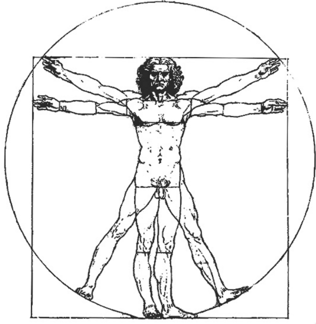

Consolidation and devolution of national climate finance

The case of India

By Anju Sharma, Benito Müller & Pratim Roy
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INTRODUCTION

National and international funding is increasingly becoming available to address climate change in India, for both mitigation and adaptation.

At the 2014 UN climate conference in Lima, Peru, for instance, Indian environment Minister Prakash Javadekar listed India's existing or committed investments for mitigation: US$ 3 billion from a National Coal Cess for clean technologies; a five-fold increase in the ambition of the National Solar Mission with an investment of US$ 100 billion over five years; US$ 6 billion for afforestation; and further investments in promoting 100 "smart cities".[1] On the adaptation front, Indian policy makers have often stated that annual expenditure exceeds 2.6 per cent of the GDP. In addition, the two recent Union budgets have included separate allocations for climate change – ₹100 crore (US$ 16 million) for a National Adaptation Fund in 2014-2015, and ₹160 crore (US$ 26 million) in the 2015-2016 budget.[2] Budgetary allocations have been made for the Missions under the National Action Plan on Climate Change (NAPCC).[3] Finally, India is among the top five recipients of multilateral climate finance for mitigation,[4] and receives multilateral and bilateral funding for adaptation.

These resources are unlikely to meet the country's mitigation and adaptation needs, as the Governor of the Reserve Bank of India and former Chief Economic Adviser, Raghuram G. Rajan, recognised recently. "How do we finance all of our [climate] needs while staying within a prudent resource envelope?" he asked in a statement. "The answer has to be more efficient spending and polices to generate additional resources, along with additional funding from developed countries." [5]

This paper argues that more efficient spending is only possible if climate finance is governed effectively. It begins with a review of current arrangements for climate finance in India, which are dispersed and fragmentary, and lack clear goals and strategies – therefore allowing for neither efficiency nor accountability. It is difficult to assess exactly how much funding is available, what it is meant to achieve, or how. More critically – given the equity dimensions of climate change that India has pointed to often in the international negotiations – it is not clear who it is meant to benefit, or whose needs are being prioritised.

Recent reviews and consideration of climate finance governance have focused mainly on India's readiness to access funds from the Green Climate Fund (GCF) or other international sources of climate finance.[6] For instance, the Climate Change Finance Unit (CCFU) of the Ministry of Finance initiated a consultation process in early 2014, but this was mainly to discuss what arrangements should be in place for India to access funds from the GCF. We find, however, that an even greater priority for India is to focus on domestic governance arrangements for climate finance, to ensure more effective, efficient and accountable spending.

Following a review of existing governance arrangements in India, we identify necessary elements for climate finance governance based on three case studies of funds created in India. Two of them, the National Clean Energy Fund (NCEF) and the Compensatory Afforestation Fund, point to the perils of a weak and poorly defined governance architecture. The third – the National Employment Guarantee Fund (NEGF), created for the National Rural Employment Guarantee Scheme (NREGS) – comes closer to addressing the challenges identified in with regard to climate finance. NEGF governance combines national and State level "consolidation" with "devolution" of decision-making to the local level; reaches out to the most vulnerable; involves and draws on the expertise of a broad section of society; includes monitoring and accountability systems; and is responsive to learning and change.

Based on the analysis, we propose the creation of an Indian National Climate Fund (INCF) to pool climate finance from different national and international sources, and then channel it to the State and local levels.

The Fund should seek to "consolidate without centralisation", and be governed along the lines of the NEGF, with representation from all relevant sectors and levels (States, districts, Panchayats), communities, and non-government experts.

The role of the INCF and its governing body should be to define a common vision and principles for national and international climate finance in India; ensure coherence with national development goals strategies, and integration across sectors; ensure distributive justice, to ensure that climate finance reaches those who need it most, and their needs are prioritised; ensure a balance between different thematic areas (such as mitigation, adaptation, capacity building etc); and continuously review progress, to make mid-course corrections where necessary. The INCF vision and principles should underline the need for devolution of decision-making on the use of climate finance, in keeping with India's 73rd and 74th Constitutional Amendments.

Devolution can take place through existing national mechanisms and institutional arrangements where possible, especially where they have proven experience in reaching vulnerable sections of society that will need climate finance the most, and in fostering local decision-making. We consider existing channels to reach the poor and vulnerable in rural areas in this paper – mainly the infrastructure created to implement the National Rural Employment Guarantee Scheme, which is already focused on the rural poor and devolved decision-making. Other channels will also be necessary – including national budgetary channels (especially for funds from the Union budget, and for activities that are embedded in national development processes); civil society groups and networks; national development finance institutions; and public and private banks that have the infrastructure available to channel finance to the local level, disburse funds, and oversee mitigation and adaptation activities.

Once the INCF has been created to provide strategic guidance for domestic climate finance and to channel it where it is most needed, ways can be found to make international sources such as the GCF work within this national mechanism, to help strengthen the national infrastructure further and work towards the same nationally-determined goals. Such "blending" of national and international sources to ensure greater national ownership is already a primary goal for climate governance mechanisms set up in other developing countries – such as Bangladesh's Climate Change Trust Fund, Indonesia's Climate Change Trust Fund, the People's Survival Fund in the Philippines, Mexico's Climate Change Fund, Brazil's National Climate Change Fund, and Rwanda's National Climate and Environment Fund.

The task of reconciling national and international goals is made easier by the new modality of "enhanced direct access" (EDA), which is currently being operationalised by the GCF. EDA is a funding modality where decisions on which projects or programmes to fund are taken in-country, rather than at the international level. The INCF could serve as the national gateway or "national funding entity" for EDA, providing a high-level, multi-sectoral and inclusive governing body to decide on the national allocation of funds accessed through the EDA modality, and oversee the further devolution of the funds to the sub-national level.

1. EXISTING ARRANGEMENTS FOR CLIMATE FINANCE IN INDIA

Governance arrangements for "climate finance", to the extent that it can be delineated and defined as such, are currently very dispersed in India. This Section provides a brief description of the key actors in climate finance governance and decision-making, before identifying some challenges with these existing arrangements in Section 1.6.

1.1 Prime Minister's Council

Former Prime Minister Manmohan Singh appointed a 26-member Council on Climate Change in June 2007 to coordinate national action for assessment, adaptation and mitigation of climate change. The Council was tasked with evolving a coordinated response to issues relating to climate change at the national level; providing oversight for formulation of action plans in the area of assessment, adaptation and mitigation of climate change; and periodically monitoring key policy decisions.[7]

When it was constituted, the PM's Council was convened by the Prime Minister's Principal Secretary, and included the ministers of: environment and forests; external affairs; finance; agriculture; water resources; and science and technology. In addition to representatives from the Planning Commission; National Manufacturing Competitiveness Council; Economic Advisory Council; and Bureau of Energy Efficiency, it included the Principal Scientific Advisor to the Prime Minister, and eight non-government representatives from non-government organisations, academia, the private sector and media.

While the leadership from the top that this Council represented seemed promising, its constitution was somewhat arbitrary. It was not clear, for example, why the ministries of rural and urban development, and of local governance (Panchayati Raj), were not included.

The Council met erratically until about 2011, and then stopped meeting for three years. In January 2013, an Executive Committee on Climate Change was constituted to assist the Council. The Committee is chaired by the Principal Secretary to the Prime Minister and include the Cabinet Secretary (the senior most civil servant in the government of India) and secretaries from various ministries and departments (but not rural development or Panchayati Raj).[8]

In November 2014, a newly elected government under Prime Minister Narendra Modi announced changes in the Council's membership.[9] The minister for urban development was included this time, along with the minister for coal, but the ministers for rural development and Panchayati Raj were not. The number of non-government representatives was halved to four. The Council subsequently met again in January 2015, where a proposal to include a separate budget item on climate change in the Union Budget was briefly discussed, but no final decision was taken in this regard.[10]

The Council has had a role in the governance of climate finance to the extent that it formulated India's National Action Plan on Climate Change (NAPCC - *see box*), and budgetary allocations in the Twelfth Five Year Plan were based on the Missions outlined in the NAPCC. The Twelfth Five Year Plan cautioned that the funding requests put forward by ministries for their Missions are unlikely to become available through budgetary sources. It therefore proposed a reorganisation, where the goals of some Missions are absorbed under other existing flagship Missions, but still monitored by the Prime Minister's Council.[11]

BOX: National Action Plan On Climate Change

India's National Action Plan on Climate Change (NAPCC) was announced in June 2008, calling for the establishment of eight national "missions". Although it was greeted with enthusiasm internationally and seen as sign that India was willing to engage on climate change once again, at home it was greeted with caution. Concerns were raised on both the process and content. The plan was prepared by the PM's Council on Climate Change, without consulting State governments or civil society.[12] In addition to this "ivory tower" approach to its formulation, the plan was criticised for its lack of specific targets and goals; lack of long-term vision; and a silo-based "sectoral mission" approach, among other things.[13] No broader consultation took place on the design of the eight missions either – lead ministries were given six months to submit detailed five-year plans for each Mission, for inclusion in the Twelfth Five Year Plan.

National Solar Mission (coordinated by the Ministry of Renewable Energy, allocated ₹8795 crore or approximately US$ 1.4 billion for the Twelfth Five Year Plan period): This Mission aims to make solar electricity cost competitive to coal power and increase the share of solar energy in the total energy mix through development of photovoltaic and solar thermal technologies. It recommends implementation in three stages leading up to an installed capacity of 20,000 megawatts by the end of the Thirteenth Five Year Plan in 2022.

National Mission for Enhanced Energy Efficiency (Ministry of Power, allocated ₹190 crore or approximately US$ 30 million for the Twelfth Five Year Plan period).[14] This Mission includes four initiatives: Perform, Achieve and Trade (PAT); Market Transformation for Energy Efficiency (MTEE); Energy Efficiency Financing Platform (EEFP); and Framework for Energy Efficient Economic Development (FEEED). It aims to achieve 23 million tonnes of oil-equivalent of fuel saving by 2015, with an avoided capacity addition of over 19,000 MW.

