

Synopsis of the

DISTRICT CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW

Lessons for improving the governance of climate change
finance at the sub-national level



Government of Nepal
**Ministry of Federal Affairs
and Local Development**

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Foreword

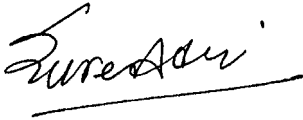
Climate change is affecting everyone. The impacts are already evident across various sectors, including water resources, agriculture and other ecosystem-based sub-sectors. A recent survey conducted by the Government of Nepal (GoN) has revealed that water sources have declined and springs have disappeared in many parts of the country. Increased risks of glacial lake outbursts (GLOFs) and regular floods have made the worse. The equivalent economic losses in the floods of August 2017, which added up to Rs. 61 billion, is an indication of the scale of damages likely to be caused by climate change in the years ahead.

Climate change is one of many other important issues of concerns at the local level. Despite limited resources, the local plans must address climate change and help people adapt to the impacts in order to achieve the national goals of attaining growth and prosperity. This is why keeping climate change at the center of planning and implementing local development plans is very important.

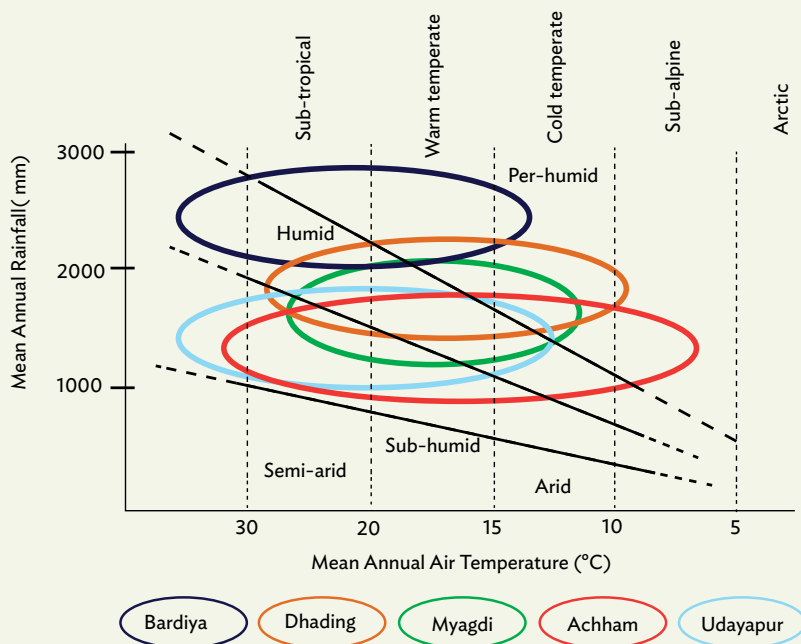
Nepal now has a governance structure of federal, provincial and local level jurisdictions. Climate change will therefore need to be addressed in development plans at all these levels. Effective responses to climate impacts will require a clear understanding of the institutional landscape, the diverse agencies working in the area and the gaps that remain at the local level. There is therefore need for local information and knowledge for assisting planning for adapting to climate impacts on development.

The district level Climate Public Expenditure and Institutional Review (d-CPEIR) was conducted in 2016-2017 in Udayapur, Dhading, Myagdi, Bardiya, and Achham districts to understand planning and budgeting with focus on climate finance at local level. It also reviewed responses made in the districts for addressing climate-relevant impacts. This document is the synopsis of the five reports that provides basic information about what already exists to assist the integration of climate change in sub-national planning and budgeting.

I thank UNDP and UKAID for providing technical and financial support to conduct the study and I also acknowledge the contribution made by UNDP's Governance of Climate Change Finance Programme in making the study possible. I also thank the officials and the experts involved in the study and in preparing this report at both the MoFALD and UNDP.

A handwritten signature in black ink, reading "Suresh Adhikari". The signature is written in a cursive style and is positioned above a horizontal line.

Suresh Adhikari
Joint Secretary

Figure 1: d-CPEIR districts with climate conditions (adapted from LRMP, 1986).

The d-CPEIR was conducted with an objective to establish a baseline of climate financing (including budget, expenditure and trend) and the institutional and policy contexts at the sub-national level; and assess how local development plans have responded to the diverse climatic situations. The insights would help develop a strategy to feed into the national Climate Chance Financing Framework² in order to improve management of climate financing at the sub-national level.

² The Government of Nepal is developing a national Climate Change Financing Framework (CCFF) to ensure that all available internal and external resources are used effectively and to support informed decision-making regarding how to address climate change.

ter source, increased insect infestation in paddy, and increased magnitude of floods. Drought has been observed in both hills and Tarai when winter rains were inadequate. Achham district, in particular, has experienced increased drought in winter for more than five years.

Policy initiatives are being implemented either through the dedicated climate projects or through the regular development programs. The internationally funded NCCSP has been implemented in Achham and Bardiya, while BCRWME, another dedicated climate project has been implemented in Achham. The regular development programs of the LAs have invested on activities that help address CC in all districts with local governments investing in CC-relevant projects too. In addition, there are special national programs that address some of the CC-relevant issues. The President Chure Conservation Program (PCCP), for example, has been implemented to address floods and erosion related problems in Bardiya and Udayapur, while EFLGP, another national program designed to address environment and climate problems through local development plans, has focused on water projects in Udayapur (Table 2).

