Financing Local Responses to Climate Change

Implications of Decentralisation on Responses to Climate Change

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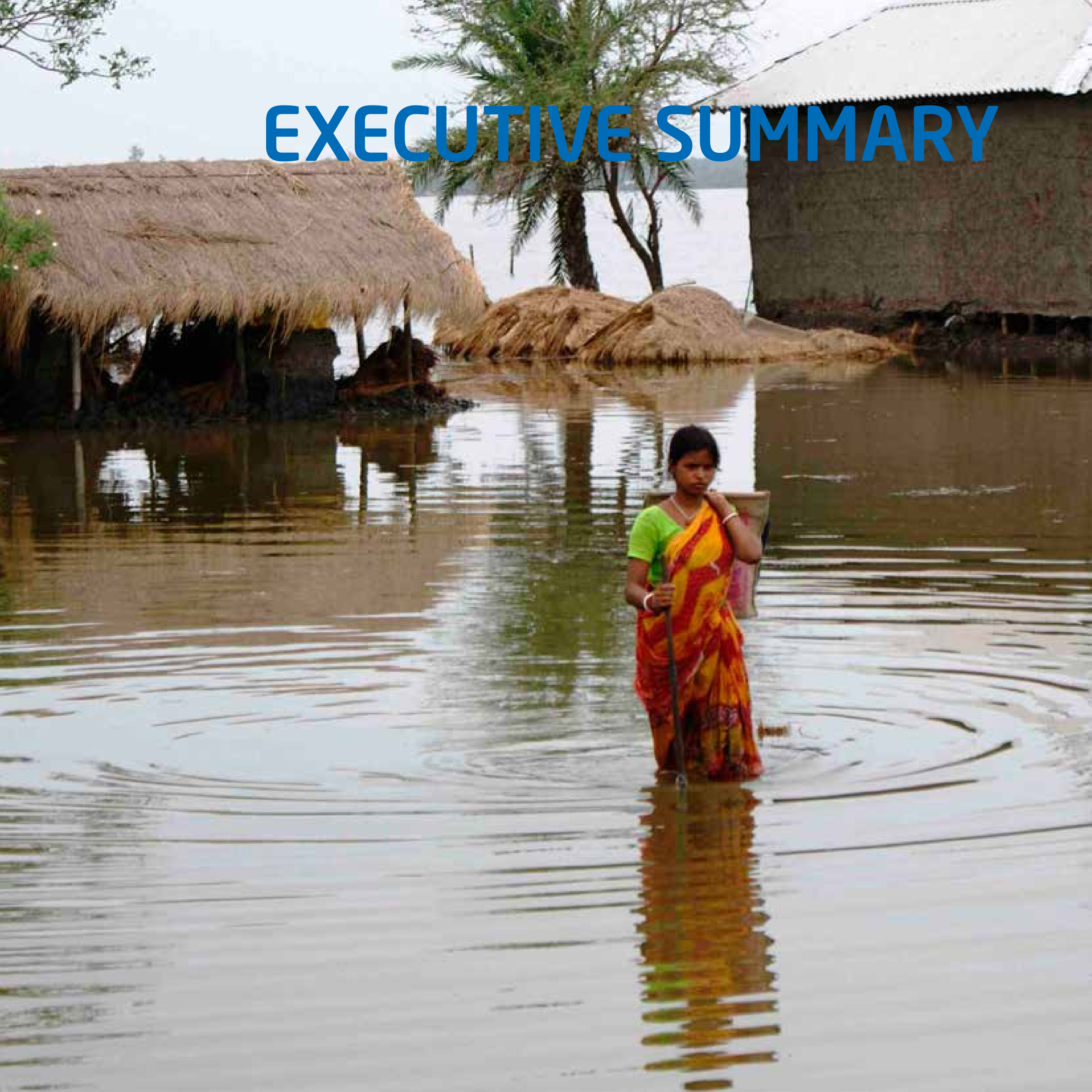
EXECUTIVE SUMMARY




Anil Gulati/India Water Portal

ASIA-PACIFIC IS ONE OF THE WORLD'S MOST VULNERABLE REGIONS to the effects of climate change and the expected impacts are likely to intensify in the future. The region is also a large emitter of greenhouse gases (GHGs), and unless urgent action is taken to curb emissions, this trend will exacerbate in the future. It is widely acknowledged that a significant increase in public and private financial resources from national and international sources will be required to meet these adaptation and mitigation challenges.

While existing literature on 'climate change finance'[1] calls for attention to the local aspects of climate change, so far the voices of experiences from the local level have been less audible in the international and national climate change discourse. The local dimension of climate finance is important not only because of the intrinsically local nature of climate change vulnerability, but also because of the critical role of local practitioners in achieving effective results on the ground. A localised response can draw from local knowledge and include the participation of those most vulnerable to the impacts of climate change.

Based on a regional consultation in Bangkok in late 2012, a framework was agreed on for shaping effective responses to climate change at the local level. The four pillars, which also guide the discussion in this report, can be summarized as follows:

I. An enabling institutional environment for climate change finance: The autonomy and authority that sub-national governments have to respond to climate change will, to a large extent, be determined by a country's approaches to political, administrative and fiscal decentralisation. An understanding of the latter is particularly critical in ensuring that finance to address climate change is aligned to the established expenditure responsibilities of sub-national governments.

1 See Essential Bibliography in Annex I, particularly "Local Governance and Climate Finance: A Discussion Note"; the CPEIR-related documentation; relevant UN-led initiatives and related studies such as UNDP-UNEP Poverty Environment Initiative (PEI), and UNCDF Local Climate Adaptive Living Facility (LoCAL)

II. Improved delivery of climate finance: Local governments will have greater scope to respond to specific local vulnerabilities where they have the necessary financial means and discretion to use those resources. Typically, the responsibilities of sub-national governments will be greater than their ability to raise taxes and as such they will be reliant on transfers from central governments (intergovernmental transfers). Climate change will potentially change the size of transfers required, as well as their distribution. Further, the structure of transfers can impact the discretion over which local governments have to address climate change. While providing transfers specifically targeted for climate change projects may be a useful short-term strategy, mainstreaming climate change concerns into ongoing expenditures in relevant areas (i.e. rural development programs, water and sanitation, and agriculture) may bring greater long-term benefits.

III. More effective and equitable planning and budgeting for climate initiatives: Responses to climate change at the local level will involve different stakeholders: local government, line departments, and CSOs. Similarly, there is a role for national institutions to provide policy guidance. Given multiple stakeholders, institutional coordination will be particularly critical in ensuring coherent planning and effective budgeting. Central ministries can support effective and equitable planning and budgeting for climate initiatives by establishing clear processes and procedures for the incorporation of climate change considerations in those processes. Ensuring the participation of communities in the planning process can make them more responsive to the needs of those communities, and is a core aspect of political decentralisation. Transparent and comprehensive budgets will also contribute significantly to maximising results.

