



DEVOLUTION OF DONOR FUNDED CLIMATE CHANGE ADAPTATION FINANCE

Per Tidemand with Andrew Hattle, Esbern Friis-Hansen, Beatrice Sumari,
Peter Rogers, Judith Mulwa and Millicent Omala

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Per Tidemand

Senior researcher, REPOA,
pt@dege.dk

Andrew Hattle

Climate consultant, INKA,
andrew.hattle@hotmail.co.uk

Esbern Friis-Hansen

Senior researcher, DIIS,
efh@diis.dk

Beatrice Sumari

PhD, Institute for Resource Assessment, University of Dar es Salaam
sumaribeatrice@yahoo.com

Peter Rogers

PhD, Institute for Resource Assessment, University of Dar es Salaam
rogerspeter120@gmail.com

Judith Mulwa

PhD, School of Environmental Studies, Kenyatta University,
judith@gmail.com

Millicent Omala

PhD, School of Environmental Studies, Kenyatta University,
milliomala@gmail.com

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DIIS · Danish Institute for International Studies
Gl. Kalkbrænderi Vej 51A, DK-2100 Copenhagen, Denmark

Tel: +45 32 69 87 87

E-mail: diis@diis.dk

www.diis.dk

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ABSTRACT

This working paper analyses the nature of international adaptation finance received in Kenya and Tanzania, with particular emphasis on the extent to which the projects were devolved and thus potentially more responsive to the priorities for climate change adaptation as determined by local governments (LGs) and communities.

The analysis is based on the OECD database of projects in the period 2013-2019 with projects selected based on their financial value, measured as 'adaptation-related development finance'. During this period Tanzania received USD 2.0 billion as adaptation-related development finance, whereas Kenya received USD 3.3 billion.

In each country, the research team selected the most valuable projects that together constitute 70% of total adaptation-related development finance in the two countries. A method for analysis of the project documents to measure degree of devolution was developed with three main parameters: (i) the extent to which finance was managed through local government accounts; (ii) the extent to which the projects in the respective national budgets were considered devolved; and (iii) the extent to which funding was discretionary and using of participatory planning arrangements for management of the funds.

Given Kenya's greater emphasis on devolution, its fiscal strengths, and the autonomy of its counties, when compared to Tanzanian local governments, it was assumed that adaptation-related development *finance* would be relatively more devolved in Kenya than Tanzania. However, preliminary analysis suggests otherwise. The analysis also suggests that projects classified by development partners as 'adaptation-related development finance' in several cases exaggerate levels of funding and only contribute marginally to improved local governance of climate adaptation activities.

This analysis is an initial step of a four-year comparative research programme on the governance of climate change adaptation finance in the two countries. The article raises key issues for future in- depth country and local research.

INTRODUCTION

This paper is an initial outcome of the four-year research programme (2021-2025) Governing Adaptation Finance for Transformation (GAP) involving collaborating research institutions in Denmark, Kenya, and Tanzania.¹

Developed country parties to the United Nations Framework Convention on Climate Change (UNFCCC) committed to mobilising USD 100 billion annually to support climate action in developing countries (UNFCCC, 2010, 2009). While the focus initially—up to COP15 and the Paris Agreement in 2015—had been on securing financial commitments to climate change adaptation, there has more recently been increased focus on implementation issues (Friis-Hansen et al., 2022; Adaptation Watch, 2017:5), where international climate funds, governments and other adaptation actors considers how to transform the billions of dollars that are being channelled globally to adaptation into outcomes on the ground.

Attention to subnational levels has emerged as a key aspect of ensuring relevant and cost-effective climate change adaptation implementation (Global Commission on Adaptation, 2019). It is widely recognised that climate change impacts are highly localised as they are the result of the interplay between changing climate and local socio-economic conditions. It is also increasingly recognised, that if local climate change adaptation action is to be locally driven and context-appropriate and managed, then there is a need for ensuring that climate change adaptation finance is devolved to the subnational level in a manner that empowers local communities to plan, prioritise and implement appropriate actions (Friis-Hansen et al., 2022; Adaptation Watch, 2017; Intergovernmental Panel on Climate Change (IPCC), 2018; International Institute for Environment and Development (IIED), 2018; Overseas Development Institute (ODI), 2018; World Resources Institute (WRI), 2019; Christensen et al., 2012; Colenbrander et al., 2018; Crick et al., 2019; Manuamorn et al., 2020; Fischer 2021). Although consensus on the importance of devolution is emerging, there are many different views on precise modalities, where e.g. Community Driven Development (CDD) proponents argue for direct participation through project facilitated structures rather than more institutionally sustainable approaches embedded in permanent subnational governance structures (Arnold et al., 2014).

