



LoCAL: A Summary

UN Capital Development Fund
Asia-Pacific Regional Office
Block B, 7th Floor, ESCAP Building
Rajdamnern Nok Avenue
Pra Nakorn, Bangkok, 10200
Thailand

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About LoCAL



Photo credits: UNDP & Riccardo D'Emidio (UNCDF)

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 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 capital grants to local governments with performance-based climate adaptation funding. 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. The methodology is derived from UNCDF's specific experience in setting up of such systems for effective capital investments and capacity building of the sub-national governments.

Why LoCAL

Many activities related to addressing climate adaptation and building resilience are part and parcel of local governments' core mandate, including investing in and maintaining water and sanitation facilities, establishing and enforcing zoning and land use planning, managing natural resources and building and maintaining basic infrastructure. However, in most developing countries local governments have very small resource envelopes that they can spend at their own discretion. Most resources come earmarked from central government for recurring expenditures, leaving little for capital investment. As a result of changing climate patterns, local governments resource needs are ever increasing.

LoCAL recognizes that most existing funding for climate change adaptation remains in large-scale national projects and institutions or is done on a project basis through direct donor program funding without adequate and required integration with national planning systems and therefore of reduced sustainability. The adaptation finance that is available for local authorities is often tied up in 'application based' funds that require local governments to apply to specific institutions for resources with rules attached. Yet practical adaptation and resilience requires local governments to improve their adaptive capacity and apply their existing mandates to deal with the immediate and long-term resilience issues that confront them. Evidence from developed and developing countries suggests that local responses to natural disasters and climate resilience is more effective than central ones when it leverages the mandates, resources, information, legitimacy and convening power of local institutions.

In launching LoCAL, UNCDF is building on three decades of experience setting up intergovernmental fiscal transfer systems and developing the public financial management capacity of local governments in least developed countries to plan, budget, implement and monitor local development activities by providing grant-funded investment capital. The initial rollout of LoCAL will utilize these systems and therefore benefit from, and leverage the effect of, existing development partner resources for Local Government capacity building. More recently, UNCDF has incorporated a specific gender lens into some of its programmes in Africa, as well as successfully piloted performance-based grants for the local level.



Women, Water and Beyond

LoCAL is a versatile mechanism designed to address any form of climate change vulnerability through addressing local development issues such as water access, sanitation and gender equality.

Photo credit: UNDP

What is LoCAL

The LoCAL concept was approved by UNCDF's Investment Committee in May 2011 and initial piloting with seed capital and technical assistance of \$1.2m was committed. The first phase of the project has been planned for the 18 months duration from July 2011 through December 2012 and involves piloting of LoCAL methodology which now on-going in Bhutan. In the subsequent implementation stages, UNCDF anticipates to build the necessary partnerships to roll out this valuable and unique experience in other countries – with a focus on Africa and Asia. Specifically, this first phase of the project aims to:

Pilot the LoCAL approach in four local governments in Bhutan	Test the validity of LoCAL as a component of GEF financed Climate Change programmes
Document and distill knowledge from Bhutan to refine the LoCAL methodology	Lay the ground for a second phase of the project, which rolls out the methodology globally

In terms of results, this first phase of implementation is expected to yield a verified methodology for the implementation of climate adaptation funding grants as part of local government financial systems, including the customized menus of climate change adaptation and resilience related performance measures and a monitoring system to track the flow of resources from the national to the local levels and their expenditure. The pilot in Bhutan will also fine tune the methodology to determine the size of the climate adaptation incremental grants based on the locality's vulnerabilities, local government mandate and capacity for public financial management. Overall, the project will generate data to allow for comparisons of cost effectiveness of climate adaptation related expenditure across different sectors and settings and to demonstrate how local financing is essential to leverage the most effective application of national financing and policies.

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. 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 *ACCCRN Asian Cities Climate Change Resilience Network*. Within these networks LoCAL is focusing on smaller towns and rural local governments in Less Developed Countries. However the methodology is universally applicable and the methodology produced by the first phase is a global public good, similar to other UN system contributions such as the early disaster warning systems.

Finally the first phase also includes piloting in Cambodia with resources from the Cambodia Climate Change Alliance and work with Global Environment Facility programmes in Lao PDR and Timor Leste. There is currently a funding gap of 1,000,000 for the first phase which, if filled, would enable the testing of LoCAL in the Solomon Islands.

