UN CAPITAL DEVELOPMENT FUND
Global Project Document

Project Title	**The Local Climate Adaptive Living Facility (LoCAL)**
UNDAF Outcome(s):	Promote climate change resilient communities and economies by increasing financing for and investment in Climate Change Adaptation (CCA) at the local level in least developed countries, thereby contributing to the achievement of the Millennium Development Goals (MDGs), particularly the specific goals of poverty reduction (MDG1) and environmental sustainability (MDG7).
Expected Outcome(s)	Increased local government access to climate finance to implement CCA activities in target countries.
Expected Outputs	**Output 1** – CCA is mainstreamed into government's planning and budgeting systems **Output 2** – Increased awareness of and response to climate change at the local level **Output 3** – Increased amount of CCA finance available to local government and local economy **Output 4 -** The project effectively, efficiently and transparently implemented in line with UNCDF project management regulations
Implementing Partner:	LoCAL Participating Countries
Responsible Parties:	National Implementing Partners in Participating Countries

Brief Description

Evidence shows that effective adaptation to climate change requires a local response that combines understanding of global climate change issues with a locally specific strategy to build resilient communities and economies. Yet LDCs are not able to provide the climate finance for local governments to be able to contribute effectively to climate change adaptation and resilience building. This is due to a number of reasons, including a lack of appropriate budgetary allocations from the national level and a lack of a systematic method of applying those funds that are available locally. LoCAL provides a performance-based grant mechanism to enable the mainstreaming of Climate Change Adaptation (CCA) into local government's planning and budgeting systems; it increases awareness and response to climate change at the local level, and; it increases the amount of finance available to local governments for CCA. LoCAL does this by piloting an instrument for the programming and verification of climate change expenditure at the local level and using the demonstration of its effect to trigger further flows for local adaptation, including national fiscal transfers and access to global climate finance for local governments (through their national governments) and for private sector and public / private adaptation initiatives. LoCAL will largely work with rural local governments of the lowest or second lowest tier and small towns of under six hundred thousand people.

Programme Duration: **5 years** Anticipated start date: 01/01/2014 Anticipated end date: 31/12/2018 Fund Management Option(s): Combination Managing or Administrative Agent: UNCDF (if/as applicable)	Total estimated budget* : USD 40,000,000 Out of which: 1. Funded Budget: USD 12,036,000 2. Unfunded budget: USD 27,964,000 * Total estimated budget includes programme costs *and* indirect support costs
	Sources of funded budget: • UNCDF USD 800,000 • EU USD 5,427,000 • SIDA PFIS USD 3,000,000 • SIDA Cambodia* USD 454,000 • Liechtenstein USD 110,000 **Funded parallel budget:** • GEF (Laos) USD 2,145,0000 • Participating Governments (Benin) • USD 100,000 ** For LGCC2 - year 2014*
For UNCDF: Date: 24.02.2014 _______________________ Marc Bichler Executive Secretary United Nations Capital Development Fund	

David Hof
for
24/02/2014

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EXECUTIVE SUMMARY

Resilience and adaptation to climate change is a major development issue for Least Developed Countries (LDCs) that threatens to slow down their growth and limit their poverty reduction efforts. One way of rapidly addressing climate change and building resilient communities and economies is to engage the local level more meaningfully because the local level is where responsibility for the many crucially important small to medium sized adaptation investments lies. This includes, but is not limited to, responsibilities for water management (irrigation, drainage, river and sea defences, storage and harvesting); land use and construction regulation (zoning, planning, building standards enforcement); and support to the local economy (agricultural extension, changing cropping patterns, storage and distribution).

Yet despite the clear relevance of the local level to meaningful adaptation, evidence shows that most local governments in LDCs are not able to contribute effectively to climate change adaptation and resilience building due to a number of reasons, including: a lack of appropriate budgetary allocations from the national level leading to unfunded mandates; an inability of local governments to absorb the incremental costs of climate change adaptation leading to diversion of development funds away from issues like education and economic development; a lack of financing for revenue generating private and public / private adaptation projects at the local level; and the fact that the main sources of climate finance are often only available and accessed through application to national programmes that have specific, earmarked, arrangements and which fall outside of their established decision making processes and public expenditure management cycle.

LoCAL responds to this challenge by providing a mechanism with three features: it enables the mainstreaming of Climate Change Adaptation (CCA) into local government's planning and budgeting systems; it increases awareness and response to climate change at the local level, and; it increases the amount of finance available to local governments for CCA. LoCAL does this by piloting an instrument for programming and verification of climate change expenditure at the local level and using the demonstration of its effect to trigger further flows for local adaptation, including national fiscal transfers and access to global climate finance for local governments (through their national governments) and for private sector and public / private adaptation initiatives. LoCAL will largely work with rural local governments of the lowest or second lowest tier and small towns of under six hundred thousand people.

LoCAL will enable member states to provide effective public and private finance for resilient communities and economies at the local level, thus diversifying their economic base and broadening their national resilience to climate change. It will provide LDCs with a mechanism to attract further climate finance for the local level.

Development goal – Promote climate change resilient communities and economies by increasing financing for and investment in Climate Change Adaptation (CCA) at the local level in least developed countries, thereby contributing to the achievement of the Millennium Development Goals (MDGs), particularly the specific goals of poverty reduction (MDG1) and environmental sustainability (MDG7).

Programme outcome – Increased local government access to climate finance to implement CCA activities in target countries.

Output 1 – CCA is mainstreamed into government's planning and budgeting systems

Output 2 – Increased awareness of and response to climate change at the local level

Output 3 – Increased amount of CCA finance available to local government and local economy

Output 4 - The project effectively, efficiently and transparently implemented in line with UNCDF project management regulations

About UNCDF, the United Nations Capital Development Fund

The original UNCDF mandate from the UN General Assembly (UNGA) is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans" (Resolution 2186 (XXI), 13 December 1966). The mandate was complemented in 1973 to serve first and foremost but not exclusively the LDCs.

UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing – in the forms of grants, loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has proven its ability to deliver true leverage on smaller and more risky investments and interventions within its core areas of expertise: Inclusive Finance and Local Development Finance. The concept-proven pilot projects and programmes are replicated and brought to scale with the help and the add-on financing of other development partners with different, and yet complementary, mandates.

UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one of the development agencies most involved in promoting financial inclusion through a market development approach. From an early support to national microfinance strategies in the 1990s, UNCDF has updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies.

UNCDF is the only UN agency mandated to focus primarily on the Least Developed Countries (LDCs), currently supporting 37 out of the 49 LDCs with country programmes, as well as regional and global programmes.

UNCDF's work on inclusive finance seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer relevant potential for scale.

UNCDF's work on local development finance aims at ensuring that people in all regions and locations benefit from economic growth. This means dealing with the specific local challenges of, for example, peri-urban areas and remote rural locations. It means investing domestic resources into local economies and services through, inter-alia, fiscal decentralization, climate finance and project finance. UNCDF focuses its efforts towards strengthening public financial management and local revenue, improving the quality of public and private investments at the local level. The LoCAL project is part of UNCDF's local development finance portfolio.

Detailed project design and inception

LoCAL was conceived following an extensive analysis that began with a UNCDF, UNDP and UNEP conference on Local Government 's role in Environment, Natural Resource Management and Climate Change, 5-6 October 2009, Bangkok. Thailand. Local Governments and relevant central government ministries presented their experiences in local adaptation and mitigation. A paper 'Local Governance and Climate Change: A Discussion Note[1] was produced following this conference. The paper is available at www.uncdf.org. The analysis, including considerations on financial mechanisms, continued leading up to a UNCDF presentation on Innovations in Local Government Finance made at the 5th Global Urban Forum held in Rio, March 2010. The presentation at the conference included a review of the Minimum Conditions / Performance Measurement system of local government finance, which is the topic of a 2010 UNCDF publication. Whilst the Rio conference provided a range of material on local adaptation – the focus tended to be on the problems with financing NAPAs & other national programmes on the one hand and on developing normative tools for vulnerability assessments on the other.

In May 2010 UNCDF participated in Resilient Cities 2010, the First World Congress on Cities and Adaptation to Climate Change in Bonn, Germany (Annex 7). The detailed experience presented by local governments to this congress indicates an already active engagement with adaptation and mitigation. Many of the locally developed tools and approaches used were of an advanced nature in comparison to the tentative normative material on show at Rio. However the congress also highlighted the problems local governments in both developing and developed countries face in accessing finance for adaptation from the existing multilateral funds. The congress summary highlights this issue. The analysis was completed with a detailed review of the NAPA portfolios and the process of compiling and financing them. The LoCAL facility has been designed following this lengthy analysis and is designed to overcome some of the bottlenecks in financing climate change adaptation and mitigation in LDCs by providing local governments with access to climate finance in an appropriate and relevant form. ICLEI addressed the problem of how cities could meet the challenge of climate adaptation - and in particular how to access the necessary finance (either through borrowing, public private partnerships or otherwise). In the closing remarks the UNCDF representative on the plenary panel pointed out that whilst those larger cities present (Vancouver, Dhaka, Mexico City, Durban, etc.) had the wherewithal to be represented at ICLEI there were many smaller local governments that could not be present and that do not have the possibility to borrow or access wider sources of finance. UNCDF would design a programme to fill this gap and LoCAL is the result – with progress being reported annually to the Resilient Cities conference.

From 2011, the programme was tested in Bhutan and Cambodia with $1 million investment from UNCDF's own resources. The current document is for the full global project, which is currently funded by further support from UNCDF, Sweden, the European Union and Liechtenstein.

[1] http://uncdf.org/sites/default/files/Documents/LG-CC_1.pdf

1. CONTEXT

1.1 Global Context

There is strong evidence that the increase in global temperatures is due to a rise in greenhouse gases (GHG), which has resulted in more frequent extreme weather events and less predictable weather patterns. This changing climate has significant impacts on people's lives including loss in agricultural production and decrease in food security, water stress and insecurity, sea level rise urban management problems, infrastructural damages, changes to ecosystems and loss of biodiversity and human health risks.

Vulnerability to climate change is unequally distributed and heavily concentrated in Least Developed Countries (LDCs) where a disproportionate number of people live in areas that are vulnerable to climate change, and poor households are particularly constrained in their ability to cope with shocks. Over time, impacts of climate change can create life-long cycles of disadvantage, locking vulnerable households in low human development traps. This risk is present in a variety of ecosystems, e.g.:

> *Sub-Saharan Africa* - As a region predominantly reliant on agriculture, many countries in this region are faced with the irreversible impacts caused by drought and flash flooding. The biggest effects on communities and the ecosystem are water and food scarcity. It is estimated that by 2020, over 270 million people will suffer from food scarcity in Sub-Saharan Africa. (UNDP Human Development Report 2007/08, IPCC and IFPRI).
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> *Himalayas and watershed* – The retreat of the glaciers at a rate of 10-15 meters per year in the Himalayas will lead to short term increase to water flows in seven of Asia's river systems, after which water sources will decline (UNDP, 2007). Similarly, rising sea levels due to ice sheet disintegration pose great threats for people living in coastal areas, with some small island states could cease to exist.

1.2 A Focus on Local Government and Local Economies

LoCAL will work in rural areas and small towns, primarily in Least Developed Countries and where appropriate regions of middle-income countries with similar characteristics. Whilst these countries' economies are growing there is evidence that this growth is largely on an aggregate level, fuelled by commodity exports large urban centres. This is demonstrated by progress towards the criteria for graduation from LDC status, which is comprised of three indices: GNI per capita: Human Assets Index comprising two health and two education indicators; and the Economic Vulnerabilities Index that comprises indicators of exposure to economic and natural shocks. Most of the world's LDCs demonstrate a steady progress on the first index (GNI per capita), progress on the other two is stubbornly slow, partly because climate change issues are affecting the local economies, impacting on food security, supply chains and the cost of infrastructure. Countries such as Bhutan and Lao PDR are approaching graduation level on the first index but remain lagging on the second and principally the third. This is particularly true in the rural areas and small to medium size towns that LoCAL will target.

