



KEY FINDINGS

PPCR funds have accelerated financing for adaptation solutions through intermediated finance that extends beyond local banks to include microfinance institutions.

Microfinance for adaptation is a product of mature domestic microfinance institutions (MFIs) and a policy environment that enables MFIs' role in building resilience.

Investment priorities need to be clearly established or refined, to guide finance institutions and promote key areas for resilient investment.

Government absorptive capacity should be developed through projects aimed at providing evidence to support decision making and the means for interpreting this evidence.

Capacity-building efforts need to be implemented across all prioritised sectors to enhance sectoral expertise.

At community, household and individual levels, NGOs can drive awareness raising, capacity building and proposal preparation for accessing concessional microfinance, and can fulfil the role of disbursing sub-grants.

The market matures for microfinance: Tajikistan

Microfinance is a critical enabler of climate resilience, in that it provides communities with direct access to the financial resources they require to address their most pressing needs. This case study is part of a series that documents emerging trends in adaptation-directed microfinance. These findings have emerged from a variety of country interventions funded by the Pilot Program for Climate Resilience (PPCR).



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

NEED FOR ADAPTATION: As identified in Tajikistan's NDC, the priority actions or sectors for adaptation are energy, agriculture and forestry, ecosystem protection, water resource management, transport and housing, as well as disaster risk management. Reforestation is identified

in the NDC as a priority for the unconditional mitigation contribution, producing co-benefits for biodiversity and ecosystem protection.

Tajikistan has a need for improved infrastructure in areas vulnerable to climate change.

PPCR MODEL: Dual model of strengthening and building absorptive capacity at government and community level through direct and indirect action, and leveraging further climate resilience funding on the back of demonstrated success was used. Capacity building involved: 1)

“ *Microfinance for adaptation develops out of mature domestic institutions and policy. Maturity here stems from an enhanced and institutionalised understanding of adaptation investments for resilience, and a financial services market that recognises the value of MFIs.* ”

Projects directly aimed at strengthening government decision making and absorptive capacity. 2) Using an NGO to operate at the lowest level of communities, with sub-grants being directly disbursed to local populations (individuals, households and communities), and indirectly through disbursing funds through water user associations at the district or community level, to prepare proposals and provide support.



REASON FOR CHOICE OF THE MODEL:

MDBs had to actively lead the process due to limited capacities of the national institutions; a reshuffle of government jobs left the role of Government Climate Change Lead vacant for several months, at a crucial time in the process. NGO support was deemed critical to awareness raising and capacity building. In addition, the Office of the Presidency, through the climate change secretariat, desired leverage and scale as outcomes of PPCR investment.



PPCR FINANCE AND IMPLEMENTING MECHANISM:

Tajikistan is the first country in the Eastern Europe, Caucasus and Central Asia (EECCA) region to participate in the PPCR, initiated in 2009. At the outset, multi-stakeholder workshops were held (with banks, donors, civil society, academia, vulnerable sectors, etc.), led by the Office of the Presidency and driven as a national priority. The Deputy Prime Minister was a driving force and all ministries were pushed for action.

PPCR financing in Tajikistan is administered through the MDBs: World Bank (WB), Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD).

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

The key financing facility to distribute PPCR funding for climate resilience is a partnership institution called CLIMADAPT, the Tajikistan Climate Resilience Financing Facility, with a focus on climate change adaptation. The EBRD, in partnership with the

PPCR and the support of the United Kingdom's Department for International Development (DfID) held the formal launch of CLIMADAPT in February 2016. CLIMADAPT helps Tajik households, micro, small and medium-sized enterprises (MSMEs) and farmers cope with the effects of climate change, and supports the country's transition towards a green economy. Through CLIMADAPT, microfinance for climate resilience has become a specific focus of Tajikistan's PPCR initiatives to promote the private sector's resilience to the effects of climate change. CLIMADAPT is an intermediated finance facility that started by on-lending to local banks through the creation of concessional finance facilities and conditions for loans to end beneficiaries. A key condition was that loans be made available for climate adaptation in Tajik priority sectors and to identified vulnerable groups. Specifically, this condition stipulates that the local banks provide financing to small businesses for sustainable technologies and practices for climate adaptation, thus enabling private sector investment in building climate resilience. CLIMADAPT has a total funding of US\$10 million to provide financing to small businesses, farmers and households through local partner financial institutions. The funding is provided by the EBRD and the PPCR in partnership with private financial institutions. To overcome the affordability constraints of local businesses and households, the CIF are providing US\$5 million of concessional finance, which is blended with EBRD's US\$5 million of commercial finance.



