

Project Document:
Local Climate Adaptive Living Facility (LoCAL) – Phase I

Brief Description:

LoCAL is the UN Capital Development Fund's facility for investment in local level climate resilience. The facility channels global adaptation finance to local governments – who by virtue of their mandates are at the frontline of dealing with the effects of climate change – and enables them to invest in building local resilience. The method for doing so is innovative: the LoCAL Facility connects to existing national intergovernmental fiscal transfer systems and supplements transfers to local governments with performance-based climate resilience grants (PBCRGs). LoCAL thus provides a fast and effective means to channel adaptation finance to where it is most needed, while at the same time ensuring ownership, accountability and results.

Development Objective: The project aims to increase financing for and investment in climate resilience 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).

Intended Outcome: This project aims to increase investment in local climate resilience measures in a minimum of 3 countries in the Asia-Pacific Region, while also laying the foundation for the global rollout of UNCDF's LoCAL approach in other LDCs in Africa and Asia in a second phase of the project. More specifically, the project will deliver the following outputs:

- (1) Test the LoCAL approach in four local governments in Bhutan and potentially in one other country (e.g. Cambodia);
- (2) Test the validity of LoCAL as a component of AF-financed climate change adaptation programme in the Solomon Islands;
- (3) Document and distill knowledge from these pilots to refine the LoCAL methodology;
- (4) Lay the ground for a second phase of the project, which rolls out the methodology in Africa and Asia.
- (5) Conduct effective project management.

Programme Duration: 2 Years

Start date: July 2011

End date: July 2013

Management Arrangements: DIM

PAC Meeting date: 5 May 2011

Atlas ID:

Project ID:

Total estimated budget*:

Total budget	USD	4,800,000
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UNCDF	USD	700,000
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CCCA Trust Fund	USD	250,000
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Adaptation Fund	USD	550,000
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Total Funded	USD	1,500,000
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Unfunded	USD	3,300,000
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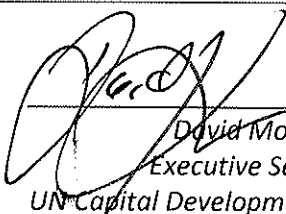
* Total estimated budget includes both programme costs and indirect support costs

Out of which:

1. Funded:	USD 1,500,000
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2. Unfunded:	USD 3,300,000
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Signature:


David Morrison
Executive Secretary
UN Capital Development Fund (UNCDF)

Date & Seal:

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Acronyms

ACCCRN	Asian Cities Climate Change Resilience Network
AF	Adaptation Fund
CC	Climate Change
GEF	Global Environment Facility
GHG	Green House Gas
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
LGSP	Local Governance Support Programme
LoCAL	Local Climate Adaptive Living Facility
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
NAPA	National Adaptation Programme of Action
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-Operation and Development
PBGS	Performance-Based Grant System
PBCRG	Performance-Based Climate Resilience Grant
PEM	Public Expenditure Management
PFM	Public Finance Management
UN	United Nations
UNDP	United Nations Development Programme
UNCDF	United Nations Capital Development Fund
UNFCCC	United Nations Framework Convention on Climate Change
UNISDR	United Nations International Strategy for Disaster Reduction
USD	United States Dollars

1. Executive Summary

Climate change is happening. Vulnerability to changing climate is unequally distributed and heavily concentrated in Least Developed Countries (LDCs). Not only are people in LDCs more vulnerable to adverse impacts, but poor households are also constrained in their ability to manage climate risk and cope with shocks. Despite existing global financial arrangements for adaptation finance and pledges by the international community, progress on tangible adaptation measures in LDCs remains slow. The challenge this programme seeks to address is how to **accelerate the flow of resources to LDCs for climate resilience by engaging the subnational level** more meaningfully in adaptation activities.

The LoCAL facility channels global adaptation finance to local governments – who by virtue of their mandates are at the frontline of dealing with the effects of climate change – and enables them to invest in building local resilience. The method for doing so is innovative: the LoCAL Facility connects to existing national intergovernmental fiscal transfer systems and supplements transfers to local governments with **Performance-Based Climate Resilience Grants (PBCRGs)**. LoCAL thus provides a fast and effective means to channel adaptation finance to where it is most needed, while at the same time ensuring ownership, accountability and results.

Under LoCAL, communities and their local governments determine jointly what their most pressing climate adaptation needs are based on their likely future climate scenario. The LoCAL facility is accessed by government signing a **Memorandum of Understanding**, which regulates the facility and ensures full national ownership. What is important about the resilience grants is that they build on **national systems** and provide an incentive for local governments to mainstream climate change concerns into the regular planning cycle. After the budget cycle is completed, an assessment by the LoCAL Secretariat verifies that the funds were indeed spent on building local resilience, assessing impacts and results. Finally, the resilience grants are performance-based, incentivizing local governments to continuously work on delivering better services.

The **LoCAL facility is specifically designed to work with – and complement – the climate adaptation programmes of other governments and donor partners**. For example, the LoCAL component in the Solomon Islands will be part of a larger project by the Ministry of Environment, funded by the Global Environment Facility (GEF). This component will build on UNCDF's National Provincial Governance Strengthening Programme and provide Provincial Governments with the capital and systems to proactively help communities manage climate change-driven pressures on food security and livelihoods.

LoCAL's *intended development outcome* is to increase financing for and investment in climate resilience 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). The intended outcome of the programme is to increase investment in local-level climate resilience measures in a minimum of 3 countries in the Asia-Pacific Region.

LoCAL will be piloted in a minimum of three countries in the Asia-Pacific Region and project implementation will take two years. The estimated budget is USD 6.4 million. It is expected that a second phase will be larger in scope and cover more countries in Africa and Asia.

2. Situation Analysis

Climate change is happening. Evidence of the increase in global average temperatures due to a rise in anthropogenic greenhouse gas (GHG) concentrations abounds. Even if the international community manages to aggressively cut GHG emissions, climate change impacts will continue to be felt for many decades to come, creating an urgent need for building resilience to reduce vulnerability and avoid irreversible damage to people, their livelihoods and ecosystems. Adaptation and resilience entail reducing vulnerability to new climate patterns by appropriately altering behavior and modifying assets that had been based on previous climate patterns.

As UNDP's Human Development Report *Fighting Climate Change* argues, vulnerability to climate change is unequally distributed and heavily concentrated in poor countries. Over 98 percent of people affected by climate disasters between 2000 and 2004 were in the developing world (UNDP, 2008). Adaptation needs are especially urgent in least developed countries (LDCs), where a disproportionate number of people live in vulnerable areas. Changing weather patterns affect people in different ways. Some of the key transmission mechanisms include a loss in agricultural production and food security, water stress and insecurity, rising sea levels and exposure to climate disasters, changes to ecosystems and loss of biodiversity, and human health risks.

