The MEbA Context

Generally speaking, those who suffer the greatest impacts of climate change are the vulnerable, low-income sectors of the population with limited access to basic services like drinking water, health care and education. In addition, access to financial services is crucial for confronting climate change. The microfinance industry focuses on serving the population at the “bottom of the pyramid”, which makes it an ideal partner to promote the widespread implementation of small-scale adaptation measures. Numerous projects are being carried out in line with this approach – that is, the facilitation of adaptation actions through microfinance institutions (MFIs). A good example is the EcoMicro initiative promoted by the IDB-MIF in the Latin American region (for more details see www.ecomicro.org/en-us/). The MEbA project is pioneering in its focus on fostering sustainable adaptation through better use and management of ecosystems and their services, which are essential for strengthening the long-term resilience of communities and individuals.

The following are some of the benefits of promoting adaptation measures through microfinance:

- MFIs operate at the local level, which means they have pre-established distribution channels and direct access based on existing relations with the target group.
- Adaptation requires decision making at the local level, through which households and communities can adopt decisions independently or collectively, reactively or proactively. The target group needs a facilitator to support them in identifying suitable options and support in this process.
- MFIs’ success depends on standardization to allow scaling-up of operations and the project provides methodologies that allow for the inclusion of climate risks based on this principle. The information generated in this way can help vulnerable populations to adopt decisions that will contribute to their adaptation.
- The increased resilience of MFIs’ customers will have a positive impact on the MFIs’ investments.

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By developing financial products and services aimed at promoting adaptation, MFIs strengthen their investments since they are boosting the capacity of their customers to repay their loans. At the same time, they consistently support and develop their target markets and have the potential to accelerate the economic development of both their customers as well as the region in which they operate.

The availability of more innovative solutions creates the opportunity to increase the MFI’s contribution made to the economic development and climate resilience of their customers. Some examples are: Envió de mensajes masivos de alerta: Frontline SMS
- Wide-scale distribution of warning messages: FrontlineSMS
- Agricultural information distributed through voice messages: Green SIM

- A comprehensive risk management approach to promote adaptation: R4 Rural Resilience Initiative.

Finally, while financing for adaptation measures clearly represents a bottleneck, the microfinance industry cannot fill this void on its own. The first project experiences demonstrate that public-private partnerships can ensure a much greater impact, which goes beyond the limits of the current microfinance business model. This calls for joint efforts in the provision of technical assistance and access to markets, in which suppliers of inputs, policy makers and technical and educational institutions should work together with the microfinance sector. This will help guarantee the creation of the conditions needed to address the different components of climate change adaptation.

Microfinance for Ecosystem-based Adaptation

The Microfinance for Ecosystem-based Adaptation (MEbA) project is being carried out in the Andean region of Colombia and Peru. This initiative is aimed at promoting the development of financial products and services tailored to vulnerable populations to help them confront the negative impacts of climate change, through sustainable management and use of the services provided by ecosystems.

The MEbA project proposes adaptation strategies for peri-urban and rural communities. A catalogue of 40 EbA measures can be downloaded here: www.pnuma.org/meba/fichas/MEBA_Options_costs_and_benefits.pdf

In parallel, the project consultants have developed a risk assessment methodology that incorporates climate variables. It is based on the integration of climate projections and agricultural productivity data by region, in order to identify the main production risks. The software enables the widespread dissemination of MEbA products and services (in addition to other, traditional financial services), while strengthening the consulting capacities of MFIs for dealing with agricultural producers. The aim is to ensure triple bottom-line returns: economic, social and environmental.
Conclusions of the Regional Workshop in Lima

• The Regional Workshop on Alternative Sources of Financing for Climate Change Adaptation was held on 28-29 August 2014, during the Lima Climate Finance Week organized by the Ministry of the Environment of Peru (MINAM). The workshop provided an opportunity for the discussion of microfinance as an option for financing the adaptation of production systems in the region to confront climate change.

• The event brought together over 130 participants from the private, public and civil society sectors, including representatives of 15 financial institutions, who shared their experiences and successes in adaptation projects.

• The workshop served as an excellent example of an opportunity for exchange among governments, the microfinance industry, civil society organizations and others who demonstrated their interest in the subject and willingness to become involved. Experts from a wide range of countries including Mexico, Ethiopia, Ecuador, the United States, Germany, Colombia and Peru shared their experiences, giving rise to a wide-reaching dialogue on the future of adaptation in the most vulnerable regions. Participants analyzed different viable alternatives for the financing of adaptation measures.

• Public funds are not sufficient for climate change adaptation. It is important to develop mechanisms to channel funds from the private sector.

• The microfinance sector has significant potential to play a major role in the resilient development of the rural sector. The proactive involvement of the public sector is vital.

• Microfinance institutions, governments and associations should commit to promoting the greater availability of information, as well as establishing partnerships to enable the provision of technical assistance to small agricultural producers.

