T20 Policy Brief

Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Scaling Climate Finance for Locally-Led Adaptation: Lessons from the Global South

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Abstract

As the frequency and impacts of climate events increase, demand for adaptation at the local level becomes urgent. The adaptation finance received from developing and least-developed countries is estimated to be less than USD 25 billion per year, which is exponentially less than the required amount of USD 215 billion per year. Further, the evidence indicates that less than 10% of global climate finance reaches the local level. Local communities lack the institutional capacity, financial tools, and knowledge networks necessary to secure adaptation finance. Complex application procedures, limited funding availability, and unequal distribution exacerbate the challenge. This highlights the need for developing innovative approaches to enhance access to adaptation finance at the local level in the Global South.

Locally-Led Adaptation (LLA) can play a crucial role in addressing this challenge at scale. It addresses structural inequalities by ensuring that the decision-making authority lies with the sub-national and local actors and further fosters partnerships with funders, government and multilateral agencies. LLA holds the potential to act as a catalyst to attract the necessary funding, required to bridge the widening adaptation finance gap. Members of G20 must leverage international cooperation to strengthen LLA across climate risk-prone regions and promote inclusive climate action at scale in the Global South.

This policy brief provides recommendations to enhance access to adaptation finance based on existing LLA actions, implemented across various developing countries. We propose a five-pronged strategy, with a focus on innovative adaptation finance mechanisms, institutional strengthening, and social inclusion to empower local communities to access climate finance effectively. By uplifting localised priorities instead

of one-size-fits-all external interventions, the proposed integrated approach aims to support G20 countries in unlocking the transformative potential of climate finance in charting locally-led regenerative futures.

Keywords: Adaptation Finance; Institutional Strengthening; Social Inclusion; Innovative Finance Solutions, Low and Middle-Income Countries

Diagnosis of the Issue

Accessing climate finance remains a persistent challenge for stakeholders at all levels, particularly local communities who require funding to address diverse adaptation needs across critical sectors like food security, water management, and public health. These local actors often face limited options when it comes to financial resources specifically tailored to their unique requirements and operational capacities.

The lack of essential infrastructure, technical expertise, and financial resources in local communities amplifies the destructive effects of extreme weather events, hindering their ability to adapt and safeguard their populations and economies. The developing countries received a mere fraction (less than 10%) of the required USD 215 - 384 billion in 2021, severely limiting their capacity to build resilience against escalating climate threats (UNEP 2023).

Compounding this issue, developing countries grapple with methodological hurdles, including inadequate impact metrics, insufficient budget allocation, and a limited understanding of adaptation objectives. Additionally, they face institutional barriers such as fragmented financing processes, lack of capacity, and bureaucratic delays, which impede the mobilisation of adaptation funds from both the supply and demand sides.

Locally Led Adaptation (LLA) has been identified as a strategy to build the resilience of the frontline and vulnerable communities locally by understanding climate risks and implementing context-suited adaptation measures, which directly benefit these communities (GCA 2019). LLA currently does not have a formal definition, leading to several interpretations of the term. However, in 2021, the Global Commission on Adaptation (GCA) published the eight principles for LLA (Soanes et al. 2021) to guide stakeholders to ensure 'business-unusual adaptation financing'[1] (Soanes, Addison and Shakya 2020). Any activity where local people have individual and collective agency over defining, prioritising, designing, monitoring and evaluating adaptation could be considered an LLA intervention.

Low- and middle-income countries (LMICs) face several challenges in scaling up LLA. The Adaptation Gap Report 2023 highlighted that only USD 16.5 billion or 17 per cent of the total adaptation finance allocated between 2017 and 2021 was reported to climate change adaptation projects with a specific focus on local communities (UNEP 2023). More than 60 per cent of the financing provided by the developed countries between 2017-2021 was in the form of loans (UNEP 2023), which further added to the debt burden of developing countries and prevented them from implementing long-term resilient strategies to build adaptive capacity (Zagema et al. 2023).