IV. Monitoring and evaluating the local impact of climate finance: Monitoring and evaluation frameworks that assess the impact climate change interventions at the local level can serve as a basis to judge the effectiveness and efficiency of climate related expenditures. They can also be used to assess the impact of climate finance on the most climate vulnerable groups. Importantly, the establishment of a good monitoring and evaluation framework and creating a process where the information is shared with the public can be an effective way of holding local stakeholders to account in the use of public resources and the results that they have contributed to. Given the overlap between development and climate change adaptation, it may be possible for these stakeholders to build on existing development indicators as one way to support monitoring the effectiveness of certain adaptation interventions. There is also value in monitoring the institutional capacity of local governments to respond to climate change.

Taken together, these four pillars are intended as an overarching framework that can be used to inform a suitable approach to ensure that finance is channelled and used effectively to address climate change at the local level.

INTRODUCTION

ASIA-PACIFIC IS ONE OF THE WORLD'S MOST VULNERABLE REGIONS to the effects of climate change and the expected impacts are likely to intensify in the future.[2] The region is also a large emitter of greenhouse gases (GHGs), and unless urgent action is taken to curb emissions, this trend will exacerbate in the future. An increase in public and private financial resources from national and international sources will be required to meet these adaptation and mitigation challenges.

The upcoming Green Climate Fund (GCF) and other international sources of funds already available[3] are expected to mobilize "adequate, predictable and sustainable"[4] financing, therefore increasing and re-balancing the overall flow of climate finance[5] to developing countries.

At the same time, previous Climate Public Expenditure and Institutional Reviews (CPEIR) undertaken in the region have illustrated that responses to climate change are largely funded from domestic resources. A thorough analysis of the quantity and quality of domestic resources[6], as well as the domestic climate finance architecture will be required to align additional international finance to existing country needs and systems.

The CPEIRs provided further substance and quantitative evidence to initial findings already identified by the "Local Governance and Climate Change"[7] report and other relevant initiatives[8] on the issue. Particularly, they raised the importance of the local

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2 Lohani, B., (2012) Bank, November 2012, http://www.adb.org/news/op-ed/asia-pacifics-vulnerability-climate-change

3 Global Environment Facility, Adaptation Fund, Climate Investment Funds (amongst many others).

4 UNFCCC (2007): Bali Action Plan

5 See definition of climate finance in the box, and relevant bibliography (UNEP 2010, ODI 2010).

6 CPEIRs have been undertaken in Bangladesh, Cambodia, Nepal, Samoa, and Thailand, and are currently being carried out in Indonesia, Timor Leste and Viet Nam. See Annex I and http://www.aideffectiveness.org/CPEIR for detailed CPEIR references and reports.

7 UNDP, UNCDF, UNEP (2010) http://www.uncsd2012.org/index.php?page=view&type=400&nr=252&menu=45

8 UN-led initiatives such as UNDP-UNEP Poverty Environment Initiative (PEI) and UNCDF Local Climate Adaptive Living Facility (LoCAL), but also many others (see Annex I: Relevant Initiatives)

dimension of climate change, and the necessity of engaging local-level practitioners[9] and sub-national institutions in climate finance discussions.

In countries where CPEIRs were undertaken (as well as other countries in the region[10]), it was evident that relevant climate change policies have been developed and often complemented by institutional coordination mechanisms. At the same time, however, this has not translated into costing of such policies, and the actual expenditures on climate activities are driven by sector specific policies, rather than overarching climate change policies; this is also the case at the local level. All CPEIRs also identified decentralisation and local governance processes as critical to ensure that climate change expenditures respond to location specific contexts and reach the poor and vulnerable. However, so far the role of local governments, civil society organizations (CSOs) and other relevant stakeholders at the local level still remain largely marginalised from national discussions.

Working definition of climate finance:

Climate change finance is often narrowly defined by the climate community as 'climate-specific' finance, that is, "finance flowing from developed to developing countries, including support for mitigation, adaptation, REDD+, climate change capacity building, technology transfer and direct budgetary support for climate policy" (adapted from UNEP, 2010 et al.).

However, national development budgets, private investments, CSO-funded activities and ODA finance (generally aimed at achieving national development goals) are often 'climate-related' (i.e. rural infrastructure development programs, agricultural productivity, water management, health, etc.), even if they are rarely explicitly targeted to tackle climate change, and in many cases its climate-relevance is not explicitly recognised.

This report uses a broader, more practical definition of 'Climate Change Finance' as follows: "Finance flow whose impact and use is totally or partially climate-relevant, whether explicitly recognised or not".

The objective of this report is to better understand the significance of local governance and decentralisation in the delivery of climate finance, and to strengthen its coherence, responsiveness, and effectiveness. In order to do this, the report reviews:

9 See definition of "Local Practitioner" in the box.

10 See IGES Enviroscope for a list of climate change policies in Asia-Pacific, http://enviroscope.iges.or.jp/

i) How decentralisation and local governance processes influence the delivery of climate finance,
ii) How climate change finance is currently being channeled from central government to the local level,
iii) How local actors can effectively respond to climate change through improved planning and budgeting and
iv) How the impact of those expenditures can be monitored and evaluated to track its effectiveness.

Stakeholders at the local level:

Local level actors: local administrations, line agencies at the local level, local CSOs, and local private sector players (i.e. local SMEs)

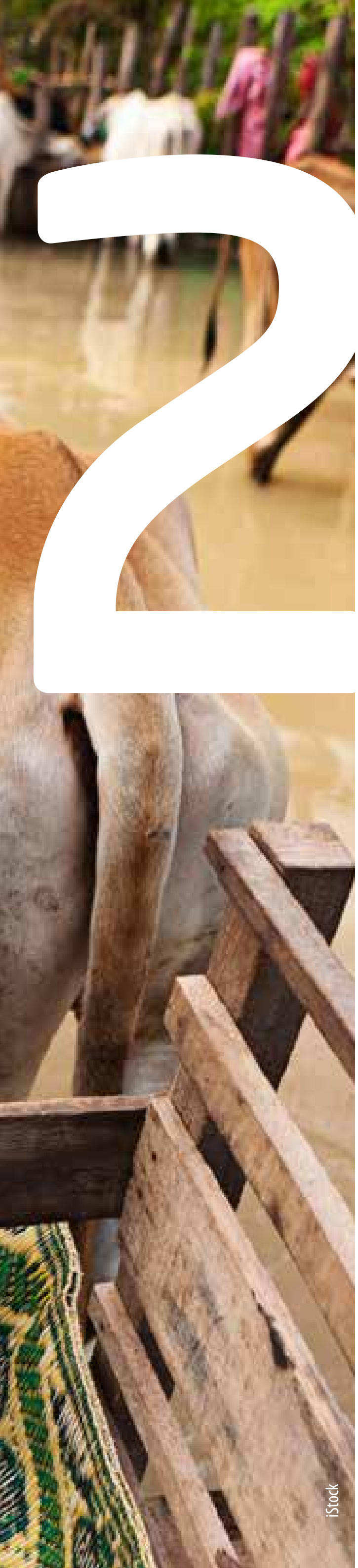
National and international level actors (whenever operating at the local level): central administration, line ministries, national/international CSO, donors and development partners, and private sector players that operate in relation to climate change at the local level.

