Money where it matters: designing funds for the frontier

Marek Soanes, Clare Shakya,
Anna Walnycki and Sam Greene

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About the authors

Marek Soanes is a researcher in IIED's Climate Change Group
Clare Shakya is director of IIED's Climate Change Group
Anna Walnycki is a senior researcher in IIED's Human Settlements Group
Sam Greene is a researcher in IIED's Climate Change Group

Corresponding author: Marek Soanes, marek.soanes@iied.org

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- Supporting climate change negotiators from poor and vulnerable countries for equitable, balanced and multilateral solutions to climate change
- Building capacity to act on the implications of changing ecology and economics for equitable and climate resilient development in the drylands.

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International Institute for Environment and Development
80-86 Gray's Inn Road, London WC1X 8NH, UK
Tel: +44 (0)20 3463 7399
Fax: +44 (0)20 3514 9055
www.iied.org

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With only US$1 in every US$10 committed from climate funds for local level climate action, climate finance is failing to get money where it matters. We need to reimagine the climate finance system. This paper investigates the flow of finance from primary donor to local actor and presents a new framework to get more finance to local institutions to tackle the drivers of poverty, resource degradation and climate change. It also sets out the ways in which primary donors, global funds and financial intermediaries can help make this reimagined climate finance system a reality.

Contents

Acronyms

ACCF	Africa Climate Change Fund
BAAC	National Bank for Agriculture and Agricultural Cooperatives (Thailand)
DGM	dedicated grant mechanism
DOS	Homeless in Zimbabwe Trust
FAO	Food and Agriculture Organization of the United Nations
FASE	Federação de Órgãos para Assistência Social e Educacional (Federation of Organisations for Social and Educational Assistance)
FFF	Forest and Farm Facility
FFPO	forest and farm producer organisation
FIP	Forest Investment Programme
GCF	Green Climate Fund
GEF	Global Environment Facility
MDBs	multilateral development banks
MIQCB	Movement of Babaçu Nut Breakers
NGO	non-governmental organisation
REDD+	Reducing Emissions from Forest Degradation and Deforestation Plus
SANBI	South African National Biodiversity Institute
UNDP	United Nations Development Programme
ZHPF	Zimbabwe Homeless Peoples' Federation

Executive summary

Only US$1 in every US$10 of climate finance committed is for delivering local level climate action.[1] Climate finance is failing to tackle the drivers of vulnerability in communities facing chronic poverty, resource degradation and climate change.[2] The quality of investment is inconsistent, with funding often channelled through many layers of intermediaries to short-term projects with ephemeral impact on systems and skills.

Communities — with their wealth of lived experience and local understanding — are excluded from prioritising investment decisions. Donors make decisions in distant headquarters, reducing the potential for innovation and dialogue to resolve challenges and trade-offs, and preventing the development of trust that money is well spent. Funders retain heavy financial controls and reporting requirements, leading to upward rather than downward accountability. The result is low-risk, late-stage climate financing that offers limited support to newly established funds working at the local level.

For two decades, IIED has supported local development and climate action to help get money where it matters.[3,4] This paper extends this work, investigating the flow of climate finance from primary donor to local actor and exploring how to get more finance to local institutions to deliver the triple win of tackling poverty, resource degradation and climate change. Other mechanisms that reach the frontier of climate action — devolved climate finance, decentralised energy solutions and adaptive social protection — also inform our findings, as it will take multiple approaches to create a coherent response to tackling climate risks while delivering the Sustainable Development Goals.

Learning from practice: frontier funds

Local funds empower communities to tackle poverty, improve their resilience, protect carbon sinks and reduce emissions, building an institutional legacy through subsidiarity, community agency and rights. We explore four funds that illustrate these principles. All emerged from social movements tackling inequitable access to resources and are channelling money to the frontier of climate action:

- **The Dema Fund** supports indigenous peoples, women, Afro-Brazilians and subsistence farmers in the Brazilian Amazon (www.iied.org/delivering-climate-finance-local-level-dema-fund)
- **The Babaçu Fund** supports traditional nut collectors in northern Brazil (www.iied.org/delivering-climate-finance-local-level-babacu-fund)
- **The Gungano Urban Poor Fund** supports low-income urban households in Zimbabwe (www.iied.org/delivering-climate-finance-local-level-gungano-urban-poor-fund), and
- **The Tree Bank Foundation** supports smallholder farmers in Thailand.

A framework for effective financing mechanisms

Our vision for a reimagined climate finance system proposes a fundamental reform of the business-as-usual approach to climate and development financing. This framework presents:

- Ten good practices for frontier funds to strive towards, based on our earlier research and incorporating the experiences of four local funds and institutions across the climate finance system.
- A four-stage journey towards maturity, over the course of which funds become credible, agile institutions that can access large and varied sources of climate, development and private finance. To navigate this journey, frontier funds and their donors must build their skills to identify the type of finance they need at each stage (see Table 1). The journey is faster when frontier funds have patient, risk-tolerant support from 'brokers', who provide early-stage finance, and 'translators', who help build trust up the climate finance chain by translating objectives and bureaucratic requirements into understandable language.

IIED's framework: ten good practices for frontier funds to strive towards

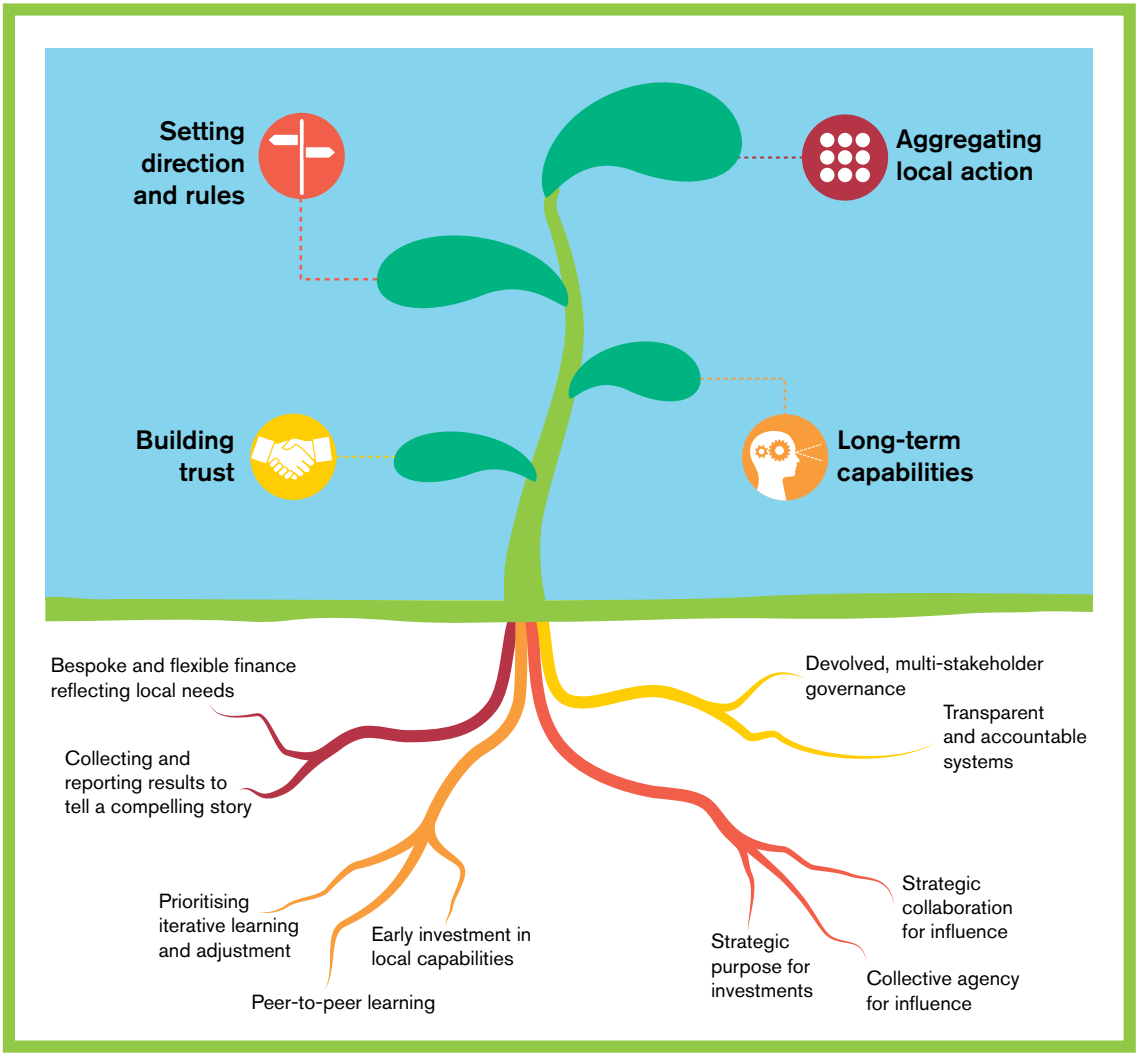


Table 1. IIED's framework: a frontier fund's journey towards maturity

STAGE		DESCRIPTION
1	Collective action	Communities organise and establish local groups to develop grassroots responses to their development and climate challenges, securing access to services and resources. To increase their impact, they form a financing approach — such as a frontier fund — through community contributions of time, labour and savings.
2	Emerging fund	The frontier fund begins to formalise its governance, develop fiduciary systems and hone its strategic focus. It starts influencing, networking, strengthening resource rights and building collaborative relationships, supported and strengthened by translators to help communities understand their options. Brokers support the building of systems and provide some external, early-stage and risk-tolerant finance.
3	Formalising fund	The fund formalises and strengthens its procedures as its track record in delivering impact grows. It may still not meet primary donors' requirements and may require ongoing support from brokers and translators to build capability in development and climate finance bureaucracy.
4	Mature fund	The fund accesses and combines a range of financing sources and distributes money effectively to local groups. With established strategic partnerships, it contributes to local or national strategic objectives such as national climate plans. Large donors and global funds are ready to invest directly. It starts to build its financial sustainability.

Improving finance: what development partners can do

The limited availability of brokers who can provide early start-up finance and support to young institutions is a major challenge. But it also presents an opportunity for current development partners, who have a vital role to play in nurturing young funds. As well as acting as broker and/or translator, primary donors, global funds and intermediaries can help ensure frontier funds get appropriate finance and support at each stage of their journey by:

1. Providing local finance and aggregation strategies with accountable targets, improving support and scaling up finance to create a clear roadmap with concrete goals for getting finance to local actors.
2. Prioritising intermediation through credible and innovative institutions with a track record of brokering that supports good practice in national funding mechanisms that reach the frontier.
3. Providing clear rules of engagement, including stricter time-bound roles requiring partners to support local institutions until they can access finance independently.
4. Using participatory processes to identify and develop project indicators and results management frameworks that incentivise outcomes and more strategic investments.
5. Increasing small, simple and patient funding to incubate frontier funds and other national institutions with real reach to communities and measuring success in terms of their ability to scale up and access lower-risk funding over time. Grants outside the government system could stimulate innovation to hold government to account.
6. Supporting national governments to recognise potential and develop platforms that build bridges between communities, national policymakers and other actors and create an enabling national environment.
7. Embracing technology to enhance the transparency of financial flows and give communities a voice in resource allocation; informing local communities of the benefits and risks of emerging digital technologies and empowering them to engage in their design and governance.

A reimagined financing system

To deliver low-emission, climate-resilient development at scale, financing mechanisms need to reach the frontier of climate change and deliver a whole-of-country response. By changing incentives and shifting the larger flows of development and private investment, development partners can help ensure climate finance provides a sustainable resource base to help societies thrive in the face of climate change. But no single mechanism can do this. Countries need to build the right layers of institutional financing mechanisms that can target and deliver larger flows of predictable finance to the frontier.

Delivering the reimagined equitable climate and development finance system we present in this paper will require an evolution towards credible and agile institutions that:

- Tackle the underlying drivers of vulnerability: chronic poverty, resource degradation and climate change
- Work on the principle of subsidiarity, supporting collective action and community resource rights to resolve trade-offs through inclusive processes that engage the range of interest groups at each level, and
- Build an institutional legacy of transparent institutions with downward accountability that enable policy influence by local actors.