UNCDF is one of the four UN agencies listed in the UN Handbook on LDCs and regularly monitors the date compiled on LDCs by UNCTAD and UNDESA. This will be a factor in the geographical strategy of LoCAL and the reporting on activities will include the dimension of poverty impact.

1.3 National and Local Development Policies

One way of rapidly addressing climate change and building resilience in LDCs is to engage the local level more meaningfully. An OECD Guidance Note (2009) and a multi-agency discussion note

(UNCDF, UNDP and UNEP, 2010) illustrate three reasons why local governments are important actors for climate change adaption and building resilience:

Fundamentally, the practical activities that comprise CCA fall within their core mandate and / or responsibilities. Historically, local government has been responsible for maintaining the resilience of neighbourhoods through land use planning, environmental/construction regulation and investments in drainage, defense from natural hazards, energy supply, infrastructure, irrigation and waste management. These activities are fundamental to CCA and the resilience of communities. There are cases where the legal mandate for climate change adaptation rests with central agencies, yet the responsibilities for the specific *actions* of adaptation (land use planning, water management of all types, enforcement of building regulations) lies with local governments.

Local governments are appropriately positioned to understand the diversity and complexity of local ecosystems and community realities as well as identify needs and priorities of local communities to develop responses. CCA responses differ from place to place and are highly context sensitive. Often the most efficient adaption is made up of many small and inter-linked measures, even Large scale nationally financed investments require local complementary actions to become fully effective.

CCA and resilience require effective coordination between various stakeholders with different mandates and interests. Climate change responses defy easy categorization into institutional or sectoral boxes. Local government has the legitimacy and convening power to coordinate, co-finance and interact with stakeholders that include national level institutions, civil society bodies, the private sector and the various local government departments.

The OECD guidance note and UNCDF, UNEP and UNDP discussion notes played a major role in shaping the design of the LoCAL programme. Given their technical depth and importance to the project both documents are included in annex to his project document.

1.4 Sector Context: Challenges and Gaps

LoCAL is a programme within two cross cutting 'sectors' – climate change on the one hand and decentralisation and local governance on the other hand.

With respect to climate change there is mounting evidence that central governments alone cannot respond to this challenge. Climate Public Expenditure and Institutional Reviews (2011-2012) have illustrated how most explicit budgetary allocations for climate change related expenditure are concentrated with central government agencies, often the ministries of agriculture and environment (see Annex 8 for examples). There is an under acknowledgement of the implicit or hidden costs of CCA through local government investment in drainage or private sector investment in resilient crops, for example. The central government agencies registering climate change related expenditures in national accounts or reports tend to be the national designated implementing partners for GEF and Adaptation Fund programmes as well as recipients of other sources of bilateral and multilateral climate finance. Yet whilst many important and valuable large scale projects are implemented, CCA and resilience requires a local response to complement and reinforce these national efforts.. Some national programmes attempt to involve the local level through application based funds that require a project proposal from local government and an appraisal / approval from central government. These can help but involve high overheads in designing and managing the project and are often limited in scope. The most effective way to build resilience is for large scale measures to be complemented by a large number of smaller and medium sized initiatives that are designed and executed locally using the comparative advantage of local governments described in the previous section.

Evidence from Climate Public Expenditure and Institutional Reviews referenced in annex 8 is that due to restricted financial flows to the local level, most local governments in LDCs are not able to carry out these important functions:

- There is a lack of appropriate finance and budgetary allocation to the local level. Most fiscal transfers from national governments are earmarked for recurring expenditures, which leaves little room for discretionary capital investment at the local level. Where there is a discretionary capital budget the planning process and incentive structure does not always favour CCA expenditure.
- When national governments do transfer responsibilities through decentralization policies they are not always accompanied by concomitant resources
- Other sources of climate finance available are often accessed through application processes with specific rules that fall outside of established systems of governance.
- It is difficult for local governments to absorb the incremental cost of CCA through local taxes and other revenue streams, and most national governments in LDCs are also facing fiscal constraints that make it unlikely for them to be able to meet this incremental cost for local governments.

The issues, challenges and gaps presented above necessitate the involvement of the decentralisation and local governance 'sector'. In this way, LoCAL builds on UNCDF's 20 year experience in local public financial management. This has involved testing and piloting fiscal transfers to the local level in countries with previously highly centralised administrative systems that did not apply the principles of subsidiarity to their fiscal and political affairs. Some degree of decentralisation and intergovernmental fiscal transfer is now present in many of these countries. From the early 2000's UNCDF built on the initial progress to introduce performance based grants in many LDCs. These mechanisms, also used in OECD countries, link sub national funding to quality of process (but crucially, not to object of expenditure – performance grants are not the same as earmarked or sector grants). The result is that central governments and development partners now recognise that there is local efficiency and effectiveness in delivery of services and infrastructure. Evidence for this is the growing number of IDA loans to central government for local delivery of services that have been designed based on the decentralised public financial management systems promoted by UNCDF with partner governments. Examples include Bangladesh, Cambodia, Uganda, and Mozambique.

1.5 UNCDF'S APPROACH TO LOCAL DEVELOPMENT FINANCE

United Nations Capital Development Fund's (UNCDF) mandate from the UN General Assembly (1966) is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans". The mandate was modified in 1974 to focus on "first and foremost the least developed among the developing countries". This original mandate -- to promote economic development in the least developed countries – remains highly relevant today. Within its economic development mandate UNCDF focuses on public and private financing mechanisms. Effective and efficient finance – in both the public and private sectors -- can spur economic growth and make it more sustainable and inclusive. UNCDF's focus on financing mechanisms has special relevance for least developed countries, where public financial management is often weak, and private financial systems often underdeveloped and inaccessible to the poor.

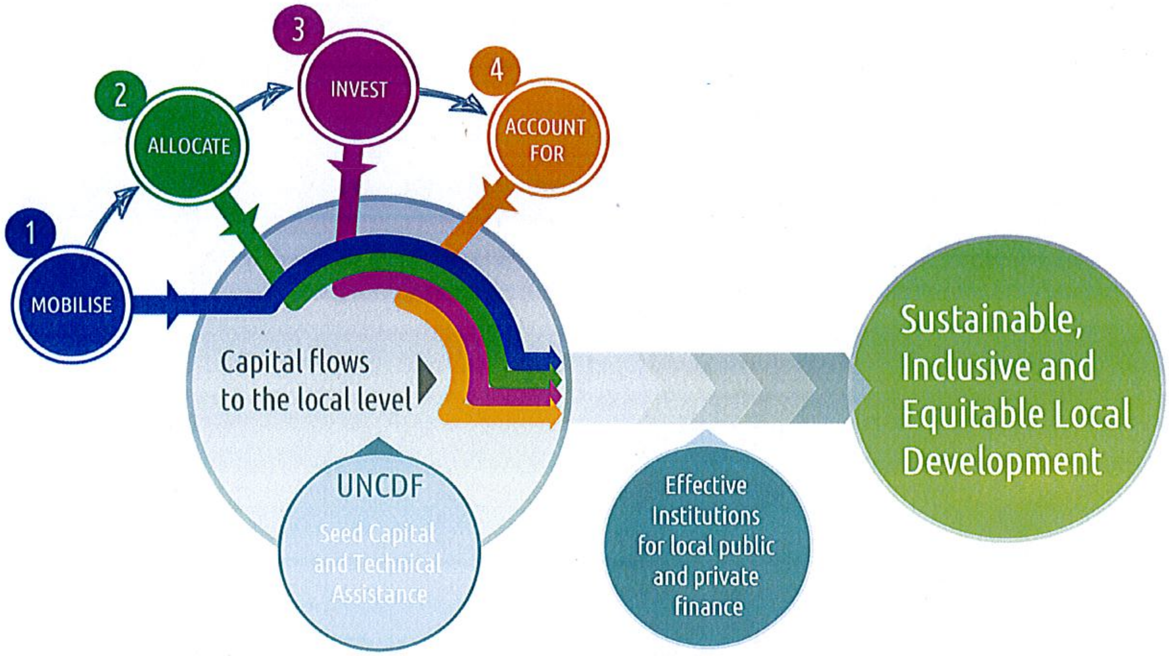
UNCDF's support is ultimately designed to promote sustainable and inclusive growth that empowers people and countries to unleash their potential.

The UNCDF approach to local development finance in least developed countries recognises the need to unlock existing sources of capital for local development and attract new investment capital to the local level. To this end UNCDF applies its seed capital and technical assistance to develop innovative solutions that leverage or mobilize, allocate, and invest resource flows to the local level for local development, thus meeting the capital funding gap. This means that the key factors are the demonstration effect of the innovation and the additional fund flows unleashed for local development.

This requires strengthening the capacity of existing public and private institutions and the procedures they use as well as providing the seed capital itself.

This is illustrated in figure 1 that shows the purpose of local development finance is poverty reduction through sustainable, inclusive and equitable local development. LDFP programmes mobilise, allocate, invest and make accountable these increased flows through improved and strengthened local public and private institutions. The circle at the bottom left shows how UNCDF seed capital and technical assistance is applied towards this end. The term "capital" is applied in its wider sense, encompassing its multiple definitions as: a factor of production; an accounting term in public finance (i.e. not a recurrent cost); a large scale fiscal or financial flow; an income generating resource; and finally a valuable and / or expendable resource. LDFP seed capital leverages these flows to the local level, promoting poverty reduction through local development. The performance grants and PBCRG referred to above are a form of this seed capital.

Figure 1: UNCDF's core approach to Local Development Finance



LDC governments are already partnering with UNCDF on local development programmes for food security, gender, and local economic development. The LoCAL project will benefit from this expertise in public and private development finance. Climate resilient investment is a relatively new financing modality for Least Developed Countries and UNCDF is leveraging its two decade experience in developing local public financial management and local public infrastructure in LDC environments to introduce these new methods of financing local development, therefore providing a demonstration effect and building confidence for other actors.

LoCAL will work in harmony with on-going local development programmes and the UNCDF Local Finance Initiative, to test ways of unlocking (preferably domestic) private finance for building climate resilience as part of local economic development. UNCDF local development finance projects support the efficient and effective use of public and private finance for local economic development. Through fiscal decentralization and the investment of own revenue local governments can have a comparative advantage in the provision of public economic goods such as roads, bridges, market places, irrigation and drainage systems, aqueducts, canals and storage facilities. This comparative advantage extends to a role in stimulating best practice amongst private sector contractors and to capitalizing the local economy through the contractors themselves and the employment and demand created. The local public sector is a large economic actor in many LDC localities. These on-going programmes will seek synergies with the LoCAL project.

UNCDF has a strong track record of investing in countries and issues where others do not, and then "leveraging in larger sources of public and private capital". UNCDF today operates in 40 of the world's 48 least developed countries. 70 percent of its portfolio is in Africa, 50 percent is in post-crisis countries.

2. PROJECT STRATEGY

The LoCAL programme applies the principles of fiscal decentralisation, local investments and effective local public financial management to climate change. LoCAL is a mechanism that enables: the mainstreaming of CCA into local government's planning and budgeting systems; increased awareness and response to climate change at the local level, and; increased amount of finance available to local governments for CCA. LoCAL does this by piloting a system for the verification of climate change expenditure at the local level and using the demonstration of its effectiveness to trigger further flows for local adaptation, including national fiscal transfers and access to global climate finance (through central government, but earmarked for the local level) and the local private sector where appropriate. LoCAL applies UNCDF's core approach to local development finance, which is to mobilize, allocate, invest and make accountable increased resource flows to the local level for sustainable, inclusive and equitable local development – in this case characterized by resilience to climate change.

