

# UNCDF: Supporting Local Finance Solutions for Climate Change



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## About UNCDF

UNCDF is the UN's capital investment agency for the world's 48 Least Developed Countries (LDCs). With its capital mandate and instruments, UNCDF offers **"last mile" finance models** that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded. Through these financing models, public resources lay the groundwork for private investment. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities. UNCDF's financing models work through two channels: savings-led **financial inclusion** that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how **localized investments**—through fiscal decentralization, innovative municipal finance, and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development.

# Introduction



*Heavy rains and steep hills make for giant landslides (Bhutan)*

The success of the 2030 Agenda will depend in large part on the success of global efforts to tackle climate change. Climate change threatens to undo decades of progress towards reducing poverty and improving human development.

Least Developed Countries are among those confronting severe structural impediments to sustainable development. LDCs are some of the most vulnerable to climate change. They are least able to recover from climate stresses; have lower capacity to adapt than other developing countries; their economic growth is highly dependent on climate-sensitive sectors, such as agriculture; and they require additional sources of finance to adapt to and mitigate the effects of climate change. At the same time, LDCs, with their low carbon footprint, have an opportunity to adopt climate-resilient and resource-efficient pathways to growth and energy access.

In response, UNCDF deploys its **capital finance mandate to unlock public and private finance for the poor at the local level** in support of growth that is inclusive and sustainable. By identifying those market segments where innovative financing models can help combat climate change, UNCDF supports climate adaptation for local infrastructure, access to renewable energy solutions, and the building of resilient and sustainable cities.

# Local Finance Solutions for Climate Resilience: Adaptation through Localization

## What is the development challenge?

Central governments alone cannot respond to the challenge of climate change. Large-scale nationally financed programmes require local complementary actions in order to become fully effective.

But while local authorities are finding themselves on the frontlines of climate change, there is often a gap between their mandates,

**“Adaptation to climate change is a local endeavor. [...] But while local authorities are finding themselves on the frontlines of climate change, there is often a gap between their mandates and what is expected of them on the one hand, and what they have the capacities and resources to deliver on the other. [...] This is where LoCAL comes in—to bridge the gap between what local authorities should do and what they are able to do in order adapt to climate change.”**

JUDITH KARL, Executive Secretary, UNCDF

on the one hand, and their capacities and resources to deliver, on the other.

In many LDCs, local governments cannot absorb the incremental cost of climate change adaptation through local taxes and other revenue streams. Most resources come earmarked from central government for recurring expenditures, leaving little for ‘climate-proofing’ existing infrastructure. Budgetary allocations for climate change-related expenditures are also typically concentrated in the central government agencies. Local governments seeking to strengthen climate change resilience, therefore, need adequate resources and effective integration of climate change considerations into their local planning, budgetary, and investment cycles.

## What financing models does UNCDF offer in response?

UNCDF offers its local development finance core approach to local governments to help reduce vulnerability of local communities to the adverse effects of climate change.

UNCDF develops and tests out financial models that get resources flowing to these secondary cities, peri-urban and rural areas that find themselves on the frontlines of climate change. This helps these localities meet the growing demands they face for clean energy, efficient public transportation and resilient infrastructure.

UNCDF’s **Local Climate Adaptive Living Facility (LoCAL)**, for example, is designed to help governments channel global climate adaptation finance to local governments. This enables local governments to cope with the increased cost of building resilience to climate change and natural disasters. This includes support for adaptive land use planning, drainage and water management;

### LoCAL unfolds in three phases:



The first phase, **PILOTING**, involves initial scoping, followed by testing in two to four local governments.



The second phase, **LEARNING AND CONSOLIDATING**, takes place in 5% to 10% of local governments in a given country. This involves collecting lessons, leveraging additional investment, and demonstrating the effectiveness of the approach at a larger scale.



The third phase, **SCALING-UP**, is a full national rollout of LoCAL based on the results and lessons of the previous phases.

implementing resilient building regulations; retrofitting infrastructure; strengthening roads and bridges; and adapting agricultural systems.

LoCAL—a programme supported by UNCDF, the EU Global Climate Change Alliance, the Swedish International Development Cooperation Agency, the Belgian Development Cooperation, and the Governments of Cambodia and Liechtenstein—supports national efforts to secure Green Climate Fund financing for verifiable local resilience-building.