OPERATING STRUCTURE:

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

BOX 1: IMPLEMENTATION

- To enhance efficiency, financial institutions are given guidelines and a specific list of what constitutes a climate resilience investment below a certain financial threshold.
- For investments above such a financial threshold, clients are offered a dedicated climate resilience assessment that identifies climate risks and offers technical solutions.

country, where the presence of other financial intermediaries is limited.

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



PROJECTS: While the majority of finance has been committed to mitigation projects (61%), a significant volume of commitments has been made to multi-focal projects (both mitigation and adaptation). Adaptation finance has been targeted at attaining resource efficiencies (notably energy and water) and at enhancing the sustainability of land management.

The CLIMADAPT credit line has supported over 3000 sub-projects to date, with approximately 58% of sub-loans being utilised for energy efficiency investments, 39% for water efficiency investments, and 3% for sustainable land management technologies.

Savings from these investments are in the region of 49,934MWh/annum of primary energy and 13 million cubic meters of water per annum, as well as the prevention of soil erosion estimated to be in the region of 695 tons/annum.

By July 2018, CLIMADAPT had disbursed approximately US\$9 million to more than 3,099 households, farmers and MSMEs, helping Tajik households and businesses to cope with the effects of climate change and supporting the country's transition towards a green economy.

The PPCR initiated a capacity building and readiness to receive finance programme to support the roll out of the CLIMADAPT facility. Community land rehabilitation programs were piloted in six communities. Each was formed by unofficial household groups (numbering from 5 to 25 households) who prepare a sub-project proposal, using their own initiative to propose any project they like. Funds are received into their own local bank accounts. The National Implementation Agency (NIA) monitors and reports to the PPCR Secretariat.

Water user groups were established following a similar process, and focused on capacity training for dealing with changing water flows in hydropower rivers. Funding was split between community

activities (78%) and big projects (22%). Some are grants and some are concessionary loans.

Technical advice is also provided to support the adoption of technologies and practices that reduce soil erosion and pressure on water and energy resources, all of which are top priorities for building climate resilience in Tajikistan. Funding for these technical cooperation activities is contributed by the UK. The ADB supported the implementation of a technical assistance project where 10 to 12 sectoral specialists were identified and trained, thus improving capacity.

For more information on CLIMADAPT projects, see this [video](#).