We recommend further research to strengthen the development of this system, deepen guidance for all stakeholders and understand how best to design and govern new technologies.

Introduction

The Paris Climate Agreement and Sustainable Development Goals commit the world to a new social contract to advance social prosperity while increasing resilience to climate shocks as well as protecting carbon sinks and reducing greenhouse gas emissions. Although the international community has already committed financial and technical support to achieve this triple win of tackling poverty, resource degradation and climate change, only US$1 in every US$10 from international climate funds between 2003–2016 is committed to locally focused projects.[1]

Achieving the triple win is urgent.[2] There needs to be action across societies and ecosystems to maximise resilience and natural carbon sinks. We must also ensure enough support reaches the people and places that need it most.[3,5,6]

This paper reimagines a more effective climate finance system. It is designed to help cooperatives, federations, social movements and local governments to develop mature financial mechanisms that are capable of absorbing and disbursing high-quality and high-quantity finance to the priorities of communities at the frontier of climate change. Drawing on four case study funds that provide money for local action at the frontier, which we refer to as 'frontier funds', we present a Money Where It Matters framework and reflect on how the latest innovations in technology could help.

It sets out ten good practices and a journey to build these mature mechanisms, but it is not prescriptive; the financial mechanisms required will vary by country, local and thematic context. Other mechanisms that reach the frontier of climate action — devolved climate funds, decentralised energy solutions and adaptive social protection — also inform our findings, as countries will need to use layers of financial mechanisms to deliver a coherent, whole-of-country response that delivers climate-resilient and low-emission development (see Figure 1).

To draw the right blend of development, climate and private finance, we aim to provide compelling arguments for both investors and developers of financial mechanisms reaching the frontier around the benefits of investing in tackling poverty, resource degradation and climate change. We seek to set out what they need to tackle the challenge of trust and shift the incentives in their wider enabling environment, such as through influencing policy. We also aim to guide primary donors, international intermediaries and national governments to ensure climate finance reaches the frontier and delivers the triple win.

What we mean by…

Triple win: an intervention or mechanism that contributes to three key areas of climate-resilient and low-carbon sustainable development, by advancing social prosperity while increasing resilience to climate shocks and reducing greenhouse gas emissions (including protecting carbon sinks). This is similar to the 'doughnut economics' approach,[7] which posits that investments should meet all social goals without transgressing any of the planet's biophysical boundaries. No G20 country has yet reached this point, so all countries are effectively developing nations. We seek transformative approaches, led by those hit hardest, to help us get there.

Local actors: public, private, civil society, customary and informal institutions at local and community levels, such as local and municipal governments, micro, small and medium-sized enterprises, community-managed funds and community-based organisations.

Social movement: a type of group action with organisational structures and strategies to empower marginalised populations to mount effective challenges and resist more powerful and advantaged actors.

Figure 1. Climate finance is needed for solutions across scales

The challenges to ambition

1

To deliver the triple win, climate action needs to take place at many levels (Figure 1). But the context for climate action — particularly adaptation and protecting carbon sinks through land use decisions — is complex. A climate shock will affect each household in a different way, depending on its location, networks, livelihoods, assets and the services it can access. So, when flexible finance reaches local actors in slums or rural areas, they invest it in activities that donors in distant headquarters or national capitals would never predict.

Communities and indigenous peoples, who have a longstanding relationship with their forests and lands and the rights to protect these resources, bring their unique knowledge and practices to manage the complex ecosystem they depend on. Given this complexity, it is more effective to make choices around managing natural resources and building resilience at the local level. This also makes it easier to incentivise more integrated responses, resolve competing interests and consider the implications of actions over different time frames.[6,8,9]

Interventions that enable local and context-specific decisions are more relevant, cost-effective and longer-lasting; they also provide greater accountability on fund use.[3] Interventions work better when the local people who are affected by climate change design and implement them, when they engage all local actors and focus on their experience, knowledge and the solutions they consider important. Developing interventions in this way allows people to adapt 'expert' solutions to local realities and ensures energy and efforts go into experimenting, learning and adjustment to meet their immediate needs and ensure their grandchildren have opportunities to thrive — "their pragmatic imperative".[10,11]

However, several challenges prevent development partners from scaling up finance for local climate action at the frontier.

1. There is a significant shortfall in the amount of climate finance available to help countries and communities shift towards a low-carbon and resilient development pathway so they can thrive despite climate change. This is particularly so for the poorest countries and communities. Although analysis suggests we will need US$140–300 billion for adaptation by 2030, in 2016 donors and global funds only committed US$22 billion.[12] At just 20% of total climate finance, this amount misses the Paris commitment for balanced support to adaptation and mitigation. Less than 2% of international mitigation finance is allocated to forests; even less reaches the remote rural communities that protect forests as part of their livelihoods.[13] Even within renewables — the largest climate finance flow — only 3% is directed to decentralised energy to better reach poor people.[14] Non-governmental organisations (NGOs) and developing countries are also concerned that donors count loans as grants and overstate the climate change value of development programmes in their reporting.[15]
2. Climate finance needs to influence the larger flows of development and private investment — and not just at the national level. Only 10% of climate finance is committed to reach the local level, so climate finance is failing to reach the places where it is needed most. This limits projects' immediate effectiveness and prevents national and subnational institutions from building long-term capabilities to guarantee a legacy of change.
3. The quality of climate finance flows is inconsistent. Too much is delivered through short-term projects designed by distant experts and through intermediaries. Money often passes through several funds and partners — with their separate administration costs and interpretation of how best to deliver against priorities — before reaching activities on the ground. Many believe that these high levels of intermediation are partly responsible for the poor quality of climate finance.[16]
4. Intermediation also reduces trust. When funding passes through many intermediaries, donors lose direct sight of where and how it is spent. This makes it difficult to get feedback on the value of funding or any perverse consequences of well-intended efforts to improve delivery performance, such as the use of results frameworks,[17] fiduciary control or sets of eligibility criteria.[10,18] Where downstream intermediaries know they can make adjustments, they can take better ownership, reflect on what worked and adjust and report meaningful change to donors.[8,19] But controls often create biased power relationships that make intermediaries upwardly accountable.

What we mean by…

Results framework: an explicit articulation of the different levels or chains of results expected from an intervention, such as a project, programme or development strategy. The results specified typically comprise longer-term objectives (outcomes or impact) and intermediate outcomes and outputs that precede and lead to the desired long-term objectives.

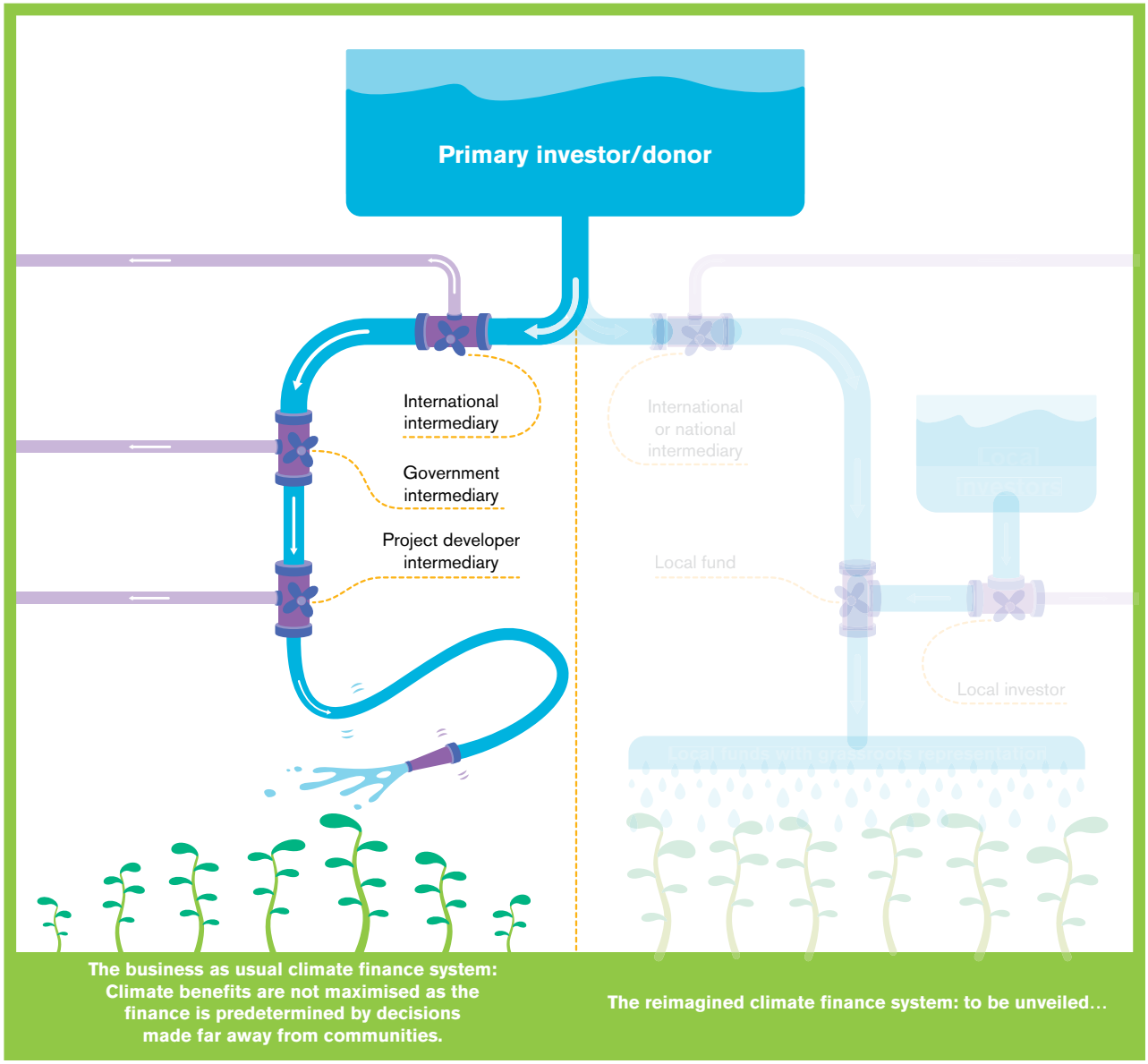
Fiduciary controls: a set of standards covering financial management, administration, project management and so on, that enables an institution to undertake its activities effectively and safely, with accountability and transparency. They help improve organisational operations, manage and proactively address risks and provide funders with confidence in operations.

5. Rules and procedures also require strong capabilities in any recipient, so countries rely on intermediaries to access this low-risk finance. One of the most significant challenges is making the case for climate additionality (beyond development). While most actors recognise that development and climate challenges are interrelated and the value of an integrated approach, the politics of climate finance require countries to justify the additional costs of a climate response.

These challenges are neither new nor specific to climate change. In development practice, programmes such as community-driven development were designed to create multi-year predictable financing mechanisms to enable communities to prioritise local infrastructure investment and deliver bespoke solutions at lower costs. Reviews demonstrate that there are no shortcuts to building institutions and that it is vital to get both their design and the way they are governed right. The reviews also show the value and challenges of reducing intermediated parallel delivery systems and giving communities meaningful authority to prioritise finance for more effective outcomes.[20]

Figure 2 is an analogy of the current climate and development end-to-end finance system. The pipe junctions represent intermediaries in the system. While crucial for enabling the finance to flow, these donors and experts in distant headquarters decide on how it flows and divert some away for administration. This reduces the amount of money reaching those implementing local action and predetermines how they can spend it on activities on the ground.

Figure 2. The leaky hosepipe: an analogy for business-as-usual climate finance



Learning from practice: funds for the frontier

2

Also known as local funds, frontier funds are set up for a local constituency around a geographically demarcated place, ecosystem or livelihood. In this section, we examine four such funds in Brazil, Zimbabwe and Thailand that are enabling climate action at the frontier. Having emerged from social movements to tackle inequitable access to resources, they all make decisions about the appropriate subsidiarity to deliver community agency and collective action, devolving decisions to the lowest possible level where action is sensibly taken. They are at different stages of development and each responds to different contexts. Although they did not all evolve with the explicit purpose of delivering climate-resilient and low-carbon development, the pragmatic imperative of delivering truly sustainable development means that their work is delivering innovative and equitable climate solutions.