National Mission for Sustainable Habitat (Ministry of Urban Development, budget of ₹950 crore or approximately US$ 151 million for the Twelfth Five Year Plan period, to be met from the existing budget of the Jawaharlal Nehru National Urban Renewable Mission): This Mission promotes energy efficiency in buildings, solid waste management, and public transport.

National Water Mission (Ministry of Water Resources, allocated ₹196 crore or US$ 31 million for the Twelfth Five Year Plan period): This Mission focuses on rainwater harvesting, groundwater charging, and increasing water use efficiency at least by 20% by 2012. Water is a state subject in India, so buy-in from State governments is crucial. The Mission has been criticised for emphasising energy- and resource-intensive infrastructure projects[15], and ignoring water use in agriculture and demand-side water management.[16]

National Mission for Sustaining the Himalayan Ecosystem (Ministry of Science and Technology, allocated ₹500 crore or US$ 76 million for the Twelfth Five Year Plan period): This Mission, is focused on: Himalayan glaciers and the associated hydrological consequences; biodiversity conservation and protection; wildlife conservation and protection; and traditional knowledge of societies and their livelihood.

National Mission for a Green India (Ministry of Environment and Forests, allocated ₹13,000 crore or approximately US$ 2 billion for the Twelfth Five Year Plan period): This Mission will focus on enhancing ecosystem services and carbon sinks through afforestation on over 10 million hectares of "degraded forestland" over a ten-year period. The Mission has come under criticism for focusing mainly on mitigation, while ignoring potential negative outcomes for poor communities that rely on these degraded forestlands, using these areas for grazing or for shifting cultivation cycles. According to some analysts, the potential availability of such wasteland and/or degraded forestland is overestimated for the Mission.[17]

National Mission for Sustainable Agriculture (Ministry of Agriculture, allocated ₹13,034 crore or approximately US$ 2 billion for the Twelfth Five Year Plan period): This Mission aims to make Indian agriculture more resilient to climate change by developing new varieties of climate-stress resistant crops, new credit and insurance mechanisms, and improving productivity of rain-fed agriculture. The focus is on physical interventions – the funds will be primarily spent on technology, products and practices (60%); infrastructure (29%); R&D (6%); and capacity building (5%). It has been criticised for ignoring the needs of poor and vulnerable farmers[18], and its emphasis on conventional linear, intensive models that make farmers more dependent on external agencies. Its focus on research on Genetically Modified Crops that have already shown long-term negative effects has also been criticised.[19]

National Mission on Strategic Knowledge on Climate Change (Ministry of Science and Technology, expenditure of ₹2,500 crore or approximately US$ 397 million over Twelfth Five Year Plan to be met from existing allocation to the ministry): This Mission focuses on identifying the challenges of, and the responses to, climate change through research and technology development, and ensuring funding of high quality and focused research into various aspects of climate change.

1.2 Ministry of Environment, Forests and Climate Change

Given early (and often, ongoing) perceptions of climate change as mainly an environmental problem, its governance falls mainly under the mandate of the environment ministry in India. This mandate has recently been strengthened – one of the early actions of the new government after it came into power in mid-2014 was to rename the Ministry of Environment and Forests as the Ministry of Environment, Forests and Climate Change (MoEFCC).

Therefore, the MoEFCC is the National Designated Authority (NDA) for the Adaptation Fund[20] and the GCF.[21] It played a coordinating role in the formulation of the NAPCC Missions. It is expected to take the lead in managing fund that are specifically earmarked for climate change in the budget – such as the ₹160 crore (US$ 26 million) allocated in the 2015-2016 budget, and ₹290 crore (US$ 46 million) allocated by the Twelfth Five Year Plan for an umbrella scheme on Climate Change Action Programme (CCAP).[22] The MoEFCC is also the clearinghouse for sub-national climate planning, as we will see in Section 1.4.

The leadership role of the MoEFCC could pose a challenge for mitigation, given that it is likely to have little influence on the more powerful "mainstream" ministries such as petroleum and natural gas, coal, transport, heavy industries and public enterprises, which will need to be part of any major policy shift towards a low-carbon pathway. But it is likely to pose an even greater challenge when it comes adaptation. The focus of the MoEFCC is mainly on the protection of forests and wildlife through physical interventions such as growing trees, and it has demonstrated very little inclination to work with and for vulnerable communities in the past.

The relationship between poor rural communities, who rely heavily on forest products, and the environment and forest sector has been strained through decades of conflict. So much so that a Planning Commission working group report for the Twelfth Five Year Plan termed the management of India's forest and wildlife as "socially unjust".[23] It quotes the 'notably obstructive role' the forestry sector has played in the implementation of the 2006 Panchayats (Extension to the Scheduled Areas) Act, which promotes local self-governance of forest resources. According to the working group report, "*legal and administrative subterfuge has kept the* [PESA] *provisions as a set of aspirations, and the agenda of self-governance remains postponed*".

It is therefore difficult to see how the MoEFCC can lead a community-oriented response to climate change, or take the lead in what is first and foremost a process of elevating poor communities from poverty, to reduce their vulnerability to climate change. It is certainly not considered a priority by the ministry – its input on climate change for the Twelfth Five Year Plan is focused mainly on mitigation, with hardly any mention of adaptation.[24]

1.3 Ministry of Finance

In 2012, India set up a Climate Change Finance Unit (CCFU) under the Department of Economic Affairs, in the Ministry of Finance. This was a significant move, signalling that climate change was finally being recognised as more than just a threat to the environment – it was recognised as a threat to the Indian economy. The CCFU, however, is currently more focused on the international finance negotiations and GCF readiness, than on the domestic governance of climate finance.[25] In early 2014, for instance, the CCFU initiated a consultation "*to build a clear understanding how the [GCF] funds are going to be channelized and utilized ... and build an institutional framework by which the various agencies and others get maximum benefit from the fund*".[26]

In this context, the establishment of a National Green Fund or a National Climate Fund (NCF) was discussed. The India Approach Paper circulated during the consultation recognises the benefits of such a national fund: "*An NCF is a mechanism that supports countries to manage their engagement with climate finance by facilitating the collection, blending, coordination of, and accounting for climate finance from a complex multilateral sources. NCFs provide a country driven system that can support climate change goal setting and strategic programming, oversee climate change project approval, measure project implementation and performance, offer policy assurance and national control of climate change funds and assist with partnership management. NCFs help countries to blend various resources together at the national level, providing a mechanism for shifting power away from traditional top-down fund management to country- level management. Such funds also act as an effective vehicle for raising and receiving international support and leveraging resources from a variety of public, private and corporate sources.... A [NCF] in*

India is required at the national level to be given a status of an independent legal corpus to be completely managed, owned and operated by the country."

1.4 Sub-national planning for climate change

The NAPCC called on States to prepare State Action Plans on Climate Change (SAPCCs) through a process coordinated by the MoEFCC and the state environment departments. The Ministry drew up a Common Framework to guide the preparation of SAPCCs in consultation with bilateral and multilateral agencies, calling on States to draw up action plans that focus on impacts and vulnerability assessment; identify and prioritise adaptation and mitigation options; and identify financial needs and potential sources. In 2009, each state was provided ₹10 lakh (approximately US$ 16,000) to prepare their SAPCCs.

A two-stage process was agreed to review and endorse SAPCCs. An Expert Committee chaired by MoEFCC and with members from various nodal ministries and departments first reviews draft plans and provides suggestions and recommendations. Revised SAPCCs are then sent to a National Steering Committee, chaired by the MoEFCC Secretary. So far, 22 SAPCCs have been prepared.[27] Nineteen SAPCCs have been endorsed by the National Steering Committee and recommended to the Planning Commission, and three are under consideration by the Expert Committee.[28]

The extent to which the process of preparing SAPCCs engaged with other key departments related to climate change (for instance, energy, agriculture or water) and brought their concerns and suggestions on board varies widely across States. Even in States that performed better in involving key sectors, the frequent transfer of officials has meant that the capacity briefly built has dissipated, and contact points lost.

It is also not really clear how the state-driven SAPCC process will relate to the NAPCCs and its Missions. The Common Framework for SAPCCs calls on them to "*address state priorities while creating an enabling environment for implementation of NAPCC*", but the priorities identified under the Missions (or indeed the policy areas addressed by the NAPCC) may not be the same as State priorities. An analysis of SAPCCs by the Centre for Development Finance, Chennai, finds that there are several areas where the States have explicitly mentioned the challenges in implementing the strategies under the national missions.[29]

The sources of funding available to implement the SAPCCs have not yet been identified. The Twelfth Five Year Plan calls on state governments to provide most of the funding through their respective plan outlays.[30] The SAPCCs have been allocated ₹90 crore (US$ 14 million approximately) of the ₹290 crore (US$ 46 million) for CCAP.[31] It is worth noting here that there are single interventions listed in a single State that are estimated to cost more than ₹290 crores. For instance, the single intervention of rainwater harvesting on hill slopes is estimated to cost ₹300 crores (US$ 47 million) over five years by the West Bengal SAPCC.

1.5 Bilateral and multilateral agencies

There are a number of multilateral and bilateral agencies funding, providing technical assistance, and implementing adaptation activities in India. These include, for instance, the World Bank, Asian Development Bank, UN Development Programme, the Swiss Agency for Development and Cooperation, Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, the US Agency for International Development, and the UK Department for International Development. Multilateral agencies providing climate finance include the Global Environment Facility, Special Climate Change Fund, and Adaptation Fund.

The bilateral agencies work with the MoEFCC as a nodal ministry for climate change, and fund projects by central and state government agencies, as well as non-government actors. Between 2007 and 2013, they have provided about ₹3,222.6 crore (US$ 513 million) for climate change in the form of grants, loans and technical

assistance – including, for instance, in the preparation of SAPCCs, and in "climate proofing" ODA-funded projects and activities.

