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Assessment of Climate Financing Allocation: Unpacking Eighty Per Cent Allocation to the Local Level

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Foreword

The Government of Nepal (GoN) has been recognized as one of the world's pioneers in establishing a national climate finance system. In 2011, Nepal conducted the first-ever climate public expenditure and institutional review. This resulted in climate budget tagging in the national budget in 2012.

Nepal has made a strong policy commitment to direct 80 per cent of the budget to the local level through the mobilization of international climate finance and the reduction of administrative costs. The provision set out in the national policy framework is found to be unique and innovative. However, there is a lack of a practical procedure for implementing the 80:20 resource allocation.

I am pleased to note that the Ministry of Forests and Environment (MoFE) has completed the Assessment of Climate Financing Allocation: Unpacking Eighty Per Cent Allocation to the Local Level to lay the foundation for rules and regulations on climate financing allocation with definitions and criteria.

I believe that this provides an opportunity for international development partners and decision-makers to follow the procedure and ensure that financial assistance is directed to local levels in a fair, transparent, and responsive manner to meet the needs of the poorest and most vulnerable communities.

On behalf of MoFE, I would like to thank Joint Secretary Dr Radha Wagle, Climate Change Management Division (CCMD) for providing technical guidance to finalize this report. Besides, I thankfully acknowledge the support provided by Mr Raju Sapkota, Mr Arun Prakash Bhatta, Ms Srijana Shrestha, and Mr Milan Dhungana for their tireless work in finalizing the report. Furthermore, I would like to thank all the team members involved, including line ministries, consultants, and the expert team who have provided support and input to the process.

I also take this opportunity to acknowledge the funding and technical support of the British Embassy Nepal, and Policy and Institutions Facility (PIF) /Oxford Policy Management Limited.

Dr Pem Narayan Kandel
Secretary
Ministry of Forests and Environment (MoFE)

Acknowledgment

The Government of Nepal's revised National Climate Change Policy (2019) articulated a firm commitment to decentralize climate by mobilizing 80 per cent of climate finance received from international financial resources. It was critical to understand and unpack the mechanism for mobilizing and tracking climate finance at the federal, provincial, and local levels with defined standard criteria to effectively govern and deliver the climate finance-related policy commitment.

I am confident the study, Assessment of Climate Financing Allocation: Unpacking 80 Per Cent Allocation to the Local Level, will provide options and recommendations to improve the understanding of international development partners and decision-makers on rules and regulations for allocating climate financing to meet policy objectives.

I would like to thank the study team comprised of Mr Raju Pandit Chhetri, Mr Dinesh Acharya, Dr Bimal Raj Regmi, Mr Apar Paudyal, and Dr Ram Prasad Lamsal that carried out the assessments on behalf of the Ministry of Forests and Environment. I gratefully acknowledge the Ministry of Finance (MoF), sector line ministries, civil society organizations, climate change project team members, and the expert team for their valuable insight and participation in the report's finalization process.

I would also like to thank my colleagues in the Climate Change Management Division, Mr Raju Sapkota, Dr Arun Bhatta, Ms Srijana Shrestha, Mr Milan Dhungana, Mr Hari Laudari, and Mr Yamnath Pokharel for their tireless efforts in finalizing the assessment report.

In addition, I would like to take this opportunity to thank the British Embassy in Nepal for funding and technical assistance, as well as the Policy and Institutions Facility (PIF)/Oxford Policy Management Limited.

Dr Radha Wagle
Joint Secretary
Climate Change Management Division
Ministry of Forests and Environment (MoFE)

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Acronyms

ADB	Asian Development Bank
AMIS	Aid Management Information System
BCRWME	Building Climate Resilience of Watersheds in Mountain Eco-Regions
BEK	British Embassy Kathmandu
CAFS Karnali	Adapting to Climate-Induced Threats to Food Production and Food Security in the Karnali Region of Nepal
CBO	community-based organization
CCBC	Climate Change Budget Code
CCFF	Climate Change Financing Framework
CFGORRP:	Community-based Flood and Glacier Lake Outburst Flood Risk Reduction Programme
CIF	Cimate Investment Funds
COA	Chart of Accounts
CPEIR	Climate Public Expenditure and Institutional Review
CSO	civil society organization
d-CPEIR	District Climate Public Expenditure and Institutional Review
DDC	District Development Committee
DRR	Disaster Risk Reduction
DSCO	District Soil Conservation Offices
DSCWM	Department of Soil Conservation and Watershed Management
EBA	Ecosystem Based Adaptation
EPA	Environment Protection Act
EPR	Environment Protection Regulations
eSPR	electronic system for project reporting
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GCF	Green Climate Fund
GEF	Global Environment Facility
GFS	Government Finance Statistics
GLOF	Glacial Lake Outburst Floods
GoI	Government of India
GoN	Government of Nepal
HDI	Human Development Index
IDCP	International Development Cooperation Policy
IMF	International Monetary Fund
I/NGO	International/National Non-Governmental Organizations
IP	indigenous peoples
ISET Nepal	Institute for Social and Environmental Transition Nepal
KII	key informant interview
LAPA	Local Adaptation Plans of Action
LDC	Least Developed Country
LPCU	local project coordination unit
LMBIS	Line Ministry Budget Information System
M&E	monitoring and evaluation
MEL	monitoring, evaluation and learning
MIS	management information system
MoALD	Ministry of Agriculture and Livestock Development
MoCC	Ministry of Climate Change
MoE	Ministry of Enviornment
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoFALD	Ministry of Federal Affairs and Local Development
MoFE	Ministry of Forests and Environment
MoFSC	Ministry of Forests and Soil Conservation

MoHA	Ministry of Home Affairs
MSFP	Multi Stakeholder Forestry Programme
NAPA	National Adaptation Programmeme of Action
NCCP	National Climate Change Policy
NCCSP 2	Nepal Climate Change Support Programme – Phase 2
NDC	Nationally Determined Contributions
NDF	Nordic Development Fund
NNRFC	National Natural Resources and Fiscal Commission
NPC	National Planning Commission
OAG	Office of Auditor General
OBOfT	On-Budget, Off-Treasury
OBOT	On-budget, On-Treasury
OECD	Organisation for Economic Co-operation and Development
OfBOfT	Off-budget, Off-Treasury
OPM	Oxford Policy Management
OXFAM	Oxford Committee for Famine Relief
PFM	public financial management
PFMS	public financial management system
PIF	Policy and Institutions Facility
PPCU	provincial project coordination unit
PRC	Prakriti Resource Centre
PSC	project steering committee
PSU	project support unit
PMU	project management unit
SDG	Sustainable Development Goals
SIDS	Small Island Developing States
SPCR	Strategic Programme for Climate Resilience
SuTRA	Sub-national Treasury Regulatory Application
SWC	Social Welfare Council
TA	technical assistance
UNEP	United Nations Environment Programmeme
UNFCCC	United Nations Framework Convention on Climate Change
WFP	World Food Programme

Executive Summary

Background

The Government of Nepal (GoN) has made a policy commitment to mobilize climate finance obtained from international financial mechanisms fairly and equitably. The National Climate Change Policy (2019) stipulates that at least 80 per cent of climate finance received from international mechanisms be used to implement Programmes at the local level, with administrative costs kept to a minimum. The climate policy has maintained the same ratio of climate finance flows at the local level, while also reaching out to the most vulnerable, following the articulation made under GoN's National Adaptation Programmeme of Action (2010) and Climate Change Financing Framework (2017). Nepal is regarded as a world leader in implementing climate budget tagging in the national budget. Nepal has built domestic budget policies and institutional systems to effectively regulate climate funding over the last 12 years. However, there is a need for clarity in translating the prevailing policy provision of the 80:20 ratio of international finance resources at the local level.

To further simplify this climate finance management policy provision, GoN's Ministry of Forests and Environment (MoFE) assessed a climate finance allocation of at least 80 per cent for local-level Programme execution via international climate funding. Secondary information, case studies from ongoing and completed climate change projects, and interaction with key national stakeholders were used to lay the groundwork for this policy provision. The report on Assessment of Climate Financing Allocation: Unpacking Eighty Per Cent Allocation to the Local Level outlines the definition, criteria, procedure, and recommendations for effective ways to ensure that international funds received by Nepal reach the local levels so that they can respond to the needs of the provincial and local governments.

Policy context

The implementation framework of the National Adaptation Programme of Action (NAPA) includes policy provisions for adaptation projects or Programme budgets to ensure the flow of funds to the grassroots levels. For the first time, this has resulted in the implementation of policies on climate finance governance in Nepal, allowing financial resources to be channeled. However, it was not clear what constitutes 80 per cent, the exact breakdown, or the spirit of this number. The NAPA framework and climate change policy provisions have been less effective in implementation. The framework was more of a voluntary goal, with little clarity in the procedures for mandatory implementation. Stakeholders advise that greater awareness and information sharing be conducted across all implementing actors and local governments for the framework to be implemented.

The framework for Local Adaptation Plans of Action (LAPA) and its implementation, which includes a provision in climate change policy to direct 80 per cent of total climate funds at the local level, is significant. It encourages governments, bilateral and multilateral agencies, and civil society organizations to prioritize funding for the most vulnerable households and communities. Furthermore, the progress on strengthening climate financing through the climate change budget code and overall enhancing climate change public financial management (PFM) governance through the Climate Change Financing Framework (CCFF) reform plan is noteworthy.

The inclusion of an 80 per cent provision in climate change legislation was deemed critical in decentralizing climate finance. The NAPA framework was essential in inspiring the inclusion of the clause in the National Climate Change Policy. Both 2011 and 2019 policies call for allocating 80 per cent of climate finance to the local level. However while the former focuses on allocating all 80 per cent of the available funds to the local level, the latter focuses on allocating at least 80 per cent of climate funds received through the international mechanism.

An assessment of the policies indicated that the current PFM system is insufficient to properly prioritize, manage, and distribute climate money at the local level, making tracking and reporting climate change expenditure problematic. That is why information on the amount of climate financing allocated at the local level is scarce. Many local-level stakeholders are still unaware of climate change policy and climate funding provisions. Though many organizations at the local level have adopted the LAPA framework in their implementation, the policy provisions are not followed. As a result, there is a stronger requirement to incentivize sectoral Programme implementation to ensure compliance with the policy commitment of using 80 per cent of the budget at the community level

Lessons learned from the case studies

The analysis of three projects, Nepal Climate Change Support Programme (NCCSP), Adapting to Climate-Induced Threats to Food Production and Food Security in Nepal's Karnali Region (CAFS Karnali), and Building Climate Resilience of Watersheds in Mountain Eco-Regions (BCRWME), revealed that more than 80 per cent of the total climate funds were allocated at the local level. More specifically, the NCCSP, CAFS-Karnali, and BCRWME initiatives provided 61.7 per cent, 90 per cent, and 66 per cent of the overall climate funds to the local level, respectively. However, there were no allocation procedures or criteria to direct the allocation. Due to the absence of monitoring and reporting mechanisms regarding the compliance of 80 per cent allocation, the project proponents are much relaxed and perceived that it may not be mandatory. Besides, it was more of an arbitrary decision of the projects whether to take the policy provision into account or not.

Compliance was a major issue that arose during the implementation of projects and Programmes, particularly in rolling out policies and ensuring their successful implementation. Local governments, communities, and stakeholders are unaware of the policy provisions. Thus unable to advocate for compliance and had little say in project-level allocation, expenditure, and reporting. When it comes to putting policy provisions into action, the projects are befuddled mostly disaggregating the allocations Is it also necessary for 80 per cent of the funds to go to the most vulnerable households and communities and other sectors to build capacity at the local level and ensure climate change is mainstreamed into local development processes? In practice, however, projects invest in development activities and bear most of the costs. In addition, projects are investing in infrastructure projects that necessitate large sums of money and long-term commitments.

There was also a lack of monitoring of reporting mechanisms on climate fund allocation and expenditure at the local level. The allocation of funds at the local level is heavily influenced by the nature of the project. For example, projects focusing on technical assistance, research, and capacity building may necessitate a different approach to the allocation of funds rather than sticking to the allocation of at least 80 per cent of funds to the local level.

Conclusion and way forward

This study's analysis resulted in unpacking the terminologies used in the policy provision of allocating 80 per cent of the funds. It specifies the local scale, the spirit of mobilization of resources, the nature of interventions, and the scope of the 80 per cent funds. This unpacking is expected to assist all the stakeholders concerned in understanding the spirit of the national climate change policy, which recognizes the severity of climate change impact at the local level and the need to respond by decentralizing and cascading climate financing. Furthermore, this study suggests that the government adopt criteria to ensure that any new project on climate change targeted at the local scale includes 80 per cent provisions beginning with the design and approval of the process and continuing through its implementation, monitoring, and reporting.