The second phase of LoCAL will be finalized during 2012 and will seek to establish LoCAL facilities in several countries in Africa, the Middle-East and Asia including up-scaled facility in Cambodia as well as Mali and Uganda. In addition to being larger 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 especially it is expected the incremental grants will finance investments that address food security, whereas in places like Cambodia the investments are more likely to be focused on disaster risk reduction related to floods and inundation.

UNCDF is seeking a cornerstone partner to enable the initial rollout of the second phase. These resources will be used together with the Adaptation Fund and the Global Environment Facility to introduce LoCAL and therefore promote the sustainability of other climate initiatives and the application of national policies on climate change.

In Action: Performance-Based Grants for Local Resilience

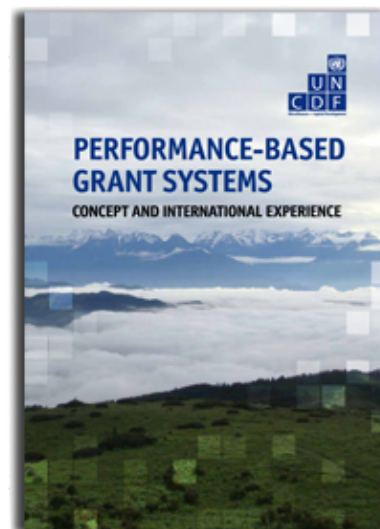
Under LoCAL, communities and their local governments are determining jointly what their most pressing climate adaptation needs are. The Performance Based Climate Resilience Grants (PBCRG) can, for instance, be spent on 'climate proofing' existing infrastructure, such as raising the level of a bridge which is subject to floods, or equipping the existing road with better drainage pipes alongside it. Depending on the local circumstances, the PBCRG grants 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. The LoCAL grants are disbursed as part of a local government's regular budget envelope and can thus finance the 'adaptation' element of expanded projects, allowing for holistic responses to climate change challenges. After the budget cycle is completed, an assessment by the *LoCAL Secretariat*¹ verifies that the funds were indeed spent on building local resilience.

In Action: Bhutan

Starting in July 2011 the LoCAL methodology is being piloted in Bhutan. The establishing of a pilot facility was preceded by formulation of a system comprising local governments planning guidelines and performance measures that will enable the Bhutanese Treasury to disburse the first tranche of LoCAL grants to four local governments in January 2012. The grants will enable local governments to tackle the effects of climate change – primarily increased floods as a result of glacial melt in the Himalayas. Since 70% of the Bhutanese are subsistence farmers, it is also likely that communities and local governments will use the grants to adapt agricultural practices to changing weather patterns, thereby contributing to increased food security. The operational benefits of LoCAL are:

- 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. The Ministry of Finance in Bhutan is testing a budget code to track climate resilience expenditure as part of the LoCAL pilot.



PBCRG methodology based on the June 2010 UNCDF publication, "**Performance-Based Grant Systems: Concept and International Experience.**" To learn more visit: http://www.uncdf.org/english/local_development/docs/thematic_papers/pbgs/

¹ *LoCAL Secretariat* is a regional/global management unit of LoCAL project tasked with general project oversight, supervision and coordination initially located in Bangkok; its specific functions and structure are presented in the attached Technical Annex

The Four Step Process

1

Analysis of climate vulnerabilities of local districts/provinces set the basis for responses that are most appropriately done by local authorities within scale and scope of local adaptation. The methodology ensures that local government responses reflect the needs and priorities of local communities, the mandates, responsibilities and capacities of local government and are matched by concomitant community and business responses.



2

UNCDF methodology determines the incremental cost of building the resilience. An assessment of local government's public financial management capacity establishes the baseline for a performance-based grants system.



3

LoCAL provides incremental performance-based climate resilience grants to local governments. These grants allow local governments to meet the additional cost of building local climate resilience.



4

An assessment verifies that the incremental finance, although fungible, was spent on practical adaptation measures. In doing so, LoCAL demonstrates a new model for engaging provincial and local authorities more meaningfully in delivering climate change responses and generates reports for national and international authorities that can trigger further financing, thus ensuring that climate finance is mainstreamed to climate resilience alongside, but not substituting for, resources available for development.



Ensuring Sustainability: From Grants to Loans?

The LoCAL facility is designed with sustainability in mind, seeking to ensure ownership and accountability at all levels. The 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 at no additional cost.

Over time, the aim is for local governments to build their revenue generation and management capacities so that they can access investment on their own. 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.