What we mean by…

Agency: the ability of local actors with different perspectives to set their priorities, resolving any trade-offs, and influence the environment within which they operate (wider policy, entitlements and financing flows). Institutions supporting community agency need to be agile to pivot with communities' changing context and opportunities, not least due to the increasing uncertainties with climate change.

Dema Fund, Brazil

The Dema Fund supports environmental justice for Amazonian social movements of indigenous and traditional peoples, women, Afro-Brazilians (*quilombolas*) and subsistence farmers in Pará state, northern Brazil.[21] Operating in a region with significant deforestation, the fund supports the protection of local forests by improving the rights of forest communities that depend on local ecosystems.

It reaches geographically remote communities that are largely excluded from other programmes through four funding windows: the Quilombola Fund, which supports Afro-Brazilians claiming their right to manage sustainable *quilombo* (hinterland settlement) territories;[22] the Luzia Dorothy do Espirito Santo Fund, which supports rural women's groups;[23] the Xingu Fund, which supports indigenous Xingu peoples to claim their rights to govern their traditional territory;[24] and the general fund. Each funding window has a governance body with representation from the social movements it is designed to support, who help set eligibility criteria for funding that meets their specific needs. They reach scale by supporting many projects, covering a huge area. The fund's wide reach has increased the resilience of forest ecosystems and so the livelihoods of people who depend on them. By protecting the forests, the fund also helps sequester carbon, reducing carbon emissions. While the fund's primary purpose is focusing on environmental and social justice, protecting the carbon sink has justified it receiving climate finance.

BOX 1. DEMA FUND

Established: 2004

Location: Pará state, northeast Brazil

Project types: 488 projects in environmental protection and support for families in land conflict; productive projects; organisational development of social movements

Fund size: US$889,000 in four funding windows

Overall disbursement: US$200,000

Numbers reached: 78,500 people from 1,900 communities in 20 districts

Organisations involved: Federação de Órgãos para Assistência Social e Educacional (FASE), TransAmazônica, BR 163, Baixo Amazonas, Malungu quilombola organisation

Examples of investments

Xingo Fund: The Kayapó tribe from Baú village near Altamira aims to control and protect its territories from illegal mining and logging and improve livelihoods. It used its Dema Fund investment to strengthen information technology for reporting and to support wider engagement and establish an agroforestry system for 45 people in 11 families. So far, they have planted 2,000 trees in cooperation with the Brazilian Institute of Environment and Renewable Natural Resources.

Quilombola Fund: Gurúpa quilombo near Belém used their Dema Fund investment to build efficient ovens to produce flour, increasing production and income for 220 people in 120 families and reducing smoke-related health risks and wood consumption.

Fundo Luzia Dorothy do Espírito Santo: women from Santarém used their Dema Fund investment to create productive backyards for 21 women, increasing their economic independence, income and food security and improving their position in local markets. The project included technical training on vegetable planting and raising poultry, and worked with the women on other challenges, including domestic violence.

Seed finance came from a compensation payment to communities affected by illegal logging and the auction of confiscated illegal timber. Local NGO FASE provided early support to establish the governance around the fund with the Ford Foundation. Both organisations had also, along with others, provided early support to develop the collective action capabilities of each social movement. Scaled-up finance comes from Brazil's Amazon Fund and a network of foundations. Under Brazilian law, companies can be required to pay compensation for environmental damage; the Dema Fund is awarded the damages from any violations in their region.

For more details on the Dema Fund, its funding flows and decision making, visit www.iied.org/delivering-climate-finance-local-level-dema-fund

Babaçu Fund, Brazil

The *babaçu* forests in the northern Brazilian Amazon are palm groves, consisting mainly of *Attalea speciosa* and *Orbignya phalerata*, that produce palm nuts with a high fat and oil content. Three hundred thousand traditional nut collectors — 90% of whom are landless women — depend on collecting and processing the nuts, making high-quality charcoal from the shell and flour and drinks from the pulp. But an influx of cattle ranches and the consequent enclosure and privatisation of palm forests has caused significant deforestation, threatened the women's rights to access these resources and reduced the resilience of the forest ecosystems they rely on.

There are around 13 million hectares of *babaçu* forest across the Amazon. To fight for rights to these resources, women formed the Interstate Movement of Babaçu Palm Nut Breakers (MIQCB), a socioenvironmental movement across the Brazilian Amazon and savannah.[25] Partners supporting MIQCB's establishment and collective action also helped the movement set up the Babaçu Fund to invest in sustainable development interventions that protect the *babaçu* forests. Like the Dema Fund, its purpose is integral to climate action, protecting carbon sinks and the resilience of community livelihoods. Despite this, the Babaçu Fund struggles to articulate climate benefits in donors' language.

The Babaçu Fund reaches some of Brazil's remotest and poorest people in 58 municipalities. Its design was informed by peer-to-peer learning, benefiting from the Dema Fund's experience as well as support from allied NGOs and the Ford Foundation.

The Babaçu Fund has successfully helped restore, protect and improve the management of the *babaçu* forest groves. It has also protected, recognised and improved nut collectors' way of life as a valued profession. Its greatest success was advocating for the Free Babaçu Law, which recognises nut collectors as traditional occupiers of the forest under Article 231 of the Brazilian Constitution. Passed in 1997, this gave collectors the right to access *babaçu* forests and established rules and responsibilities for their sustainable management. The fund has achieved formal legal recognition of community associations' rights to these forests in 14 local governments. It has also supported the development of women leaders and entrepreneurs from these communities and influenced policies that support women's rights, economic inclusion, environmental protection and the recognition of cultural norms.[26]

For more details on the Babaçu Fund, its funding flows and decision making, visit www.iied.org/delivering-climate-finance-local-level-babacu-fund

BOX 2. BABAÇU FUND

Established: 2013

Location: Pará, Piaui, Tocantins and Maranhão states, northeast Brazil

Project types: organisational development; *babaçu* nut value chain productivity

Fund size: US$633,000 (expecting new grant); 2018 expected spend US$1.3 million

Organisations involved: MIQCB, TIJUPÁ, ACONERUQ, University of Pará, UFPA, AMUSDA, rural workers' union STTR de São Domingos do Araguaia, FETAET, APA-T, ASSEMA, Matinha Youth Forum

Examples of investments

The legal process for communities to claim their right to access palm groves and collect nuts, through access agreements in each local government under the free *babaçu* law.

Legal recognition of communities as traditional forest occupiers, helping them establish collective land use territories, also called sustainable extractive reserves or sustainable *quilombos*.

Productive projects, including buying equipment and materials to develop *babaçu* collectors' enterprises processing and marketing their products for food or cosmetics.

Community forest management projects, including wildfire management, forest zoning and biodiversity conservation.

Strengthening community organisation, including advocacy and project management skills.

Gungano Urban Poor Fund, Zimbabwe

The Zimbabwe Homeless Peoples' Federation (ZHPF) was formed in 1998 as an urban poor federation. By December 2017, it was bringing together more than 500 urban grassroots collectives that lead and manage savings schemes to fund sustainable livelihoods and slum upgrading strategies. To empower collective action, which is central to ZHPF, it collects individual savings and makes contributions through the Gungano Urban Poor Fund.

Gungano means 'gathering' in Shona. Individual savings and contributions to the fund bind federation members and provide a financial service for savings and loans. ZHPF facilitates community organisation, aggregating community needs, while the Gungano Fund disaggregates community funds that have been blended with donor funds around local needs. This collective approach has taken time to develop, but it is at the heart of the fund's ability to influence policy and land use planning. Although it wholly owns the fund, ZHPF works in partnership with the NGO Dialogue on Shelter for the Homeless in Zimbabwe Trust (DOS), providing technical and financial management support to upgrade projects. The fund operates on a revolving basis: beneficiaries repay their loans within a specified period at an agreed and affordable interest rate, so that others can benefit from the fund. Loan groups act as guarantors, based on collective savings. ZHFP varies the type of finance, depending on community needs. It makes all decisions concerning fund management and implementation, with support from DOS.

ZHPF and the Gungano Fund support poverty reduction through informal settlement upgrading. Specifically, the fund aims to:

- Empower poor communities through affordable loans for skills training, income generation, land and tenure security, water and sanitation infrastructure, appropriate housing and home improvements
- Augment its capital base by leveraging financial, material, human and technical resources from the government and private sector, and
- Develop a scalable and replicable housing finance model, partnering with central and local government to develop finance mechanisms that work for the poor, encourage peer-to-peer exchanges and increase ZHPF's and low-income communities' financial management skills.

What we mean by…

Tenure: a legally or customarily defined relationship among people with respect to land and natural resources. Tenure rights are rules societies invent to regulate behaviour that define the allocation of ownership and rights to land and natural resources: who to, for how long and under what conditions.

BOX 3. GUNGANO URBAN POOR FUND

Established: 1998

Location: Zimbabwe-wide

Project types: savings schemes to fund sustainable livelihoods and slum upgrading

Fund size: US$804,000 since 2009; US$1.2 million land acquisition savings

Organisations involved: ZHPF, DOS

Example of investments

ZHPF mapped and profiled the Dzivarasekwa Extension to develop a scalable, low-income and community-led housing pilot for 16 families and infrastructural services for 480 families on a site that now accommodates over 700 families. In 2002, the city government granted the land with basic services to ZHPF, which bought it with Gungano Fund money.

ZHPF, DOS and the City of Harare received funds from the Bill and Melinda Gates Foundation, channelled through the Gungano Fund to provide loans for housing and access to basic services under the Harare Slum Upgrading Project. After developing three architectural designs through community consultations and exchange visits to other communities, ZHPF members designed and built the houses and installed infrastructure. The City of Harare and DOS provided technical support and some machinery.

The Gungano Fund supports an incremental approach to upgrading and to sanitation. Families start with temporary transit homes and, after the pilot project, can take out loans to build houses and access basic services. Households initially developed elevated ecosan toilets to cope with the high water table and seasonal flooding, but over time they have accessed the finance and infrastructure to connect to mainline sewers. The Gungano Fund has also provided loans for livelihood activities and solar energy.

Although adaptation to climate change was not one of ZHPF's original aims, Gungano Fund projects have contributed to adaptation and increased resilience. Incremental upgrading has resulted in implicit responses to climate change, such as using drainage and dry toilets in areas that are prone to flooding, installing solar energy projects and carrying out household repairs after extreme weather events.

For more details on the Gungano Urban Poor Fund, its funding flows and decision making, visit www.iied.org/delivering-climate-finance-local-level-gungano-urban-poor-fund

Tree Bank Foundation, Thailand

In 2007 the Thai government provided US$1 billion seed capital under the Tree Bank for Debt Repayment Programme. Most of this went to the National Bank for Agriculture and Agricultural Cooperatives (BAAC) to establish almost 1,000 village-level community funds. But the Tree Bank Foundation, which emerged from a social movement of smallholder rural farmers, also received US$93,000 to initiate a bottom-up approach to sustainable forest management for smallholder farmers. The foundation aims to promote sustainable agricultural techniques and tackle the underlying causes of smallholder vulnerability and forest degradation.

The underlying Tree Bank philosophy is that Thai farmers have the right to grow, take care of, price, cut and sell trees on their own land and for their trees to be recognised as assets valued for the economic return and ecological services they generate. The value of mitigation through the carbon sequestered in trees is an explicit objective, but the value to resilient livelihoods has not been as clearly articulated.

The Tree Bank Foundation is in early development and has yet to formalise its funding model to help it achieve this aim. It will establish a revolving fund to support agroforestry and create a register of trees planted. Having their trees recognised as assets allows farmers to use them as collateral for loans and receive payments for ecosystem services.

Although the formal revolving fund is not yet established, international and national funding has supported testing of the design on a large scale. The foundation has voluntary branches in 66 of Thailand's 77 provinces that deliver seminars on agroforestry and sustainable agriculture and distribute saplings and seedlings. They also help branch members collect their own tree data to develop their understanding of their land's economic and ecological value.[27] This has improved agroforestry approaches as farmers shift away from monoculture, increasing their income and resilience to shocks. For example, coffee and rubber farmers developing mixed cropping techniques have generated additional revenue during coffee price shocks and increased rubber tapping output during drought and non-drought years. These practices have also reduced soil erosion and fertiliser requirements. Promoting tree value measurement has shifted farmers' incentives, encouraging them to maintain their trees for longer and to plant new varieties.