SN	Criteria for 80 per cent Allocation
1	In our context, the local scale must be understood as implementation units, such as the municipality (palika) and below (the community/specific targeted groups/ward/settlement).
2	Administrative, capacity building, and other technical assistance costs channeled at the provincial or central level are not included in the 80 per cent cap.
3	Allocated project implementation budgets spent outside of the community/ward/municipal level will not be counted toward the 80 per cent allocation.
4	The technical assistance or administration component of the project spent at the community/settlement/ward and municipal level may be counted within 80 per cent of the allocation for the project or Programmeme in which the federal and/or provincial governments or agencies are involved.
5	If all project resources are spent at the local level, the costs for local delivery partners, service providers, and experts spent at the community/ward/municipal level will not be counted toward the 80 per cent allocation.
6	M&E costs incurred by provincial or central level will be excluded from 80 per cent.
7	Regional and international travel expenses will not be factored into the 80 per cent allocation.
8	Apply for projects with a focus on implementation and technical assistance at the local level – excluding global communication reporting, inventory, research, assessment, policy, strategy, and plan development TAs.

This study also suggests having regulatory and monitoring procedures in place, as well as clarity on stakeholders' roles and responsibilities. The role of the MoF, MoFE, Social Welfare Council (SWC), government line ministries, and other government agencies is critical in ensuring that the provision of 80 per cent and the criteria proposed above are well integrated during the design, project finalization, project agreement, finalizing project allocation procedures, implementation, and monitoring. Furthermore, there is a strong need for 80 per cent financial allocation to be aligned with the other government policy requirements, such as the climate change budget code and the ongoing ministry of Finance initiatives to strengthen the public financing management system (PFMS).

The next steps in taking the work forward are the following:

a) The proposed criteria can be used to ensure compliance with the 80 per cent allocation to the local level.
b) If necessary, the government can use the study's findings, analysis, and recommendations to develop additional guidelines, regulatory framework, and institutional measures to implement the 80 per cent allocation of climate finance to the local level as envisaged by the National Climate Change Policy (NCCP).
c) The government can use the study's findings as reference material to guide project development, project implementation, and monitoring and evaluation (M&E) systems to ensure 80 per cent allocation and effectiveness.
d) It is critical to ensure the leadership of the MoF, the MoFE, and SWC in ensuring the implementation of the study.
e) It is also recommended to hold stakeholder workshops or meetings with relevant projects and Programmes to disseminate the study's findings and identify a path forward to ensure the adoption of 80 per cent provision.
f) This study only looked at three case studies, all of which focused on adaptation and resilience projects. There is room for further research into the status of mitigation projects. It is also suggested the effectiveness of 80 per cent allocation be investigated at the local level.
g) MoF or MoFE can establish a mechanism for a national registry system to ensure that all initiatives funded by external climate funds are registered and updated regularly.

Chapter One: Background and Methodology

1.1. Background

The Government of Nepal (GoN) is a party to the United Nations Framework Convention on Climate Change (UNFCCC). According to UNFCCC, climate finance refers to local, national, or transnational financing drawn from public, private and alternative sources of financing that seek to support mitigation and adaptation actions that will address climate change (UNFCCC, 2021). Following the principle of "common but differentiated responsibility and respective capabilities" set out in the convention, developed country parties are mandated to provide financial resources to assist developing country parties in implementing the objectives of the convention. The convention further stipulates that the developed country parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments, and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies and taking into account the needs and priorities of developing country parties. Besides, such mobilization of climate finance should represent a progression beyond previous efforts.

The review of available global research and studies on the flow of climate finance suggests that mobilization of resources from developed countries to developing countries is inadequate to address the vulnerability and risk from climate change. It is estimated that the cost of adapting to climate change in developing countries could rise to between US$ 280 billion and US$ 500 billion per year by 2050 (UNEP, 2016). However, the climate finance provided and mobilized by developed countries for developing countries in 2017 and 2018 were US$ 71.2 and US$ 78.9 billion, respectively. Out of the total resources mobilized in 2018, 70 per cent was spent for mitigation activities, 21 per cent for adaptation activities, and 9 per cent for cross-cutting areas (OECD, 2020). The World Bank's report highlights that international public climate finance was estimated at US$ 58 billion in 2017 out of which around 95 per cent was provided as development finance with climate co-benefits and the remaining through dedicated climate funds, such as Green Climate Fund (GCF), Global Environmental Facility (GEF), and Climate Investment Funds (CIF) (The World Bank, 2020). However, of the estimated US$ 59.5 billion annual public climate finance reported in 2017/18, only US$ 12.5 billion was provided in the form of grants. On the contrary, US$ 22 billion was provided as concessional loans and other non-grant instruments. On average, around 20.5 per cent of climate-related development finance was channelized to the Least Developed Countries (LDCs) in 2017/18 and 3 per cent to the Small Island Developing States (SIDS) (OXFAM, 2020).

GoN's National Climate Change Policy (2011) (NCCP) made a strong policy commitment to allocate at least 80 per cent of the available fund directly to programme implementation at the community level. Besides, the revised NCCP in 2019 reinstated the government's commitment to decentralize climate finance and mentioned mobilizing climate finance received from the international financial resources. The policy articulates the provision to mobilize at least 80 per cent of the climate finance received from international mechanisms (bilateral and multilateral) to implement the programmes at the local level minimizing administrative expenses.

This policy commitment made by GoN is unique in comparison to other South Asian countries' policy provisions. Other South Asian countries have no particular policy narrative for mobilizing a certain percentage of climate finance to the sub-national and local levels. Bangladesh has established a Bangladesh Climate Change Trust Fund and Bangladesh Climate Change Resilience Fund to which development partners are encouraged to contribute in addition to the domestic budget allocation (MoEF, 2008). Bhutan has policy provisions to ensure a coherent and coordinated nationally driven approach to access climate finance for the prioritized climate actions from international climate funds, development partners, and donors to supplement support for sustainable development activities (NEC, 2020). Besides, India's National Action Plan on Climate Change has highlighted that a Climate Science Research

Fund would be created to support research (GoI, 2009). And, Pakistan has the policy provision to establish Pakistan Climate Change Fund for Financing Climate Change Projects (MoCC, 2012). Furthermore, Sri Lanka has envisioned sustainable financial mechanisms to support the implementation of the policy provisions (MoE, 2012). In addition, Cambodia's Climate Change Financing Framework highlights that the sub-national authorities will receive an increasing share of climate change finance (NCSD, 2015). However, the explicit policy guidance on decentralizing climate finance at the local level is rare.

In the last 10 years, Nepal has been able to access reasonable climate finance from a range of bilateral, multilateral, dedicated climate funds and mechanisms both inside and outside the UNFCCC financing mechanism. The funding disbursement modalities adopted are diverse and primarily governed by fiduciary standards and executive functions of the respective funding agencies. For instance, there are no similarities in the modalities of the GCF, GEF, CIF, and Adaptation Fund. The recipient country has to follow the modalities set by the respective funding agencies. In Nepal, a large number of donor funds are channeled outside the government's existing system for fund flow.

However, there is no proper accounting system to record the information on the amount of climate finance allocated at the local level from donor-funded resources. Besides, the allocation was not guided by any rules or criteria of allocation. There was also a lack of monitoring of reporting mechanisms on allocation and expenditure of the climate funds at the local level.

Given the current context of ambiguity and limitation to effectively govern and deliver the climate finance-related policy commitment, it is urgent to understand and unpack the mechanism for mobilizing and tracking climate finance at the federal, provincial, and local levels with defined standards criteria. Such criteria should be fair, transparent, and responsive to the poor and most vulnerable communities, and climate change vulnerable areas. Understanding the local dimension of climate change finance is also important because of the intrinsic local nature, manifest local climate change vulnerability, and the critical role local actors need to play in responding to the challenges. The assessment attempts to build an understanding among the relevant national stakeholders and to support in guiding mobilization of climate finance in the future from bilateral, multilateral, and international climate finance mechanisms at the federal, provincial, and local levels.

1.2. Overall Objective

The overall objective of the study was to lay the foundations for the allocation of climate financing, particularly unpacking 80 per cent allocation to support its implementation at the local level per NCCP (2019). The specific objectives were to:

- Assess climate finance allocation at the local level within the selected projects and programmes, and implementation opportunities and challenges in them, and
- Identify and recommend effective ways of international climate finance allocation in the spirit of the NCCP provision i.e., at least 80 per cent allocation for programme implementation at the local level.

1.3. Scope of Work and Methodology

The assessment intends to clarify the existing ambiguities in meeting the 80 % climate finance allocation from international mechanisms (bilateral and multilateral) to implement the programmes at the local level minimizing administrative expenses. The clarity on this policy provision is even more important as Nepal has already changed its administrative structure from unitary to federal, with autonomous authority and decision-making is given to seven Provinces and 753 Local Governments. The scope of work focused on three research questions to provide clarity on GoN's climate finance policy provision. They are:

1) How is climate finance allocated at the local level, particularly within the selected projects and programmes?
2) Is there a basis for allocating 80 per cent to the local level within the projects and programmes? What is the learning so far? and
3) What could be the practical and effective ways of climate finance allocation in the spirit of NCCP provisions i.e., 80 per cent allocation to support implementation at the local level?

The assessment was carried out based on the existing literature review, case study analysis of finance flow of climate change projects, and semi-structured interviews with relevant government and non-government national stakeholders familiar with the subject matters. The three projects with different funding mechanisms were selected as cases to analyze and understand climate finance allocation. The detailed methods and approaches are presented below:

Literature Review: A thorough review of the existing and available literature was carried out to better inform the assessment process and achieve the outcome. The existing literature, such as the NCCP (2019), NCCP (2011), Environment Protection Act (EPA) (2019) and Regulations (2020), framework on LAPA, Climate Resilient Planning and Budgeting Guidelines, Climate Public Expenditure, and Institutional Review (CPEIR), NAP document, Climate Change Financing Framework of Nepal-2017 (CCFF), Climate Change Budget Code (CCBC), climate funding update, and other national and international climate finance studies were carefully reviewed. A policy analysis was carried out referring to the literature review to understand the opportunities and constraints of policies about climate finance allocation. This process supported in further shaping the interview and discussion process with key stakeholders on policy provisions on climate finance.

Consultations and Coordination: Consultations and coordination were carried out with key government officials and professionals working in the area of climate finance in Nepal. The assessment was carried out under close guidance and supervision of the chief of CCMD, MoFE. The assessment engaged ongoing climate change project officials, stakeholders from the government institutions, and I/NGOs. The early draft reported were shared and presented to wider stakeholders to receive feedback on the assessment process.

Preparation of Cases: The case study of donor financed projects was carried out to understand and collect the project information on how these projects have been allocating their budget at the local level. The selection criteria were prepared to shortlist the project as shown in Table 1.

Table 1: Selection criteria of projects for the case study

SN	Case Selection Criteria
1	Internationally funded projects from climate dedicated funds and bilateral development partners
2	Diversity in donors and development partners
3	Climate adaptation focused project (or cross-cutting)
4	Project with implementation in nature (not technical assistance (TA) or research projects)
5	The project is either currently in the stage of implementation or just completed.

Based on the criteria, three projects were chosen to represent the ongoing and finished projects funded by international climate finance mechanisms, particularly those of bilateral donors and dedicated climate funds such as the Adaptation Fund. The projects are:

1) Nepal Climate Change Support Programme Phase 2 (NCCSP 2)
2) Adapting to Climate-Induced Threats to Food Production and Food Security in the Karnali region of Nepal (CAFS Karnali)
3) Building Climate Resilience of Watersheds in Mountain Eco-Regions (BCRWME)

The first two initiatives, namely the NCCSP 2 and CAFS Karnali projects are currently in implementation, and the BCRWME (b fund) project was recently completed.

To construct a case study, each project document was analyzed in conjunction with respective project authorities, and a semi-structured questionnaire was developed to understand the project contribution in terms of climate finance policy implementation. The case study gave greater hands-on experience and a foundation for making assessment recommendations.

Interviews and Validation of the Assessment: Key informant interviews (KII) were carried out involving key stakeholders to better understand the analytical perspectives of the stakeholders and their experiences in implementing the 80 per cent provision of the NCCP. The semi-structured questionnaire was prepared (See Annex II) to carry out the assessment. The key recommended pathways to practically implement the climate finance policy provision were also discussed during the KII process. Based on the information gathered and the analysis of the outputs of the assessment process, a draft technical assessment report was prepared. The draft report output was discussed and validated with the key stakeholders from the government, international/national non-governmental organizations (I/NGO) project officials, and experts. After incorporating the inputs received from the wider stakeholders, the improved version report was peer-reviewed by the national expert for further refinement and finalization. Besides, the final draft was shared with MoFE and relevant stakeholders before it was presented for endorsement.

Limitations of the Study: The assessment was conducted with the goal of unpacking and clarifying the 80 per cent allocation of climate finance at the local level. As stated in the scope of work, the assessment used three key research questions to guide the assessment process. The assessment does not include a detailed analysis of the flow of climate finance from bilateral, multilateral, and international financial resources to local levels. Rather, it focused on what specific criteria or standards can assist all stakeholders in engaging meaningfully to contribute to the policy provision.

The assessment examined only three adaptation and resilience projects, in part due to the difficulty in obtaining project documents from completed projects to review the actual allocation of resources to the local level. It would have been preferable to include the mitigation projects, but it was agreed to expand case studies would not add much value due to the similarity of the issues. Throughout the study, the assessment team was relying on a virtual model of consultation and validation of findings with key government and stakeholder representatives.