The report presents a regional picture, supported by specific examples from several countries across the region, of the most relevant trends, challenges and opportunities in relation to financing localised responses to climate change.

It will refer to the relevant literature mentioned above, and build on country information[11] collected across the region, through the country dialogues initiated in Cambodia and Pakistan[12], and the outcomes of the regional workshop that took place in Bangkok in October 2012[13]. This workshop resulted in a commonly agreed regional framework (four pillars) for action in relation to the effective delivery of climate change finance at the local level and a set of draft country action plans to reach the objectives mentioned above.

11 See Annex III: Summary of Country Evidence
12 See Annex IV: Summary of Country Dialogues
13 See Annex II: Summary of the Regional Workshop.

CLIMATE FINANCE AT THE LOCAL LEVEL



2.1 Situating the Discourse on Climate Change at the Sub-national Level

A few basic preliminary definitions are deemed necessary to frame the discussion on the importance of the local dimension of climate change.

Setting the stage: basic definitions of climate change Mitigation and Adaptation

CC Mitigation (CCM): refers to any strategy or action taken to remove Green House Gas (GHG) emissions released into the atmosphere, or to reduce their amount. CCM activities include renewable energy projects, energy efficiency and fuel switch, forestry and land use, sustainable urban transport and sequestration projects, and technical assistance, capacity building and policy support in relation to reducing GHG emissions.

CC Adaptation (CCA): refers to the ability of a system to adjust to climate change in order to reduce its vulnerability, and enhance the resilience to observed and anticipated impacts of climate change. CCA activities are aimed to reduce vulnerability in several areas of development work such as water, agriculture, infrastructure, health, etc., including capacity building and climate policy direct budgetary support in relation to addressing climate change vulnerability.

Vulnerability to CC is a function of 3 variables: Exposure (status of human and socio-economic assets of the system, and climatic variability and hazards in the system); Sensitivity (degree to which the system will be affected by CC); and Adaptive Capacity, or Resilience (potential of a system to adjust to climate change and its impacts).

[Sources: adapted from UNEP 2010; KCC 2012; CCKN 2001; OECD 2008; IPCC 2001, et al.]

In relation to climate change adaptation, all three variables of climate change vulnerability mentioned above depend largely on the locality specific geography, climatic patterns, socio-economic, and livelihood conditions. It therefore follows that responses to climate change, particularly climate change adaptation, may also need to be location specific.[14]

A localised response will involve local knowledge and should ideally include the participation of people who are most vulnerable to the impact of climate change. As noted in an Action Aid report: *"The goal of ensuring that even the most marginalised people have a voice in decisions around adaptation finance creates a rationale for a bottom-up approach. In recent years, support has been growing for the idea of community-based adaptation (CBA) as an important method of addressing climate change challenges at the local level".*[15] There have been a number of examples of this type of CBA intervention in the Asia-Pacific region of which the Cambodia Community Based Adaptation Projects is an example.

In addition to climate change adaptation, local governments and communities may also have an important role to play in climate change mitigation. In South-East Asia, 75% of the region's Greenhouse Gas Emissions arose from the Land Use Change and Forestry sector.[16] Within this sector, there have been numerous efforts to strengthen local governance to broaden participation in decision-making and management of forests by local peoples; facilitate fair and equitable sharing of the benefits from forests and to respect customary and traditional rights of indigenous and local communities.[17] For example, the UN-REDD + program in Viet Nam is seeking to build upon existing decentralisation frameworks to promote mitigation in the forestry sector.[18]

14 UNDP and UNEP (2011)

15 Action Aid Bangladesh (2012)

16 ADB (2009)

17 UNFF (2004) UNFF (2004) http://www.un.org/esa/forests/pdf/cli/finalinterlakenreport.pdf

18 Climate and Development Knowledge Network (2012) http://cdkn.org/wp-content/uploads/2012/06/Vietnam-InsideStory_6pp_final_low-res-copy1.pdf

Cambodia Community Based Adaptation Project (CCBAP)

The purpose of the CCBAP (2010–2012) is to:

1. Reduce climate change vulnerability in the agricultural sector (water scarcity) and
2. Increase the adaptive capacity of targeted communities to manage the additional risks of climate change (by mainstreaming climate change in commune development planning and by documenting good climate change adaptation practices).

By using a Vulnerability Reduction Assessment (VRA), the CCBAP ensures that its formulation entails a truly participatory process. The project is designed to address gaps highlighted in the Cambodian National Adaptation Programme of Action 2006, which focused on improving community capacity and enhancing community-based initiatives to cope with climate hazards. As a result, (i) resilience has been built in 150 vulnerable communities in flood/drought prone areas in the Tonle Sap, southern and northeast regions of Cambodia; (ii) 60% of targeted communes mainstream climatic information and VRA into commune development plans; and (iii) good practices shared (to influence changes of policy and programme development). The project is being implemented by using GEF Small Grants Programme (SGP) through SIDA and AusAID funding (US$ 2,850,000 million).

[Source: adapted from UNDP Cambodia, CCBAP]

Notwithstanding the value of localised responses to climate change, they cannot happen independently of national level frameworks, nor can they be implemented in an isolated manner. For example, the management of water resources is an area where communities are interdependent: a hydropower investment in an upstream locality to promote mitigation could potentially affect the resilience to climate change of down-stream communities. Likewise, as will be discussed in subsequent sections, the ability of local actors to respond to climate change will depend largely on the extent to which existing national policies allow them to act at their own discretion.

In sum, both central and sub-national actors have important roles to play in responding to climate change. The challenge is to clarify the appropriate assignment of roles and responsibilities between institutional actors, both vertically (i.e. central, regional or district government bodies) and horizontally, (i.e. different actors across each of those levels), and how those responsibilities should be supported with adequate resources. In this regard, it is necessary to better understand a country's approach to decentralisation.

2.2 Pillars of Climate Change Finance at the Local Level

a. Enabling Institutional Environment for Climate Change Finance

The autonomy and authority that sub-national governments have to respond to climate change will, to a large extent, be determined by a country's policies on decentralisation. Decentralisation is a process through which authority and responsibilities are transferred from the central government to sub-national levels. It is highly context-specific and dynamic, and the diversity in Asia-Pacific ranges from countries where sub-national governments have a significant amount of independence, to those that are tightly controlled by the central authorities[19].

The three fundamental dimensions of decentralisation are: political decentralisation, administrative decentralisation and fiscal decentralisation.

Political decentralisation is a process whereby citizens and their elected representatives have more control in the formulation and implementation of policies. This, like other elements of decentralisation, requires legal reforms and constitutional provisions, and is closely associated with the institutional set-up of the decentralised and local governance system.

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19 FAO, GTZ (now GIZ), Swiss Development Cooperation, UNDP, and the World Bank, *The Online Sourcebook on Decentralisation and Local Development,* explains the basic dimensions of how decentralisation takes place, http://www.ciesin.org/decentralization/SB_entry.html

Where there is a strong political decentralisation, even if the resource base is weak, there is more discretion for both elected body, and administrative body to plan and decide on expenditures that reflect the demands of the local population.