The five-pronged strategy proposed below highlights the innovative ways through which access to adaptation finance could be made available for the local communities more effectively. The G20, with the recent addition of the African Union, has a stronger representation of the Global South and Brazil, with its presidency, can leverage this opportunity to prioritise LLA for enhancing the climate resilience of local communities, including the marginalised and indigenous people.

The following five-pronged strategy presents innovative mechanisms to improve access to adaptation finance for local communities. The G20, strengthened by the recent

[1] The eight principles for LLA as identified by GCA have been mentioned in Appendix A. Currently, more than 120 organisations, from all around the world, have endorsed the principles.

inclusion of the African Union, now represents a broader spectrum of the Global South. As the current G20 president, Brazil has a unique opportunity to prioritise Locally Led Adaptation (LLA) initiatives, enhancing the climate resilience of vulnerable local communities, including marginalised and indigenous populations.

Recommendations

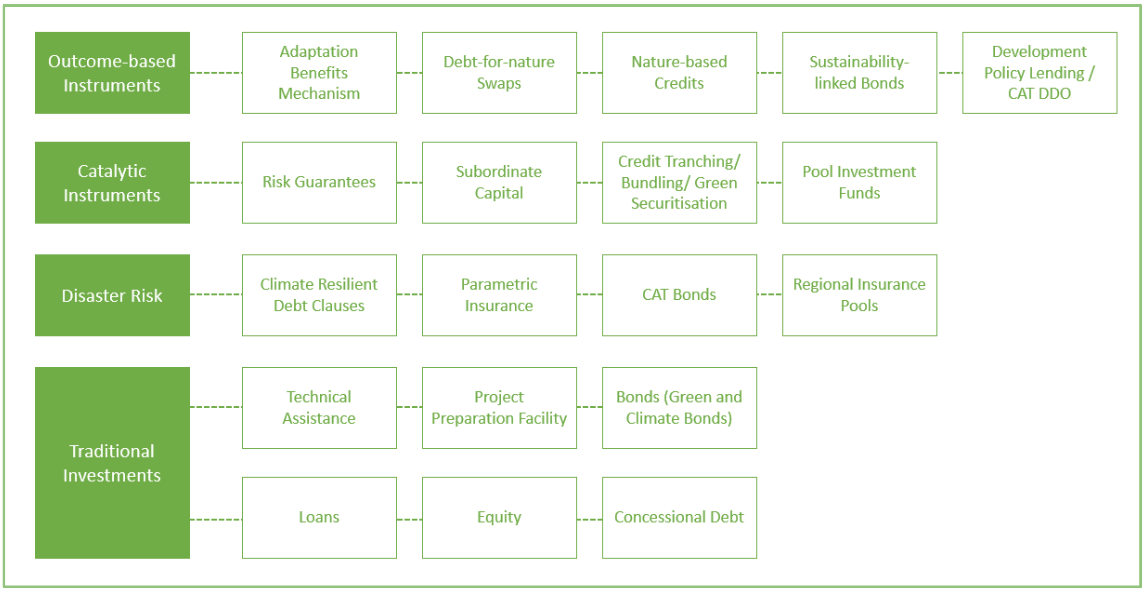
Recommendation 1: Adopting innovative financial mechanisms

The public sector currently contributes the majority of the finances for adaptation in LMICs (Buchner et al. 2021). However, innovative financial mechanisms could be deployed within both public and private spheres to accelerate funding towards LLA.

In terms of the public sector, GCF has initiated a new mechanism for LLA called Enhanced Direct Access (EDA), which aims to provide more localisation in decisions pertaining to the utilisation of adaptation funds (GCF n.d). The Sustainable Island Resources Fund (SIRF), set up by the government of Antigua and Barbuda, accesses funds from GCF under the EDA facility along with other sources, directly empowers low-income communities, and ensures adaptation at the local level. However, very few projects have been sanctioned under EDA even after 5 years (Caldwell and Larsen 2021), and there exists less clarity on whether local actors are included in the process of allocating funds under EDA. A crucial aspect of LLA is a shift towards bottom-up governance, addressing deeply rooted social inequalities that often marginalise local actors in decision-making processes. Empowering local communities to lead adaptation efforts is essential for effective and sustainable outcomes.