Chapter Two: Review of Existing Policy Provisions

2.1. The Genesis of 80 Per cent Provision of Climate Finance in the Policy

The framework on climate finance in Nepal began in 2010 with the study on *The Future for Climate Finance in Nepal*. In the same year, NAPA estimated about US$ 350 million financing needed to implement urgent and immediate climate action priorities. The document also suggests that 80 per cent of climate financing must reach the most vulnerable. The provision to reach the climate-vulnerable was the result of wider stakeholder engagement during the NAPA process. Stakeholders suggested GoN prioritize local level action on climate by ensuring local communities get benefits of the available climate finance. Even the term Local Adaptation Plans for Action (LAPA) was coined and advanced during the NAPA process. Later, GoN prepared the National Framework on LAPA.

In 2011, GoN approved the first NCCP which embedded the climate finance provision at the local level. The policy has identified a need to "*implement adaptation programmes according to the national development agenda and to ensure at least 80 percent of total funds available for climate change activities flow to the grassroots level*". This flow of finance provision set in policy remained an example for other countries— no other countries were found to be employing such narrative in practice.

In the same year, Nepal carried out the first global CPEIR to understand the state of climate financing and map institutions involved in climate change activities at the national level. The CPEIR estimated about 6 per cent of the total national budget as climate-relevant allocation and 55 per cent of donors' resources as off-budget allocation. The CPEIR was the first of its kind to assess the tracking of 80 per cent of finance flows to the local level per the policy targets. And it identified clear gaps in making PFMS more responsive to climate issues. As a result, the CPEIR suggested rigorous tracking of public expenditure inside the national budget system as a vital tool in properly managing public finance. This resulted in the establishment of the first CCBC and User Guidelines in 2012. The tracking of budget allocation to climate-related activities in the national budget has aided in the assessment of climate-relevant investments made through normal development programmes.

In 2017, MoF launched the Climate *Change Financing Framework* (CCFF) to facilitate the integration of national policies and strategies relating to climate change finance into the budgeting process and help the government to channelize all climate projects and streamline investments through the national system in a long-term scaled-up approach. The CCFF introduced a PFM reform roadmap primarily to address three policy challenges to climate finance in Nepal. These include i) establishing tools for *ensuring that funds can be targeted better* to reach the most vulnerable local population groups; ii) improving *climate finance readiness* by strengthening existing PFM structures as well as by *managing external climate funds* through the country systems, and iii) improving the *effectiveness of the existing climate finance* through reforms to planning and budgeting guidelines for more informed decision-making at all levels of the government. The CCFF roadmap paved the way for introducing important PFM reforms on building a national system on climate finance. Despite the introduced reforms, there are still challenges to fully integrating climate change in planning, budgeting, public expenditure with an effective M&E system at all levels of the government. Besides, a stronger focus is further needed to ensure the national system is capable of accessing, mobilizing, and absorbing climate finance received from the international mechanism.

In 2018, the Ministry of Federal Affairs and Local Development (MoFALD) produced a brief report on district climate public expenditure and institutional review (d-CPEIR) conducted in select districts to illustrate a baseline of climate financing (including a budget, expenditure, and trend) and the institutional and policy contexts at the sub-national level. The report shows the then district development committee spent 7.3 per cent and 23.8 per cent of their total budget on climate change related programmes. However, besides this one-time selected sub-national assessment, there is no operating PFM system to analyze the performance of climate-relevant programme and projects of the sub-national government.

Building upon these domestic budget policies and institutional processes, GoN's amended NCCP (2019) gave continuity to the provision to mobilize at least 80 per cent of climate finance to the local levels. However, the provision only provides a strong emphasis on the fund that will be received from international mechanisms (bilateral and multilateral) to implement the programmes at the local levels, minimizing administrative expenses.

The revised LAPA framework is also one of the objectives to increase investment in supporting the implementation of climate change adaptation and disaster risk reduction (DRR) and management. Besides, one of the indicators for achievement of the target of LAPA is how much the local governments allocate budget for climate change adaptation and DRR targeting women and most vulnerable groups. These policy provisions demonstrate the strong commitment of the government to trickle down and decentralized climate financing to address the risk and vulnerability of communities and resources.

The second Nationally Determined Contributions (NDC), submitted by GoN, has emphasized support for local and disadvantaged communities through access to climate financing and evidence-based allocations. One of the NDC's core policy pledges is that all 753 local governments will design and implement climate-resilient and gender-responsive adaptation plans by 2030. The plans will address climate change and disaster vulnerability and risks, as well as prioritize adaptation and disaster risk reduction and management measures aimed at women, differently-abled people, children, senior citizens, youth, indigenous peoples, economically disadvantaged communities, and people living in climate-vulnerable geographical areas.

Table 2: Timeline of various national documents of the Government of Nepal

Year	Policy, Programme, Act and Rules
2009	Kalapatthar Declaration
2010	The Future for Climate Finance in Nepal
2010	National Adaptation Programme of Action
2010	Climate Change Vulnerability Mapping in Nepal
2011	Climate Public Expenditure and Institutional Review
2011	National Climate Change Policy (First)
2011	National Framework for Local Adaptation Plans for Action (First)
2014	Economic Impact Assessment of Climate Change in Key Sectors in Nepal
2017	Climate Change Financing Framework
2017	Green Climate Fund Handbook for Nepal
2017	National Natural Resources and Fiscal Commission Act
2017	Intergovernmental Fiscal Management Act
2017	SDGs Status and Roadmap: 2016-2030
2018	Agriculture Sector Climate Change Budget Coding Guideline
2018	Needs Assessment, Costing, and Financing Strategy for SDGs
2019	District Level Climate Public Expenditure and Institutional Review
2019	National Climate Change Policy (Second)
2019	Framework for Local Adaptation Plans for Action (Second)
2019	International Development Cooperation Policy
2019	15th Five Year Development Plan
2019	National Framework for Local Adaptation Plans for Action (Second)
2019	Environment Protection Act

2020	Environment Protection Rules
2020	Nationally Determined Contributions
2020	GESI strategy and Action Plan
2020	Climate Resilient Planning and Budgeting Guideline
2021	Vulnerability and Risk Assessment and Identifying Adaptation Options: Summary for Policymakers

2.2. Climate Finance Allocation, and Fund Transfer at the National and Local Levels

2.2.1. Tracking climate finance allocation

There has been some progress on tracking climate finance allocation in Nepal. With the introduction of CCBC (2012) and CCFF reform roadmap (2017), GoN's PFM system is capable of tracking and producing climate change relevant budget allocations as well as expenditure reporting annually. This allows the budget and planning decision-makers to observe the climate-relevant budget allocations and expenditures and analyse the trends.

The budget coding system developed in 2012 uses a set of broad definitions and criteria to define climate activities irrespective of the sectoral variation in how they are impacted by climate change. The climate budget code is a marker assigned to a budget head to define the level of relevance of the budget to climate change adaptation and/or mitigation. The programmes are considered 'highly relevant' if 60 per cent or more of the allocated budget is related to climate change and 'relevant' if 20-60 per cent of the budget addresses climate change. If the programme is not related to climate change activities, the programme is coded as 'neutral'. The climate code is recorded in a computerized system-based budget database of MoF called the Line Ministry Budgetary Information System (LMBIS), which is used by line ministries to prepare their plans and budgets. Besides climate relevance coding, the existing LMBIS has a tab to code sub climate classification of each programme based on climate objective i.e., adaptation, mitigation, and mixed.

Initially, all sector ministries were engaged to be part of assigning the budget code in the process. However, in later years, the sector ministries were not fully mainstreamed in assigning the code in each sector programme, rather it was done by MoF and the National Planning Commission (NPC) sector focal points during the annual budget preparation process to enter data in LMBIS. The aggregate function and source-wise climate budget are then presented annually in the budget speech and Redbook. Table 3 provides a self-explanatory overview of the climate-relevant budget allocation of the national budget over the last five fiscal years by climate change relevance and types of sources. The proportion of highly relevant spending has remained constant over the past five years, at approximately five per cent of the national budget. The moderately relevant climate budget has some variation largely because of tagging of the budget allocated for reconstruction following the earthquake of 2015, and grants (fiscal equalization, special and complementary grant) provided to the new local governments, including the Provinces after 2017/18. The grants are part of inter-governmental funding arrangements to the local levels calculated by the National Natural Resources and Fiscal Commission (NNRFC), Government of Nepal.

Table 3: Climate change budget allocation by climate-relevant and sources over last five fiscal years (Source, MoF)

Budget Detail	**Fiscal Year (**in NPR billion)				
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Total climate budget	393.30	487.01	463.87	478.83	549.69
Allocation by Climate Change Relevance Code					
Highly Relevant	57.73 (4.5%)	58.10 (4.41 %)	79.80 (5.21 %)	79.10 (5.33 %)	94.10 (5.71 %)

Moderately Relevant		335.62 (26.2%)	429.10 (32.6 %)	384.10 (25.05 %)	399.70 (27.1 %)	455.67 (27.6 %)
Allocation by Sources						
Government		301.78 (76.73%)	263.94 (54.19%)	263.59 (56.82%)	355.26 (74.19%)	N/A
Donor fund	Grant	21.46 (5.45%)	24.29 (4.98%)	59.88 (12.90%)	18.50 (3.86%)	N/A
	Loan	66.94 (17.02%)	183.15 (37.60%)	138.79 (29.92%)	104.64 (21.85%)	N/A
	TA	3.12 (0.79%)	8.91 (1.83%)	1.59 (0.34%)	0.42 (0.08%)	N/A

The information on allocation and expenditure of climate finance including on-budget international assistance has been generated as part of budget information. The Financial Comptroller General Office (FCGO) in its annual consolidated financial statement provides an overview of the climate change expenditure. However, off-budget bilateral and multilateral including INGOs support that is being made available to Nepal are recorded by MoF annual *Statement of technical assistance and other assistance"* and *"development cooperation report"*. The monitoring of international finance flow to the country is being recorded in the Ministry of Finance's Aid Management Information System (AMIS) which recently has been upgraded to categorize aid made available to Nepal based on individual goals of sustainable development goals (SDGs). The review of 609 donor-financed climate-related projects in Nepal between 2013-2017 was found to have commitments of about US$ 1.92 billion, and the ratio of adaptation and mitigation finance for Nepal during the same period was 53 per cent and 47 per cent respectively (PRC, 2016).

There are, however, challenges in strengthening the governance of climate finance in Nepal. While the budget coding method has been appreciated as being the first globally and an innovative way that enabled tracking climate budget allocation and expenditure, it has also been noticed that the method tends to exaggerate or under-represent climate budget figures. Among others, the application of the climate budget code adopted some methodological changes in tagging moderately relevant budgets on programmes related to the 2015 earthquake reconstruction work and the transfer of grants to the local governments. This has raised the question of subjectivity whether the tagged programme will be effective and efficient in spending allocated resources on the climate objectives. The important aspect is how this budget tagging has encouraged the government to integrate climate change issues in the development planning and budgeting process, and whether or not there has been incremental government allocation on highly relevant climate change activities over the years.

To improve the accuracy of the climate budget while integrating climate finance across the sectors, GoN through CCFF identified improvements required in overall PFM, climate budget coding criteria, accountability & transparency, and capacity building as key areas for administering climate finance. Specifically, the subjectivity in defining climate activity in the existing climate budget coding method was addressed when the Ministry of Agriculture and Livestock Development (MoALD) at the federal level began improving the budget tracking method and coding criteria for use in 2019/20 annual budget formulation process. The improved method tags the climate component at the activity level as opposed to tagging at the programme level that the 2012 climate budget code required. Besides, this method is a significant jump compared to the existing method because it uses typologies to define agricultural climate activities and non-budgetary parameters to establish the level of relevance to climate change (Table 4). MoF has modified the LMBIS to enable MoALD to tag its climate-related initiatives at the activity level in the system. In 2020, MoFE endorsed climate-resilient planning and budgeting guidelines adopting similar improved methods. Also, the budget formulation guidelines of MoF have revised the narrative to include the use of improved coding methods and are expected to roll out in other federal ministries and subnational governments.

Table 4: Parameters of the level of relevance in improved climate budget coding criteria

Parameters to fix the level of relevance		Remarks
i	Is the information about climate vulnerability in areas where the activity is being proposed available?	If two or more of the answers to the above questions are 'yes, then the activity is tagged as 'highly relevant. If two of the answers are 'no,' the activity is tagged as 'relevant.
ii	Have the beneficiaries, including gender, been identified who are supposed to be benefited by the proposed activity in reducing their vulnerability?	
iii	Does the proposed activity contribute to meeting the national commitments, such as the NDCs, SDGs as well as meeting the objectives of climate change policy?	

