Report of the informal consultation with senior government officials on

Consolidation and Devolution of Climate Finance in India

An informal roundtable consultation with senior government officials on *Consolidation and Devolution of Climate Finance in India* took place at the India International Centre, New Delhi, on 7 August 2015. The consultation was organized jointly by Oxford Climate Policy (OCP) and Keystone Foundation, and sponsored by BothEnds and the European Capacity Building Initiative (ecbi). It was co-facilitated by Rita Sharma, former Secretary to the Government of India, Ministry of Rural Development (MORD); and Prodipto Ghosh, former Secretary to the Government of India, Ministry of Environment, Forests and Climate Change (MOEFCC).

Over 23 senior government officials participated in the meeting, including representatives from the Ministries of Agriculture; Environment, Forests and Climate Change; Finance; Health and Family Welfare; Rural Development; and Water Resources. The Deputy Managing Director of the National Bank for Agriculture and Rural Development (NABARD), and the Chief General Manager of the Small Industries Development Bank (SIDBI), two of the designated national implementing entities for the Green Climate Fund (GCF), also participated, along with the Indian member of the GCF Private Sector Advisory Group. Ousseynou Nakoulima, Director of Country Programming at the GCF, joined the second session of the consultation through video link. A list of participants is appended to this report.

Background of the consultation

There have been a number of national and international developments on climate change finance recently in India. While allocations for climate change have been made in the last few budgets nationally, globally the Green Climate Fund is expected to start disbursing funds from later this year. In this context, Keystone Foundation and Oxford Climate Policy recently undertook a review of climate finance arrangements in India, specifically from the perspective of channelling adaptation finance to poor and climate-vulnerable communities, who are likely to be the worst impacted by climate change.

The resulting paper, *Consolidation and Devolution of Climate Finance: The Case of India*, identifies existing gaps in the climate finance architecture, and in readiness to channel national and international funding to vulnerable communities.

The consultation on 7 August 2015 was held to bring together critical government actors, including those who already work with climate-vulnerable communities but are not currently part of the discussion on climate finance (such as the ministries of rural development, Panchayati Raj, water and agriculture). The consultation sought to discuss:

- How to widen participation and ownership of climate finance and action, to include missing sectors and actors;
- How national and international climate finance can be "consolidated" to work towards common, nationally-determined, goals and targets;
- How climate finance can be devolved, to reach the most vulnerable;
- Latest developments under the GCF, particularly with respect to a new modality of "Enhanced Direct Access" (EDA), and how India can leverage this new modality to benefit vulnerable communities and strengthen existing national programmes such as the National Rural Employment Guarantee Act (NREGA); and
- Mitigation-related climate finance in the context of channelling funds from the GCF's "Private Sector Facility" to micro-, small- and medium-sized enterprises (MSMEs). (Based on another paper on *Mobilizing MSMEs*).

The meeting was restricted to a select group of government representatives from critical sectors, and took place in a round-table format to provide an opportunity for open debate. The first session discussed existing arrangements for climate finance in India, and the second session discussed the GCF's EDA pilot, and India's potential response.

Report of the consultation

Pratim Roy, Director, Keystone Foundation, opened the meeting by welcoming the participants, and conducting a round of introductions. He then invited Rita Sharma, former MORD Secretary, to chair the first session.

Existing arrangements for Climate Finance in India

This session was kicked off by a presentation by Anju Sharma, Director of Oxford Climate Policy and member of the Board of Trustees, Keystone Foundation, who presented the key findings of the report on consolidation and devolution of climate finance in India.

Sharma noted that existing arrangements for climate finance in India were dispersed and fragmentary, and invited participants to consider:

- how existing (national and global) climate finance sources could work together, to achieve clear and common goals and targets; and
- how they could be made to target better the needs of the poor, and be locally owned and driven.

She pointed to the need for a level of "consolidation without centralization," accompanied by a strong agenda for "devolution," while proposing that existing arrangements, for instance for the National Rural Employment Guarantee Scheme that also targets the poor and vulnerable, could also be deployed for climate finance. (Sharma's presentation is appended to this report).

The Chair of the session then invited comments, while reiterating the points made in the presentation that key relevant actors – such as MORD, MOPR and State and local government representatives and communities — were currently absent in the decision-making process related to climate finance; and that climate governance in India completely bypasses devolution, an element that has been central to development efforts in India in the past two decades.

In the discussion that followed on **consolidation** of climate finance, a representative from a national institution said the key role for a central agency should be to attract resources for climate finance, and allocated them to national implementing entities, while allowing these entities freedom in their approaches to implementation. He cautioned against an approach where each ministry would have to give the go-ahead on projects and activities.