Focus on Performance-Based Grants

Although performance-based grant systems (PBGS) have only been in place for a few years, there is considerable evidence that the incentives they provide have resulted in genuine improvements in the performance of local governments, especially in core administrative and financial areas. Incentives established by PBGS have led to improvements in the way that local governments handle cross-cutting issues such as gender, social inclusion and poverty targeting, creating a strong rationale for testing the PBGS methodology with regards to climate change adaptation finance². Furthermore, PBGS can also be a powerful tool for making capacity building more effective and efficient by providing real incentives for local government officials to improve their performance, enhance efficiency and transparency of financial management and accountability and therefore brings confidence and is of growing interest to the international donor partners and central governments institutions of the host countries.

The principle of Performance Based Climate Resilience Grants (PBCRG) 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 incremental PBCRG 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 incremental PBCRGs 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,

² United Nations Capital Development Fund, 2010. *Performance-Based Grant Systems: Concept and International Experience*. (p.66). Available at: http://www.uncdf.org/english/local_development/uploads/thematic/pgbs.pdf

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.

Finally, a fundamental principle of the PBCRG systems pioneered by UNCDF is that they do not interfere with local level policy choices. The performance grants can be compared to a fitness programme that rewards you for getting your body into shape but does not tell you what to do with your new strengths. Likewise the PBCRG system will reward public financial management and attention to the issue of climate resilience – yet it will not specify what programmes should be funded. Local governments are free to meet (or not) the performance measures.



A Hillside Forest in Bhutan

This scenic picture highlights the lush landscape found in Bhutan. With LoCAL up and running, four local governments will have the resources in place to ensure the continuing livelihood of such landscapes.

Photo credit: Riccardo D'Emidio (UNCDF)

Monitoring, Evaluation and Transparency

Through its inter-governmental fiscal transfer framework, LoCAL possesses fiscal controls for monitoring, evaluation and financial transparency; which is committed to by all stakeholders and will be reinforced by independent auditors.

Photo credit: UNDP



Technical Annex



Partners for Implementation

In each individual country LoCAL comprises a set of financial and institutional arrangements that are embodied in two types of agreement. Firstly LoCAL usually works with one or more existing climate and local governance projects and is governed by the Project Board of these. Secondly a Memorandum of Understanding signed between the partner government and the UN Capital Development Fund governs the Performance Based Climate Resilient Grants themselves. Other funding institutions may also become signatories to the MoU, which regulates the operation of the mechanism, including the *proprietary method* of assessment and accreditation of verifiable local climate related expenditure. Necessary partners include:

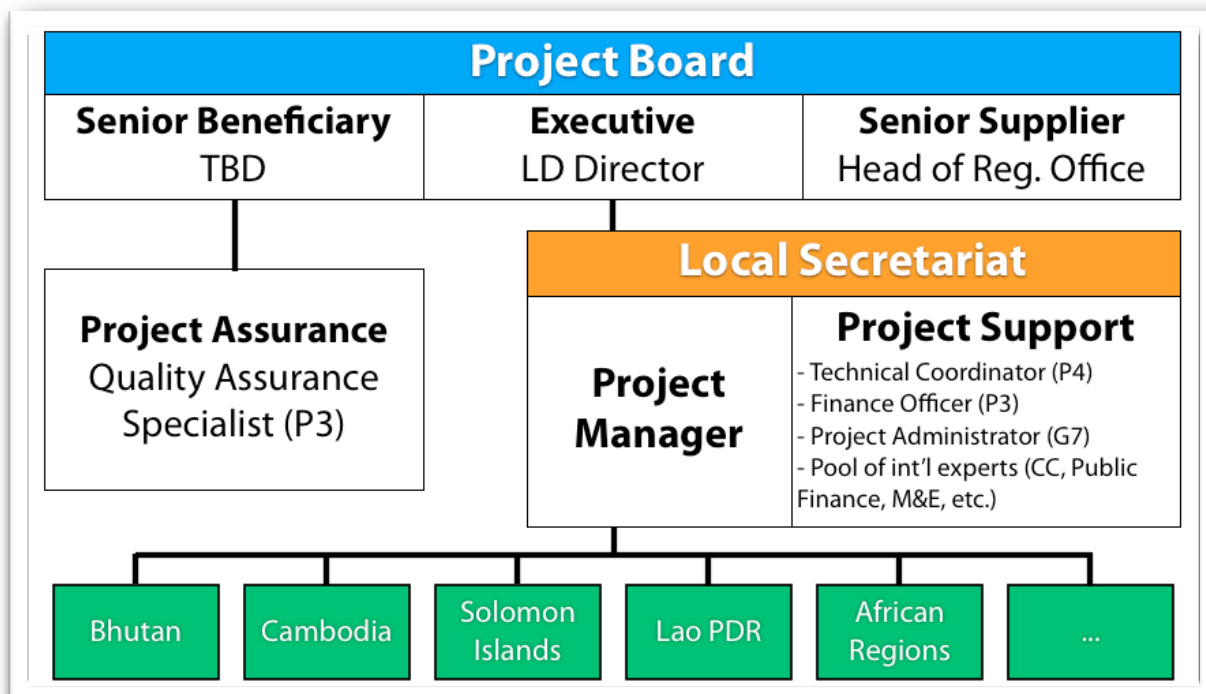
- Central government - usually the ministries concerned with climate change (Ministry of Environment, Ministry of Agriculture etc.) and the ministry concerned with local government.
- Local government – usually initially tested out in a sample of local governments before a national rollout. LoCAL works by integrating itself within the national system of local government financing.
- The United Nations Development Programme who can provide expertise in climate vulnerability assessment, in policy, and in capacity building that complements CDF expertise in public financial management, local development and local investment.