Figure 2: Institutional share of CC-relevant expenditure in d-CPEIR districts

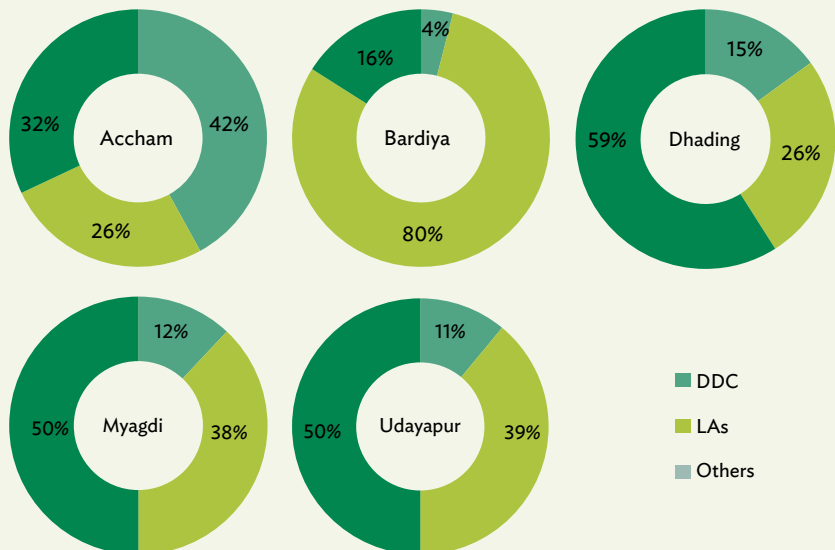


Table 2: Comparison of climate risks, policy initiatives and institutional engagement across d-CPEIR districts

SN	Districts	Climate change and climate-disaster related risks	Policy initiatives already happening to address climate related risks	Institutional engagement
1	Achham	Drying of lakes and springs; reduced river flow; inadequate rain since 2015; widespread drought .	Dedicated projects (NCCSP, BCRWME) address small irrigation; domestic water supply; and watershed conservation.	Local overnments engaged more in CC- works together with Six Line Agencies. NGOs' involvement is substantial.
2	Bardiya	Grasshopper infestation in paddy; long period of drought; declining groundwater table; increased floods.	Line agencies (DADO, DIO, WIDPCO) and programs (Chure, NCCSP) address pest control, flood control, and irrigation.	Five Line Agencies strongly engaged in CC works than local governments. NGOs have low climate expenditure (most focus on social issues).
3	Dhading	Drying of water sources; increased landslide events; drying pastures.	Local governments (DDC, VDC), and line agencies (DCSO, DFO) address climate relevant issues.	Post earthquake rehabilitation and lifting water from rivers to villages is a priority; few NGOs' in climate actions.
4	Myagdi	Drying of springs and traditional ponds; increased landslide events.	Program (MSFP) and line agency (DFO) prepare LAPA and (DSCO) address landslide stabilization.	Six Line Agencies and Local governments engaged in CC relevant works; presence of NGOs substantial.
5	Udayapur	Declining water sources in hills; increased flash flood events.	Dedicated programs (Chure, EFLG) address flood control, irrigation and water supply.	Six Line Agencies and Local governments engaged in CC works; presence of NGOs substantial.

Note: No convergence of National Climate Policy with sector policies to guide district planning and budgeting.

No evidence was found to suggest that national climate change policy has guided planning and budgeting in the district. The dedicated climate projects and the national programs have been planned by central agencies. The LAPAs, which were implemented to mainstream CC in the local level planning, have ended up being standalone projects.

Institutionally, six line agencies and the DDC have been found to have most climate relevant programs. Programs implemented by VDCs and the Municipalities funds are scattered and not reported at the DDC. NGOs have strong presence and many of them have CC-relevant projects in all districts but their focus varies according to the immediate concerns of the district. The NGOs in Dhading district have mostly focused on post earthquake reconstruction, while in Bardiya it is the social issues such as bonded labour. Very few NGOs in Bardiya and Dhading districts have CC relevant projects.

Table 3 shows the key spending centers⁹ in the district and the source of their budget information. The LAs are located in the district, while the WIDPCOs work from regional or sub-regional centers. Bardiya does not have a DSCO; the office in Kailali, an adjacent district, implements soil conservation projects in Bardiya.

Table 3: CC-relevant spending centers in d-CPEIR districts

Spending centers		Agencies	Budget information source
Local bodies		DDC, municipality, and VDC	DDC and partly at DTCO
LAs	Located in district	DADO, DFO, DSCO, DIO, DWSSDO, RDO	Budget and expenditure at DTCO
	Located outside	WIDPCOs, Kailali DSCO (working in Bardiya)	Budget information available at DDC but not expenditure
I/NGOs		About a third of I/NGOs in the district	Only budget at DDC
Semi –government agencies		NEA and AEPC/NRREP	Only budget at DDC

With regard to the budget distribution in the districts figure 3 shows the budget share of different spending centers (both CC-relevant and non-relevant). The CC-relevant agencies handled about 45% of the district budget while the non-climate agencies han-

⁹ The number of line agencies (LAs) increased in FY 2015/16 with addition of DIOs, which prior to 2015/16 worked from the divisional offices.

dled the rest 55%. On average, the DDCs handled 19% of the total district budget, while climate related LAs together handled 13% of the district budget. The WIDPCOs handled about 1%, while the figure for the climate related I/NGOs is about 11%. This shows that a large number of agencies with different sectoral mandates have implemented activities that are climate relevant in the district, which offers opportunity to develop multidisciplinary approach to address area specific climate problems. However, the agencies have been working in isolation because of two major reasons, i) they are guided by sector policies rather than the climate policies, and ii) sheer lack of understanding of the need for integration of the ongoing efforts for effective investment impacts. The role of the local governments in coordinating these efforts to integrate CC action in the district plan is crucial. With restructuring of the state and establishment of the local governments with more authority devolved to them under the new constitution (2015), the coordination of the local plans is likely to be more effective.

