

# Devolving Adaptation Finance and Action

Lessons from Nepal's  
Local Adaptation Plans for Action

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# I. INTRODUCTION

The effectiveness of community-driven responses in addressing local development needs has been demonstrated through experience in numerous sectors over previous decades, including natural resource management, livelihoods, disaster management, health, and education. Community responses are even more crucial to deal with climate change impacts, which can be extremely localized, or exacerbate pre-existing locale-specific vulnerabilities. In recognition, international and national initiatives have recently sought ways to channel climate finance to the community level, to support community-driven adaptation and mitigation.

Global climate finance institutions have taken small steps to devolve elements of climate finance governance to the national level. The Adaptation Fund pioneered the “direct access” modality, which for the first time allowed “national implementation entities” (NIEs) to submit and oversee projects, without involving “multilateral implementing entities” (MIEs). This is still mainly a project-based modality, where decisions on specific activities in a project are taken by the Adaptation Fund Board – although the Board has been progressive in devolving decision-making to communities through projects such as the Community Adaptation Small Grants Facility in South Africa, which channels resources for climate responses identified and implemented by affected local communities.

The Green Climate Fund (GCF) has gone one step further towards promoting national (and sub-national) ownership through its “enhanced direct access” (EDA) modality. While this is a relatively new modality and will evolve over time, EDA is expected to take a more programmatic approach, devolving decision-making on the use of funds within a programme to the national and sub-national levels. The modality aims to promote sub-national devolution, and improve access to climate finance by particularly vulnerable sections of society.

At the national level, meanwhile, Nepal has led the way by committing to channel 80% of the funds available for adaptation to the grassroots level, and by piloting a framework for “Local Adaptation Plans for Action” (LAPAs).<sup>1</sup> The LAPA process is being replicated in other countries, including Pakistan and Mozambique, and is gaining traction in several others, including Kenya, Tanzania, Mali, and Senegal.

To what extent are the “top down” attempts to promote community-driven responses by the GCF supportive of, and complementary to, “bottom up” responses like the LAPAs? How can each enhance mutual complementarity, to strengthen community-driven responses to climate change? We explore this question specifically in the context of the EDA modality and Nepal’s LAPAs. The challenges include getting the financial channels and governance arrangements right, to enable inclusive and equitable planning, implementation and monitoring.

EDA as a modality is still in its infancy – only one programme had received funding at the time of publication of this paper, as part of a US\$200 million pilot approach launched in July 2015. While a review of the modality is not yet possible, there is still potential to influence its scope and ambition, and ensure that it works well with national systems to reach vulnerable communities. The LAPA experience could prove instructive to the GCF Board, Secretariat and technical bodies in the development of the EDA modality. A purpose-built climate finance institution like the GCF should, after all, draw heavily on national and local needs and experiences to design its policies and modalities, to make the use of Fund resources more effective and efficient.

This paper aims to draw lessons for the GCF – and the EDA modality in particular – from Nepal’s experience in devolving climate finance and action. We hope that these lessons will also inform the efforts of other developing countries in making climate finance accessible at the local level, and developing EDA proposals.

The paper begins by describing the evolution of the GCF's EDA modality. It then describes the framework for implementing the first phase of the National Climate Change Support Programme (NCCSP), a bilaterally-funded programme to develop and implement LAPAs, using a framework endorsed by the Government of Nepal (GoN). Lessons are then drawn from this experience, to inform similar processes in Nepal and in other countries, and the GCF.

## 2. METHODOLOGY

The paper is based on qualitative research conducted using various sources of information, including desk research; existing reviews of the NCCSP project; interviews with government and non-government representatives and stakeholders; and a peer review process. Extensive literature reviews were carried out, including of relevant case studies and documents from different climate change project and programmes implemented in Nepal. Targeted expert interviews with government officials, former government officials, project officials, non-government experts and UN agencies helped draw insights and conclusions.

A stakeholder workshop was organized in March 2017 to gather views and suggestions at the start of the process, and a second workshop was conducted in August 2017 to validate the draft report. Suggestions gathered from the participants in the workshops have been incorporated into the study. The draft report was also shared with targeted national and international experts for feedback and comments, which have been duly considered.

## 3.A BRIEF HISTORY OF THE EDA MODALITY

The governance and delivery of climate finance has been a controversial subject since global climate change negotiations started, in the late 1980s and early 1990s. Developing countries have objected to the treatment of climate finance as official development assistance from the start. They have also flagged their problems with the complex procedures for accessing climate finance from global institutions such as the Global Environment Facility (GEF).

In the following decades, government and non-government actors have sought to highlight the complexities of accessing international climate finance, including complex processes for project development that often required external consultants to measure, for instance, the “incremental costs” of global benefit; requirements for co-financing; the time taken for project approval; the project-based approach itself; the high administrative costs of multilateral implementing entities, which were essential to access finance; and the difficulties of access for sub-national entities.

The Kyoto Protocol's Adaptation Fund was an opportunity to break from the donor-dominated models of the past. As the Fund relied on the 2% levy on proceeds from the Clean Development Mechanism, developing countries successfully made the case for it to be governed by a Board with majority representation from developing countries.<sup>2</sup> The Fund went on to pioneer the “direct access” model, allowing accredited national and regional entities to directly access financing and manage projects.

The need for a new climate fund continued to be articulated by developing country governments. In May 2009, for instance, India made a submission to the UNFCCC, calling for a new fund that, among other things, ensures direct access through “*national entities of developing country Parties as designated by such Parties to approve activities, projects, programmes for funding, subject to the guidelines and procedures approved by the [Conference*

of Parties]”.<sup>3</sup> As a result, a new Green Climate Fund was “noted” as part of the 2009 Copenhagen Accord, and formalized in Cancún in 2010 by the 16th session of the Conference of Parties, where a Transitional Committee was established to design its modalities.

In working to influence the work of this Transitional Committee some civil society organisations (CSOs), such as Oxford Climate Policy (OCP), made the case that devolution made sense not only for recipient countries, but also for the new Fund itself. If the GCF followed a centralized model like other existing international financial institutions, between 2500 to 8000 employees would be needed to administer the US\$10-20 billion that was eventually expected to flow through annually.<sup>4</sup> This would incur considerable administrative costs. Instead, these CSOs proposed a “throughput model” for the GCF, where its main role would be to disburse funds to national entities, which would take over the bulk of the administration.<sup>5</sup>

Supporting this model, the representative of the Least Developed Countries (LDC) group on the Transitional Committee put forward the following text that was then included in the Governing Instrument of the GCF: *“The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.”*

The language on “*further enhancing*” direct access was introduced to distinguish it from the Adaptation Fund model of direct access, where National Implementing Entities can be accredited to access funds directly, but where decisions on projects and activities are still taken by the Adaptation Fund Board.<sup>6</sup> The intention was to “further enhance” this direct access model, by devolving decision-making on specific activities further to the national and sub-national levels. Hence “enhanced” direct access.

Following the adoption of the GCF Governing Instrument, a Board with balanced representation from developed and developing countries was appointed to oversee the work of the Fund. The GCF Board agreed “*to commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities*” at its third meeting, in Berlin in March 2013. This gave national and regional entities direct access to GCF funds, along with the usual multilateral entities.

At its fifth meeting in Paris, also in 2013, the Accreditation Committee set up by the GCF Board was asked to oversee the development of “additional modalities that further enhance direct access. In October 2014, the GCF Board called on the Accreditation Committee to prepare the Terms of Reference (TORs) for a pilot phase for EDA.<sup>7</sup> The TORs were adopted in July 2015, and a five-year EDA pilot phase was launched.<sup>8</sup>

### **EDA Pilot Phase**

The five-year EDA pilot phase initially aims to provide “*up to*” US\$200 million for at least ten pilots. At least four of these pilots should be in small island States (SIDS) or LDCs, and African States. Each of the pilots will be implemented over five years, following approval by the GCF Board. Following completion of the ten pilots, a specific report with lessons learned and recommendations for the scale-up phase will be submitted to the Board.