The programme combines **performance-based climate resilience grants**, which ensure programming and verification of climate change expenditures at the local level, with **technical and capacity-building support**. It is designed to reinforce existing national and sub-national financial and fiscal delivery systems and uses the demonstration effect to trigger further flows for local adaptation—including national fiscal transfers and global climate finance for local authorities—through their central governments.

Through LoCAL, UNCDF uses its tools and financing models to contribute to **SDGs 9** (on resilient infrastructure), **11** (on resilient and sustainable cities), and **13** (on climate change).

As of today, LoCAL has provided **US\$3.2 million grants to 38 local governments**, representing a population of over 4.5 million across 10 countries in Asia and Africa. In 2016, an additional 12 local governments from five LDCs in Africa and the Pacific are expected to join and make use of the mechanism, thereby enabling another 2 million poor people to benefit from this new type of access to climate finance and the adaptation investments that follow. LoCAL is governed by the LDC governments that sit on its governing board. This body has resolved to make LoCAL a “standard and recognized mechanism for climate adaptation finance.”

In addition, other UNCDF programmes are increasingly serving as vehicles to help combat climate change. UNCDF’s new **Municipal Investment Finance** programme will increase the ability of local governments and other sub-sovereign entities to take their local investment plans and turn them into viable projects that can attract a critical volume of public and private investment for local infrastructure development and service delivery. This programme can support the development of clean energy and climate-resilient infrastructure at the local level. This involves the EcoBond innovative financing mechanism being tested in Bangladesh.

For more information on LoCAL, please visit [www.local-uncdf.org](http://www.local-uncdf.org)

For more information on the Municipal Investment Finance programme, please visit [www.uncdf.org/sites/default/files/download/mif.pdf](http://www.uncdf.org/sites/default/files/download/mif.pdf)

# Local Finance Solutions for Renewable Energy: Using Micro-finance to Support Energy for All

## What is the development challenge?

The energy sector is the largest contributor to global greenhouse gas emissions. At the same time, clean energy access is a major constraint for too many poor people. **Nearly 1.3 billion people are without access to electricity and 2.7 billion people rely on the traditional use of biomass for cooking in the world today.** Where modern energy services are unavailable, people resort to expensive and unsustainable systems, which can exacerbate energy insecurity and leave communities more vulnerable to the effects of climate change.

As a result of having access to modern energy, such as efficient cook stoves and solar-powered lights, women and girls have more

**“Last October, the manager of one cooperative returned home with a half dozen solar home systems to illuminate households during Diwali celebrations. Her neighbors were impressed and now more than 100 units are installed in the community.”**

SURYA PRAKASH HADA, Programme Coordinator  
CleanStart Nepal



*New biogas digester (Abono Gebrel, Ethiopia)*

time for productive activities and children can study longer under brighter lights. People's health improves with less smoke in the kitchen, as does the local environment through saving trees and reusing human and agricultural waste as fuel sources. Access to modern energy can also help small businesses grow.

## What financing models does UNCDF offer in response?

UNCDF's **CleanStart** programme supports low-income consumers to transition to cleaner and more efficient energy through microfinance. CleanStart—an initiative supported by the Austrian Development Cooperation, the Government of Liechtenstein, the Norwegian Agency for Development Cooperation, and the Swedish International Development Agency—is a global



programme helping to lift at least 2.5 million people out of energy poverty by 2017.

The programme provides **risk capital** and **technical assistance** to competitively selected financial service providers and energy enterprises. The selected businesses then develop and refine scalable consumer financing models. Examples of this include a small local bank providing loans for biogas digesters, an entrepreneur selling solar-generated electricity to a community, or a national-scale energy business financing a simple technology through a mobile payment platform.

Through CleanStart, UNCDF contributes to the global **Sustainable Energy for All initiative**, as well as **SDG 7** (access to energy).



*Cooking with an improved mud stove (Sindhuli, Nepal)*

#### CleanStart has four components:

- 1 FINANCE FOR CLEAN ENERGY** to develop scalable consumer and enterprise financing models. This is supported through a combination of pre-investment technical assistance; risk capital grants; and concessional finance.
- 2 TECHNICAL ASSISTANCE FOR CLEAN ENERGY** to increase the 'scale' potential of financing models by creating a supportive business ecosystem (e.g. consumer confidence, last-mile distribution, customer service).
- 3 KNOWLEDGE AND LEARNING** to promote awareness and customer-centric growth.
- 4 ADVOCACY AND PARTNERSHIPS** to co-create a policy and business environment that supports energy microfinance to reach scale.