BOX 4. TREE BANK FOUNDATION

Established: 2007

Location: throughout Thailand

Project types: agroforestry and tree data collection training; sapling and seed provision; payment for ecosystem services to support sapling maintenance

Fund size: revolving fund yet to be established

Organisations involved: Tree Bank Foundation, Center for People and Forests, Provincial Natural Resource and Environment Office, *tambon* (sub-district level) governments, BAAC, Global Environment Facility's Small Grants Programme, Finnish International Development Agency, Nestlé.

A framework for effective local finance

3

In this section, we outline the Money Where it Matters framework that offers solutions to the challenges of getting climate funding to where it is needed most. Based on the building blocks from our earlier research, it aims to strengthen effective funds that reach the local level and inform financiers how they can best support the development of these mechanisms and those building the funds.

The Money Where it Matters framework is composed of three elements. The first is building blocks for effective local finance (Figure 3). The second is good practices that strengthen these building blocks (Figure 4), composed of ten design choices (the roots) to ensure funds can tackle the underlying drivers of poverty, climate vulnerability and resource degradation. The final component (Figure 5) sets out the four stages of a frontier fund's climate finance journey, considering the decisions they may take in different contexts and the capabilities they need. It also outlines the roles of support partners who can build bridges between actors at all levels. This can unlock local communities' and enterprises' adaptation and mitigation potential and realign incentives to ensure the climate finance system maximises the impact of every penny spent for long-term sustainable development.

Financial mechanism designs will vary in response to country and thematic contexts. The Money Where it Matters framework is not intended to be prescriptive.

What we mean by…

Aggregation: an arrangement or institution that helps bundle something together so that it is the right size for a deal. We can aggregate:

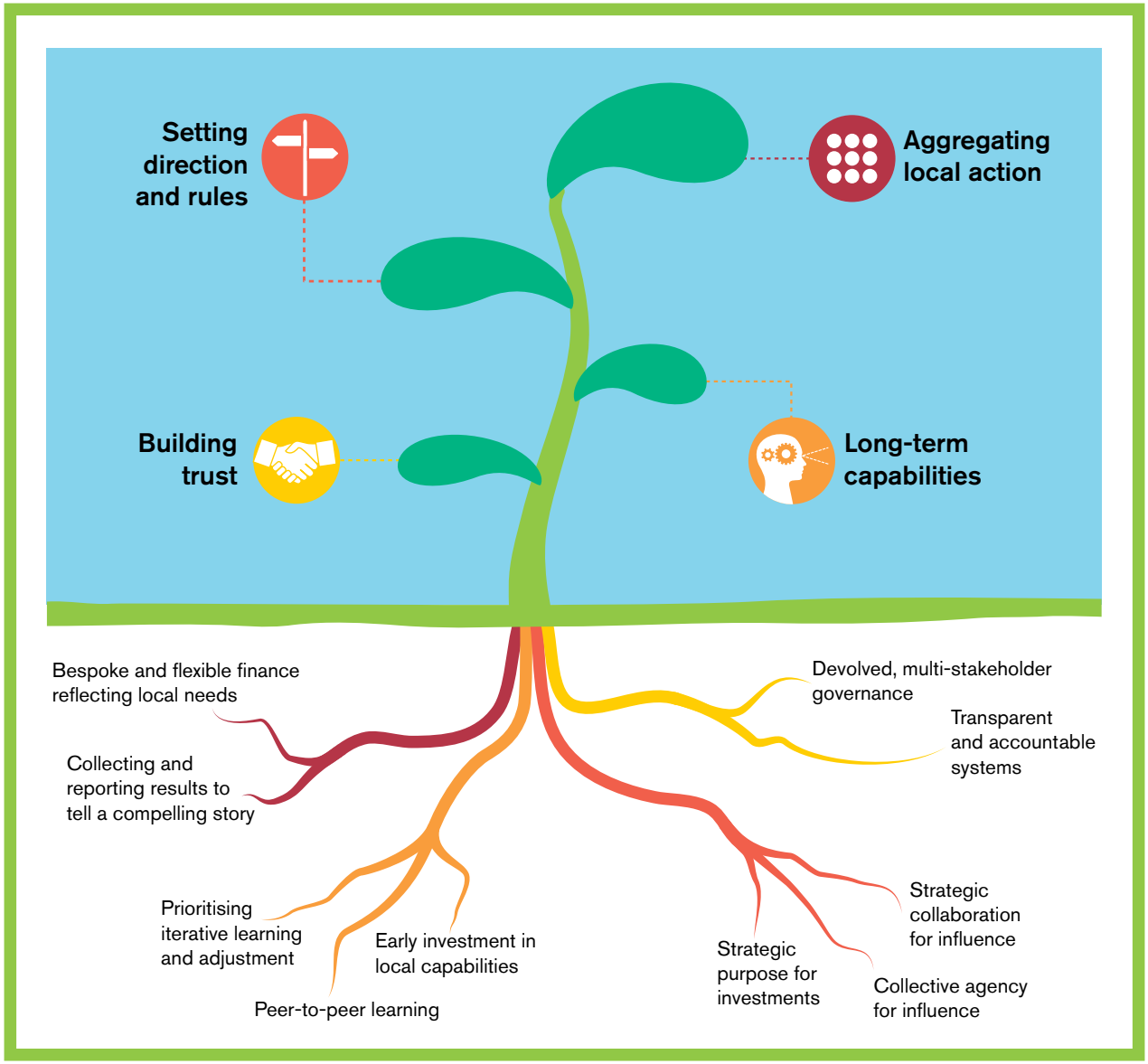
- Finance in a platform offering financial products that provides the scale and diversified risk to suit investors
- Demand through communities joining up in an energy cooperative to aggregate their demand for energy services at the right scale for a mini-grid investor
- Projects into a portfolio that delivers a collective service with similar technologies or approaches, or
- Information by standardising information that implementers provide to investors to allow benchmarking new business models.[28]

It is derived from a range of examples, including the case studies of frontier funds and earlier research into other funding mechanisms that reach the local level.[3] This includes aggregating finance for small loans to renewables and climate smart agriculture enterprises, small grant schemes for adaptation, adaptive social protection and devolved climate funds.[29]

Figure 3. The building blocks of Money Where it Matters: from challenges to solutions

	**Aggregating local climate action**: high transaction costs of overseeing the performance of many small projects and engaging with distributed delivery partners prevent large funders and intermediaries from investing in local climate action. Platforms that aggregate the impact of small projects make oversight easier, while disaggregating finance to the local level improves effectiveness. Institutions need systems to channel climate finance to local partners effectively and efficiently while providing assurance on the climate benefits delivered.
	**Building trust and shared understanding of risk**: the distance and limited contact between finance providers and local institutions limit trust and create asymmetries in the distribution of risk. Innovations in financial structure and management can increase trust between stakeholders and make it easier for local institutions to access climate finance. Stronger upward (to donors and financiers) and downward (to citizens) accountability increases oversight and provides assurance that money is spent well.
	**Shifting incentives through setting direction and rules**: investments in local climate action are most effective when governments support communities' resource rights and create governance platforms with local actors, particularly women and other excluded groups. Mechanisms that effectively engage local people in decision making stimulate more supportive policy and regulation, enable local finance flows and secure clear rights to land and natural resources.
	**Building for the long term and recognising short-term capabilities**: building local actors' practical and strategic capabilities is essential for developing effective local responses that address climate change, resource degradation and poverty. Stronger capabilities and transparent local systems build trust and ensure local leaders and communities have the skills they need to deliver climate action that makes a difference and the strategic capacity to achieve scale.

Figure 4. IIED's framework: ten good practices for frontier funds to strive towards



Countries will also probably need more than one type of mechanism to get climate finance to the frontier. Layering financial mechanisms with different attributes that work with different actors (government, private, NGO) will help countries deliver coherent, climate-resilient and low-emission development.

Aggregating local climate action

Frontier funds must be able to disaggregate finance to provide the right type of support for local actors' priorities while also aggregating the impact of multiple small interventions to create a compelling narrative that justifies flexible and predictable funding from primary investors. They need to offer **bespoke, flexible and simple finance that reflects local needs**. Because local contexts vary, keeping administrative costs low while allowing communities agency to shape the fund is crucial for effective aggregation. Bespoke financial products — like the Gungano Fund's tailored loans for slum upgrading and emergency finance to respond to extreme weather events — are designed for a specific purpose and respond directly to local needs and knowledge. Bespoke financing differs by thematic activity or stakeholder and is responsive to changing opportunities. Establishing a fund at the appropriate level of subsidiarity — national, city or settlement level — ensures solutions are tailored by communities rather than decided by donors.

The Dema, Babaçu and Gungano Funds have all developed bespoke financial products to reflect the needs and timetables of the communities they support. The Dema Fund developed funding windows or sub-funds to reach specific communities and territories,

What we mean by…

Local climate action: where climate finance is channelled, prioritised and/or implemented by or for investments identified by vulnerable, marginalised communities and micro, small and medium-sized enterprises. At best, this is through decentralisation with the principle of subsidiarity — whereby decision making is devolved to the lowest possible level where action is sensibly taken — but it can also be through good practice in multi-stakeholder participation.

ensuring support to those peoples whose voices are often excluded. It also has a general window for wider strategic work. The Gungano Fund provides small loans on a range of terms in response to the circumstances of different communities — for example, it provides loans to non-members in communities seeking to upgrade their sanitation, as the public health benefits of sanitation depend on the whole community having safe hygiene.

It is also important for the funds to **collect and report results that tell a compelling story**. They must put systems in place that summarise their overall impact in meaningful ways to donors because delivering finance to a range of communities and local enterprises in response to local priorities means they have very diverse results. But we know that articulating the climate benefits of local priorities can be a challenge, particularly for adaptation and the resilience of development.

A theory of change is a useful tool to demonstrate how top-down, results-based frameworks that reflect donors' interests in outcomes and impact are delivered from diverse and easily measurable outputs. A theory of change describes how actors expect change to come about through an intervention in a prevailing situation, logically telling the story of how many community activities are delivering the triple win at scale. It is usually laid out in diagram format showing the connections between interventions and expected outputs and outcomes — the causal pathways — and makes clear that these pathways rest on a set of assumptions.[30] Using a theory of change helps guide the collection of qualitative and quantitative information reporting on a fund's expected impact from the outset and distil the value of the fund. Gathering local data to inform decision making around responses to climate change and development challenges provides evidence for a fund's wider influence and supports adjustment with learning.

Partnerships can help mobilise data on results in ways that support local processes and are useful to donors. For example, FASE supports the Dema Fund with a data system that outlines all individual investments on the Dema Fund's website. The Amazon Fund — one of the Dema Fund's primary donors — is interested in protecting forests and agroforests, so it tracks the Dema Fund's contribution to reducing deforestation. These types of system collate and synthesise results in ways that give meaning to the geographic and thematic context. This helps demonstrate a fund's reach and impact, building community and donor confidence in its value.

Emerging technologies can also help frontier funds and local organisations aggregate finance by improving the communication of results and impacts (see Box 5).

BOX 5. DIGITAL SUPPORT TO ENABLE AGGREGATION

Frontier funds are not the only way to aggregate local climate action into investable sizes. The creation of networks or federations of cooperatives and producer associations can ensure investment opportunities reach a 'deal size' that attracts new investors. These can also aggregate demand for a service, such as energy.

Aggregating organisations can collate standardised information on the impact donors are looking for and use this information to match investors to the investment opportunity. Accessible and affordable digital tools can help local organisations gather and analyse more data on the local environment or specific development challenges and so deploy their funds more effectively. Two examples include:

- Producers Direct[31] uses two applications to enable smallholders to share information (WeFarm) and access markets (2Kuze),[32] combined with small-scale finance and centres of excellence to strengthen cooperatives.
- Designed for social enterprises, Acumen's 'lean data' approach gathers data on social performance, customer feedback and behaviour. It uses mobile phone-enabled customer surveys to assess business risk, help social enterprises pivot and articulate impact to investors.[33]

Building trust

To ensure success, frontier funds need to build internal and external trust. A frontier fund develops and maintains a relationship with the communities it serves when its work reflects local priorities and supports collective action around these priorities. This gives it internal credibility. It also needs strong organisational and financial management systems to build and maintain external trust with donors, intermediaries, national government and private investors to secure the necessary finance, enabling policy and strategic technical support.