The private sector currently provides finance for adaptation through traditional methods such as loans, equity, green bonds and credit lines (Steinbach, et al. 2022). The green bond market, in particular, has witnessed significant growth with the total value of green bonds traded globally projected to increase to USD 2.6 trillion by 2030. However, most of these tools lack credibility due to being in a pilot phase and thus have not been scaled. The dependency on external finance providers, local factors of disturbances such as political factors, market influences, etc.) and lack of stakeholders to implement large-scale projects prevent the scaling of pilot projects, leading to barriers in the flow of finance. Figure 2 highlights the different innovative financial mechanisms which could be adopted to scale adaptation finance.

Figure 2: Adaptation and Resilience Financing Stack



Source: (Sivaprasad, Pande and Tan 2024)

Some recent innovations to incentivise private funding include blended finance and catalytic capital. Blended finance has garnered the attention of the G20 leaders since

2019. However, the G20 is yet to explore this mechanism in the context of LLA. The G20 Presidency of Brazil should build upon the momentum of previous presidencies and bring together governments and investors especially from LMICs to highlight the role of blended finance in accelerating finance for LLA. Figure 1 highlights the evolution of blended finance across G20 presidencies.

Figure 1: Evolution of blended finance across G20 presidencies

Source: Authors' analysis

Recommendation 2: Strengthening institutions and partnerships to enable finance at the local scale

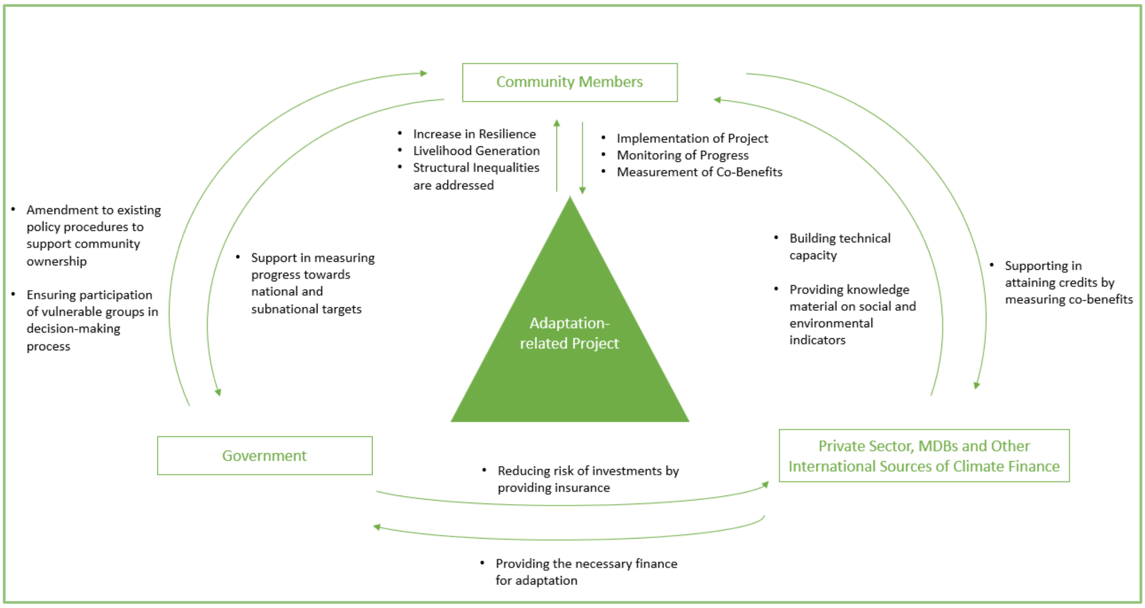
Governments, local communities and implementation agencies must develop partnerships to create Local Adaptation Action Plans (LAPAs). The government, with support from international climate funds such as Technical Grants, could provide technical assistance to the communities to identify future climate risks, while the local communities could identify the adaptation strategies as well as local priorities observed across the region. Nepal launched the LAPA framework in 2011 to ensure a decentralised mechanism for creating local climate action plans (Government of Nepal 2011). This helped Nepal develop region-specific strategies and address the underlying vulnerabilities and social inequalities in each region.