To access EDA resources, National Designated Authorities (NDAs) are invited to select, through a consultative or competitive process, entities (institutions) and proposals to be submitted. The entities/ institutions should be “accredited” by the GCF to qualify to receive funding. Accreditation refers to a process by which the GCF assesses whether an entity/institution is capable of strong financial management, and of safeguarding funded projects and programmes against any unforeseen environmental or social harm as well as compliance with the GCF’s gender policy.

There are three categories of accredited entities under the GCF: direct (national); direct (regional); and international. Only the first two (direct national and direct regional) can access EDA funding. Moreover, these entities need “specialized” accreditation as financial intermediaries in order to disburse the funds they receive from the GCF either as grants, or for “on-lending”. As of October 2017, 10 national institutions and 9 regional institutions have this level of accreditation, and therefore qualify for accessing funds from the EDA pilot.<sup>9</sup> The Request for Proposals issued by the GCF also indicates, however, that “prospective” accredited entities can submit proposals to the GCF, and their accreditation will follow the accreditation framework, including decisions related to fast-tracking.<sup>10</sup>

### **Why is EDA different?**

The TORs for the EDA pilot phase make it clear that unlike the “traditional” direct access route (which is also an option under the GCF), *“there will be no submission of individual projects or programmes because decision-making for the funding of specific pilot activities will be devolved at the country level”*. Instead, an EDA proposal will describe:

- The scope of activities that will be considered for financing;
- The country/entity level approval process; and
- The institutional arrangements set up to ensure oversight and multistakeholder engagement.

According to the TORs, *“the decision-making body of the individual activities in the pilot will be at the level of the accredited entity and will include civil society, private sector, and other relevant stakeholders”*. The TORs call for a multistakeholder national oversight body separate from the accredited entity to provide oversight.

The TORs place emphasis on community access and multistakeholder engagement, and the use of existing country systems and institutions. National accredited entities are asked to *“work with local actors, especially those addressing the needs of vulnerable communities and gender aspects, which may include local actors such as public institutions, local bodies, non-governmental organizations, community-based organizations and private enterprises”*.

The TORs also makes readiness support available, to, among other things, assist entities through the accreditation process; support multistakeholder engagement; and strengthen oversight mechanisms.

The EDA modality has been described as the GCF’s “signature modality” by Board members. It is one of the most “transformational” and “paradigm shifting” elements of the Fund – descriptions used by UNFCCC Parties and GCF Board members to define the Fund’s ambition. The extent to which the modality is eventually transformational and paradigm shifting will, however, depend on the quality of the proposals submitted to the GCF in the pilot phase and beyond; the GCF Board’s willingness to be ambitious and transcend business as usual; the ability of the Fund’s technical bodies, such as the Technical Advisory Panel, to fully appreciate and support local level action; and of course, the success of implementation.

Given that the objective of EDA is to *“enhance access by sub-national, national and regional, public and private entities”* and *“devolve decision-making”*,<sup>11</sup> a key indicator of success will be the extent to which it makes climate finance accessible to local governments and vulnerable sections of society that have previously found it difficult to access international funding.

The EDA objectives also emphasize *“replication and sustainability”*. In the past, many community-driven projects have remained small islands of success, with often only short-term benefits over the duration of the intervention. Another transformational shift for the GCF could be to move away from merely modelling and piloting stand-alone activities, to prioritizing activities that can be embedded into existing national systems, and are therefore more likely to endure. The GCF can play a catalytic role in embedding systems for local



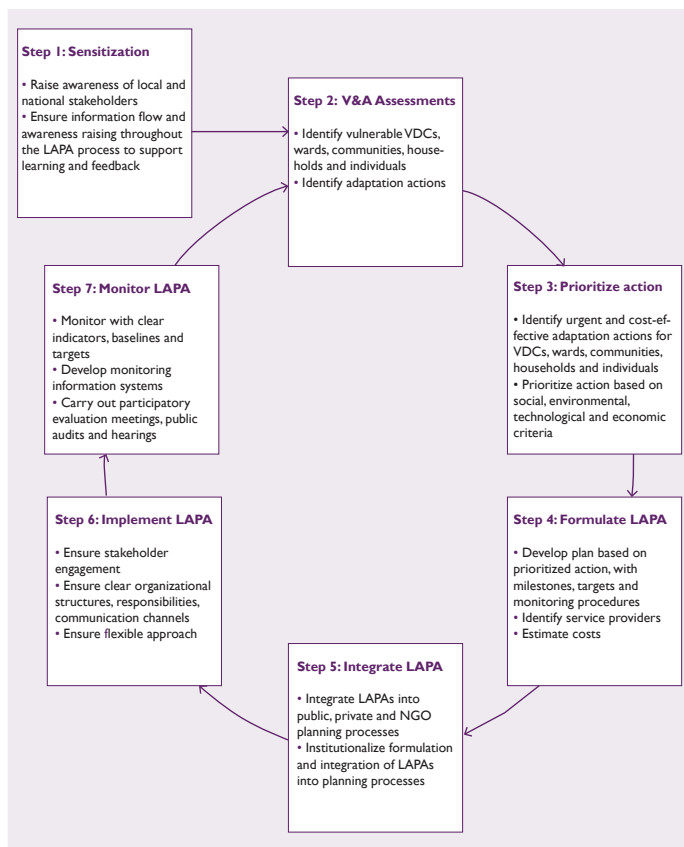
climate responses into national systems of devolution, if the emphasis is on modelling processes (rather than activities) through which adaptation can be mainstreamed into national systems, which can then be scaled up and sustained over the long term through a mix of national and international funding.

## 4. NEPAL'S LOCAL ADAPTATION PLANS FOR ACTION

Nepal has been a leader among developing countries in seeking progressive and decentralized natural resource management practices.<sup>12</sup> There are, for instance, over 19000 community forest user groups in Nepal, managing over 1.8 million hectares of community forests.<sup>13</sup> Even during decades of political instability, the country has continued to seek ways of implementing devolved governance (see Box 1).

In its response to climate change, Nepal was among the first to realize the shortcomings of “National” Adaptation Programmes of Action (NAPAs), when the national priority was to address the “local” vulnerabilities of 68% of the population heavily on the climate-sensitive agriculture sector.<sup>14</sup> The Nepal NAPA, completed in 2010, prioritized the “*channelling of resources and technical expertise for adaptation to the local level as efficiently as possible*”, and committed to ensure that at least 80% of the available financial resources are channelled to the local level.<sup>15</sup> This commitment was formalized by the 2011 Climate Change Policy, which also called for the “*initiation of community-based local adaptation actions*”.<sup>16</sup>

In November 2011, a National Framework on Local Adaptation Plans for Action was approved by the Council on Ministers.<sup>17</sup> It sought to provide guidance on the preparation and implementation of LAPAs, and the integration of adaptation options into sectoral and development plans.<sup>18</sup> The Framework calls for bottom-up; inclusive; responsive; and flexible LAPAs, based on seven steps (see Figure 1).



**Figure 1: The seven steps of the LAPA process**



## Box 1: A brief history of decentralization in Nepal

Nepal has had some form of decentralized governance body in place for centuries, including the *panchalis* of the Kirat dynasty in the third century AD; *panchayats* (local governing bodies) after 1768, when the integration of modern Nepal took place; and *kachahari* or village assemblies from 1926. Governance, however, remained centralized even after a Village Panchayat Act was passed in 1948.

Numerous commissions and committees on decentralization have been set up since the Revolution of 1951, marking the end of rule by the Rana dynasty, starting with the 1963 Decentralization Commission, whose recommendations were implemented through a Local Administration Act passed in 1965. A Local Administration Ordinance was passed in 1971, to give greater power to district-level *panchayats* under the responsibility of Local Development Officers (LDOs). A Local Development Ministry was formed in 1980, followed by "user committees" to formulate and implement local development plans, coordinated by the LDOs.

In 1982, a Decentralization Act led to the creation of district-level departments for key line ministries. Though planning and operational matter were decentralized to these departments, the allocation of resources and programme design remained the prerogative of central ministries. The 1982 Act also authorized "user groups" to manage land, forest and water resources.