The efforts of improving PFM on climate change so far have been limited to the federal level even though the Constitution of Nepal in 2015 has given rights and responsibilities to all three tiers of government. This suggests the need to have similar PFM reform gradually rolled out to the subnational levels to improve the budget tracking method for effective governance of climate finance. The local governments play a key role in delivering local-level and community-based climate actions, especially on adaptation and small-scale mitigation actions. As part of CCFF reform, the Chart of Accounts (COAs) of all tiers of government has been improved and made compatible with each other on the line items with Government Finance Statistics (GFS) Manual (2014) prescribed by International Monetary Fund (IMF). The provincial government has started the allocation of the climate budget as per the federal system in its budget speech and Redbook. However, further, improvement is required to ensure a more accurate tagging process. The Subnational Treasury Regulatory Application (SuTRA) software being used by the local government needs improvement with necessary guidelines and procedures for mandatory use to adjust the climate budget coding process.

At present, there is no adequate capacity and institutional mechanism to tag, track and follow the flow of climate finance at the local levels. Without capacity and knowledge to make better use of the provision at the subnational levels, it is going to be extremely difficult to estimate the funds needed, spent, and project any future scenarios. However, the annual budgets of provincial governments have started to report on allocation of the climate-relevant budget since the last two fiscal years. However, local governments are yet to comply with the provision. The local governments form a large part of service delivery systems at the community level incurring a significant amount of expenditure every year. Without capacity and information on climate-relevant spending, there will be challenges to monitor, report, and verify local government-level contribution to climate change. For that reason, at present, the link between the budget code and the 80 per cent allocation of climate finance at the local level is missing and not fully operationalized.

2.2.3. Mechanisms of fund transfer

The National Natural Resources and Fiscal Commission Act (2017) provides a mechanism of fiscal transfer to the municipalities. The central government considers the three major categories of local level revenue as (1) distribution of revenue and royalty, (2) federal and provincial grants, and (3) revenue internally generated by respective local levels. The revenues collected in the form of value-added tax and excise duty on domestic production will be accumulated in a Federal Distributive Fund which will then be distributed across federal, provincial, and local levels at the proportion of 70:15:15. Similarly, royalties collected on natural resources will also be accumulated in a Federal Distributive Fund which will be distributed across federal (50 per cent), provincial (25 per cent), and local (25 per cent) levels. There is provision for different types of grants that the federal government can provide to provincial and local levels, and the provincial government can provide to local levels. They include:

- ***Conditional grant***: This grant is provided as per the basis set by NNRFC for the implementation of the plans of GoN, provinces, or local levels;
- ***Equalization grant***: This is provided based on the needs and the revenue-raising capacity of the respective provinces and local levels following the recommendation of NNRFC;
- ***Complementary grant***: This grant is provided for the implementation of infrastructure development-related plans. Necessary arrangements for providing the complementary grant will be as per the procedure defined by the government;
- ***Special grant***: This grant is provided for the implementation of special plans targeted for the development and supply of basic services, balanced development of provinces and local levels, and the development and uplift of deprived communities or groups.

The third category of income is revenue internally generated from the administration of the tax and non-tax sources of revenue (just like federal and provincial governments). The Intergovernmental Fiscal Management Act, 2074 (2017) has defined the tax jurisdiction of federal, provincial, and local governments.

International climate finance received for climate actions can also mirror the current provision of the government, especially as a special grant to address climate risks and vulnerability. This would allow the allocation of resources directly to the municipalities that can address the local issues together with building the capacity of the local governments and communities. Local governments also require capacity enhancement as agreed by stakeholders, including the government representatives.

2.2.3. Modalities of Channeling International Funds

To understand the climate financing modality, it is important to understand the modalities of channeling international funds. This chapter discusses various modalities of channeling international funds and the relevance of tracking, monitoring, and reporting the international funds spent for the local level as per the NCCP (2019).

There are three modalities of the flow of international funds or assistance in Nepal. They are i) On Budget, On Treasury (OBOT); ii) On Budget, Off Treasury (OBOfT); and iii) Off Budget, Off Treasury (OfBOfT). The OBOT modality of funding goes directly through the government system which is reflected in the 'Red Book' of the government. This route is controlled and reported through the government system. The OBOfT is the modality where donors inform the government and reflect the budget in the red book and get the government approval for spending as per the support objective. This route is partially controlled by the GoN but the responsibility lies with the respective donor in terms of disbursement and utilization of funds. The third modality is the approach where some TA projects and other implementation support projects are executed through INGOs that mobilize the funds directly. The money is spent through local partners and NGOs and the projects which are registered at SWC, a body that regulates all I/NGO operations in the country. Under this modality, government institutions were found to have less control over the implementation of the project. However, SWC is the mandated government institution to authorize, review and monitor these projects.

GoN has articulated various priorities along with climate change for aid mobilization through global funds in the country in its International Development Cooperation Policy (IDCP) 2019. The policy has envisioned preparing the necessary framework before receiving and mobilizing such cooperation based on the national needs and priorities. However, in practice, it appears that it is being decided on a case-by-case basis especially for large-scale climate change projects coming via international intermediaries like the UN Agencies and international organizations. For the government, channeling the funds via on-budget, on-treasury modality is a strong preference to reduce associated fiduciary risks and transparency of the expenses. The preferred modality also has the advantage of enhancing the capacity of the local government in financial management and mitigating associated fiduciary risks. Despite this, the government has granted permission to many climate projects to be implemented via the on-budget, off-treasury modality.

Many donors opting to channelize the funds via NGOs do not go through the government system but seek service providers via their procurement process. Some projects have adopted the mixed model as well. For example, the GCF-funded and Food and Agriculture Organization (FAO) implemented Churia project has US$ 33.5 million in the on-budget on-treasury model while the US$ 5.5 million is in the on-budget, off-treasury model. The total value of the project is the US $39 million. It was noted that these modalities do not have much relationship with the 80 per cent provision of the climate change policy. Table 5 provides comparative synopsis of advantages and disadvantages over existing modalities for channeling international finance to the country.

Table 5: Comparison of modalities for channeling international finance

	On-Budget, On-Treasury (OBOT)	On-Budget, Off-Treasury (OBOfT)	Off-Budget, Off-Treasury (OfBOfT)
Advantage	• High government ownership • Intends to help capacitate government institutions • Likely to achieve 80 per cent target of climate change policy • Can handle large projects	• Government ownership • The government is informed about the funds being utilized • Likely to achieve 80 per cent target of climate change policy • Likelihood of timely completion of a project	• Timely delivery and completion of a project • Easy to deliver the project activities • Doesn't get caught in government processes
Disadvantage	• Slow and gets caught in the bureaucratic process • Risk of timely project completion	• Inadequate support for capacity building of government institutions • Less government control and ownership	• Less government ownership • Doesn't help capacitate government institutions • Almost no government control • Risk of not achieving 80 per cent target of climate change policy
Preferred by	• Government institutions • Some development partners, like the Asian Development Bank	• Development partners, e.g., UN agencies, prefer this modality	• International Non-Governmental Organizations • Some bilateral donors

	(ADB) prefer the modality.		• UN Agencies for TA projects

Source: Study team

2.3. Policy, Programme, and Framework Analysis

This section presents further analysis of the narratives articulated in the climate change-related policy, programme, and framework including NAPA, climate change policy, and LAPA framework to assess the climate finance perspective and 80 per cent climate finance allocation provision of the policy going to the local level. Table 6 provides a comparison of the provision and subsequent development of the 80 per cent target.

2.3.1. National Adaptation Programme of Action

The NAPA document provides a national implementation framework (Figure 1) to execute urgent and immediate climate adaptation actions identified as a basis to support activities in a coherent programmatic approach to reduce the vulnerability to climate change impacts. The document provided a basis to guide climate change adaptation governance, including channeling financial resources and technical expertise for adaptation at the local level in a coherent and coordinated manner. It included an explicit provision that stipulates that depending on the nature of the project and the size of the budget, the operating costs will be kept to a minimum such that at least 80 per cent of the available financial resources reach the local level to fund on-the-ground adaptation activities. The 20 per cent of the total financial resources are limited to the expenses allocated at the central level and district level functional coordination.

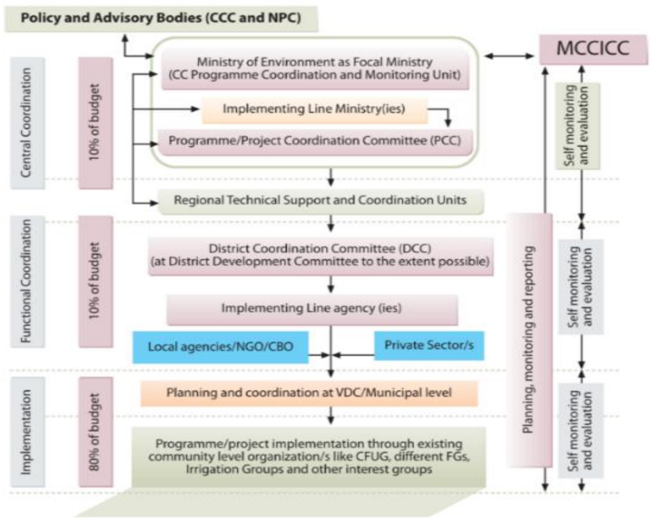

Figure 1: NAPA Implementation Framework

Experience shows that the implementation of 80 per cent provision looks challenging. There is a lack of evidence or information capturing the experiences of projects which were implemented to address urgent and immediate actions identified by NAPA. It is difficult to even attribute these projects' allocation ratios per the climate change policy. Besides, the provision of 10 per cent each to the central and local level for coordination is also not recorded. Now, in the changing institutional landscape after the introduction of federalism, the NAPA provision needs to be revisited.

2.3.2. National Climate Change Policy

NCCP 2011 has a dedicated section on climate finance. This section clearly states the need to establish a separate Climate Change Fund for implementing climate-related programmes. Similarly, it also stresses that at least 80 per cent of the total budget from the Climate Change Fund should be made available directly to programme implementation at the local level. This means 80 per cent is the programme implementation cost that should reach directly to the communities. This provision in the climate change policy was a strong policy commitment from the government. However, meeting the target of making 80 per cent of climate funds available to the local level was observed as complicated due to several ambiguities about the policy.

For example, it is not clear whether 80 per cent provision includes both domestic and international funds; whether "make available" entails allocation, disbursement, or expenditure; whether it includes public funds or public plus private and other sources of finance. It is also not clear how climate change fund is envisaged to be managed.

NCCP 2019 was approved to reflect the nuance of the federal restructuring process of Nepal. Among other things, one of the major aspects suggested was to strengthen the finance section while retaining the provision of allocating at least 80 per cent of the total climate funds going to the local level. This clarified that of the total funds received 80 per cent was for programme implementation, excluding administrative costs. It also further clarified that the percentage of allocation is applied to only climate finance coming from international sources and mechanisms. The policy further articulates that climate change budget will be ensured in all sectoral plans at all levels; CCBC will be modified and institutionalized; appropriation of budget targeted to women, minorities, backward class, climate change affected area and vulnerable communities will be ensured; and mobilization of finance from the private sector will be encouraged. The provision is considered as an opportunity to mainstream climate finance in national plans and budget as well as convene available international climate finance for mobilization by better targeting local level needs and priorities through dedicated climate change funds, such as GCF, GEF, Adaptation Fund, bilateral funds, or other innovative climate financings in the country. However, there is a realization that the provision of 80 per cent needs unpacking further and specifically guide the stakeholders to ensure its effectiveness.

Table 6: Comparison of the provision and subsequent development of 80 per cent target

Elements	NAPA Framework 2010	Climate Change Policy 2011	Climate Change Policy 2019	LAPA Framework 2019
Climate Finance Provision	• Includes the provision of financial allocation in its implementation framework	• Establish a separate Climate Change Fund • Generate financial resources through the implementation of the "polluter pays principle" and the payment for environmental services concept • Managing the financial resources from current and future multilateral and bilateral support for climate change activities and the Climate Change Fund	• Financial resources will be received and mobilized through the bilateral and multilateral international financial mechanisms • Climate change budget will be ensured in all sectoral plans at all levels and CCBC will be modified and institutionalized • Appropriation of budget targeted to women, minorities, backward class, climate change affected area and vulnerable community will be ensured • Mobilization of finance from the private sector will be encouraged	• Allocation of budget for the climate-resilient and climate-induced disasters is considered as the indicator of success • Access to adaptation finance from various sources and its efficiency is considered • Assessment of the funds available will be done and mainstreamed in the budget cycle
80 per cent Provision	• States 10 per cent of the project budget would be allocated for the central level coordination. • States 10 per cent will be allocated at the district level for functional coordination. • States 80 per cent of the project amount will be allocated to the local level for implementation.	• Allocating at least 80 per cent of the available fund directly to programme implementation at the community level.	• Mobilization of at least 80 per cent of the total climate funds obtained through international mechanisms will be ensured for the implementation of programmes at the local level by reducing administrative expenses.	• No allocation during the budget cycle or funds access has been mentioned in the LAPA framework

Clarity of Elements	• The document does not provide clarity or details of the breakdown and the elements of these allocated amounts.	• The policy does not provide clarity or detail out the elements.	The policy does not provide clarity or detail out the elements.	• No details are available as it is a framework

2.3.3. National Framework on Local Adaptation Plans for Action (LAPA)

LAPA 2011 was formulated by the Government of Nepal to localize NAPA and implement the provisions of climate change policy. LAPA was formulated to assist in the identification of local adaptation actions with people's participation as prescribed in NAPA and the development and implementation of action plans, including support for the integration of climate change adaptation into sectoral and area-specific plans. This framework emphasized improving the livelihoods of communities by mitigating and adapting to the adverse impacts of climate change but supporting the local communities and integrating climate change into the local level planning and budgeting process. LAPA framework was expected to help translate national policies into action and disbursing the project and/or programme funding at the local level.