Political decentralisation is also represented by enabling participatory planning, bringing together different actors at the local level, including people's representatives. This can help to articulate their priorities through, for example, people's participation in district development committees meetings. Recent approaches to participatory budgeting to influence decisions on local climate-related investments have been explored by community-based adaptation initiatives (such as the example from Cambodia). In principle, political decentralisation and this type of participatory planning can help to ensure that climate change finance is used to better reflect and respond to the demands of the local population.

Administrative decentralisation takes place when there is a redistribution of authority, responsibility and financial resources for the provision of services among the different tiers of government. The degree to which this happens varies. Firstly, *deconcentration*, which can be manifested through strong field administration under the supervision of central government ministries, is a weaker form of decentralisation, as the decision-making authority remains at the central level. A more significant level of decentralisation occurs through *delegation*, where central governments transfer responsibility for decision-making and the administration of public functions to organisations that are not fully controlled by the central government, but are still accountable to it. Finally, the most evolved form of decentralisation happens where the authority for decision-making, finance, and resource mobilisation is transferred to the sub-national level through *devolution*.

Given the different pace at which decentralisation is taking place in Asia, the situation in countries is often one where there is a combination of different levels of administrative decentralisation[20]. Cambodia provides an interesting example (though by no means unique)

20 See World Bank (2005) East Asia Decentralises – Making local government work.

of mixed levels of administrative decentralisation: while line departments of central ministries are effectively *deconcentrated* (closely supervised by central ministries), the communes have *delegated* functions (they still are held accountable and need to get approval of their expenditures from the national level). At the same time there are several project-based initiatives which function quite independently from the central administration, in a *devolved* fashion[21].

Fiscal decentralisation is another core component of decentralisation: if entities at the local level are expected to carry out their decentralised functions effectively, they will require the financial means to do so. It therefore has a considerable impact on the effectiveness and impact of political and administrative decentralisation.[22]

Fiscal decentralisation refers to the division of spending responsibilities and sources of revenue between levels of government (i.e. national, regional, local). To ensure that finance is used most effectively and channelled to where it is needed, it is necessary to understand how expenditures are assigned to different levels of government and to align the response to climate change accordingly.

At the same time, addressing climate change is not a new functional responsibility or expenditure assignment for local stakeholders[23]. In fact, one of the main findings of the CPEIRs is that in all the countries that have been studied, central and local governments are already spending resources to adapt to climate change through a range of existing functional responsibilities. For example, spending on rural development programs for agriculture, water and sanitation and disaster risk management *inter alia*, promotes resilience to climate change and are addressing some of the worst effects of climate change. However, although, climate change will not necessarily change expenditure responsibilities, it may have implications for the size of investment required at different levels of government.

21 See Cambodia CPEIR (2012) and the country case study for detailed figures in particular on fiscal decentralisation.

22 Davey K, (2003)

23 UNDP, UNCDF, UNEP (2010)

Climate change related responsibilities accentuate the gap between the revenues that local governments are able to raise, and their spending responsibilities. Even with additional funds through intergovernmental transfers, local governments may not have sufficient discretion over their use, to address the specific challenges brought on by climate change. Given that these challenges will not be uniform across the country, as certain regions might, for example, be more vulnerable to drought, while others may be more susceptible to flooding, budget holders will also need to take into account these specificities in the process of distributing resources to different levels of government.

COUNTRY CASE STUDY: Pakistan Amendment XVIII

The 18th Constitutional Amendment in Pakistan was passed by the National Assembly in April 2010. This has many implications for the government of Pakistan at both Federal and Provincial levels. Firstly, 47 subjects (functions) and 18 federal ministries including functions that are directly or indirectly related to climate change response have been devolved to the Provincial level. This devolution of power however has yet to be accompanied by necessary resources and accountability mechanisms to fully meet the newly defined responsibilities.

Through the amendment stipulates the establishment of local governments in all four provinces, with an increase in their administrative, fiscal and political autonomy, it provides little clarity on which specific functions will be delegated, or how they should be politically constituted. Further, while some measures are assumed to increase the provinces' ability to retain control of their revenue, most taxes will continue to be redistributed through the federal centre.

With regard to climate change, there is no particular institution at the Provincial level which has been assigned with this specific mandate. At the same time, many of the sectoral ministries that are present at the Provincial level are already addressing various manifestations of climate change.

The inter-provincial transfer of resources is managed through the National Finance Commission Award. In 2009, the NFC increased the transfers from the federal government to the provinces by about 10%. However, as this took place before the adoption of the 18th Amendment, the provision does not take into account the additional responsibilities that the provinces are now meant to fulfil.

Seidle, L., and Khan, Z., *Federalism and Eighteenth Amendment: Challenges and Opportunities for Transition Management in Pakistan*, December 2012;

b. Improved delivery of climate finance

Financing responses to climate change should be aligned with existing expenditure responsibilities, where possible. Typically, the responsibilities of local governments will be greater than their ability to raise taxes and as such they will be reliant on transfers from central or regional governments (intergovernmental transfers). In addition, they might also receive international public finance. This could be both from dedicated climate finance funds, like the Climate Investment Funds, as well as development finance that has possible co-benefits from a climate change perspective. This section focuses on intergovernmental transfers.

The structure of intergovernmental transfers can affect the way in which these resources are used. Central and regional governments (and donors) use the structure of transfers to influence the level of discretion that local governments have over the use of the resources available. Broadly speaking these transfers can be broken down into two groups:

General-purpose grants

General-purpose grants are provided to supplement local government budgets and can be used at the full discretion of the recipient (these grants are also called *untargeted* or *unconditional* grants). They are intended to promote local autonomy over the use of funds and also improve equity between regions/localities.[24] At the same time, they are important instruments to strengthen political decentralisation, and bottom-up participatory planning.

Under this type of transfer, there is no requirement that the money would be used to finance actions relevant to climate change. They usually empower the beneficiary constituency, providing a certain degree of discretionary power to the local government to plan and use the financial resources to better meet its objectives. Where there is certain level of political and administrative decentralisation, the local government will often conduct consultative

24 See Shah A. (2006) *A Practitioner's Guide to Intergovernmental Fiscal Transfers* in World Bank (2007a)

and participatory planning processes[25]. Such processes are more likely to establish initiatives that are responsive to the needs of the communities. Due to the heightened involvement of those communities in the planning process, it is also likely that they will be more inclined to hold their local government accountable to an efficient and transparent use of the resources to deliver on the stated objectives[26].