• In relation to policies and regulation, it was proposed that climate change variables should be incorporated into all planning processes, while promoting the interaction of policy makers and international negotiations with the microfinance and private sectors.

• A holistic strategy of risk management is needed, and should include such aspects as awareness-raising on best practices, the conservation of ecosystems and their services, the provision of technical assistance and support to agricultural producers, and risk transfer mechanisms.
After the Regional Workshop, we contacted a number of experts on the subject and asked them to share their views on the potential of microfinance in adaptation to climate change for the most vulnerable sectors of the population. The key actors who spoke with us were Eduardo Durand, Director General of Climate Change at MINAM (the Peruvian Ministry of the Environment) and Luis Carlos Morales, Vice President of Rural Development at FINAGRO (the Fund for Financing the Agricultural Sector in Colombia). Here we present some of their most significant points.

**Perspectives of key actors on microfinance and climate change adaptation**

After the Regional Workshop, we contacted a number of experts on the subject and asked them to share their views on the potential of microfinance in adaptation to climate change. The key actors who spoke with us were Eduardo Durand, Director General of Climate Change at MINAM (the Peruvian Ministry of the Environment) and Luis Carlos Morales, Vice President of Rural Development at FINAGRO (the Fund for Financing the Agricultural Sector in Colombia). Here we present some of their most significant points.

**Question: How do you see the potential of microfinance to facilitate adaptation to climate change for the most vulnerable sectors of the population?**

**Eduardo Durand (MINAM):**
While there are a diverse range of economic activities in the rural areas of Peru, agricultural activity continues to be the source of livelihood and income for the large majority of rural families. Moreover, this type of activity is vulnerable to climate change and climate variability because of its dependence on natural resources and ecosystems, in addition to its lower earning capacity and capacity for income diversification.

In the face of the limited sources of income for rural communities, the opportunity has emerged for making use of financing mechanisms for the implementation of adaptation measures which, due to their cost, are outside the reach of the financial possibilities of the rural population. To promote this, we must begin with the premise of the existence of a need for financing from various actors who can support rural development that is resilient to climate change, and one source of support is the microfinance sector.

The potential of microfinance lies in the contribution it can make to helping the rural population to implement climate change adaptation measures and reduce risks in rural areas. However, it will be necessary for the state to develop policies for rural development that incorporate climate change adaptation as a cross-cutting theme, as well as developing public goods and services (reservoirs, communication channels, information on climate change, and others) that can serve as a platform for the development of adaptation measures, as part of a rural development strategy.

**Luis Carlos Morales (FINAGRO):**
Without a doubt, microfinance is and can become an interesting channel for dissemination and support for vulnerable populations, and can help promote investments in economic sustainability and climate adaptability that could help these populations. The important thing is to be able to harmonize the different government policies, whether for the promotion of competitiveness or for adaptability, with the private sector policies of entities that can provide support, in this case the MFIs. The goal is to achieve the dissemination and technical assistance needed by the target population and to include this type of initiative in macro sectoral projects to foster competitiveness.

An example of an idea I have talked about with a number of colleagues is the promotion of social housing in rural areas combined with the promotion of the use of eco-friendly stoves and solar panels, an initiative that integrates all of these concepts to improve the quality of life of small agricultural producers.
Question: How do you see your organization’s contribution to promoting greater participation by or interconnection with microfinance in climate change adaptation in your country or region?

Eduardo Durand (MINAM):
MINAM’s contribution lies in formulating and implementing a policy on climate change management through the National Climate Change Strategy (currently being updated), an instrument that serves to guide efforts and establishes a menu of action lines to be incorporated in the planning and investment instruments of the different sectors and regional and local governments. Another contribution is that of promoting and facilitating processes that contribute to adaptation to climate change through cooperation and coordination among different actors.

One of the challenges for the country is to design or make use of financial mechanisms that enable the mobilization of public, private or combined resources for the implementation of climate change adaptation measures, in line with the Regional Climate Change Strategies.

Luis Carlos Morales (FINAGRO)
FINAGRO is creating very important opportunities for the future of rural microfinance in Colombia through the recently created Rural Microfinance Fund (FMR), which is currently in the implementation phase. Through the FMR, we want to promote the use of green microfinance, and to do this, it would be very beneficial to generate partnerships with multilateral agencies, which would help to make this experience a very important reference for the region.