2.1 Building on Lessons Learnt

The LoCAL Programme benefits from UNCDF's experience piloting the LoCAL methodology in Bhutan and Cambodia since 2011. The experiences gained so far have enabled UNCDF to refine and strengthen the approach and to begin discussions with other countries that seek to join the LoCAL programme. Some early results are referenced below. LoCAL is built upon the two decades UNCDF experience in fiscal decentralisation, local public financial management, local investments and local procurement from which the lessons learnt are captured in a series of detailed and extensive UNCDF publications including:

- "Delivering the Goods[2] (2006) - on the practice experience of designing and implementing platforms for the local provision of Infrastructure and Services in LDCs during the decade 1996 – 2006;
- "Performance-Based Grant Systems – concept and international experience[3]" (2010) on the minimum conditions and performance measures for effective fiscal transfers between central and local governments designed and supported by UNCDF in 50% of LDCs
- "Local Government and Climate Change Discussion Note" (2010) – together with UNEP and UNDP. This document informed the development, LoCAL, the complementary Climate and Public Expenditure Institutional Reviews and the second phase of UNDP and UNEP joint Poverty and Environment Initiative (PEI).
- "Procurement for Local Development[4]" (2012) – on the practical experience of building systems for sustainable, transparent and effective procurement for infrastructure projects and services at the local level in the Least Developed Countries.
- "Financing Local Responses to Climate Change" - together with UNEP and UNDP and presented at the Global Forum on Using Country Systems to Manage Climate Finance, Incheon, Korea, 2013

These lessons learnt can be summarised as follows:

1) **Local planning has high relevance for climate adaptation:** It enables the holistic, cross sectoral and multi actor approach that is necessary for dealing with such a broad and multifaceted issue. Local governments have the convening power to bring together both

[2] http://uncdf.org/sites/default/files/Documents/UNCDF_LDG2_2.pdf
[3] http://uncdf.org/sites/default/files/Documents/pgbs_1.pdf
[4] http://uncdf.org/sites/default/files/Documents/procurement_2.pdf

public and private entities and to coordinate and promote resilience strategies. Whilst sharing local eco-systems each local ecosystem, local polity and local economy is different and effective resilience is therefore best designed locally.

2) **Local delivery systems can be extremely effective:** When combined with appropriate support and technical assistance local infrastructure delivery systems can provide more appropriate and cost effective solutions than those managed centrally. There are incentives for local governments and contracting agents to get the best value from local contractors. However durable, robust and transparent systems must be in place if these advantages have been realised. LoCAL builds on the experience of UNCDF in designing these systems for scale up by institutions like the World Bank and the Asian Development Bank in Bangladesh, Cambodia, Uganda, Mozambique, Nepal and elsewhere.
3) **Incentive systems work:** Incentives like the minimum conditions and performance measures applied through UNCDF designed performance based grant systems do improve the efficiency and effectiveness of local decision making. The key to understanding how they work is the insight that performance based grant systems are not attempts to influence local decision making, rather they improve the quality of the decision making process and the public financial management in the implementation of those decision. LoCAL applies this to climate change resilience by providing a structured process for identifying and applying effective local resilience measures in which the stakeholders themselves are the key actors.
4) **Low overheads and no parallel system:** Unlike most resilience building programmes, LoCAL does not require local governments or stakeholders to draw up applications for funding that are assessed on a project by project basis. Instead it works by defining and investment menu of appropriate areas for action and uses UNCDFs flexible capital financing mandate to make resources available locally through existing public and private financing channels. The annual performance assessment, already built into the local financing system then measures performance and defines the level of continued funding. This means that there are no overheads and costs in designing and appraising projects. Funds channelled through LoCAL go straight to meet adaptation targets.

Taken together these features enable the LoCAL method to produce a local holistic response that involves different agencies and different actors that come together to produce a consolidated response to climate change that increases local resilience. A key element of this is the functioning of a performance based system of fiscal transfers to the local level that has both minimum condition access (no funds available unless these conditions are met) and also performance measures that reward the better organised local governments that demonstrate a holistic and effective response to climate change.

Independent evaluations of performance based grant systems in Bangladesh, Solomon Islands and Ghana indicate that:

- performance-based grants have facilitated the building of trust in local government capacities to carry-out their functions by national government.
- performance-based grants are able to demonstrate to national government that using their own PEM systems is effective in ensuring the delivery of annual budget allocations. This has encouraged the national government (specifically in the Solomon Islands) to exponentially increase the financial allocation to the performance-based grants.
- critical to the LoCAL concept, performance-based grants provide local governments with increased opportunities to deal with their development challenges through their own planning and budgeting system and to leverage private sector funding.
- the results of performance-based grant financed investments are proven to be more sustainable than investments made through parallel systems because the government takes on a higher level of ownership of the investments and thus prioritizes the financing of their operations and maintenance on an annual basis. This is particularly relevant to LoCAL as

CCA requires significant infrastructure investments, the operations and maintenance costs of which are carried by the local government revenues or financed through a sustainable private or public / private business model.

Table 1 below indicates how the rollout of LoCAL across the Least Developed Countries during the life of the project is built on the solid experience in local investment finance in LDCs described above.

Table 1: Performance Grants systems and LoCAL rollout

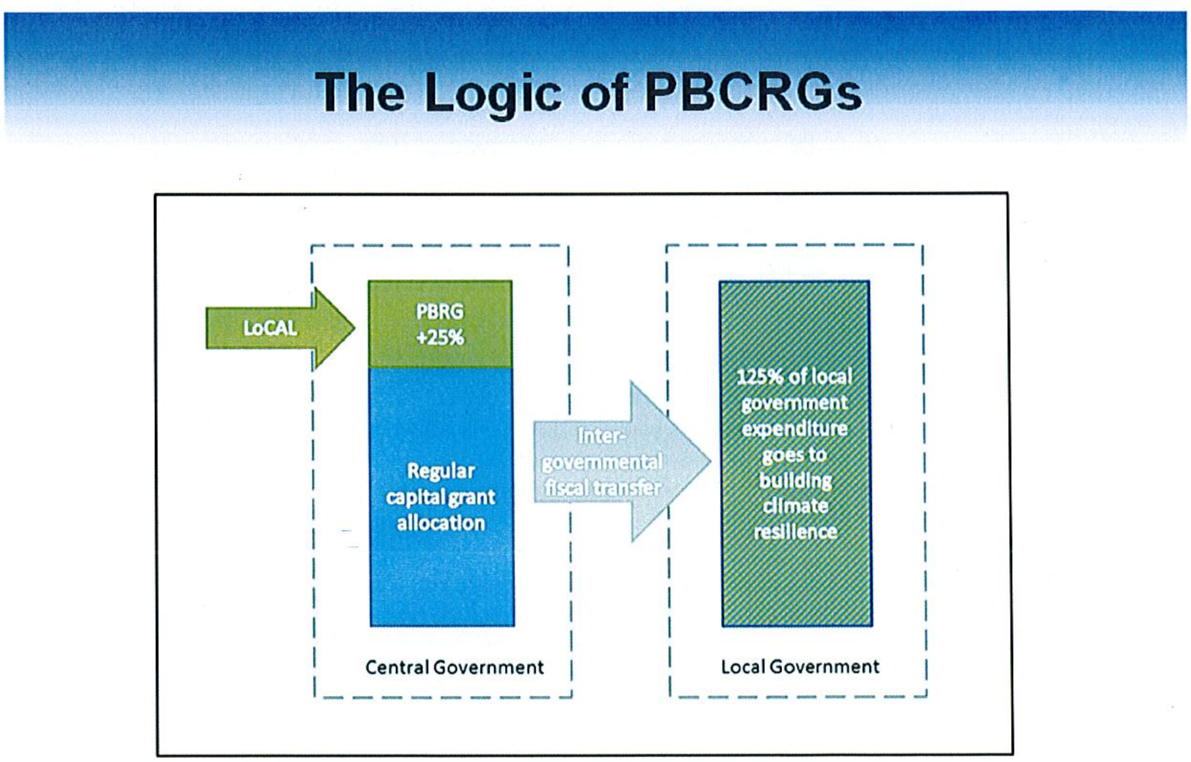
Country with performance grant system	Least Developed Country and UNCDF involvement in grant design	LoCAL Status as of January 2014	Notes
Bangladesh	X	MoU under negotiation	Partnership with UNDP and UNEP PEI project
Benin	X	MoU signed	Currently LoCAL phase I country
Bhutan	X	MoU signed	Currently LoCAL phase II country, Partnership with UNDP and UNEP PEI project
Cambodia	X	MoU signed	Currently LoCAL phase II country, co-funding from Sweden
Ghana		Scoping mission completed (see Annex 2: Example of Scoping Mission Report)	Collaboration with the District Development Facility funded by KfW, World Bank and Denmark
Kenya			No current plans for LoCAL
Lao PDR	X	MoU signed	Partnership with Global Environment Facility financed UNDP programme
Indonesia			Chair of LoCAL project board and LoCAL project manager have professional experience in Indonesia PBG system. Discussions with government on use of LoCAL system by Indonesia
Mali	X	Scoping mission programmed for early 2014	Partnership with Sweden
Nepal	X	MoU negotiations on-going	Partnership with UNDP and UNEP
Niger	X		Fully fledged PBG system will be introduced alongside LoCAL, partnership with European Union.
Pakistan			No current plans for LoCAL
Philippines			Discussions around using LoCAL system to support the implementation of Ecotown pilot project and the reconstruction in the province recently affected by cyclone
Sierra Leone	X		Scoping mission planned for 2015
Solomon Islands	X	MoU negotiations on-going	
Tanzania	X		Scoping mission planned for 2015
Timor Leste	X		Scoping mission planned for 2015
Uganda	X		Scoping mission planned for 2015

Note: UNCDF will devote its resources to LoCAL in Least Developed Countries. Programmes in middle income countries may use the services of the LoCAL secretariat on a full cost recovery basis.

Lessons from the pilot phase of LoCAL

Initial findings demonstrate that the LoCAL Programme has facilitated the mainstreaming of CCA into local development plans. The findings also exhibited evidence of strengthened local government capacity to identify, prioritize and co-finance investments for CCA. There are three ways that this works: either by a) financing or co-financing a stand-alone climate resilience project - such as promoting a different type of crop or building a new water management system; or b) by financing or co-financing a programme to retrofit or mainstream CCA concerns into existing infrastructure or programmes, such as reinforcing bridges; or c) by promoting adaptation and resilience through private or public / private initiatives. In Bhutan and Cambodia, the satisfaction of the government with the results of the LoCAL project resulted in the rollout to additional local governments with additional funding. The dissemination of the results of the pilots have also resulted in firm commitments in Nepal, Bangladesh, Laos, Benin, Ghana, Mali and Mozambique to begin implementing LoCAL in 2014 and interest to implement the programme has been expressed by a number of other west African countries who have developed a roadmap for implementation after the LoCAL launch in Benin in March 2013. The results of the pilot in Bhutan are documented in annex 9. This report demonstrates how the introduction of the PBCRG has leveraged the resources in the wider Local Government investment programme.

Figure 2: The logic of performance based climate resilience grants.



2.2 GLOBAL COVERAGE

LoCAL will operate primarily in LDCs and the project will be introduced in phases as follows:

Phase I: The first phase involves an initial scoping followed by a testing in a very small number of local governments with a baseline defined by the scoping study. Phase I is usually financed directly with UNCDF seed capital and has a budget of less than USD 250,000 (but can include co-financing from government or others). The criteria for choosing the initial local government are a) willingness and capacity to test out the method, b) type of ecosystems, and c) existence of verified climate adaption challenges. It introduces the LoCAL PBCRG grant over one or two fiscal cycles; tests the relevance of the investment menu and fine tunes the methodology; and provides the necessary information for the refinement of the baselines and the design of phase II in conjunction with the appropriate national authorities.

Phase II: This is a national pilot of LoCAL and is designed on the basis of the lessons of the previous phase. It takes place in around 5% to 10% of local governments (of the appropriate tier) in a country. Phase II is usually financed by UNCDF together with financing partners and has a budget of up to $5m. This can be directly through the LoCAL project or parallel financing if government or other development partners make resources available to the LoCAL methodology. The purpose of this phase is to demonstrate the effectiveness of local and create the conditions for a full national rollout of the methodology.