This type of transfer also confers greater responsibility to local government in terms of planning and budgeting. Necessary skills must be put in place to enable local governments to fulfil their responsibilities to plan, manage and monitor the use of the funds. As the experience of the Commune / Sankgat Fund (CSF) has demonstrated in Cambodia (see Cambodian case study example on page 22), developing capacities in the area of financial planning, budgeting, and screening and prioritisation of projects is a long-term process, and not specific to climate change. There are other legitimate concerns that need to be taken into account. For instance, in a situation when decentralisation is not yet at a mature stage, or when decisions are made to decentralise functions without adequate support, the concerned actors at local level may be unprepared to absorb such an increase of responsibility and funding in a short period of time[27]. It can also lead to increased chances of corruption, unless adequate mechanisms are put in place to curb the possibilities of resource leakages. On the other hand, it can be argued that the only way to strengthen the local systems to take on these additional responsibilities is through practice.

Specific-purpose grants

Specific-purpose grants (also called *conditional grants or targeted grants*) are targeted to support expenditures in a particular sector, program or activity. The level of discretion provided to governments with specific-purpose grants is highly variable.

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25 See for example the Nepal Local Self Governance Act, 1999.

26 See more examples of participatory processes throughout Asia Pacific in UNDP (2011d)

27 See Pakistan's case study above.

Often central governments will target grants for specific sectors as a means to try and stimulate expenditure in a sector favoured by the national policies, although the manner in which it spent within the sector is left at the discretion of the concerned sector. Working through the existing arrangements for assigning sectoral expenditure responsibilities to different levels of government, this type of transfer is a possible approach that could be used to increase expenditures in vulnerable sectors at the local level. However, this may be more appropriate for transfers from the centre to district or provincial governments, rather than to the lowest tiers of local government. At the lowest level, budgets are not always divided or managed along sectoral lines, and line departments are often not present.

Specific-purpose transfers can be much more prescriptive in terms of what activities can be financed with the resources provided. Often transfers to local governments will be for specific projects and fall under 'development budgets'. Although 'development budgets' are seemingly used to fund capital investment, in many countries, funding of projects is often

used as a means for central governments to have greater visibility over how resources are being used (irrespective of whether it is capital investment being funded).

One way central governments are therefore trying to have more direct influence over the resources available for climate change is by making money available for specific climate change projects that are approved centrally or regionally. This can be done through budgetary allocations, as is the case in Viet Nam, where climate change budget support is allocated to specific projects at all levels of government.[28] Alternatively, certain countries have created dedicated funding mechanisms that provide grants to climate change related projects. The People's Survival Fund in the Philippines is an example of where this has been done. [29] Local stakeholders and NGOs can make specific requests for projects related to climate change that are financed through the centrally-managed fund.

'Specific-purpose grants' can also be broken down into 'input-based' and 'output-based' transfers. The transfers discussed above are input-based transfers: they specify the areas where expenditure must take place, but not what needs to be achieved with those resources. On the other hand, 'output based transfers' are conditional upon the achievement of certain outputs and are used as a means to hold sub-national government to account. 'Output-based' transfers have been considered in the context of REDD+ programs, where payments are contingent on results. [30]

Implications for financing local responses to climate change

Providing transfers specifically targeted for climate change projects may be a useful short-term strategy to address immediate needs (for example, aftermaths of a flood), and they may contribute to stimulating additional local expenditures on climate related actions.

28 Miller M. (2012)

29 See for example Congress of the Philippines, Republic Act No. 10174, Manila

30 See for example Ministry of Finance, *Green Paper: Economic and Fiscal Policy Strategies for Climate Change Mitigation in Indonesia,* Ministry of Finance and Australia Indonesia Partnership, Jakarta.

In practice, the cross-cutting nature of climate change means that local governments will use resources from both general purpose transfers and specific purpose transfers that have implications for climate change. In the medium to long-term, governments should be aiming to mainstream climate change considerations into on-going expenditures (and by extension, in planning and monitoring systems as well). As such, the challenge will be to ensure that general purpose transfers and sector-based transfers are utilized in such a way that factor in climate considerations. Transfers should also consider the specific need that they are addressing. For example, for local climate change adaptation, maintaining a high degree of autonomy on how those resources are used is important, and as such increasing 'general purpose grants' may be more appropriate. On the other hand, climate change mitigation responses, financing can potentially be more easily linked to measurable performance and therefore, 'output-based' transfers may be more relevant.

c. Effective and equitable local planning and budgeting for climate initiatives

As discussed in the previous sections, the autonomy and authority local governments have to decide upon their budgets will depend upon existing decentralisation policies in place, as well as on the structure of financial transfers they receive. Where local governments have the financial means and discretion to use those resources, their ability to respond effectively will increase.

In this regard, responses at the local level will involve different stakeholders – local government, line departments, and CSOs; similarly, there is a role for national institutions to provide policy guidance. Given multiple stakeholders, institutional coordination will be particularly critical in ensuring coherent planning and effective budgeting.

COUNTRY CASE STUDY: Cambodia climate finance landscape

Cambodia is one of the world's most vulnerable countries to climate change.[31] The CPEIR exercise carried out in 2012 analyzed how Cambodia's response to climate change is currently being financed. Insights from the report have implications for thinking through how Cambodia might provide an effective local response to climate change.

Climate-relevant expenditures grew from 14% in 2009 to nearly 17% in 2011[32], for a total of US$ 769m. Of these, central and sector-based budget allocations still represent the vast majority (approximately 70%) of total government expenditures. The institutions with the largest expenditure are the Ministry of Public Works and Transport (with 27% of total climate expenditure), the Ministry of Water Resources and Meteorology (13%) and the Ministry of Health (10%).

Only 20% of the national budget is allocated to the sub-national level: 15% to the line departments of central ministries; 3% directly to the commune; and the remaining 2% through project-based resources[33].

The allocations are made through the line ministries down to provincial level. At this level, the line departments have a relatively large amount of funds compared to the communes, who have limited resources. However, though in limited amount, the latter have more autonomy and discretion on how they use the funds, as the elected Commune Council facilitate a participatory process of decision-making vis-a-vis the allocation of the Commune Sangkat Fund. Though the communes have no legal mandate to address issues related to natural resources (due to limited delegation), the funds are known to have been used for rural roads (65%), irrigation (17%) and rural water (6%), all of which are relevant to climate change adaptation.

The Organic Law (2008) also presents opportunities to combine the efforts of the provinces and the communes, as the law stipulates that district and provincial councils are expected to adopt a unified administration that must work very closely with the communes to coordination public administration and public services within their territories.

Sources: Cambodia CPEIR, 2012; Plummer J., Tritt G., *Voice and Decision-Making: a Study of Local Governance Process in Cambodia*, World Bank, Asia Foundation, 2012

31 See Cambodia CPEIR (2012).

32 The figures include both on-budget and off-budget funding.

33 See Cambodia CPEIR (2012).

Establishing clearly demarcated roles and responsibilities to respond to climate change at the center (ministries of environment, sector ministries, finance and planning ministries, central ministries that oversee local government); and considering the key points of interaction between these ministries and respective agencies at different levels of government is important to avoid duplication of efforts. Furthermore, how government interacts with civil society and local population will also affect the extent to which budgets are responsive to local preferences and priorities. Support to existing coordination mechanisms (such as existing Climate Change working groups, steering committees on disaster risk management etc.) can facilitate such multi-stakeholder interaction. However, there must be clarity on the different roles and responsibilities of each stakeholder, as well as the expectations of the various committees to avoid duplication of efforts.