Multilateral agencies, each with their own access modality and governance, have provided about ₹53,422 crore (US$ 8.5 billion) as climate finance to India during this period.[32] Traditionally, countries have submitted projects through multilateral implementing agencies (such as the World Bank, the UN Development Programme, UN Environment Programme or regional development banks) for access to multilateral funds. Decisions on which projects get funded are then taken by the Board or CEO of the multilateral agencies. This modality is seen as a restriction on country ownership (as the final decision on what activities to fund is taken elsewhere); and on community access to funds (poor communities typically lack the capacity to meet the stringent requirements for submitting project proposals, or to guide the proposal through the many stages from its inception, to national and then international endorsement).

It was in response to these concerns that the Adaptation Fund pioneered a "direct access" modality, which included the option of doing away with the multilateral implementing agency. Instead, project proposals are submitted to a National Implementing Entity (NIE) that has been accredited by the Adaptation Fund Board (AFB). According to the Adaptation Fund's *Operational Policies and Guidelines for Accessing Funding*, NIEs are "*national legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards and demonstrating ability to comply, as a minimum, with the environmental and social policy approved by the Board. The NIEs will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities*."[33]

In India, the National Bank for Agriculture and Rural Development (NABARD) is accredited as a NIE of the Adaptation Fund.[34] It is responsible for screening projects that are submitted from India to the Adaptation Fund, and getting them endorsed by the MoEFCC, which is the National Designated Authority (NDA). Endorsed projects are then forwarded to the AFB for consideration. So although ultimate decision on whether to fund a project or activity is still taken by the AFB, the process is more accessible by local communities and their representatives.

So far, the Adaptation Fund is funding two projects in India: Enhancing Adaptive Capacity and Increasing Resilience of Small and Marginal Farmers in Purulia and Bankura Districts of West Bengal (US$2,510,854); and Conservation and Management of Coastal Resources as a Potential Adaptation Strategy for Sea Level Rise (US$689,264).[35] Both are executed by NGOs – the former by Development Research Communication and Services Centre, and the latter by MS Swaminathan Research Foundation, supported by Praja Pragathi Seva Sangam.

The Adaptation Fund itself is currently facing a crisis in funding – it depends mainly on a 2 per cent levy on transactions on the Clean Development Fund, an emissions trading mechanism whose future is currently uncertain.

1.6 Challenges for climate finance governance in India

The governance arrangements for climate finance are currently dispersed in India, and lack a clear, integrated strategy, and coherent policy guidance. There is a PM's Council with the express goal of ensuring a coordinated response and providing oversight, but it has met erratically and not fulfilled a coordinating role effectively so far. Moreover, not all relevant actors are currently represented on the Council – such as the ministries of rural development and Panchayat Raj, and State and local government representatives.

The MoEFCC is in a lead role in the NAPCC and SAPCC processes, for the management of budgetary resources allocated to climate change, and as chief liaison with bilateral and international sources of funding. However, if climate change adaptation is mainly about addressing the social vulnerability of the poor, then having an institution with a proven record for being anti-poor as the key nodal agency for addressing the impacts on the poor could prove a major hurdle. In addition, the MoEFCC, like environment ministries in other parts of the world,[36] lacks the political and financial clout required to lead an integrated and mainstreaming agenda,[37] and runs the risk of being sidelined because its environmental mandate is viewed as weakening the development focus of key economic sectors. This was already in evidence in some States – officials from a mainstream department in one State displayed no ownership over the SAPCC, describing it as "just something the environment department does".

The NAPCC and SAPCCs could have been instruments for providing a strategy and policy guidance – but the legitimacy and effectiveness of both in providing this guidance is questionable. The NAPCC did not involve representatives from States in its formulation, and there was no consultation process, so it is not clear how it will generate buy-in from State governments for its pre-determined Missions, to translate them into actions on the ground.

Such top-down and inflexible planning in the form of centrally sponsored schemes (or missions, in this case), with tied funding, has already been recognised as a key reason for failure in implementation by reviews carried out by the Planning Commission of India during the formulation of the Twelfth Five Year Plan. Centrally determined schemes and missions were recognised as promoting a "top-down, target-oriented" culture, where real goals are lost in the pursuit of meaningless targets. In response, major reforms have been proposed by the Fourteenth Finance Commission earlier this year, in an attempt to further devolve decision-making on the use of national budgetary resources to States and local bodies.[38]

The process for formulating the SAPCCs, meanwhile, did not involve local governments or communities. In fact, it would be fair to say that climate governance in India completely bypasses an element that has been central to development efforts in the past two decades: devolution.

The Indian Constitution was amended in 1993, to give over powers of local governance to Panchayat Raj Institutions (PRIs) in rural areas (through the 73rd Constitutional Amendment), and Urban Local Bodies (ULBs) in urban areas (through the 74th Constitutional Amendment). Since then, a consistent effort has been made to devolve decision-making to these local governments, and to build the capacity of these local bodies to implement this devolution. Given that climate impacts are likely to be very localised, and need localised responses, local governance and devolved decision-making will be critical. It is therefore surprising that the PRIs had no role in the preparation of the SAPCCs – they were hardly even consulted in most States, or given the chance to provide input.

Stakeholders have broadly expressed their dissatisfaction with the way in which they were formulated, and who was consulted. Most stakeholders did not have the information they needed on local climate impacts, on an appropriate scale, to contribute to the planning process. The focus of investments in generating information on climate change in India continues to be mainly at the national level. For instance, part of the CCAP funds will be used to set up a National Institute for Climate Change Studies and Actions (NICCSA).[39] It could be argued that investments in the State and district/ community level are even more crucial, to inform local planning.

Finally, when States were asked to prepare the SAPCCs, they were not given any indication of the kind of funding that might be available for their implementation. This resulted in unrealistic budgetary estimates, and lack of adequate or realistic prioritisation of action. Participants in a meeting reviewing the SAPCCs organised

by the Centre for Policy Research (CPR) in April 2013 noted that there is a large degree of variation in the costs quoted by each state, and SAPCC recommendations tend to be long and unwieldy lists of actions, at a variety of scales, and with a variety of implications.[40] There is currently no process to update the SAPCCs, or indeed to fund them fully.

The recent two budget announcements by the new government have only served to increase this confusion on climate finance. The ₹100 crore (US$ 16 million) provided for a National Adaptation Fund in the 2014-2015 budget had been revised to ₹10 crore (US$ 1.6 million) in the 2015-2016 budget, and the Fund has been turned into a Mission, to be managed by the MoEFCC instead of the Ministry of Agriculture. The ₹100 crore for the 2014-2015 budget was announced as "an initial sum", but it will clearly not carry over, and it does not seem like the ₹160 crore (US$ 25.5 million approximately) announced in 2015-2016 will be "additional" to the earlier announcement.

2. NECESSARY ELEMENTS OF A NATIONAL GOVERNANCE ARCHITECTURE

Current arrangements for climate finance in India are dispersed and fragmentary, and lack institutional clarity. Critical actors are either entirely missing from the decision-making process, or have been sidelined. The lack of clear goals and strategies allow for neither efficiency nor accountability. It is difficult to assess exactly how much funding is available, what it is meant to achieve, or how. Even more critically, given the equity dimensions of climate change that India has pointed to often in the international negotiations, it is not clear whom it is meant to benefit, or whose needs are prioritised. In clear contradiction to the 73rd and 74th Constitutional Amendments, decision-making has been top-down, and there has been very little effort to involve PRIs and ULBs in the formulation of the NAPCCs and SAPCCs.

To a large extent, climate finance governance in India suffers from many of the same maladies that afflict international climate finance, which the creation of the GCF sought to address. The central government is like a "donor", and the funds it delivers to States and to local governments, particularly for the NAPCC Missions, are tied to pre-determined goals and targets, leaving little room for devolved decision-making and local ownership. The States prepared action plans, but without even an indication of the amount of funds that may be available, this exercise was reduced to an exercise in preparing wish lists.

The State governments, meanwhile, have SAPCCs that were prepared without inputs from local governments. Whatever funds arrive at the community level, therefore, are likely to be tied to achieving pre-determined goals and targets from the SAPCCs, without flexibility to adapt them to local circumstances. There are a number of other bilateral and multilateral players that States and local governments can approach for additional funding, but each comes with their own methodologies and requirements, which are complex and cannot be easily accessed by local communities or their representatives.

Under these arrangements, it is unlikely that the poorest and most vulnerable in India will either be able to access climate finance, or be allowed any flexibility to tailor and finance locally-relevant solutions.

This was the very situation that developing countries sought to address with existing international financial institutions through the GCF. The solutions suggested by the developing countries, including India, in that context are equally relevant in the national context in India: consolidation and devolution.[41]

Consolidation involves the creation of a central pot (or national fund in this case) that is governed

democratically, involving all key sectors and representatives of key stakeholders. In the case of India, this could be an Indian National Climate Fund (INCF) governed by a high-level body (perhaps the PM's Council), with representation from all key sectors and stakeholders. Through such consolidation, the Governing Body of the Fund can help achieve the following goals:

- Strong and consistent policy guidance for the use of climate finance from multiple national and international sources.
- Coherence with national development goals strategies, and integration across sectors, including the use of existing national institutions and mechanisms.
- Distributive justice, to ensure that climate finance reaches those who need it most, and their needs are prioritised.
- Balance between the different thematic areas of mitigation, adaptation, capacity building etc.
- Continuous review of progress, to make mid-course corrections where necessary.

Consolidation, however, should not be confused with centralisation of funding decisions. On the contrary, devolution of funding decisions will be necessary to deliver on the following goals:

- Compliance with Article 40 of India's Constitution,[42] and the 73rd and 74th Constitutional Amendments, which call for the devolution of decision making to PRIs and ULBs.
- Distributive justice, to ensure that climate finance reaches those who need it most, and their needs are prioritised.
- Flexibility in decision-making at the local level, particularly given the unpredictable nature of climate impacts.
- Ownership at the level of implementation, to ensure effectiveness and durability of results.
- Promotion of integrated solutions, which are not tied to sectoral goals and targets.

How can these two goals of consolidation without centralisation and devolution be achieved in India?

2.1 Lessons in consolidation and devolution

The process of designing an Indian National Climate Fund will benefit from an analysis of past experience in managing similar funds. We look at three recent examples in this section: the National Clean Energy Fund (NCEF); the Compensatory Afforestation Fund; and the National Employment Guarantee Fund (NEGF), which is part of NREGA.