How Does LoCAL Work?

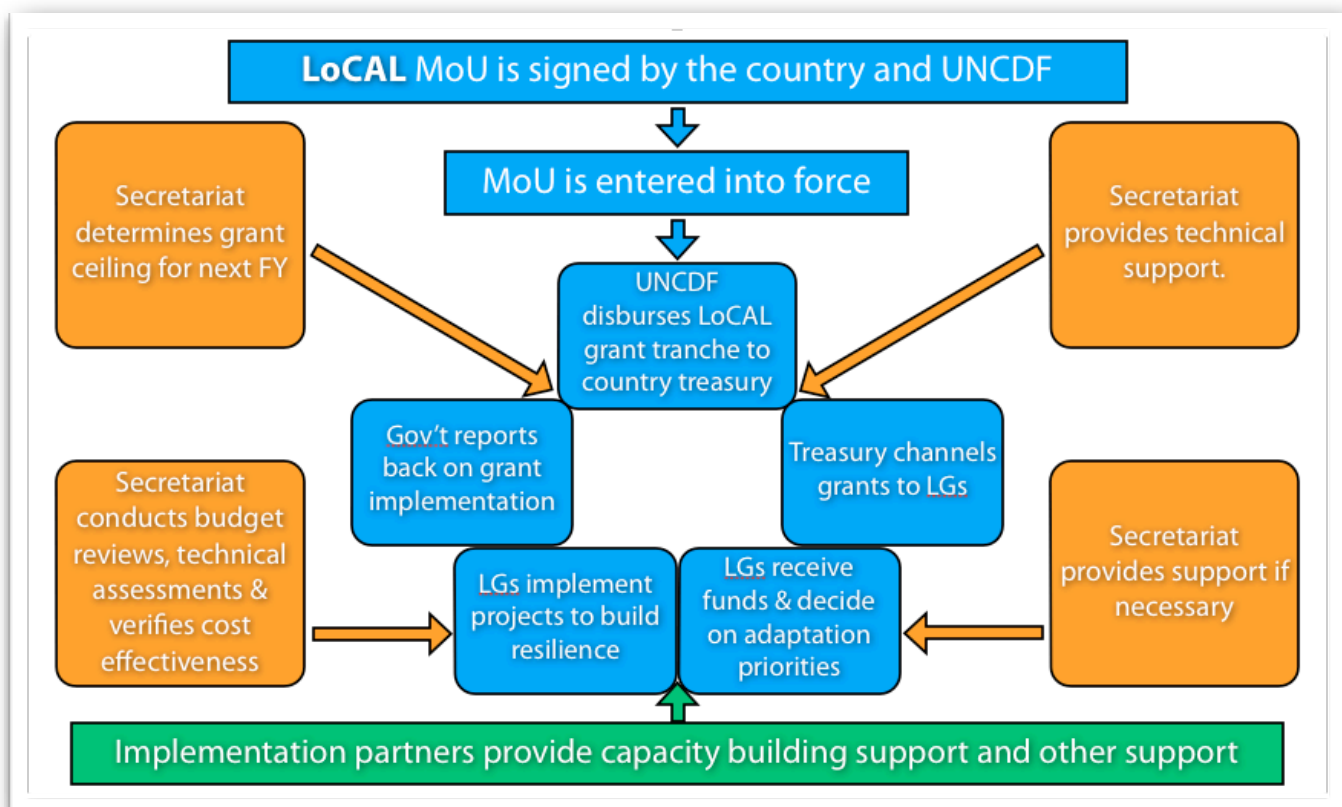
- An initial **scoping exercise** assembles five pieces of a jigsaw.
 - 1) Firstly, what are the verifiable and accepted climate challenges and vulnerabilities facing a particular set of local government jurisdictions. These can vary from valley to valley or from east to west. They can include issues of flooding, drainage, food security, erosion, transport and access, disaster risk etc. The essential point is to answer the attribution question – to what extent are these challenges related to climate change.
 - 2) Secondly, what would be a menu of appropriate responses to such challenges? This menu is not a prescriptive list of projects but rather an indicative set of complementary actions – increase awareness, strengthen drainage systems, etc.