With regards to the CC-relevant expenditure, the five year (2011/12-2015/16) average CC-relevant expenditure, as a percentage of their total budgets is given in table 4. Accordingly, the DDCs spent between 7.3% and 23.8% of their total budget on CC-relevant programs. Achham DDC spent the highest amount (23.8%); Udayapur,

Figure 3: Average shares of the spending centers in the total district budget

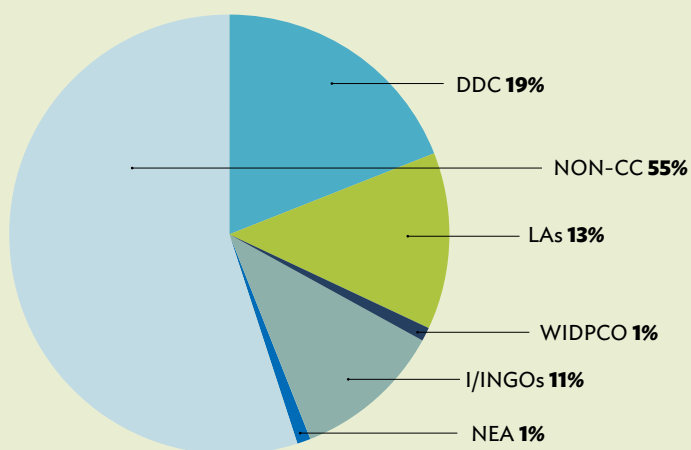


Table 4: Five Year average budget and CC-relevant expenditure of all agencies as a percentage of total budget (in Rs x 106)

Expenditure source			d-CPEIR districts									
			Achham		Bardiya		Dhading		Myagdi		Udayapur	
			Budget	CC%	Budget	CC%	Budget	CC%	Budget	CC%	Budget	CC%
Climate-related agencies	DDC	Central programs ¹⁰	561	10.6	416	8.1	526	2.1	289	6.7	517	4.8
		AEPC/NRREP	96.5	100	0.9	100	23.8	100	1.8	100	13	100
		Internal sources	6	31	27	7	154.8	18	29.7	23	24	11
		Sub-total	663.5	23.8	443.9	8.2	704.6	8.9	320.5	8.7	554	7.3
	LAs	DADO	24	36.7	29	33.8	32	53	47	14.5	27	16.7
		DFO	26	36.7	324	17.9	30	32	21	35.7	70	29.8
		DSCO	12	100	0	0	12	100	15	84.6	11	100
		DWSSDO	51	94	47	100	48	100	35	99.9	83	100
		DIO	22	77	760	75	33	76	29	100	29	75.2
		Sub-total	135	70.5	1160	59	155	72	147	62	220	64
	Others	WIDPCO	14.2	100	30.6	100	36.3	100	18.1	100	45	100
		I/NGOs	378	30	332	18	372	45	162	33	263	45
		NEA	8.1	100	41.8	100	44	100	46.7	100	15.2	100
	Non-climate-related LAs		1348	0	1811	0	1892	0	939	0	1882	0
	District Total		2547	15	3819	22	3204	13	1633	15	2979	12

the lowest (7.3%). Achham and Bardiya DDCs have higher shares of CC-relevant expenditure due to the NCCSP, the dedicated climate project being implemented since last 3 years. Achham also has a big support from AEPC/NRREP in addition the dedicated project of BCRWME

The major sources of funds for climate actions at the DDC are the grant from central government, the internal sources, the AEPC fund. Between 2.1% (Dhading) and 10.6% (Achham) of the grants from the central government have been spent on climate activities. Likewise, a large part of the internal source (between 7% and 31%) has also been used for climate actions. Dhading DDC, which spends only 2.1% from the central grant on climate actions, have spent a significant amount of its internal sources on

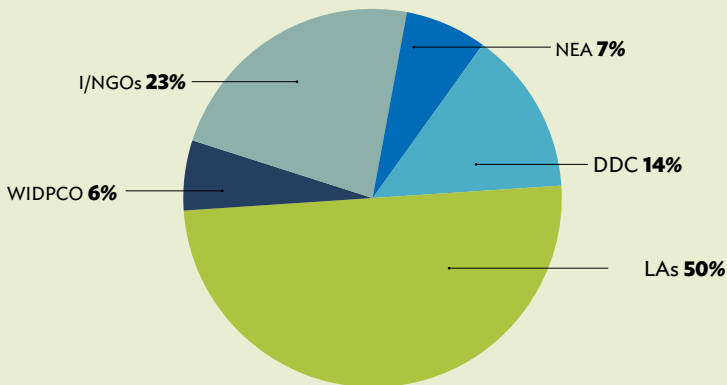
¹⁰ The budget for central programs includes those for social security allowance, infrastructure development, LGCDP, election area development programs, garib sangha Bisheshwor (Bisheshwor with the poor), community development, unconditional and conditional block grants for VDCs and municipalities, small irrigation, drinking water, NCCSP, and EFLGP.