2.1.i National Clean Energy Fund

The NCEF was announced as part of the 2010-2011 Union budget. A "clean energy cess" of ₹50 (about 80 cents) per tonne was levied on coal production in India and on coal imports, to fund clean energy projects. This cess was doubled to ₹100 (US$ 1.6) per tonne in the 2014-2015 budget, and to ₹200 (about US$ 3) per tonne in the 2015-2016 budget. The Fund had a corpus of ₹17,000 crore (US$ 2.7 billion) as of early 2015.[43]

Goal: The NCEF is created to fund research and innovative projects in clean energy technologies.

Governance: There is no fixed governing body for the NCEF. The guidelines state that proposals "may be appraised" by an Inter-Ministerial Group (IMG) constituted for each project proposal.[44] This IMG includes the Finance Secretary as Chair; Secretary (Expenditure), Ministry of Finance; Secretary (Revenue), Ministry of Finance; Principal Scientific Advisor to the Government of India; a Planning Commission representative; and representatives of ministries sponsoring the proposal and other ministries concerned with that specific proposal.

The IMG can seek the assistance and views of technical experts from related organisations and individuals of repute in the area of clean energy to review, evaluate and recommend projects. To monitor progress of NCEF funded projects, the IMG will identify and appoint appropriate professional agencies.

Access modality: Proposals from individual organisations or a consortium in the government, public sector or private sector must be submitted to a relevant central ministry or department to apply for funding from the NCEF. If deemed fit, the proposal is forwarded for comments to the Planning Commission, Ministry of Finance and any other relevant ministry for review and comments. The third and final review is carried out by the IMG, which may seek views from experts to review and evaluate projects, and will also appoint appropriate professional agencies to monitor the progress of NCEF-funded projects.

Projects under ₹150 crore (approximately US$ 24 million) can be approved by the minister in charge of the project sponsoring/ line ministry/ department. Projects between ₹150 crore and ₹300 crore (approximately US$ 48 million) need approval from both the minister and the Finance Minister. Projects over ₹300 crore need approval from the Cabinet Committee on Economic Affairs.

Performance: The NCEF has been very successful in building a considerable corpus, but the allocation and disbursement of these funds has been slow, despite a backlog of clean energy projects awaiting funding.[45] Moreover, funds have been diverted to activities that do not fall within the original mandate of the NCEF, such as cleaning up the River Ganga.

A review of the NCEF's performance by the National Institute of Public Finance and Policy (NIPFP), New Delhi, attributed the NCEF's lack of performance to the lack of: an overall vision and strategy; clearly defined targets; a roadmap; and a feedback mechanism to assess, learn and improve. The review is critical of the guidelines and direction provided to the Fund, saying routine projects and schemes of various ministries that should be funded through the national budget are being funded, as long as they meet few general requirements. Moreover, the review finds there is no transparency in the functioning of the NCEF, and information about the activities of the NCEF is not available in the public domain. There is no mechanism to engage with stakeholders. The IMG may call upon experts for advice but has rarely, if ever, done so.[46]

The report calls for dedicated governing, steering and executive bodies for the NCEF, with strong linkages with relevant stakeholders, including the Ministry of New and Renewable Energy, Indian Renewable Energy Development Agency, the Bureau of Energy Efficiency, and clean energy funds and/or departments that already exist in many States. It also calls for the Fund to be governed on the principles of independence, transparency, accountability, stakeholder participation, effectiveness and alignment with national strategies.

Another review by the Centre for Budget and Governance Accountability (CBGA), New Delhi, also found inconsistencies in the proposal appraisal process; absence of an appropriate proposal evaluation framework; under-utilisation of funds; inadequate involvement of research institutes and industries; and the absence of a project monitoring mechanism.[47]

Despite high levels of energy poverty in the country (only 55.3% of rural households have access to electricity, and 85% of rural households still depend on traditional biomass fuels for their cooking energy requirements according to the 2011 Census [48]), and the potential for clean energy sources to meet the needs of the energy poor, the NCEF guidelines neither acknowledge this poverty, nor make it a priority.

2.1.ii Compensatory Afforestation Fund

Under India's 1980 Forest (Conservation) Act, forested land can be diverted to non-forest purposes only with permission from the Central government, and the agency responsible for this diversion must pay the State government for compensatory afforestation on twice the amount of land diverted. The State government is then responsible for making sure the afforestation takes place.

State governments, however, were not following this provision. Therefore in 2002, the Supreme Court of India mandated the creation of a national 'Compensatory Afforestation Fund', to be managed by a Compensatory Afforestation Management and Planning Authority (CAMPA). The Court ruled that the compensatory payments would include not only money for compensatory afforestation, but also for the "Net Present Value" of the forest being destroyed, calculated through an arbitrary figure of ₹5.8-9.6 lakhs (US$ 9,229 - 15,277) per hectare. A Bill to implement this ruling, the Compensatory Afforestation Fund Bill, was introduced in Parliament in 2008, but failed to go through the upper house.[49]

Instead, funds from States were pooled in a national 'Ad-hoc CAMPA'. By 2012, this Ad-hoc CAMPA had collected ₹25,000 crore (approximately US$ 4 billion).[50] Differences between the Centre and States on how the funds should be managed and used meant that the funds lay unused until the Supreme Court intervened in 2009, ordering the Centre to release the money in phases of ₹1000 crore (US$ 159 million) every year for five years, with each state getting an amount proportionate to its contribution.[51] States were then instructed to establish State Compensatory Afforestation Fund Management and Planning Authorities (State CAMPAs) to administer the use of the funds.

Goal: "For undertaking compensatory afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and for matters connected therewith or incidental thereto".

Governance: A National CAMPA Advisory Council (NCAC) was established at the national level, with the Minister for Environment and Forests as Chair. In addition to other MoEF officials, the NCAC includes two environmentalists / conservationists / scientists / economists / social scientists.

At the state level, a ministerial-level governing body, chaired by the Chief Minister, is to be established to lay down the policy framework for the functioning of the State CAMPAs. A Steering Committee, chaired by the Chief Secretary, is expected to: approve rules and procedures; monitor progress; approve Annual Plans of Operation (APOs); approve audited accounts; and ensure inter-departmental cooperation. An Executive Committee, chaired by the Principal Chief Conservator of Forests (PCCF) in each State, is expected to ensure and supervise implementation, and prepare APOs. Two percent of the funds are to be set aside for monitoring and evaluation.

Access modality: Funds are controlled by forest departments, and used primarily for plantations, working plans, forestry programmes and tourism.[52]

Performance: As with the NCEF, poor policy direction and lack of integration with complementary goals has resulted in under-utilisation of CAMPA funds, and questionable lack of effectiveness.[53] Despite the dependence of poor communities on forests, and the potential of afforestation efforts to provide livelihoods, community benefits are not on the radar of activities funded by CAMPA. There is neither representation from local communities in the governance of CAMPA, nor any guidelines to ensure they are consulted in the use of the fund.

Forest community representatives have expressed their displeasure with the CAMPA guidelines, decided by the MoEFCC, which they feel go against the spirit of the 2006 Forest Rights Act (FRA). The FRA recognises the right of forest dependent people to protect, regenerate and manage their forest, but there is no provision at all in the CAMPA guidelines to involve them or PRIs in the use of CAMPA funds. Tribal departments, the nodal agency for implementing the FRA in States, are not part of state CAMPA governing bodies.

The focus of the forest departments appears to be mainly on plantations and infrastructure projects.[54] There have also been allegations of misuse of funds, for activities such as providing vehicles and communication facilities to forest officials, and covering the costs of expensive workshops.[55]

2.1.iii National Employment Guarantee Fund

The National Employment Guarantee Fund (NEGF) was created to implement the National Rural Employment Guarantee Act (NREGA), which was passed in 2005 to enhance rural livelihood security.

Goal: NREGA seeks to: provide, on demand, not less than one hundred days of unskilled manual work as a guaranteed employment in a financial year to every household in rural areas as per demand, resulting in creation of productive assets of prescribed quality and durability; strengthen the livelihood resource base of the poor; proactively ensure social inclusion; and strengthen PRIs.[56]

Governance: NREGA calls for the establishment of a National Employment Guarantee Fund (NEGF)[57] at the national level, from which the Central government pays the States the full amount required for wages; up to three-fourths of the material cost; and a percentage of the total cost (to be determined by the Central government) for administrative expenses (see *Figure 1*).