Central ministries can support effective and equitable planning and budgeting for climate initiatives by clarifying procedures for the incorporation of climate change considerations in those processes. In particular, support might be required to inform local stakeholders – about how national goals and objectives on climate change affect the services provided by them and their consequent implications for plans and budgetary decisions. They also have a responsibility to build the necessary capacity to follow these processes as well as supporting awareness-raising. In this regard, it is important to keep in mind:

- **Comprehensiveness of budgets** – local budgets should be comprehensive by reflecting all expenditures irrespective of the source of the finance (i.e. including international transfers, intergovernmental transfers and locally raised taxes).
- **Transparency of budgets** – budgets should also be transparent, and information about the way in which they are addressing climate change should be made available to the public. This is a challenge given that climate change is not a specific function, but rather cuts across functional areas. In Bhutan, local governments are tagging expenditures that are related to climate change adaptation, with support from UNCDF.[34] The Nepal Climate

34 UNCDF (2012a)

Change Budget Code is another example where expenditures are being tracked based on their climate relevance. Alternatively, budget documentation can be used to highlight certain priority areas of expenditure and key new spending initiatives that are relevant to climate change.

Keeping communities informed about activities and related expenditures can lead to a more accountable use of public resources, an issue that is closely tied to the monitoring and evaluation process.

COUNTRY CASE STUDY:

Localised Planning and Budgeting for Climate Change in Nepal

Nepal is a post-conflict Least Developed Country (LDC) and highly vulnerable to climate change (2 million people highly vulnerable and over 10 million under increasing risk)[36].

As of March 2010 (Bird, 2011), a total of USD 650 million has been made available in Nepal from a number of climate-related initiatives, namely the National Adaptation Plan of Action (NAPA) and the Strategic Programme for Climate Resilience (SPCR). Significant progress has been made in Nepal to establish a coherent institutional architecture and a clear repartition of roles at different levels of government. To support the local implementation of the NAPA, the government of Nepal has recently developed a national framework for the development of Local Adaptation Plans of Action (LAPAs). The LAPA framework attempts to make adaptation planning a bottom-up, inclusive, responsive and flexible process that identifies the most climate vulnerable people and allows them to make informed decisions on priority adaptation actions.

Key benefits expected from alignment of the NAPA and LAPAs are: improved integration between planned and autonomous adaptation; targeting of resources to the most vulnerable; and bridging the gaps between vulnerability assessments and planning and implementation processes. The LAPA is intended to be practical so that national and top-down assessments of climatic risks are integrated with bottom-up planning of adaptation needs, options and priorities in a way that encourages people's participation, enabling better recognition of the highly differentiated nature of adaptive capacity within the local level itself.

Sources: Elaborated from Bhattarai, R et al. (2012), Nepal CPEIR (2012), Bird (2011) Watts, R (2012), and country evidence (see Annex).

d. Monitoring and Evaluation of the local impact of climate finance[35]

Establishing or strengthening a monitoring and evaluation framework, in the context of climate change related activities, has a number of purposes. These frameworks can serve as a basis to judge the effectiveness and efficiency of climate related expenditures. They can also be used to assess the impact of climate finance on the most climate vulnerable groups.

The development of monitoring and evaluation frameworks for climate change is complex. Developing suitable metrics for measuring adaptation is particularly challenging given its broad scope: metrics will vary depending on the sector being monitored. Given the overlap between development and climate change adaptation, it may be possible for local governments to build on existing development indicators as one way to support the monitoring of the effectiveness of certain adaptation interventions:

> *Within international development contexts, it is reasonable to propose that successful adaptation secures inclusive development in the face of climate change that might otherwise undermine it. In other words, success in adaptation keeps development "on-track". The implication of this conclusion is that standard development indicators may have a role to play in assessing the success of adaptation (Brooks et al. 2010).*

In addition, the ability to demonstrate the impacts of interventions in a transparent and accountable manner will be a useful tool for governments to mobilize additional international funds. For example, the UN-REDD+ programme in Viet Nam's proposed structures for independent verification of forest inventories have been agreed as a key requirement for financial transfers as part of the global UNFCCC understanding on measurement, reporting and verification (MRV) of emissions reductions.

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35 See United Nations Statistics Division (2013), Country Profile: Nepal, http://data.un.org/CountryProfile.aspx?crName=Nepal

Importantly, the establishment of a robust monitoring and evaluation framework, and creating a process where the information on climate related activities is shared with the public can be an effective way of holding local stakeholders to account in the use of public resources, and the results that they have contributed to. In this regard, civil society organisations and the media can be effective vehicles not only to disseminate the information, but also to take on their oversight roles. Along with the central government, CSOs can also play a role in the promotion of sharing and exchange of monitoring and evaluation reports from donor, government and NGO-led projects. This can lead to practitioners learning from successes and failures to inform the future design of climate change programmes, not only at local level, but also for national efforts.

Finally, as well as monitoring and evaluating the 'downstream' impact of mitigation and adaptation interventions, there is also value in monitoring the institutional capacity of local government to respond to climate change. For example, the previous sections have highlighted some of the support required by local governments in terms of awareness raising, mainstreaming climate change concerns in local planning and budgeting processes, clarifying institutional responsibilities, undertaking participatory planning exercises and so on. Setting out clearly proposed reform plans and then tracking progress against the plans is a useful way to monitor and evaluate the impact of initiatives aimed at building capacity at local level.

THE WAY FORWARD

3

THE PREVIOUS SECTIONS HAVE SUMMARISED THE KEY CHALLENGES for the local delivery of climate finance along the main four pillars identified. The following section summarises the most relevant next steps to improve each of these pillars, which were initially identified in consultations with countries, and were further refined and completed by a diverse group of stakeholders at the regional workshop in Bangkok in October 2012.

Most of the ways forward listed below are broadly recognised in a number of countries in the region (with a varying level of importance, depending on each country context). In many cases, challenges and next steps are common or very similar not only across countries, but also across stakeholders. Moreover, while they have been regrouped along the four pillars, which are the foundation of the regional framework and frame chapter two[36], they could be categorised thematically or by stakeholder group as well. It is worth mentioning that this list does not pretend to be exhaustive, but is an initial identification of common dimensions and recurring themes across the region, to provide an agreed starting point that could guide further action.

