Implication of Local Governance and Decentralisation for the Effective Delivery of Finance for Climate Change

Concept Note

1. CONTEXT

Asia-Pacific is one of the most vulnerable regions to the effects of climate change, and the expected impact is likely to intensify in the future. The region is also a large emitter of greenhouse gases (GHGs), and unless actions are taken to curb emissions, this trend will continue. An increase in both the sources and amount of financial resources for climate related activities to address these challenges is expected from national, as well as international sources. At this point there are more than 50 international public vertical funds channeling climate finance to developing countries, each with its own operating arrangements and priority focal areas. Public resources are dwarfed by private capital flows, although the latter are primarily targeted towards the energy sector and skewed towards the fastest growing economies.

Discussions at the local level with regard to climate change finance have so far been limited. Yet, there is an acknowledgement that it is at the local level that the effects of climate change are most felt. Not only do the implementation and delivery of climate change finance and activities happen at the local level, it is also recognized that local stakeholders and practitioners – including NGOs, community based organization, local government, line departments – have better knowledge on the local challenges and opportunities than stakeholders at the national level. Climate finance is often narrowly defined to mean international climate funds. However, national budgets are as important a source of financial resources (although their volumes vary according to countries) for activities meant to address the challenges of climate change. In this discussion, climate finance will encompass all the different sources of financial resources that are addressing or targeted towards addressing climate change.

Furthermore, the discussions related to climate change finance have been largely concentrated at the international level thus far, as well as among environment, energy and climate change agencies at the national level. It is only relatively recently that central ministries, such as planning or finance, are taking part. Climate Public and Expenditure Reviews (CPEIR), jointly developed by UNDP and the World Bank, are contributing to this change by providing support to countries to review how climate change is integrated with national policies and budgets, and by proposing recommendations to ensure a more coherent response across different government entities. A key component of the CPEIR methodological approach is the analysis undertaken at the sub-national level.
Five countries in the region (Bangladesh, Cambodia, Nepal, Samoa, and Thailand) have undertaken CPEIRs1, and while findings vary from one country to the next, the CPEIR is seen as a useful tool to better understand the status of climate finance delivery, albeit focusing mainly on public sector flows. Classification of what constitutes climate finance within national budgets has been a key issue, with all studies revealing that countries are spending far more than they had previously thought.

Understanding the challenges and opportunities at the local level to make climate finance more effective remains an area that needs further work. An appraisal process through which resources are better targeted (the most effective and wide-reaching channels for delivery), their results better monitored, and an identification of capacity needs – both at the institutional and individual organizational level – will be useful in supporting local practitioners access and deliver climate finance optimally.

2. CLIMATE FINANCE AT THE LOCAL LEVEL

a. The Decentralisation and Local Governance context

Local level specific questions cannot be asked in isolation of the political, institutional and governance context within which they take place. There is a general expectation of an increase in the amount of public resources (both domestic and international) that are specifically designed to address the challenges of climate change. Similarly, all the issues of coordination, public expenditure channels and efficiency need to be situated vis a vis the extent to which decentralization is taking place in a given country, as that will have implications on the way in which coherence among different entities can be strengthened.

For example, in Nepal, the Local Self-Governance Act (1999) gives local bodies (DDCs or VDCs) the mandate to manage and supervise some of the line agencies (for example, health, and forestry). However, legislation such as the Forestry Act contradicts such provisions, creating the possibility of both ambiguity and duplication. Moreover, whereas the local bodies have discretionary power over the unearmarked finance allocated to them, there is resistance from the line ministries to enable such unrestricted powers to their line departments at the local level, who are usually provided with targeted and earmarked funding envelopes.

According to a joint UNDP-UNCDF-UNEP discussion note on “Local Governance and Climate Change”2, there are three ways in which local government interfaces with Climate Change, including: i) local planning and regulation (laws, regulations which can enable or constrain certain types of activity and what the LG has the mandate to do); ii) delivering goods and services (choices of investment, public expenditure management, and the process through which investments are decided upon; and iii) local fiscal revenues (raised the forms of taxes and fees, which are instruments which can provide incentives for the ways in which CC is managed, or mis-managed). In other words, the efficiency with which local actors can address climate change will depend on the degree of authority they have based on their official mandate, as well as their institutional capacity to fulfill their responsibilities.