Following the restoration of parliamentary, multi-party democracy in 1990, the 1991 Constitution of Nepal called for the strengthening of decentralization. The Local Authorities Acts 1992 followed, including the Village Development Act; Municipality Act; and District Development Act. A Decentralization Action Plan was implemented in 250 villages, authorizing Village Development Committees (VDCs) to formulate, execute and monitor projects. Local elections took place for the first time in 1992. However, local authorities continued to lack adequate empowerment and support.

In 1999, a Local Self-Governance Act (LSGA) followed, which sought to devolve powers, responsibilities, means and resources. Among other things, it sought to build and develop institutional mechanisms; devolve powers to collect and mobilize resources; develop local leadership; and encourage private sector participation. Under the LSGA, 75 District Development Committees (DDCs), 58 Municipal Committees, and 3913 VDCs were established. Each VDC was divided into nine wards, which were the smallest units of local governance. Each ward had a committee made up of five elected members, one of which had to be a woman. Village Councils and Municipal Councils met biannually to approve VDC and municipality policies, programmes and budgets. A 14-step participatory planning process was adopted for decentralized resource allocation, and for a dialogue-based process that promotes inclusivity.

In September 2015, Nepal adopted a new Constitution that calls for the restructuring of the country into three main levels: federal, provincial and local. Greater autonomy and increased fiscal powers have been granted to local level governments, who will take charge of 22 subjects, including local tax collection, education, health, infrastructure, water, disaster management, small electricity projects, and alternative energy.

Seven provinces have been defined, and the institutional arrangements for local governance will change both at the federal and local levels. Nepal will now be divided into 481 rural municipalities, 246 municipalities, 13 sub-metropolitan cities and four metropolitan cities. The units will be further divided into 6,680 wards. The previous VDCs and municipalities will no longer exist. Local level governments will include *Gaon Pallikas* (village municipalities) and *Nagar Pallikas* (town municipalities). Local government elections took place on 14 May and 28 June 2017, for the first time in 20 years.

Lack of continuity in policies and implementation has been identified as one of the hurdles in implementing effective decentralization in the past, as policies and mechanisms have continuously been created and then dismantled. Years of conflict and political uncertainty have also undermined devolution. It is hoped that the new reforms will stay the course, and signal a greater commitment to the devolution of governance and investment in local capacity.

While the overall direction for the LAPAs was endorsed in the LAPA Framework, implementation relied on external funding. The National Climate Change Support Programme (NCCSP), funded by the UK's Department for International Development (DFID) and the EU, is currently the largest attempt to implement GoN's LAPA Framework. Under the programme, LAPAs have been developed and implemented in 100 villages and seven municipalities of 14 districts in western Nepal. The first phase of the NCCSP programme, initially from 2011-2015, was extended until July 2017.

The following sub-sections describe the institutional, financial, planning, implementation and monitoring arrangements and processes under the NCCSP, at the national and local level.

## National institutional arrangements

The first phase of the NCCSP was implemented by the Ministry of Population and Environment (MoPE), the focal agency for climate change and UNFCCC. As MoPE does not have a local presence in the districts and villages where the LAPAs were to be implemented, it collaborated with the Ministry of Federal Affairs and Local Development (MoFALD), and its local network of District Development Committees (DDCs) and Village Development Committees (VDCs). (The names of both ministries changed during the period of NCCSP implementation, and are likely to undergo further changes as the new Constitution is implemented. For the sake of consistency, this paper uses MoPE and MoFALD throughout). The presence of a strong local development ministry was an advantage in Nepal – its networks of DDCs and VDCs were tasked with planning, coordinating, integrating, monitoring and evaluating LAPAs.

A Project Steering Committee, chaired by the MoPE Secretary, was formed for national oversight of NCCSP (*see Annex I for the list of members*), along with a Project Executive Board, chaired by the Joint Secretary of MoPE, who also served as the National Programme Director (*see Figure 2*). The implementation of the programme was managed by a Project Management Unit (PMU) set up by MoPE. The PMU included government staff and technical assistance staff contracted to the UN Development Programme (UNDP). UNDP was contracted by the GoN to provide technical assistance both at central and local levels to implement NCCSP. This feature, of GoN contracting UNDP directly instead of the donors, was seen as a way of giving MoPE more control and ownership over the project. It was also agreed that UNDP would receive 20% of the programme's funding through the GoN, for its technical role.

A Multi-Stakeholder Climate Change Initiative Coordination Committee (MCCICC), formed by MoPE in 2009, was expected to serve as a platform for other ministries, development partners, NGOs and research institutes to discuss and share experiences, develop synergies, and avoid duplication of effort under the NCCSP.

## Local institutional arrangements

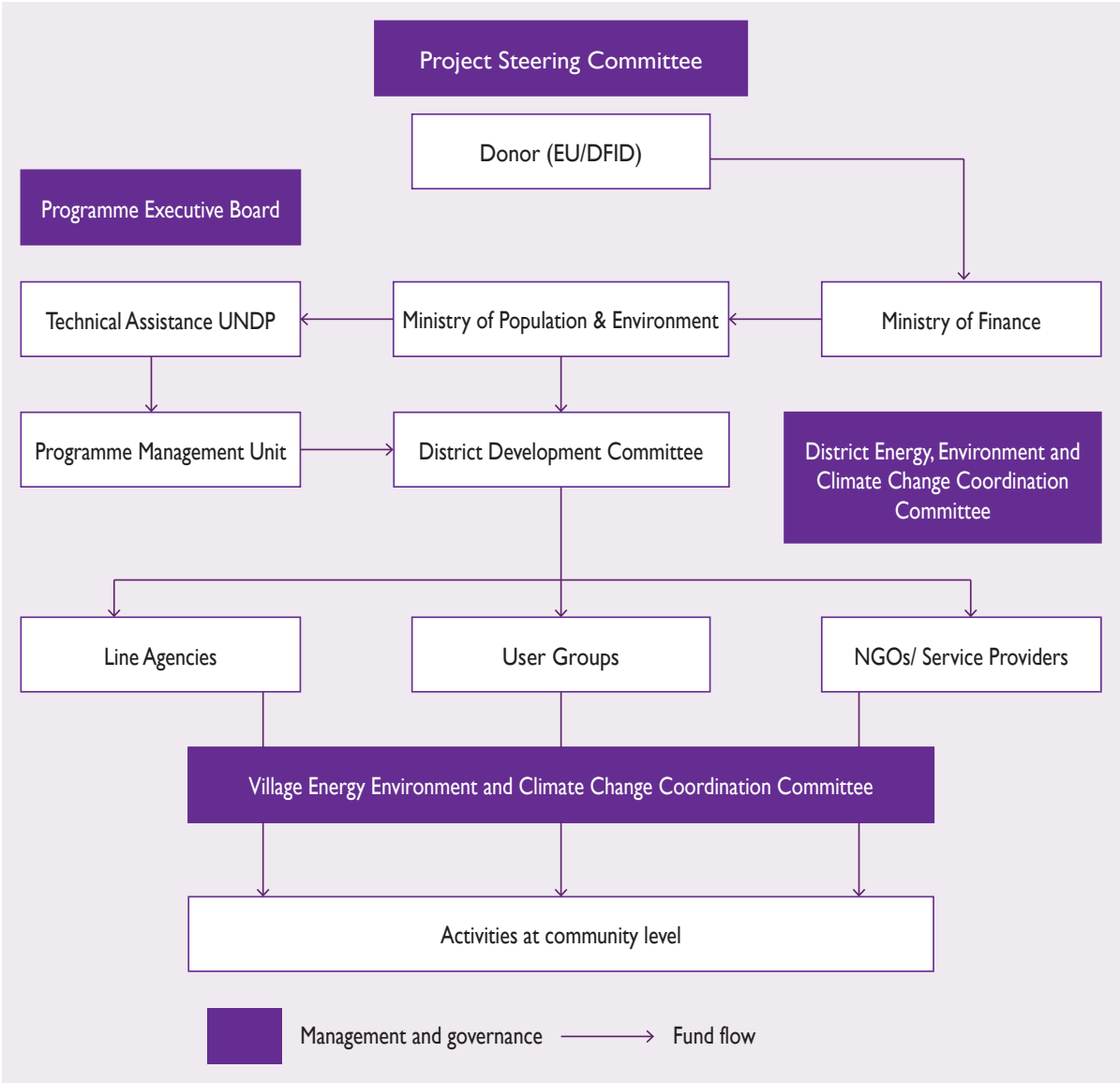
The local level administrative arrangements in Nepal during the implementation of the first phase of the NCCSP (changing under the new Constitution) included District Development Committees (DDCs) for each of the 75 districts as the executive body, and District Councils as the legislative body. Districts were further divided into 9-17 *ilakas*, and then into villages. Each village also had a Village Development Committee (VDC) and Village Council, and was further sub-divided into wards, each with its own Ward Citizen Forum.