Not only are people in LDCs more vulnerable to adverse impacts, but poor households are also constrained in their ability to manage climate risk and cope with shocks. Often, poor peoples' strategies for coping with climate risks reinforce their deprivation, e.g. when producers forgo the production of higher value crops because they are less draught resistant, or when poor households are forced to sell productive assets to cope with a climate shock (UNDP, 2008). Over time, these coping mechanisms can create life-long cycles of disadvantage, locking vulnerable households in low human development traps.

Box 1. Water stress and food security in the Asia-Pacific Region

Water stress and water insecurity due to changed run-off patterns and glacial melt will have a tremendous impact on countries in Asia. The retreat of the glaciers at a rate of 10-15 meters per year in the Himalayas will increase water flows in seven of Asia's great river systems. After short-term increases in flows, they will decline as the glaciers melt. Similarly, rising sea levels due to ice sheet disintegration pose great threats for people living in coastal areas. It is estimated that over 70 million people in Bangladesh and 22 million people in Vietnam could be affected. Small island states could cease to exist.

(Source: UNDP Human Development Report 2007/08, IPCC and IFPRI).

Recognizing this, Article 4.9 of the Kyoto Protocol provides specific assistance for the LDCs, providing financing through a Least Developed Countries Fund (LDCF) established under the Global Environment Facility (GEF). To date, 44 of the 48 LDCs have submitted their National Adaptation Programs of Action (NAPA) to the United Nations Framework Convention on Climate Change (UNFCCC), comprising 474 projects with a total estimated value of US\$ 1 billion. The UNFCCC estimates that the costs of adaptation range from USD 800 million to 1.7 billion. While these costs are significant, in most cases proactive preventive measures are effective when compared to the even higher cost of inaction. It is estimated that every dollar invested in pre-disaster risk management in developing countries can prevent losses of seven dollars.

However, despite existing global financial arrangements for adaptation finance and pledges by the international community of close to USD 2 billion for adaptation and mitigation measures, progress on tangible adaptation measures in LDCs remains slow. The consequences of slow progress on adaptation and resilience building are severe and run the gamut of hydro-meteorological disasters from floods, draughts and wildfires to landslides. The medium to long-term poverty impacts of poor resilience or inadequate

adaptation include loss of health and human capital, reduced food security, reduced physical assets and livelihoods. The challenge thus is to accelerate the flow of resources to LDCs for climate change adaptation and resilience building whilst ensuring that these are well spent.

Engaging the subnational level of government to build resilience

To date, the subnational level of government is often insufficiently systematically engaged in building climate resilience. One way of accelerating the speed of implementation for climate change adaptation in LDCs is to engage the subnational level more meaningfully. Existing funding for climate change adaptation remains mostly in large-scale national projects and institutions, bypassing local communities and their institutions. The main tool for financing adaptation in LDCs is the NAPAs, which are usually led by the Ministries of Environment. As the OECD Guidance Note for integrating climate change into development cooperation summarizes, the local level is important for mainstreaming climate change for three reasons: first, climate change impacts are manifested locally; second, vulnerability and adaptive capacity are determined by local conditions; and third, adaptation activities are often best observed at the local level (OECD, 2009).

Thus, effective adaptation in LDCs will require building the resilience and adaptive capacity of the *local* level, ranging from local interventions for “climate proofing” such as stronger dams and more effective drainage, to better disaster management capacity such as revised evacuation plans and more emergency shelters. In fact, evidence from developed countries suggests that local responses to natural disasters tend to be more effective than central ones (Heritage Foundation, 2008). Many larger local governments, such as Mexico City, are already effectively engaged in adaptation activities, and lobbying for access to multilateral resources available for adaptation.

Not only are local-level institutions best placed to identify local adaptation needs and priorities, but local responses can create opportunities for innovative public-private partnerships, increasing the amount of resources dedicated to adaptation. Climate change adaptation requires coordinating various stakeholders with different mandates and interests – defying easy categorization into ministerial boxes. Thus, increasing effective expenditure on adaptation and mitigation does not necessarily require the creation of new institutions and functions; rather, it requires that existing institutions begin taking climate issues into account in their everyday decisions, e.g. with regards to natural resource management or land use planning.

The LoCAL facility is designed to overcome some of the bottlenecks in financing the building of local-level climate resilience LDCs by providing local governments with access to climate finance in an appropriate and relevant form. LoCAL will provide seed capital to local governments to cover the cost building climate resilience that will “crowd in” additional public and private funding and contribute to greater resilience in poorer local government jurisdictions. For more details on the collaborative design of LoCAL, see Box 2 below.

Box 2. The collaborative design of LoCAL

The LoCAL facility has been developed through an 18 month engagement with the policy debates and practical work around resilience, climate change and local government. The design process began with the UNCDF, UNDP and UNEP conference on Local Government's role in Environment, Natural Resource Management and Climate Change, 5-6 October 2009, Bangkok, Thailand, during which local governments and relevant central government ministries presented their experiences in local adaptation and mitigation. A paper entitled “Local Government and Climate Change: A Discussion Note” was produced following this conference. The analysis, including considerations on financial mechanisms, continued leading up to a UNCDF presentation on Innovations in Local Government Finance made at the 5th World Urban Forum held in Rio de Janeiro, Brazil, in March 2010. The presentation at the conference included a review of the Minimum Conditions and 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 and other national programmes on the one hand and on developing normative tools for vulnerability assessments on the other.

In June 2010 UNCDF participated in [Resilient Cities 2010, The First World Congress on Cities and Adaptation to Climate Change](#) in Bonn, Germany. The detailed experience presented by local governments to this congress showcased an 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](#) emphasizes this issue, which was again highlighted at the [Asia Pacific Adaptation Forum in October 2010](#). The analysis was completed with a detailed review of the NAPA portfolios and the process of compiling and financing them.

During 2011 UNCDF was represented at a round table on Financing Climate Adaptation at the [Global Energy Basel](#) conference organized by the C40 organization of the world's leading cities and financed by the Clinton Foundation. Here LoCAL was discussed alongside the City of New York's climate adaptation financing concerns.

On a broader level, UNCDF contributed a background paper on "[Effective Financial Mechanisms at the national and local level for Disaster Risk Reduction](#)" for the midterm review of the UNISDR Hyogo Framework for Action in January 2011. This paper describes the technical challenges of resilience financing within public expenditure management systems and outlines responses. Finally, the LoCAL Bhutan pilot will be showcased in Bonn (June 2011) at the [Second Resilient Cities Congress](#) alongside other climate adaptation financing systems.

3. Programme Strategy

Background

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives. UNCDF programmes are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the MDGs.

UNCDF's Local Development Practice area has more than three decades of experience building the capacity of local governments to plan, budget, implement and monitor local development activities by providing grant-funded investment capital. More recently, UNCDF has gained experience by incorporating a specific gender lens into some of its programmes in Africa, as well as successfully piloting performance-based grants for the local level. The proposed LoCAL Programme builds on this experience.

