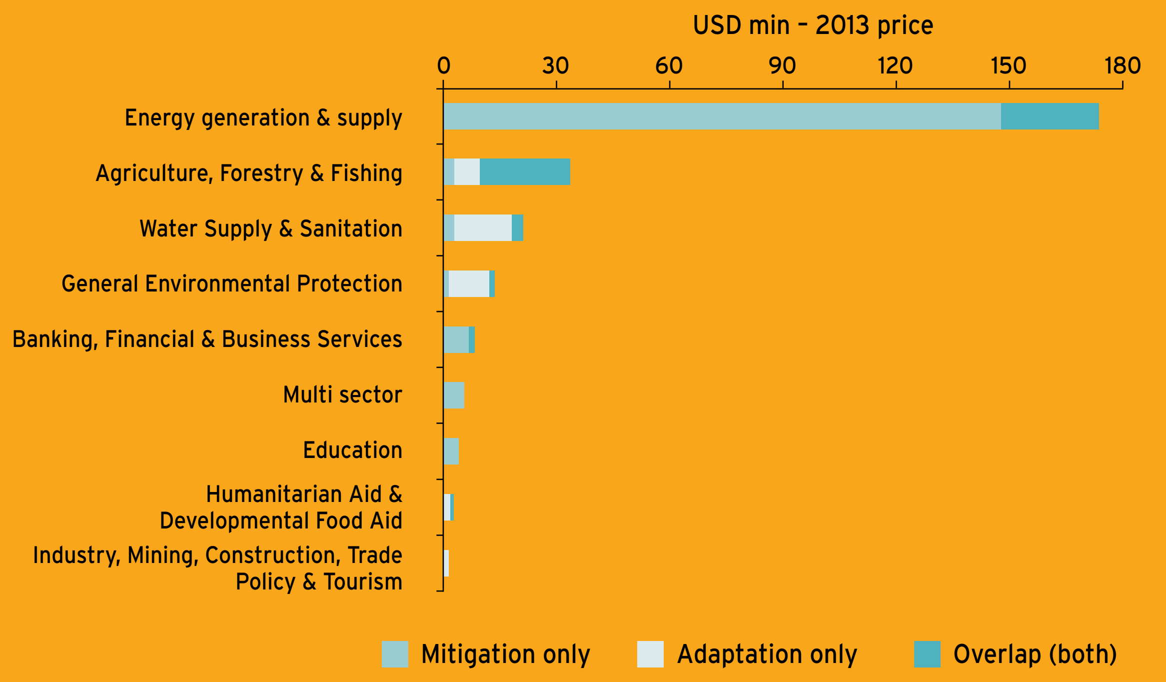
PROJECTS: While the majority of finance has been committed to mitigation projects (61%), a significant size of commitments has been made to multi-focal projects (both mitigation and adaptation). The amount of finance for multi-focal projects however is largely attributed to two large-scale activities: a project on climate-resilient hydropower rehabilitation, supported by the EBRD, and the "Rural Development Programme I", supported by the European Union (EU), which together account for 95% of total finance for multi-focal segment.

PPCR activities include sub-projects such as enhancing resilience of the energy sector, improving rural livelihood and land use, supporting SMEs and farmers. Projects include climate-proof water infrastructure (i.e. strengthening flood and mudflow protection infrastructure in vulnerable areas to climate change), water supply and sanitation, and waste water management. The energy sector received the largest amount of climate-related development finance over 2013 and 2014 (i.e. US$170m per year, or 67% of the total).

Community land rehabilitation programmes were piloted in six communities. Each formed by unofficial household groups (5-25) who prepare a sub-project proposal, using their own initiative to propose any project they like. Funds are received into their own local bank accounts. The National Implementation Agency (NIA) monitors and reports to the PPCR Secretariat.

For further information see this **video**.

FIGURE 4. Climate related development finance by sectors 2013–2014 average – US$m. (OECD 2016)



Water user groups were established following a similar process, and focusing on capacity training for dealing with changing water flows in hydropower rivers. Funding was split between community activities (78%) and big projects (22%). Some are grants and some are concessionary loans.

Technical advice is also provided to support the adoption of technologies and practices that reduce soil erosion and pressure on water and energy resources, all of which are top priorities for building climate resilience in Tajikistan.

By October 2017 CLIMADAPT had disbursed almost US$6 million to more than 2,250 households, farmers and small and medium-sized enterprises, helping Tajik households and businesses to cope with the effects of climate change and supporting the country's transition towards a green economy.