Under NCCSP, VDCs were responsible for planning, coordination, monitoring and evaluation, and service delivery. DDCs and VDCs were also responsible for planning and integration of the LAPAs into sectoral and development planning processes.

Existing environment and energy committees at the district and village level were reformulated into District Energy, Environment and Climate Change Coordination Committees (DEECCCs) and Village Energy Environment and Climate Change Coordination Committees (VEECCCs) in the NCCSP implementation areas, with representatives from line departments and multi-stakeholders, and operational guidelines prepared by MoFALD. The DEECCCs were chaired by the Local Development Officer (LDO), a MoFALD employee, while the VEECCCs were chaired by the VDC secretaries. The committees were responsible for coordination, support, and monitoring the implementation of LAPAs.<sup>19</sup> In addition, monitoring sub-committees were formed within the Ward Citizen Forums.

Programme delivery at the district level were supported by three members of staff employed by UNDP in each district: a District Climate Change Coordinator, a District Climate Change Officer, and a District Administration and Finance Assistant. A LAPA Facilitator was expected to work with local communities to develop and implement LAPAs at the village level, though UNDP eventually found it challenging to hire and retain staff in remote locations.<sup>20</sup>

**Figure 2: Flow of funds and institutional arrangements for LAPAs**



### Financial arrangements

NCCSP had a total budget of £17.6 million over 2011-2016, with £10 million from DFID, and £7.6 million from the EU. UNDP managed the technical assistance budget of £2.8 million, while the rest of the funds were channelled through the GoN.<sup>21</sup>

Overall financial management of NCCSP funds was the responsibility of the PMU within MoPE. Funds were delivered by the donors as reimbursement for expenses already incurred by the GoN. This meant that local bodies made LAPA investments using funds provided by the National Treasury, and these were then reimbursed, based on physical and financial reporting on a trimester basis.

Under NCCSP, there were plans to create local adaptation funds at the district level, to be accessed by local NGOs, community based organizations and private sector entities.<sup>22</sup> Local Climate Adaptation/ Emergency Funds were established in 72 VDCs and three municipalities, according to a 2016 independent review of the NCCSP,<sup>23</sup> although the review found that further clarity is needed on their purpose – it was not clear whether these were for emergencies, or for further adaptation. Funds were not established at the district level as further design work was needed to understand their role, and how they would link to a national mechanism.

## Identifying the most vulnerable

To identify the target areas and populations for NCCSP, 14 districts in west Nepal were first identified as the most vulnerable districts, based on a top-down assessment. Within these, the most vulnerable VDCs and municipalities were selected on the basis of a vulnerability analysis, with indicators – related to exposure to hazards, sensitivity and adaptive capacities – developed in consultation with district level stakeholders.

The selected VDCs were further classified into four categories: V1 (low vulnerability); V2 (medium); V3 (high); and V4 (very high). This classification was based on an index that integrated rainfall data, temperature and the occurrence of hazards, and participatory workshops to assess sensitivity and the impact of hazards on humans. The vulnerability level of each VDC was determined using a relative ranking method. Within these VDCs and municipalities, households were also classified into the four categories (V1 to V4), based on indicators related to adaptive capacity, exposure and sensitivity.

Participatory Rural Appraisal tools such as social mapping, wealth ranking, matrix ranking / scoring and timelines were used for the vulnerability assessments, to actively involve local people. The assessments were based on existing climate variability, determined, for instance, through the preparation of seasonal calendars with farmer groups; historical timelines of climate induced hazards; and prioritization of climate-induced disasters. Gender and social inclusion were important considerations during these assessments.

## Planning

Planning under the first phase of the NCCSP was based on administrative DDC/VDC boundaries, and focused on the six thematic areas identified by the NAPAs: agriculture, livestock and food security; forest management and biodiversity; alternative energy; climate induced hazard and physical infrastructure; human resources, capacity building and livelihoods; and human health. Gender and social inclusion; environmental sustainability; and governance formed cross-cutting themes.

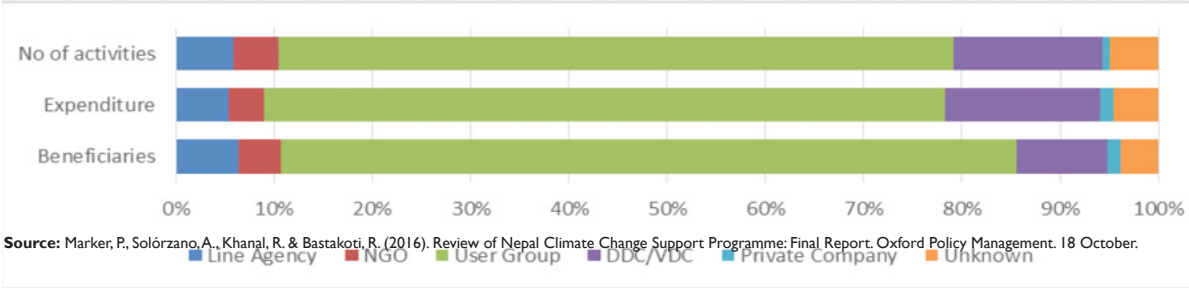
Workshops were organized at the VDC level to prioritize the most urgent and cost-effective adaptation actions, and identify capacity needs, including human resources. LAPAs were initially prepared for a period of three years, detailing actions, locations, implementers, timeframes, cost implications, monitoring plans, and gender considerations. The focus was on climate variability and past/observed climate trends. The plans were also costed, based on guesstimates. The DEECCCs then helped to finalize district level priorities, and review adaptation priorities at the VDC level.

For each year of implementation thereafter, DDCs received an annual budget from the National Planning Commission and MoFALD. Based on this allocation, DDCs provided VDCs with an annual budget ceiling. The VDCs organized meetings with Ward Citizen Forums to select activities from the LAPA, within this budget ceiling. VEECCCC's then prioritized activities, and allocated ward-level budgets. Annual plans prepared on this basis by the VDCs were then endorsed by village councils; compiled at the district level by DDCs; endorsed by the DEECCCCs; and approved by district councils. (Although local elections did not take place during this time, informal village and district councils were formed by local political parties).

## Implementation

Following the endorsement of annual plans, the DEECCCCs identified service providers or executing entities. District line agencies, user groups, NGOs and the DDCs/ VDCs were mainly responsible for implementation. User groups – committees of project or programme beneficiaries – dominated in the number of activities carried out in the first phase; proportion of expenditure; and number of beneficiaries reached (see Figure 3).

**Figure 3: Activities, expenditure and number of beneficiaries**



Implementation approaches varied with the service providers and their skills/ areas of expertise – whereas some focused on “soft” deliverables like capacity and skill development, others focused on material support. Line agencies focused on their specific areas of expertise (agriculture, water, forestry etc.). In infrastructure building activities, beneficiaries contributed through voluntary labour. As of December 2016, 100 LAPAs have been prepared and implemented in the mid- and far- western regions of Nepal.<sup>24</sup>

## Monitoring

A results-based monitoring framework was developed during the start of NCCSP by a team of national and international experts, with inputs from DFID, MoPE and UNDP. NCCSP included two levels of monitoring: at the level of the LAPAs, and across the whole project. Monitoring indicators included: vulnerability levels of households; social inclusion; migration; food security and diversity of food intake; climate hazards; knowledge on climate change adaptation and options; and access to services, quality of services, and existence of service providers.