CC-relevant expenditure, because Dhading earns a substantial amount from internal sources. A key message is that the district with less opportunity to raise internal sources of funds must be supported with increased grants or dedicated projects so that it can allocate adequately to climate relevant activities.

The LAs in Dhading spent the greatest percentage (72% each) of their budgets on climate-related activities and in Bardiya they spent 59%, the lowest among the d-CPEIR districts. I/NGOs have a strong presence in all districts. On average, nearly one-third of I/NGOs present in the districts allocate budget for CC-relevant activities. In Dhading and Udayapur, they spent about 45% of their total budgets on CC-relevant activities, but in Bardiya it was just 18% of their budget.

Many I/NGOs in Dhading, Udayapur, and Myagdi have invested on activities such as micro-hydro programs, hence their share of CC-relevant budget is high. In Bardiya, which has limited prospect for micro-hydro projects, the share of CC-relevant budget of I/NGOs is low (Table 4).

Figure 4: Contribution of CC relevant agencies to total CC expenditure



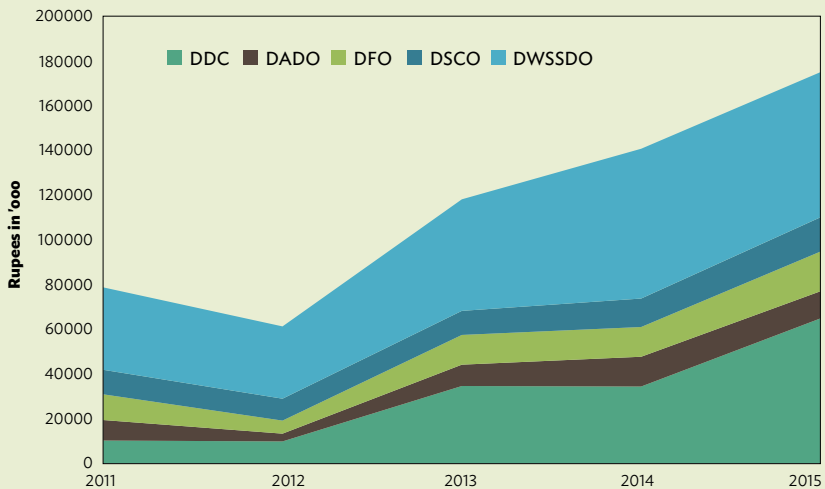
¹¹ Without considering the irrigation project in Bardiya the average share of the LAs becomes about 35% of the total CC-relevant expenditure, which is still higher than the rest of the institutions.

Taking all climate expenditure in the district together, it is seen that LAs contribute about 50% of the climate expenditure while I/NGOs contribute 23% (Figure 4). Due to the large irrigation project in Bardiya the contribution of LAs seem very high in aggregate.¹¹ Mainstreaming these programs in the local plans would help increase efficiency of the investments substantially. Currently, the DDCs seem to contribute only 14% of the total CC-relevant expenditure, which includes the activities supported by AEPC and dedicated climate programs such as NCCSP. Ways must be found to integrate climate relevant programs of the LAs, INGOs with that of the DDC in the local plans. Local level planning process offers ample opportunity in this regard.

Climate finance trend

CC-relevant expenditure of all agencies has increased sharply since 2012 (Figure 5). Expenditure of DIO, which has also increased in the same proportion, has not been included in the figure due to its large size. The drop in the expenditure in the year 2012 occurred because the budget was presented in three installments leading to reduced overall expenditure.

Figure 5: CC-relevant Expenditure Trend



Categories of climate finance

Most CC-relevant programs in the d-CPEIR districts are highly relevant to climate change (Figure 6). The share of 'highly relevant' program is more than 80% in all districts, except Dhading, where it is 69%. The level of relevancy has to be looked at against how they relate to mitigation and adaptation. Between 84%–98% of climate-relevant expenditure was on adaptation-related activities. Only a very small proportion of funds were allocated to mitigation activities (Figure 7). This indicates priority given by local plans to adaptation projects.

In terms of the sources of funding, 5%–30% of CC-relevant programs implemented by DDC and LAs, which are 'on budget and on treasury, have been funded by donors. Bardiya has the lowest share of donor funded program although the proportion of CC-relevant budget is high due to the contribution of the Babai Irrigation Project funded domestically. Achham had the highest proportion of donor support for CC-relevant programs.

Contributions of dedicated projects

Dedicated climate projects such as the NCCSP and the EFLG-P are being implemented in selected districts. The NCCSP has been implemented in Bardiya and Achham since the FY 2013/14 to help the DDCs develop LAPAs, which were expected to form the basis for integrating CC in the local development plans. The EFLG Project, which follows the EFLG framework adopted by local governments to bring together scattered