Funds need to have **devolved, multi-stakeholder governance.** Operating with appropriate subsidiarity — whereby decision making is devolved to the lowest possible level where action is sensibly taken — will ensure agility and responsiveness. Inclusive decision-making and advisory bodies with meaningful representation from community voices provide local credibility and downward accountability, providing the pragmatic imperative to solve local challenges. NGOs and local governments can provide technical support, but the community must have a leadership role and get the support it needs to develop a shared vision.[34]

Our four case study funds feature active member leadership in decision making. The Dema Fund's governance structures have representatives from the community constituencies it serves but separates those with financial approval to avoid conflicts of interest. This applies to the four sub-funds and for overall oversight. The Babaçu Fund replicated the Dema Fund's governance after visiting them. In the Gungano Fund, community loan officers administer loans and regional committees oversee resource distribution. As well as building trust, this has helped keep administration costs low.

Funds must also have **transparent and accountable systems**, with operational procedures that are useful for and focused on community needs. Ensuring transparency in operations — for example, by publicising the rules, roles and responsibilities of members and decision-making and advisory bodies — gives external credibility to the rigour of operations and builds accountability.

Our four case study funds have taken simple steps to provide transparency and accountability, increasing donor trust. The Dema and Babaçu Funds have posted organisational documents on their websites for public viewing. They also have community representation in their governance bodies and clear decision-making criteria. The Dema Fund has introduced accountability workshops to enable oversight, monitoring and peer-to-peer learning between communities on project delivery.

Technologies are also emerging that significantly change the way transparency and accountability can be delivered. If used correctly, they could empower households and communities to deliver more bottom-up solutions to societal and environmental challenges (see Box 6).

BOX 6. BUILDING TRUST WITH TECHNOLOGY

With distributed ledger technology, a decentralised digital network uses multiple devices — computers or smartphones that contain an original copy of the ledger — to record and verify transactions that meet agreed rules. This replaces one single central institution, such as a bank, authorising all transactions. The ledgers can be public or private, but the most transformative designs are open, transparent and disbursed across many users.[35]

The system is less vulnerable to corruption because there is no single verification point and transactions cannot be erased, although the technology is still subject to human error. Transactions are fast and not limited by institutional or geographic boundaries. Distributed ledgers can be coupled with other innovations to incorporate decentralised quality assurance, crowdsourced funding, big data, remote sensing and machine learning. But their application can reinforce unequal power relations if their governance is not right. To date, applications have enhanced transparency for donors rather than communities.

Disberse is a fund management platform that supports transparent, cost-effective development finance flows. Tracing funds from donor to beneficiaries without intermediaries, it also manages multiple currencies, avoids bank charges and currency exchange fluctuations and reduces administration costs for development interventions. Disberse seeks to build a system to distribute US$50 million of donor funding to the START network of 42 humanitarian agencies, tracking finance from donor to ultimate beneficiary. But its capacity to respond to local needs depends on the capacity and decision-making structures of the institutions receiving the finance.[36]

This type of technology can help frontier funds aggregate local results into impacts that are visible to donors, with communities providing assurance. It can also help channel donor finance to frontier funds and their members with improved transparency. But risks include poor data input, unequal access to technology and poor technological literacy, particularly when funds are in their infancy.

Setting direction and rules

As well as meeting the immediate needs of local communities, frontier funds demonstrate the importance of shifting the objectives of local, regional and national investments to better respond to immediate local needs and long-term strategic opportunities for climate-resilient development.

To ensure this happens, investments need to have a **strategic and shared purpose**. Our four case study funds deliver small, flexible investments that enable communities and local enterprises to address their immediate needs. Building a shared purpose around predictable and sustained longer-term investments can gradually shift action from immediate needs towards strategic opportunities and eventually to more transformative change. This has ranged from influencing policies for upgrading housing in informal settlements in Zimbabwe to gaining new community rights to protect forests in Brazil.

Collective agency for influence and collective action of members are central to frontier funds' objectives. Funds need to build the foundations for financial and strategic institutional capabilities and enhance the security of community resource rights so they can plan for the future. Having representative decision-making bodies and investing strategically helps ensure this happens. The focus of strategic priorities evolves over time as capability and networks improve, enabling greater influence at local, national and even global policy levels. The Dema and Babaçu Funds invest in community organisations' advocacy and organisational development, actively supporting peer-to-peer learning to enable them to replicate success. The Babaçu Fund successfully influenced government investment, ensuring the National Plan for the Promotion of Social Biodiversity Production Chains prioritises the *babaçu* nut value chain. The Gungano Fund benefited from being part of the Slum Dwellers' International (SDI) network of slumdweller federations, learning from others' experience of influencing land tenure rights.

What we mean by…

Transformative change: a system-wide change or changes across more than one system. This might include change in government policy or a technology that leads to transformative change in adaptation, so that a whole society or region is shifted onto a development pathway towards resilience rather than vulnerability. Transformative change will often focus on the future and long-term change, directly questioning the effectiveness of existing systems, social injustice and power imbalance.

Strategic collaboration is also vital for influence. Collaborating horizontally with local governments and vertically with regional and national governments to address different challenges helps frontier funds influence policy and develop strategic and longer-term climate responses.[2] They often develop collaborative partnerships incrementally in response to opportunities, sometimes formalising them, which helps strengthen their strategic influence. Frontier funds need to be agile in response to such partnership opportunities and must consider whether they will benefit or inhibit their influence. The Gungano Fund formed a partnership with the Harare municipal government to set up the Harare Slum Upgrading Programme and Finance Facility to support upgrading in Harare with financial pledges from both the city and the fund. These relationships give poor urban people influence over wider city investment.

Supporting long-term capabilities

Improving capabilities in financial and project management and reporting is crucial to improving the reach and scale of local finance. Our four case study funds have collaborated with three types of stakeholder — brokers, translators and mobilisers — that have helped them build their own and their members' capabilities over time.

Brokers provide early-stage finance and technical advice, which is critical to help enterprises and organisations survive and accelerate through the early stages of development (incubation).[37] This includes the time when they are collectively organising and developing their purpose. Brokers enabled all four funds to strengthen their institutional frameworks and visibility to donors: the Ford Foundation supported the Dema and Babaçu Funds, the Bill and Melinda Gates Foundation supported the Gungano Fund and Nestlé supported the Tree Bank Foundation. These brokers did not overburden the funds with complex reporting requirements and helped them make the technical case for climate additionality in their strategic objectives. As well-known institutions, they 'put their money where their mouths are', providing external credibility and links to new investors.

Translators are partners who help incubate institutions — for example by providing a legal home and expert technical assistance during their early development. Importantly, they help build trust by providing a translation role up the climate finance chain, managing donor requirements by translating their objectives and bureaucratic requirements into an understandable language. They also help make sense of climate science to build an understanding of adapting for long-term sustainability and resilient development. The Dema and Gungano Funds both partnered with NGOs. FASE

provides a legal home for Dema, gives technical support without influencing the fund's direction and plays a key role in translating donor bureaucracy, helping aggregate community data through a database that tracks results in ways that are both internally and externally meaningful. Likewise, DOS helped the Gungano Fund build its reporting and financial management capacities.

Mobilisers are important for supporting continuous engagement between frontier funds and the communities they serve. These partnerships help frontier funds build community capabilities and facilitate bottom-up project development. Dema Fund mobilisers are social movement volunteers, whereas the Babaçu and Gungano Funds use their own staff.

There are several important capability considerations when designing funds.

Investing early in local practical capabilities — especially for project management and monitoring — delivers returns in impact and efficiency. This may initially take up a disproportionate part of a frontier fund's investment portfolio, but it is critical for establishing effective systems and learning from experience. Where funds have patient and risk-tolerant support from brokers, they have developed faster, bringing in other donors and influencing wider stakeholders more quickly. The Dema Fund spends 75% of its non-investment budget on technical assistance, largely to build communities' project management skills. But it expects this to reduce over time as capabilities develop. This includes investing in:

- **Fiduciary systems** to promote transparent operations and increased credibility: Basic fiduciary systems — such as accounting procedures, organisational structures and control systems — improve the effectiveness and efficiency of frontier fund operations. The more transparent they are, the more attractive they are to donors. Greater local accountability also incentivises learning and adjustment of approaches. Improving communities' skills in simple book-keeping, reporting, procurement and administration is still critical in the four case study funds. Regular skills workshops also enabled learning between communities, as with the Dema Fund's accountability workshops.
- **Translating community results into impact narratives:** communities need to understand impact to improve their approach, influence donors and leverage political change. Because frontier funds effectively aggregate a range of impacts from small investments across many communities, they must present these in terms that make sense for their strategic objectives and for donors' objectives. The Gungano Fund and the broader SDI network have recently standardised their data collection method across informal settlements, enabling them to demonstrate need and impact.[38] But our four case study funds have found explaining their flexible and holistic approaches a challenge. Seemingly disparate activities can appear messy in a results framework. Articulating their results in terms of climate action adds complexity, though this is easier to do in terms of carbon protected or sequestered than the resilience of development. The Dema Fund spends a lot of time articulating results into narratives fit for donors. The Tree Bank Foundation took years to access a small amount of pilot funding, and to get this they had to change their expected results and redesign their project in response to donor expectations.
- **Peer-to-peer exchange:** learning platforms with peer organisations are useful for sharing experiences on tackling challenges through financial and technical innovation and influencing strategies. Gungano and ZHPF are part of a global network of slumdweller federations, SDI, which facilitates exchanges where its members learn from each other in terms of local innovation in upgrading, financial management, data collection and enhancing settlements' resilience to climate change. Strategic exchanges with similar organisations and wider stakeholders at local and national levels have helped funds build their networks to influence government investment and policy so they can take advantage of opportunities as they arise.
- **Prioritising iterative learning and adjustment:** frontier funds should be able to develop incrementally, learning from what works in a 'journey towards good practice'. Financing mechanisms to support action at the frontier are still at an early stage — especially those for building resilience.[39] So emerging funds grounded in delivering local priorities and collective action need support to innovate and test what works.

  Iterative learning and adjustment will often deliver a better legacy of results than relying on the opinion of experts who are not involved on the ground. But communities can use emerging technologies to improve their decision making and shift their incentives towards long-term decisions without losing local expertise (see Box 7).