The NDC Action Project by UNEP which involves financial institutions in the creation of government-led, climate-friendly investment plans that facilitate the creation of climate investments to support the implementation of the NDC (UNEP n.d.) and CGIAR initiative on developing a 'Climate Smart Governance Dashboard' for strengthening multi-institutional coordination for long-term adaptation investments (CGIAR n.d.) are some other examples based on which the G20 could encourage governments to streamline adaptation planning and implementation.

Recommendation 3: Ensuring inclusivity and diversity in the implementation of LLA with a focus on gender

LLA inherently addresses structural inequalities and emphasises social, economic and political indicators of development (Soanes, et al. 2021). One of the ways through which public and private sector stakeholders could partner to support LLA is by enabling community ownership, which protects the rights of the community and provides them with the ability to collectively implement strategies, ensure inclusivity and report progress to the finance provider. The government could also share the risk borne by the financial provider, thus providing insurance and ensuring the facilitation of support to the community. Figure 3 provides an overview of a working model of a PPP-based Locally-led Adaptation project.

Figure 3: Working model of PPP-based Locally-Led Adaptation Project



Source: Authors' recommendation

The G20 Bioeconomy Initiative could explore community-based projects and integrate principles of LLA to not only make bioeconomy-focused initiatives more inclusive but also achieve the objective of enabling bioeconomy as a driver of sustainable development.

Recommendation 4: Building evidence and advocacy for LLA

Local research institutions could support communities by developing a region-specific framework for the identification of co-benefits achieved from the implementation of adaptation activities, which will also help them identify the economic potential of projects. Current frameworks available cater to the developed countries which can often not be adopted by LMICs. The international finance providers must employ local research organisations with regional expertise to support communities in the identification of co-benefits and build their technical capacity for better resource management.

Several organisations across the globe have attempted to build evidence by creating repositories of case studies which provide evidence of local-level adaptation for investors to understand the scope of adaptation activities and provide guidelines for best practices to implementation agencies. For example, UNEP identified projects that build resilience in communities and ecosystems through ecosystem-based adaptation in Latin America. The project constructed this database in bilingual language and included examples from various regions, thus ensuring diversity and inclusivity (Ilieva 2019). Similarly, WRI launched a program in India to scale up adaptation practices by building evidence for better adaptation programming and policy.

Recommendation 5: Reform of MDBs and International Sources of Climate Finance

Multilateral Development Banks (MDBs) focus more on middle-income economies and do not emphasise the role of concessional finance required by low-income economies, Concessional finance can be augmented by diversifying the existing portfolio by leveraging Special Drawing Rights (SDRs) and distributing financial risks equally among both public and private entities (Murphy and Donaldson 2023). Additionally, leveraging other innovative financial instruments like carbon markets, SDRs, and philanthropic contributions can broaden the reach of concessional finance.

Accessing adaptation finance through multilateral financial instruments such as the Green Climate Fund (GCF) and The Global Environmental Facility (GEF) is a complex process due to data requirements, strict requirements regarding project documentation, required expertise and feasibility studies (Terfassa, et al. 2023). Moreover, with the lack of experienced professionals and technical expertise, LMICs face challenges in reporting, complying with procurement procedures, understanding donors' eligibility requirements, and providing technical details related to social and environmental safeguards and gender impacts.

International sources of climate finance for adaptation such as GCF and Adaptation Fund must simplify access procedures by allowing special mechanisms for local level projects which have a smaller scale as well as a shorter period. The simplified approval process for projects under USD 50 million with low social and environmental risks needs to be simplified even further by streamlining the review process and reducing proposal requirements (Caldwell and Larsen 2021). Moreover, EDA must be revisited and restructured to address the challenges faced by the facility and to combine it with the principles of LLA since it holds much promise to bring adaptation finance for LLA.

G20's Role in the Implementation of Solutions

Building upon the achievements of the Sustainable Finance Working Group (SFWG) during the Indian Presidency, the current SFWG must also address the need to scale adaptation finance. The SFWG under the Finance Track must collaborate with different Working Groups under the Sherpa Track such as the Working Group on Disaster Risk Reduction, Environment and Climate Sustainability, Development and Agriculture to explore collaborations and develop strategies for strengthening LLA to build resilience of communities and ecosystems against extreme weather events, improve livelihoods and reduce poverty.