A participant highlighted the "demand-driven" nature of NREGA, which he said could hinder the flow and use of climate finance, as the funds would lie unspent if there was no demand for them. He noted the different levels of progress on devolution in various States. He notes that although the Prime Minister's Committee on Climate Change does not meet often, the Executive Committee attached to this committee met every three months to review the climate change Missions under the National Action Plan for Climate Change (NAPCC). He agreed that the State Action Plans on Climate Change (SAPCCs) were not practical or effective, and this had been communicated verbally and in writing several times by his ministry. He also noted that the changes implemented by the recent 14th Finance Commission, to increase in the share of States in the centre's tax revenue from the current 32% to 42%, and double the flow of funds to local bodies, should aid further devolution and discourage centralization, while also discouraging a top-down target driven approach. He also noted that the MOEFCC had been appointed as the National Designated Authority (NDA) to deal with the GCF after heated debate. Finally, he said the social audit process was now part of all operational guidelines issued by the centre; and highlighted the need to map climate activities in the country.

The Chair highlighted points from the presentation, that "consolidation" was not the same as "centralization" of climate finance, and the purpose of this consolidation would be to ensure coherent governance; establish basic principles such as equitable distribution and use; involve all key actors; enhance local access; and encourage further capitalization, rather than any physical relocation or reallocation of funds.

Another participant highlighted the difficulties faced in sourcing funds for managing water resources.

The Chair then directed the discussion to **devolution**, highlighting the need to learn from past experiences with programmes such as NREGA and the National Rural Livelihoods Mission (NRLM); working with local bodies such as Panchyati Raj Institutions (PRIs), self-help groups, and farmer collectives; and working through institutions such as NABARD, SIDBI and local banks.

A participant agreed that local governance and devolved decision-making will be critical, given that climate impacts are likely to be very localised, and need localised responses. She said it was therefore surprising that the PRIs had no role in the preparation of the SAPCCs, and were hardly even consulted in most States. She also noted the need for local capacity building, to drive the demand for climate finance at the local level, saying the funds earmarked for climate finance in the previous budgets were still unspent.

Another participant noted that to encourage the effective use of these funds, it would be necessary to channel the resources to where there is demand, and to use mechanisms for disbursement that the local actors are comfortable with, and can easily access. In this context, he gave the example of the Sustainable Use of Natural Resources and Energy Financing (SUNREF) project by the French Development Agency (AFD), where local banks were used to reach out to MSMEs.

At the end of the first session, there was convergence that some form of consolidation and strategic guidance of climate finance flow at the national level, for instance through a national steering committee, would be helpful. Minimally, such a committee should be tasked with monitoring domestic climate finance flows, analysing their effectiveness, and providing recommendations of how shortcomings could be remedied. It was also mentioned that the effectiveness of such a committee could be increased if it had some resources, say in the form of a National Climate Fund, which would allow it to carry out some of these remedial actions itself.

At the same time, there was general agreement that in order to provide funding for local stakeholders (public or private), there is a need for in-country devolution of decision-making in general, and of project approval, in particular. In other words, it was recognised that local projects need local approval/intermediation.

The Enhanced Direct Access pilot, and India's potential response

This session was chaired by Prodipto Ghosh, former Secretary, MOEFCC, and initiated by a introductory presentation by Benito Müller, Managing Director, OCP. Ousseynou Nakolima, Director of Country Programming, GCF, joined the discussion virtually from the GCF headquarters in Songdo, South Korea.

After a brief message by Nakoulima on why EDA is of paramount importance for the GCF, Müller presented a brief history of the idea of EDA. He described EDA as a funding modality where decisions on which projects or programmes to fund are taken in-country, rather than at the global level. The public sector funding streams are consolidated in national gateways (called "National Funding Entities" or NFEs), and decisions on funding activities (in-country projects/programmes) are taken in-country by these NFEs.

He noted India's key role in advocating EDA, including in early submissions to the UN Framework Convention on Climate Change (UNFCCC). Partly as a result of these efforts, the

GCF's Governing Instrument, in paragraph 47, had called on the GCF Board to consider "*additional modalities that further* ***enhance direct access****, including through* ***funding entities*** *with a view to enhancing country ownership of projects and programmes*". The Indian Board member on the GCF Board had then played a pivotal role during the consideration of this paragraph by the board, and in a meeting in October 2014, the GCF Board requested the GCF Secretariat "*to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access, which will include relevant readiness support if requested by subnational, national and regional entities".*

In its July 2015 meeting, Müller said, the GCF Board approved the Terms of Reference (TOR) for the EDA pilot project, and called on the GCF Secretariat to carry out a request for proposal from countries,*"…with the initial aim of providing up to US$ 200 million for at least ten (10) pilots".* Some Board members have referred to this as the "signature modality" of the GCF, and it is likely that this could become the key modality for the Fund, based on initial experience and performance.