Figure 6: Share of Climate Expenditure (in %) with Degree of Climate Relevancy

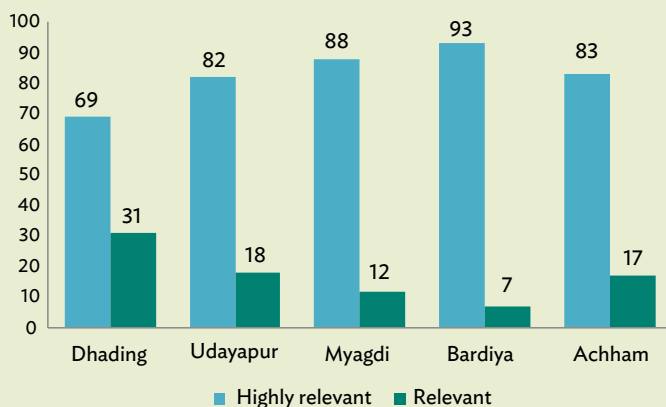
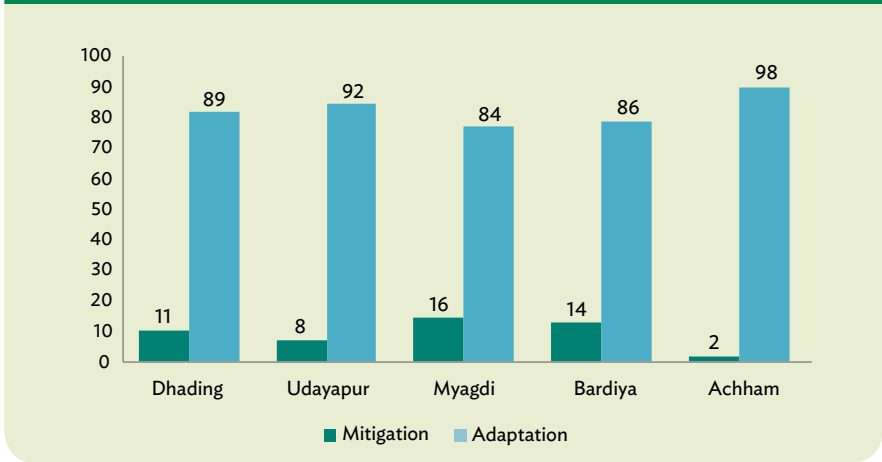


Figure 7: Share of Mitigation and Adaptation (in %)

environment, climate change, and disaster risk management programs in the local level development systems; has been implemented in Udayapur since the FY 2015/16.

The NCCSP contributes about 2.7% of climate expenditure in Bardiya; this proportion is higher than the combined contributions of DFO, DADO, and DDC. The share the NCCSP contributes in Achham is more than 6%, a proportion greater than the share of all the other LAs except DWSSDO. The share of EFLGP expenditure in Udayapur is about 3% of the total climate expenditure, a proportion greater than that made by any key agency, including DADO, DFO, and DSCO. Having a large share of climate budget come from dedicated programs not necessarily help local-level planning and budgeting as those programs tend to stand as separate from the regular planning process.

Policies and institutions

The d-CPEIR found that the CC and environment-relevant policy frameworks are adequate to address issues; however, there are challenge to translate policies and strategies into periodic targets and making provisions for budgetary resources. Some of the key reasons are as follows.

1) National level policies have not necessarily guided budget prioritization and budget allocation in the district

The sub-national level planning and budgeting processes were guided by the LSGA of

1999 and the LSG Regulations of 2000. The CC Policy of 2011 and the CC budget code of 2012, which are key policies and guidelines emphasising integration of climate change in planning and budgeting process were yet to reach the sub-national level. The key agencies at the sub-national level were aware of the existence of these policies and guidelines, however, no evidence was found to suggest that the national policies, often perceived as ‘central level initiatives’, were followed while formulating the district plans. Even the NAPA (2010) categorisation of vulnerability had not been linked with budget allocation and planning decisions in the districts.

Nepal’s periodic national plans have provided strategic direction for addressing climate change and SDGs. The 14th Plan (TYP 2017-2019) support the achievement of the UN’s sustainable development goals (SDGs), however, the d-CPEIR did not find any effective connections between these important goals and the planning, budgeting, and investment decisions of sub-national actors with regard to CC responses at the local level. The degree of convergence of national and sector policies to guide the district plan were found to be minimal. Such policy disconnects made it difficult to systematically translate and integrate CC into local plans.

2) Sector policies have not informed budget allocations

The d-CPEIR found that the policies and strategies for forestry, agriculture, and water resources are all quite relevant to climate change. The recently formulated Forest Policy 2014 and the Agriculture Development Strategy 2015-2035 have integrated CC-relevant strategies and measures. However, ensuring the complementariness and coherence of these policies and strategies for an integrated and comprehensive approach in addressing the CC concerns of the LAs in the districts remains a challenge because staff, partners and beneficiaries lack the required capacities, knowledge, and expertise. The budget allocation is largely guided by local demands, where CC concerns is not yet a priority.

3) CC-relevant institutions have no coherence of coordination mechanism

There were a number of actors with CC relevant (explicit or implicit) mandate but there was no coherence of coordination mechanism to bring them all together for integrated programming and budget formulation. The sector agencies had the highest share in the district CC-relevant expenditure. They had the expertise and exposure to climate issues. But there was no coordination among the sector agencies for joint planning and budgeting on climate actions. The sector policies did not facilitate coordination of the district plans and therefore the activities were mostly scattered.

Technically, the then DDC coordinated the development work of all LAs, NGOs and sometimes even the private sector. Each DDC had a District Energy, Environment, and Climate Change Section (DEECCS) to support coordination and implementation of climate related activities, however they lacked sufficient capacity to coordinate functions of LAs and I/NGOs. As a result, the coordination and sharing of information with regard to CC between local bodies and the sector agencies had been very limited.