The Task Force for the Global Mobilization against Climate Change (GMCC), which aims to combine inputs from the Sherpa Track and the Finance Track should also recognise the urgent need for adaptation finance especially for developing countries and must encourage developed countries to increase their contributions for adaptation-related projects focused at a local level. It could also utilise this opportunity to identify strategies through which the technical and financial capacity of governments of developing countries could be increased to scale LLA as well as to build evidence for advocacy and private investments. The G20 Brazilian Presidency plays a pivotal role in encouraging countries to scale finance for LLA, serving as a key milestone on the Road to COP30 in Belem, Brazil.

Scenario of Outcomes

The outcome of implementing the recommendations will be reflected at various levels. The primary output will be the increased resilience of local communities. Vulnerable groups such as women, youth, elderly, indigenous groups and the disabled will be part of the decision-making process. The communities will be trained to guide the development of the LAPAs, monitor benefits attained from projects and provide feedback to the finance providers. The improved reporting mechanisms will support international funds and MDBs in highlighting the efficiency of adaptation projects which will lead to an increase in adaptation funding. As a result, the developing countries will receive the much-required finance for adaptation. The generation of evidence along with the availability of regional data will allow countries to accurately mention their priorities and plans in their respective NDCs and National Adaptation Plans (NAPs). This will play a significant role since currently, more than 110 countries are in the process of formulating their NAPs (GIZ n.d.).

However, LMICs may face challenges during the implementation of the recommendations. The capacity building of communities will require additional time and resources. Moreover, since the reconfiguration of spending on adaptation will require additional time, countries may refuse to strengthen LLA. This is because LMICs face several socio-economic challenges such as poverty, food insecurity and unemployment which need to be addressed. The implementation of pilot projects may require considerable time which is evident from the pilots of EDA by GCF. Collaboration among different stakeholders in the form of risk sharing and technology transfer has the potential to address these challenges.

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The G20 Brazilian Presidency must bring together relevant stakeholders to optimise access to multilateral and climate Funds and to increase the flow of private capital for scaling climate finance for locally-led adaptation.

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Appendix A: The Principles of Locally-led Adaptation

1. Devolving decision making to the lowest appropriate level

Giving local institutions and communities more direct access to finance and decision-making power over how adaptation actions are defined, prioritised, designed and implemented; how progress is monitored; and how success is evaluated.

2. Addressing structural inequalities faced by women, youth, children, people with disabilities and displaced people, Indigenous Peoples and marginalised ethnic groups

Integrating gender-based, economic and political inequalities that are root causes of vulnerability into the core of adaptation action and encouraging vulnerable and marginalised individuals to meaningfully participate in and lead adaptation decisions.

3. Providing patient and predictable funding that can be accessed more easily

Supporting long-term development of local governance processes, capacity, and institutions through simpler access modalities and longer term and more predictable funding horizons, to ensure that communities can effectively implement adaptation actions.

4. Investing in local capabilities to leave an institutional legacy

Improving the capabilities of local institutions to ensure they can understand climate risks and uncertainties, generate solutions and facilitate and manage adaptation initiatives over the long term without being dependent on project-based donor funding.

5. Building a robust understanding of climate risk and uncertainty

Informing adaptation decisions through a combination of local, Indigenous and scientific knowledge that can enable resilience under a range of future climate scenarios.

6. Flexible programming and learning

Enabling adaptive management to address the inherent uncertainty in adaptation, especially through robust monitoring and learning systems, flexible finance and flexible programming.

7. Ensuring transparency and accountability

Making processes of financing, designing and delivering programmes more transparent and accountable downward to local stakeholders.

8. Collaborative action and investment

Collaboration across sectors, initiatives and levels to ensure that different initiatives and different sources of funding (humanitarian assistance, development, disaster risk reduction, green recovery funds and so on) support one another, and their activities avoid duplication, to enhance efficiencies and good practice.

Source: (Soanes, et al. 2021)

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