RISK MANAGEMENT: A thorough needs assessments of each sector, and their capacity to absorb climate finance, was conducted to ensure that funded projects aligned with community needs. Communities were provided technical assistance to prepare project proposals to improve uptake and access to funds. The PPCR Secretariat monitors project progress and reports to the CIFs. Risk was further managed by diversifying recipients and dividing funding between grants and concessionary loans.

CHALLENGES: The inadequate capacity in government as well as of the Secretariat at the outset of the program was an issue. Many ministries required support to engage deeper in learning about climate change and its impact on Tajikistan. There were several line ministries and government agencies involved in the design of the PPCR, however a lack of experience in these issues resulted in limited input. Consequently, no focal points from individual ministries were appointed to follow up on the PPCR process. This required building internal capacity and gaining experience to address the issues of climate change adaptation more effectively. Given the fact that the projects were sectorally based, this exacerbated the capacity problems as there was a lack of sufficient sectoral expertise, hindering M&E reporting to the CIFs.

Managing expectations of stakeholders, who expect the PPCR to address all of the climate change challenges facing Tajikistan, is a serious issue. Civil society organizations argue communities have limited access to the PPCR lead staff, to information and documents in local languages, and there is insufficient cooperation between MDBs and civil society organizations.

It is a challenge to find ways of including marginalized groups, particularly women food producers, as a key vulnerable group, in the design of Tajikistan's PPCR programme. It was felt by a range of commentators from UN, civil society and donor organizations that the PPCR analysis lacked sufficient gender analysis and that the chosen projects have not, so far, been designed to take account of the different needs of woman and men in relation to climate change.

OBSTACLES AND BARRIERS: Absorptive capacity of government institutions and implementing agencies to promote spread of projects and disbursement of funds as well as poor cooperating relationship between MDBs and country counterparts.

SOLUTIONS: Building absorptive capacity improved funds disbursement, and increased the capacity of communities to generate project ideas and proposals. NGOs conducted capacity needs assessments with government implementing agencies. Capacity problems were tackled through the implementation of a technical assistance project where 10-12 sectoral specialists were identified and trained. Cooperation between MDBs and National Implementing Agency (NIA) has improved.

Hydro-electric Dam Tajikistan

The Government of Tajikistan was incentivized to participate in the initial role out of the PPCR by an urgent need for additional hydro-power in the country. The experience and capacity building that resulted from compliance with the requirements of these initial PPCR projects has contributed greatly to the affective role out of subsequent PPCR projects in the country.

PPCR hired an NGO as a facilitating agent as well as to drive the major effort to raise community awareness of climate change. Participatory rural appraisals (PRAs) were conducted through this process to identify "dire needs" or primary needs. The NGO process increased the capacity of communities to generate project ideas and proposals through ongoing support. It supported the development of sub project proposals at the community level. It was critical that projects demonstrated additionality and the NGO interventions educated and facilitated this – e.g. projects which demonstrated increased drought resilience in areas where wheat and horticulture prevail, which crops rely heavily on precipitation. The NGO process also included support for greenhouses, seed propagation, assistance in developing climate resilient crops.

ADB technical assistance and NGO support has allowed 70-80% of funding to go to communities.

KNOWLEDGE MANAGEMENT: Since dedicated climate resilience investments are new to the Tajik market, there is significant scope for knowledge improvement – e.g. in water efficiency and sustainable land management. Knowledge products, with a focus on climate adaptation and mitigation, were developed by the Secretariat with support from the WB. A climate adaptation and mitigation knowledge platform was also established. A knowledge management specialist was appointed by the secretariat on a part-time basin to manage the activities of the platform. The platform and products successfully raised awareness of climate change and increased capacity of both communities and economic sectors.

MOZAMBIQUE CASE STUDY
State run process of disbursement

CASE STUDY 3

CONTEXT: Mozambique is ranked as the third highest country in Africa for vulnerability to climate change impacts. Its hydrological, geographic, and climatologic profile makes it particularly vulnerable to the effects of climate change and the impacts of climate-related phenomena such as cyclic floods and droughts, extreme temperatures, and tropical cyclones. Climate change impacts are already felt in the form of rising temperatures, increases in the duration of dry spells, increase in the proportion of heavy rainfall, flooding, cyclones, and in the frequency of climate-related disasters.

NEED FOR ADAPTATION: The impact of harmful climatic events on the population and infrastructure are compounded by widespread poverty and the lack of resilience. Therefore, it is imperative to strengthen the preventive and adaptive capacity of the Mozambican population in order to improve their current and future resilience under conditions of climate change.