Even LAs that had a number of highly CC-relevant programs in their portfolios (like forest, soil conservation, agriculture, irrigation, water and sanitation offices) had very little expertise in or human resources to collect, analyse, and interpret CC-related information and feed it into the planning and budgeting process. The DADO, for example, collected and reported to the centre every week the information about crop situation including rainfall, water availability, weather condition, water induced disasters, and other problems facing agriculture. But the information were not analysed at the district to assess crop response to the changing scenario and plan remedial measures. The d-CPEIR study found that to integrate climate finance in sub-national planning and budgeting effectively would require strengthening capacity in analysing the available information.

The programs of NGOs were even more disconnected. A number of NGOs were found to invest substantial amount of fund on CC-relevant programs in water, sanitation and hygiene, forestry, agriculture, and natural resource management sectors. In most cases, the budget for those programs were reflected in the annual development plan but information on expenditure was not available in a systematic way, a gap which had left space for under-reporting on district development interventions that might be quite relevant to climate change.

With regards to the private sector, the District Chamber of Commerce and Industries (DCCIs) implemented projects such as “one village one product” (OVOP) and “one district one product” (ODOP) to help farmers improve their income level. Private companies were also engaged in micro-hydropower and biogas promotion. Through those interventions, they too supported adaptation and mitigation. However, the budgets and expenditures of the private sector on CC-relevant interventions were not available in the district.

Planning and budgeting

Two distinct planning and budgeting processes were in use at the district level: the LBs and the sector agencies of devolved sectors followed a 14-step planning and budgeting

process (as per the LSGA provisions) while sector agencies of non-devolved sectors followed ministerial guidance to prepare district plans. This will change with the establishment of the federal structure.

Figure 8 summarises the planning and budgeting processes and shows how they link top-down and bottom-up planning actions in the changed context. The process begins when the NPC issues annual budget ceilings and guidelines. The ministries then instruct their respective departments and project offices to formulate plans for the following year based on the NPC's guidelines.

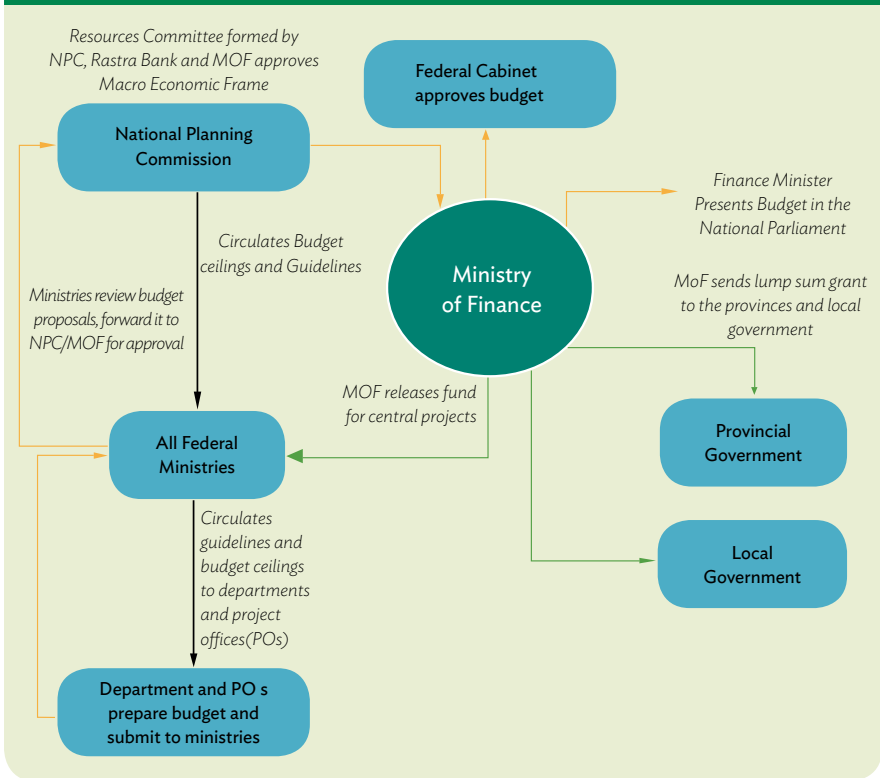
The local governments, which are responsible to implement local level development programs, receive a lump-sum amount based on fixed criteria. The local governments are independent to plan and implement their development programs, a situation that provides an opportunity for better inter-sectoral coordination through popular participation in planning and budgeting.

Within the local planning structure, the ward citizen forum (WCF) focused on the concerns of poor, vulnerable, and marginalised communities. The lack of CC-related data and evidence-based information at the grass-root level undermined WCFs' role in bringing CC concerns in the plan. There is a need to generate a local-level database on climate change impact so that the evidence can be used to improve planning and budgeting to address problems associated with specific local climate.

Key messages such as reference to national CC policy and guidelines, prioritisation criteria,¹² the climate budget code, and guidelines for determining climate relevance are included in the NPC's guidelines. However, compliance with bottom-up planning process at various stages of the 14-step planning process was not as strong, partly because there were no elected local representatives over a decade and a half.

The plans and programs of NGOs are largely donor-driven and planned independently outside the local planning process. Moreover, since there is no mechanism to track either the work or finances of NGOs, their contribution to district development process in general and to CC adaptation in particular cannot be assessed.