BOX 7. SHIFTING INCENTIVES THROUGH TECHNICAL ADVISORY TOOLS TO SUPPORT CAPABILITIES

Emerging technologies are simplifying and building bridges between frontier actors' and their investors' capabilities. Mobile phones can host advisory apps that disseminate information about crop prices, climate information and business management. By increasing farmers' understanding of their land and crops, these apps can improve yields, access to markets and decisions of sale. Useful technologies include:

- WeFarm, a farmer-to-farmer digital network that allows farmers to share experience and advice via SMS and online[40]
- FarmerLine, which offers audio and written agricultural education direct to mobile phones,[41] and
- Climate Edge, which places affordable, miniature weather stations on cooperative farms to channel data to cooperative technicians who can provide targeted advice to their members.[42]

Low-tech equivalents are farmer field schools, which bring farmers together to receive technical training and support farmer-to-farmer learning and replication. Farmer field business schools enable regular, group-led learning and seek to address local power and gender dynamics, disseminate climate-smart agriculture techniques and support revolving credit.[43]

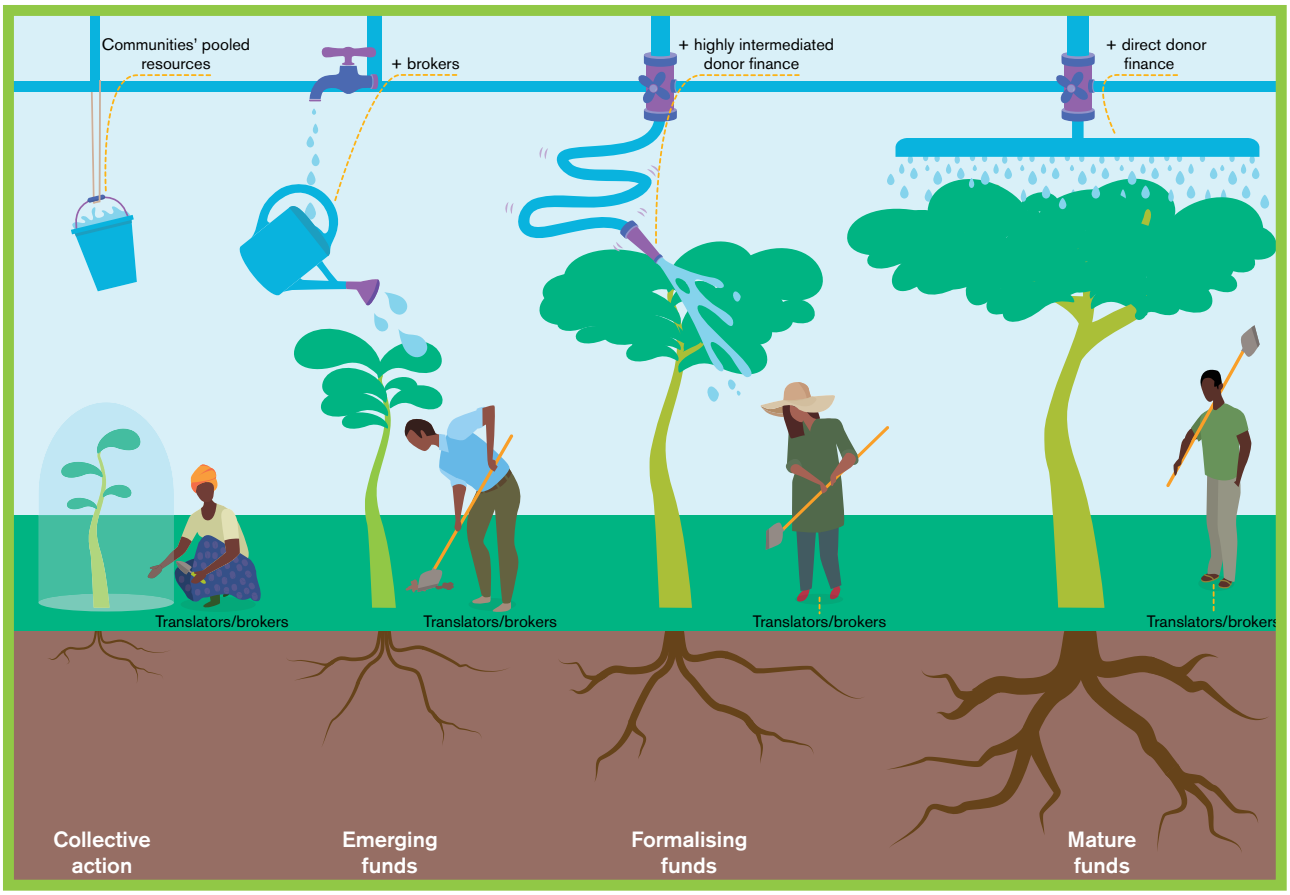
But adopting these technologies is not without risk. There are questions around the reliability of the advice they give and who is vetting it to make sure the solutions are robust to the range of climate futures, rather than maladaptive.

Understanding the journey towards effective financing mechanisms

The elements of the Money Where it Matters framework will not be achieved quickly. They are incremental changes that form part of a journey (see Figure 5) over the course of which a frontier fund matures to become credible and agile. Both funds and their donors need to understand the options for strengthening capabilities along this journey. This includes the appropriate type of finance for each stage of development and the partnerships that can help them develop faster. Along this journey, frontier funds will reach several junctures where they must make decisions to increase their scope and scale while remaining focused on members' needs and knowledge. As their journey progresses, their good practices will strengthen, establishing the local finance building blocks. Supporting institutions can help funds progress more quickly on this journey from the incubation stage through to becoming fully mature funds that can access and absorb low-risk finance at scale.

Stage 1. Collective action: communities collectively organise and establish local associations to respond to development and climate challenges. These groups may establish a bottom-up fund to pool community time, labour and financial resources, which they use to support their social mission. This phase is central to establishing the fund's organisational structure and principle objectives. Fostering social cohesion to bring communities together and create instruments such as local funds is no easy task; it requires time and resources. SDI have sought to make the task easier by incubating these grassroots processes through national and international peer-to-peer community exchanges, where communities learn from each other rather than from international agencies. The Babaçu Fund had significant support from NGOs during this stage but was also importantly inspired by the Dema Fund. During this time, the fund focuses on local and immediate needs; their financial products and support systems reflect this. Of the four case study funds, the Tree Bank Foundation is closest to this stage. Although it is effectively influencing national policy and piloting approaches in testing its design, it has not yet formalised its revolving fund due to policy constraints.

Figure 5. A frontier fund's journey: from incubation to maturity



Stage 2. Emerging funds: as the fund begins to formalise its governance, develop basic fiduciary systems and hone its strategic focus, it can focus more on influencing local to national policy processes to strengthen its constituencies' resource rights and access to services. While this enables it to build relationships with broader stakeholders that might provide resources, it also needs to develop and publish simple procedures to increase the transparency of operations and decision making. Primary donors and large intermediaries are not yet providing funding because they consider the funds' systems to be too risky and small scale, so brokers, who recognise the potential to be unlocked, support this phase with small grants with greater risk appetite.

Stage 3. Formalising funds: the frontier fund has now formalised and strengthened many of its procedures and established a track record in delivering impact, which it may present through a theory of change outlining its strategic approach to deliver impact. Having a theory of change improves frontier funds' ability to engage with the state and negotiate for formal rights to land, resources, services and policy change that support their endeavours. The fund's design may incorporate more progressive criteria — such as environmental, social and gender standards — which helps increase the ambition and inclusivity of investments beyond their original purpose. Brokers become less important, but the fund may still be ineligible for direct funding from many primary donors and large intermediaries due to their lack of proven track record. Most finance is therefore likely to come through layers of intermediaries. Translators are important at this stage: they can communicate frontier funds' impact effectively to donors and explain the multiple layers of intermediary bureaucracy to the fund.

For example, the Amazon Fund has been able to support both the Dema and Babaçu Funds to reduce deforestation, intermediating funding from the Norwegian and German governments to both funds through the Brazilian Development Bank.

Both funds still have to meet the strict funding requirements passed on through these layers of intermediation from the primary donor.[44]

Stage 4. Mature funds: the fund reaches maturity when it accesses and blends a range of financing sources to distribute to local groups and enterprises. It offers financial products and institutional support that reflect local needs and earlier experience of what works, while its investments in skill building have

enhanced communities' and enterprises' capabilities. The fund may have established strategic partnerships with governments which will help it institutionalise its social mission within climate-resilient and low-emission development to deliver triple win solutions that are grounded in local realities. At this stage, the fund's reach, financial absorption capacity and ability to aggregate community action for strategic impact should give large donors the confidence to start investing directly. The fund is now looking to become financially sustainable.

Funding the journey: the right type of finance

The type of finance suitable for supporting a frontier fund's progression along this journey varies according to whether it is designed to enable investment in public or private goods and whether it supports social movements and community organisations, or cooperatives and local enterprises. But for both the investors and the funds, the issues to consider in deciding the right type of finance are the risk appetite and expectations for returns and results. The limited availability of early-stage start-up and scale-up finance — the 'missing middle' — could be the most significant challenge for investors as they help frontier funds move along this journey. This is as true for public finance investors as it is for private investors. A critical factor in the speed at which our case study funds developed was the role foundations played in providing early-stage risk finance, technical advice and brokering access to wider scaling-up finance.

What we mean by…

The missing middle: the gap in financing for small and medium-sized enterprises between small loans from micro-finance institutions, friends and family and larger loans from formal financial institutions that they can only access if they have a proven track record. Similarly, local institutions can access small, short-term grants but struggle to demonstrate the track record of delivery and capable systems required to access larger and longer-term financing.[45]

Navigating the journey

As communities' and enterprises' capabilities, opportunities and the scale and scope of operations grow, the fund faces critical choices to develop the institution effectively. Stakeholders need to understand these choices to ensure the fund remains agile, responsive and, most importantly, relevant to its members. Critical choices in our four case study funds included:

- The number and technical complexity of bespoke financial products
- The ability to respond to contexts without becoming too complicated and expensive to administer
- The right level of governance for different functions to ensure accountability, value for money, consistent decision making and compliance with donor rules
- Balancing flexibility and responsiveness while communicating results and demonstrating the collective impact of its wide reach
- Forging collaborative partnerships with local and national governments while maintaining an independent voice through inclusive and representative governance structures
- Developing strategic priorities that resolve trade-offs between immediate needs and opportunities for climate-resilient and low-emission development in the long term, and
- Being able to absorb larger-scale and more risk-averse finance, enabling greater reach and impact, without creating procedures so burdensome that communities cannot access finance directly.

Central to successfully navigating this journey, is the need for funds to maintain credibility with their constituencies. Decision-making and advisory bodies should retain representation from local members and vulnerable groups. As procedures and governance structures are formalised, they must remain accessible to their constituency by investing early in building local capabilities.

How development partners can improve finance for frontier funds

4

To deliver the triple win, we need more mature funds that are both credible and agile to empower local communities to act. To nurture these frontier funds, encourage good practice and support their progress towards maturity, primary donors, global funds and their intermediaries need to improve the suitability of the finance they provide. We have already seen the example of the Amazon Fund, whose support for frontier funds tackling the underlying drivers of deforestation demonstrates the value of a national platform that has the capability to understand the local context and drivers. In this section, we look at other emerging good practice from funds that have made efforts to provide financing that can reach the frontier. We then consider the remaining challenges for development partners before exploring what more they need to do to improve the quality of the finance they supply.

Emerging good practice

Forest Investment Programme (FIP): the FIP is one of four funds under the Climate Investment Funds that supports mitigation by scaling up finance for reducing emissions from deforestation and forest degradation (REDD+) across 24 countries. The fund focuses on reducing poverty and enhancing indigenous and local forest communities' rural livelihoods. One of its windows is an US$80 million dedicated grant mechanism (DGM) designed to put funding decisions and project design in the hands of indigenous peoples and local communities.[46] This DGM offers incentives to incubate micro-enterprises through local microfinance funds and for these enterprises to aggregate into associations.[34] These efforts are delivering bottom-up solutions to forest emissions while reducing poverty and improving indigenous and local peoples' power to negotiate rights to forest resources. For example, the DGM is supporting investment in a farmers' association that is piloting integrated farm models in Burkina Faso and aims to replicate these local initiatives across another 18 locations.[46]

The FIP supports capability building so indigenous and local communities can engage in designing, implementing and monitoring projects.[47] Its funding also helps develop an enabling REDD+ environment, contributing to shifting incentives, which account for 40% of its investments. This includes enabling indigenous and local communities to participate in local, national and international REDD+ dialogues to advocate for their land and resource rights. The FIP has helped shift the mindset of governments, private sector and multilateral development banks (MDBs) about the importance of forest investment.[34]

Adaptation Fund: efforts to aggregate and invest in the growth of organisations delivering adaptation interventions are slowly emerging. The UN Adaptation Fund has committed US$532 million across 80 projects to climate adaptation since 2010[48] and was the first climate finance modality to provide direct financial access to national and subnational institutions. Twenty-seven national institutions are eligible to access the fund.[49]

The South African National Biodiversity Institute (SANBI) is one of them. Part of the Adaptation Fund's Enhanced Direct Access pilot programme, SANBI empowers rural farmers and vulnerable communities to identify and implement local responses to climate change. The pilot has channelled US$1.5 million to help communities develop interventions around their adaptation priorities. The project prioritises building local communities' capacity to plan and make investment decisions. Facilitating agencies work alongside grant recipients to support financial management and results reporting, building local technical expertise in vulnerability, environmental and social risk assessments and helping them translate Adaptation Fund reporting requirements. This helps communities develop the skills they need to prioritise climate-resilient development, own their investments and eventually deliver change to 'their investments' without external support. The programme also seeks to empower local communities to influence national policy by demonstrating the benefits generated from small grants supporting communities' own priorities. SANBI intends to feed evidence of these benefits into the design of a national adaptation finance mechanism to provide sustained and predictable support to future local resilience responses. It also provides a platform for communities to engage with government officials to incorporate their priorities into the national adaptation strategy objectives.[50]

As well as project-based support, the Adaptation Fund provides dedicated readiness funding to build the capacity of national and subnational institutions, channelling nearly US$1 million to 29 capacity-building activities between 2014 and 2017 for peer-to-peer exchanges and building environmental, social and gender standards.[51]

Green Climate Fund (GCF): the UN's GCF is the world's largest climate fund, with US$4.6 billion in committed funds across 106 countries.[52] Like the Adaptation Fund, GCF has established mechanisms — such as more straightforward standards and a simplified approval process for smaller proposals — to improve national and subnational institutions' access

to adaptation and mitigation finance. Its Enhanced Direct Access pilot was designed to devolve funding decisions to the national and subnational levels,[53] giving more direct financing for local communities. This will allow them to adapt, making their livelihoods, lands and natural resources more resilient to climate change and deliver more equitable land-use based mitigation. Not all good practices are working. Accreditation requirements make it difficult for national institutions to access direct funding, so most GCF finance goes through international intermediaries.