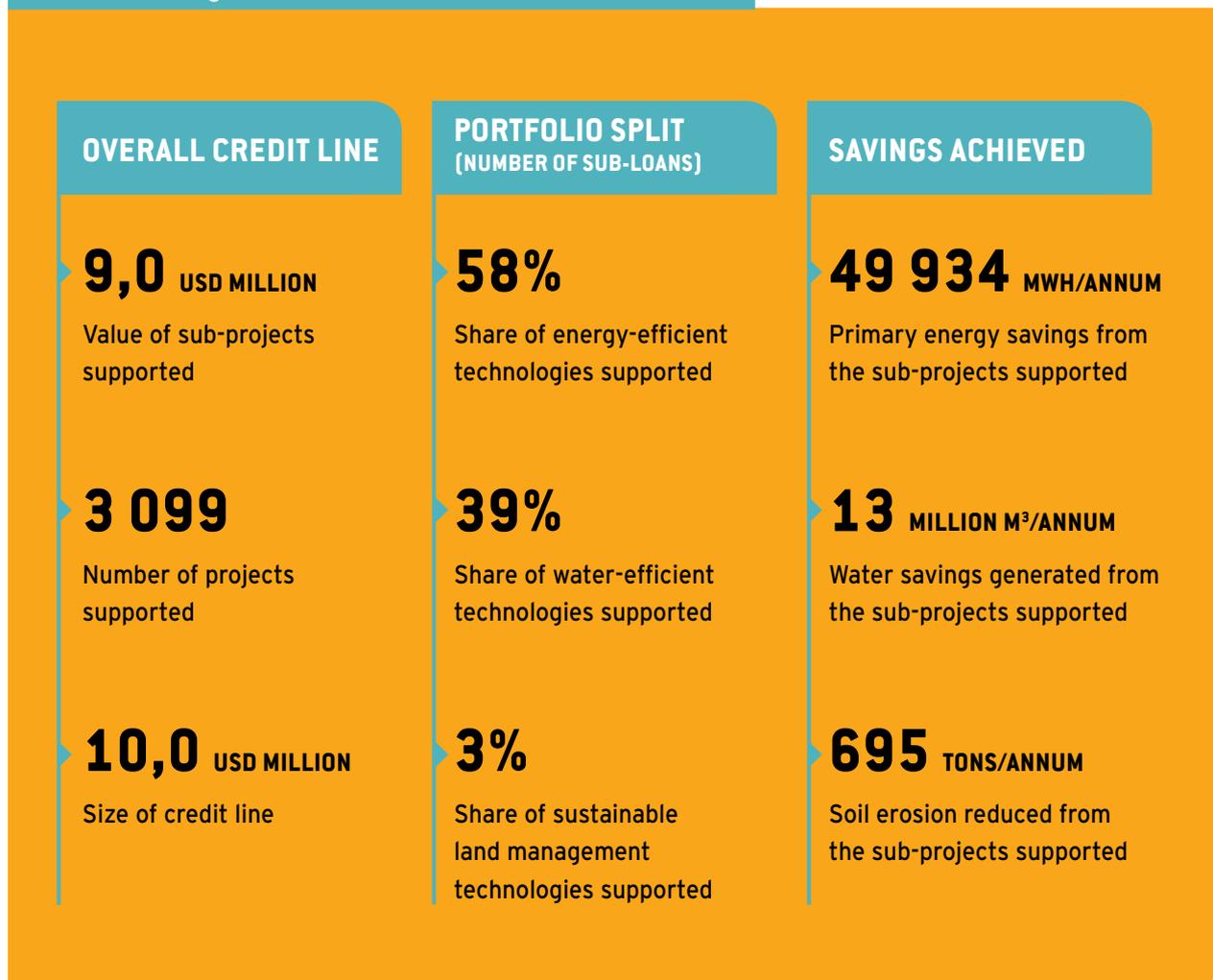


RISK MANAGEMENT: A thorough needs assessment of each sector, and their capacities to absorb climate finance was conducted, to ensure that projects targeted for microfinance were matched to needs. The primary stress on building capacities of microfinance recipients proved to be a critical risk mitigation measure. An NGO was hired to help communities identify and prepare finance applications and systems for monitoring project implementation progress was put in place.

CLIMADAPT manages and spreads risk in two ways; firstly, by funding a variety of recipients: directly to communities, and indirectly to associations, big projects, water catchment agencies, etc. Secondly, funding is divided between grants and concessionary loans. For climate resilience investments below US\$300,000, CLIMADAPT has a list of eligible equipment and material. This provides clear guidelines as to what classifies as a climate resilience project. Equally, it makes small and medium-sized transactions very efficient. For investments above US\$300,000, CLIMADAPT offers clients a dedicated climate resilience assessment that identifies climate risks and offers technical solutions, including consultations with engineers.



CHALLENGES: Inadequate capacity in government, as well as of the Secretariat at the outset of the CLIMADAPT programme was a challenge. Many ministries required support to engage more deeply in supporting the program's targeted climate change interventions and to evaluate its impact on Tajikistan. This required

FIGURE 4. CLIMADAPT investment achievements as of 1 July 2018 (CLIMADAPT 2018)

building internal capacity across relevant line ministries and gaining experience to address the issues of climate change adaptation more effectively. The fact that the projects were sectorally based, exacerbated the capacity problems as there was a lack of sufficient sectoral expertise. This also hindered monitoring and evaluation (M&E) reporting to CLIMADAPT and the PPCR.

Managing expectations of stakeholders who have high, and possibly unrealistic, expectations of CLIMADAPT was a serious challenge, particularly in the early days of the programme. Civil society organizations argued that the reach of CLIMADAPT into climate-vulnerable communities is limited and, noting insufficient cooperation between the implementing MDB and civil society organizations.

An ongoing challenge is finding ways of including marginalized groups, particularly women food producers as a key vulnerable group, in the roll out

of CLIMADAPT. A range of commentators from UN, civil society and donor organizations felt that the underpinning assessments lacked sufficient gender analysis and that the initial targeted projects did not consider the different needs of women and men in relation to climate change.

CLIMADAPT found awareness raising to be a key challenge. On the demand side, people have very little understanding of the risks of climate change and how they can deal with these risks. Simultaneously the supply side is under-developed. There is limited availability of domestic technology providers, such as solar PV and financial services providers do not understand how to play a role in financing resilience.