Phase III: This is a full rollout of the LoCAL PBCRG in the country based on the results and lessons of the previous phase. It is gradually extended to all local governments (of the appropriate tier). Phase III is usually financed by central government through a re-adjustment of the architecture of existing resources to enable financing of local adaptation. It can also be co-financed by international finance institutions such as the World Bank, regional development banks and the climate trust funds. Indeed one of the objectives of LoCAL is to support a form of direct access to those funds for local governments, through their central governments. This happens in Phase III. The role of LoCAL in this phase is threefold: provide quality assurance and support to the PBCRG and the annual assessments; provide access to the database of local resilient projects; and provide independent and verifiable reports on the quality and impact of the resilient adaptive investments. The fact that all participating countries are on the project board will provide useful peer group pressure to maintain these standards.

The purpose of LoCAL is to enable direct access to climate finance by LDCs for their local adaptation purposes. Therefore the more LDCs that join the more effective LoCAL becomes as a mechanism for local adaptation finance and for peer – to – peer learning about what type of adaptation works best in different ecosystems for example. Funding permitting, the project aims to cover all LDCs within its 5-year period and exit with all LDCs at Phase III and dedicated windows for local financing of adaptation and resilience established in national and global climate finance institutions. The table below demonstrates the approximate schedule for achieving this goal. As described above the LoCAL project will cover the costs of the PBCRG in Phase I, Co-finance Phase II and provide technical assistance to Phase III

A balance will be maintained between Pacific, Asian and African countries and the remaining Caribbean LDC (Haiti). Countries will be invited to join if they meet the eligibility criteria listed in table 3 below

Table 2: The phased rollout of the LoCAL programme

Country	2014	2015	2016	2017	2018
Bhutan	II	II	III	III	III
Cambodia	II	III	III	III	III
Benin	I	II	II	III	III
Bangladesh	I	II	II	III	III
Burundi		I	II	II	III
Mali	I	II	II	III	III
Mozambique	I	II	II	III	III
Lao PDR	I	II	II	III	III
Niger	I	II	II	III	III
Nepal	I	II	II	III	III
Solomon Islands	I	II	II	III	III
Ghana	I	II	II	III	III
Timor Leste		I	II	II	III
Sierra Leone		I	II	II	III
Uganda		I	II	II	III
Tanzania		I	II	II	III

The table illustrates which phase will be active for each year of the project in each targeted country. This is subject to change based on government request and other circumstances.

Table 3: Local Eligibility Criteria

Criterion	Description
1	Does the country have an ecosystem with significant and identified climate adaptation issues that can be addressed through rural local governments and small cities? If so, what proportion of the population lives in such areas and what are the poverty levels?
2	Is there a functioning inter-governmental fiscal transfer system in place that can be adapted to the LoCAL methodology? Does this system contain a minimum condition or performance grant mechanism with annual assessments?
3	Is there a national regulatory agency responsible for climate change related issues that can work with the ministry responsible for Local Government in implementing LoCAL? Is there a national level climate change policy?
4	Are there technical partners or programmes working at central and most importantly local level that can provide the capacity building support to the local governments participating in Phase I?
5	Is there a discreet set of local governments with the conditions to implement Phase I (clear climate challenge, committed local leadership – at least committed to giving it a try?) Is there sufficient capacity and/or capacity building partner in place to support Phase I? These are often those local governments that are already aware of climate change or facing clear CCA related issues that will enable LoCAL to prove concept.
6	What is the scope for scaling up to Phase II – either through greater fiscal resources from central government or through additional support from development partners? This can include the willingness of EU delegations and other development partners to link LoCAL to their on-going climate finance programmes and/or contribute to Phase II – either through budget support and technical assistance grant to the secretariat or through a larger grant to the secretariat if budget support is not appropriate for the particular country.
7	Private sector financing becomes relevant in Phase II. What is the scope for this in terms of local actors and wider sources of climate finance
8	Is there strong ownership from 'champions' within the ministries responsible for climate change and local government at central level?

2.3 Partnerships for Development Effectiveness and Efficiency

LoCAL will complement on-going CCA programs by enabling the local government response alongside central government agencies which are so far benefitting most from CCA development initiatives supporting the process of climate change mainstreaming. The project is designed to work in partnership and in a complementary fashion with other actors. It acts as the investment counterpart to other programmes that focus on policy at central level or on capacity building and awareness at the local level.

Country level partnerships and Phase II of LoCAL

During Phase II of LoCAL partnerships will be sought at the country level. Firstly, whilst the global project can provide the resources for Phase I that sets up the mechanism in one or two local governments, additional funding is required to complete the piloting of LoCAL in 5% to 10% of LDCs in Phase II. Secondly the global project is not able to provide the on the ground technical assistance and support to 5% - 10% of local governments in this phase. Therefore Phase II involves both funding and technical partnerships in each country. Some examples are detailed below.

Cambodia: LoCAL complements the EU funded Global Climate Change Alliance (GCCA) by enabling the local government response alongside central government agencies which are so far benefitting most from GCCA support in the area of climate change mainstreaming. In Cambodia, LoCAL works alongside existing GCCA support to the non-governmental sector. This local government approach to local adaptation alongside the non-governmental sector was able to find synergies and in some cases interlink the responses to climate change. These examples provided evidence for Swedish International Development Agency (SIDA) to co-fund LoCAL in Cambodia, again leveraging and maximising the effect of their own climate resilience programmes with non-state actors and also helping to ensure that the Swedish budget support to the Cambodian government (earmarked for local government fiscal transfers) is also well invested in climate resilient infrastructure.

Bhutan: LoCAL is complementary to the UNDP and UNEP Poverty and Environment Initiative (PEI), which provides policy support and capacity building for issues such as CCA, and is supported by a group of development partners. LoCAL acts as the investment component of the Bhutan PEI enabling the full use of the local capacity that has been built by PEI for mainstreaming environmental and poverty concerns into the planning process. The other part of the PEI project in Bhutan addresses policy at central level and LoCAL enables a downstream testing of some of the national policy reforms for climate adaptation in this very climate vulnerable country. It is planned to sign a Memorandum of Understanding with PEI that will replicate this partnership with other PEI programmes globally. This will mean that both LoCAL and PEI will seek out opportunities to complement each other. This is an example of "ONE UN" in practice whereby each agency contributes according to their mandate and respective area of competence: UNEP for environment, UNDP for governance and capacity building and UNCDF for fiscal decentralisation and local investments. This initial support in Bhutan led to a further scaling up to Phase III in 2013 when government applied budget support funds to the LoCAL system.

Ghana: In Ghana LoCAL will work with the government's development fund for the local governments known as the District Development Fund (DDF) financed by the government of Ghana together with KfW, Danida and the World Bank. Discussions have taken place and UNCDF will begin a Phase I testing of LoCAL in 2014. This investment of UNCDF seed capital is intended to demonstrate to both Government and the DDF partners that the PBCRG can seamlessly interact with the established DDF mechanism, itself a performance based grant system. The evidence will lead to an upscaling to Phase II (and then possibly Phase III) in which the DDF partners increase their DDF funding to the government of Ghana to include PBCRG and the LoCAL project provides the technical assistance and quality control for the annual assessments and also provides the access for Ghana local governments to the full LoCAL database of relevant climate resilient investments. In Ghana the local capacity building element of the programme will be provided by the technical assistance already attached to the DDF and by partners from the Environment Ministry, who themselves run local adaptation and awareness programmes, but so far do not include an investment component.

The examples above demonstrate how the LoCAL project is based on complementary actions. These form one of the considerations addressed during the scoping missions that aim to outline a rough roadmap for progress from Phase I to Phase III. The different examples above indicate how this can happen and LoCAL is unlikely to begin in a country that does not have a functioning local government grant system together with willing partners in central and local government. The Africa launch of LoCAL at a conference in Benin 2013 led to a number of countries expressing interest in LoCAL – in addition to Ghana and Benin – on the basis of these partnerships.

Yet perhaps the complementary action with the most effect will be that carried out by Central Governments themselves. LoCAL will enable local government adaptation to find a place within central government climate spending. This will be reflected in new ways of budget coding and of recognising local government's contribution to this national strategy resulting in the adoption of the LoCAL methodology by central government partners. It will also be reflected in new opportunities for private sector financing of local resilience and adaptation initiatives that emerge from the LoCAL process.

Climate change is, by nature, a cross-cutting issue, and one of the values of LoCAL is that it brings together different sectoral ministries and policies to focus on mainstreaming CCA at the local level, not just in policies, but in planning and budgeting as well. LoCAL facilitates a more efficient CCA mainstreaming and financing process, and provides the government platforms upon which to better coordinate the CCA financing available to the local level by utilizing its own fiscal transfer systems. Within the context, LoCAL also acknowledges that joint programmes are important to ensure a holistic and coordinated approach for climate change mainstreaming. Outputs 2 and 3 on policy, guidelines, institutional arrangements and capacity development will be undertaken in partnership with UNDP, UNEP and other partners as climate financing cannot be done in isolation from policy, advocacy and capacity development. Adaptation-specific activities do not yet have a long record of implementation and therefore a methodology for measuring its impact is still under development. As a way to cope with this challenge, partnerships with outside organizations build on strengths in designing monitoring tools of others and using the local development and finance expertise of UNCDF

Global partnerships and Phase III of LoCAL

The second area of partnerships is at the global level. The purpose of LoCAL is to enable developing country access to climate finance for local resilience building. This is fully achieved in Phase III either through a reorganisation of the existing architecture of public expenditure and intergovernmental fiscal transfers and / or through access to greater external resources to supplement these transfers. The LoCAL Secretariat will provide the verification, evaluation, monitoring and technical support to the participating countries to provide confidence to sources of climate finance that the LoCAL window will lead to effective and efficient resilience and leverage further private sector resilience building activities.

In order to achieve this, LoCAL will develop formal partnerships will be developed with the following four institutions:

World Resources Institute – a Washington based research institute that has developed a methodology for tracking and measuring adaptation and resilience.

KACCC – Korea Climate Adaptation Committee – A Seoul based scientific body, part of the Korean Environment Institute that has a track record in working on local government adaptation.

Overseas Development Institute – A United Kingdom institution that has contributed significantly to the Climate and Public Expenditure Institutional Review methodology.

Poverty and Environment Programme – A global partnership between UNDP and UNEP that will provide a basis for the roll out of LoCAL in many LDCs.

Discussions have already taken place with these bodies and the resulting written agreements on collaboration will be annexed to this document in due course. In all cases LoCAL will apply their knowledge and experience to ensure that its system of verification, and the country LoCAL initiatives, meet international standards for climate adaptation, resilience, public financial management and effective public and private investment.

3. PROGRAMME DESCRIPTION

3.1 OBJECTIVES

Development Goal – Promote climate change resilient communities and economies by increasing financing for and investment in Climate Change Adaptation (CCA) at the local level in least developed countries, thereby contributing to the achievement of the Millennium Development Goals (MDGs), particularly the specific goals of poverty reduction (MDG1) and environmental sustainability (MDG7).

Programme Outcome – Increased local government access to climate finance to implement CCA activities in target countries.

3.2 PROGRAMME OUTPUTS

Output 1 – CCA is mainstreamed into government's planning and budgeting systems

The LoCAL Programme will support local governments to mainstream CCA and resilience into regular decision making processes, development planning and resource allocation. This will demonstrate the effectiveness and efficiency of local government investment in CCA and resilience. This component of the LoCAL involves working directly with participating countries in the four step LoCAL process as defined below.

Firstly, define the investment menus and areas of action that are appropriate for local government intervention. This takes into account: a) the ecosystem, climate and resilience challenges faced at the local level; b) the appropriate response from local government given their mandate, capacity, financial absorption capacity of the local market, procurement system, and interfaces with other adaptation and resilience sections. It is important to note that the investment menu defines appropriate areas of action for which increased resilience can be measured; it does not define individual projects of public and private investment. For example dealing with the effects of a melting glacier could be one of the items on the investment menu. This step usually involves the use of secondary data and vulnerability studies may already exist, in addition to primary data collection if necessary.