b. Channeling Climate Finance

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The CPEIR analyses of the local level in four out of the five countries indicated a number of common issues. Firstly, there are three major mechanisms through which climate finance (whether explicitly defined as such, or implicitly understood to be climate related finance) is delivered at the local level: 1) through intergovernmental transfers from the central government to local government; intergovernmental transfers from the central government to local government (often with decision-making authority for expenditure, but not in all instances); 2) sectoral allocations from line ministries to line departments at the local level; and 3) fiscal transfers from line (sector) ministries to the line (sector) agencies at the local level; and 3) through off-budget disbursements for specific climate finance programmes and projects of diverse actors, such as development partners and NGOs. National climate funds are emerging as an additional modality, which can either be on-budget or off budget, or visible or invisible in the budget process. Likewise, the private sector is another key actor who is investing financial resources, especially in the area of renewable energy, for example. Among the three identified channels, the countries where the CPEIR were undertaken show that the majority of financial resources that are deemed to have a climate change component are delivered through sectoral allocations, while only a small percentage go through the local government channel. For example, in Cambodia, 20% of the total government budget is channeled to the local level, only 3% of that is discretionary funds to the Commune Sangkhut; 15% of the 20% is delivered through the line departments, and the remaining 2% are linked with specific development projects. Off budget climate change projects and programmes, supported by international donors and NGOs, tend to be relatively small but highly visible. On the other hand, in Pakistan for example, an initial analysis illustrates that local government expenditures on climate change related activities (implicit or explicit) far outweigh that of the sectors.

While these findings provide an initial understanding how climate finance is delivered at the local level, more work needs to appreciate the opportunities and challenges that the current scenario provides, and how the delivery can be improved, both in terms of the volume and quality.

c. Promoting coherence between the channels

The multiple channels for the delivery of climate finance bring out challenges of coherence among the various actors that are involved. For instance, if there is no existing platform for them to come together and discuss their activities, there is a high probability that efforts will be duplicated. There may be cases where efforts to increase climate resilience are taking place only in a specific part of the locality, thereby neglecting other (potentially) more vulnerable areas, which could lead to frustration and unrest among the different communities. Climate resilience measures in one development sector could be undermined by unsustainable practices in another sector. Local governments usually have planning committees which could play an important role in promoting greater coherence on a cross cutting issue like climate change.

d. Impact monitoring and accountability

The quality and impact of climate finance is an important area to be further explored and understood. There is little evidence that existing climate finance is being monitored and evaluated for impact. What has been the result of increased climate finance being spent? Are the climate vulnerable benefitting from the increased resources? Is local infrastructure investment more climate resilient? Are there accountability mechanisms in place to ensure that the climate vulnerable are aware of what is taking place to increase their ability to withstand the effects of climate change? The ability of local actors to
monitor and report on impacts will considerably strengthen relationships (and bargaining power) with central authorities. Effective reporting can also help to attract additional finance.

These are not necessarily new challenges. In fact, in any decentralization and local governance context, coordination, duplicating mandates, lack of financial resources, or lack of decisions about the use of financial resources etc. are common obstacles. However, climate change is a relatively new area, with many questions surrounding it with regard to agency mandate or resources available.

3. REGIONAL WORKSHOP

The regional workshop will take place in Bangkok on October 30-31st, 2012. The objectives of the workshop are to deliberate on some of the issues raised above, based on the experiences of a number of countries in the region. These will be based on the initial results of the CPEIR, as well as the few country consultations that have currently taken place.

The workshop will therefore be an opportunity to share experiences among the different countries in Asia-Pacific about the different sources of climate finance at the local level on: (1) how climate finance is currently being channeled to 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.

Expected outputs:

1) Joint understanding of the opportunities and challenges to strengthen climate finance at the local level.
2) Identify possible demand for support from interested countries with regard to strengthening the delivery of climate finance at the local level.
3) A joint framework for coordination and coherence among stakeholders at the local level, and between local level and central level stakeholders to enable improved climate finance delivery, visibility and quality.
4) Identify commitments from interested international partners to support country level demands, including existing programmes through which the framework can be rolled out.

Expected participants:

The workshop will target local level practitioners from countries where initial analysis, including the CPEIR, has been undertaken. These include: Cambodia, Pakistan, Nepal, India, Bhutan, the Pacific (Samoa and the Solomon Islands), Bangladesh, and Lao PDR. Other interested countries are also invited to take part. In addition to local level practitioners, key national level stakeholders will also be invited, along with relevant regional development partners, and civil society organisations.

Organisation:

The regional workshop is a collaborative effort of the UNDP, UNCDF, and UNEP who are hosting the meeting.