Monitoring data was collected by the project staff based at the district level, and sent to MoPE. Monitoring sub-committees, formed under the leadership of the Local Development Officers and VDC Secretaries and with representation from line agencies, community representatives and programme staff, carried out monitoring every trimester. Score cards (a hybrid of social audits, community monitoring and citizen report cards) were used to assess the satisfaction levels on the performance of providers. Over 2400 score cards were completed by 646 Ward Citizen Forums, indicating that communities are 98.2% satisfied with the activities; and 98.3% of the respondents are satisfied with the work of service providers.<sup>25</sup>

## 5. LESSONS FROM NCCSP

Nepal's LAPA Framework sets a high bar for LAPAs, taking into account lessons from past efforts to promote local-level decision-making and devolution of development finance. In implementing the Framework, NCCSP defined a way forward to initiate local action, mostly working with existing national institutional arrangements.

The successes of NCCSP, according to the independent 2016 review, include:

- the establishment of a climate finance flow mechanism from the central to the local level;
- the use of existing national institutions and structures, such as VDCs, DDCs and Ward Citizen Forums to involve beneficiaries, and district line agencies to implement activities. The programme contributed to a better understanding and appreciation of adaptation challenges by these entities;
- the strengthening of local systems, including by capacitating DEECCCs and VEECCCs, to deal with climate change issues;
- some evidence that NCCSP was beginning to influence planning related to non-NCCSP funds;
- a high level of satisfaction from the local beneficiaries, who felt their priorities were addressed by the programme;
- targeting of the poorest and most vulnerable households;
- consideration of gender issues – 47% of the programme's beneficiaries by 2015 were women, and feedback suggests that they felt empowered by the programme's training and activities; and
- increased awareness of climate change related issues at the local level.

This path-breaking approach deserves to be expanded within Nepal, and emulated by other countries. As can be expected, however, there were also challenges in implementation. This section discusses key lessons that will be relevant for Nepal and other countries relating, in particular, to: capacity; improving fund delivery to the local level; flexible and iterative planning; identifying and reaching the most vulnerable; monitoring; and sustaining action and achieving scale.

### Addressing capacity needs

Capacity constraints have been flagged at every level in the implementation of NCCSP by reviews, including the capacity of MoPE for policy development and cross-government coordination; public finance management at all levels of government; MoFALD officials to deal with additional responsibilities on top of their existing duties; and of local governments and communities to access adequate information, and to plan, implement, monitor and revise plans on the basis of monitoring data. Particularly at the local level, as local officials struggled to implement their usual development activities under line agencies with the additional workload of NCCSP, local systems were overburdened.<sup>26</sup>

While local stakeholders are best placed to formulate solutions to climate threats, based on their understanding of local circumstances and traditional knowledge related to dealing with climate variability, dealing with climate change impacts requires additional skills, capacity and expertise. These could include, for instance: identification of short- and long-term threats that don't conform to normal climate variability; formulation of solutions based on local knowledge and understanding, exchange of experiences, and new scientific and technological information; access to, and managing of, climate finance; and planning, implementing and monitoring these solutions, often in conformity with specific requirements from national governments or donors. The capacity of different levels of government to deliver devolved approaches is also a critical consideration.



These capacity constraints were not unforeseen, and NCCSP sought to address them through training and sensitization exercises, the provision of technical experts, and the engagement of NGOs and service providers. These proved to be not without challenges in implementation. For instance, technical experts were not always present when they were needed, and locating them in remote locations, particularly with small salaries, proved challenging. The already limited number of development officials at the local level were expected to take on additional duties, straining their capacity. Although several rounds of training and capacity building were provided under NCCSP, the transfer of government employees and staff leaving made capacity retention difficult. NGOs, meanwhile, felt under-utilized in some locations, and felt their engagement was sporadic rather than systematic.

In their feedback on the NCCSP approach, local stakeholders in Nepal have called for a more intensive approach to capacity development and provision, with more focus on local training centres; integration of climate change awareness in school curricula; and investments in training local thematic experts.<sup>27</sup>

In its first phase, the planning process was mainly based on existing climate vulnerability and observed trends, instead of making difficult demands on the community to distinguish between development and adaptation. However, this has been flagged as an area that needs improvement in the 2016 independent evaluation, with more clarity sought on what should qualify as adaptation action. Depending on how this is acted upon in the second phase, it could make additional demands on local capacity.

The longer-term sustainability of the capacity built by NCCSP is uncertain as long as the approach is implemented on a project basis, dependent on external funding. Moreover, while the capacity development and provision approach of NCCSP may be driven by a short-term needs based approach, countries will need sustained and continuous processes for capacity development and provision to address climate change. Investments should be consistently directed towards more sustainable and embedded capacity development, such as coaching and mentoring of local experts; working with existing national capacity building institutions where they exist (including schools, universities and training institutes) and establishing purpose-built institutions where needed; and strengthening partnerships between local stakeholders, and national and regional research and scientific institutions. To achieve this, resources from various sources will need to be pooled towards a common and consistent approach – through further mainstreaming with national development spending, and coordination of funding from external sources (discussed in more detail later in this section).

Programmes like NCCSP could therefore seek better linkages with existing national capacity building processes for local governments (in the case of Nepal, for instance, with the Local Development Training Academy, the Nepal Administrative Staff College, and programmes such as the Local Governance and Community Development Programme (LGCDP)). Better linkages and partnerships between local experts and national and regional scientific institutions, such as the International Centre for Integrated Mountain Development and the Department of Hydrology and Meteorology, could also result in more needs-based data and information generation.

Additional capacity needs at the local level can be so acute in some circumstances that capacity building efforts should be the focus of responses in the early stages of adaptation planning, to provide tools and coaching to build capability, rather than small components of a larger programme.



## Channelling adaptation finance to the local level

According to one estimate, 84% of the total budget of NCCSP was used at the district/local level, while 16% was used at the central level.<sup>28</sup> The programme therefore performed very well with respect to Nepal's policy goal of ensuring that 80% of all climate finance received will be channelled to the local level.

The main finance challenges under the NCCSP related to ensuring a smooth flow of funds to the local level; ensuring budget flexibility, to allow for changes in response to changed plans or circumstances, or to higher costs or increased prices; making funds available in a way that allows for activities that span budgeting cycles; funding arrangements to ensure the longer-term sustainability of infrastructure built under the programme; and maximizing the benefits of local funds.

Delays in the smooth flow of funds to the local level took place sometimes, caused either due to complex donor arrangements, or capacity constraints related to public finance management at the national and local levels. This impacted the time available for implementation at the local level, compromising quality. At the donor level, DFID managed the EU contribution, to reduce the burden on the GoN. While this was well-intentioned, the complicated relationship between DFID and the EU, and multiple reporting systems (DFID/UNDP/EU), sometimes led to delays in disbursement of funds.<sup>29</sup> Lack of adequate financial management capacity at the Project Management Unit (national) level also contributed to delays. A Public Financial Management expert was eventually embedded within the PMU to address this issue.<sup>30</sup>

It also proved challenging to provide flexibility in updating budgets and costings, either in response to updated plans or to reflect a rise in costs (which were initially based on rough estimates).<sup>31</sup> There was some uncertainty with regard to the funds available to a VDC each year, as annual allocations were made by DDCs based on an annual budget provided by the National Planning Commission. As a result, some of the activities identified in LAPAs could not be carried out due to inadequate funding. Moreover, the break down of the LAPAs into annual budgeting cycles restricted activities that would take longer than a year to complete, or span budget cycles.<sup>32</sup> Finally, local communities raised concern regarding the long-term sustainability of the infrastructure built under NCCSP, once the project ends.

The creation of local climate change adaptation funds at the district level was envisaged under the NCCSP, to be accessed by local NGOs, community based organisations and private sector entities.<sup>33</sup> According to the 2016 independent review, local climate adaptation/ emergency funds were established in 72 VDCs and three municipalities, but more design work is needed to establish funds at the district level, to understand the value of local funds, and how they would link to a national mechanism.

Local funds can serve a very useful function as a locus for convergence between sectoral planning and local resilience priorities. Experience in other countries, such as Kenya, has shown that local funds can be more effective in targeting community needs; be quicker in disbursing funding; have a better understanding of community institutions; and enable better monitoring.<sup>34</sup> However, the purpose of these funds, the governance structure, decision-making guidelines and modalities, transparency provisions, and redress mechanism need to be clearly defined. Potential overlaps between local climate funds and others with similar purpose should also be carefully considered – in the specific case of Nepal, for instance, with Local Disaster Risk Management Funds.

