Reconfiguring urban adaptation finance

Cities need to adapt to climate change: but how will the necessary planning, actions and infrastructure be financed? International and national adaptation funding arrangements currently offer few opportunities for city-level finance, and still fewer for money to be channelled directly into the hands of low-income urban residents. These funds are insufficient in quantity, unaccountable to their ultimate beneficiaries and inaccessible to many of the most vulnerable groups. In contrast, locally controlled funds that are managed directly by organisations of low-income urban residents have shown their ability to reduce risk and vulnerability. This briefing — and the longer paper upon which it draws — argues that supporting funds of this type is a key component to increasing the resilience of urban residents and the cities where they live.

Financing adaptation to climate change: global systems

It is increasingly accepted that adaptation is needed to reduce vulnerability to climate change — and there is a growing recognition that the costs will be substantial. More broadly, building resilience for residents of low-income and informal settlements in low- and middle-income cities will need to address the underlying deficiencies in infrastructure and basic service provision that contribute to vulnerability. But the formal structures created to fund adaptation are not well suited to meeting the needs of politically marginalised, low-income and vulnerable urban residents.

Official finance to support adaptation to climate change is available through funds created under the United Nations Framework Convention on Climate Change (See Table 1, overleaf). These include the Least Developed Countries Fund and the Special Climate Change Fund, which are funded through voluntary donations from national governments and managed by the Global Environment Facility (GEF). In addition, the Adaptation Fund is financed through a levy on the Clean Development Mechanism and managed by an independent board.

While the GEF-administered funds are mainly accessed through multilateral development banks, the Adaptation Fund allows national and regional institutions to apply directly for support. Recipient countries can either access financial resources directly from the fund or assign a national implementing entity of their choosing. The latter approach is intended to ensure greater alignment with national needs and priorities. In practice, however, civil society groups and sub-national levels of government have had little opportunity to access these resources.

Various other funds for adaptation have been established, including the World Bank’s Pilot Program for Climate Resilience (PPCR). PPCR...
activities are intended to be driven by a country’s climate change-related policies and their National Adaptation Programmes of Action (NAPAs). However, many NAPAs neglect urban needs and priorities; so even if they are fully implemented, a significant proportion of the population would still not benefit. Further, while nearly US$1 billion has been paid into the PPCR, only US$8 million has been disbursed.1 And with most of the funding under PPCR available through loans rather than grants, recipient countries effectively have to increase their indebtedness to access the funds.

The estimated cost for adapting to an approximately 2°C warmer world by 2050 is in the range of US$70–100 billion a year; higher if cross-sectoral impacts are taken into account.2 It is therefore apparent that current levels of funding are insufficient to meet present and future adaptation needs. In addition, the funds that have been committed are not accessible to sub-national or local governments — or to the people who will be most severely affected by the impacts of climate change.

**Bangladesh: one example of a national approach to funding adaptation**

In response to the inadequacies of the global climate finance architecture, and in an attempt to target funding to their own, context-specific needs, several developing country governments have established national funds to address the adverse impacts of climate change. Bangladesh offers one of the most fully developed examples of this approach, establishing two funds: the Bangladesh Climate Change Trust Fund (BCCTF) and the Bangladesh Climate Change Resilience Fund (BCCRF).

The BCCTF is financed by a block budgetary allocation of US$300 million, taken from the government’s non-development budget over three years (2009–12).3 Although this money is ring-fenced and separate from the development budget, there have been concerns that development projects may be repackaged as adaptation projects to get funds. In addition, the BCCTF has not helped local governments address adaptation needs, as only 3.1 per cent of total disbursed funds has gone to local authorities.4

At the same time, the BCCRF was established with around US$110 million, funded principally by grants from international donors,5 with the World Bank as trustee. The BCCRF has two funding windows: an on-budget window for public sector projects and an off-budget one for civil society and private sector projects. The off-budget window currently receives only 10 per cent of total funding to support the development of grassroots mechanisms to increase community resilience. Municipal and local authorities have no access to the BCCRF via the on-budget window; they are entirely dependent on the central government and implementing agencies. While the off-budget window could potentially provide an opportunity to support local urban adaptation projects, the sum allocated is small in comparison to the needs of those on the ground.

**Community savings groups demonstrate the potential of an alternative approach**

Table 1. Overview of UNFCCC funds

<table>
<thead>
<tr>
<th></th>
<th>Least Developed Countries Fund (LDCF)</th>
<th>Special Climate Change Fund (SCCF)</th>
<th>Adaptation Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capitalisation</strong></td>
<td>Official development assistance</td>
<td>Official development assistance</td>
<td>2% levy on certified emission reductions from the clean development mechanism</td>
</tr>
<tr>
<td><strong>Amount pledged</strong></td>
<td>US$604.74 million</td>
<td>US$258.58 million</td>
<td>US$151.32 million</td>
</tr>
<tr>
<td><strong>Amount deposited</strong></td>
<td>US$585.51 million</td>
<td>US$239.96 million</td>
<td>US$151.32 million</td>
</tr>
<tr>
<td><strong>Amount disbursed</strong></td>
<td>US$133.18 million</td>
<td>US$111.13 million</td>
<td>US$58.33 million</td>
</tr>
<tr>
<td><strong>Governance body</strong></td>
<td>GEF Council (when acting as the LDCF Council)</td>
<td>GEF Council (when acting as the SCCF Council)</td>
<td>Adaptation Fund Board</td>
</tr>
<tr>
<td><strong>Access method</strong></td>
<td>Non-direct, via a GEF-implementing agency</td>
<td>Non-direct, via a GEF-implementing agency</td>
<td>Direct from the fund or via an national implementing entity</td>
</tr>
</tbody>
</table>
Funding urban adaptation

Global systems for adaptation finance and national efforts to address their inadequacies have both failed to serve the needs of cities and their most vulnerable residents. Neither global nor national mechanisms provide adequate opportunities for local and municipal governments to access funds to build resilience. When they do, vulnerable groups have little chance for meaningful input into how these are spent. Existing mechanisms can be assessed as follows.