In 2019, GoN revised the LAPA framework to align the new governance structure of the country. The framework still has the focus on supporting the most climate-vulnerable communities and people to adapt to climate change and improve livelihoods by integrating it into the municipality planning and budgeting process. In its framework, it emphasizes access to climate finance by the central and provincial governments while municipalities will assess the funding needed, prioritize the urgent need and incorporate it into the budget cycle. It also mentions assessing various sources of finance, including the local revenue, national and international sources, and the private sector among others. The assessment of the funds available will be carried out, actions prioritized, and mainstreamed into the budget cycle. However, the size of the allocations in the budget is not determined and it does not mention the policy provision of 80 per cent of international finance going to the local level.

2.3.4. Other Policy Provisions

NPC stresses the implementation of the provision of 80 per cent going to the local level to ensure that the resources are well spent in the community. It also emphasized the need to achieve SDGs, reducing unnecessary expenses, reaching out to the most climate-affected communities, and ensuring partnership with the local government. It mentions that achieving the set target is urgent and important. It also envisions that doing so will help to meet the government vision of addressing poverty and achieving the 15th Five Year Plan targets. Besides, SWC demands that I/NGOs accessing international finance must ensure that at least 60 per cent of the total budget must go into hardware before authorizing the project for implementation. SWC demands that they be informed about it. Though the percentage does not match, SWC could be one of the agencies to check if international climate change projects are fulfilling the policy provisions.

Chapter Three: Case Study Analysis of Climate Adaptation Projects

The case study analysis of three projects supported by international climate finance being implemented in different parts of the country was assessed to understand the flow of finance at the local level. These projects included: 1) Nepal Climate Change Support Programme Phase 2 (NCCSP 2), 2) Adapting to Climate-Induced Threats to Food Production and Food Security in the Karnali region of Nepal (CAFS Karnali), and 3) Building Climate Resilience of Watersheds in Mountain Eco-Regions (BCRWME). All three projects had targeted the poor and climate-vulnerable communities through various climate-resilient and adaptation activities, including watershed management, integrated irrigation to promote and intensify agriculture-related activities, capacity building, and livelihood improvement among others. A brief explanation of how each project is directing the funds at the local level is described in the section below.

3.1. Case Study 1: Nepal Climate Change Support Programme Phase 2

The Nepal Climate Change Support Programme (NCCSP) was initiated in 2013 by the Government of Nepal to reduce the vulnerability of the western region of Nepal. The western region was identified vulnerable during the 2010 NAPA vulnerability mapping of Nepal. Since then, NCCSP has been providing support to integrate climate change adaptation and resilient activities at the local level planning process and its implementation. Following the completion of NCCSP Phase 1 and the transition extension phase, NCCSP Phase 2 (2019-2023) is being implemented in selected municipalities of the Karnali, Lumbini, and Sudurpaschim provinces with financial support from the British Embassy Kathmandu (BEK) and technical assistance from Mott MacDonald. According to the current federal administration, the NCCSP 2 will largely focus on municipalities to assist in the development and delivery of the LAPA plan to help minimize climate vulnerability.

Budget Allocation

The total project cost of NCCSP 2 is £ 23 million supported by UK Aid that includes £ 2.08 million as a transition extension phase. The project document had detailed out £ 18.7 million and the remaining £ 4.3 million had no breakdown. Table 7 provides the detail of the project cost breakdown as per the project document.

Table 7: Budget allocation for NCCSP project

Recipient	Budget (million)	Budget in percentage (%)
Municipality	£12.4	53.91
Federal and province	(£0.1 for Karnali Province in Fiscal Year 2020/21)	NA (0.43 for Karnali Province for Fiscal Year 2020/21
NCCSP TE (UNDP) Programme cost	£ 1.7/£ 2.08	7.39
NCCSP TE (UNDP) TA cost	£ 0.38/£ 2.08	1.65
NCCSP 2 TA	£ 4.22	18.34
Total	£ 23	
Implementation cost	Covered by municipalities	NA
Administrative cost	£ 4.60	20
Reducing climate risk and vulnerabilities	£ 14.2 (including aid to Karnali Province)	61.7 (this figure might get increased if the donor allocates Federal and

		Provincial budget from the total financial aid)

The local level received around 61.7 per cent (£ 14.2 million) of the total budget to address climate risk and vulnerability. The project proposal does not include a cost breakdown at the federal and provincial levels. However, according to project organizers, the undetermined £ 4.3 million (18.69 per cent of total cost) will be allocated to the province and municipal levels gradually during the project's implementation. According to the NCCSP project document, 20 per cent (£ 4.6 million) of the budget was earmarked for administrative and TA costs, while municipalities are expected to bear the implementation costs.

The budget was allocated at the local level based on the municipalities' climate risk rating. The climate risk index was created by examining the current climatic vulnerability, hazard, and exposure. The NCCSP 2 has also decided to target the most vulnerable municipalities based on MoFE's recently updated vulnerability and risk assessment and identifying adaptation options (2021) report.

The geographic emphasis of the investment is currently overstretched. The Nepal Climate Change Support Programme (NCCSP), for example, allocated funds to municipalities based on the climate risk index. The climate risk index was created by looking at the current climate vulnerability, hazard, and exposure. The municipality's vulnerability index was calculated using VRA data from the district prepared by VRA 2021 and localized to the particular municipality. The exposure index was calculated by analyzing data from the NNRFC on population, remoteness, and other exposures of each municipality concerning the data source. The hazard score was calculated using data from the DRR platform of the Ministry of Home Affairs (MoHA).

The budget allocation to each municipality was calculated by dividing the total allocated budget for that fiscal year by the number of municipalities where the programme is implemented and multiplying the result of the dividend with the risk divider.

$$\text{Allocated fund of a municipality} = \frac{\text{Total allocated budget}}{\text{Total number of the selected municipality}} \times \text{Risk Divider}$$

It has been noticed that using this allocation formula has several advantages. It aids in the prioritization of the most vulnerable municipalities based on vulnerability and risk facts. It also prevents arbitrary decision-making, avoids political pressure and prejudice in the selection of the beneficiary municipality and resource allocation.

Fund Flow Mechanism

The project involves transferring climate finance to the local level via the government system, using the On Budget, On Treasury (OBOT) mechanism. The donor transfers funds to the central treasury account at the (FCGO) through a special account maintained by MoFE, on a reimbursement basis against trimester financial reports produced by municipalities and consolidated as Financial Management Reports (FMRs) by MoFE with assistance from a TA. Following the conditional grant mechanism, FCGO transfers advance funds to municipalities' treasury accounts. BEK reimburses the authorized spending amount in pound sterling (£) to a special account in Nepalese currency (NPR).

Implementation Modality

MoFE is the executing agency of the project in close coordination with the Ministry of Federal Affairs and General Administration (MoFAGA). A project steering committee, project technical committee, and a project management unit at the central level, and a field-level regional coordination unit have been established. These institutional structures provide policy guidance, implementation, and technical support to the local level and also regulate project activities at the field level. The TA team in the field has been assisting at the local level in planning, monitoring, and reporting the climate-resilient activities that are being implemented by user groups or private contractors.

Monitoring and Reporting Mechanism

NCCSP 2 includes a monitoring and reporting mechanism. The municipality-level monitoring committee monitors the project activities on the ground. In close collaboration with the respective municipalities, the technical teams in the field, region, and center assure the quality of work and track project milestones. To track the status of various projects, a web-based management information system (MIS) has been established. To make the project work transparent and responsible in the field, a public hearing was held, an information board was put up and a social audit was conducted. Officials from MoFE, the donor, and the Monitoring, Evaluation, and Learning (MEL) Unit monitor and track the progress of the project and provide feedback and guidance to achieve the project goal. The reporting (physical and financial) of the project activities at the field level is carried out by the municipality-generated SuTRA and reported to MoFE.

3.2. Case Study 2: Adapting to Climate-Induced Threats to Food Production and Food Security in the Karnali Region of Nepal

The project Adapting to Climate-Induced Risks to Food Production and Food Security in Nepal's Karnali Region (CAFS Karnali) was designed to address the concerns of poverty, food insecurity, malnutrition, and climate-induced threats to food production and food security in the Karnali region. The project is being carried out in seven rural municipalities in Karnali Province's districts of Jumla (3), Kalikot (2), and Mugu (2). The project intends to target climate-vulnerable poor households, which are defined as having 1) low income and consumption; 2) reliance on subsistence agriculture; 3) social discrimination, and 4) limited access to technology and assets – as well as the capacity of state and non-state service providers.

Budget Allocation

CAFS Karnali has a total budget of US$ 9.527 million. During the four-year project period, the project envisioned supporting the local level by building climate resilience and adaptive capacity of the poor and climate-vulnerable communities, providing additional support in capacity building, local-level planning, and documenting knowledge and learnings. Table 8 summarizes the project cost breakdown.

Table 8: Budget breakdown of CAFS Karnali

Budget Heading	Budget (million US$)	Budget in per centage
Building resilience and adaptive capacity	7.3016	76.64
Capacity building, local-level planning support, and knowledge documentation	1.3494	14.16
Implementation cost (indirect support cost)	0.7464	7.83
Administrative cost	0.1298	1.36

Total Budget	**9.5272**	**100**

The budget allocation for this project revealed that more than 90 per cent of the budget was allocated for the implementation of climate adaptation activities (76.64 per cent) and capacity building activities (14.16 per cent) at the local level, including the costs of local NGO/Community-based organizations (CBOs), local staff, and landside, transport, storage, and handling. Administrative and implementation costs at the central and field levels were budgeted for at about 10 per cent of the total budget. CAFS Karnali's programme budget was divided into two categories: a) Capacity building of stakeholders and beneficiaries, support in federal and local planning processes, and documentation of learning and knowledge products; and b) Build household and community resilience and increase the adaptive capacity of climate-vulnerable poor people.

LAPA was designed to help drive the implementation of climate adaptation activities at the field level, allowing for the effective implementation of programmes at the field level. At the local level, the initiative had no particular criteria or mechanism for budget allocation. The programme district was determined using the WFP vulnerability analysis and mapping unit's combined vulnerability index of food security. The project document guaranteed that the project was in line with NAPA priority profiles 1 (Promoting Community-Based Adaptation through Integrated Management of Agriculture, Water, Forests, and Biodiversity) and 2 (Building and Enhancing Adaptive Capacity for Vulnerable Communities through Promoting Community-based Adaptation through Integrated Management of Agriculture, Water, Forests and Biodiversity).

Fund Flow Mechanism

This project has adopted the 'On Budget Off Treasury' fund flow system, in which the WFP would immediately receive funds from the Adaptation Fund and transfer them to local level implementing partners and communities. The fund, however, is reflected in the national budget via MoFE as an executing agency. The WFP country office is responsible for the financial management of the project at the field and central levels. The cost associated with the project activities and administrative support is carried out directly by WFP.

Implementation Modality

MoFE is the executing agency of this project whereas WFP acts as both executing and project implementing entity. A project steering committee (PSC) has been formed under MoFE where Joint Secretaries from related line ministries and WFP officials are invited as members to provide policy and technical guidance to the project. A project support unit (PSU) established within MoFE is led by Joint-Secretary/Chief of MoFE's Climate Change Management Division and supported by a Programme Manager (Under-Secretary) who is in charge of facilitating and coordinating activities for the timely implementation of project activities. The provincial project coordination unit (PPCU) managed by the Secretary of the Ministry of Industry, Tourism, Forests, and Environment is designed to coordinate project-related activities at the provincial level. Similarly, at the rural municipality level, the local project coordination unit (LPCU) overseen by the local chief administrative officer of the municipality provides overall guidance for project planning and implementation and ensures multi-stakeholder engagement and coordination among the local stakeholders. WFP manages the overall project implementation, M&E, quality assurance, and oversight through its various implementation mechanisms, employing implementing partners, such as local NGOs and government agencies. WFP has its Country Office in Kathmandu, sub-office in Surkhet for Karnali Province, and WFP field coordinators in each project district for project management.

Monitoring and Reporting

WFP is in charge of the overall M&E of CAFS Karnali. Implementing partners, such as local NGOs, provide WFP and local governments with a monthly physical and financial success report. WFP presents physical and financial progress reports to the federal and provincial governments on a monthly, trimester, bi-annual, and annual basis. Similarly, WFP submits quarterly, annual project performance reports, and annual country reports to donors. For monitoring, WFP's monitoring tools, such as photo monitoring, and process monitoring are used, for reporting, the electronic system for project reporting (eSPR) is used. Similarly, regular on-site field monitoring and joint monitoring are conducted by implementing partners, WFP, local governments, and MoFE. WFP reports to MoFE and the donors. The project progress at the local level is disseminated through public hearings, information boards, and media at times. The project published success stories from the field.