For further information watch this **video**.

PPCR MODEL: Highly centralized, state controlled, modality for disbursing funds to communities.

Microfinance is by definition not a centrally controlled system, and requires civil society organisations which are deeply rooted in communities, especially those in far flung rural areas. However, many civil society organisations regard the PPCR as another process controlled by government.

PPCR FINANCE AND IMPLEMENTING MECHANISM: Mozambique's PPCR strategic programme is designed under the leadership of the Mozambican government in coordination with the African Development Bank (AfDB), members of the World Bank Group (WB), other development partners, and key Mozambican stakeholders. The CIF endorsed US$86 million in June 2011. The programme provides investments to support infrastructure upgrades for agriculture, communication and roads; better resources management for fisheries, agriculture and forestry; enhanced climate services monitoring/evaluation and financing; and developing local and national capacities for climate resilient planning and action. To undertake private sector investments, the International Finance Corporation (IFC) commissioned two in-depth market studies of potential investments and opportunities to build climate resilience of rural communities.

OPERATING STRUCTURE: The policy and institutional reforms are supported by the World Bank, and are jointly led by the Ministry of Land, Environment and Rural Development (MITADER) and the Ministry of Economy and Finance. The development of policy and operations coordination is under the Ministry of Economy and Finance working in close collaboration with the Climate Change Coordination Unit as well as key government ministries such as MITADER, Agriculture, Ministry of Health, Ministry of Gender, Child and Social Affairs, Ministry of Mineral Resources and Energy, Road Administration, Water Resources Management Directorate, the Institute of Meteorology.

PROJECTS: The PPCR projects that have been included in the SPCR cover infrastructure (urban and transport), water resources management, agriculture and natural resources, including forestry. The PPCR projects have supported 16,890 households from different projects with a focus on agriculture, irrigation, public infrastructures and technical support.

RISK MANAGEMENT: In order to ensure systematic monitoring and evaluation of climate change responses, a National Climate Change Monitoring and Evaluation System (NCCMES) has been established. This monitoring framework tracks adaptation and disaster risk management; mitigation and low carbon development; and cross-cutting policy and planning.

CHALLENGES: There are challenges in terms of availability of vulnerability assessments on climate change in Mozambique. Only two sectors have conducted vulnerability assessments – the National Institute of Management of Calamities (INGC) and the National Roads Administration (ANE). PPCR projects funded thus far have been primarily focused on infrastructure development and capacity building, and have not focused on making microfinance successfully available at the community level.

Stakeholders felt strongly that projects which have attempted to make micro-finance available in the past in Mozambique have failed due to the high rate of unemployment in the country, and the consequent inability on the part of unemployed individuals to repay loans. Subsequent interviews support this view, adding that experience with communities and adaptation projects has led to popular Mozambican statements: "it is difficult to adapt when you don't have food" and "talking about adaptation without first addressing food is problematic". Hence money for climate change adaptation activities distributed at the local level tends to go straight to buying food, with no money to repay loans. PPCR projects in Mozambique have steered clear of micro-finance because previous efforts of the Mozambican government revealed that there is little to no ability within such communities to repay loans.

There is a "culture of non-compliance" in Mozambique - failing to repay loans have few repercussions. A contributing factor is the soft debt repayment laws, where people are only held accountable for a maximum of 30% of the debt which they have incurred. Furthermore, one cannot be sentenced to prison for failing to repay loans.

The need for rural agriculture in Mozambique to increase resilience

It is difficult to bring about transformational change when base needs such as food are not being met. It is thus important that communities first become food secure, with the potential of selling excess yield to generate a small income, before being in a position to repay loans. This is possibly the best risk mitigation strategy that can be put in place when dealing with micro-finance at this level.

OBSTACLES AND BARRIERS: IFC's efforts to develop projects based on their market studies and originally proposed in Mozambique's SPCR have not been realised. The main barriers have been: (i) low technical capacities (for businesses, farmers, bankers); (ii) limited infrastructure; (iii) lack of reliable data and information; (iv) novelty of the topic – adaptation – for the private sector; and (v) limited potential private sector clients that could comply with IFC's social, environmental and financial standards and requirements.