The GCF also provides funding to build capacity in national and subnational institutions. Considered the most ambitious global fund for building capacity, GCF has committed US$100 million to strengthening national and subnational capacity for planning, accessing and managing climate finance.[39] Its readiness programme also seeks to build more sustainable capabilities — for example, by training and employing local staff rather than using international consultants.[53]

The Forest and Farm Facility (FFF): a collaboration between the FAO, IUCN, IIED and Agricord, FFF aims to improve sustainable forest and farm management and deliver mitigation and local adaptation for family smallholders, local communities and indigenous peoples through forest and farm producer organisations (FFPOs).[54] It has reached more than 400 FFPOs across ten countries and uses 77% of its funding for project implementation. It supports local communities and their FFPOs to engage, collaborate and influence local to international policy and markets for sustainable farm and forest management, shifting incentives in favour of local forest and farm communities. It does this by aggregating communities' political influence through FFPOs to secure land and natural resource rights, connecting the FFPOs to national and international climate change policymakers and aligning with government policies, strategies and legal frameworks to institutionalise FFPOs interventions.

It uses small technical grants to support skills in negotiation, participation, conflict management, enterprise development, business incubation, market analysis, attracting investment, preparing proposals and peer business and service advice exchange with local partners.[55] The FFF allocates grants directly to beneficiaries after forming a joint organisation or alliance.[56]

Challenges to good practice

Although these practices are steps in the right direction, several challenges remain that primary donors, global funds and their intermediaries must overcome if they are to provide accessible funding to frontier funds and other funding mechanisms that reach the local level.

Accreditation favours international intermediaries: institutions need to be accredited before they can access finance from the Adaptation Fund or GCF. To become accredited, they must show a track record of fiduciary, environmental and social standards that are equivalent to UN and MDB standards. For example, only one national institution has been able to access funding through the GCF's Enhanced Direct Access programme. Instead, the simplified approval process has increased ease of access for international intermediaries: 87% of GCF finance goes to international intermediaries. In fact, 72% of proposals awaiting approval are from just five intermediaries: the Asian Development Bank, the FAO, UN Development, UN Environment and the World Bank.[52]

International intermediaries struggle to provide small and flexible funding: many large intermediaries cannot provide small and flexible early-stage grants. For example, although the African Development Bank's Africa Climate Change Fund (ACCF) offers small-scale (under US$250,000) funding to subnational institutions, only national institutions have accessed it. Despite its good intentions, the bank's policies are complex and require applicants to meet hefty procurement and risk management requirements.[57] We found a similar pattern across all MDBs. Even under the FIP, which incentivises smallholders to access funding by aggregating into group enterprises, the way MDBs channel finance excludes many, including intermediaries that are better equipped to build local capabilities and tackle the risks of local investment. So it is important to identify alternatives to the MDBs. For example, through its core fund, the GEF has outsourced funding from the MDBs to brokers and aggregators such as Althelia, E3-Life and the Moringa Fund, which are better equipped to overcome the perceived risks of local investment.[34,58]

Inadequate policy direction on local finance: no global fund or major intermediary has prioritised local finance. Even their scaling-up strategies for climate change interventions focus on large regional and national interventions rather than promising local action. The GCF's scaling-up strategy focuses on

national planning, technology transfer and co-investment raised,[39] but evidence suggests there is little correlation between investment scale and progress towards scaling up transformational results.[34]

The GEF's Small Grants Programme provides 60–80% of its funding for community-led climate resilience, mitigation and sustainable development initiatives — up to US$50,000. This programme can provide small grants without national-level intermediation through memoranda of understanding with civil society organisations, including those of indigenous peoples.[59] But the United Nations Development Programme (UNDP) manages this funding and works directly with national rather than local governments and, despite its on-the-ground presence in 170 countries, has no strategy for the amount or modality of finance it will channel to local funds or institutions.

Beyond the policy shift needed, getting programme design right also matters. Reviews of the World Bank's community-driven development programmes show the wide variety of intermediaries' interpretation of a single approach and the importance of building on national institutions and getting the governance right.[20]

Country restriction rather than ownership: the principle of country ownership offers another challenge to frontier funds seeking to shift the incentives in favour of delivering the triple win. National governments, development partners and other donors expect global funds and international intermediaries to adhere to the principle of country ownership as agreed under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action for country-led development finance.[60] Because country ownership is enshrined in the design of these funds, national focal agencies have to approve any funding applications within a country.[61] But they are not legally obliged to empower local actors when they prioritise investments, no matter how flexible the funding is meant to be.[62] So frontier funds depend on the interests and motivation of these national focal agencies to get approval to access global funds. And although funds like the GCF have strengthened guidelines for country ownership, government authority is still privileged. This can result in limited and sporadic engagement with non-state actors at the national level, let alone the local level.[39] Likewise, the World Bank's community-driven development approaches have shown that effectively designed mechanisms and well-supported local institutions can help communities improve the accountability and effectiveness of their government's investment.[20] But there are still significant barriers to building the influence of communities through these approaches. For small grant schemes to truly shift incentives, there needs to be political support, effective communication between local and national institutions and a politically astute approach to reforming the enabling policy such as fiscal decentralisation.[63] These small grant schemes must also provide explicit support for building local organisations' capability for collective action and their representation in the governance of fund decisions.

Unsuitable, short-term readiness programmes: despite its targeted approach, the GCF's readiness programme has yet to improve any institutions' capabilities enough to give them direct access to GCF project finance.[39] Challenges include:

- Developing rigorous environmental and social policies within the institutions, as the same intermediaries that access GCF project finance also deliver most readiness funding
- Having policies and guidance only available in English, making them of limited value to local actors, and
- Offering capacity-building funding over too short timescales, making it difficult to support institutions to develop appropriately for their context.

It takes three to four months to access US$30,000 for institutional support from the GCF, which is intermediated through PricewaterhouseCoopers with a week of in-country support.[39] The ACCF provides grants to build local capacity over 90 days.[57] Combined with the fact that each primary donor, global fund and intermediary has different procedures to follow, it becomes clear that investment in building the long-term capabilities needed to deliver credible and agile institutions is significantly under-resourced.

Capacity-building funding needs to be much better targeted for each context. For example, although the FFF has successfully built long-term capabilities in FFPOs, they need to target more specific support across forest and farm producer value chains and other vulnerable groups to increase FFPO influence in national and international markets.[56]

Whilst many climate funds are making efforts to improve the quality of finance available, big challenges exist to deliver this in practice. It will be important to monitor progress of the outcomes of further reform efforts and new mechanisms set up to address these issues directly. One example is the the Tenure Facility, which aims to advance recognition of indigenous people's and local communities' land and forest tenure rights. Set up to tackle the drivers of resource degradation, it supports growing institutions with small grants and technical support.

Conclusion

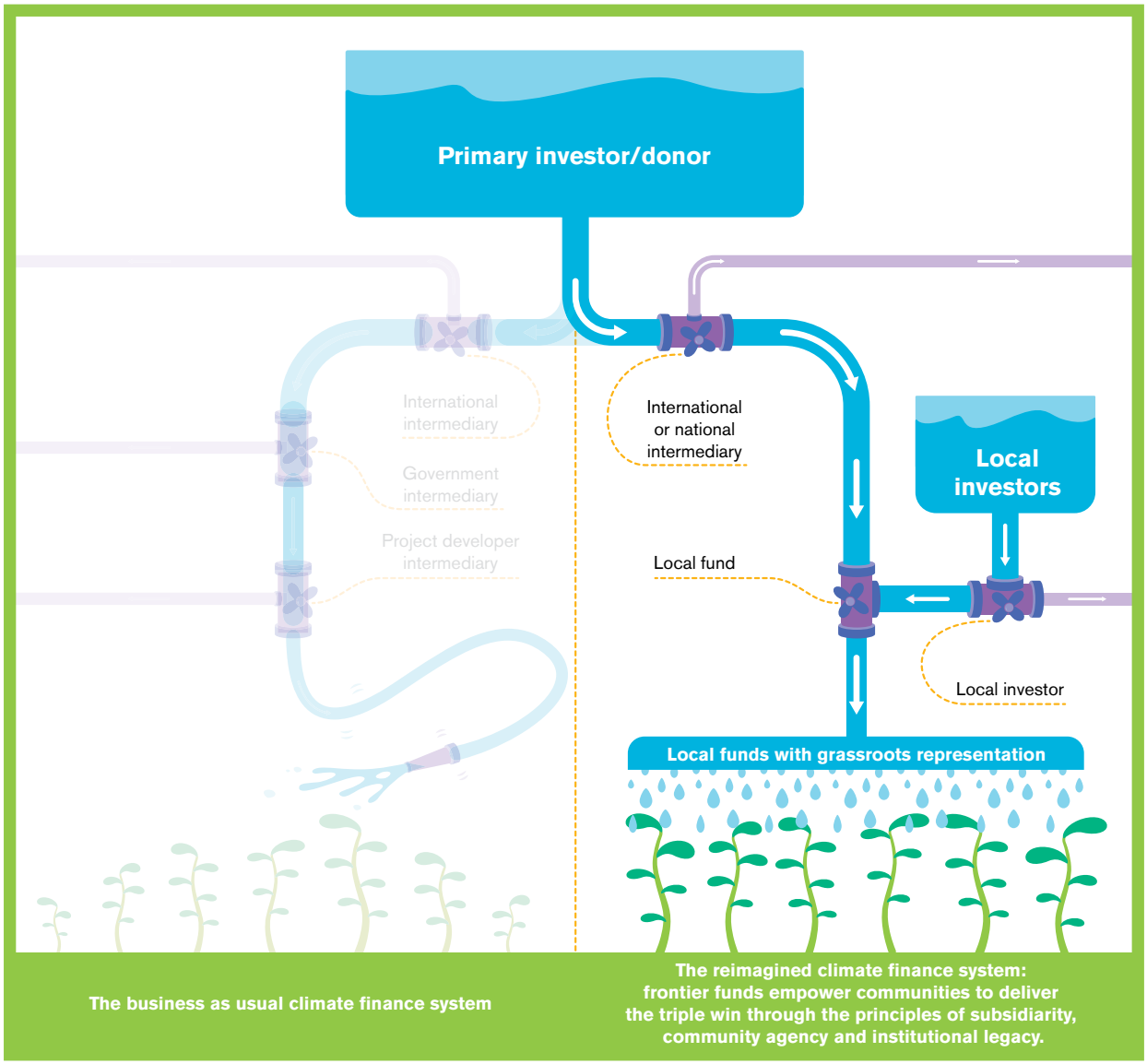
5

If we get the climate and development finance system right, local communities at the frontier of climate change will be empowered to thrive in a rapidly changing world. This will enable the triple win, advancing social and economic prosperity while increasing resilience to climate shocks, reducing emissions and protecting and enhancing natural resources. But the current climate system is not fit for purpose. Too often, donors and global funds provide climate finance through multiple layers of intermediation, with decisions made far away from local communities. This misses vital local insights and innovations.