3.3. Case Study 3: Building Climate Resilience of Watersheds in Mountain Eco-Regions

The Building Climate Resilience of Watersheds in Mountain Eco-Regions (BCRWME) project (2011 – 2020) is one of the five components in Nepal's Strategic Programme for Climate Resilience (SPCR) supported by CIF. The component intended to offer communities living in the watersheds of Nepal's river systems, which were particularly vulnerable to climate change, more reliable water resources for home use and irrigation. The initiative chose a watershed in each of the six districts in the Far Western Region: Achham, Baitadi, Bajhang, Bajura, Dadeldhura, and Doti. The Asian Development Bank (ADB) in Nepal was in charge of the project.

BCRWME was designed based on the NAPA priority profile and in alignment with Nepal's SPCR. The budget allocation at the local level was based on the nature of the work and technical support required in line with the SPCR. The budget estimation was made by the former Department of Soil Conservation and Watershed Management (DSCWM) which was the lead government institution for watershed management, and its field offices implemented small projects to protect and improve water resources and their catchment areas.

Budget Allocation

The total budget of the project is US$ 30.11 million. GoN had requested a grant not exceeding US$ 23.537 million from the ADB Strategic Climate Fund. The Nordic Development Fund (NDF) financed a grant equivalent of US$ 4.63 million which was allocated mainly for TA while the government had allocated US$ 1.94 million equivalent to cover the costs related to Government staffing and other expenses. The total budget was further broken down into programme execution cost, TA cost and administrative support cost. Table 9 provides the details of the project cost.

Table 9: Budget breakdown of BCRWME

S.N	Heading	Amount (in US$,000)	Percentage (%)
1	Programme cost at the field level		
1.1	Improved catchment and storages	18275.6	60.66
1.2	Integrated water and land management	1524.2	5.05
2	Project management cost	5693.5	18.90
3	Project TA cost	4630	15.37
Total cost		**30123.3**	**100**

The project document and the grant agreement document of this project showed that 66 per cent of the total budget was spent at the local level projects while 15 per cent was allocated for the TA support to implement the project and 19 per cent was allocated as management cost. At the field level, nearly 61 per cent of the budget was allocated for civil works related to water source catchment management, and 5 per cent was allocated for the integrated water and land management work. Besides this, capacity-building training, knowledge management, and documentation works were carried out simultaneously.

Fund Flow Mechanism

The project followed the ‘On Budget, On Treasury’ mechanism to channelize the fund to the local level and reporting procedure. The fund was channelized to the District Soil Conservation Offices (DSCO) of Doti, Baitadi, and Dadeldhura through the treasury system. Then the Ministry of Forests and Soil Conservation (MoFSC) provided the fund authorization letter to its district-level units to spend the annual budget per the approved programme. PMU was responsible to prepare and submit the annual budget, programme, and progress report to DSCWM in consultation with DSCO. PMU maintained close coordination with the stakeholders concerned for timely budget release for the project implementation. GoN had ensured the allocation of sufficient funds for each fiscal year. Based on the financial reporting from the GoN, ADB reimbursed the fund in the central treasury.

Implementation Modality

The government entity led the project, and all project-level implementation, reporting, and coordination were managed by government agencies at the central and local levels in close collaboration with PMU. At the central level, a PSC chaired by the then-MOFSC Secretary was constituted to provide policy advice and decision support. DSCWM was in charge of the whole project execution. A technical working committee was constituted to prepare the project's technical reports. DSCO was in charge of overseeing the implementation of the project in the field.

Monitoring and Reporting

In collaboration with other district-level stakeholders, the former District Development Committee (DDC) managed overall project implementation. It also led the district implementation coordination group and communicated the status of implementation to other stakeholders. It also functioned as a grievance redress committee. PMU reviewed the overall implementation progress and prepared and submitted a progress report to ADB at the end of each quarter. DSCOs supplied monthly/quarterly progress reports to PMU, allowing PMU to generate quarterly progress reports. Within three months of the project's physical completion, the government provided ADB with a project completion report.

3.4. Lessons Learned from the projects on implementation of 80 per cent provision

Based on three project case studies, the analysis was carried out to unpack the climate finance allocation going to the local level. The analysis focused on understanding the project implementation and fund allocation in line with the provision of the climate change policy. The key findings are discussed below:

- It was revealed that each project has its understanding and interpretation of the 80 per cent allocation, resulting in no uniform mode of fund allocation. For example, NCCSP 2 allocated approximately 61.7 per cent of total international finance to the local level. However, the central and provincial allocation of 19.13 per cent was not specified in the project document. CAFS Karnali had an allocation of more than 90 per cent for the local level, including the costs of partners assisting with project implementation. BCRWME project channeled 66 per cent of finance directly to the local level, excluding TA support for project implementation. Project representatives and other stakeholders agreed that the allocation of international climate finance to the local level was difficult due to a lack of clear criteria and scope in the policy provision. They also believe that the provision for 80 per cent climate financing may not be viable for projects involving technical assistance, research, and capacity building, and may necessitate a different approach.

- The learnings from the three projects revealed that one project exceeded the target while the others were striving to meet the policy target. However, there is no guidance or reference to any of the policy provisions in the financial allocation. The allocation of funds is not guided by any rules or criteria. The consensus was that a significant amount of money should be allocated to the local level.

- Stakeholders, including government representatives, believe that the TA cost for local capacity support should be included in the 80 per cent provision. However, some argue that the 80 per cent provision only applies to implementation costs. CAFS Karnali has a large allocation for local level delivery because it includes all costs going to the local level, whereas the other two projects do not. Institute for Social and Environmental Transition (ISET) Nepal conducted a study on the fund flow mechanism of five major adaptation projects (Ecosystem-based Adaptation (EBA), NCCSP, Hariyo Ban, Multi Stakeholder Forestry Programme (MSFP), and Community-based Flood and Glacier Lake Outburst Flood Risk Reduction Programme (CFGORRP)) from the national to subnational level in 2016. The study revealed that none of the studied projects met the 2011 climate change policy provision to deliver 80 per cent of the total budget to locals and the most vulnerable groups as the costs relating to project management, such as communication, publication, and monitoring are often reported as expenditure for climate change adaptation (Dixit et al., 2016).

- Projects used a variety of methodologies to allocate funds to the local level. NCCSP 2 initiated budget allocation to the local level based on municipalities' climate risk index. However, such a scientific tool was not found to be used in the other two budget allocation projects. In addition, NCCSP 2 officials stated that the project had begun to prepare a GIS-based climate hazard map and LAPAs in the project area. It is expected to be a useful tool for local-level planning, allowing for more robust budgeting and fund allocation.

- Regarding fund flow, NCCSP 2 and BCRWME used the On Budget, On Treasury mechanism whereas CAFS Karnali followed the On Budget, Off Treasury system. Government stakeholders preferred the OBOT mechanism as it would reduce administrative costs, mitigate fiduciary risks, build local capacity, and also help reach the local communities through the internal system. However, some project representatives felt more convenient to channel the international climate finance via OBOfT system as it would allow smooth implementation without delay.

- Development partners are seeking clarity on this policy provision that needs to be anchored into the PFM system and strongly embedded into the government systems. Some stakeholders suggested that donors must comply with the policy without imposing their conditions and follow the government system. An interesting idea shared to implement this policy provision effectively, especially for the project with high implementation components, was to establish PMU at the provincial level instead of the central level. This idea has been shared by various stakeholders, including the government representatives. A block grant could be sent directly to the local level and technical support provided by the local/provincial PMU. This provision would allow most of the resources to be directly channeled to the local level. However, caution was also made that the provincial and local level units must be technically strong and well capacitated for sustainability. UNDP (2013) highlighted that the central ministry can support the local government towards effective and equitable planning and budgeting for climate initiatives by establishing clear processes and procedures.

- Due to the absence of monitoring and reporting mechanisms regarding the compliance of 80 per cent allocation, the project proponents are much relaxed and perceived that it may not be mandatory. It was more of an arbitrary decision of the projects whether to take the policy provision into account or not.

- It was observed that one of the major challenges during the implementation of projects and programmes was compliance and most importantly how to roll out policies and ensure their effective implementation. The local government, communities, and local stakeholders are not aware of the policy provisions. Due to a lack of awareness, they are not able to advocate for compliance and have little say in project-level allocation, expenditure, and reporting. The projects are confused in terms of rolling out policy provisions. For example, in terms of priority whether projects should utilize 80 per cent for investing in development projects with a large portion of the money invested from the projects, or the money should be utilized to cover the additional cost that will be incurred to make development activities climate-resilient by topping up money for the local government. Also, is it important that 80 per cent should target the most vulnerable household and communities and aim to build the capacity at the local level to ensure climate change is mainstreamed within the local development processes? In practice, projects are investing in development activities and are responsible for covering most of the cost against the principle of topping up. Also, projects are investing in infrastructure projects which require huge resources and long-term commitments.

- There appears to be a disparity in priority between the central agencies and the agencies in charge of implementation. MoFE is the principal agency at the federal level for all three projects evaluated, while local governments are the implementation agencies. Technical assistance is provided in conjunction with these projects, which are overseen by national and international non-governmental organizations, as well as private and consulting companies. The contact ministry for local government issues, MoFAGA, is just a member of the PSC and is not directly responsible for implementation. This might have created some practical hurdles in terms of rolling out policies and mostly in its implementation.

Lessons Learned on Monitoring and Reporting System

- There is a broader agreement among policymakers and practitioners on the necessity for a monitoring and reporting mechanism to assess or comprehend the policy's implementation, particularly the status and effectiveness of the 80 per cent climate financing allocation at the local level. There is currently no distinct monitoring, evaluation, or reporting process in place to track the status/progress and efficacy of the 80 per cent allocation. As there are no legal or mandatory measures for accounting and reporting the distribution of 80 per cent of climate financing at the local level, the projects used their monitoring and reporting system to account for the mobilized climate finance in the project areas.

- At the national and provincial levels, there is a framework for reporting the government system's overall expenditure on climate change. The federal budget code assists the government in determining how much money it spends on climate change. However, it is difficult to determine how much money is committed at the local level and what regions are being targeted for improvement.

- So far, projects have not adopted any criteria or rules for reporting the allocated and expenditure amounts in a disaggregated form. It is difficult to get a full itemized breakdown of the project's allocation, making it difficult to evaluate how each initiative has taken advantage of the 80 per cent funding at the local level. For example, the local activity budget, which accounts for 80 per cent of the total budget, covers the input for local-level activities (e.g., training, and monitoring) that comes from the center's staff or consultants, and their logistic costs (daily subsistence allowance, travel).

- In the federal context, each government is autonomous. This means the local government does not report to the central agencies. This creates conflicts in monitoring and reporting. PMU is set up to support the local government in planning, monitoring, and reporting. PMU has the task of collecting progress from the respective municipalities and report to the central PMU and then to MoFE. However, PMU is also centralized and often has issues with the representation of provincial and local government line agencies.

Chapter Four: Unpacking 80 Per cent Allocation Provision

4.1. Allocation of Climate Finance for the Local Level

The allocation of climate finance at the local level can be done following the government system. Every year the government accords to national policy and programme priorities and prepares the annual programme and budget accordingly. The climate change adaptation actions should be considered as one of the priorities.

NNRFC has established seven criteria in its Act 2017 for distributing national revenues to the central government, provincial governments, and local governments (Table 10). The Act mentions revisiting the criteria and requirements every five years. The criteria mentioned in the Act are as follows: a) Population and its characteristics; b) Land area; c) HDI; d) Budget demand; e) Tax collection efforts; f) Infrastructure development, and g) Special condition or context. The central government is advised to allocate national revenues to all three governments based on these criteria. Much of the resources are distributed according to population, land area, and infrastructure growth.

Table 10: Criteria for allocation of resources among three tiers of governments

SN	Criteria	Disaggregation	Weightage
1	Population and demographic features a. Total population b. Dependent population	 70% 30%	60%
2	Geographic area		15%
3	Human Development Index (HDI)		5%
4	Demand for expenditure		5%
5	Efforts made to collect revenues		3%
6	Infrastructure development a. Road density (access to the road) b. Electricity services (access to electricity) c. Information technology services (access to information and technology) d. Water services (access to drinking water) e. Sanitation facilities (access to a toilet)	 60% 10% 10% 10% 10%	10%
7	Special condition or context a. Disabled population b. Socio-economic inequality	 20% 80%	2%

For climate change, apart from an allocation of 80 per cent to local governments mentioned in the national climate change policy, there are no budget allocation guidelines, especially in terms of how much is allocated among the governments. The climate change priorities are determined by NCCP (2019), EPA (2019), Environment Protection Regulations (EPR) (2020), the LAPA Framework (2019), the National REDD+ Strategy, the Second NDC (2020), the GESI, and Climate Change Strategy and Action Plan (2020) and the Fifteenth Five Year Plan. Projects and programmes are based on national priorities and NAPA identified nine urgent priority projects in 2010. For example, the vast majority of funds were allocated to agriculture and food security, water resource management, watershed management, reduction of Glacier Lake Outburst Floods (GLOFs), and ecosystem-based adaptation. The NAPA vulnerability index and poverty scenarios were used as a guideline for the geographical area or administrative units where the project will be implemented. As a result, the Lumbini, Karnali, and Sudurpaschim provinces have been prioritized for implementing the majority of the projects funded by bilateral, multilateral, and international climate funds. MoFE has updated the vulnerability ranking of Nepal in 2021 and future climate programme priorities should be targeted accordingly.