Secondly, define the appropriate size of the PBCRG – they need to be large enough to have an impact, including leverage of private and public / private funding, but small enough to be fiscally sustainable and scalable. The step also involves designing the flow of funds and mechanism for PBCRG operation – the grants operate as an incremental top up to the existing system of inter-governmental transfers and follow the regular PEM cycle – the funds are therefore fully fungible with other resources available locally. The PBCRG represent earmarked, local budget support for climate change adaptation that is assessed on output and outcome and not separate managed or accounted for using parallel structures. National ministries are involved in regulating the system.

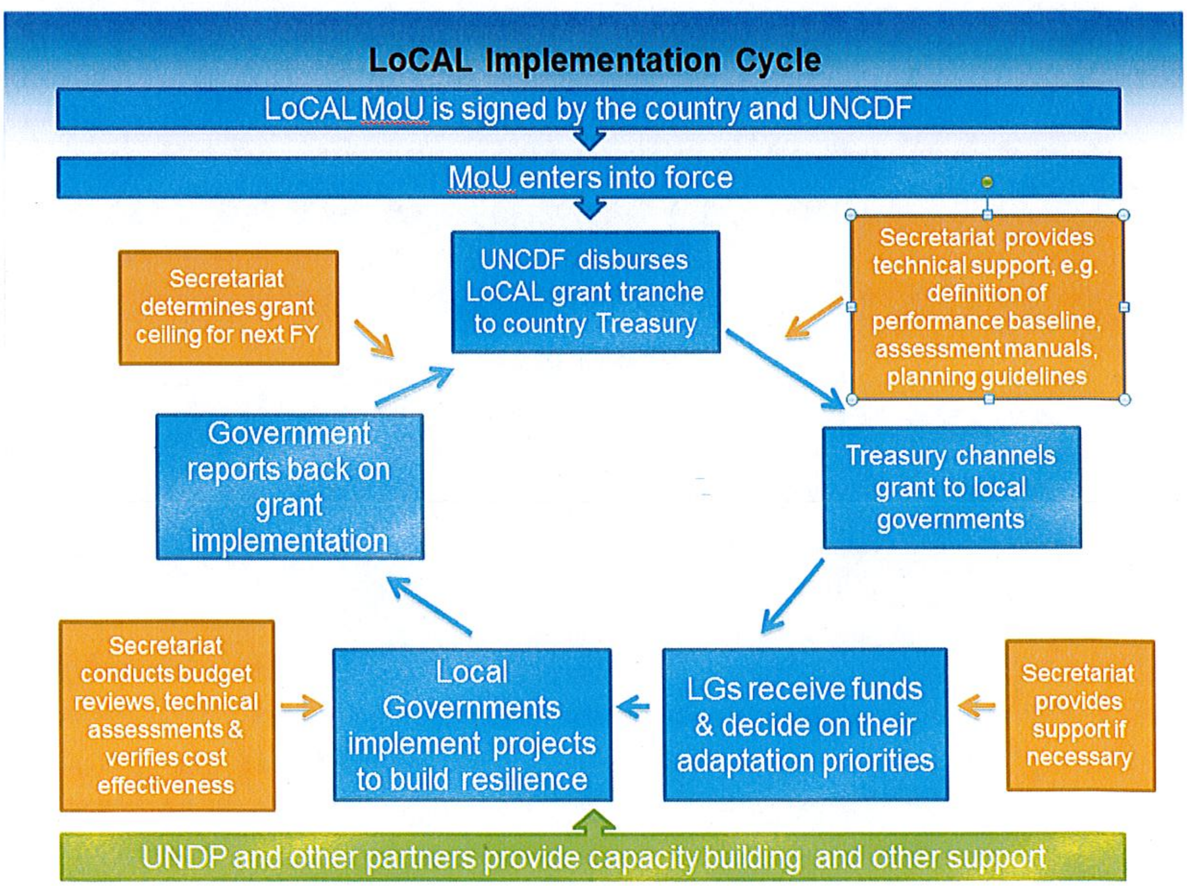
Thirdly, disburse the LoCAL PBCRG and operation of the annual planning and budgeting cycle together with the implementation of the LoCAL investments. The PBCRG investments are implemented through the public procurement process at local level, building on UNCDF's 20 year experience in capacity strengthening of local procurement systems and local investment planning. The investment menu may also include private or public / private initiatives that would be taken forwards with the technical support from UNCDF's Local Finance Initiative which is a facility for supporting and de-risking private and public / private projects to enable the unlocking of domestic capital for local development – in this case that contributes to building resilience to climate change in a measurable way. Often local governments work with partners that support the capacity building and planning necessary to mainstream adaptation into the decision making process. These local partners are different in each case but can include other projects and programmes that address adaptation, resilience and environmental issues. Identification of the partners is part of the scoping work that sets up LoCAL in a given country.

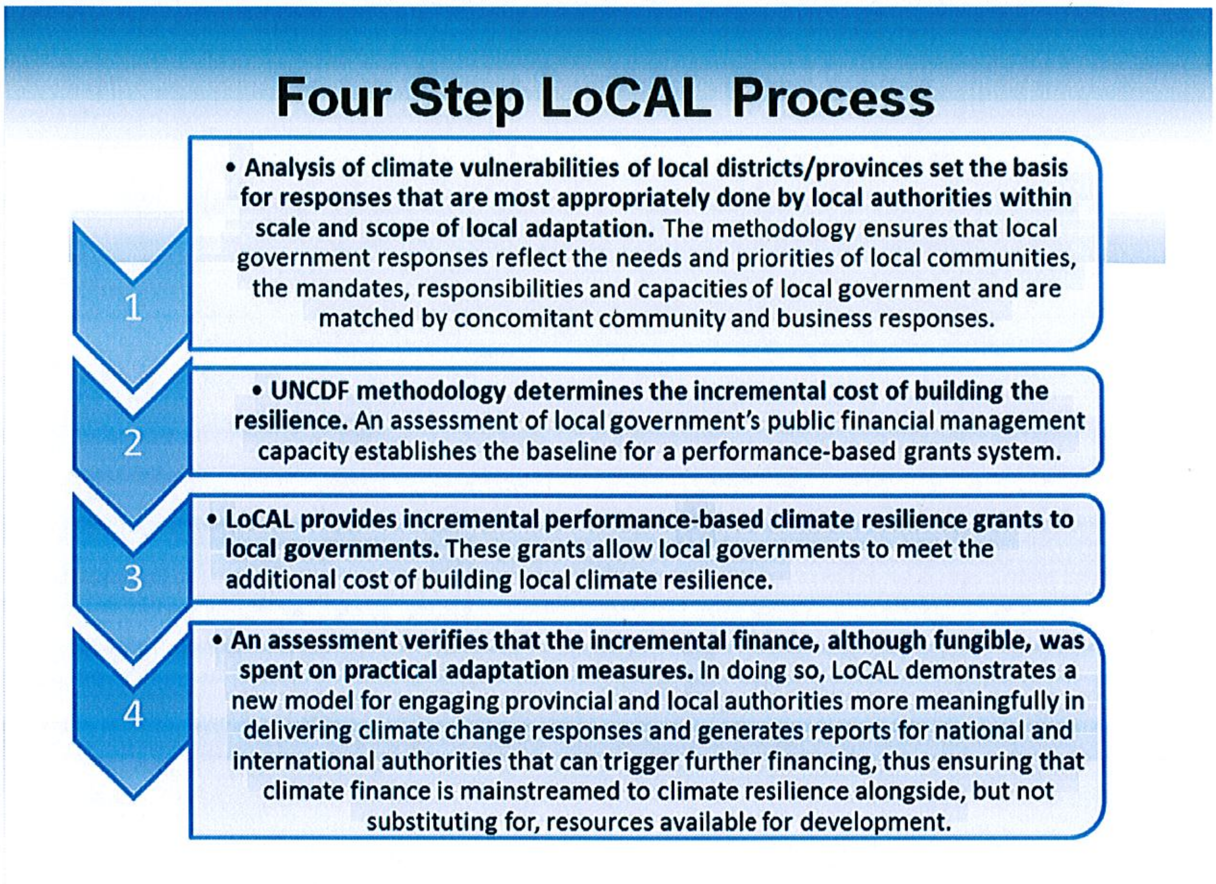
Finally, carry out the performance appraisal of the way that the local government has spent the PBCGR. To what degree have these additional resources been applied to build resilience and adapt to climate change. The benchmark for this measurement is the investment menu established in the first stage. The performance appraisal is designed to be an integral part of the annual assessment or audit of local governments. This already occurs in most countries that operate a performance based fiscal transfer system and LoCAL seamlessly blends in with this. High performing local governments remain in the LoCAL system. Those that have not demonstrated performance may not be eligible for further PBCRG. In some countries the assessment process also provides a guide for capacity building.

These country level activities will be carried out by central and local government partners on the basis of Memoranda of Understanding and other contractual agreements with the LoCAL Secretariat, based in UNCDF HQ and regional offices. The Secretariat will provide technical advice, in country staff if necessary and also seed capital or initial finance for PBCRG (in Phase I and Phase II) to prove concept and lay the ground for scaling up with governments own fiscal resources and other sources of climate finance. The national partners and the local governments will be responsible for the operation and management of the LoCAL programme in each country. This Output of LoCAL may be integrated into a wider climate adaptation or local government support programme – for example in Bhutan LoCAL is part of the PEI initiative or with the CCCA in Cambodia.

The stages of LoCAL implementation are reflected in the figure 2 below.

Figure 3: Illustrations of the LoCAL process





Output 2 – Increased awareness of and response to climate change at the local level

The second output of LoCAL is about aggregating and "bundling" the many individual CCA and resilience building actions that emerge from output one. These are grouped in different ways, by ecosystem, by country etc. The output includes the following elements:

Firstly, impact monitoring and evaluation of the portfolio will be performed. The LoCAL Secretariat will verify the annual assessment process in each partner country to ensure that it meets appropriate standards. The Secretariat will also carry out in depth monitoring, evaluation and case study reports of how the CCA actions financed or co-financed by the PBCRG are leading to verifiable and meaningful increases in resilience to climate change.

Secondly, aggregation, bundling and reporting on meaningful lessons and impacts. Based on the first element the Secretariat will build a database of the myriad of LoCAL supported climate resilient actions that enable reporting by country, by ecosystem, by adaptation challenge etc. This will be used to report to both participating countries and those financing local on how an investment in LoCAL "buys local resilience"

Thirdly, technical assistance and knowledge resources will be provided to participating countries and to a wider audience on the role of local governments in effective and efficient adaptation. This includes both provision of lessons learnt on specific local adaptation challenges to participating local governments and wider knowledge management on how the LoCAL programme provides a low overhead and effective way of producing local adaptation and resilience.

This Output will be carried out by the LoCAL Secretariat.

Output 3 – Increased amount of CCA finance available to local government and local economy

The LoCAL Programme aims to increase the amount of CCA-related finance available to local governments by continuously engaging with donors, national governments, local governments, and private sector on resource mobilization. This component will involve supporting national partners to identify potential sources of climate funds and working with donors to increase allocation of climate funds available and accessible to local governments and local economies. The activity will use the information from Output 2 and work with participating governments to increase the flows of climate finance through the LoCAL system. This includes working within participating countries on the distribution of their own fiscal resources and working with other sources of climate finance to enable LoCAL to become a window for LDC local government access to climate resources within these funds.

This output will be carried out by the LoCAL Secretariat and the LoCAL board, which includes representatives from the governments of each participating country.

The implementation of Outputs 1-3 necessitates the fourth output:

Output 4 - The project is effectively, efficiently and transparently implemented in line with UNCDF Project Management Guidelines

This output facilitates the work undertaken by the Secretariat to ensure that this complex, multi-country project is implemented in accordance with UNCDF rules and regulations, and that the results of monitoring, evaluation and audits are fed back into the planning process at both the global and country level. The Secretariat will be initially staffed to a modest level including a manager, Africa manager (given the large number of LDCs in Africa), a climate specialist and support staff. Further technical expertise will be secured through the partnerships of the Secretariat as described in the next section.