Tom Perry / World Bank

a. Enabling institutional environment for climate finance

In relation to the lack of an **enabling environment**, which includes issues such as policies on decentralisation, insufficient coordination, lack of political leadership, lack of awareness, and knowledge and capacity gaps, a number of next steps and ways forward were common to a number of country action plans, and also emerged in the regional framework. The most prominent ones, which can serve as a starting point for discussion in various contexts, are included here:

i) **Increase awareness about climate change at all levels.** Most of the countries referred to the importance of providing the necessary capacity building support,

36 See Annex IIIII: Summary of Regional Workshop.

including, for example, articulating climate change adaptation concepts in a language that can be understood by local planning and budgeting officers. For this, Vietnam stressed the importance of involving community organizations more closely, while the Philippines mentioned the importance of political leadership to steer the process.

ii) **Develop a clear institutional set-up and follow-up with a functional assignment analysis.** This was mentioned in many country action plans, but was particularly apparent in the Pakistan and Sri Lanka contexts.

iii) **Establish clear mechanisms for climate finance transfer at all levels of government.** For example, Bhutan and Nepal included a diagram on their country action plans as an initial attempt to map the existing institutional set-up and the existing or possible delivery mechanisms. Other countries agreed on the need to have clarity on such mechanisms.

iv) **Legislative review of existing policies related to decentralisation, and climate change** to facilitate delivery of climate finance at the local level. Bangladesh and Lao PDR identified this as an important step towards more effective response to climate change.

b. More effective & equitable local planning and budgeting for climate initiatives

In relation to the **planning and budgeting** for climate-related activities, local practitioners find it challenging to protect vulnerable assets and population, to estimate the costs of climate-proofing investments, and in general to make informed investment decisions in the planning and budgeting process. The most prominent issues were:

i) **Capacity development to mainstream climate change into local level planning and budgeting.** This was a common area in most country contexts, but particularly highlighted by Bhutan and Lao PDR.

ii) **Definition and identification of climate-related expenditures.** The CPEIR was seen as a useful method to undertake this, and countries such as Myanmar and Pakistan saw the potential to undertake the exercise in their countries. Other countries, such as the

Philippines explicitly referred to the importance of setting up specific budget codes and dedicated budgets for climate change at the local level.

iii) **Strengthen synergies between national and local level.** Countries that have relatively centralised governance systems, expressed this as a request to the central government agencies to provide clear guidelines and dedicated funding for planning and budgeting climate initiatives. This was mentioned explicitly in the Indonesian and Vietnamese action plans. Nepal, on the other side, referred to the importance of reconciling "top-down" and "bottom-up" views for planning and budgeting.

iv) **Support local resource mobilization.** While there are numerous sources of funding for climate change, such as project specific funds, as well as grants, the importance of using locally sourced revenues, such as local taxes to increase and strengthen the sustainability of local climate change budgets was expressed.

c. Improved delivery of climate finance

With regard to climate responses at the local level, a few missing links were discussed vis-a-vis climate change programming and other areas, such as disaster risk management and social protection programmes.[37] Across the sectors, challenges related to the limited capacity of local stakeholders and the shortage of flexible mechanisms for the reallocation and realignment of the local budgets prompted the participants to propose the following common actions:

i) **Improve coordination among different stakeholders.** Bangladesh mentioned the importance of exploiting the synergies between climate change and other development issues and safety net programmes. Sri Lanka suggested developing local level alliances, within countries, but also regionally across Asia and the Pacific.

37 See section 1.1 and references throughout the document for more information about the close linkage between climate change related action (particularly adaptation),)livelihood and social protection, disaster risk management and prevention, and similar development issues.

ii) **Use existing national systems rather than establish new ones.** Many countries mentioned the need to work with existing systems rather than create parallel ones. For example, Bhutan, in particular, proposed to include climate change in the resource allocation formulae for the local level, and to increase predictability of local level funding.

iii) **Establish accountability mechanism.** Lao PDR referred to the need of improving the monitoring of NGO and private sector funding. Myanmar requested to strengthen the capacity of sub-national committees to be able to monitor climate finance better.

iv) **Directing climate finance at the most appropriate levels.** The scale of climate change adaptation initiatives can determine which level of intervention may have the most impact. This may not necessarily be the local level, but rather, the provincial, or national level (particularly for mitigation initiatives, for instance).

d. Monitoring and evaluation of climate finance impact

The monitoring and evaluation of the local impact of climate finance was another important dimension. This was particularly relevant in terms of understanding the impact of climate related activities on vulnerable populations, as well as to ensure accountability in the use of resources to respond to climate change.[38] The following areas were highlighted:

i) **Develop baselines and indicators specific to climate change finance as part of existing Monitoring and Evaluation frameworks.** As with the process of channeling climate finance, it was highlighted that working with existing systems would be more effective in the long-term, although amendments to take into account the climate change dimension may be required. This will need to be accompanied by capacity development efforts.

ii) **Use vulnerability as a criterion to inform subsequent planning and prioritization of climate finance.** Integrate indicators related to climate vulnerability in existing monitoring and evaluation frameworks. Many countries are already practicing this through small grant programmes for example, in Bhutan, Pakistan, and Nepal. However, a more

38 See section 2.2/D on M&E requirements to track climate finance at the local level.

institutionalised approach was deemed to be more desirable for longer, sustainable effects.

iii) **Encourage third party/independent oversight and monitoring and evaluation.** To have a transparent assessment of the use of climate change finance, independent oversight was suggested, for example, in the Bangladesh, Myanmar, Pakistan and Vietnam action plans.

iv) **Enable public access to monitoring and evaluation reports.** While countries such as Vietnam referred to transparency and the importance of ensuring public access, other countries like the Philippines specifically suggested a weekly reporting system through the local radio stations to inform on the results of project and programme implementation.

These four pillars, which provide the framework to address climate change at the local level identify some of the key areas that can be addressed to make climate change finance delivery more effective at the local level. The pillars underscore the fact that the local delivery of climate change finance cannot be addressed in isolation, and that the broader institutional environment will have a significant impact on what happens at the local level. The recommendations for the way forward also illustrated that each of the four pillars are complementary and that a comprehensive approach, anchored within a larger system is required.

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Annex I: Summary of Regional Workshop

Over 12 countries from Asia-Pacific represented by both central level and sub-national institutions took part in a regional workshop on The "Implications of Local Governance and Decentralisation for the effective delivery of finance for climate change at the local level". The objective of the workshop was to highlight the impact of decentralisation and local governance context in a particularly country for the effective delivery of financial resources for climate change. It was an opportunity to share experiences among the different countries in Asia-Pacific about: (1) how the different sources of climate finance are currently being channelled to the local level; (2) how different local actors have tried to improve the effectiveness of increased expenditures on climate finance; (3) how these efforts can be supplemented with additional support from international partners.

Context

- A better understanding of the challenges and opportunities at the local level to make climate finance more effective is necessary
- Climate Finance discussions should not only focus on international finance, but equal attention should be paid to domestic resources, and how they are channeled and accessed at the local level
- The delivery of financial resources that address climate change related issues must take into account the institutional context, particular with regard to decentralisation and local governance processes, and actors
- Coordination among all stakeholders especially from central government and local government are crucial for coherence cooperation
- Participation in planning and implementing processes at all levels, and all relevant stakeholders at local level is important to build the ownership and to effectively take the climate change agenda forward

- Local governance processes can play a role in ensuring accountability and transparency in the use of climate finance

How is climate change finance being accessed and delivered at the local level?