The proposed Programme

The first phase of the project will be implemented over 2 years starting in July 2011 and will pilot the LoCAL methodology in Bhutan and 1-3 other countries in Asia. The purpose of the first phase is to build the necessary partnerships to roll out the LoCAL facility in other countries in a second phase – with a focus on Africa and Asia. Therefore the **objectives of the first phase** are to:

(1) Test the LoCAL approach with local governments in Bhutan and one other country (e.g. Cambodia);

- (2) Test the validity of LoCAL as a component of AF- financed Climate Change programme in the Solomon Islands;
- (3) Document and distill knowledge from these pilots to refine the LoCAL methodology;
- (4) Lay the ground for a second phase of the project, which rolls out the methodology in Africa and Asia.

Expected Results

In terms of results, this first phase of implementation is expected to yield a verified methodology for the implementation of **performance-based climate resilience grants** (PBCRGs) as part of local government financial systems. This will include a catalogue of climate adaptation and resilience related performance measures, as well as a monitoring system to track the flow of funds and expenditure at the national and local levels according to a set of performance indicators linked to: (1) overall financial management of the local governments and (2) climate change adaptation measures planning and implementation. The pilots will fine-tune the methodology to determine the size of the PBCRGs based on the locality's vulnerabilities, and the local governments' mandates and absorptive capacity. The core funding channeled into the project during the first year is planned to achieve the practical results in climate change adaptation at pilot local government units by the end of the fiscal year 2011/2012. The first phase assessments of results corresponding with first fiscal year of project implementation will follow PBCRG methodology and will represent a platform for generating additional donor funds necessary for second phase of the project. In that respect and due to the fact that donors are very keen on supporting those project opportunities that provide clear feedback on specific impacts achieved through received funding allocations, development of a project specific assessment tool under knowledge management component is considered as one of the key results. Overall, the project will generate data to allow for comparisons of cost-effectiveness of climate adaptation-related expenditure across different sectors and settings, while also demonstrating that engaging the local level can add value and enhance the effectiveness of adaptation policies. The overall management of LoCAL will be done by the LoCAL Secretariat, which will oversee project implementation and coordination as well as conducting country assessments.

This first phase also aims to build strong partnerships with stakeholders in the climate finance community and advocate for a more meaningful engagement of local and provincial levels of government in building climate resilience. To this end, it includes testing of LoCAL components within AF-funded UNDP project in the Solomon Islands. Furthermore, UNCDF is already engaged with a number of advocacy fora, including *ICLEI – Local Governments for Sustainability*, an international association of over 1220 local governments engaged in climate adaptation work and with the Rockefeller Foundation's *Asian Cities Climate Change Resilience Network* (ACCCRN). Within these networks, LoCAL will contribute by advocating for and representing smaller towns and rural local governments in Less Developed Countries. Finally, the aim is for LoCAL to become a universally applicable methodology and a global public good, similar to other UN system contributions such as the Economic Commission for Latin America's *Post Disaster Recovery Needs Assessment* (PDNA).

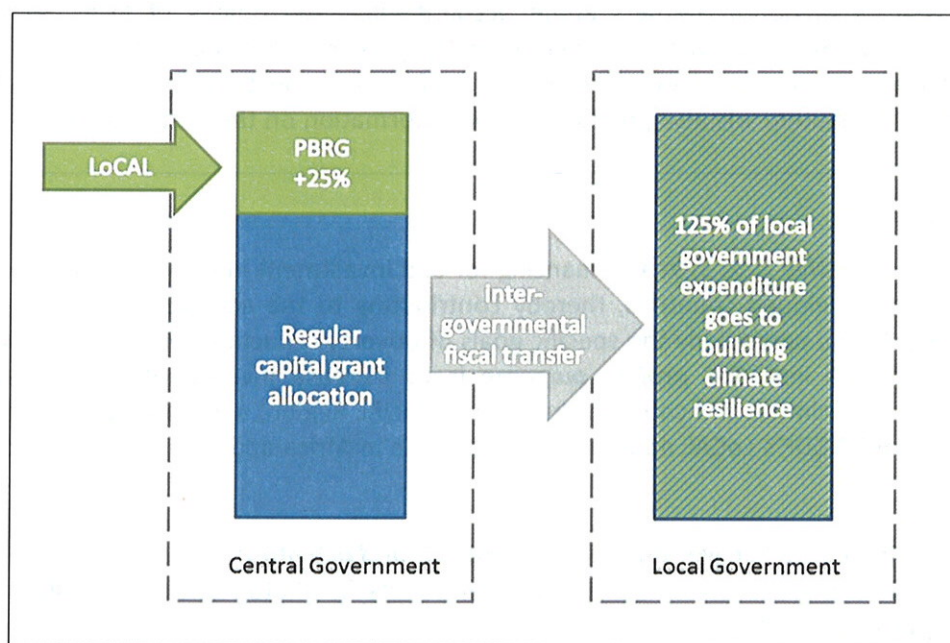
The second phase of LoCAL is expected to launch at the end of 2012 and will seek to establish the facility in several countries in Africa and Asia including Bangladesh, Laos, Mali and Uganda. A larger resource envelope is planned and in addition to being wider in geographic scope, this second phase will also finance a broader range of thematic interventions related to climate resilience, depending on what the vulnerabilities in the specific countries are. In Africa indications are that PBCRGs will finance investments that address food security, whereas in Bangladesh and Laos investments may be more likely to focus on water management issues. Disaster risk reduction appears as a climate change related priority in some places.

The LoCAL Methodology

Under LoCAL, communities and their local governments will determine jointly what their most pressing climate adaptation needs are, based on an understanding of the likely climate scenarios and risks¹. The PBCRGs can, for instance, be spent on 'climate proofing' existing infrastructure, such as raising the level of a bridge which is subject to floods, or equipping an existing road with better drainage pipes alongside it. Depending on the local circumstances, the PBCRGs can also be used for investments that promote food security – such as water catchment systems that help farmers manage droughts – or investments for climate-related disaster risk reduction and preparedness.

What is important about the PBCRGs is that they build on national systems and provide an incentive for local governments and communities to integrate climate change concerns into the regular planning cycle. LoCAL is thereby complementary to national level climate resilience actions, which typically aim at larger scale projects of regional rather than local character and scale. The LoCAL grants are disbursed as part of a local government's regular budget envelope and can thus finance the 'adaptation' element of larger projects, allowing for holistic responses to climate change challenges. This is illustrated in Figure 1 below. After the budget cycle is completed, an assessment by the LoCAL Secretariat verifies that the funds were indeed spent on building local resilience.

Figure 1. Performance-Based Climate Resilience Grants (PBCRGs)



The performance-based nature of the LoCAL grants rewards those local governments, which spent the funds on effective adaptation measures. A system of performance measures allows for the monitoring and tracking of expenditure at the national level. This system generates data for policy-makers on the cost of climate adaptation measures at the local level and provides an effective channel for global adaptation resources to be spent locally. No funds from this programme will be used to fund financial services or credit activities without the prior approval of UNCDF's Inclusive Finance Practice Area's Investment committee at headquarters. Funding financial services is not an appropriate role for Local Authorities.