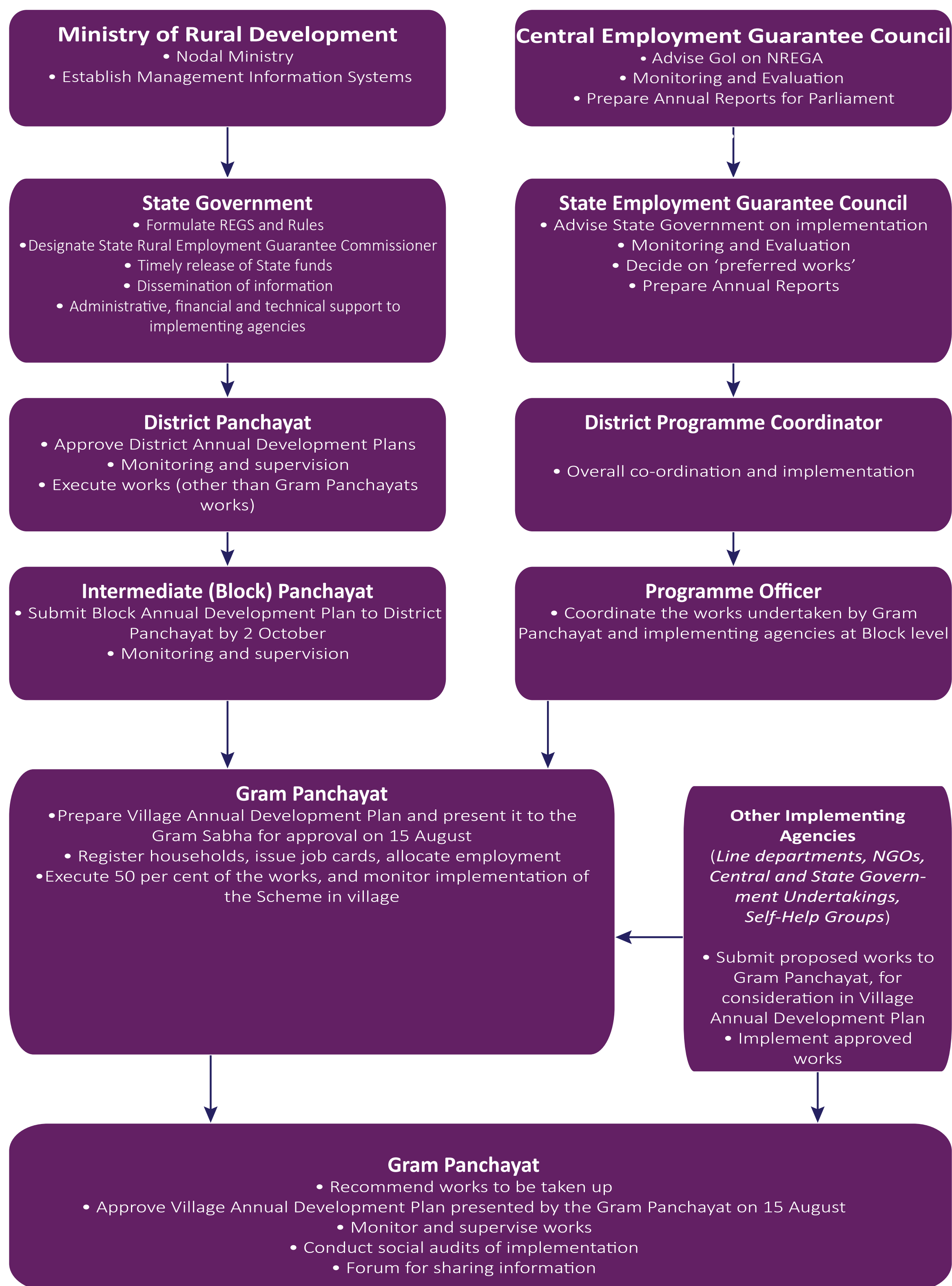
State Employment Guarantee Funds (SEGFs) are established at the state level,[58] from which State governments meet the cost of unemployment allowance (paid in cases where work cannot be provided within the mandated 15 days); a fourth of the material costs; and the administrative expenses of the State Council.

The Act also calls for a Central Employment Guarantee Council (CEGC) to be set up at the national level, and State Employment Guarantee Councils (SEGC) to be set up by States.

The CEGC includes a Chair; representatives of central ministries not below the rank of Joint Secretary; State Government representatives; 15 non-official members representing PRIs, organisations of workers and disadvantages groups (including reservations for women and disadvantaged groups); representatives from States; and a Member Secretary. The functions of the CEGC include establishing a central evaluation and monitoring system; advising the central government on implementation, and monitoring implementation; reviewing the monitoring and redressal mechanism to recommend improvements; and disseminating information about the Schemes under the Act. The CEGC also prepares annual reports to Parliament on the implementation of the Act.

The SEGCs include as many official members as determined by the State Government, and fifteen non-official members nominated by the State Government from PRIs, organisations of workers and disadvantaged groups (with reservations for women and disadvantages groups). The functions of the SEGCs include advising State Governments on implementation and monitoring implementation; determining preferred works that can be carried out for wages under the scheme; reviewing monitoring and redressal mechanisms; disseminating information about the scheme; and preparing annual reports for the State Legislature.

Figure 1: NREGA Governance Structure



In 2012, a Programme Advisory Group (PAG) was constituted at the national level, to operationalise NREGA guidelines; analyse policy planning and implementation issues; and provide support to State governments for effective implementation.[59] Priority States with high levels of poverty are also meant to have State Advisory Groups, to work with the PAG.

Panchayats at district, intermediate (block) and village levels are the principal authorities for planning and implementation of the schemes under the Act. Panchayats at the district level are responsible for finalising and approving projects to be taken up under a programme under the scheme; and supervising and monitoring projects at the block and district level. The CEO of the District Panchayat or the Collector of the district serves as the District Programme Coordinator, who is responsible for, among other things, preparing a labour budget every December to anticipate demand in the coming year, consolidating block plans, conducting periodic inspections, and grievance redressal.

More recently, States have been advised to appoint an Ombudsman at the district level, who is independent of the jurisdiction of the Central and State Governments, and has the power to receive and deal with complaints from NREGA workers; issue directions for conducting spot investigations; lodge a case against erring parties; initiate proceedings; report his findings to the Chief Secretary of the State and the Secretary, State Nodal Department for appropriate action.[60]

Access modality: Plans and decisions regarding the nature and choice of works to be undertaken in a financial Year, and the order in which each work is to be taken up, are made by the Village Assembly (Gram Sabha), and ratified by the Gram Panchayat. The work must, however, fall within a permissible list of works, which currently includes four categories: work relating to natural resource management; individual assets for particularly vulnerable sections; common infrastructure for Self Help Groups that are part of another government programme called the National Livelihood Mission (NRLM); and rural infrastructure projects.[61] More recently, a “negative list” of projects has also been introduced, which includes “non-tangible, nor measurable, repetitive” works.

Panchayat officials at the intermediate (block) level are responsible for approving block level plans and forwarding them to the district level; and supervising and monitoring projects taken up at the Gram Panchyat (local government at the village or small town level) and block (an administrative sub-division of districts, which may include several villages) level. A Programme Officer at the rank of Block Development Officer is responsible for matching demand for employment with the employment opportunities arising from projects in the block; monitoring projects; sanctioning unemployment allowances; ensuring prompt payments; ensuring regular social audits are carried out by the Gram Sabhas (village assemblies, which include all men and women in a village over the age of 18) and prompt action taken on the results; dealing promptly with any complaints.

The Act states that at least 50% of the works in terms of cost should be allotted to Gram Panchayats. Other “Project Implementing Agencies” (PIAs) could include line departments of the central or State government, the district, block or Gram Panchayat, any other local authority or Government undertaking, or non-governmental organisation authorised by the Central or State government. However, all implementing agencies will work through the Gram Panchayats, which will act as the single window for facilitation of work under NREGA. All other PIAs will have to ensure their proposals are passed by the Gram Panchayat, and included in their Annual Development Plan.

The Gram Sabha is also responsible for monitoring the work, and conducting social audits at least once in every six months, and concurrent social audits for all works every month.

Every household in any rural area, with adult members willing to do manual unskilled labour, can register with the Gram Panchayat to participate in the scheme. After verification, the household is issued a Job Card valid for five years (especially vulnerable individuals, such as single women, disabled persons or members of Particularly Vulnerable Tribal Groups are issued with distinctive coloured Job Cards, to ensure special protection). The household can then make oral or written applications for work – each household is entitled to 100 days. A dated receipt is issued when the request is made, and if work is not provided within 15 days of that receipt, the household qualifies for a daily unemployment allowance.

Performance: The programme, now in its third phase and currently running in all rural districts in India, is one of the world's largest job guarantee programmes. Between 2006-2013, ₹1,55,000 crore (US$ 24.6 billion – 70% of the total expenditure on NREGA) has been spent on wages.[62] There have been shortcomings, but the scheme has also had many successes since it was launched – including in innovating to find unique solutions to address the problems of devolved decision-making and improved accountability.

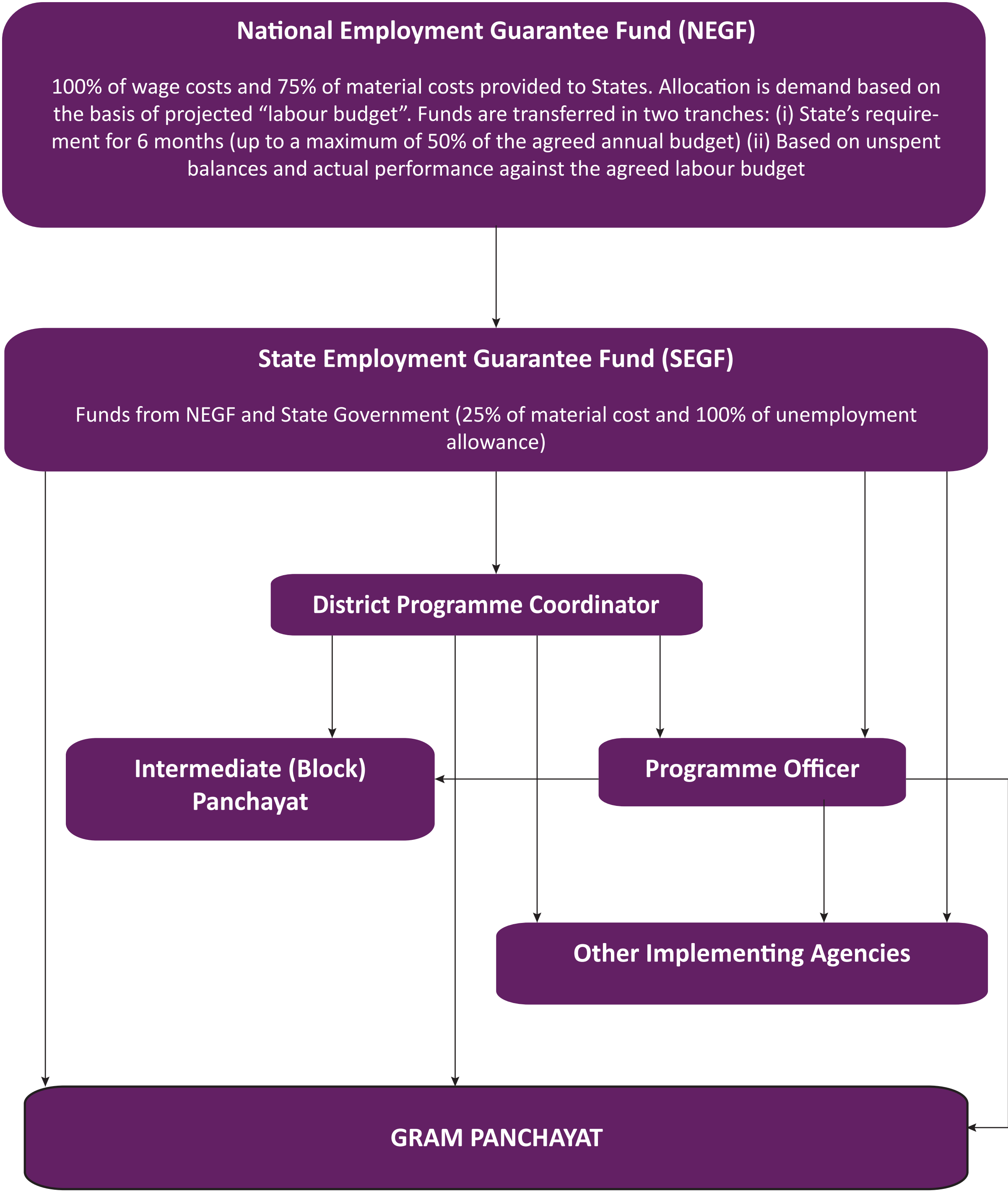
The shortcomings relate mainly to delays in wage payments, lack of meaningful devolution, lack of integration with other programmes, lack of long-term planning, and lack of local capacity. There has been a wide variation in the performance of the States – while some like Andhra Pradesh and Tamil Nadu have performed very well, others like Orissa and Bihar lag behind.