Previous analyses indicate that less than 50% of climate change financing is related to adaptation and that only about 10% of international climate funds is committed to locally focused projects (Soanes et al., 2019). While these earlier studies focused only on international climate funds (that constitutes a marginal, approx. 2%, of total donor funded climate change finance), this paper will explore the degree of devolution of local climate adaptation finance from the larger database of OECD that in principle covers all bilateral and multilateral assistance.

¹ <https://www.diis.dk/en/projects/governing-adaptation-finance-transformation-gap>

GOVERNANCE AND FINANCE ARRANGEMENTS THAT FACILITATE LOCALLY LED ADAPTION TO CLIMATE CHANGE

In 2021, the World Resource Institute proposed a framework and related metrics to measure finance arrangements that facilitate locally led adaptation to climate change. Table 1 below simplifies and prioritises the proposed principles in adherence to standard fiscal decentralisation concepts.²

Table 1. Principles for measuring quality of finance for locally led adaptation

Principle	Objective and issues
<ul style="list-style-type: none"> Subsidiarity/devolution of decision-making responsibilities of relevance for climate change adaption 	<p>The extent to which principles of subsidiarity have been applied for devolution of decision-making responsibilities of relevance for climate change adaption. (In fiscal decentralisation jargon: ‘local governments’ expenditure assignments’ include responsibilities for climate change relevant functions and activities.)</p> <p>The extent to which local governments further devolve responsibilities to lower-level government institutions (e.g. village councils) or communities.</p>
<ul style="list-style-type: none"> Devolution of finance for adaption to subnational levels 	<p>The extent to which subnational levels (local government and entities below local governments) are provided with the necessary fiscal resources, either in the form of local taxes/revenues or in the form of intergovernmental fiscal transfers and grants from central government and donors.</p>
<ul style="list-style-type: none"> Flexibility 	<p>The extent to which funding is earmarked (conditional) or rather local governments and their citizens can make local prioritisation of budget allocations.</p>
<ul style="list-style-type: none"> Patience, predictability, and equity 	<p>The extent to which funding is of a long-term (institutionalised) or short-term (projectised) nature. The extent to which allocations are based on transparent and equitable formulae.</p>

Adapted from Coger et al. (2021).

² In this manner aligned with Martinez-Vazquez (2021). The paper emphasises in particular two key aspects of the fiscal decentralisation architecture as determinants for the potentiality of local governments to play an effective role in adaption and mitigation of climate change: (i) the expenditure assignments—i.e. the formal assignment of functions and powers to deliver specific services of relevance to climate change issues; and (ii) the revenue assignments—the extent that own-source revenue and fiscal transfers are sufficient for local governments to undertake their functions effectively and in a manner that is responsive to local needs (if funding is discretionary).

This paper will apply the elements of analysis from this framework as far as practically possible using desk-based analysis. Further in-depth analysis of actual practices in selected local governments in Kenya and Tanzania explore actual implementation practices and local dynamics of climate change adaptation finance management.

The emphasis of our analysis is on the extent of devolution of climate finance, while being cognizant of the existence of other forms of decentralisation and decentralised climate adaptation finance (see Box 1 below).

Box 1. Brief characteristics of main forms of decentralisation³

Delegation: transfer of power and resources to semi-autonomous agencies that are established by central governments and thus ultimately accountable to central governments. Relevant examples of management of climate change adaptation finance in Kenya and Tanzania include, for instance, the Kenya National Disaster Management Authority and the Tanzania Rural Water and Sanitation Authority.

Deconcentration: primarily, the decentralisation of staff and other resources within existing central or sector ministries so that the organisations are in closer contact with local residents and beneficiaries, yet only accountable upwards to the central government. Prior to the new Kenya Constitution, local services were primarily decentralised through various forms of deconcentration. Education remains a deconcentrated service in Kenya. In Tanzania there are examples of de facto deconcentration of various functions (like staff management) even though powers formally are devolved to local governments.