SOLUTIONS: In recognition of these challenges, the Government has been pursuing a different approach. In 2017 the National Sustainable Development Fund (previously the National Environmental Fund) supported by the World Bank, piloted a new Inclusive Rural Development Project, known as SUSTENTA, for community level agriculture. The Project focusses on providing training, seeds, implements, and irrigation, to small, subsistence farmers, prior to making micro-financing available, in order to bring about the industrialisation and commercialization of the farming sector.

It is too early to see results. Each initiative starts with capacity building, training communities around food production to give them fundamental farming knowledge, before providing them with the resources needed to implement the knowledge. Only once this is established, and farmers are producing enough food to sell, would they be in a position to access loans.

KNOWLEDGE MANAGEMENT: Specific products and templates for different knowledge outputs have been developed. Policy briefs were produced as knowledge management outputs, and updates to the PPCR projects were published. The Knowledge Centre for Climate Change website and the dissemination of the monthly e-newsletter are among the main achievements. Other aspects were to develop a greater online presence, and increase the visibility of the knowledge products. There has been a series of policy briefs and information sheets on the PPCR projects produced in English and Portuguese. These have been printed and disseminated to government staff in particular, as well as uploaded to the internet.

SUMMARY LEARNINGS FROM THE CASE STUDIES

Reflecting on all three case studies reveals a number of critical lessons. Whilst the case studies demonstrate a diversity of experiences and methods to use the PPCR, through microfinance, for climate resilience and adaptation, four groups of key issues become evident.

1. Awareness raising and sensitisation of those involved

The importance of awareness raising is critical on three levels: financial institutions, community, and government.

a. Financial institutions – The case studies demonstrate that a huge educational responsibility rests on knowledge management instruments to ensure that the financial institutions involved understand the market opportunities, unpack the complexity of various products that can be offered, and are sensitized to the specific contextual needs and capabilities of poor people to whom the microfinance is being directed.

b. Communities – Working with and educating potential beneficiaries of microfinance is a crucial component of any program. Unless substantial education and training, in a clear and simple manner, is directed to community recipients to raise their awareness about the different aspects of the program the process will flounder at the first hurdle.

c. Government – Government officials have to understand their place in the programs chain of supply and delivery limitations. This requires clear directives and education tools so government officials understand their own limited role in the process.

2. Managing and mitigating risk

Risk minimisation is directly related to the issue of raising awareness in order to manage uncertainty. Although a number of institutional instruments can be put in place within financial institutions and government to manage risk, as is clear from the case studies, by far the best way to do so is to supplement these with a substantial awareness and monitoring programme aimed at the communities themselves. This goes beyond a simple pre-education program. It also includes building into the initial stages of loan and grant finance a monitoring and support program to ensure that recipients are on track, understand the next implementation steps, are gaining financial advantage from the program (for example through increased productivity and yield), and hence are able to take the next re-payment steps required.