Efforts are being made to address these concerns. For instance, delays in transferring funds from the Centre to the State have been reduced through an Expenditure-based Fund Release System, which helps guarantee that the SEGF will have a minimum assured level of funds, and ensure that there is neither "parking" of unutilised funds, nor shortage of funds.[63] To reduce delays in the payments of wages, an Electronic Fund Management System (e-FMS) that directly credits wages to the beneficiaries' account has been initiated. Where beneficiaries do not have bank accounts (or access to a bank), a system to credit the funds to post office account is being attempted. A "direct cash transfer" scheme is also being considered, where funds are transferred directly from the Centre to the beneficiary account – although this is not likely to find favour with States, who will be denied the big corpus they receive every quarter for NREGS into their consolidated funds.[64] Electronic Muster Rolls are use to help eliminate "ghost workers".

India's Twelfth Five Year Plan seeks to address the lack of PRI capacity through a new programme on capacity building for PRIs, the Rajiv Gandhi Panchyat Shashaktikaran Abhiyan.[65] Under NREGA, Technical Assistants are provided to Gram Panchayats. In addition, States have been asked to form Cluster Facilitation Teams (CFTs) in blocks that are under-capacitated. Each CFT includes a fully dedicated, four-member professional support team to help Gram Panchayats prepare their Annual Development Plans and implement them. The four members will each specialise in one of these subjects: community mobilisation; soil and moisture conservation; agriculture; and management information systems and information and communications technology (MIS & ICT). To help with the implementation of each activity on site, a "mate" or worksite supervisor with experience and training to function as a "barefoot engineer" is appointed, one for every 50 workers.[66]

Among its successes, NREGA counts financial inclusion, as nearly 9.3 crore bank or post office accounts have been opened, and around 80 per cent of the wage payments under the scheme are made through this route, to minimise misappropriation. This has had the added benefit of bringing the poor into the organised sector and in some cases provided them with better access to credit. The scheme has also contributed to women's empowerment, by providing women equitable and easy access to work, decent working conditions, equal payment of wages, and representation on decision-making bodies. With almost 53% of the activities undertaken under NREGA relating to soil and water conservation, the scheme has also contributed to small improvements in agricultural productivity and natural resource regeneration.[67]

Figure 2: Flow of Funds in NREGA



Accountability: One of the most innovate elements of NREGA has been the innovation of a transparency and accountability system called a "social audit". The Act includes the following provision: *The Gram Sabha* [village assembly] *shall conduct regular social audits of all the projects under the Scheme taken up within the Gram Panchayat* [village government]. *The Gram Panchayat shall make available all relevant documents including the muster rolls, bills, vouchers, measurement books, copies of sanction orders and other connected books of account and papers to the Gram Sabha for the purpose of conducting the social audit.*[68]

In June 2011, it became compulsory for Gram Sabhas to conduct social audits every six months. The *Mahatma Gandhi National Rural Employment Guarantee Audit of Schemes Rules, 2011*[69] call on State governments to establish an independent organisation called the Social Audit Unit (SAU). Up to 1% of the 6% administrative charges provided to all States are to be used to fund these SAU's.[70] The rules explicitly state that implementing agencies are not allowed to interfere with the social audits.

The SAU is responsible for building the capacities of Gram Sabhas to carry out social audits; preparing social audit reporting formats, resource material, guidelines and manuals; creating awareness among the labourers of their rights; facilitating verification of records; and hosting the social audit reports, including "action taken" reports, in the public domain.

During an audit, the Gram Sabha, facilitated by the SAU, verify the muster rolls, entry and payments made by contacting all the wage seekers whose names are in the rolls. They visit all work sites and assess the quantity with reference to records, and also quality of work done. The also check the cash books, bank statements, and other financial records, and verify invoices, bills, vouchers or other related records used for procurement of material to ensure that they match the estimates, and are economical.

A Gram Sabha meeting is then convened, also called a *Jun Sunvaiye* or public hearing, and must be attended by all elected Panchayat members, the staff involved in implementing the schemes under the Act, and the District Programme Coordinator. The labourers and the village community are to be informed about the Gram Sabha conducting a social audit, to ensure their full participation. This meeting provides a platform to all villagers to seek and obtain information and responses from all involved in the implementation. Each meeting begins with the "action taken" report relating to the previous social audit.

Social audit reports are to be prepared in the local language by the SAU and displayed on the notice board of the Gram Panchayats. The State Government is responsible for following up on the findings of the social audit.

As with the implementation of NREGA, some States have lagged behind with the social audits, while others have excelled. In the state of Andhra Pradesh, the Society for Social Audit, Accountability and Transparency (SSAAT),[71] an institute that is completely independent of the government thanks to an assured 0.5% allocation of the State's NREGA budget, has carried out more than 3,200 social audits, brought more than 38,000 disciplinary cases against officials, and ensured that hundreds have been punished. The effectiveness of SSAAT has resulted in the Society being called upon to audit other schemes in the State, including the Social Security Pension Scheme, Aam Aadmi Bhima Yojana, and the Integrated Watershed Management Programme, and the Andhra Pradesh model has been adopted by the Ministry of Rural Development as the National Model for Social Audits.

2.2. Lessons from NCEF, CAMPA and NEGF

The three examples above help to clarify the scope of the challenge in creating a consolidated yet devolved National Climate Fund in India. The NCEF and CAMPA are clearly governed weakly; lack overall principles, vision, strategies or roadmaps; and lack a strong connection with the level of implementation. The governing bodies are missing critical actors, and do not involve stakeholders outside of government. There has been no learning, and the governance of these two funds is static and rigid, in addition to being less effective. Information on the decision-making processes, and even funding allocation, is hard to come by in both cases. They both seek to work outside of the decentralisation mandate of India's Constitution, and are therefore not aligned with national strategies and development plans. The monitoring mechanisms are weak, and there are no in-built mechanisms for accountability or redress.

The NEGF, meanwhile, has a far more responsive governance structure, with a proven willingness to learn and innovate in order to address shortcomings identified during implementation. The CEGC and SEGCs includes representation from all relevant ministries and departments, state and local governments, and non-government stakeholders, including vulnerable and disadvantaged groups. There are both top-down and bottom-up elements, with general policy guidance from the national and state levels, and actual planning, implementation and monitoring taking place at the local level. The social audits are an innovation in promoting 'top to bottom' accountability, and making local office holders accountable to village assemblies. Redressal is possible through a district-level ombudsman. There are a number of "implementing agencies" on the ground, including non-government organisations, though they must all get the go-ahead from the Gram Panchyat. Finally, the NEGF has been more successful in reaching the poor and vulnerable in India, who should be the main recipients of climate finance (at least for adaptation).

These characteristics of NREGA and the NEGF are all important for a national climate fund. Considerable investments have already gone into the institutional infrastructure for NREGA – similar investments may not be possible for a national climate fund. However, instead of trying to duplicate the NREGA infrastructure, the INCF could use its existing structures and processes where possible. Such an arrangement could prove mutually beneficial – while the climate fund will benefit from the use of a pre-existing infrastructure, the NREGA infrastructure could benefit from the additional injection of resources. As noted above, other State programmes are already using the NREGA SAUs to control misappropriation. The SAUs and district ombudsman working for NREGA could also be assigned to take on board the additional climate element. Dovetailing climate capacity building into existing efforts for PRI capacity building would have the added benefit of encouraging "climate compatible" development.

3. A PROPOSAL FOR CLIMATE FINANCE GOVERNANCE IN INDIA

The Ministry of Finance's CCFU has already initiated a consultation process on climate finance. The consultation process is aimed mostly at "*making India ready to access the Green Climate Fund (GCF)*". However, as Ambassador Chandrasekhar Dasgupta, member of the PM's Council for Climate Change and former Indian negotiator said recently, "India's climate change policy must be based on a national compulsion, not the exigencies of international negotiations".[72]

The CCFU consultations should therefore focus first on establishing an effective national mechanism for governing climate finance. The consideration of how GCF funds can strengthen this national mechanism can then be a secondary concern. A stand-alone structure for the GCF at the national level is unlikely to be as effective as one that is integrated with a national structure that aims for devolution, and allows for blending of funds from the global, national, sub-national levels.

This section proposes a structure for the governance of climate finance in India, draws from the NREGA experience. Although the focus of this paper is on adaptation at the local level and in rural areas, the structure can be adapted to include other elements such as mitigation, and other target groups, such as Urban Local Bodies, or Small and Medium Enterprises.

3.1 Designing an Indian National Climate Fund

The current dispersed nature of climate finance in India makes it difficult to ensure a long-term strategic vision; ensure its compatibility with national development plans; or track progress in addressing climate change. The establishment of an Indian National Climate Fund (INCF) could give coherence and direction to

India's spending on climate change; and serve as a mechanism to make international climate finance work with these national investments.