MEbA at the Inter-American Forum on Microenterprise (FOROMIC), Guayaquil 2014

From 4 to 6 November 2014, the MEbA project participated in the 15th edition of the Inter-American Forum on Microenterprise (FOROMIC), held in Guayaquil, Ecuador. FOROMIC is the most important meeting for the microfinance sector in Latin America and the Caribbean. It provides a platform for all those interested in the development of the microfinance industry to engage in the exchange of best practices, methodologies and strategies for promoting and supporting the microenterprise sector. MEbA organized up the “Fori-to” entitled “Microfinance and Adaptation 2.0”, where different perspectives on the potential of microfinance in climate change adaptation were reviewed. The event also featured participatory case studies in which the participants considered issues related to climate risk management and a cost-benefit analysis of EbA measures.
MEbA contribution to COP 20, Lima 2014

An event entitled Microfinance as a Strategic Partner for Promoting Ecosystem-based Adaptation (EbA) was held on 10 December 2014, during COP 20 in Lima. The event was attended by the General Director of Climate Change of the Ministry of the Environment of Peru, Eduardo Durand; the Head of the Frankfurt School - UNEP Collaborating Centre for Climate and Sustainable Energy Finance, Silvie Kreibiehl; the Development Director at the Development Finance Corporation (COFIDE), Luis Terrones; the General Manager of Edpyme Solidaridad, Carlos Tamayo; and the General Manager of Fondesurco, Gabriel Meza.

During the event, the microfinance sector reaffirmed its interest in becoming a strategic partner of governments seeking private sector investment in adaptation measures for vulnerable rural communities. The event also served as a forum for dialogue to demonstrate the business opportunity represented by the financing of ecosystem-based adaptation alternatives.

In this regard, to make their commitment more tangible to climate policy makers and demonstrate the potential of public-private partnerships for bridging the financing gap, the MFIs involved in the MEbA project made a public pledge for the next five years:

Approximately 20 million dollars will be allocated to ecosystem-based adaptation (EbA).

Some 24,000 loans will be granted to support EbA initiatives.

More than 15,000 customers will be trained in the implementation of EbA measures.

www.pnuma.org/meba/compromiso_COP20/COP20_Fuentes_alternativas_de_financiamiento.pdf

New project publication

This publication offers a reference framework on the agro-ecosystems of the Andean region and the role of the microfinance sector in promoting adaptation to climate change in the region. It presents key concepts related to climate change, adaptation, ecosystems and microfinance, and provides an overview of the main agricultural ecosystems in the region. The publication will serve as the basis for materials and campaigns to raise awareness among Andean region communities of the effects of climate change on their production activities and potential mechanisms to confront these effects. It can be downloaded here:

www.pnuma.org/meba/documentos/Andean_Agriculture_alta.pdf
The first rounds of MEbA technical training were held in Colombia and Peru, through the MFIs Crezcamos (Colombia), Edpyme Solidaridad (Peru) and Contactar (Colombia). The training courses, which took place from August to November 2014, focused on introducing concepts related to climate change, its effects, the hazards and impacts that it represents for agricultural ecosystems, and the principles behind the ecosystem-based adaptation measures promoted by the project. The participants also worked with a tool called “experimental economic games”, which was developed to allow trainees to apply and reflect on the EbA principles and will be used in MEbA training courses in other areas of Colombia and Peru.

On 30 September 2014, thanks to an initiative by the MFI Solidaridad, close to 200 farmers from 12 rural communities in central Peru gathered for an exchange of experiences and technical innovations in natural resource management and use with an EbA approach. The event was held with the support of the AgroRural programme of the Ministry of Agriculture and Irrigation of Peru, which organizes training activities on best farming practices for adaptation to climate change.

In another joint initiative with the Peruvian government, the MFI Solidaridad, the Pichis Palcazu Special Project (PEPP) and the AgroRural agricultural development programme signed a framework agreement on inter-institutional cooperation to establish the general terms and conditions for mutual cooperation. The agreement will help rural agricultural producers to develop the technical skills needed for the implementation of environmentally sustainable adaptation measures, which will enable them to enhance their income while mitigating the impacts of climate change. Source: www.larepublica.pe/22-09-2014/firman-convenio-para-atender-a-vulnerables-contra-cambio-climatico

The 2014 Colombia Climate Finance conference was held in Bogotá on 20 November 2014. Sponsored by the National Planning Department of Colombia, the event highlighted the potential of the financial sector in the mobilization of resources for sustainable and climate-resilient financing. It served as a forum for the discussion of actions undertaken in Colombia from the perspective of development banks, commercial banks, financial investment firms and microfinance institutions. Bancamía, a MEbA project partner, offered a presentation on the challenges and opportunities for the microfinance sector represented by the financing of small-scale climate change adaptation projects. Artículo: www.dnp.gov.co/Paginas/Colombia-se-prepara-para-acceder-a-m%C3%A1s-recursos-para-el-cambio-clim%C3%A1tico.aspx

As part of the Green Climate Fund Readiness Programme in Colombia, the First Workshop on Climate Financing with an Emphasis on the Opportunities Associated with the Green Climate Fund was held in Bogotá on 21 November 2014. The workshop was attended by representatives of the private and financial sectors, Protocolo Verde, the National Planning Department, the Ministry of the Environment, UNEP, the Green Climate Fund, UNDP, WRI and the MEbA project. The MEbA representatives shared the project’s methodologies and the findings from its implementation.
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