The Secretariat will also leverage other existing UNCDF programmes and resources. These include the various on-going projects in the LDCs that will be covered by the rollout and the continued support to Performance Based grants provided by the organisation. LoCAL will also link to two specific UNCDF supported initiatives.

Private sector financing of appropriate climate resilience investments: The LoCAL investment menu and local holistic response includes resilience building by the private sector in addition to the public investments. Indeed in many cases the objective is for the public investment to pave the way for private activities. For example there may be private initiatives on forms of agricultural production that are better suited to the changing climate in a locality – the public investment through the PBCRG can help de-risk this investment through improved transportation, communications, agricultural extension and irrigation / drainage systems. The Local Finance Initiative is a UNCDF programme that seeks to unlock the growing capital reserves of LDCs by providing opportunities for local banks and other institutions to re-invest in the local area. This is done through a mixture of support to project development, project finance or SME support to the project developer, and credit enhancement facilities to local banks. These actions and the catalytic investment of UNCDF then leverage further financial flows to the local level by further investment in the projects themselves and follow on investments in the local area stimulated by the LFI proof of concept. Through a systematic partnership the LFI team will engage with the LoCAL team to review and where relevant support those bankable private sector adaptation projects that emerge from the LoCAL process.

Link between resilience to climate change and food security: In many cases there is a link between climate changes adaptation and resilience on the one hand and food security on the other. In parts of Africa in particular, climate change together with other forms of man-made environmental degradation have created increasing insecurity in food supplies from local markets. The local food system is a concept that embraces the production, storage, processing, marketing and purchase of food within the local economy. In peri-urban areas the link to the rural hinterland has often been important in providing a safety net of affordable supplies. Climate change is breaking this link, and also creating a dependence on imported packaged food that is both less nutritious and reduces the potential for local value added production. In many localities the investment menu produced by the LoCAL methodology identifies food security issues as a part of building local resilience. These can include changing cropping patterns, increasing storage facilities or reinforcing drainage / irrigation systems. Public investments can leverage further private resources. LoCAL will partner directly with the existing UNCDF portfolio of food security projects – and both will create opportunities for finance through the Local Finance Initiative referenced above.

3.3 GENDER STRATEGY

LoCAL also highlights the results of numerous studies by many organisations, which note the disproportionate impact of climate change on women, the elderly and other vulnerable groups. LoCAL is by design a gender-sensitive approach to climate change adaptation as it is brings the planning and budgeting process for CCA closer to those who need it, and to those who are directly able to respond to those needs. Local CCA responses will be able to more appropriately and effectively respond to the needs of women and other vulnerable groups, particularly as they will have direct access to the identification of needs (through assessment and planning processes) and thus more information for budgeting in gender-sensitive budgeting processes will be available. LoCAL in particular, and UNCDF more generally, will be working closely with local counterparts to routinely and pro-actively collect information on the gender-sensitivity of the planning, budgeting and monitoring processes, as well as the implementation of CCA activities, and developing a monitoring mechanism which will ensure that participatory data collection approaches are used which facilitate and promote the participation of women and vulnerable groups. Where appropriate, connections may be made to UNCDF's programme on Inclusive and Equitable Local Development (IELD) which promotes women's economic empowerment.

3.4 STAKEHOLDERS, TARGET GROUPS AND ULTIMATE BENEFICIARIES

Local governments. CCA falls within the core mandate of local government, and they are well positioned to appropriately and effectively invest in CCA in the most vulnerable communities. The LoCAL methodology requires full "ownership" and participating local governments allocate a certain percentage of their local government budget as co-financing.

Local Private Sector. The LoCAL planning and financing methodology will produce opportunities for private investments that contribute to local resilience and can be measured according to international standards. UNCDFs Local Finance Initiative will contribute to securing finance for some of these projects and the local private sector are stakeholders in building resilient environments and economies.

National government. Governments are financially constrained from addressing CCA. Integrating the PBCRG into the existing inter-governmental financial transfer system will increase the capacity of both national and local governments to access CCA financing. The programme brings together those national partners responsible for climate and environment with those responsible for local government. Participating government sit on the board of LoCAL – providing full ownership and accountability.

UN Agencies (UNDP, UNEP) and international and local NGOs. Key stakeholders such as the GCCA, UNDP, UNEP and other international NGOs provide technical assistance to national and local government for mainstreaming CCA into their development planning, which complements the role of UNCDF/LoCAL in improving local CCA financing mechanisms and increasing access to CCA financing.

Communities. The focus on mainstreaming CCA into development planning puts a focus on communities participating in the development planning process and identifying to most important and relevant CCA investments required by them. LoCAL's focus on local governments enables a clearer focus on the interests and needs of communities in development planning and budgeting, particularly for vulnerable groups.

3.5 Sustainability of Results and Programme Replication

There are four ways that sustainability is addressed in the LoCAL programme:

Firstly, **institutional sustainability** is ensured through the selection criteria for the participation of countries and local governments and the scoping mission carried out as part of Phase I. LoCAL is blended in with national processes and institutions. The initial scoping mission ensures that these are broadly compatible and the Phase I operations are a process of troubleshooting and tweaking to ensure a smooth integration. This includes issues such as defining the appropriate budget code for the PBCRG, examining the level of detail required in the investment menu, identifying the sources of climate data and working out exactly how the national regulatory agencies for climate adaptation interact with the annual assessment process of Local Governments that is usually overseen by the ministry responsible for Local Government.

Secondly, **technical sustainability** is ensured through the LoCAL Secretariat that will act as a quality assurance and standards agency for the operation of the PBCRG and their assessments. This will include a dynamic database available to all local governments of the climate adaptation measures carried out by all other local governments using the LoCAL system and also those directly leveraged private sector measures. The Secretariat will advise on the assessment system to be used. The Secretariat will also carry out spot checks, compile reports and produce case studies and other educational material on local adaptation, linking to the wider adaptation network.

Thirdly, **financial sustainability** is ensured through the LoCAL modular design and partnership networks. The initial start-up phase requires a small investment to prove concept. The design of Phase II will include an exit strategy that leads to Phase III with clear benchmarks involved. In some cases it may be decided not to advance to Phase II without a clear roadmap for Phase III, which represents a national rollout through sustainable (and significant) access to global climate finance together with a re-ordering of the climate finance architecture in the relevant country to ensure a verifiable flow of climate adaptation resources to the local level. For example in Bangladesh the route to Phase III has been identified through local government access to a national trust fund for adaptation.

Fourthly, **political sustainability** is based on the local board. Countries that participate in LoCAL will be in a position to jointly lobby, both in UN forums and elsewhere, for sustainable finance for local adaptation. LoCAL and UNCDF are part of the ICLEI sustainable city network and other local government lobby groups involving both LDCs and non-LDCs. UNCDF has a Memorandum of Understanding with the United Cities and Local Governments organisation. A key goal will be to establish a local government window in the green fund that LoCAL participating countries can access, based on performance in applying the LoCAL methodology.

4. RESULTS AND RESOURCES FRAMEWORK

Programme Outcome – Increased local government access to climate finance to implement CCA activities in target countries.

Indicators:
% increase in local government and local economy for CCA activities
Proportion of CCA financing between local/national/international sources
Increase in number and type of sources of financing for CCA accessible to local governments
Increase in private financing for local adaptation and resilience

Baselines:
TBD (2014)
TBD (2014)
TBD (2014)

Targets:
60% increase over baseline
20/30/50 ratio for local government CCA budgets
TBD upon determination of baseline

INTENDED OUTPUTS	OUTPUT TARGETS FOR (YEARS)	ACTIVITY RESULTS	RESPONSIBLE PARTIES	INPUTS and BUDGET	
Output 1: CCA is mainstreamed into national and local government planning and budgeting systems in participating countries. Indicators: 1.1 Number of countries using PBCRG system 1.2 Number of local governments in participating countries using the PBCRG system as part of	Year 1: 1.1 Phase I LoCAL programmes designed and adopted in 24 LGs in 8 countries in Asia and Africa 1.2 16 LGs in 2 participating countries 1.3 30% of participating LGs 1.4 6 projects identified (3 each in Bhutan and Cambodia) 1.5 Not applicable	1.1 PBCRG system developed and adopted in new LoCAL participating countries 1.2 PBCRG grant system implemented in participating countries (including country PMU)	UNCDF National Government Local Government	Consultants Travel Workshops Communications Grants Miscellaneous GMS Sub-total	USD 978,700 USD 284,700 USD 173,000 USD 81.000 USD 22,020,000 USD 59,600 USD 1,653,000 USD 25,250,000

LoCAL programme 1.3 % of participating local governments which have integrated the PBCRG system into their PEM/Intergovernmental Fiscal Transfer System 1.4 Number of private and public / private adaptation and resilience projects identified under LoCAL project. 1.5 Number of projects under 1.4 linked to Local Finance Initiative. Baseline: 1.1 Two (Cambodia, Bhutan) 1.2 Cambodia: 8 (5%) districts Bhutan: 2 (10%) districts and 2 (1%) Gewogs villages 1.3 25% (Cambodia: 3/8 districts; Bhutan: 0) 1.4 No project is identified. 1.5 No project is identified.	Year 2: 1.1 Phase I LoCAL programmes designed and adopted in 6 LGs in an additional 2 countries in Asia and Africa 1.2 24 LGs in 8 participating countries 1.3 30% of participating LGs (Phase II) 1.4 TBD 1.5 TBD Year 3: 1.1 Phase I LoCAL programmes designed and adopted in 6 LGs in an additional 2 countries in Asia and Africa 1.2 30 LGs in 10 participating countries 1.3 45% of participating LGs 1.4 TBD 1.5 TBD Year 4: *1.1* Phase I LoCAL programmes designed and adopted in 6 LGs in an additional 2 countries in Asia and Africa *1.2* 36 LGs in 12 participating countries *1.3* 60% of participating LGs 1.4 TBD 1.5 TBD Year 5: *1.1* Phase I LoCAL programmes designed and adopted in 6 LGs in an additional 2 countries in	1.3 Scale-up of LoCAL implementation in participating countries (Phase II) 1.4 Private and public / private adaptation and resilience projects identified LoCAL programme – and linked to Local Finance Initiative 1.5 Private and public / private adaptation and resilience projects developed in collaboration with Local Finance Initiative			

	Asia and Africa *1.2* 42 LGs in 14 participating countries *1.3* 80% of participating LGs 1.4 TBD 1.5 TBD				
Output 2: Increased awareness of and response to climate change at the local level <u>Indicators:</u> 2.1 Timeliness of approval of LG development plans and budgets with CCA activities 2.2 % change in implementation of development plan CCA activities (% change in rate of budget dispersal) 2.3 # and type of sustainable awareness and advocacy tools developed and implemented by country, regionally and globally <u>Baseline:</u> 2.1 TBD 2014 2.2 Cambodia: 25% of budgets in target LGs and PBCR grants implemented; Bhutan: Awaiting report 2.3 TBD 2014	<u>Year 1:</u> 2.1 50% of the participating LGs approved their development plan and budget with CCA activities within Q1 of their fiscal year. 2.2 60% of budgeted CCA activities implemented in 70% of participating LGs. 2.3 LoCAL Forum established <u>Year 2:</u> 2.1 60% of participating LGs approve their development plan and budget with CCA activities within Q1 of their fiscal year. 2.2 70% of budgeted CCA activities implemented in 75% of participating LGs. 2.3 TBD <u>Year 3:</u> 2.1 70% of participating LGs approve their development plan and budget with CCA activities within Q1 of their fiscal year. 2.2 80% of budgeted CCA activities implemented in 80% of participating LGs. 2.3 TBD	2.1 Initiatives to increase awareness among central and LG (and international community) on the role and responsibility of LG in CCA are implemented 2.2 Initiatives to increase the capacity of LG to deliver CCA grants through PBCRG system 2.3 Data collection, analysis and knowledge product development to use for advocacy and awareness activities to increase the attention of the central governments and international community on the role of LG in CCA.	UNCDF UNDP PEI GEF UNEP UN-Habitat National Government Local Government	Consultants Travel Workshops Communications Miscellaneous GMS Sub-total	USD 2,152,000 USD 994,000 USD 1,586,000 USD 791,000 USD 84,000 USD 393,000 USD 6,000,000