Table 11: Climate change vulnerability ranking for Nepal- 2021

Vulnerability Rank	District
Very High (0.778 - 1)	Dhading, Rolpa, Humla, Mugu, Rasuwa, Myagdi, Dolakha, Sankhuwasabha, Baglung, Sindhupalchok, Gorkha, Dailekh, Pyuthan, Darchula, Dolpa, Baitadi, Salyan, Manang, Bajura, Kalikot, Jajarkot, Jumla, Bajhang, Ramechhap
High (0.623 - 0.777)	Makawanpur, Lamjung, Dhankuta, Terhathum, Nuwakot, Western Rukum, Solukhumbu, Tanahu, Udayapur, Syangja, Surkhet, Achham, Arghakhanchi, Palpa, Bhojpur, Sindhuli, Mustang, Doti, Eastern Rukum, Khotang, Okhaldhunga, Taplejung, Mahottari, Gulmi, Dadeldhura, Ilam
Moderate (0.502 - 0.622)	Kavrepalanchok, Parbat, Kailali, Siraha, Morang, Dang, Nawalpur, Kaski, Panchthar, Sarlahi, Parasi
Low (0.179 - 0.501)	Kapilbastu, Sunsari, Rautahat, Bardiya, Lalitpur, Bhaktapur, Banke, Rupandehi, Bara, Chitawan, Dhanusha, Kanchanpur, Jhapa, Parsa, Saptari
Very Low (0 - 0.178)	Kathmandu

Source: Source: MoFE (2021) Vulnerability and Risk Assessment and Identifying Adaptation Options

However, stakeholders suggested the allocated or mobilized climate finance should be effectively implemented. It is imperative to improve the governance of climate financing by linking with the PFM system within the municipalities. There is also a need to enhance accountability, transparency, participation, and equity mechanisms while utilizing financial resources. Similarly, tracking and monitoring climate finance are also important through the use of budget code to see how much has been allocated and spent. This would further allow reflecting the quantity and quality of climate finance expenditure. Equally important is the reporting of the allocation and effectiveness that needs to be fed into the national system.

4.2. Unpacking 80 Per cent of Climate Finance Channelled to the Local Level

The unpacking of the terminologies used in the policy is imperative for the effective implementation of policy provisions and account for the allocation. This will support the effective implementation of climate actions at the local level. The following section defines the terminologies used in the policy provisions.

- **International mechanism:** It refers to bilateral, multilateral, and international climate dedicated funds under the UNFCCC and other international sources that provide climate finance support to Nepal.

- **Local-level:** This must be understood as the local scale which could be administrative and political units, such as local government and municipalities (palikas), including wards and below, such as communities, groups, and settlements in the Nepali context.

- **Financial instruments and channels:** The financial resources are mostly grants but can also be soft or concessional loans received directly by GoN or indirectly through the multilateral organizations, international organizations, private sector, or NGOs fulfilling the government's financial aid mechanisms. The resources should help to increase the ability of the communities and sector to adapt to the adverse impacts of climate change and foster climate change adaptation, climate resilience, and low carbon development. This should also help to integrate climate change into the development process to address poverty, inclusion and promote sustainable development.

- **Mobilization:** Mobilization of the financial resources must be referred to as the access, deployment, and utilization of the funds. It further means that 80 per cent of the received amount should be allocated and spent at the local scale (palikas and below such as communities). Mobilization of finance can be done either via the government or government systems, such as on-budget on treasury, on-budget off treasury or through all other mechanisms under the off-budget, off treasury. However, the mobilization of finance must be aligned with government plans, policies, and programmes.

- **Implementation of the programme**: This means the programme is mostly designed to promote adaptation, low carbon, green growth, and climate-resilient and inclusive society at the local level mostly targeted to the vulnerable households, women, youth, children, indigenous peoples (IPs), poor and marginalized communities. Besides, it also includes climate-sensitive sectors, geographic areas, and natural resources. The programme also includes integrating climate change into regular development activities for climate-resilient development by building the capacity of local communities, women, youth and indigenous peoples, local government, and other local stakeholders to respond effectively to adverse impacts of climate change.

- **Reducing administrative expenses:** It requires that the overhead expenses are reduced. Administrative expenses refer to the expenses necessary to maintain the institution's daily operations and administer its business, but these costs are not directly attributable to the production of goods and services. It includes rent, utilities, insurance, executive's wages and benefits, the depreciation on office fixtures and equipment, legal counsel and accounting staff salaries, and office supplies.

- **Climate adaptation:** Climate adaptation refers to adjustments in ecological, social, or economic systems in response to actual or expected climatic changes and their effects or impacts. It refers to changes in processes, practices, and structures to moderate potential damages or to benefit from opportunities associated with climate change.

- **Climate resilience**: Climate resilience is the ability to anticipate, prepare for, and respond to hazardous events, trends, or disturbances arising from climate change. It involves assessing how climate change will create new or alter current, climate-related risks, and taking steps to better cope with these risks.

- **Low carbon development and mitigation:** It is the development pathways that help to attain climate-resilient development while also addressing climate change by avoiding or reducing carbon emissions.

- **Unpacking 80:20 per cent:** The unpacking 80:20 per cent of climate finance allocation will be understood as in Table 12.

Table 12: Unpacking 80:20 per cent of climate finance allocation

80 per cent Allocation	20 per cent Allocation
At least 80 per cent of total funds must be mobilized at the municipal (Palika) and	Up to 20 per cent may be mobilized either at the federal or provincial level or both.

lower levels (community/specific targeted groups/ward/settlement).	
The implementation costs, which include administrative and operational costs, account for 80 per cent of the funds allocated to the local level. The spirit, however, should be to reduce or limit administrative expenses to 20 per cent or less.	The remaining 20 per cent can be spent on capacity building at the federal and provincial levels. Supporting policy and institutional reform, human resource development, and the establishment of a national and provincial system for data management, information and technology, research and study, field visits, study tours, and monitoring, among other things.
Implementation of both soft and hard measures. Targeted to the most vulnerable households, groups, communities, settlements, wards Targeted to the most vulnerable sectors, ecosystems, watersheds, land use, etc.	Administrative, M&E, operation, and other costs at the provincial and federal levels.
According to NAPA, the government remains committed to allocating at least 80 per cent to the local level (community and municipality level).	As outlined in NAPA, the government should be more specific in allocating 20 per cent and further disaggregating by allocating 10 per cent to the federal level and 10 per cent to the provincial level, depending on the nature and scope of the support.

4.3. Specific Recommendations

The climate change policy and its provisions have been appreciated by many stakeholders including the global communities. They are convinced that it can be implemented effectively at the local scale to achieve low-carbon, climate-resilient, and inclusive development. However, the following specific recommendations are made to effectively implement it:

Policy awareness, information dissemination, and capacity enhancement: It has been discovered that not all stakeholders are aware of the current climate change policy and its provisions, including the 80 per cent target for localization. All actors and institutions who support, access, and implement international climate finance projects, including development partners, government institutions at all levels, and I/NGOs, must be made aware of this provision. Furthermore, municipalities and local stakeholders must be particularly sensitive to this provision to be better prepared to make the best use of these mechanisms.

Getting key stakeholders on board: MoF, MoFE, NPC, Social Welfare Council, sectoral government agencies, provincial, and local governments must incorporate the 80 per cent policy commitment for channeling resources to the local level into their existing compliance mechanisms, such as project design, agreement signing, monitoring, and reporting.

Definition and criteria: The provision of directing 80 per cent of international climate finance to local governments is a strong one. The climate change policy's 80 per cent provision must be understood as the amount of total project value accessed from the international mechanism that is spent at the local scale, such as ward/municipal/community/targeted groups level, to build a low carbon, adaptive, climate-resilient, and inclusive society.

However, many stakeholders find the policy provisions vague and ambiguous, posing a significant barrier to its effective implementation. As a result, to effectively implement the policy provision, it is critical to define and outline the criteria for 80 per cent of climate financing sourced internationally going to the local level. Table 13 outlines the criteria for allocating, administering, and evaluating the 80 per cent allocation at the local level.

Table 13: Criteria for allocating 80 per cent climate finance at the local level

SN	Criteria for 80 Per cent Allocation
1	The local scale must be understood as implementation units, such as municipalities (Palikas) and below (community/specific targeted groups/Ward/Settlement) in Nepali context.
2	80 per cent cap excludes administrative, capacity building, and other technical assistance costs channeled at the provincial or central level.
3	Allocated project implementation budget spent beyond the community/ward/municipal level shall not be counted with 80 per cent allocation.
4	Technical assistance or administration component of the project spent at the community/settlement/ward and municipal level may be counted within 80 per cent of the allocation.
5	If the project resources are spent 100 per cent at the local level, the costs for local delivery partners, service providers, and experts spent within the community/ward/municipal level shall not be counted within 80 per cent of allocations.
6	M&E costs incurred by provincial or central level will be excluded from 80 per cent.
7	Regional and international travel expenses will not be accounted within the 80 per cent allocation.
8	Apply or projects with implementation in nature and technical assistance targeted to the local level – excluding global communication reporting, inventory, research, assessment, policy, strategy, and plan preparation related TAs.

Regulatory and monitoring mechanism: Climate Change Policy outlines strong provisions for localizing climate actions. However, without stringent regulation and monitoring, implementation was found to be weak. MoF and MoFE should also develop a clear M&E framework to ensure the compliance and effectiveness of 80 per cent allocation at the local scale. Besides, without clear guidelines and compliance mechanisms, the provision foor allocating 80 per cent will be difficult to implement. Based on the criteria the following suggestions are presented:

Table 14: Role of different actors and institutions in allocating 80 per cent climate finance

	Roles of Actors
Regulators ensuring projects or programmes comply with the 80 per cent channeling of financial resources coming from international sources for the implementation of	- For resources channeled through the government treasury, MoF plays an important role in ensuring that 80 per cent provision is considered in all projects during the design, piloting, negotiation, signing of the agreement, and implementation for funds, such as GEF, GCF, CIF, AF, LDCF, and CIF. - SWC must ensure that the 80 per cent provision is taken into account in all climate change projects that it authorizes for design and implementation by I/NGOs. - Project implementing ministries/bodies (e.g., MoFE, MoALD, provincial and local governments, and others) must ensure that any entities designing climate change projects and accessing international climate finance meet the policy requirement of 80 per cent at the local scale.

climate-related interventions to local scale during the design and implementation.	- Before agreeing, the donor and receiver must discuss and approve the 80-20 allocation of each project. Development partners and international organizations must ensure that the policy is followed during the design and implementation of the project. - Ongoing oversight by the relevant provincial parliamentary committee to ensure 80 per cent targeting and effectiveness. - Regular project steering/management committee oversight at the provincial level to ensure 80 per cent targeting and effectiveness. - In addition, NPC should guide 80 per cent inclusion based on its plans and programmes by either providing circulars, guidelines or a basis.
Monitoring for ensuring the 80 per cent channeling to local scale and its effectiveness of addressing risk and vulnerability.	- Central project implementing ministry/body during the mid-term and final reporting period - Provincial project implementing ministry/body during the mid-term and final reporting period - Municipality at the mid-term and final reporting periods - Monitoring and reporting at the community level - Regular visits to the field by PSC and NPC members - CSO to organize public consultations and hearings - Visit by central and provincial Members of Parliament - Visit by development agencies, funding agencies, or their suppliers - Project or programme level quarterly, mid-term and annual reviews

Linkages with climate change budget code and other government provisions: It has been learned that the provisions of the MoF's and the NPC's climate change policy and budget code should be consistent. The climate change budget code is currently used at the federal level and in some provincial-level reporting, but it has yet to be linked to the municipal level. Similarly, SWC supervises and approves international funds received by I/NGOs; thus, climate change policy provisions should be linked to SWC formalities, where the SWC maintains a portal for climate change-related projects. This alignment of policy provisions has the potential to result in the effective implementation of climate change policy.

Establishing a national registry system: The nature of support that comes through various channels and mechanisms is one of the dilemmas of monitoring climate financing in Nepal. Only what is formally channeled through the government system or what is formally agreed is recorded by MoF. Other mechanisms, such as private sectors, academic and research institutions, and even individuals, directly fund international, national, and community-based organizations. As a result, tracking, monitoring, and measuring the effectiveness of climate financing coming from various sources has been difficult. As a result, a mechanism for sharing information is required for the MoF, Social Welfare Council, Company Register Office, and other offices in charge of providing consent to organizations, firms, and other entities. MoF or MoFE can establish a mechanism for a national registry system to ensure that all initiatives funded by external climate funds are registered and updated regularly.