¹ This analysis of climate scenarios and risks would include state of the art screening methodologies such as ORCHID (Opportunities and Risks for Climate Change and Disasters) developed by DFID and IDS.

Box 3. Details on performance-based climate resilience grants (PBCRGs):

The principle of performance based climate resilience grants has specific advantages for beneficiary countries as well as donor partners. Under the situation where a “general obligation” intergovernmental fiscal transfer system is in place, the PBCRGs supplement the existing funding system to cover the incremental cost of climate change adaptation and channel it directly to the local level where the needs for capital intervention have been identified.

Where the existing system for adaptation financing is of the sub-sovereign type, i.e. where a treasury account consolidating donor funding is established at the provincial or local government level, the LoCAL grant mechanism would up-scale the funding system to the central level to facilitate the flow of additional capital from those donors who operate at the sovereign level and to enhance the financing system’s sustainability by creating an entry point for additional central government transfers. At the same time, this would ensure that the decision-making process determining spending remains anchored at the local level.

The performance-based character of the LoCAL climate resilience grants provides assurance to the central government as well as to donor partners about accountability and quality of local decision-making processes. The system promotes performance in cross-cutting areas such as public financial management, governance, and transparency, combining these with performance on building climate resilience. The monitoring and auditing system will also provide valuable information on the cost of adaptation measures at the local level.

Project Components

LoCAL’s **development objective** is to increase financing for and investment in climate change adaptation 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). The intended **project outcome** is to increase investment in local-level climate resilience measures in a minimum of 3 countries in the Asia-Pacific Region, while also laying the foundation for the global rollout of UNCDF’s LoCAL approach in other LDCs in Africa and Asia in a second phase of the project.

More specifically, the project will deliver the following **outputs and activities**:

- (1) Test the LoCAL approach in four local governments in Bhutan and potentially in one other country (e.g. Cambodia);
 - (a) Determine scenario-based local climate vulnerability, and the scale and scope of resilience-building that is most appropriately done by local authorities (based on needs and absorptive capacities);²
 - (b) Tailor PBCRG methodology to country context and set up the system, including defined performance measures for climate resilience and public financial management; and investment menus of effective resilience interventions;
 - (c) Disburse PBCRGs to local authorities;
 - (d) Conduct assessments that verify that the PBCRGs, although fungible, were spent on practical adaptation measures.
- (2) Test the validity of LoCAL as a component of AF-financed climate change adaptation programme in the Solomon Islands;
 - (a) Set up a PBCRG system in the Solomon Islands as a component of a larger AF-financed UNDP adaptation project.

² Much preparatory work on 1a and 1b has already been completed using existing UNCDF resources that amount to a further USD 200,000 in kind contributions.

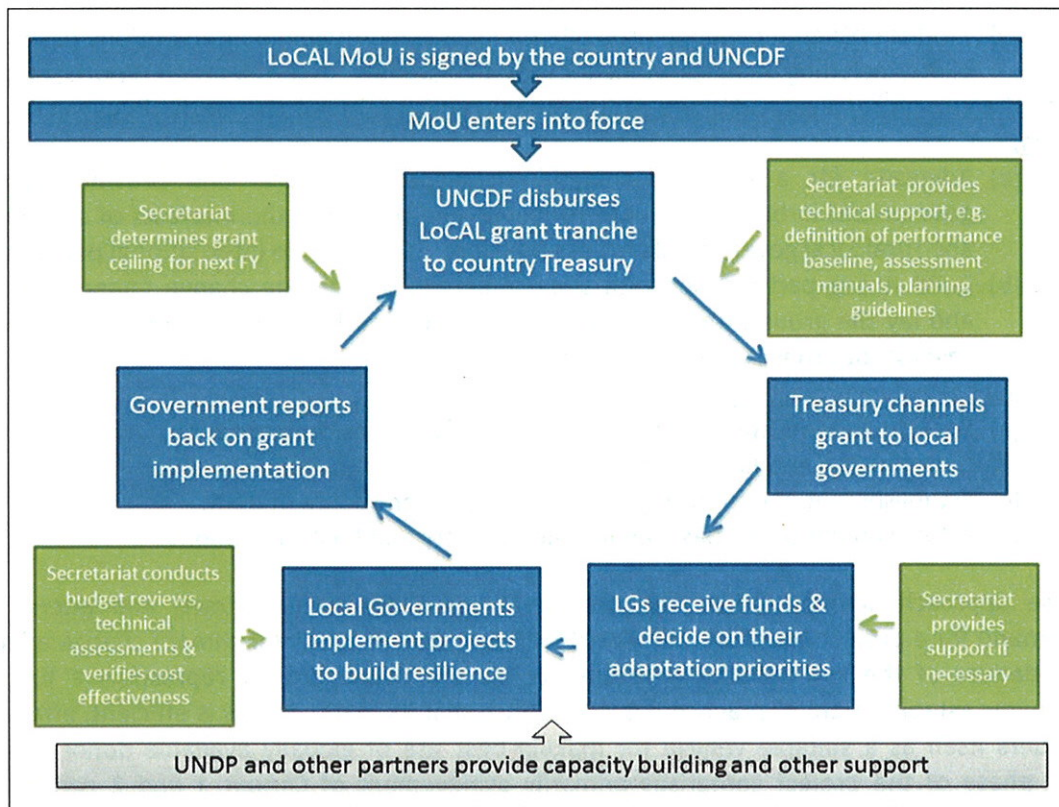
- (b) Based on the lessons of the pilot component(s), deepen institutional partnership with the UNDP adaptation team and the AF.
- (3) Document and distill knowledge from these pilots to refine the LoCAL methodology;
 - (a) Based on the experience in Bhutan and other countries, fine-tune and package the LoCAL methodology to become a universally applicable methodology and a global public good;
 - (b) Produce other knowledge products on local level resilience interventions based on the pilots, including technical guidelines, costing studies, lessons learned reports, etc.
- (4) Lay the ground for a second phase of the project, which rolls out the methodology in Africa and Asia;
 - (a) Advocate for a more meaningful engagement of local and provincial levels of government in building climate resilience and represent the interests of smaller towns and rural local governments in Less Developed Countries in international policy debates;
 - (b) Build strong partnerships with stakeholders in the climate change finance community and lay the ground for a second phase of LoCAL to begin at the end of 2012, covering several countries in Africa and Asia.
- (5) Conduct effective project management;
 - (a) Support to MoU implementation in terms of technical assessments;
 - (b) Coordination and field visits;
 - (c) Establishment of monitoring systems and regular update of data;
 - (d) Establishment of the baseline for each country and final evaluations.