NCCSP also had some interesting learning related to co-financing from beneficiaries, in the form of financial contributions or labour. While generally this is considered to contribute to better ownership, the review found

that care should be taken to ensure that these requirements do not exclude disadvantaged groups such as the disabled and elderly, or come at high opportunity costs – for instance, for women who may have to forgo other responsibilities in order to contribute labour.

## Planning and implementation

NCCSP provides a good model for planning and implementation at the local level, breaking from the mould of top-to-down adaptation planning. Despite considerable hurdles – including a devastating earthquake in April 2015, although none of the project districts were directly affected – over 2,303 activities were implemented, across 90 VDCs and seven municipalities in Nepal. A total of 199,273 people participated (of which 97,507 were women). Of these, 178,273 received training and orientation.<sup>35</sup>

During this learning-by-doing process, key planning and implementation challenges related to: adequate information and scientific input on local climate impacts;<sup>36</sup> flexibility to change plans; restrictions on longer-term planning; and challenges in addressing ecosystem-based issues within a planning process based on administrative boundaries.

The 2016 independent review of NCCSP notes that the lack of reliable local-level climate forecasts and modelling may have contributed to the focus on more immediate and urgent development needs, instead of adaptation. The review calls for clearer definitions of what constitutes climate action, to inform choices at the DDC and VDC level. However, overly complicated efforts to delineate development and adaptation activities could bog down local processes and risk takeover by “technical elites”. Non-traditional solutions such as creating the means for dialogue and interaction between scientists and local user groups, building local capability over time, may prove to be more effective.

While flexibility in planning is emphasized in the LAPA Framework, it proved difficult to implement on the ground.<sup>37</sup> This has been attributed to the rigidity of pre-determined budgets and of government systems,<sup>38</sup> but could also be due to insufficient systemic capacity to undergo iterative planning. This issue deserves greater attention in future in Nepal and other countries, so that local plans can be updated in response to changing climate impacts, changing vulnerabilities, or results from monitoring and evaluation processes.

Planning multi-year activities, or building in longer-term goals based on incremental progress, is a challenge within short-term programmes. The 2016 independent review of the NCCSP found, for instance, that due to lack of longer-term certainty, activities focused on livelihood training, rather than actual livelihood transformation. While livelihood training may be an incremental step towards transformation, it will be difficult to assess whether this transformation takes place eventually, beyond the lifetime of the project.

Moreover, the review found that decisions on training were based on the skills or expertise service providers, instead of the specific needs of, and suitability and viability for, the local population. For example, while line departments tended to focus largely on material support, NGOs tended to focus on skill development training. Reliance on local skills could become a limiting factor for integrated adaptation – for instance, if local skills are related to only one area of water management, say harvesting, other equally important areas, such as water conservation, could be left out.

Finally, the use of administrative boundaries in NCCSP sometimes hindered an ecosystem or watershed approach in planning and implementation – for instance, when downstream villages were vulnerable because of inefficient use by upstream villages; or when flooding was caused downstream because of landslides upstream. This is likely to be an issue particularly when programme coverage is limited and not all local

administrative areas are covered, or have mechanisms to deal with planning across administrative boundaries. The solution may lie in taking these issues into account during the identification of vulnerable areas (and the root causes of vulnerability); pooling resources to cover more administrative areas within an ecosystem or watershed; and seeking existing and new mechanisms for cooperation across administrative boundaries.

## Identifying and reaching the most vulnerable

The identification of the “vulnerable” countries, communities or households most deserving of adaptation support will be controversial at every level – global, national and local – particularly in the context of allocating a limited pot of funds. Those who are excluded may consider themselves equally vulnerable, and are likely to question definitions of vulnerability and the allocation of resources.

NCCSP sought to identify the most vulnerable communities and households through a combination of top-down and bottom-up processes. Within the districts identified as most vulnerable through a top-down approach, households were classified as V4 (very vulnerable), V3 (high), V3 (medium) and V1 (low). While this classification system worked well to increase awareness on the definition of the most vulnerable and their rights under the programme, vulnerable households and individuals living in areas that were not identified as vulnerable hotspots during the top-down assessment were excluded.<sup>39</sup> This was perhaps unavoidable in a programme with limited coverage, and can be mitigated through nation-wide implementation of LAPAs.

Another critical learning of the NCCSP was the need for a more iterative process of vulnerability assessments, because of constantly shifting and evolving vulnerabilities. The classification was done during the early stages of the programme, and not repeated during the lifetime of the project – during which time, the 2016 review found, vulnerabilities had shifted, with some households becoming less vulnerable, and others more so.

NCCSP was successful in targeting women. The programme set a 50% target for activities are targeted at women, women’s participation in the process, and enhanced gender awareness, and this target was largely achieved, with some challenges. For instance, while 46% of VEECCCC members were female, it was more difficult to address gender parity in the DEECCCCs, where only 17% of the members were female. This is because the DEECCCCs included the heads of existing local institutions and line agencies, who are predominantly male – indicating the need for wider and more systemic change to accompany the implementation of targeted local plans.<sup>40</sup> The 2016 independent review of NCCSP also calls for consideration of the entire gamut of roles that women are expected to fulfil in an evolving context – for instance, in managing infrastructure following male migration – instead of focusing only on areas that are traditionally linked to women.

Finally, the experience with NCCSP also highlighted that the choice of service providers and executing entities can impact the extent to which the most vulnerable are included. If the entities are too focused on one section of society, others, possibly more vulnerable, could be excluded. For instance, forestry user groups may be too focused on forestry-related activities, and on the community of forest users, excluding vulnerable households or communities that have other priorities.

## Monitoring, evaluation – and feedback

A key lesson from NCCSP is that while community and participatory monitoring systems (like score cards and public audits) are very essential to promote effective systems, additional effort is needed to ensure that there are mechanisms in place for interpretation, feedback into the planning process, reflection, and corrective action.

The focus in the first phase of NCCSP remained on monitoring the project.<sup>41</sup> Analysing the monitoring data and feeding it back into planning for vindication or corrective action could dramatically improve the effectiveness on the ground, as an iterative feedback loop, combined with a flexible planning process, allows dynamism in response to changing circumstances. The main challenges to overcome in this context are those of capacity, budgets and emphasis. Specific allocations for monitoring, evaluation and feedback processes could help draw the spotlight on this critical, but often underestimated, element of local implementation.

## Sustaining action, and achieving scale

As the first phase of NCCSP comes to an end, a second phase, now called Climate Smart Development for Nepal, was agreed in August 2016. The challenge, going forward, however, is not only to consolidate and sustain the gains made by NCCSP and its successor, but also to move on from a small-scale project-based approach, and scale up LAPAs nationally. How can Nepal and other developing countries work to make local adaptation plans a norm, rather than exception?

Finance is obviously a key factor. While additional adaptation funding from international sources is necessary, is unlikely that sufficient finance will be available from any one source, national or international. Governments will also have to increase the efficiency and effectiveness of available finance. They can do this by leveraging national development spending to the extent possible, through mainstreaming of climate change; and by improving the coordinating of funds from different sources – bilateral, multilateral and national – for a less fragmented, and more nationally-driven approach.

## Mainstreaming

Mainstreaming of adaptation refers to the integration of responses into existing development policies, plans, programmes, and projects at the national, sub-national, and local scales.<sup>42</sup> This process can help governments to:

- manage scarce funds more efficiently;
- create ownership and buy-in within critical sectors and institutions;
- enhance the chances of scaling-up of successful approaches, once they have wider ownership and funding;
- encourage climate resilient development, by maximizing adaptation benefits, and minimizing negative impacts on adaptation/ maladaptation;
- ensure consistency of policies and processes in all relevant sectors, and at all levels; and
- help strengthen or repurpose existing institutions that aid successful adaptation.