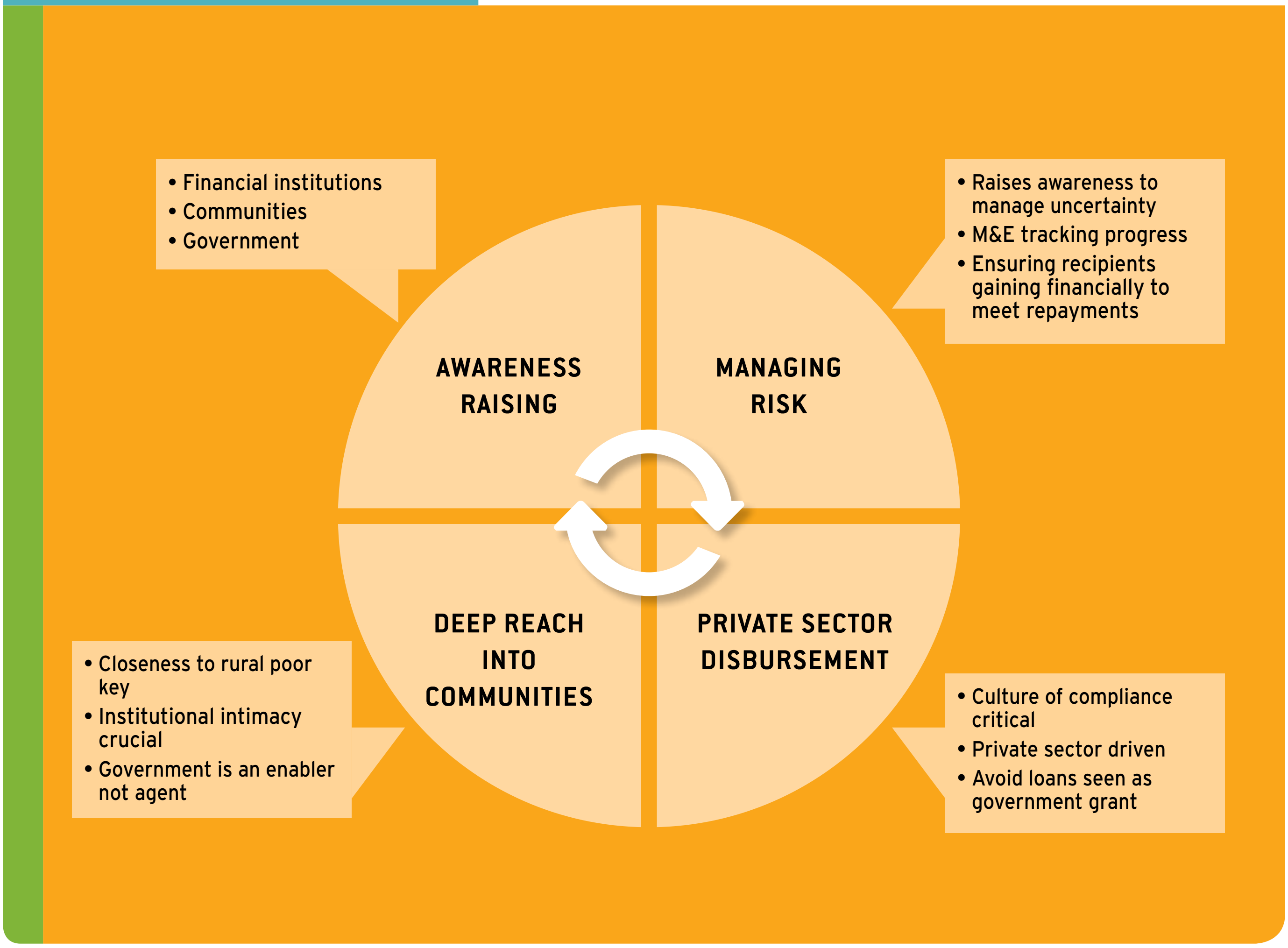
3. Adopting a model that has deep reach into the community

Understanding the needs and critical success factors operating at community level is crucial if a microfinance programme is to be successful. This cannot occur at a distance and unfortunately traditional financial institutions and government organisations are simply not geared up to hear community voices and respond to them appropriately. They do not have their ears close enough to the ground. Doing so requires a level of institutional intimacy and closeness to the recipient community built into the very structure and life blood of the disbursing institution – for example, an NGO, or community based association, or a cooperative bank. This is all the more important when such a microfinance programme is aimed at the rural poor. The institution of last resort lending has to have deep reach into the countryside if it is to have success. Hence a critical lesson is that whilst government needs to set up the enabling environment it cannot be the lender of last resort. Likewise traditional financial institutions that are urban based are also unlikely to have the structural institutional intimacy in place to meet the requirements of a microfinance program for climate resilience aimed at the rural poor.

4. Private sector disbursement with penalties

Compliance is crucial if the programme is to work. What has clearly emerged from the case studies is that ordinary people regard government as the source of handouts, but without commercial obligations. Moreover repayment compliance when they do receive funding is a very low priority. This is not the case when communities perceive loans to be coming from private sector institutions. Hence the programme has to be seen by the community recipients to be private sector driven, even if the ultimate source of the loans are the MDBs and the government. Second there has to be a concerted process of building a culture of compliance surrounding the microfinance programme. Finally, government has to ensure that its legal regulatory credit framework bolstering the microfinance programme reinforces a culture of compliance.

FIGURE 5. Case Study Key Lessons



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ACKNOWLEDGEMENTS

We would like to thank representatives of the CIF and the PPCR Community of Practice (COP) for their support of and inputs to this document. We would particularly like to thank the participants at the Regional Learning Exchange for Latin American and Caribbean (LAC), held in Grenada in September 2017, for the discussion that contributed to the conceptualisation and content. Special thanks to PPCR COP members from Jamaica, Mozambique and Tajikistan for participating in discussions and interviews which formed the basis of this document; your time and expertise were invaluable.

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This research brief has been prepared by OneWorld Sustainable Investments and Oxford Policy Management, appointed Learning Partner for the PPCR.

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PPCR Community of Practice; UNDP Tajikistan

DESIGN

Peter Bosman (pete@guineafolio.co.za)

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