¹² Development programs are prioritised as P1, P2 and P3 (P = priority) based on their importance for attaining national goals. Ten broad criteria, including climate change, are used to prioritise development programs. P1 programs receive the highest priority for budget allocation, P2 programs the second priority, and P3 programs the third priority. To emphasise the need to consider climate change as an important element in development planning, the NPC increased the weightage of CC criteria for projects under the infrastructure sector to 10% in FY 2016/17.

Figure 8: National and local planning and budgeting processes

Environmental issues such as deforestation, erosion, and solid waste management are fairly well understood at the local level, but understanding of climate change and its impact is limited because the issue is relatively new. Adapting to CC impacts through local plans requires building a better understanding of emerging issues and coming up with ways of formulating appropriate responses at the local level. Knowledge and understanding of emerging climate issues is vital for strengthening capacity for planning and budgeting at local level.

Budget implementation and monitoring

With the introduction of the Treasury Single Account (TSA) the DTCO makes payment for development works funded through public fund including the block grant, and keeps the records of the expenditure.

Local governments keep records of the expenditure of the local fund, which they do not need to report to central agency. The expenditure of the NGOs is available only with the NGOs themselves. The OGA carried out the audit of the expenditure of the line agencies and that of the block grant, while the audit of local funds of the local governments was done by certified auditor appointed by the DDC. NGOs appoint their own auditor to certify the expenditure, which they needed to submit to the DDC.

Because it was difficult to track actual climate expenditure as a proportion of the block grants and other revenue the local governments received and the CC-relevant budgets and expenditures of I/NGOs, it was difficult to form a consolidated overview of district-level CC-relevant programs and achievements. What was actually available was the expenditure of the line agencies and central grant to the local governments. The provisions of record keeping and fragmented reporting needs to be consolidated under the newly established federal structure to better understand cc-relevant expenditure at the local level.

Conclusions and Recommendations >>>

The d-CPEIR was carried out under the previous state structure when the development works using public money were primarily delivered within the district by the local bodies (DDCs, VDCs, and municipalities) and the district line agencies representing sector ministries. However, with the change in the state structure since the FY 2017/18, the provincial (yet to be formed) and the local governments (already formed) will be responsible for all local development works including implementation of the CC-relevant activities. Therefore, the following narrative will attempt to present the recommendations in a way that will be applicable in the changed context.

Analysis of the d-CPEIR generated the following recommendations regarding policies and strategy frameworks, institutional arrangements, governance and planning, and public finance management which focuses on CC-relevant budget, expenditure, and reporting. The need for a comprehensive CC-capacity development strategy is also covered in the recommendations.

Policies and Strategy Frameworks

- The regular programs of the GoN have, in fact, started to address, adaptation-related activities, such as alternate ways to provide drinking water in the hills where springs have gradually dried up and non-conventional irrigation in the Tarai, where the delayed onset of monsoon rains has delayed the planting of paddy in time and flood control works in plains and valleys, but these activities were not planned as climate responses. Moreover, the district plans did not use climate code to indicate climate-relevant program and budget.
 - ***Reasons to consider CC policies and frameworks while preparing plans and budgets at local level be provided in the planning guidelines that the NPC and the MoF issue to sector ministries and local governments.b) Similarly, budget circulars issued by the MoF have been updated to include guidelines on budget coding to indicate the level of relevance to climate change. This means that sector ministries will be required to identify climate change related allocations, which will be helpful in eventually deciphering the level of climate relevance and prioritisation in a given sector.***
- National climate change policies do not converge with sector policies or with strategies and guidelines to support CC integration. The Climate Change Policy of 2011 was perceived by most agencies at the district level as being a policy of concern to the MoPE. The plans of line agencies, most of which were guid-

- ***Establish the coordination committee of the EFLG to initiate the integration of CC-relevant activities in the plans of the local governments. EFLG should be linked with the key steps of the policies that guide the local budget and planning processes.***
- The CC policy commitment of spending 80% of the CC fund at the local level is an important policy target, however, there is no clarity about the target, which is often understood as applying only to donor-funded projects and not to climate activities supported by funds from other sources including the national fund. If the policy target should be applied to domestic public funds, too, it will provide a basis to monitor the progress in climate financing as well as and help local governments justify their requests for additional funds to support climate-relevant activities.
 - ***The MoPE should clarify if the 80% policy provision applies to domestic public funds and it should be spelled out in the NPC's guidelines for plan formulation as well as in the MoF's guidelines for budget formulation.***

Institutions

- Nepal's NDC has highlighted a national commitment to mitigation as well as its priority for adaptation activities. The time agencies take to notice issues such as the shortening of ripening periods and the shifting of citrus trees as reported in Udayapur, and plan remedies is usually longer than the pace at which changes take place. The lack of a CC focal point with the mandate to provide feedback on and assist in the streamlining of the CC-relevant programs of different sectors has further hampered coordination, sharing, and joint planning at local level. To speed up reaction time and promote sensitivity to climate change in planning, there needs to be a CC focal point at the local level which has access to local information about the impacts of climate change and which can make suggestions about the sort of climate action to integrate into local plans. The then DEECCs were well placed with a mandate to work on climate change activities, but their capacity was extremely weak. Instead of making a new arrangement, the section can be capacitated and made the focal point to coordinate CC responses. It is recommended to
 - ***consider establishing an upgraded and strengthened EECCs by adding additional staff members with expertise in the environment and climate change as well as additional resources to improve the capacity of the section to assume the role of CC focal points at the local level.***