Devolution: transfer of power and resources to (elected) local governments that are accountable downwards to their respective citizens. This is the most extensive form of decentralisation as it fundamentally shifts lines of accountability. This form of decentralisation is also often referred to as ‘democratic decentralisation’. The devolved local government structures in Kenya and Tanzania are discussed further below.

THE SUBNATIONAL GOVERNANCE STRUCTURES IN KENYA AND TANZANIA AND THE DEVOLUTION OF FUNCTIONS RELEVANT FOR CLIMATE CHANGE ADAPTION

Local governments play a significant role for local service delivery in both Tanzania and Kenya. However, the legal and institutional bases for devolution differ substantially between the two countries. Both countries inherited a system of partially democratic local government system from the British colonial power, that for various reasons gradually were undermined or outright banned after independence as the new national governments pursued strategies of nation building. Thus, for long periods, both Tanzania and Kenya emphasised institutional reforms based primarily on deconcentrated central government

³ This follows definitions by Conyers (1986) and Ribot (2003).

structures rather than devolved systems of governance based on locally accountable councils.⁴

About a decade earlier than Kenya, **Tanzania** established a unified local and devolved administration as sector staff were devolved to local government authorities in the late 1990s. Subsequently, in 1999, Local Government Reform Programme was launched, seeking to further devolve powers, functions, staff and fiscal resources to elected local government authorities (LGAs). After a period of substantial progress towards a more devolved system of service delivery, progress started to stall starting with centralisation of human resources in 2004⁵ followed by limitations of fiscal autonomy (increased use of conditional grants rather than discretionary grants and limitations on LGAs local taxing powers), as well as some outright centralisation of selected functions like local roads and water provision. Despite these trends of centralisation, the Tanzanian system of local governance remains today relatively robust with elected local councils, control of approximately 16% of total public expenditure and 75% of public servants.

In **Kenya**, the reform of its subnational structures was less gradual and more of a 'big bang' as the 2010 Constitution introduced a completely new subnational governance structure. This radical restructuring of the Kenyan state had three main objectives: (1) decentralising political power, public sector functions and public finances; (2) ensuring a more equitable spatial distribution of resources; and (3) promoting more accountable, participatory and responsive government. The first elections under the new constitution, in 2013, established 47 new county governments.

Table 2 below summarises key characteristics of the subnational structures in the two countries. Firstly, several commonalities should be observed:

1. Both countries are lower-level income countries (although Kenya has a higher GDP per capita and lower poverty headcount).
2. The subnational governance structures are based on democratically elected local government structures, with significant decentralisation of service provision responsibilities across most basic services of importance to local citizens, notably basic health care, agricultural services and general aspects of rural and urban development.

However, there are important differences with regards to local governments' functional responsibilities. Namely, in Tanzania all major social sectors, including

⁴ Since 1983, the Kenyan government has focused on the District Focus for Rural Development (DFRD) as its main strategy to decentralise planning, financing and managing rural development activities. These functions were delegated to field agents of various sector ministries. The Office of the President, through the Provincial Administration, implemented the strategy with support from the Ministry of Planning and National Development (MoPND). In Tanzania, elected local government structures were outright abolished between 1971/72 and only reintroduced in a weakened form in 1983.

⁵ The 1999 Local Government Reform Policy in Tanzania foresaw a complete devolution of all local staff (including teachers, health workers, agricultural extension staff etc.). In the years afterwards, the President's Office Regional Administration and local governments started to pilot schemes for staff devolution, but the policy was overturned with the passing of the Public Service Act in 2004 and subsequent issuance of staff regulations that increasingly centralised all staff management.

primary health care and basic education (primary and secondary education), have been devolved to local governments, whereas in Kenya only primary health care (and exclusively pre-primary education) have been devolved.

With regards to sector responsibilities of most direct relevance to climate adaptation action, until recently (about three years ago), agriculture (including irrigation), water development, rural and urban roads, and the management of various natural resources have been similar in the two countries. However, in Tanzania, water and roads have now been deconcentrated to executive agencies under the Office of the President.