The two-phase approach adapted under the project is based on the confirmed and internationally recognized demand for a project initiative that would facilitate flow of funds for climate change adaptation needs and initiatives of the sub-national governments. As the LoCAL project represents a brand new initiative it requires establishment of practice based evidence that its methodology is efficient, effective and therefore renders itself as a suitable vehicle for making best use of globally available donor assistance. Thus the first phase of the project comprises primarily achievement of Output 1 and 2 particularly in relation to implementation of first year (fiscal year 2011/2012) pilot in Bhutan and Cambodia (Output 1) and in Solomon Islands (Output 2). Output 3 is the one that is bridging the two phases of implementation as it will summarize achievements of the first phase and facilitate new donor partners agreements and “knowledge based” transition into the second phase.

Implementation Modalities and Project Cycle

National Governments can access the LoCAL by signing a Memorandum of Understanding (MoU) with UNCDF, which regulates the facility and ensures full national **ownership**. Since, the PBCRGs are channeled to local governments through the national intergovernmental fiscal transfer system, it is a pre-condition that a functioning system be in place, which can then be developed further under LoCAL to include climate-related minimum conditions and performance measures. Figure 2 below illustrates the project cycle, which starts with the signing of the MoU.

Figure 2. LoCAL Implementation Cycle



Partnerships

As Figure 2 above illustrates, the LoCAL facility is specifically designed to work with – and complement – the climate adaptation programmes of other governments and donor partners. It is flexible in design and can be “bolted” on to existing climate change adaptation programmes to channel resources to the subnational level. For example, the LoCAL component in the Solomon Islands will be part of a larger adaptation project by the Ministry of Environment and UNDP, funded by the Adaptation Fund (AF). This component will build on UNCDF’s *National Provincial Governance Strengthening Programme* and provide Provincial Governments with the capital and systems to proactively help communities manage climate change-driven pressures on food security and livelihoods. Similarly, the LoCAL pilot in Bhutan builds on the Royal Government’s and UNCDF’s *Local Governance Support Programme*.

Visibility and Outreach

For all of its knowledge management and promotional materials, the programme in question will include the partners and UNCDF logos. To the extent possible, it will acknowledge the important role that the partners play in supporting the expansion of the programme, while ensuring such branding and attribution remains in compliance with UNCDF branding standards and requirements. All programme-related publications (documents, brochures, press releases, websites, newsletters, results-reporting, banners etc.) and events (press conferences, programme seminars, public events and visits) would bear the names of all partners (with the appropriate logo of the organization).

UNCDF has an excellent communications unit in New York with sufficient capacity to ensure adequate visibility, outreach and communication of development activities and results in the region. UNCDF global

programmes receive very strong support and ownership by the Governments of the countries covered by them. Hence, contributions to UNCDF programmes would generate considerable attention among the respective Governments.

In order to maximize visibility, new partnerships will be announced by means of a targeted communication e.g. press release to all relevant programme country stakeholders, including Government ministries in the region and relevant permanent UN missions in New York, as well as, the general public (on UNCDF, UNDP and UN global and regional websites). In addition, the Investment Committee in each programme country will provide partners with important visibility with a number of donor development partners. Partners will be mentioned in our contacts with the Governments in the region and their representatives in New York e.g. via a direct email or in combination with the above-mentioned press release.

Sustainability of results

The LoCAL model is designed with sustainability in mind, seeking to ensure ownership and accountability at all levels. The facility's methodology provides incentives for local governments to mainstream climate-adaptive thinking into everyday planning and investment, thereby encouraging systematic analysis of changing weather patterns and their impacts on local economies. Once the system for intergovernmental fiscal transfers is established and local governments perform credibly, any donor or indeed the national government can channel additional resources for climate resilience through the system with no additional overhead cost.

Over time, the aim is for local governments to build their revenue generation and management capacities so that they can also access investment on their own without relying on donor or central government funding. Credible public financial management performance would allow local governments to tap into domestic capital markets by issuing bonds or taking long-term loans. The first phase will also include preparatory work for extending loans to eligible local authorities. These can be applied to adaptation and resilience measures or measures that include a mitigation component, for example bio-gas installation. UNCDF has begun discussions with CDM brokers about co-financing these loans.

4. Results Framework

The Results and Resources Framework for the project is provided in Table 1 overleaf. The table includes a corresponding net budget per project output.

Table 1. Results and Resources Framework

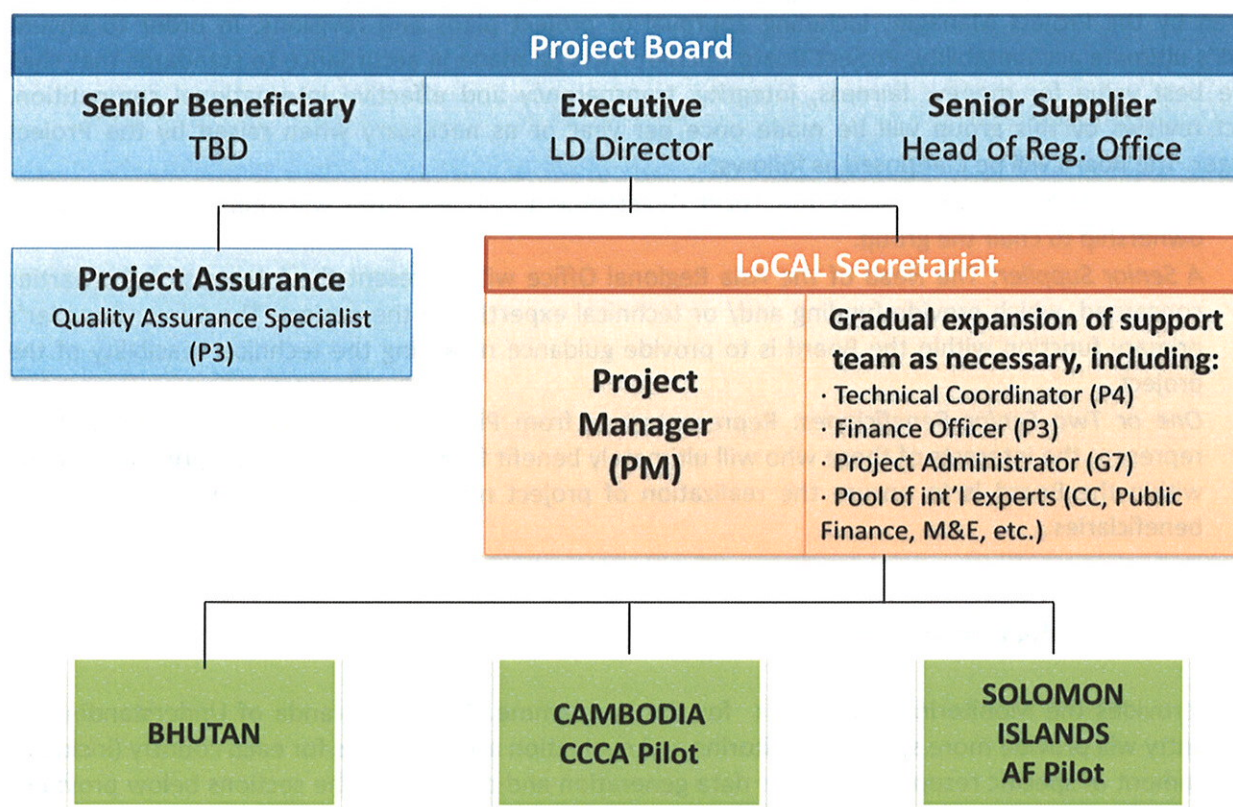
Development Outcome: The project aims to increase financing for and investment in local climate resilience in LDCs, thereby contributing to the achievement of the MDGs, particularly the specific goals of poverty reduction (MDG1) and environmental sustainability (MDG7).			
Intended Outcome: Increased investment in local-level climate resilience measures in a minimum of 3 countries in the Asia-Pacific Region.			
Programme Outputs	Resources		Total (USD)
	Funded	Unfunded	
Output 1: Test the LoCAL approach in with 4 local governments in Bhutan and 1 other country; Indicators: a) PBCRGs are disbursed to the local-level on a regular basis; b) "Climate-proofing" of relevant infrastructure (roads, bridges, irrigation, etc.) takes place at the local level; c) Assessments demonstrate the effective use of the PBCRGs; d) LG are able to leverage additional climate adaptation resources from other sources.	950,000	2,000,000	2,950,000
Output 2: Test the validity of LoCAL as a component of Adaptation Fund (AF) -financed climate change adaptation programmes in the Solomon Islands. Indicators: a) UNCDF is able to access AF -finance through partnership with UNDP EEG; b) LoCAL functions effectively as an AF -component; c) Performance assessments demonstrate the effective use of the PBCRGs.	550,000		550,000
Output 3: Document and distill knowledge from the pilots to refine the LoCAL methodology. Indicators: a) LoCAL methodology is launched as a global public good for financing local climate resilience. b) UNCDF is increasingly recognized by relevant stakeholders as a leader in local climate finance.		500,000	500,000
Output 4: Lay the ground for a 2nd phase, which rolls out the methodology in Africa & Asia. Indicators: a) UNCDF secures and deepens key institutional partnerships for the second phase of LoCAL. b) UNCDF secures the funding for a second phase of LoCAL.		200,000	200,000
Output 5: Conduct effective project management. Indicators: a) Grant requests are processed in a timely manner. b) Evaluations are conducted in a timely manner.		600,000	600,000
Total	1,500,000	3,300,000	4,800,000