- 3) Thirdly, within this menu what are the appropriate local government responses? This involves assessing the local capacity to identify, plan, finance, procure and implement investments and activities that include both “soft” investments such as public education and “hard” investments such as rainwater harvesting systems. Assessing the appropriate local government response also involves detailed analysis of the local government financing system in the country – and what the local government mandates are.
 - 4) Fourthly, what would be the appropriate size of a performance based climate resilient grant (PBCRG) as a supplement to mainstream local government financing. The PBCRG is fungible and can be used on its own or alongside other local funds. It enables a specific climate investment or can be linked to other resources to meet the incremental cost of making other investments adaptive and / or resilient. Key factors include the absorptive capacity of each local government and its mandate (municipality or rural village etc) and also the fiscal sustainability of the grant (will central government and / or international climate resources be able to continue this financing stream).
 - 5) Finally, what would be the appropriate minimum conditions for accessing the grant and the performance measures that would be rewarded with further funding? And what should be the size of the reward in the following year’s grant? This is related to the degree to which the local government financial system (audits and reporting) can accommodate an annual LoCAL assessment that reports on the degree to which the funds were applied to recognised climate challenges. National institutions are partners this assessment.
- Following the scoping mission the Memorandum of Understanding is signed and PBCRG grants are provided to the participating local authorities using the mainstream government systems. This is concomitant with complementary measures at central level (for example defining how budget codes can capture climate change related expenditure) and at local level (for example local awareness raising and capacity building to the local planning process). These complementary measures are usually provided by associated UNDP and UNCDF environment, climate change or local government projects. Participating local governments then apply the grants to climate related expenditure following the facilitated planning processes that enable these investments to be identified. In a national scale up these processes would be mainstreamed – however during the pilot phase local governments are assisted in this.
 - The **annual assessment** then verifies the degree to which the local governments have met the performance criteria and whether they are eligible to continue in the scheme. The assessment also identifies capacity strengthening gaps and measures that can be taken to enable better performance. However there is a further fundamental role for the annual assessment. This is to enable a standard, verifiable and robust reporting system that is accepted internationally. Such performance reporting will enable further funds to be drawn to local climate adaptation and resilience in the countries concerned. It will also enable local governments to respond fully to the policy environment for climate changes established by national level programmes.

Global Project Management Structure



LoCAL Implementation Cycle



Implementation in the First Phase

Region	Timeline & Progress Note
Global	✓ August 2011, Global project document signed
Bhutan	✓ 2010 and early 2011: Scoping missions in Bhutan ✓ July 2011, First MoU signed with Government of Bhutan. Three-year pilot has commenced
Cambodia	✓ Agreement in principle for a second pilot using \$250K USD from UNDP programme Cambodia Climate Change Alliance. ◆ These resources would pass to government who would then engage them to UNCDF to set up the scoping missions and test the first grants.
Lao PDR	✓ Proposal to GEF for \$5M Climate Programme accepted. LoCAL included in this linked to upcoming GPAR – DDF next phase.
Solomon Islands	✓ Active discussions on applying up to \$1M from Adaptation Fund financed Climate and Food Security programme through local government grants system, around \$500K as PBCRGs.
Nepal & Bangladesh	✓ As part of the Poverty Environment Initiative (PEI), LoCAL is included as the UNCDF component of this joint UNEP-UNDP-UNCDF initiative.
Ghana	✓ Active discussion and preliminary scoping for LoCAL in Ghana. Expected to take place in late 2012.
Mali, Uganda & Arab States	✓ As of the composition of this document, likely LoCAL Phase II beneficiary countries.



Christopher Kaczmariski

Regional Technical Advisor, Local Development
UN Capital Development Fund, Asia-Pacific
Office: +66 (0) 2 288 3032
Mobile: +66 (0) 81 848 2961
Email: christopher.kaczmariski@uncdf.org

Jamal Tekleweld

Local Climate Specialist
UN Capital Development Fund, Asia-Pacific
Office: +66 (0) 2 288 2561
Mobile: +66 (0) 89 013 3365
Email: jtekleweld@gmail.com