There are also several other important institutional differences between the subnational structures in the two countries:

- The legal basis for devolution is much stronger in Kenya than Tanzania: in Kenya the functions of local governments are constitutionally defined, whereas in Tanzania the functions are only described in vague terms as ‘permissible’ in the Local Government Act and, therefore, subject to frequent changes by central government directive.
- Size of structures: the counties in Kenya are much larger entities than the LGAs in Tanzania—to nearly a factor of five.
- In Tanzania there are formalised sub-structures under the LGAs; in the rural areas there are more than 10,000 village governments with the formal status of local governments (i.e. they can pass their own bylaws, own budgets, raise revenue, and in general serve as a small local government and vehicle for direct citizen participation.) In Kenya, there are no significant local government structures below the county; even the planned urban boards are yet to be fully formalised and have very limited institutional autonomy.

Table 2. Main characteristics of subnational structures in Kenya and Tanzania

Indicator	Kenya	Tanzania
Population (2020 estimates)	53.77 million 2.3% annual growth 28% in urban areas	59.73 million 2.9% annual growth 25% in urban areas
GDP per capita (2020 current)	1,879	1,077
Poverty headcount ratio (% of population latest year)	37.1% (2015)	49.4% (2018)
Number of local governments	47 counties	184 LGAs (cities, municipalities, town councils and district councils)

Indicator	Kenya	Tanzania
Average population per Local Government (100,000s)	1,440	320
Governance structures below the primary level of Local Government (LG)	No formal LGs below the county; however, there are various administrative structures such as urban municipal boards as per the Urban Areas and Cities (Amendment) Act of 2019. Approximately 115 municipal boards are established as well as ward level committees.	More than 10,000 formal village governments in the rural LGAs, in addition to various administrative structures like ward committees, as well as sub-structures below village level (<i>vitongoji</i>)
Main functions devolved to LG	Defined by the constitution: primary health care, pre-primary education, agriculture, water, roads, management of various natural resources.	Defined as permissible functions only by LG Act: primary health care, basic education (pre-primary, primary and secondary), agriculture, (water), (roads), management of various natural resources.
Devolution of key climate change adaption relevant functions	Agriculture (including irrigation), water development, rural and urban roads, management of various natural resources.	Agriculture (including irrigation) and various natural resource management issues, including significant role in land allocation and land management. Until recently, water development as well as rural and urban roads was a responsibility of LGAs but has been transferred to separate authorities.

Source: World Bank for poverty and economic indicators. Functions derived from review of Constitution and local government legislation of Kenya and Tanzania.

MAIN FEATURES OF SUBNATIONAL FINANCE IN KENYA AND TANZANIA

The level and structure of local government finance differ substantively across the two countries. The counties in Kenya are much better endowed. Tanzanian local governments have approximately only 75% of the fiscal resources per capita of what is availed to Kenyan counties; and at the same time, Tanzanian LGs must commit large parts of funding to the education sector which is not devolved in

Kenya. More importantly, the level of discretion of funding in Tanzania is only a fraction of what is the case in Kenya where almost all fiscal transfers are unconditional and subject to local level prioritisation. Thus, while Kenyan counties in principle are free to make very substantive local budget priorities (in relation to which sectors to prioritise or level of funding to staff compared to development etc.), then the LGA budgets in Tanzania are almost entirely determined by the guidelines and conditions of the more than 25 different conditional grants. In Kenya, the biggest devolved sector is the health sector that consumes at least 24% of their budgets. In Tanzania, primary and secondary education consumes around 60% of total LGA revenues.

Table 3. Main characteristics of subnational finance in Kenya and Tanzania

	Kenya	Tanzania
Total local government revenue per capita	USD 64/capita ⁶	USD 48/capita ⁷
LG revenue as share of total public sector expenditure	13%	16%
Fiscal transfers and own-source revenue share of total LG revenue	Transfers: 90% Own source: 10%	Transfers: 90% Own source: 10%
Share of fiscal transfers that is discretionary for LG to allocate across sectors	Approximately 90%	Less than 5%
Most important areas of expenditure	Basic health services (24%) Administrative services (34%) ⁸	Education (60%) Basic health services (14%)
Share of funds allocated to sectors of main relevance for climate change adaption (water, agriculture, natural resource management)	<ul style="list-style-type: none"> • Agriculture 6%⁹ • Water and sanitation 6% • Land and urban planning 3% 	Approximately 7%

Source: For Kenya: Muwonge et al 2022: Making Devolution Work for Service Delivery in Kenya. International Development in Focus. Washington, DC: World Bank. For Tanzania analysis of Council Financial Report and LGA Epicor data (ODI 2022)

⁶ Muwonge et al. (2022). Page 64, calculated as average for FY 2013/14 – 17/18.