CleanStart is now active in Ethiopia, Cambodia, Myanmar, Nepal, and Uganda. Through the adoption of clean energy technologies, CleanStart clients will reduce their CO<sub>2</sub> emissions by thousands of tonnes. Further, it has a strategic partnership with PAMIGA, an Africa-focused microfinance network that operates an energy access programme in Ethiopia, Tanzania, Cameroon, Burkina Faso and Senegal.

For more information on CleanStart, please visit [www.uncdf.org/en/cleanstart](http://www.uncdf.org/en/cleanstart) and follow CleanStart on Twitter at @UNCDFCleanStart

## Financing Local Responses to Climate Change: The Bridge that Saves Lives

**A**round the world, local governments are finding themselves at the frontlines of combating climate change. Yet they seldom have the financial resources or capacities to take the necessary action and build local resilience.

In the Cambodian province of Battambang, most people are farmers and laborers. They stay in the village during planting season, and in the off-season they migrate to other places to find work as laborers.

O'Chamnap is a small village located near the main road. It is a passing point for many families that go to the fields. The location is strategic, but is exposed to flash, strong, and unpredictable floods, often occurring during the night. Few people know how to swim, making fast flowing waters a real threat to human life.



*The new climate-resilient bridge (O'Chamnap, Cambodia)*



*Community members use the new climate-resilient bridge (O'Chamnap, Cambodia)*

Thanks to **LoCAL**, the O'Chamnap community was finally able to build a **climate-resilient bridge**.

The strength of the approach pioneered by LoCAL comes from the participation and inputs of local communities and local governments: with the support of central and provincial authorities, local governments learn how to mainstream climate change in their existing development plans. As a result, climate change adaptation becomes a natural part of local planning processes.



## Last-Mile Financing for Clean Energy:

## Smoke-Free and Solar-Powered

Since April 2014, the CleanStart Programme has been working closely with financial service providers in Nepal to expand micro-loans for cleaner and more efficient energy such as solar lighting and improved cooking solutions.

The four partners—ACE Development Bank Ltd. (ACE); Jeevan Bikas Samaj (JBS); Sana Kisan Bikas Bank Ltd. (SKBBL); and Clean Energy Development Bank Ltd. (CEDBL)—have set out together to reach at least 102,000 households and micro-entrepreneurs throughout Nepal by 2017.

By June 2015, these partners collectively provided energy loans to over 25,000 clients, with the bulk of loans financing solar home systems of 20-watt peaks or higher, which typically powers four lights. So how did they do it?

JBS has 60 branch offices in seven districts serving the poorest of the poor. SKBBL, meanwhile, partners with 384 small farmer cooperatives in more than 50 districts, many of them located in Nepal's most remote regions.