The pace of decentralisation reforms present particular challenges and opportunities to deliver finance for climate change at the local level. It is often driven by political considerations, and not matched by commensurate administrative or fiscal decentralisation. The problem of 'unfunded mandates' is one prevalent in many recently decentralised systems of governance in the region, and this is particularly true in the case of climate change, where there is still ambiguity with regard to who is responsible for the issue, particularly at local level.

Finance for climate change at the local level is understood to include climate specific funds as well as a range of public and private domestic funds. What many of the country experiences showcased is that due to the range of stakeholders who are involved in the implementation of activities related to climate change, there are challenges related to coherence and coordination, both in terms of financing mechanisms, as well as in terms of the coordination of activities.

Experiences from countries and different stakeholders were shared during the meeting to illustrate the ways in which climate finance is being accessed and delivered at the local level.

The case of Pakistan illustrated the impact of the 18th Amendment to the Constitution and the possibilities that it brings to the addressing climate change at the sub-national level. An example from Nepal also illustrated the role of NGOs, where climate related activities can take place through disaster risk reduction programmes, although the financial resources for that are accessed from project specific funds. This is in contrast to experiences where finance examples of initiatives from NGOs were also shared, whereby most of the financial resources

are accessed from project specific funds, whereas on the other hand, the experiences of Cambodia show the way in which funds are integrated in the local planning processes. The perspective of a line ministry was also shared through the example of Lao PDR, illustrating the significant role that line ministries play in addressing climate change. Finally, the issue of including vulnerability in the design and implementation of climate-related initiatives was also highlighted to ensure both equity and equality in the reach and impact of climate finance delivery. It was highlighted that climate vulnerability is a variable that links climate change to human development.

While each of the experiences were different, it was apparent that there are many stake-holders who are involved in the delivery of climate finance either through projects that are explicitly identified as "climate change related", or indirectly, through initiatives that address different manifestations of climate change. Depending on these variations, the access and delivery of finance for such initiatives also differed, including both national sources, as well as external.

Detailed presentations from each of the countries can be accessed at http://www.aideffectiveness.org/Asia-Pacific-Local-Practitioners.html

What challenges and opportunities do decentralisation and local governance pose for access and delivery of finance to respond to Climate Change at local level?

Situating the discourse of climate change finance in the context of decentralisation is important in order to address institutional factors that may impede the effective delivery of the resources. The country specific pace and scope of decentralisation will determine the roles that institutions at the local level will play with regard to climate change, especially in relation to the flows of financial resources, and the discretion over their use.

The range of local practitioners includes the local administration, as well as line departments, central agencies, CSOs, CBOs, and the local private sector. Finance for

- Decentralisation processes must be accompanied by adequate capacity, and financial resources in order for different practitioners to fulfill their roles
- Political decentralisation is important to place climate change squarely on the agenda of local sustainable development efforts. Examples from Thailand illustrate how the involvement of elected leaders have resulted in positive impacts with regard to local mitigation measures, as well as enhanced resource base
- The role of local councils was highlighted as being an important one, especially with regard to ensuring accountability and transparency
- Decentralisation can bring in many opportunities for more effective delivery at the local level, for instance, more inclusive participation in planning, as well as political ownership. However, there can be persistent gaps between national and provincial level policy guidance, coordination among different agencies
- There are many sources of funding, and the local administration may need to consider developing a local climate finance framework that responds to local needs by blending different sources of finance, and developing appropriate mechanisms for its delivery

When addressing the local level challenges, it is imperative to strengthen and work with national level institutions in strengthening and enabling decentralisation, particularly with regarding to coordination between different levels of governance.

Based on the type of stakeholder, the challenges and opportunities may also be different, although some overlaps were also observed.

The following were identified from **stakeholders at the national level:**

- Low levels of knowledge on climate change issue at the local level, which makes it difficult to facilitate the interface between national and local on climate change issues
- Lack of coordination between central ministries and local level institutions, often exacerbated due to overlapping mandates.
- Clarity needed on what counts as a climate change activity
- In terms of working with other stakeholders, the national institutions face these types of challenges:
- Many opportunities to work with CSOs, but there needs to be coordination among them.
- Low function and organizational capacity of local level institutions

Local governments identified the following challenges:

- Control of local and central government by different political parties
- Accountability and transparency mechanisms need to be established or strengthened as the risks for misuse of funds are just as prevalent at the local level
- There is huge potential to mobilize local resources to address locality specific climate change challenges, however, the capacity to raise such revenues remain weak.
- No consultation from central level agencies with local institutions on issue of climate change.
- Development partners have different rules and modalities which puts pressure on local institutions

- Understanding the public financial management system and the intricacies of integrating climate change in that system
- Potential for cross-learning, collaboration, and network among different stakeholders is a significant opportunity.

From the perspective of CSOs, the following issues were identified:

- Lack of enabling environment is often an impediment, manifested by weak or non-existent legal framework
- Not often seen as equal partners in the development process, and therefore, their potential impact is limited

Pulling together a framework for strengthening access and delivery of finance to respond to climate change at the local level

Based on the discussions and country consultations, a framework for the delivery of climate finance at the local level was developed based on the following four pillars:

Pillars for Climate Finance Framework at Local Level

An enabling institutional environment for climate finance

More effective and equitable local planning and budgeting for climate initiatives

Improved delivery of climate finance

Monitoring and evaluating the local impact of climate finance

Based on these four pillars, each country developed action plans. As expected, each of the plans are different, however, some common trends were discernible, such as:

- An enabling institutional environment for climate finance
  - A need to increase awareness about climate change at all levels
  - Identify institutions with responsibilities to address climate change, and for those that are indirectly responsible, identify specific functions
  - Establish clear mechanisms for climate finance transfer among all levels
  - Reviews laws and regulations that facilitate or impede on delivery of climate finance at the local level

- More effective and equitable local planning and budgeting for climate initiatives
  - Capacity development for local level stakeholders to integrate climate change into local level planning and budgeting processes
  - Identify what climate change expenditure is
  - Synergies between national and local levels need to be strengthened, especially when different national and local levels are led by different political parties
  - Improve capacity for local resource mobilization

- Improved delivery of climate finance
  - Coordination among different actors
  - Use existing national funding mechanisms rather than establish new ones
  - Clarify functional responsibilities of different local level stakeholders
  - Put accountability mechanism in place

- Monitoring and evaluating the local impact of climate finance
  - Develop baselines and indicators
  - Strengthen monitoring and evaluation capacities of local stakeholders, including coordination among different actors
  - At the same time, ensure third party/independent monitoring and evaluation

– Use vulnerability impact assessments to inform subsequent planning and prioritization of climate finance
– Ensure public access to monitoring reports

In addition to country specific action plans, each country level stakeholder put forth recommendations that development partners need to consider in their efforts to support the delivery of climate finance. A complete list can be found on http://www.aideffectiveness.org/Asia-Pacific-Local-Practitioners.html, but some of the issues raised included the need for development partners to increase awareness about climate change and its integration in the development planning processes, facilitate cross-learning and collaborative networking. Most importantly, it was also highlighted that there is a need to ensure coordinated and coherent messages from donors.

In moving forward, all the participants agreed to use the framework as guidance in the development of country specific activities.

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