⁷ Note that the government of Tanzania does not present a consolidated overview of LG finances (last published report by Ministry of Finance in 2007) Figures quoted here are derived from the subnational IFMIS system, preliminary analyses by ODI 2022.

⁸ Note, however, that most sector staff salaries are accounted for under this sector – see Muwonge et al. (2022).

⁹ Muwonge et al. (2022).

ANALYSIS OF DONOR SUPPORT FOR CLIMATE CHANGE ADAPTATION AND DEGREE OF DEVOLUTION OF FINANCE

Our team developed an extract of international adaptation finance projects in Kenya and Tanzania from 2013-2019 (OECD, n.d.),¹⁰ that indicated the total value of climate adaptation finance for the period was

- for Tanzania, approximately USD 2 billion (USD 2,040,473,781) spread over a total of 632 projects. In Tanzania we have analysed the 40 most valuable projects with a total value of USD 1,557,959,691 (76% of the total value of climate change adaptation in Tanzania for the period);
- for Kenya, approximately USD 3.27 billion spread over 690 projects. In Kenya the 40 most valuable projects account for 78% of the total value of climate change adaptation projects in Kenya for the period.

In each country the research team selected the most valuable projects that jointly constitute more than 70% of the total adaptation-related development finance in the two countries. A method for analysis of the project documents to measure degree of devolution was developed with three main parameters: (i) the extent to which finance was managed through local government accounts; (ii) the extent to which the projects in the respective national budgets were considered devolved; and (iii) the use of participatory planning arrangements for management of the funds and the extent to which funding was discretionary and, in this manner, can respond to local needs across sectors.

The results from the analysis using a combined assessment of the first two parameters is summarised in Table 4 below:

Table 4. Share of climate adaptation finance in Kenya and Tanzania that is channelled through local governments

	Total value of 40 largest projects analysed (USD billion)	Share of funding that is channelled through local governments.
Kenya	2.56	5.5%
Tanzania	1.56	43.6%

Source: OECD Data 2013-2019. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm> and team classification of projects based on analysis of project documentation.

The third parameter was more challenging to apply in a desk-based analysis. However, most projects have clear sector specific focus with limited potential for local decision making by local governments.

Based on the existing information from the desk review of the projects in the database, it is impossible to undertake a detailed assessment of the quality of finance (ref. table 1), however, the following can be concluded:

¹⁰ For methodology of classification of climate change relevance see note in Annex.

- While several of these projects are classified as primary in support for climate change adaptation, the project descriptions of these projects often have relatively little emphasis on climate change adaptation issues. Climate change adaptation rarely feature as a specific objective. In this way, the OECD dataset overestimates efforts of addressing climate change adaptation.
- On the other hand, it is recognised that these projects are addressing climate change relevant challenges (livelihoods of poor people, water management, urban infrastructure developments including stormwater, drainage etc.). If such a broad categorisation is applied, then several additional projects could also be included that we did not find in the database.¹¹
- The ‘devolved’ projects score generally low on earlier proposed measurements (see table 1) for quality of finance criteria concerning flexibility, patience, predictability, and equity, as none of the larger projects in the database emulate fiscal transfers to local governments in a predictable, equitable (formula-based) and discretionary manner. On the contrary, most of the projects are specifically earmarked for predetermined investments with rather narrow scope (see an overview of the largest projects in table 5 below). The Tanzania Productive Social Safety Net is to some extent an exception as it includes some discretionary funding for LGs that they can apply for a range of (labour intensive) public works programme of which 50% are categorised as ‘climate adaption’.