CLIMADAPT continues to experience a need to further develop the capacity of partner finance institutions to understand how to build green finance into their business-as-usual operations.



CLIMADAPT credit for small scale water resource development in Tajikistan's rural farming communities



TRANSFORMATIONAL CHANGE: The PPCR-CLIMADAPT 'partnership' is a critical success factor in driving the transformational change already evident in the results realized in the extension of microfinance to vulnerable communities. PPCR hired an NGO as a facilitating agent as well as to drive the major effort to raise community awareness of climate change. Through this technical assistance (TA) participatory rural appraisals (PRAs) were conducted to identify 'dire needs' or primary needs, to which CLIMADAPT responded in their design of project support. The NGO process increased the capacity of communities to generate project ideas and finance applications at the community level. It was critical that applications demonstrated additionality and the NGO interventions educated and facilitated this, for example in projects which demonstrated increased drought resilience in areas where wheat and horticulture prevail, which crops rely heavily on precipitation. The NGO process also included support for seed propagation, greenhouses, and assistance in developing climate resilient crops. Similarly, CLIMADAPT ensured that local finance institutions are similarly capacitated, demonstrating that if local finance institutions are properly capacitated, they can act as agents of change. Through the combination of well capacitated finance institutions and loan recipients, CLIMADAPT has been able to rapidly and sustainably increase the market penetration and accessibility of technologies for building climate resilience, through extending lines of credits to vulnerable communities.



SOLUTIONS: Building absorptive capacity improved microfinance disbursement and increased the capacity of communities to generate

project ideas and finance applications through ongoing support, whilst targeting the capacity building of local finance institutions has facilitated their entry into new markets. NGOs conducted capacity needs assessments with government implementing agencies. Capacity problems were tackled by implementation of a technical assistance project where 10 to 12 sectoral specialists were identified and trained, improving capacity. Cooperation between the implementing MDBs for CLIMADAPT, and the National Implementing Agency (NIA) has improved.

Thorough preparation for rolling out CLIMADAPT allowed them to leapfrog, such as by building capacity and using established methodologies, drawn from WOCAT, an internationally recognized repository of tried and tested methodologies and tools for Sustainable Land Management (SLM) in the context of global issues such as Climate Change Adaptation, Disaster Risk Reduction, Food Security, and Sustainable Development Goals:

see <https://www.wocat.net/>.

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



KNOWLEDGE MANAGEMENT: Since dedicated climate resilience investments are new to the Tajik market, and particularly to potential microfinance recipients, there is significant scope for knowledge improvement, for example in the target investment areas of water and energy efficiency and sustainable land management. With WB support, a knowledge platform was established in the Secretariat, responsible for generating knowledge products focusing on climate adaptation



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and mitigation. The knowledge products generated on adaptation solutions proved to be a significant success factor for implementing CLIMADAPT, which also benefitted from the part-time knowledge management specialist employed in the Secretariat to work with the media and raise community awareness of climate change in relation to their primary needs, as well as available response measures. This contributed greatly to increasing the absorptive capacity of communities and sectors of CLIMADAPT generated financial mechanisms. Similarly, CLIMADAPT has developed extensive knowledge and training materials to support the capacity building of local finance institutions.

LEVERAGE AND SCALE: PPCR funds have accelerated financing for adaptation solutions through intermediated finance through CLIMADAPT that extended beyond local banks to include microfinance institutions. Experience demonstrated that microfinance can be an important by-product of intermediated finance. Moreover, it shows that microfinance for adaptation is a product of mature domestic institutions and

policy. Maturity here stems from an enhanced and institutionalised understanding of adaptation investments for resilience, and a financial services market that recognizes the value of MFIs.

In addition, PPCR funds allowed Tajikistan to leverage considerable co-funding, for example from the EBRD and DfID which in turn enabled the design and roll out of CLIMADAPT. This funding is enabling scaling up CLIMADAPT, both within Tajikistan and beyond its borders to neighboring countries. For example, according to officials from the EBRD, which plans to invest in similar facilities in the Kyrgyz Republic, adaptation finance is already becoming available there, through local finance institutions who have learned from their neighboring Tajik communities of the opportunities and benefits of microfinance for climate resilience. While these implementations are small and autonomous at this stage, EBRD intends to scale up the Tajik CLIMADAPT model in Kyrgyzstan and other countries in the vicinity, through intermediated loans to 30 banks, within the 2018 financial year

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