Governance and planning

- Some local initiatives such as landslide control, stream bank protection, and small irrigation were already being supported by the budgets and programs of different sectors; however, sector priorities and choices sometimes hindered their effective implementation for the synergy that the programs had potential to generate. To tackle this hurdle, it is recommended to
 - ***CC analysis should form the basis for planning and budgeting of natural resource related development activities that focus on the protecting local resources against degradation or efficient utilization of scarce resources to meet the demands and needs of communities.***
- There is a high demand from community groups for projects related to water supply, irrigation, flood control and so on. Only a limited number of requests are entertained in any given year due to limited budget ceilings. Due to low level of awareness and knowledge of local leaders about the emerging climate impacts and importance of adaptation, they end up proposing high-budget infrastructure projects rather than address the CC needs of the poor and vulnerable. For example, putting deep wells to draw water in areas where groundwater is already rapidly depleting to meet the local demands. The experience of the EFLG project in Udayapur shows that the climate change and environment expert can help improve integration of the adaptation activities while formulating development plan. It is recommended to
 - ***Enable the EECCs to actively engage with community and local leaders to enhance their understanding of the short- and long-term effects of climate changes on the resources on which they depend for their livelihoods.***
- The need to link agriculture and irrigation policies has become more crucial with climate change because the objectives of both policies are to enhance agriculture production and adapt to rainfall variability. Guidelines for and governance of irrigation must be more strongly associated with climate change and with local concerns, especially as sometimes planned irrigation projects are changed during the approval process without consulting the community members, as has happened in Udayapur and Achham. The insertion of projects in local plans by higher authorities has undermined the importance of local planning processes and resulted in the failure of the entire purpose of interactions between agencies and local communities—to reach the vulnerable and support local initiatives. In fact, the Udayapur DIO and Achham DWSSDO, both crucial agencies in helping vulnerable communities to adapt to climate impacts, experienced such manipulation quite often.

In contrast, interference in district-level planning by high-level DSCO and DFO authorities was minimal and, for that reasons, such officials were able to take most of the requests they received from communities into consideration. Their receptiveness to grassroots demands resulted in high levels of engagement with local stakeholders and thereby helped enhance understanding of local situations and enabled the planning processes to address pressing local-level issues. The Myagdi DSCO's leadership in mobilising district administrators and political leaders to evacuate and save the lives of 25 families before their houses were buried by a massive landslide in May 2015 demonstrates how important local engagement is in ensuring that appropriate action is taken in times of need. It is strongly recommended that

- *Local governments ensure that local authorities to adhere to and comply with the decisions and outcomes of local-level planning and budgeting processes and minimize meddling in locally approved plans.*

Budgeting, expenditure, and reporting

- Earlier the information on the climate budget allocations and expenditures of the sector agencies was available in a consolidated form at DTCOs. The information about DDCs' actual expenditures of internal sources and shared revenue and the amounts provided by the AEPC to DEECCSs was available at DDCs. However, the information about expenditures of NGOs, which spent substantial amount on CC-relevant activities, was not available at any government office as they mobilised their funds through 'off-budget and off-treasury' channels. This gap meant that a significant part of the total district-level budget and expenditure was not captured by the system.

Now the local governments receive lump sum block grant for development activities. It will be difficult to get information about CC-relevant expenditure before the breakdown of the expenditure is available. With regard to the NGOs, adding expenditure would entail modifying the reporting format that NGOs use to report when they renew their annual registrations. To remedy this gap, it is recommended that

- *Local governments take steps to recognize CC-relevant activities in the local development plans by using climate code, and modify the existing financial reporting formats of NGOs which they submit before applying for renewal of their registration, to capture all climate-relevant expenditure information in a systematic way.*

- The then line agency officials at the districts, many of whom, from now on, will work under the local governments, have not been trained to apply the climate budget code so they must be provided with regular orientation and training until they can tag programs and budgets according to their relevance to climate change. It is recommended that
 - ***The NPC provide technical backstopping to ministries, which then will train officials at the local levels to use the climate budget code to indicate the climate relevance of the plans and budgets in the local plans.***

Capacity building

- Because climate change is a relatively new phenomenon in development discourses, there is a need to build the capacity and expertise at the local level in the basic science of climate change and on how they affect development issues, so local responses can be identified, planned, and executed based on a proper analysis of the local contexts. A comprehensive CC-capacity development framework that includes cross-sectoral knowledge and understanding supported with central-level coordination through the proposed inter-ministerial CCFF implementation committee and resources is required to facilitate the integration of climate change in the budgets, plans, and programs of local governments. To increase capacity, it is recommended that concerned agencies
 - ***Devise a comprehensive CC capacity development strategy for use at the local government level.***
- a. The MoPE, in collaboration with sector ministries and the Central Bureau of Statistics (CBS), should create local knowledge and understanding of climate impacts across sectors;
 - b. The NPC, through sector ministries, should provide an overview of key national and sectoral CC policies and strategies that drive investment decisions at the national and sub-national levels; and
 - c. Sector ministries, in collaboration with the MoPE, should provide tools and instruments that can be used by the planners at the province and local level to identify CC impacts and devise adaptation plans.
 - d. The local governments, through upgraded EECC section, conduct capacity building programs to impart local level CC information to the community groups and local leaders who participate in the planning process.

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