5. Management and Coordination Arrangements

This project will be managed and implemented by the UNCDF Regional Office in Bangkok under the Direct Implementation Modality (DIM). This section spells out the overall Management Arrangements and will be complemented by specific Memoranda of Understanding signed with each pilot country. LoCAL will be managed by a Programme Manager, located in the Bangkok Regional Office. As the project grows, the team in the Bangkok office will grow to constitute a small project Secretariat. During the first phase the project Secretariat will be kept to a minimum and will build on existing UNCDF staff capacity. This is to minimize percentage of required project overheads. The capacity corresponding funding of the secretariat will increase during the second phase of the project in proportion to increased volume of donor funding and resulting throughput of PBCRGs. The costs of the secretariat including staffing and operations will be covered by agreed upon percentage of funds contributed by the donors. For procedural reasons with extended time for staff mobilization resources have been programmed during the first project year in order to initialize process of recruitment for secretariat staff anticipated under second phase of the project.

The Management Structure is illustrated in Figure 3 below.

Figure 3. The LoCAL Management Structure



The Project Manager will be responsible for the overall implementation of the Programme, including:

- Overseeing the work of country pilots and managing all internal and external technical assistance;
- Monitoring results of country pilots against all targets and producing annual summary implementation reports and/ or donor reports as necessary;
- Coordinating communication between the Secretariat, the partner countries, donor partners and other stakeholders;
- Leading the production of knowledge products based on the experience of pilot countries and disseminating that to relevant stakeholders;

- Engaging with relevant stakeholders in policy debates about climate change adaptation at the local level; and
- Liaising with the UNCDF Evaluation Unit to manage final evaluations.

The planned project management structure at the country level is intended to be simple and of minimum additional burden. In each pilot country, a government employee will be appointed as LoCAL Project Director and supported by a project-financed Project Advisor and/ or Assistant. The responsibilities of the LoCAL Country Team will include:

- Driving the daily implementation of the country pilot;
- Liaising with all relevant government departments and local governments to monitor results;
- Liaising and coordinating activities with relevant implementation partners;
- Preparing quarterly and annual progress reports for the Secretariat.

The overall strategic guidance for LoCAL will be assigned to a Project Board. A Project Board will be established at the beginning of the Programme to provide strategic management and guidance when required by the Project Manager, including approval of project plans and revisions. In order to ensure UNCDF's ultimate accountability, Project Board decisions will be made in accordance to standards that shall ensure best value for money, fairness, integrity, transparency and effective international competition. Project reviews by this group will be made once per year or as necessary when raised by the Project Manager. The Board will be composed as follows:

- *An Executive:* The Director of the Local Development Practice Area will represent the project ownership to chair the group.
- *A Senior Supplier:* The Head of the Asia Regional Office will represent the interests of the parties concerned, which provide funding and/ or technical expertise to the project. The Senior Supplier's primary function within the Board is to provide guidance regarding the technical feasibility of the project.
- *One or Two Senior Beneficiaries:* Representatives from Pilot Countries will on a rotating basis represent the interests of those who will ultimately benefit from the project. Their primary function within the Board is to ensure the realization of project results from the perspective of project beneficiaries.

6. Monitoring, Evaluation and Reporting

Table 2 provides the Monitoring Framework for the Programme. The Memoranda of Understanding for each country will provide more specific monitoring and evaluation arrangements for each country (including the assignment of specific responsibilities for data generation and collection). The sections below provide a description of the overall monitoring, reporting and evaluation framework for the LoCAL pilots.

Monitoring

The Project Manager's key responsibility will be the regular monitoring of all LoCAL country pilots. The project teams in the pilot countries will be required to submit reports to the Secretariat on a quarterly basis using a standard performance reporting format. The following Monitoring Reports will be produced at the country level and sent to the Secretariat for review:

- Quarterly progress reports, detailing physical outputs of pilot local governments, as defined in the MoU;
- Quarterly fiscal reports, providing information on the PBCRG within various areas as per the country MoU (PBCRG Guidelines);

- Annual reports detailing the costs of the climate change adaptation investment measures with identified unit costs, assessments of the climate change adaptation cost impacts on investments/development plans (supported by specific annual TA missions) along with a summary of lessons learned, recommendations for improvements in areas such as PBCRG, the planning process and the climate change adaptation costing; and
- Annual work-plans and budgets of the country PMUs.

To the largest extent possible, the pilot will seek to make use of national data gathering for the purposes of monitoring the performance of the pilots. The Secretariat will undertake monitoring missions to the country pilots when appropriate. An assessment at the start of the project will help establish the baseline. The pilots will also be audited at least once in the lifespan of the project. The secretariat will coordinate execution of the audits which will be carried out by an independent audit institutions of the country of pilot implementation that are certified in that country and preferably as part of the regular nationally defined auditing of the publicly funded institutions. The specifics applying to auditing of the project pilots will be defined in each of the corresponding country MoUs.