He said the objective of the EDA pilot is to ensure an effective operationalization of modalities to enhance direct access… including *devolved decision-making* and stronger *local multi-stakeholder engagement*. *Decision-making on the specific projects and programmes to be funded will be made at the national or subnational level*, and such EDA is a means to increase the level of country ownership over those projects and programmes. This implies that *the screening, assessment and selection of specific pilot activities would be made at the regional, national or subnational level*. At the same time, mechanisms will be set up to increase *national oversight and multi-stakeholder engagement at the country level.*

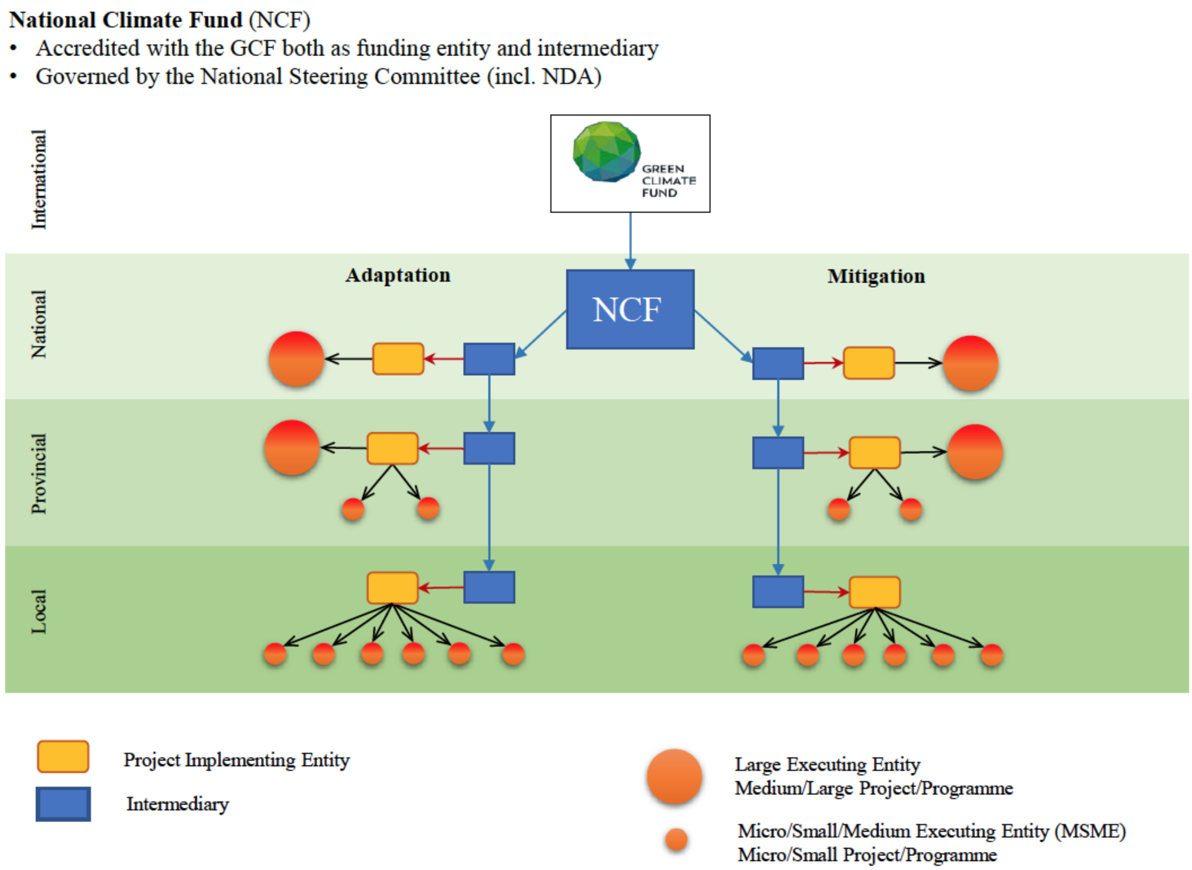
Müller listed the following steps for the pilot phase:

- A call for pilot proposals by the Secretariat
- The selection and nomination of a national implementing entity (NIE);
- Submission of a proposal developed by the nominated NIE to the Fund for approval. Unlike the traditional direct access modality, there will be no submission of individual projects or programmes to the Fund because decision-making for the funding of specific pilot activities will be devolved to the country level;
- Decision-making by the entity on the specific pilot activities under the Fund-approved pilot, in consultation with the NDA or focal point, oversight function, and various stakeholders in the multi-stakeholder engagement process.

He noted that NIEs could be a public-sector institution (development bank, national fund, etc.) or private-sector entity (commercial bank, investment fund, etc.) and non-governmental organizations operating at the regional, national or subnational level. To ensure the inclusion of a wide range of stakeholders, the NIE is expected to work with various types of local actors, especially those addressing the needs of vulnerable communities and gender aspects, which may include public institutions, local bodies, non-governmental organizations, community-based organizations, actors from the informal sector, and private enterprises, particularly MSMEs.

The pilot also calls for a national oversight process, which includes the NDA and stakeholders such as representatives of government, private sector, academic, and civil society organisations, including women’s organisations.

Müller then presented a visualization of how EDA may work at the national level (see figure below).



The presentation concluded with summary of an Indian case study of how to engage MSMEs through local intermediation.

In the course of the ensuing discussion, Nakoulima was able to directly answer a number of questions by participants particularly on the EDA TOR. Participants also raised a number of issues that may need to be taken into account in the formulation of a call for proposals for the EDA Pilot Phase, such as the issue of how to handle multiple implementing entities applying for a pilot programme, in particular with respect to the national oversight and steering function required in the TOR.

After a round of final statements, Roy closed the meeting by thanking the participants, both physical and virtual, and in particular the two co-facilitators who were key to the success of the meeting.

Annexes

1. List of participants
2. Presentations