	<u>Year 4:</u> 2.1 80% of participating LGs approve their development plan and budget with CCA activities within Q1 of their fiscal year. 2.2 90% of budgeted CCA activities implemented in 85% of participating LGs. 2.3 TBD <u>Year 5:</u> 2.1 60% of participating LGs approve their development plan and budget with CCA activities within Q1 of their fiscal year. 2.2 70% of budgeted CCA activities implemented in 75% of participating LGs. 2.3 TBD				
Output 3: Increased amount of finance available to local governments for CCA and resilience <u>Indicators:</u> 3.1Percent change in international CCA funds earmarked for LG use 3.2 Percent change in national government CCA funds earmarked for LG use in participating countries 3.3 Percent change in LG own revenue earmarked for CCA activities in participating countries 3.4 Percent change in climate	<u>Year 1</u> 3.1 No Change anticipated 3.2 No change anticipated 3.3 No change anticipated 3.4 No change anticipated <u>Year 2</u> 3.1 No change anticipated 3.2 National government CCA funds earmarked for LG in participating countries increased by 10% over baseline. 3.3 No change anticipated 3.4 No change anticipated <u>Year 3</u>	3.1 Activities to support donor coordination on CCA at the local level in participating countries 3.2 Support national partners to identify potential sources of climate funds and work with donors to increase allocation of climate funds available to LG and local private sector. 3.3 Support for LGs to increase own revenue and earmark it for CCA activities 3.4 The output will be achieved through the Activity Result	UNCDF UNDP PEI UNEP UN-Habitat National Government Local Government	Consultants Workshops Travel Communications Miscellaneous GMS Sub-total	USD 1,938,000 USD 528,000 USD 810,000 USD 417,000 USD 45,000 USD 262,000 USD 4,000,000

finance at the local level from the private sector Baselines: 3.1 TBD 2014 3.2 TBD 2014 3.3 TBD 2014 3.4 TBD 2014	3.1 5% increase 3.2 Global CCA CCA funds earmarked for LG in participating countries increase by 15% over baseline 3.3 15% increase 3.4 10% of climate finance at the local level funded by private sector. Year 4 3.1 10% increase 3.2National government CCA funds earmarked for LG in participating countries increase by 25% over baseline 3.3 20% increase 3.4 10% of climate finance at the local level funded by private sector. Year 5 3.1 15% increase 3.2 Local revenue funds earmarked for CCA LG in participating countries increase by 25% over baseline 3.3 25% increase 3.4 10% of climate finance at the local level funded by private sector.	1.4, Output 1			
To Ensure the implementation of outputs 1-3, a fourth output has been developed: **Output 4: The project is effectively, efficiently and transparently implemented in line with UNCDF project management**	Year 1-5 4.1 Project monitoring and reporting is undertaken in a timely fashion (quarterly, annually) 4.2 LoCAL Secretariat fully staffed and implementing the project in accordance with the Project	4.1 Project Management 4.2 Project Board Meetings 4.3 Evaluations and Audits	UNCDF	Staff Costs (International and National) Travel Communications Operations Consultants	USD 3,464,500 USD 150,000 USD 24,000 USD 145,700 USD 195,000

regulations Indicators: 4.1 Timely monitoring and reporting 4.2 Project management and oversight in place 4.3 Amount of resources mobilised on an annual basis 4.4 Implementation of evaluations and audits	Management Implementation Guidelines; the Project Board meets on a regular (annual) basis 4.3 Resource mobilisation is undertaken and donor coordination/relations maintained 4.4 Project is evaluated and audited at mid-term point and findings are fed back into the project planning process.			Workshops Publications Miscellaneous Evaluation GMS Sub-total	USD 97,000 USD 24,000 USD 38,000 USD 300,000 USD 311,800 USD 4,750,000
				Total Budget (5 Years)	**$40,000,00**

4.1 Annual Workplan (2014)

Expect Outputs	Planned Activities	Time Frame				Planned Budget		
		Q1	Q2	Q3	Q4	Institution responsible	Funding Source	Amount
Output 1: CCA is mainstreamed into national and local government planning and budgeting systems in participating countries. Indicators: 1.1 Number of countries using PBCRG system 1.2 Number of local governments in participating countries using the PBCRG system as part of LoCAL programme 1.3 % of participating local governments which have integrated the PBCRG system into their PEM/Intergovernmental Fiscal Transfer Systems 1.4 Number of private and public / private adaptation and resilience projects identified under LoCAL project. 1.5 Number of projects under 1.4 linked to Local Finance Initiative. Target 2014 1.1 Phase I LoCAL programmes designed and adopted in 24 LGs in 8 countries in Asia and Africa 1.2 16 LGs in 2 participating countries 1.3 30% of participating LGs 1.4 6 projects identified (3 each in Bhutan and Cambodia)	**Activity Result 1.1:** PBCRG system developed and adopted in new LoCAL participating countries					UNCDF National Government Local Governments	UNCDF SIDA EU/GCCA	USD 2,727,000
	Actions:							
	1.1.1 Local scoping mission undertaken in potential LoCAL countries	X	X					
	1.1.2 CCA vulnerability assessment in new countries implemented	X	X					
	1.1.3 CCA planning and budgeting guidelines designed in new countries	X	X					
	1.1.4 Manual on new conditions and performance measures for PBCRG system developed		X					
	1.1.5 Draft LoCAL MoU and LoA and implementing guidelines developed with new countries		X					
	Activity Result 1.2: PBCRG grant system implemented in participating countries (including country PMU)							
	Actions:							
	1.2.1: Country PMU established in new countries			X				
	1.2.2: PBCRG provided to new countries							
	1.2.3: PBCRG operational costs provided to new countries			X				
	1.2.4: PBCRG minimum conditions and performance assessment conducted in all participating countries							
	Activity Result 1.3: Scale-up of LoCAL							

1.5 Not applicable	implementation in participating countries (Phase II) **Actions:** 1.3.1: Scale up Concept Note developed and approved 1.3.2: PBCRG and operational costs dispersed to new LGs in participating countries	X XX	X	X	X			
	Activity Result 1.4 Private and public / private adaptation and resilience projects identified LoCAL programme – and linked to Local Finance Initiative **Actions:** 1.4.1 Identification of LoCAL projects for further scale-up by private investment 1.4.2 Collaboration with LFI to initiate a business plan of the identified projects		X	X X	X X			
Output 2: Increased awareness of and response to Climate Change at the local level. Indicators: 2.1 Timeliness of approval of LG development plans and budgets with CCA activities 2.2 % change in implementation of development plan CCA activities (% change in rate of budget dispersal) 2.3 # and type of sustainable awareness and advocacy tools developed and implemented by country, regionally and globally Target 2014: 2.1 50% of the participating LGs approved their development plan and budget with CCA activities within Q1 of their fiscal year.	**Activity Result 2.1:** Initiatives to increase awareness among central and LG (and international community) on the role and responsibility of LG in CCA are implemented **Actions:** 2.1.1: TA Support to improve the quality of LG CCA strategies and mainstream it into the LG Annual Plans.		X	X		UNCDF Other UN Agencies and International NGOs	UNCDF SIDA EC/GCCA	USD 373,000
	Activity Result 2.2: Initiatives to increase the capacity of LG to deliver CCA grants through PBCRG system **Actions:** 2.2.1: TA Support to improve the procurement process of the PBCRG project activities. 2.2.2: TA support to improve the monitoring and evaluation system of the PBCRG project by the LGs		X X	X X				
	Activity Result 2.3: Data collection, analysis and knowledge product development to use for advocacy and awareness activities to increase the attention of the central governments and							

2.2 60% of budgeted CCA activities implemented in 70% of participating LGs. 2.3 LoCAL Forum established	international community on the role of LG in CCA **Actions:** 2.3.1: LoCAL Forum established and functioning 2.3.2: Lessons documented and case studies on PBCRG implementation developed 2.3.3: Workshops, conferences and seminars at national and international level on CCA financing for LGs	X X X	X X X	X X X				
Output 3: Increased amount of finance available to local governments for CCA and resilience Indicators: 3.1 Percent change in international CCA funds earmarked for LG use 3.2 Percent change in national government CCA funds earmarked for LG use in participating countries 3.3 Percent change in LG own revenue earmarked for CCA activities in participating countries\\ 3.4 Percent change in climate finance at the local level for the private sector Target 2014: 3.1 (TBD) 3.2 No Change anticipated 3.3 No change anticipated 3.4 No change anticipated	**Activity Result 3.1:** Support for LGs to increase own revenue and earmark it for CCA activities **Actions:** 3.1.1: TA support to LGs to identify own revenue CCA resource opportunities		X	X		UNCDF Local Governments National Governments	UNCDF SIDA EU/GCCA	USD 250,000
	Activity Result 3.2: Support national partners to identify potential sources of climate funds and work with donors to increase allocation of climate funds available to LG. **Actions:** 3.2.1: TA support to national partners to identify CCA financing sources nationally and internationally and develop and resource mobilisation strategy 3.2.2: Support to national donor coordination mechanisms with data and analysis on CCA financing for LGS		X X	X X				
	Activity Result 3.3: Activities to support donor coordination on CCA at the local level in participating countries **Actions:** 3.3.1: TA support to LGs to lead donor coordination on CCA 3.3.2: Advocacy with international donors and funding mechanisms to prioritize LGs as a CCA actor		X X	X X				

	Activity Result 3.4: Percent change in LG own revenue earmarked for CCA activities in participating countries **Actions:** 3.4.1: TA support to LGs to establish donor coordination on CCA at local level.	X	X	X				
Output 4: The project is effectively, efficiently and transparently implemented in line with UNCDF project management regulations Indicators: 4.1 Timely monitoring and reporting 4.2 Project management and oversight in place 4.3 Amount of resources mobilised on an annual basis 4.4 Implementation of evaluations and audits Target 2014: 4.1 Project monitoring and reporting is undertaken in a timely fashion (quarterly, annually) 4.2 LoCAL Secretariat fully staffed and implementing the project in accordance with the Project Management Implementation Guidelines; the Project Board meets on a regular (annual) basis 4.3 Resource mobilisation is undertaken and donor coordination/relations maintained 4.4 N/A	**Activity Result 4.1**: Project Management **Activity Results 4.2**: Project Board Meetings	X X	X X	X X	X X	UNCDF	UNCDF SIDA EU/GCCA	USD 1,000,000
							TOTAL BUDGET YEAR 1 (2014)	**USD 4,350,000**

5. MONITORING, REPORTING, EVALUATION AND AUDIT

5.1 Monitoring and Reporting

The LoCAL Secretariat will be responsible for overseeing the monitoring of progress against the programme outputs/results. Monitoring will be done a country-by-country basis, with results collated at the global level. Monitoring officers will be engaged for each region, with the Secretariat playing a quality assurance function.

Each participating country will develop a results framework with outputs and activities, with corresponding indicators and targets, which link to the global RRF. Country reporting will be done against the country RRF, with quality assurance of the data collected (and reports produced) undertaken by the LoCAL Secretariat.

Monitoring of activities in each country will take place on a quarterly basis, with country-level progress report produced. These reports will contribute to quarterly global updates/reports. Monitoring at the global level will take place on a semi-annual basis, the data of which will combine country-level data to result in 6-monthly reports on the progress against global targets.

Monitoring officers will also be responsible for capturing lessons and good practices, preparing case studies and developing learning materials for distribution among participating local governments within and between regions, and between local governments experiencing similar climate change vulnerabilities.