Table 2. Programme Monitoring Framework

Expected Results	Indicators	Means of verification	Collection methods	Responsibilities	Risks & assumptions
Outcome 1: Test the LoCAL approach in with 4 local governments in Bhutan and one other country (e.g. Bangladesh or Nepal).	a) PBCRGs are disbursed to the local-level regularly.	Performance Grant Monitoring System data	Baseline established at project start.	Secretariat & country teams.	Smaller intergovernmental fiscal transfers.
	b) "Climate-proofing" of relevant infrastructure takes place at the local level.	Performance Grant Monitoring System data and field visits.	Reporting system and monitoring visits.	Country teams.	Unsatisfactory level of Local Government performance.
	c) Assessments demonstrate the effective use of PBCRGs.	Performance Assessments.	National reporting system.	Country teams.	M&E not adequate to capture results.
	d) LGs leverage resources.	Reporting from LG.	National reporting system.	Country teams.	Low LG performance
Output 2: Test validity of LoCAL as a component of AF-Climate Change Adaptation programme in the Solomon Islands.	a) UNCDF access AF-finance through partnership with UNDP EEG;	Funds obtained.	Atlas.	LoCAL Secretariat.	Institutional partnership not set-up.
	b) LoCAL functions effectively as a AF-component;	Positive feedback from partners.	Annual reporting.	LoCAL Secretariat & partners.	Insufficient coordination.
	c) Assessments demonstrate effectiveness of the PBCRGs.	National Performance assessments.	National reporting system.	Country teams	Unsatisfactory local government performance.
Output 3: Document & distill knowledge from the pilots to refine the LoCAL methodology.	a) LoCAL methodology launched as a public good for local climate resilience finance	Tool launched and accessible to all.	Web.	LoCAL Secretariat.	Ineffective knowledge management.
	b) UNCDF recognized by stakeholders as a leader in local-level climate finance.	Recognition by partners, policy impact.	Annual reports.	LoCAL Secretariat	Ineffective partnership and advocacy.
Output 4: Lay the ground for a 2nd phase of LoCAL.	a) UNCDF secures partnerships for 2nd phase.	Partnership agreements signed.	Agreements.	LoCAL Secretariat	Ineffective advocacy.
	b) 2 nd phase funds secured.	Resources committed.	Atlas.	LoCAL Secretariat	Lack of donor interest.
Output 5: Effective Project management.	a) Grant requests are processed in a timely manner.	Country reports.	Country reports.	LoCAL Secretariat	Ineffective project management.
	b) Evaluations in a timely manner.	Evaluation reports.	Evaluation reports.	LoCAL Secretariat	Ineffective project management.

Evaluation

In compliance with the UNDP Evaluation Policy, the Programme will be subject to an independent final evaluation, managed by the independent UNCDF Evaluation Unit. However considering the financial impact of the costs of such evaluation during limited project resources available under Phase 1 of the project the evaluation will not be scheduled until additional funding is secured and the evaluation is requested/authorized by the Project Board. At that point (and after the review exercise of the UNCDF evaluation architecture is finalized)an Evaluation Plan will be formulated .

The LoCAL Secretariat will solicit the input of key partners for the formulation of the Evaluation Plan. Since LoCAL is a new Programme, the aim of the evaluations will be to go beyond the standard assessment of the Programme's overall performance, to focus on learning in the area of local climate change adaptation finance. Specifically the evaluation will cover:

- Overall Programme performance
- Outputs produced against initial targets
- (Likely) impact in terms of climate change adaptation
- Management efficiency
- Programmatic and technical lessons.

Reporting

Quarterly and Annual reports will be produced at the country level for submission to the Secretariat. The Secretariat, in turn, will be responsible for compiling Annual Project Implementation Reports which combine the data from all pilot countries and distill programmatic and technical lessons. These Annual Reports and other knowledge products will be made available to key partners, interested stakeholders and on the UNCDF website.

7. Legal Context or Basis of Relationship

The Standard Basic Assistance Agreements (SBAA) concluded between UNCDF and the relevant country where the LoCAL facility will be tested provides the legal basis for UNCDF's operations. In cases where UNCDF does not have a SBAA, UNDP's SBAA will serve this purpose.

8. Overall Budget

The total budget for LoCAL Phase 1 is included in Table 3.

Table 3. LoCAL – Overall Budget (Phase 1)

	Source of Funding	Purpose	2011	2012	Total
SECRETARIAT	Core	Staffing			
		Mgt.&Assistance	\$59,567 ⁽³⁾	\$86,600 ⁽³⁾	\$146,167
	Non Core	Staffing		\$600,000	\$600,000
		Mgt.&Assistance	\$130,000 ⁽³⁾	\$700,000	\$830,000
	<i>SUB-TOTAL</i>		\$189,567	\$1,386,600	\$1,576,167
Pilot Country I (Bhutan)	Core	<i>Grant</i>	\$253,833 ⁽³⁾	\$250,000 ⁽³⁾	\$503,833
		<i>Grant</i>		\$1,400,000	\$1,400,000
	<i>SUB-TOTAL</i>		\$253,833	\$1,650,000	\$1,903,833
Pilot Country II (Cambodia)	Core	<i>Grant</i> ⁽²⁾		\$50,000 ⁽²⁾	\$50,000
	CCCA Trust Fund ⁽¹⁾		<\$60K under Secr.>	\$790,000 ⁽⁴⁾	\$790,000
	<i>SUB-TOTAL</i>			\$840,000	\$840,000
Pilot Country III (Solomon Islands)	Core				
	Adaptation Fund ⁽¹⁾		<\$70K under Secr.>	\$480,000 ⁽³⁾	\$480,000
	<i>SUB-TOTAL</i>			\$480,000	\$480,000
Sub-total	<i>Core</i>		\$313,400	\$386,600	\$700,000
	<i>Non-Core</i>		\$130,000	\$3,970,000	\$4,100,000
	<i>Grants</i>		\$253,833	\$2,670,000	\$3,223,833
	<i>Secretariat</i>		\$189,567	\$1,336,600	\$1,526,167
	Funded		\$443,400	\$1,056,600	\$1,500,000
	Unfunded		\$0	\$3,300,000	\$3,300,000
TOTAL			\$443,400	\$4,356,600	\$4,800,000

Notes: ⁽¹⁾ Non-GMS

⁽²⁾ \$50,000 in 2012 represents the UNCDF required co-financing of the Cambodia CCCA project

⁽³⁾ Fully Funded

⁽⁴⁾ \$190,000 Funded

9. Annual Work plan

Table 4 below presents the Annual Workplan (covering last two quarters of 2011 and activities under the UNCDF committed funds).