Goals: The goals of the INCF would be to:

- Ensure the capitalisation of the Fund through fund-raising from public, private, innovative, multilateral and bilateral sources.
- Facilitate the collection, blending, coordination, and accounting for climate finance from public, private, multilateral and bilateral sources.
- Provide a goal, vision and strategic guidance for the use of climate funds in India, which is consistent with national development strategies and plans.
- Ensure distributive justice, through priority access, and ease of access, to climate finance by the poor and most vulnerable.
- Strengthen the capacity of local governments and communities, and other relevant national entities, to access climate finance; and to plan for, and deal with, local climate impacts.
- Ensure integration of adaptation and mitigation objectives in all existing government plans and programmes.

Principles: The governance of climate finance in India should be based on a set of strong principles that recognise the need for equity in the use of climate finance. In particular, the following principles should guide the governance:

- Recognising that the poor in India are the most vulnerable to climate change, and still lack access to clean and reliable energy, ***the needs of the poorest and most vulnerable with regard to adaptation and mitigation should be given priority***. The majority of climate finance from both national and international levels should be channelled to local communities and their representatives, through simplified and flexible procedures. (The government can specific a percentage, like the Government of Nepal has specified that at least 50% of all climate finance will go to local communities[73]).
- In keeping with the 73rd and 74th Constitutional Amendments, ***devolution of decision-making should be a primary principle for climate finance***. As constitutionally mandated bodies, the PRIs and ULBs should be the primary mechanism to deliver this devolution. The impacts of climate change are likely to be extremely localised, and responses will have to be designed locally in order to be effective. Sufficient flexibility and nimbleness will have to be built into the planning and implementation process to allow it to respond to fast-changing circumstances at the local level.
- Recognizing that climate finance from national and international sources is unlikely to fulfil India's needs for mitigation and adaptation finance, ***integration with national budgetary sources of development finance to ensure the effective delivery of common goals should be a primary consideration***. Improved efficiency through integration across sectors can eliminate duplication and improve efficiency.
- Recognising that local communities will need additional capacity building to identify climate threats and needs, and plan and implement solutions, ***building the capacity of local communities and PRIs should be a key priority***.
- Before local plans are drawn up, quality information will be needed on what is at stake for communities, and what options are available, to promote informed decision-making. This will require ***heavy investments in science and technology institutions at the State, district and local level***, geared to respond to local needs.
- Recognizing the importance of accountability to poor communities, ***a fixed proportion of climate finance that passes to each State should be allocated for use in promoting accountability***. Accountability is key at every stage. The methods used for accountability promotion should be aimed at informing and empowering local communities, as in the case of the social audits under NREGA.

- To ensure that local community needs are prioritised, and to avoid "maladaptation", ***redress mechanisms that are easily accessible by the poor should be made available at the local and national levels***.
- Recognizing the scale of the climate challenge, ***non-government stakeholders should become real partners in the urgent goal of resilience building and low carbon development***.

Governance: The Ministry of Finance can serve as a Trustee to hold the funds for the INCF. A high-level body with representation from all relevant sectors, and from civil society, could serve as the Governing Body. The current Prime Minister's Council on Climate Change could be adapted to serve this purpose with some changes in its membership (to include sectors that are currently not represented, and to strengthen the civil society component).

A Council chaired by the Prime Minister has the advantage of attracting sufficient participant from key sectors – but may suffer the disadvantage of not meeting as often as will be required for governing the Fund. Arrangements may therefore have to be made to allow the Council to meet without the Prime Minister when necessary, with a rotating Chair from among its membership for these occasions.

The Executive Committee on Climate Change, once again reformed to expand its membership, can continue to assist the Council. This Executive Committee should include representatives from PRIs, ULBs, organisations of workers and disadvantages groups (including reservations for women and disadvantaged groups); and representatives from States.

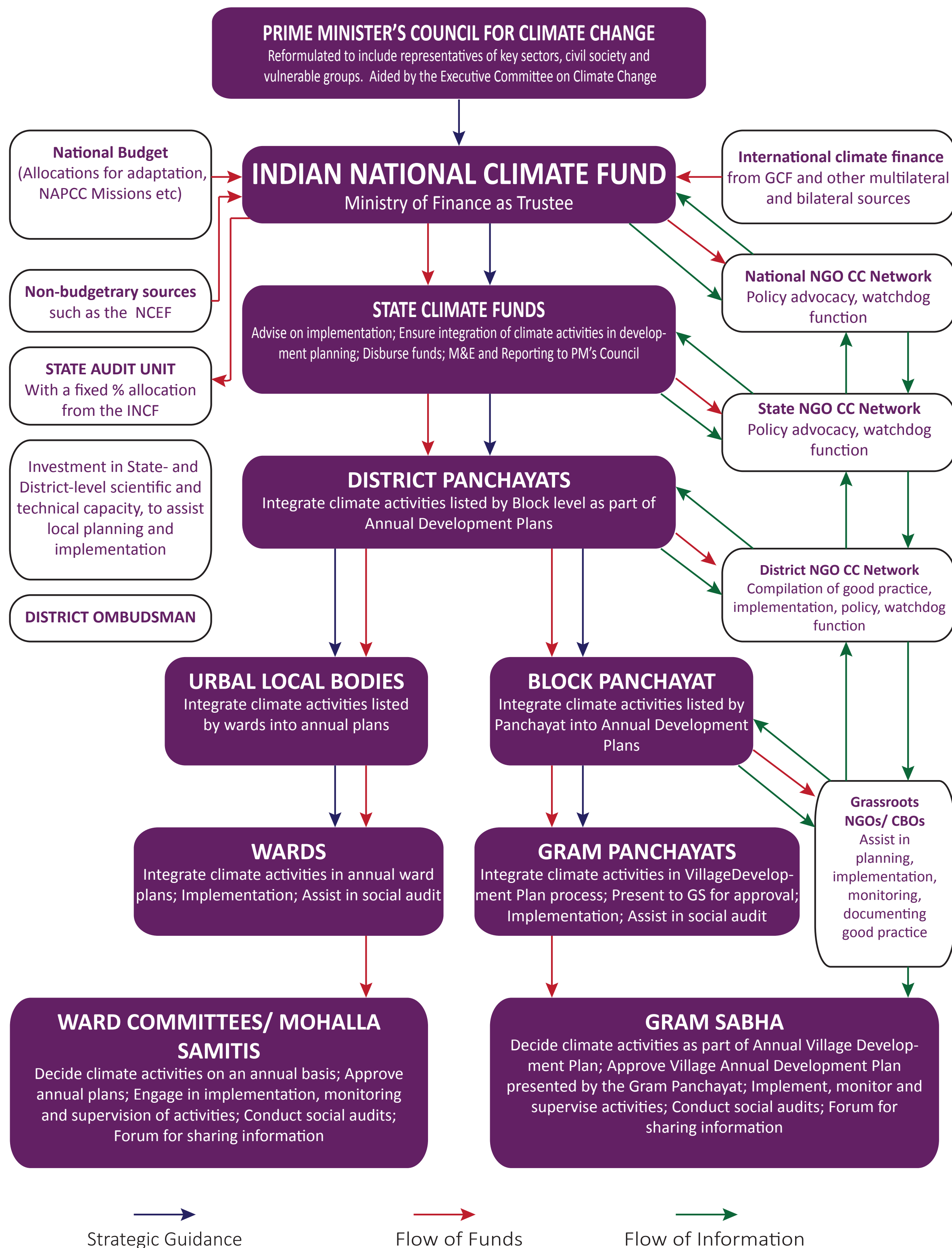
The Prime Minister's Council and the Executive Committee would be responsible for establishing a central evaluation and monitoring system for climate finance; advising the central government on implementation, and monitoring implementation; reviewing the monitoring and redressal mechanism to recommend improvements; disseminating information about accessing climate finance policy; and preparing annual reports to Parliament on the performance of climate finance, and actions taken to reduce the threat of climate change to vulnerable communities.

Each of the States would also have a State Climate Fund, into which contributions from the INCF (and other national and international sources) would flow. A State Climate Finance Council (SCFC) of the State Climate Fund, chaired by the Chief Minister and including the ministers of all key sectors, would be responsible for governing this fund in a manner that ensures further devolution to the PRIs and integration with existing programmes.

The SCFCs would be assisted by State Executive Committees for Climate Change, including high-ranking representatives from key State Departments, and representatives from PRIs, organisations of workers and disadvantaged groups (with reservations for women and disadvantages groups), and civil society organisations. The functions of State Executive Committees would include advising State governments on implementation; monitoring implementation; reviewing monitoring and redressal mechanisms; disseminating information on climate change and access to climate finance; and preparing annual reports for the State Legislature.

Given that States will have to deal with adverse climate impacts each year, the State Climate Funds should also include a State Climate Emergency Fund for dealing with such situations. Innovative ways of working with insurance companies could be sought in this regard.

Figure 3: Proposal for a National Climate Fund in India



States should also make provisions for an Ombudsman at the district level, who is independent of the jurisdiction of the Central and State governments, and has the power to receive and deal with complaints relating to the implementation of climate-related activities, and take appropriate action. This task could also be entrusted to the district Ombudsman for NREGA.

Panchayats at district, block and village levels, and ULBs in urban areas, should handle the key task of planning and implementing climate related activities, and dealing with climate impacts. This will require additional climate-related capacity building. In the case of PRIs, the Ministry of Panchayat Raj and the National and State Institutes for Rural Development, currently responsible for building the capacity of PRIs and implementing the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA), a centrally sponsored scheme for capacity building of PRIs, could be involved in this capacity building process to share costs, and at the same time identify synergies.

An additional element that could form a useful part of the governance structure is a formalised but independent NGO Network, with members at the grassroots, state and national levels, to serve as a watchdog, and also help with knowledge management and capacity building.

Access: In this paper, we consider the access modalities for rural areas. Different arrangements (but within the same INCF structure) will be needed to deal with urban areas, and for stakeholders such as SMEs. The SCFCs could base their rural/urban percentage allocation on considerations of need and equity.