5.2 Evaluation

Formally, UNCDF is party to UNDP's Evaluation Policy which sets out the guiding principles, norms and key concepts for evaluation in UNDP, UNCDF and UNV.[5] The policy in turn draws upon the Norms and Standards of the United Nations Evaluation Group - a professional network of some 46 UN evaluation offices - whose objective is to strengthen the objectivity, effectiveness and visibility of the evaluation function across the UN system and to advocate the importance of evaluation for learning, decision making and accountability.

Since 2010, UNCDF has been applying a common evaluation framework (SPIRE) for its project and programme evaluations. "SPIRE" stands for **Special Project Implementation Review Exercise** and has three purposes:

- To ensure UNCDF's compliance with the mandatory requirements specified in its evaluation policy agreed with its Executive Board;
- To yield credible, effective and independent assessments of results to donors, UNCDF and global audience;
- To connect country programme evaluations with UNCDF'S corporate strategy thereby enabling cross-country comparison and the tracking of progress towards global objectives.

In line with best practice elsewhere in the UN, the evaluation process is intended to be as participatory as possible with Practice Area colleagues, Development Partners and national counterparts being invited to participate in agreeing the specific focus of the evaluation and then – when relevant – participating as members of Advisory Groups once the evaluation has started.

[5] http://web.undp.org/evaluation/policy.htm

This is intended to build ownership of evaluation findings and improve the relevance, credibility and utility of the final evaluation report.

At the country level, the intended results agreed in the MOU between LoCAL and the national government will be externally evaluated after each phase of implementation.

At the global level, LoCAL plans for an evaluation in 2015 against the global outputs/results and intended outcome. The evaluations at country and global levels will align with OECD DAC criteria for evaluation effectiveness, and the findings will feed into the design of the next phase of activities and overall management of LoCAL. A final evaluation for LoCAL is tentatively scheduled for 2018.

The TORs for the evaluations at the country level will be developed in coordination with the national partners and approved by the Secretariat, while the TORs for the global evaluation will be developed by the Secretariat and approved by the project board.

5.3 Audit

The Project will be audited in line with the rules and regulations of UNDP/UNCDF at the global level, and country-based audits will align with UNDP/UNCDF and national audit regulations.

UNCDF will implement the following financial control processes:

- Periodic spot check reviews of the financial records. These will be conducted and documented on a routine basis, or when warranted due to concerns over the functioning of internal controls.
- Programmatic monitoring of activities supported by grants—following UNDP standards and guidance for site visits and field monitoring.
- Scheduled Audit: UNCDF projects are audited regularly and the audit findings are reported to the UNCDF Executive Board. The audit of projects provides UNCDF with assurance that resources are used to achieve the results described in the Project Document and that UNCDF resources are adequately safeguarded. As required by UNCDF guidelines, all project outputs will be subject to audit on expenditures made by the National Partner.

The scope of audit involves:

- *Compliance with policies, procedures, laws, and regulation of national partners.* The audit will examine the system established to ensure compliance with policies, procedures, laws, and regulations of participating countries that could have a significant impact on projects and report. The audit should determine whether the organization is in compliance.
- *Safe guarding of assets.* The auditor will examine means of safeguarding assets and as appropriate, verify the existence of such asset.

6. MANAGEMENT ARRANGEMENTS

LoCAL is implemented globally by a Secretariat lead by a Project Manager, and supported by regional project managers, technical staff and consultants as well as project associated and monitoring staff at the global level and in each region. The Secretariat reports to the Project Board, which is chaired by the UNCDF Director of Local Development Finance and comprised of representatives of the governments that have signed the LoCAL MoU and joined the programme.

LoCAL is implemented through MoUs with the participating governments, which detail the specific activities to be carried out in each country, and includes the financing of the PBCRG. Operational costs in each country are financed separately through LoAs with the participating government. The National Implementing Partner (designated ministry or agency) is responsible for the implementation of the MoUs and LoAs with UNCDF technical support, through a Project Management Unit set up within the ministry/agency.

The regional project manager oversees the implementation of MoUs and LoAs in each participating country, and reports to the LoCAL Project Manager. Currently the Project Manager is also ex-officio the regional project manager for Asia.

For each participating country the following management structure will apply – these arrangements are specified in the MoU between the Secretariat and each government.

- The participating country designates a representative to sit on the LoCAL project board.
- The Memorandum of Understanding (MoU) outlines the terms and conditions of the performance based climate resilient grant system including the preconditions for the transfer of the grant from the Secretariat or funding partner, the minimum conditions and performance measures for the transfer of resources to the local governments and all other relevant arrangements. The LoCAL MoU is the document that provides assurance that the participating country will apply the LoCAL conditions and methodology and therefore provides the confidence to international climate finance that funds transferred will lead to effective resilience. For the part of LoCAL the MoU is monitored and managed by the Secretariat, reporting to the project board. The PGCRG is transferred according to the terms of the MoU.
- The Letter of Agreement (LoA) is a separate document that outlines the management arrangements of LoCAL within the country concerned. These are not about the grant mechanism but about the way that government will organise itself to implement the mechanism. For example a unit may be set up that includes representatives from the relevant ministries (Environment, Local Government, Finance) and also perhaps representatives from relevant local governments. The participating country is responsible for hiring and management staff and other operational costs associated with LoCAL. However the Secretariat may also provide financial support for these operational costs. The terms of this financial support is outlined in the Letter of Agreement. For the part of LoCAL the LoA is monitored and managed by the Secretariat, reporting to the project board. The PBCRG is transferred according to the terms of the LoA.
- To summarise, the MoU deals with the transfer of capital support to government for PBCRG. These are usually large payments to the appropriate ministry destined for fiscal transfers to local government, these transfers are according to the rules and regulations of capital grants as specified in UNCDF's operational manual. The LoA deals with the transfer or operational support to one or more government agencies. These transfers require reporting according to standard UNDP and UNCDF procedures.

7. FINANCING ARRANGEMENTS

7.1 Implementation Modality

The choice of implementation modality assigns the policies and procedures to be followed when implementing UNCDF-supported programmes and projects. For the purpose of the LoCAL programme, UNCDF will follow the Direct Execution/Implementation (DEX/DIM) modality. This mode gives full responsibility to UNCDF for project implementation. UNCDF will programme the funds and manage the activities specified in the Resources and Result Framework (RRF) of each global programme document in line with its established rules and regulations. The administration of this programme shall be governed by UNCDF's policies, rules and regulations, as stated in the UNCDF's Operations Manual (OM). However, it will be critical that UNCDF ensure full integration of all processes into both government and private sector processes.

Funds will be transferred to participating governments under the MoU and LoA arrangements mentioned the section on Management above.

The programme will conform to the Standard Basic Assistance Agreement (SBAA) between the host governments and participating UN organizations. The host country implementing agencies shall, for the purpose of the SBAA, refer to the government co-operating agency described in the agreement. In countries that have not yet signed an SBAA with UNCDF, the UNDP SBAA shall apply.

UNCDF will act as the executing agency for the funds received for this programme while also acting as the implementing agency for the activities as specified in the RRF. The administration of this programme shall be governed by UNCDF's rules and procedures.

UNCDF will obtain a minimum of three LDC government signatures to this programme document to ensure government buy-in for the programme, and to facilitate the project's ability to encourage policy changes in favor of women's economic empowerment.

7.2. Fund Management Arrangements

The LoCAL programme can be financed through partnerships with bilateral donor agencies, multilateral organizations (multilateral banks and UN agencies) as well as private foundations, using a range of fund management options:

Parallel Funding Modality: The fund management modality will be parallel, which means a standard cost-sharing agreement will be signed by the donor and the participating organization(s).

Pooled Fund Management: Participating UN organizations pool funds together to one UN organization, called the Managing Agent (MA), chosen jointly by the participating UN organizations in consultation with the (sub-) national partner. The MA will support the (sub-) national partner in managing the programme. This option is likely to be the most effective and efficient approach when participating UN organizations work for common results with a common national or (sub-) national partner (such as departments or provincial offices) and/or in a common geographical area.

Pass-Through Modality: Joint programmes are multi-agency funding mechanisms designed to receive contributions from more than one contributor that are held in trust by the appointed

Administrative Agent. Partner resources are co-mingled to fund programmes and projects implemented by participating UN organizations

If in the future other UN agencies choose to participate in this programme, the funding modality can remain parallel or become pooled (with UNCDF as the managing agent), pass-through or a combination thereof. The decision to select one or a combination of fund management options for a joint programme should be based on how to achieve the most effective, efficient and timely implementation, and to reduce transaction costs for national partners, donors and UN agencies.

Programmatic and financial accountability rests with the participating UN organizations and (sub-) national partners that are managing their respective components of the global programme, or allocation from a Medium Term Development Framework. UNCDF will programme the funds and manage its activities specified in the RRF and the common workplan agreed by participating organizations, in line with its established rules and regulations. The administration of this programme shall be governed by UNCDF's policies, rules and regulations, as defined in the UNCDF OM.

7.3. Implementation through Partnerships

LoCAL will be coordinated with partner countries and other donor countries on three levels. Firstly the participating countries of LoCAL are represented on the Project Board. Meetings will be regularly held between high-level representatives of ministries responsible for Environment and Local Government from all the countries. There will also be a LoCAL grouping at the UN and other international climate forums.

LoCAL will seek to "plug in" to existing programmes in partner countries, particularly those financed by the EU or member states. This is evidenced by the two pilots in Bhutan and Cambodia. In Bhutan, LoCAL is connected with Swiss and EU funding via the Local Government Support Programme (LGSP), in which LoCAL forms one component. The pilot phase was carried out under LGSP I, and the scale up of LoCAL will begin under LGSP II. LoCAL as a component of LGSP ensures that capacity building initiatives are coordinated with other partners participating in the programme, and that the results of LoCAL contribute directly to the national government's development plan, contributing to aid effectiveness in Bhutan and in line with UNCDF's commitment to the Paris Declaration.

In Cambodia the LoCAL pilot activities were financed by the National Committee on Decentralisation and Development, funded by the GCCA under the Cambodian Climate Change Adaptation Trust fund (CCCATF). Financing via the NCDD ensured that LoCAL's activities were coordinated at both national and local government levels with other CCA initiatives.

Similarly in the start-up countries LoCAL seeks to leverage the budget support to national governments for decentralisation already provided by partners such as KfW in Ghana and Benin. LoCAL will ensure that these resources are fully utilised for development purposes at the local level and not diverted or diluted by climate change resilience issues. LoCAL's role is to empower local governments to take on the coordination of CCA initiatives using local planning and resource allocation processes as the coordination platform.

8. LEGAL CONTEXT

The programme will conform to the Standard Basic Assistance Agreement (SBAA) between the host governments and UNCDF. The host-country implementing agencies shall, for the purpose of the SBAA refer to the Government co-operating agency described in the Agreement. In countries that have not yet signed an SBAA with UNCDF, the UNDP SBAA shall apply.

UNCDF will act as the executing agency for the funds received for this programme while also acting as the implementing agency for the activities as specified in the RRF. The administration of this programme shall be governed by UNCDF's rules and procedures.

UNCDF will obtain a minimum of three LDC government signatures to this programme document to ensure government buy-in for the programme, and to facilitate the programme's ability to encourage policy reform.

9. ANNEXES

Annex 1: Risks and mitigation measures

Annex 2: Example of LoCAL scoping mission report

Annex 3: Example of design of LoCAL Phase I project demonstrating links with PEI

Annex 4: Example of LoCAL Memorandum of Understanding (MoU)

Annex 5: Example of LoCAL Letter of Agreement (LoA) - Bhutan

Annex 6: Presentation at LoCAL Africa Summit, Benin 2013

Annex 7: Congress Summary at the First World Congress on Cities and Adaptation to Climate Change (ICLEI), Germany 2010

Annex 8: Example of Climate and Public Expenditure review

Annex 9: LoCAL Bhutan pilot assessment report

Annex 10: TOR L0CAL Project Board