Scaling up good practices of resource allocation based on the risk and vulnerability: In terms of investment, the geographic emphasis is currently overstretched. However, using the vulnerability and risk index to determine allocation has recently become common. The current climate vulnerability, hazard, and exposure can be used to create the climate risk index. The vulnerability index for the municipality was calculated using existing VRA data that was localized to the municipality. The exposure index can be calculated by analyzing data from NNRFC on each municipality's population, remoteness, and other exposures about the data source. The hazard score was calculated using data from MoHA's DRR database platform or BIPAD portal. The budget allocation to each municipality can be calculated by dividing the total allocated budget for that fiscal year by the number of municipalities programmed and multiplying the dividend result by the risk divider.

$$\text{Allocated fund of a municipality} = \frac{\text{Total allocated budget}}{\text{Total number of the selected municipality}} \times \text{Risk Divider}$$

Chapter Five: Conclusion and Way Forward

Nepal's NCCP is strong, directing at least 80 per cent of international funds to local projects. If done correctly and with care, this can be of great assistance to local people and communities affected by climate change. International climate funding can also be used most effectively because it benefits communities directly and improves local government. The current criteria and regulatory framework, however, have been determined to be insufficient for effectively implementing the 80 per cent provision.

This study examined Nepal's national climate finance policy and strategies, focusing on how climate finance is allocated and channeled. The study also looked at three case studies of different types of international climate finance projects to draw lessons on how to implement the 80 per cent provision of national climate change policy. Based on the three project studies, there is a lot of leeway in its definition and application. Projects did not strictly adhere to the allocation guidelines, but they came close to meeting the 80 per cent target. There is also no national agreement on what 80 per cent means and what it entails. The majority of the stakeholders interviewed, however, emphasized the importance of having a clear definition of 80 per cent and criteria for its compliance and reporting. There were also suggestions that the criteria and guidelines be flexible and adaptable to the Nepali context to avoid creating disincentives in the future.

This study's analysis resulted in unpacking the terminologies used in the policy regarding the 80 per cent provision. This unpacking will help all stakeholders understand the spirit of NCCP, which recognizes the severity of an impact at the local level and the need to respond by decentralizing and trickling down climate financing. Furthermore, this study suggests that the government adopt criteria to ensure that any new project on climate change focused on implementation includes 80 per cent provision beginning with the design and approval of the process and continuing through its implementation, monitoring, and reporting. In addition, this study also suggests having regulatory and monitoring mechanisms with clarity on the roles and responsibilities of stakeholders.

The next step to take the work forward are the following:

a) The proposed criteria can be used to ensure compliance with the 80 per cent allocation to the local level.
b) If necessary, the government can use the study's findings, analysis, and recommendations to develop additional guidelines, regulatory framework, and institutional measures to implement the 80 per cent allocation of climate finance at the local level, as envisaged by NCCP.
c) The government can use the study's findings as reference material to guide project development, project implementation, and monitoring and evaluation systems to ensure 80 per cent allocation and effectiveness.
d) It is critical to ensure the leadership of MoF, MoFE, and SWC in ensuring the implementation of the study.
e) It is also recommended to hold stakeholder workshops or meetings with relevant projects and programmes to disseminate the study's findings and identify a path forward to ensure the adoption of 80 per cent provisioning.
f) This study only looked at three case studies, all of which focused on adaptation and resilience projects, so there is room for further research into the status of mitigation projects as well. It is also suggested that the effectiveness of 80 per cent allocation be investigated at the local level.
g) MoF or MoFE can establish a mechanism for a national registry system to ensure that all initiatives funded by external climate funds are registered and updated regularly.

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Annex-I: List of People Consulted

SN	Name	Organization/ Project	Designation
1	Man Bahadur BK	NCCSP 2	Deputy Team Leader
2	Sumit Sanjel	NCCSP 2	PFM Expert
3	Pragati Sharma	CAFS Karnali	Programme Policy Officer
4	Raju Sapkota	MoFE	Under Secretary
5	Sunil Acharya	Practical Action	Regional Advisor
6	Shambhu Thakulla	NPC	Officer
7	Dr Radha Wagle	MoFE	Joint Secretary and Head of CCMD
8	Arun Prakash Bhatta	MoFE	Under Secretary
9	Hari Laudari	MoFE	Forest Officer
10	Srijana Shrestha	CCMD	Under Secretrary
11	Yamnath Pokherel	CCMD	Forest Officer
12	Krishna Yogi	World Food Programme	Programme Advisor
13	Surendra Raj Pant	CCMD	Forest Officer
14	Narendra Man Babu Pradhan, PhD	IUCN (International Union for Conservation of Nature)	Programme Coordinator
15	Top B. Khatri	EBA II project	Project Manager
16	Dipesh Joshi	WWF Nepal	Senior Programme Manger
17	Madhukar Upadhya	Freelance Consultant	Climate Finance Expert
18	Dhurba Dahal	Freelance Consultant	PFM Expert
19	Bharat Bhandari	LIBIRD	Programme Director
20	Dr Bimal Regmi	PIF	Team Leader
21	Dr Ram P. Lamsal	PIF	Climate Finance Advisor
22	Apar Paudyal	OPM/PIF	Senior Consultant
23	Dr Prem Paudel	UNDP Watershed Project	Project Manager
24	Binod Prasad Devkota, PhD	Adaptation for Smallholders in Hilly Areas (ASHA) Project, Nepal	Project Coordinator,
25	Ugan Manandhar	BEK	Climate Advisor
26	Englia Mishra	ASHA project	Project Officer
27	Dr Pem Kandel	MoFE	Secretary
28	Buddhi Paudel	MoFE	Joint Secretary
29	Bindu Mishra	MoFE	Secretary
30	Prakash Lamsal	MoFE	Secretary
31	Pashupati Koirala	MoFE- BRCW	Secretary
32	Badri Aryal	MoFE	Joint Secretary
33	Devesh M. Tripathi	MoFE	Joint Secretary
34	Ramji Danai	MoFE	Officer
35	Milan Dhunganna	MoFE	Under Secretary
36	Prgyajan Yalamber Rai	UNDP	Programme Manager
37	Bishnu Hari Devekota	MoALD	Under Secretary
38	Shiva Lal Neupane	MoF	Under Secretary
39	Shreejan Ram Shrestha	AEPC	Officer
40	Dinesh Shrestha	MoEWRI	Officer

Annex-II: Interview questionnaire

Questionnaire for the Project Case Study
Assessment of Climate Financing Allocation: Unpacking 80 Per cent Allocation to the Local Level

Name of Respondent: **Date:**

1. Name of the project
2. Funding agency/name of the donor
3. What is the total cost of this project?
4. Out of the total project budget what amount or per cent (%) is directly allocated to support in the following?

Budget allocation headings	**Amount Allocated**	**Per centage**
Central level		
Local-level		
Reducing Climate Risk and Vulnerabilities		
Administrative Cost		
Implementation Cost		

5. What types of climate change adaption/ mitigation activities are targeted through this project?
6. Does the budget address the GESI and vulnerable people? If yes, how much is the share?
7. Do projects and programmes comply with the national policy provisions of 80 per cent allocation to the local level? If so how? If not, Why?
8. Based on the project implementation, which mechanism is more effective for fund flow and project delivery at the local level?
   a. On Budget On treasury
   b. On budget Off Treasury
   c. Off Budget Off Treasury
9. How has this project envisioned to implement the spirit of national climate change policy at the province and local level?
10. How can the local level be motivated to mobilize finance for climate change adaptation and mitigation programmes?
11. Does this project encourage the private sector to mobilize climate finance?
12. What are some opportunities and challenges of climate finance allocation particularly complying with 80 per cent provisions?
13. What could be practical and effective ways of climate finance allocation in the spirit of National Climate Change Policy provisions i.e., 80 per cent allocation to support implementation at the local level as per climate change policy 2019.
14. What measures have been applied to improve the transparency of climate finance at the local level?
15. Are you satisfied with this provision in the policy? Is it practical and doable?
16. What are the challenges faced in implementing these policy provisions? Any suggestions for improvement in implementing it?
17. Any further suggestions?

Annex III: Questionnaire for the Interviewees

Assessment of Climate Financing Allocation: Unpacking 80 Per cent Allocation to the Local Level

Name of Respondent: **Date:**

1. National Climate Change Policy has the provision of allocating 80 per cent to support implementation at the local level as per the National Climate Change Policy 2019. Are you aware of this and is there any experience to refer to e.g., projects or agencies applying this?
2. How should this apply to the projects related to climate change, is this allocation provision scientific and pragmatic?
3. What should be the scope of allocating the 80:20 ratio, any thoughts? Can you outline the scope, methodology, and process to implement it?
4. Now there is a new governance structure with three tiers of governments how should this allocation work in this context?
5. How is climate finance allocated at the local level particularly within the selected projects and programmes?
6. How is the government going to monitor the allocation and ensure that the projects comply with the national policy? Any thoughts?
7. What kind of projects should the policy provision be applied to – bilateral donors, multilateral donors, climate dedicated funds, etc.?
8. What are some of the opportunities and challenges of climate finance allocation, particularly complying with 80 per cent provisions?
9. Any additional thoughts?

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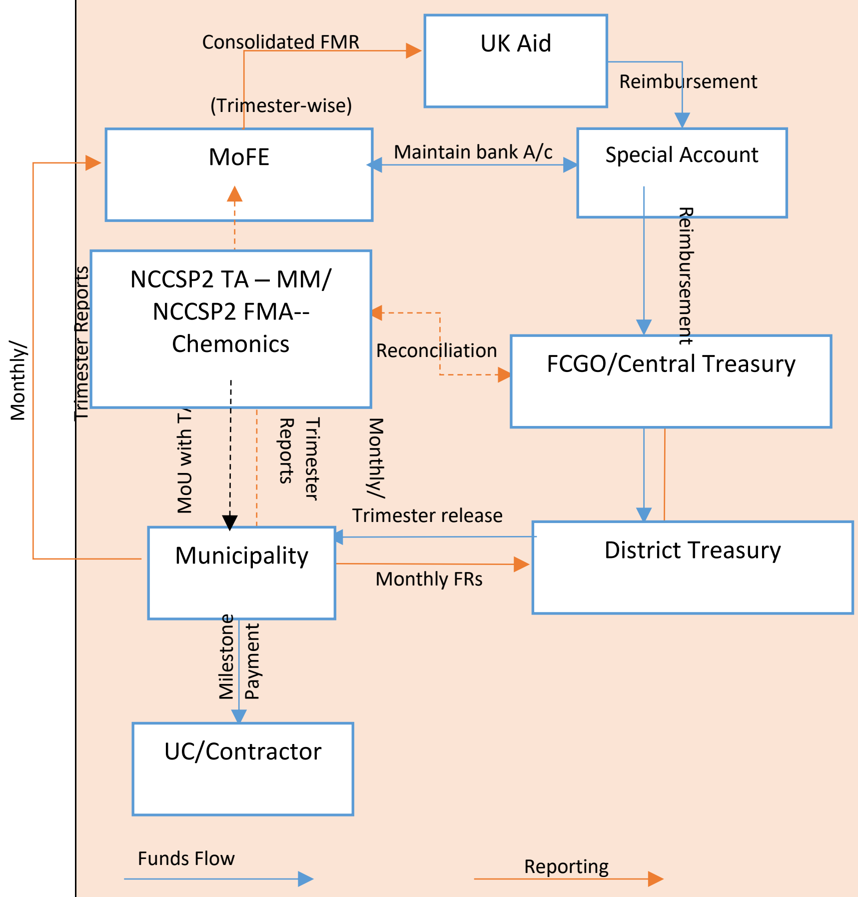
Annex IV: Fund flow mechanism of NCCSP2



BEK reimburses the fund to the federal treasury (central treasury account at FCGO) through a Special Account maintained by MoFE, based on trimester financial reports produced by the municipalities and consolidated as Financial Management Reports (FMR) by MoFE with the assistance of TA. Following a conditional grant system, FCGO advances funds to municipalities' treasury accounts. BEK reimburses the approved expenditure amount in Pound Sterling to MoFE's special account (NPR), which is then transferred to the federal treasury (at FCGO). FCGO directs DTCO to release the funds every three months, following conditional grant procedures and reimbursement guidelines.

The financial aid is recorded as 'conditional grants' at the federal level in the inter-governmental transfer summary published by the Ministry of Finance, where it appears aggregated in one line per Municipality. Municipalities report against their SuTRA-prepared annual work plans, in which they break down the total amount (delegated from LMBIS activity entered by MoFE) into sub-activities (as per the prescribed budget template provided by NCCSP 2 TA).

Municipalities make payments following applicable rules and regulations. Where municipal rules are absent or insufficiently detailed, the project implementation guidelines of NCCSP 2 will apply. Municipalities and the NCCSP 2 TA will continue to sign memorandums of understanding for Technical Assistance support. Through fund monitoring activities, the NCCSP 2 Finance Management Agency will aid in the reduction of fiduciary risks.

Source: NCCSP2 PMU at MoFE