Table 5. Examples of some of the larger projects in database that are categorised as climate adaption relevant projects, with funding channelled through subnational structures

Name of project/Country	Donor	Total value indicated in OECD database
Tanzania Productive Social Safety Net (PSSN)	World Bank + cofounding from UK and Sweden	USD 365 million
Tanzania Strategic Cities Project	World Bank	USD 85 million
(Tanzania) Arusha Sustainable Urban Water and Sanitation Delivery	AFDB	USD 63 million
Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihood	IFAD	USD 72 million
Kenya Urban Support Programme	World Bank	USD 69 million

Source: OECD Data 2013-2019. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm> and team classification of projects based on analysis of project documentation.

¹¹ For instance, while the Tanzania Strategic Cities project in Tanzania is classified as “climate adaption relevant” in the OECD data base, then several similar urban programs like Urban Local Government Support project is not classified in this manner.

CONCLUSIONS AND NEXT STEPS OF RESEARCH ANALYSES

The analysis of OECD data on donor funded climate change adaptation funding in Kenya and Tanzania indicates that projects of a value of approximately USD 2.0 billion in Tanzania and USD 3.3 billion in Kenya were categorised as ‘adaptation-related development finance’. A review of the 40 projects with the highest value in each of the two countries, which captured about 77% of the total value of all projects, indicates that about 42% of this project funding in Tanzania was channelled through local governments (although not fully devolved in accordance to criteria in table 1), but only 5.2% in Kenya.

This finding is surprising as the local government system and degree of overall fiscal decentralisation in Kenya generally provides a more conducive framework for devolution of donor funding than Tanzania.

A possible reason could be the time lag of donor project design compared to the opportunities and challenges of country context. It should be noted that more recently (2021) in Kenya, the World Bank and Kenyan government approved a new project, that scores very high on parameters outlined in Table 1. Namely, the ‘Financing Locally Led Climate Action (FLLoCA)’ Programme¹². This is possibly the start of a wider wave of increased emphasis on devolved climate adaptation finance in Kenya and elsewhere.

It should also be noted that county governments in Kenya only very recently have started to establish County Climate Change Funds (CCCFs) and fund regulations. Even with the decentralised system of governance, some donors still felt that counties would not meet the required fiduciary standards without having specific climate change funds in place with the guiding legal and institutional frameworks at the county level. The Climate Change Act, 2016 provides for the establishment of county level climate change action, climate change units and funds at the county level. Makueni county is a frontrunner among other counties and is currently setting aside 2-3% of their annual budgets for climate change response allocated to the CCCFs, and in addition to anticipated external funding.

In Tanzania, there have only been two very small projects (with LGA level of funding less than USD 2 million) to pilot devolved climate change finance, the first was piloted in Arusha Region¹³ and the other currently being piloted in Dodoma Region (IIED, 2018) and UNCDF (from 2021 and ongoing)¹⁴.

¹² This project will provide USD 150 million as discretionary grants to counties for their local climate adaption priorities. See <https://projects.worldbank.org/en/projects-operations/project-detail/P173065>

¹³ Sam Greene Lessons from piloting the decentralised climate finance programme, Tanzania, IIED 2019 - <https://www.iied.org/g04398>

¹⁴ See <https://www.uncdf.org/article/4040/supporting-local-governments-in-tanzania-to-increase-awareness-and-capacities-to-respond-to-climate-change>

Future issues to explore in our study

This research project will go beyond this desk review and analyse in detail the actual practices on the ground in selected local governments in both Tanzania and Kenya. The planned research will include explorations of:

- The extent to which project and government funding to local governments in practice is devolved in accordance to the criteria described in table 1?
- The politics of donor strategies for (lack of) devolved climate change financing in Tanzania and Kenya. What have been the underlying reasons for relatively limited emphasis on climate change finance generally and devolved climate change finance in particular?
- The evolution of (lack of) government strategies for enhancing locally led adaptation, and underlying reasons.
- The local capacities and experiences with climate change adaptation through local governments (Kenyan counties and Tanzanian LGAs).
- The practice of local planning and prioritisation of those funds (donor and government) that have been channelled to LGs (like the Productive Social Safety Net Project).
- Climate finance coordination mechanisms at national and subnational levels and how they influence access and utilisation of climate adaptation finance.

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