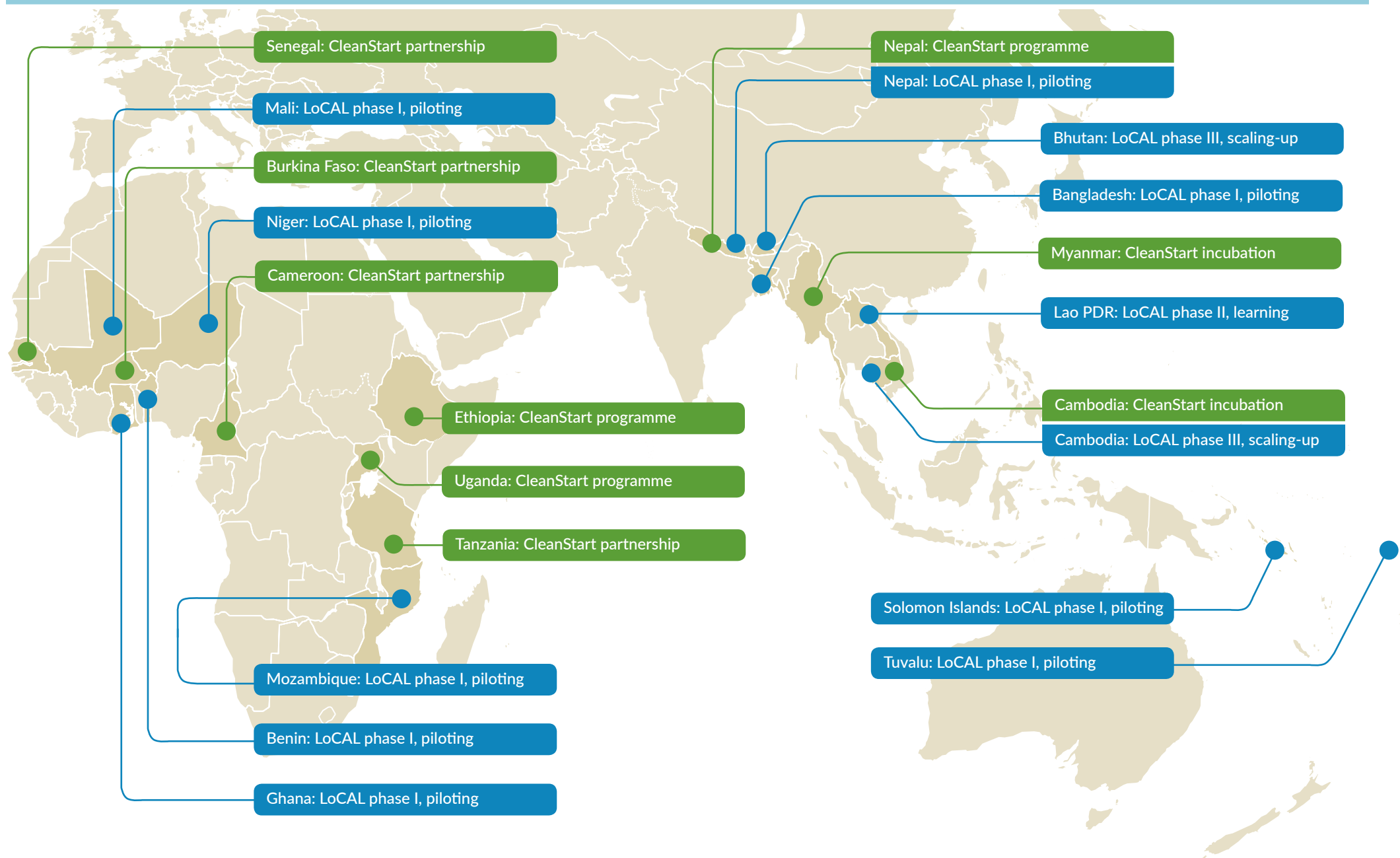
SKBBL wants the home of every member farmer—totaling 384,000 households—to be smoke-free and lit with solar energy. JBS has set up a subsidiary called JBS Urja ('energy' in Nepali) as a one-stop shop that not only markets products but also provides installation and maintenance services. It has 29 technicians and provides after-sales service within 48 hours.



*Working under lights powered by solar lantern (Sinhuli, Nepal)*

The ability to deliver a captive market has placed SKBBL and JBS in a good position to negotiate prices for their clients. In fact, the solar home systems they offer are about 3,000 NPR (US\$30) cheaper than market price. In addition, SKBBL offers their energy lending at an interest rate one percent lower than that of their regular credit products. Every bit helps, given that many JBS and SKBBL clients live in grid-connected areas, and purchase solar home systems as a back-up source for an unstable electricity supply.

## An Overview of UNCDF Engagement



## About LoCAL

The Local Climate Adaptive Living Facility (LoCAL) of the UN Capital Development Fund serves as a mechanism to integrate climate change adaption into local governments' planning and budgeting systems, to increase awareness of and response to climate change at the local level, and to increase the amount of finance available to local governments for climate change adaption. LoCAL combines performance-based climate resilience grants (PBCRGs), which ensure programming and verification of climate change expenditures at the local level, with technical and capacity-building support. It is designed to re-enforce existing national and sub-national financial and fiscal delivery systems, and it uses the demonstration effect to trigger further flows for local adaptation—including national fiscal transfers and global climate finance for local authorities—through their central governments. For more information, please visit [www.local-uncdf.org](http://www.local-uncdf.org).

## About CleanStart

CleanStart supports low-income households and micro-entrepreneurs to jump-start their access to clean energy through microfinance. It encourages greater financing choices for poor people, supported by high-quality technologies and services, and enabling ecosystems for energy and financial service providers to achieve scale and impact. CleanStart aims to invest resources in at least six countries in Asia and Africa to create a clean energy future for 2.5 million people. For more information, please visit [www.uncdf.org/en/cleanstart](http://www.uncdf.org/en/cleanstart) and follow us on Twitter at @UNCDFCleanStart.