Mainstreaming is described as a key objective of NCCSP,<sup>43</sup> and of the LAPAs (in the LAPA manual). The manual calls for a process that aims to support the integration of adaptation and resilience into local-to-national planning, allowing local communities to articulate their adaptation priorities and draw down on government, civil and private sector resources for sustainable implementation. Among the actions required for mainstreaming, it lists the identification of entry points for integration of LAPAs into local development processes; sequencing local adaptation plans with development planning processes; and submission of feedback to departments, ministries and the National Planning Commission to ensure integration of adaptation into national development planning.

Through the NCCSP LAPA process, integration did take place at the local level to a certain extent, as communities planned and implemented projects related to the thematic areas of the NAPA. 36% of the adaptation actions identified and addressed by them related to agriculture, livestock and food security; 8% to forest management and biodiversity; 6% to alternative energy; 29% to address climate induced hazards and

physical infrastructure; 13% to human resources, livelihoods and capacity development; and 8% to health.<sup>44</sup> While there was also some evidence of integration of adaptation activities into development planning as a result of NCCSP,<sup>45</sup> the extent to which the programme leveraged or engaged with complimentary national development processes or investments was limited.

Mainstreaming can be particularly challenging for externally-funded projects and programmes like NCCSP. However, there are also substantial national challenges that impede cross-sectoral engagement – such as national institutional arrangements that may not be conducive for mainstreaming; inadequate understanding of sectoral linkages with climate change; lack of capacity and resources to take on this additional challenge; inadequate incentives; and political uncertainty.

In Nepal, MoPE took the lead in implementing NCCSP. Although MoFALD had a role in implementation at the local level, the 2016 independent review found that the ministry's role was limited to providing input on a “*as and when needed*” basis, rather than systematic involvement. MoPE sought to bring other line ministries and sectors on board by forming a cross-sectoral Programme Steering Committee and the MCCICC. However, convening regular meetings of these committees proved challenging. This experience is not unique to MoPE, Nepal, or even the climate context – in other countries, and in other contexts of dealing with crosscutting issues like climate change, committees alone have proven ineffective in engaging other sectors. The hierarchies of ministries and of participating officials often determine the level of, and willingness for, engagement and participation in such committees. The capacity and convening power of the lead ministry also plays an important role, and environment ministries may lack sufficient clout in this context.<sup>46</sup> Additionally, having the environment ministry in a lead role for climate change could also reinforce local perceptions of climate change as mainly an environmental problem, in which other sectors then show limited interest.

A more powerful and “sectorally neutral” agency, such as a finance ministry or planning commission, could prove more effective in bringing about inter-sectoral coordination (although there could be other potential fallouts – for instance, a finance ministry could prioritize financial efficiency over climate, environmental or social benefits).

Without a national coordination mechanism that encourages coordination instead of competition for funding, further fragmentation can take place. In Nepal, for instance, DFID funding for the EFLG Programme, managed by MoFALD, ended on July 2017. It has not received an extension from DFID for a second phase, mainly because it “*remains unclear why the Government of Nepal operates EFLG through one Ministry, and the similar National Climate Change Programme (also supported through DFID) through another*”.<sup>47</sup> A better resourced ministry, MoFALD has sufficient ownership over the EFLG programme to provide resources (20 million Nepali Rupees) from its own budget to keep EFLG going, while repackaging the programme as a LAPA process to seek resources for a second phase.

Another issue relates to a common dilemma that countries face in the context of mainstreaming a crosscutting issue like climate change (or, for instance, gender): is it better to invest in a separate planning process; or should investments be directed towards integrating the issue into the existing plans and strategies of different sectors? For instance, many countries are now preparing their National Adaptation Plans, or NAPs. (Nepal is also in the early stages of its NAP development). These plans are not mandatory for all countries, and countries can choose to develop a separate NAP plan, or have a “NAP process” to integrate adaptation into national and sectoral development strategies.

A separate planning process like NAPs or LAPAs could be helpful in the early stages of understanding a challenge such as adaptation, as it is likely to be more focused. However, the process could end up in a silo



if other sectors fail to engage adequately. If each sectoral plan includes adaptation elements with clear performance indicators and sources of funding, on the other hand, it could embed adaptation into each sector from the start, and encourage a better understanding of linkages.

If countries choose separate national or local adaptation plans, a number of steps can still be taken to encourage mainstreaming – such as high-level leadership among and within sectors; equal incentives for all sectors to participate; the identification of clear sectoral responsibilities, along with clear performance targets and indicators; allocation of budgets; a review of policies and processes to ensure consistency; and investments in human resources.

In either case, plan or process, coherence and alignment between national and local plans/processes is critical. National plans/processes should not centralize adaptation decision-making and implementation, but rather provide clear and consistent direction and resources to localize it.

### **Coordinating sources**

External bilateral and multilateral contributors can also drive fragmentation of efforts – particularly in a country that relies heavily on donor funding – by funding disparate activities based on different priorities and preferences.

In Nepal, for instance, there are a number of externally funded climate programmes and projects – including the Strategic Programme for Climate Resilience (SPCR) funded by the Pilot Programme for Climate Resilience; the Ecosystem Based Adaptation in Mountain Ecosystems, funded by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU); the Hariyo Ban Program funded by USAID; and the Multi-Stakeholder Forestry Programme, funded by the Government of Finland, the Swiss Agency for Development and Cooperation, and DFID.

Some of these projects even support very similar local planning exercises, also based on the LAPA framework (see Box 4). But linkages between these programmes are very limited. While piloting several local adaptation approaches may be beneficial from an innovation and experimenting point of view, it can also lead to dispersion of efforts and resources without sufficient cross-fertilization of approaches and ideas.

Linkages were also missing with national and externally funded programmes in other sectors that are complimentary to the LAPA process – such as the National Strategy for Disaster Risk Management and the Local Disaster Risk Management Planning (LDRMP) Guideline; the Nepal Local Governance Support Programme (which includes the Local Governance and Capacity Development Programme, or LGCDP, and Environmentally Friendly Governance Programme, or EFLG); and the Poverty Alleviation Fund.

Initial steps have been taken – for instance, a Donor Compact was signed between the government and 14 development partners in 2009 to better align and coordinate efforts, and a Climate Change Programme Coordination Committee was set up to develop a programme-wide joint results based framework. However, a lot more needs to be done to improve cooperation, complementarity of approaches, and efficiency in the use of funds from external sources. In the short term, Joint Financing Arrangements like the ones implemented in Nepal's health and education sectors could help consolidate LAPAs into national planning and budgetary processes.<sup>48</sup>

In the long term, however, “blending” or “pooling” climate finance from different sources will be necessary to enable nationally-driven and coordinated approaches to adaptation, particularly on common elements such as capacity building, vulnerability assessments, tracking climate finance, planning, monitoring etc. National

climate funds can facilitate such blending and coordination.<sup>49</sup> (Such a fund is envisaged in Nepal's climate policy, but has not yet been created).

#### Box 4: Community Adaptation Plans for Action

The Multi Stakeholder Forestry Programme (MSFP) also supported the preparation of over 2500 local adaptation plans in Nepal focused on community based forestry – those prepared at the community level were called Community Adaptation Plans of Action (CAPAs), and those at the VDC level were called LAPAs. Supported by the Governments of Finland, Switzerland and the UK, MSFP was implemented between 2012-2021, with a budget of US\$ 61.8. The programme, coordinated by the Ministry of Forests and Soil Conservation (MoFSC), included four components, of which climate change and forestry was one.

These MSFP plans, prepared mainly through Community Forest User Groups (CFUGs), focused on five major areas of ecosystem-based vulnerabilities: water security, energy security, ecosystem management, disaster mitigation (flood/ landslide control), and livelihood security. The CAPAs were also based on the National Framework for LAPAs, and followed a modified version of its seven-step process:

- A timeline of risks and hazards over the past 25-30 years was prepared, to identify climate hazards to forests and land owned by forest users.
- CFUG members identified vulnerable hotspots and groups on a hazard map.
- Vulnerability assessments were carried out to assess impacts on livelihood assets, and hazards were prioritized by scoring.
- Existing capacity and assets that would help in coping were assessed.
- An assessment of how existing resources can fill knowledge, technical and financial gaps was carried out, along with further action needed to respond to impacts.
- Different stakeholders and their agencies were listed, along with potential roles, to address remaining gaps.
- An action plan was prepared, detailing how actions will be implemented, resource availability, timelines for implementation, and actors.