Reimagining this business-as-usual climate finance system will maximise the impact of every penny and unlock the huge adaptation, mitigation and poverty reduction potential of local communities and enterprises. To deliver this reimagined climate finance landscape, we must move away from the leaky, untargeted climate and development finance end-to-end system to a more direct, targeted one that stimulates new inclusive climate investment.

Figure 6 illustrates this improved system. Each pipe junction represents an intermediary, crucial for enabling the finance to flow. The system delivers finance more directly with fewer losses to administrative functions. This maximises the utility of the finance as the activities on the ground recieve more and better targeted funds. The system is more efficient and the decisions more inclusive as they are made closer to the ground, leading to better, tailor-made responses. As a result, local stakeholders are more likely to 'buy in' to the mechanism, bringing new local finance sources.

Figure 6. A reimagined climate finance landscape



The reimagined system will use different mechanisms to support different levels of investment. This could include:

- Devolved climate finance for local government and communities' public good and landscape investments
- Climate innovation centres for cooperatives' and enterprises' value-chain investments, and
- Adaptive social protection for household-level risk reduction

Countries will probably need to layer a number of these mechanisms to stimulate action by all the stakeholders as needed to shift the whole country onto a pathway for climate-resilient and low-emission development.

The Money Where it Matters framework

Bottom-up approaches are already realising this reimagined finance system, delivering effective local climate action. The Dema, Babaçu and Gungano Urban Poor Funds and the Tree Bank Foundation are empowering their constituents to thrive, despite the climate impacts and unsustainable development that surrounds them. We need more credible and agile local funds like these that can absorb and disburse climate finance to the local level in the billions, not millions.

We can measure success by the number of credible and agile institutions that take finance to the frontier. Our Money Where it Matters framework proposes ten design elements (the roots in Figure 4) that local funds can strive for along their four-stage journey towards maturity (Figure 5). With a supporting cast of brokers, translators and mobilisers, local funds can navigate their way, increasing the ambition of local, regional and national climate action. Unpacking this reimagined finance landscape, we propose an evolution towards credible and agile institutions that:

- **Tackle the underlying drivers of climate vulnerability** to reduce poverty, enable resilient and reduce emissions, while also protecting natural resources: including all local perspectives and groups in decision making will make funds and resources more likely to take more sustainable, fairer actions, which would resolve trade-offs. Enhancing local resilience and ensuring the sustainable management of local resource bases will lead to a just transition towards a more climate-resilient and low-carbon world.[5,64] With secure tenure, communities can make long-term investments and prioritise returns for tomorrow, rather than simply focus on the short term.[65]
- **Deliver subsidiarity:** while there needs to be governance and decision making at multiple levels (see Figure 1), privileging local decision making means taking account of more voices and perspectives that have knowledge of the realities on the ground. It also leads to more agile and holistic responses across sectors. To follow the hosepipe analogy, finance moves from a leaky hosepipe to a more efficient and effective irrigation approach. The funding reaches a broader local constituency and achieves greater scale, there is transparency around rules and decision making and inclusive representation is based on collective action at each level (see Figure 6). An enhanced agency enabled by subsidiarity allows better vertical integration between local and national institutions as communities influence policy processes and entitlements.[66]
- **Create an institutional legacy:** institutions that represent local constituencies are accountable to them. Their credibility and robustness grow as they develop the ability to manage their natural and financial resources transparently. But developing these institutions is a journey that will take time. So financial support must be flexible and patient.

Recommendations for development partners

Primary donors, global funds and intermediaries can play a crucial role in achieving this reimagined climate finance landscape. But they can only do this if they change the way they work with frontier funds. To ensure frontier funds get more appropriate finance and support at each stage of their journey, we recommend the following actions.

1. **Provide local finance and aggregation strategies with accountable targets:** although primary donors, global funds and major intermediaries often recognise the importance of local action, they rarely outline how they intend to support it in practice, scale up or aggregate its impact. We recommend they improve their strategies for supporting and scaling up local finance and set out a clear roadmap for empowering local communities and enterprises to contribute to climate-resilient and low-emission development. This should include clear goals around the amount of finance they will channel to local actors and how much intermediation they will use.

2. **Identify and develop indicators incentivising triple win investments through inclusive local financing mechanisms:** donors, global funds and their intermediaries should ensure their results frameworks are meaningful and focus on outcomes of climate-resilient and low-carbon development. This would mean moving beyond the present climate additionality discourse. They should develop and select these results frameworks through participatory processes in close partnership with the communities they are designed to support. This will help develop community and local organisational capacity to understand where they can deliver, and are delivering, more strategic investments, which will contribute to transformational triple win outcomes.
3. **Prioritise intermediation through credible and innovative institutions:** if suitable national or subnational intermediaries are not present, donors and global funds can prioritise intermediaries with track records of brokering good local practices, funding mechanisms and building the capabilities of national institutions and local funds to effectively finance action at the frontier.
4. **Provide rules of engagement:** donors and global funds should provide clearer and stricter roles for intermediaries, with time-bound interventions, incentivising them to work themselves out of a job. They should pay the funding against milestones that demonstrate support for local institutions' progress until they reach maturity and can access finance unsupported. The Money Where it Matters framework (see Figures 3–5) offers donors potential indicators of good intermediary performance.
5. **Increase small, simple and patient funding:** donors and global funds should expand small grant facilities to incubate local funds and other national institutions with real reach to communities. Development partners should measure local funds' success by their capability to scale up and access larger-scale funding over time. The funding must be simple to access, with streamlined and harmonised standards across finance sources to overcome the current complexity. Small, flexible grants available without government sign-off could enable innovation that strengthens ambition beyond government and helps hold governments to account. Patient funding with longer timescales has more success in strengthening financial literacy, legal and project management skills within national and local institutions and tackling underlying drivers of poverty, such as community tenure and resource rights. With this kind of support, frontier funds can build their capabilities to influence policy, take collective action and define long-term strategic objectives, which justifies asking donors to scale up support.
6. **Support national governments to recognise and act on local potential:** providing small grants outside the conventional climate finance system will not lead to scalable impact unless national governments understand and act to support the potential of local communities and enterprises. Development partners should actively help national governments understand this potential, creating platforms for deliberating on the layers of responses needed for a whole-country approach and building bridges between local stakeholders and national policymakers. This would also improve enabling national environments that unlock local benefits such as public financial management and fiscal decentralisation, which are vital for supporting the potential of frontier funds.

   By giving frontier funds more appropriate finance and support at each stage of their journey, development partners will help enable incremental and iterative learning. This will ensure frontier funds evolve and reach scale over time to grow into credible institutions that can absorb and blend diverse finance sources and disaggregate the money to local communities. It could also give frontier funds the opportunity to innovate beyond the conventional finance system and attract private finance, which would improve community, regional and national ambitions to tackle poverty, climate change and resource degradation.
7. **Empower frontier communities to test the value and rules of digital technologies to enhance the transparency of financial flows and give communities a voice in resource allocation:** some barriers within the business-as-usual finance system may be hard to break. But technologies — especially those that are gaining popularity through their perceived disruption potential — can help overcome financing hurdles, particularly during the early stages of fund development.

Innovation in high-technology solutions for the development sector could enhance the transparency of financial flows to serve investors. Developing the governance around these innovations would also help ensure they incorporate intended beneficiary voices and priorities. So, rather than re-enforcing unequal relations between donors and beneficiaries, technologies can rebalance power. The greatest potential lies in disruptive technologies that address financial and technical risks and give local communities a voice in resource allocation and decisions around adaptation, land and natural resource management for sustainable development.

Looking forward

To strengthen the development of this, our first vision for the reimagined climate and development finance system, we recommend further research in three areas:

Broadening the Money Where it Matters framework: we recommend further testing and refinement of the design elements for effective local finance mechanisms by applying them on the ground in other organisational contexts, including cooperatives, producer organisations, federations, local enterprises and other social movements. Findings could also inform approaches to devolving finance with local governments and municipalities.

Deepening guidance for donors and local funds on good practices: the seven recommendations in this paper represent only a small segment of development partners' activities. Deeper analysis of their portfolios is likely to identify other good practices and wider challenges in supporting credible and agile institutions that would need to be tackled.

Informing local communities and organisations of the benefits and risks of technologies: this paper is a first attempt to understand the role new and emerging technologies could play in disrupting the flow of local climate finance, and there is a need for further research into the technologies that are and could be incorporated into the climate finance system. As development partners test technologies, innovation in their governance is critical to ensure they inform and empower local communities to engage and steer their use.

Annex 1. Methodology

The research for this report took place at five levels:

1. **Stakeholder interviews:** we asked people working at every level of the climate finance system what 'good' looks like in tackling the challenges they perceive in getting climate finance to the right level. The synthesis of this rich dialogue informed our thinking when reimagining the climate finance system. We held interviews with actors at each level of the climate finance system between November 2017 and February 2018.
2. **Four case studies:** we identified four local funds to study in depth: the Dema Fund, Babaçu Fund, Gungano Urban Poor Fund and Tree Bank Foundation. We chose our case studies from a range of regions, across rural and urban areas, from a list of innovative financial mechanisms gathered through the stakeholder interviews. Each fund was at a different stage of maturity, but all had some element of delivering the triple win of poverty reduction, action on climate change and protection of natural resource.

   For each case study, we used in-country interviews and a literature review through realist synthesis using a framework to analyse the context and mechanism by which outcomes are achieved. This context, mechanism and outcome framework considers how programme mechanisms interact with contextual factors to produce varying outcomes.[67] A context-mechanism-outcome analysis provides important lessons for policy design as it seeks to indicate the conditions that allow programmes and interventions to be effective. This approach is one of the latest evaluation techniques and is useful in understanding the design and potential impacts of innovative and relatively untested programme designs.

   Fuller overviews of the case studies are provided on the IIED website. We co-developed these with the funds themselves to capture what they saw as the critical challenges and their most important innovations. For more details on the funds, their funding flows and decision making, visit:

   - Dema Fund: www.iied.org/delivering-climate-finance-local-level-dema-fund
   - Babaçu Fund: www.iied.org/delivering-climate-finance-local-level-babacu-fund.
   - Gungano Urban Poor Fund: www.iied.org/delivering-climate-finance-local-level-gungano-urban-poor-fund
3. **Development partners:** we also drew on evaluations and reviews of other types of financing mechanisms that reach local climate frontiers, including the Climate Investment Funds' FIP, the Adaptation Fund's Enhanced Direct Access pilot through SANBI, the GCF, the FAO's FFF, the African Development Bank's ACCF, the GEF's Small Grants Programme and community-driven development through the World Bank. We realise that development partners are piloting and scaling up many other approaches and will seek to map and learn from these through further research. We used IIED's Money Where it Matters framework (Figures 3–5) to assess how effectively these financing mechanisms tackled critical blockages for getting climate finance to the frontier.
4. **Interviews and literature review of technological innovations:** we interviewed key stakeholders innovating in digital technology and governance approaches and reviewed published literature on their approaches and impact in the development sector. We assessed these innovations against our Money Where it Matters building blocks (Figure 3), exploring which could help develop and strengthen the frontier funds on the different stages of their journey to maturity.
5. **Breaking Barriers workshop:** in July 2018 we brought together, presented and discussed all the components of this report — the challenges to ambition, the good practice framework, the journey and technology innovations — with actors from across the climate finance landscape. We used the workshop outcomes to validate and improve our findings to produce this final report. The workshop also provided a platform to 'build bridges' between frontier funds, primary donors, intermediaries and technology innovators.

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With only US$1 in every US$10 committed from climate funds for local level climate action, climate finance is failing to get money where it matters. We need to reimagine the climate finance system. This paper investigates the flow of finance from primary donor to local actor and presents a new framework to get more finance to local institutions to tackle the drivers of poverty, resource degradation and climate change. It also sets out the ways in which primary donors, global funds and financial intermediaries can help make this reimagined climate finance system a reality.

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International Institute for Environment and Development
80-86 Gray's Inn Road, London WC1X 8NH, UK
Tel: +44 (0)20 3463 7399
Fax: +44 (0)20 3514 9055
www.iied.org

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