- **Inadequate.** Multilateral climate funds remain at a relatively modest scale, compared with the needs of developing countries. These mechanisms have failed to gather and deploy sufficient funds to match the urgency and size of requirements.

- **Unaccountable.** Bilateral and multilateral aid agencies have no direct accountability to the low-income groups they are purporting to serve. They assume that national and local government ‘partners’ are able and willing to implement pro-poor policies and channel financial assistance to the urban poor. Yet in many low- and middle-income countries, national and local governments are often neither effective nor accountable to their low-income populations.

- **Inaccessible.** Irrespective of the amount of money currently contained in the collective international funds’ coffers, it is the mechanisms’ design that will determine the degree to which it can meet the adaptation needs of cities and their low-income residents. Although national governments have the potential to direct climate finance towards city-level interventions, direct access to funding remains uncertain for cities. With national governments lacking a thorough understanding of local needs, it remains difficult for communities and urban authorities to access money.

Building resilience through local finance

While adaptation finance has yet to contribute significantly to building resilience for low-income groups in urban areas, some mechanisms — such as community savings groups and locally managed funds — demonstrate the potential of an alternative approach, offering scope for greater integration of different activities, and empowering stakeholders on the ground. Unlike top-down development or adaptation finance, these funds start with the resources, needs and priorities of the urban poor and work from the bottom up to address these. Financing systems based on community savings groups pool households’ collective resources into a communal fund, which then provides quick and easy loans for a variety of small projects, such as housing improvements and income-generation investments. Such mechanisms can also help forge stronger links between community and government stakeholders, leading to improved living conditions, and can be scaled up via local group networks.

Savings groups are encouraged to link with similar groups to form federations. To propagate their savings, federations have created urban poor funds at city and national levels. Funds consolidate savings into a revolving fund, providing loans to communities that can be used to purchase land and housing or drainage, water and sanitation systems. Importantly, the loans have small interest rates, which are repaid into the fund so more communities can benefit. Thus, community savings have effectively been transformed into a self-sustaining city-wide financing mechanism that supports community-driven projects. With strong horizontal linkages between urban poor funds, they largely avoid top-down finance structures.

These funds have shown their potential to build resilience to climate-related hazards. In Malawi, the Malawi Homeless People’s Federation (MHPF) and the Centre for Community Organisation and Development (CCODE) have been working together to acquire land and construct housing for low-income urban residents. This has been supported through the Mchenga Fund, a revolving fund that provides individual and collective loans to finance housing construction. MHPF and CCODE have also leveraged additional resources from local governments and external agencies for constructing elevated water tanks, water kiosks, drainage systems, sanitation facilities and improved solid waste management, increasing communities’ resilience to climate-related shocks and stresses.

In Myanmar, community initiatives supported by locally managed funds played a key role in responding to Cyclone Nargis, which devastated the country in 2008. Community savings groups were central to the collective rebuilding of houses during the post-disaster rehabilitation phase. Storm-affected villages and low-income urban settlements were linked into groups, which surveyed needs in their own communities and determined their own plans for resolving their problems of housing, land, services, livelihoods and poverty. By encompassing physical, social, economic and emotional dimensions, this process leads to a much broader outcome of building long-term resilience.
Closing the gap between top-down and bottom-up finance

These local funds demonstrate some of the ways in which low-income urban residents can be more actively involved in identifying the adaptation responses that will best meet their needs, and thereby determining their own futures. If the formal mechanisms for climate change adaptation finance are to meet these needs, they must take on board lessons from these examples, thus becoming more accountable and accessible to highly vulnerable people and communities. New modes for adaptation finance are required that will more closely align access and disbursement mechanisms with the needs of low-income, politically marginalised and highly vulnerable urban residents.

To ensure they meet the adaptation needs of low-income urban residents, financing mechanisms will need to have the following characteristics.

• Engage with climate change adaptation on the ground. Many of the actions required to strengthen resilience in the face of climate change will be taken autonomously by individuals, community organisations, private sector actors and local governments. A central pillar for enabling urban adaptation will therefore be to support these multiple stakeholders in their own responses. This highlights the need to support local urban adaptation, built on a foundation of effective pro-poor governance, which tackles both infrastructural and democratic deficits. In practice, this will require making funds directly available to grassroots organisations formed by those living in low-income and informal settlements for initiatives that they choose.

• Calibrated to engage with urban and local scales. There is a gap between actions taking place on the ground and plans made by national governments and global institutions. Actively involving organised communities in planning and decision making would ensure greater accountability and lead to multiple other benefits: leveraging other sources of funds; enabling communities to work together to achieve city-wide improvements; and catalysing broader political change that will increase the voice and influence of previously marginalised groups.

• Greater focus on the performance of funds. Top-down funds have been unable to gather sufficient capital to address the substantial adaptation needs of cities in the global south. But even where funds have been available, there has not been sufficient focus on whether these are meeting the needs of low-income groups or whether they are making significant contributions to increased resilience. Locally managed funds can perform very effectively in this regard, as decision-making and spending power is vested to those most at risk.

Existing climate adaptation financing has failed to respond to the needs of low-income residents in the towns and cities of Africa, Asia and Latin America. If funds of this type are to be more effective in contributing to adaptation, the voices of these residents must first be recognised as legitimate, knowledgeable and important. The locally controlled funds described in this briefing have a history of working effectively, and illustrate the scale and scope of what relatively small sums of external finance can achieve in building urban resilience.

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Notes