A major proportion of the funds allocated to a village, however, must be for activities decided by the Gram Sabha. Gram Sabhas should be provided the technical capacity and information they need to make climate planning, including climate proofing and resilience building, a key part of their Annual Development Plans. If necessary and feasible, a list of permissible activities that relate to climate change can be provided.

The remaining proportion of the funds can be used by other “Project Implementing Agencies” (PIAs), including civil society organisations (CSOs) and NGOs, particularly to support capacity building. States can choose different channels to allocate these funds. For instance, State banks may be used to provide subsidised insurance to farmers, or loans to SMEs. However, the Gram Panchayats will act as the single window for facilitation of all climate-related work, and all implementing agencies will work through the Panchayat. All other PIAs will have to ensure their proposals are passed by the Gram Panchayat, and included in their Annual Development Plan.

In case of a climate-related emergency, a Gram Sabha meeting should be held to decide what steps should be taken to provide immediate and long-term relief, and the amount of additional resources that should be sought from the State Climate Emergency Fund to carry out these measures.

One way in which the funding provided to Panchayats can be made performance-based is by reimbursing them retrospectively for effective climate proofing and resilience activities that have been carried out using existing resources for normal development activities. This will also help promote integrated planning and implementation.

Provisions will also be necessary to ensure that the local communities benefit from the activities implemented, and the role of outside contractors is minimised.

3.2 Blending international finance under the INCF

The shortcomings of international finance are increasingly being recognised globally. It can be: donor-driven, and compromise country (or community) ownership; "overdesigned" and "inflexible"; difficult for communities to access; and project-based and fragmented, with high-transaction costs and short-term impact. In addition, integration with national development strategies, and with national institutional arrangements, is often a challenge. The lack of predictability of international funding also makes realistic (medium to long-term) planning a challenge. Finally, there is limited "top to down" (donor to recipient) accountability.

These factors have led to debates and discussions in the context of development finance, and to the adoption of agreements such as the Paris Declaration on Aid Effectiveness, and the Accra Agenda for Action, which emphasise national ownership and alignment with national priorities; harmonisation and coordination; effective and inclusive partnerships; and achieving results and accounting for them.[74]

In the climate context, however, the discussion has had a different nuance, with the implicit if not explicit understanding that climate finance involves a degree of liability, and cannot be governed in the same way as ODA, with "donors" calling the shots.

One way that developing countries have chosen to underline this difference is through the establishment of National Climate Funds, which move the decision-making on climate finance from the international level, to the national. A number of countries already have such funds, which are already "blending" national and international sources – including, for instance: the Bangladesh Climate Change Resilience Fund, which blends national funds with contributions from Denmark, Sweden, the European Union and the United Kingdom; the China CDM Fund, which blends CDM revenues from CDM projects in China with support from multilateral development banks and international institutions; and the Brazil National Fund on Climate Change, which blends funds from a special tax on profits made in the oil production chain, with contributions from public, national and international donors.[75]

It was also perhaps this implicit understanding on the different nature of climate finance that led to the adoption of "direct access" modalities under the Adaptation Fund (although the source of funding, a 2% levy on CDM revenues, also probably contributed to the flexibility shown by developed countries in this context). As explained earlier, under the direct access modality, countries can choose to dispense with the need for a multilateral implementing entity, and work through an accredited National Implementing Entity (NIE) instead. The Adaptation Fund Board must still decide on whether or not to fund an activity, however.

3.2.i National Enhanced Direct Access for GCF funds under the INCF

The GCF has enhanced the direct access modality of the Adaptation Fund by devolving the approval of funding for activities to recipient country institutions ('intermediaries'). "Enhanced Direct Access" (EDA), in this context, refers to a funding modality where 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, rather than at the international level.[76]

India played a significant role in advocating EDA. Early submissions from India to the UN Framework Convention on Climate Change (UNFCCC), even before the birth of the GCF, have emphasised the need EDA. For instance, in a 2009 submission to the UNFCCC, India calls for "*direct access to the [future climate] Fund in accordance with guidelines as laid down by the CoP which shall decide on the policies, programme priorities and eligibility criteria for accessing the funds*".[77] The same submission calls for "n*ational entities of developing country*

Parties as designated by such Parties to approve activities, projects, programmes for funding, subject to the guidelines and procedures approved by the CoP [Conference of Parties]".

This call by India and also the Least Developed Countries (LDCs) was heeded, and the Governing Instrument to the GCF, approved by COP in December 2011 in Durban, South Africa, states that: *The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes*.[78]

At a meeting organised by the Ministry of Finance in New Delhi in March 2013, the importance of EDA was emphasised in the context of allowing the GCF to function at scale without a centralised model that could result in bottlenecks; promoting country ownership; and promoting ease of access for its ultimate stakeholders, who will implement activities on the ground. The Delhi Vision Statement, which resulted from this consultation, states: "*In order to have the greatest impact on the ground at least administrative cost, the activities of the GCF should be conceptualized, initiated, and owned by the developing countries themselves. Lessons from across the world in terms of effective design suggest that national governments have to take ownership of the projects and programs – ensuring that the proposed activity is consistent with the national climate change strategies and action plans, and following consultations with in-country stakeholders*".[79]

The Statement concludes that "*the national implementing authorities (or national funding entities, as may be the better case) are the fulcrum through which the GCF would best function.. …. By devolving functions to national authorities the system will put extra-ordinary pressures on them to deliver more and better, account for what is delivered, and encourage them to innovate and 'crowd-in' multiple other actors*".

At the GCF, there are two modalities to access funds: direct access, and international access. Under the former (which includes EDA), access is through accredited national or sub-national entities, while in the latter access is through accredited international entities (such as UN agencies and multilateral banks). Each country is free to determine the mode of accessing funds, and may even choose to use the two options simultaneously.[80]

The GCF Board has now been tasked with the operationalising the new EDA modality. Here again India, along with the LDCs and Sweden, has championed EDA, resulting in a Board decision in July 2013: "*to consider at its first meeting in 2014 additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes*".[81]

In October 2014, in a meeting in Barbados, the Board decided to commence the operationalisation of EDA through an EDA Pilot Phase. It requests the GCF Secretariat, *under the guidance of the Accreditation Committee and in consultation with relevant stakeholders, 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, for approval by the Board at its ninth meeting; these terms of reference will launch the pilot phase.*[82]

The Board is now in the process of finalising the Terms of Reference for this pilot phase. India can continue to play a leading role in ensuring that these TORs suit national circumstances, particularly if there is greater clarity on these national circumstances and on national governance arrangements. For instance, the current draft of the TORs includes the option of having several "funding entities" in a single country. Having multiple entities approach the GCF for funds could result in further chaos and fragmentation of action – particularly without set of goals and principles to guide them. India could therefore either seek to influence the GCF Board to ensure that there is a single national gateway, or to decide in country that it will limit the number of entities that it endorses for accreditation.

The GCF does include provisions for countries' National Designated Authorities" (NDAs – the MoEFCC in India), to issue a no-objection certificate to proposals that go the GCF Board for consideration under the regular/traditional access modality.[83] However, the NDA will not be ideally placed to carry out the additional responsibility required under the EDA – which is to decide which activities are funded nationally. This function will need to be carried out by a more representative body (such as the governing body proposed for the INCF), which includes other government and non-government actors.

It is also important that countries commit to devolve decision-making on GCF funds to the sub-national level. The Delhi Vision Statement already recognises that: "w*ithin countries, a measure of devolution is also essential – to the lowest relevant and competent levels. This means instruments and outcomes in terms of direct access to GCF resources by farmers, micro, small and medium enterprises (MSMEs), in particular where women, youth, and communities take the lead*." Such devolution can only take place if coherent national governance arrangements are place, explicitly committed to the principle of subsidiarity.

The Economic Survey of India 2013-14 astutely notes: "*ultimately, the success of the GCF lies in developing countries' readiness and preparedness for undertaking a complete devolution of GCF activities*".[84] The sooner India starts putting these arrangements in place, the more likely it is to be ready to receive funds. It is worth noting here, however, that India should not rush readiness in order to access the pilot phase of the GCF. Instead, interim arrangements could be made if India chooses to apply for the pilot phase, while the necessary consultations takes place in country.

If India chooses to apply for the pilot phase, a clearer idea of the sort of activities it would like to propose will be also be helpful in deciding its recommendations to the GCF Board, for the operationalisation of the pilot phase. India could apply, for instance, for a pilot that works with three PRIs in three Indian States of differing capacity, to address their climate capacity, adaptation and mitigation needs. As the INCF is unlikely to be operational over the next few months, interim arrangements could be made for the pilot, with the Ministry of Finance serving as Trustee. The proposed pilot could even serve as a trial run for the arrangements described above. In this case, it would be worth recommending to the GCF Board that:

- The objective of the pilot phase should be to *test national models for implementing EDA* and *devolution*, not specific activities.
- The GCF Board should agree to devolve decision-making on activities to a single National Funding Entity, which should serve as a national gateway, and include further devolution to the sub-national level as a key goal.
- The time frame of the pilot phase should be sufficient to allow for a meaningful evaluation at the end of that period. It should therefore run for at least three years.

4. CONCLUSIONS

As India continues to increase budgetary allocations for change finance, there is an urgent need for consolidation, to make the use of climate finance efficient and accountable; align it with national strategies – in particular the 73rd and 74th Constitutional Amendments; and prioritise the needs of the most vulnerable. While continuing to push for devolution of climate finance related decision-making from the global to national level, India should also demonstrate its commitment to devolution to the sub-national level, by implementing enhanced direct access at the national level.

The country is ideally placed to lead the way in national devolution of climate finance, given the national learning that has taken place over the last two decades in devolution. In particular, the NREGA scheme has

been innovative in addressing many of the challenges faced in this devolution process. While it may not yet be perfect, it is the best available model of channelling funds to vulnerable communities. The intention should not be to replicate it entirely, but rather to use elements of it to the extent possible while improving on others. This partnership could be mutually beneficial – climate finance would gain an existing architecture to work with, while the additional injection of resources that climate finance brings could help strengthen the NREGA architecture. Not many of the other National Climate Funds set up in other developing countries have managed to achieve the level of devolution that NREGA has. An INCF based on this model could serve as a valuable example.

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