Table 4. Annual Workplan for 2011

EXPECTED OUTPUTS (Overall)	PLANNED ACTIVITIES	TIMEFRAME		Source of Funding	Inputs	Budget Description	Total Amount	UNCDF	CCCA	AF
		2011								
		Q3	Q4							
Output 1: Test the LoCAL approach in with 4 local governments in Bhutan and 1 other country										
a) PBCRGs are disbursed to the local-level on a regular basis;	Activity 1.1: Setting-up of LoCAL Facility in each country, i.e. establishing the financing mechanism for local-level PBCRGs and anchoring it within the intergovernmental fiscal transfer system.	X	X	UNCDF/CCCA	travel consultants	Pilot country baseline assessments; CC Vulnerability studies; PBCRGs assessments (Int. TA) - as part of the Regional Secretariat Budget ⁽¹⁾	\$63,200	\$33,200	\$30,000	
	Activity 1.2: Starting-up and supporting of country level operations	X	X	UNCDF	staff administration travel	Country level costs of operation (initial cost in Bhutan \$34K) - As part of the Regional Secretariat budget	\$12,567	\$12,567		
b) "Climate-proofing" of relevant infrastructure (roads, bridges, irrigation, etc) takes place at the local level;	Activity 1.3: Regular disbursement of climate adaptation grants to the local level	X	X	UNCDF	grants	PBCRGs disbursement	\$253,833	\$253,833		
	Activity 1.4: Mainstreaming systems and tools for climate resilience into all stages of the public expenditure cycle at the local level.	X	X	UNCDF/CCCA	travel consultants	Support to pilot LGs in application of climate resilience (CR) planning process, verify CR activity costing (Int. TA) - As part of the Regional Secretariat budget ⁽²⁾	\$42,000	\$12,000	\$30,000	
c) Assessments demonstrate the effective use of the PBCRGs;	Activity 1.5: Setting up the national monitoring system for the performance-based climate adaptation grants, including provisions for auditing.		X	UNCDF	travel consultants	Linking of LoCAL M&E with national reporting systems - As part of the Regional Secretariat budget	\$1,800	\$1,800		
d) Local governments are able to leverage additional climate adaptation resources from other sources.										
Total Output 1							\$373,400	\$313,400	\$60,000	\$0
Output 2: Test the validity of LoCAL as a component of Adaptation Fund (AF) -financed climate change adaptation programmes in the Solomon Islands										
a) UNCDF is able to access AF-finance through partnership with UNDP EEG;	Activity 2.1: Setting-up of LoCAL Facility in a country, i.e. establishing the financing mechanism for local-level PBCRGs and anchoring it within the intergovernmental fiscal transfer system.		X	AF	travel consultants	Pilot country baseline assessments; CC Vulnerability studies; PBCRGs assessments (Int. TA) - As part of Regional Secretariat budget	\$35,000			\$35,000
	Activity 2.2: Starting-up and supporting of country level operations				staff administration travel	Country office - As part of the Regional Secretariat budget				
b) LoCAL functions effectively as a AF-component;	Activity 2.3: Regular disbursement of climate adaptation grants to the local level				grants	PBCRGs disbursement				
	Activity 2.4: Mainstreaming systems and tools for climate resilience into all stages of the public expenditure cycle at the local/provincial level.		X	AF	travel consultants	Support to pilot LGs in application of CR planning process, verify CR activity costing (Int. TA) - As part of the Regional Secretariat budget	\$35,000			\$35,000
c) Performance assessments demonstrate the effective use of the PBCRGs.	Activity 2.5: Setting up the national monitoring system for the performance-based climate adaptation grants, including provisions for auditing.				travel consultants	Linking of LoCAL M&E with national reporting systems - As part of the Regional Secretariat budget				
Total Output 2							\$70,000	\$0	\$0	\$70,000

Output 3: Document and distill knowledge from the pilots to refine the LoCAL methodology.										
Expected output: Document and distill knowledge from the pilots to refine the LoCAL methodology.										
	Indicators:									
	a) LoCAL methodology is launched as a global public good for financing local climate resilience.	3.1 Develop/adapt specific and tools for demonstrating project effectiveness			UNCDF	travel consultants	As part of the Regional Secretariat's annual budget			
	b) UNCDF is increasingly recognized by relevant stakeholders as a leader in local climate finance.	3.2 Conduct assessments			UNCDF	travel consultants	As part of the Regional Secretariat's annual budget			
		3.3 Based on pilot experience fine-tune and package the LoCAL methodology to become universally applicable			UNCDF	travel consultants	As part of the Regional Secretariat's annual budget			
Total Output 3								\$0	\$0	\$0
Output 4: Lay the ground for a 2nd phase, which rolls out the methodology in Africa & Asia.										
Expected output: Lay the ground for a 2nd phase, which rolls out the methodology in Africa & Asia.										
	Indicators:									
	a) UNCDF secures and deepens key institutional partnerships for the second phase of LoCAL.	Activity 4.1: Producing relevant knowledge products on climate change adaptation finance, which distill experience from the country level (e.g. technical guidelines and lessons learnt) and demonstrate the effectiveness of the local level in tackling the adaptation challenge.			UNCDF	publications travel consultants	As part of Regional Secretariat's annual budget			
	b) UNCDF secures the funding for a second phase of LoCAL.	Activity 4.2: Effectively communicating knowledge and results to different audiences through a variety of channels			UNCDF	publications travel consultants	As part of the Regional Secretariat's annual budget			
		Activity 4.3: Engaging in relevant policy debates to build strategic partnerships and advocate for increased financing for local governments to build local climate resilience			UNCDF	travel consultants	As part of the Regional Secretariat's annual budget			
Total Output 4								\$0		

Output 5: Conduct effective project management.

Expected output: Conduct effective project management.									
Indicators:									
a) Grant requests are processed in a timely manner	Activity 5.1: Technical staff on board of the Regional Secretariat managing country start-ups and effective grants disbursements, supporting MoU implementation through technical/costing assessments		X		National staff salaries, international staff salaries	Support to MoU implementation and technical/costing assessments; - As part of Regional Secretariat's annual budget	\$100,000 ⁽³⁾	\$100,000	
b) Evaluations are conducted in a timely manner	Activity 5.2: Country level representative of the Regional Secretariat on board at the country office supporting effective cooperation with IPs, counterparts and beneficiaries, collecting pertinent data and information, organising quarterly assessments and annual reviews, coordinating of field visits		X		National staff salaries, international staff salaries	As part of the Regional Secretariat's annual budget	\$100,000 ⁽³⁾	\$100,000	
	Activity 5.3: Annual reviews				consultants travel	First pilot country evaluation			
Total Output 5							\$200,000⁽³⁾	\$200,000	
							Total amount	UNCDF	CCCA
TOTAL							\$443,400	\$313,400	\$60,000
									AF
<i>Including Regional Secretariat</i>							<i>\$189,567</i>		

Notes: ⁽³⁾ Indicative only to initiate recruitment process for the Regional Secretariat, whereas the staff will start during the 2012