The budget was spread thin, however, and not all the plans received funding. About 1500 of the CAPAs prepared, and 150 LAPAs, received partial implementation support for specific activities. There were some areas where MSFP supported the implementation of LAPAs prepared under NCCSP. The Programme was closed in 2016 after its initial phase. Some elements of the CAPAs prepared under MSFP are being implemented by another MoFSC project on Adaptation For Smallholders in Hilly Areas (ASHA).

**Source:** Uprety, D. & Bishwokarma, D. (2016). *Enhancing Resilience of Vulnerable Communities to Climate Change: MSFP Experiences and Lessons Learnt. Multi Stakeholder Forestry Programme.*

In addition to improving coordination and ownership of external sources of funding, a national climate fund can aid the process of national mainstreaming and sub-national ownership by ensuring that key sectors, local government representatives, and multi-stakeholders have an equal role in the governance of the fund. Formal recognition of the financial contribution that each of these sectors and stakeholders make towards national adaptation efforts, by mapping their expenditure on climate emergency response and resilience building activities, could further enhance sectoral ownership. Developing countries are likely to map national expenditure on adaptation in more detail anyway as part of efforts under the Paris Agreement, which calls for a greater global recognition of national efforts, and methodologies such as the Climate Public Expenditure and Institutional Review (CPEIR) already exist (see Box 3).<sup>50</sup>

A national fund can also drive the sort of “top-to-down” sectoral responsiveness to local planning envisaged in Nepal's LAPA manual, by making responsiveness to local needs a key governing principle. An early task for the fund's managers could be to conduct a national mapping exercise, as a first step towards promoting a mainstreamed and integrated approach, not only to identify synergies and root out discordant policies and processes, but also to make top-down policies and processes more responsive to local needs. Additionally, the national fund can work in conjunction with sub-national and local funds to enhance access to finance at the local level; and serve as a locus for convergence between sectoral planning and local resilience priorities.



### Box 3: Tracking climate finance flows in Nepal

Nepal was one of the first countries to pilot the Climate Public Expenditure and Institutional Review (CPEIR) methodology developed by UNDP. CPEIR aims to enable governments to understand how and how much they are spending on their climate change responses. In addition to identifying finance gaps and enabling governments to make more cost-effective choices, the methodology helps countries monitor and track climate finance flows, and increase transparency over resource allocation and management.

Carried out in 2011, Nepal's CPEIR revealed that the country spends 1.8% of its GDP and 6.7% of its budget on climate change-related activities annually. This includes external donor funding that is channelled through the national budget, but excludes a significant amount – about US\$ 13 million per year – that is off-budget donor funding. While the trend in climate change funding is moving towards increased donor funding, off-budget contributions from donors are not accounted for through government systems. This potentially contributes to the fragmentation of resources, and of approaches. Of the total spending on climate change, 55% is from external sources, and 45% is from domestic sources. Three quarters of the total expenditure relates to adaptation. 60% is executed directly by Central Government Agencies, and 40% through local agencies of Ministries.

Both at the national and local levels, the lack of a coherent definition and classification of climate change and climate change-related expenditure presents a challenge. It has a significant impact how local government bodies integrate climate change into their local development planning and budgeting and what they perceive as sources of climate finance. Local bodies' understanding of climate change is skewed towards environment and natural resource management; and although there is a good understanding of disaster risk management at the local level, its relationship with climate change has not yet been made.

With regard to Nepal's commitment to channel 80% of its adaptation finance to the local level, the review identified several challenges, including: understanding of climate change; ability to develop clear and targeted programmes and budgets on climate change adaptation and mitigation; capacity in public financial management to handle significant amounts of climate finance; and the effectiveness of current institutional arrangements to support all tiers of local bodies, including those at the village and ward level. The report recommends delivering climate finance to the local level through MoFALD's grant funding modality, which provides local discretion on spending.

The review highlights the importance of each ministry taking the lead in integrating a climate change response within its sectoral policies. It recommends that consideration be given to establishing separate and explicit climate change identities for administrative units within Ministries that deal with climate change issues.

Finally, the review recommends a long-term financing framework, that includes multi-stream funding from both domestic and international sources. Following the 2011 review, the Government of Nepal developed a budget code to track climate-related expenditure on a regular basis. A review of the results of this tracking in 2013 showed that while the share of the climate budget with a local component is relatively low (about 15-16%), further guidelines are needed, for instance to track local funding from international NGOs.

**Sources:** Government of Nepal (2011). Nepal Climate Public Expenditure and Institutional Review (CPEIR). National Planning Commission. Kathmandu; and Government of Nepal (2013). Review of climate budget code application. National Planning Commission. Kathmandu.

The capacity of governments to meet fiduciary standards required by external contributors has been a barrier for some countries. Multilateral entities can fulfil this role in the interim, while governments develop their capacity – for instance, the World Bank served as interim trustee of the Bangladesh Climate Change Resilience Fund; and UNDP was the interim fund manager of the Indonesia Climate Change Trust Fund.

## 6. LESSONS FOR THE GCF'S EDA MODALITY

This section lists some lessons from the LAPA devolution process for the GCF's EDA modality, which, as we saw in section 3, aims to “*enhance access by sub-national, national and regional, public and private entities*” and “*devolve decision-making*” while promoting “*replication and sustainability*”. In this context, the GCF is accountable not only to the contributors to the Fund, but – crucially for the success of its mission – also to local communities who will face the brunt of climate change.

## **Invest in national systems that promote local action**

The first phase of NCCSP has been credited with establishing a channel for climate finance to flow from the national to the local level. The use of existing national institutions and structures, such as District and Village Development Committees and Ward Citizen Forums, to plan and implement activities, contributed to a better understanding and appreciation of adaptation by these local bodies.

While there is still an element of uncertainty on the future of the systems created under NCCSP given its short-term project-based approach, repeated investments in the same national-to-local systems of delivering finance, capacity and technical expertise will be more effective in the longer-term than piloting multiple, fragmented devolution approaches.

The emphasis of the EDA modality, therefore, should be to strengthen, capacitate, and sustain systems and institutions for devolved adaptation action within countries, and create new systems where they are lacking, rather than simply piloting multiple projects or programmes that will be difficult to sustain in the long term, without these systems in place.

## **Encourage coordinated, consolidated action**

NCCSP had limited success in coordinating and consolidating adaptation action with the work of other related development sectors, at both the national and local levels. While this could be due to “project straightjacketing” to some extent, the processes of coordination and consolidation clearly need additional – and targeted – investments. For instance, investments are necessary to build capacity within different sectors to understand and support climate-resilient local action; or to create incentives for coordination and consolidation. Pooling and blending of financial resources from different sectors and sources could help raise adequate resources, while also building ownership of different sectors.

The GCF should be open to arrangements that involve pooling and blending of different sources of climate finance, such as national and local climate funds, to encourage coordinated and consolidated action that is beyond the scope of a single source of funds. The Fund's Governing Instrument clearly calls for such complementarity and coherence, calling on the Board to develop methods that will “*enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions*” and “*promote coherence in programming at the national level through appropriate mechanisms*”.

## **Capacity is critical**

NCCSP clearly showed that planning, implementing and monitoring local adaptation action places additional burdens on already capacity-constrained local governments and communities. The importance of capacity building, including at the local level, and particularly for LDCs and vulnerable countries, is recognized in Article 11 of the Paris Agreement, which calls for capacity building to be “*an effective, iterative process that is participatory, cross-cutting and gender-responsive*”. There are two ways in which the GCF can address these capacity constraints.

The first is by not making global and national processes more difficult than they need to be for capacity constrained communities and governments – for instance, the processes for accessing climate finance, or of making distinctions between development and adaptation action. Overly complex procedures and requirements will render local action improbable, at least without the involvement of technical elites, who could then end up hijacking the process. The GCF Board should not lose sight of vulnerable but less capacitated communities when developing modalities, or assessing project proposals.

The second is through funding capacity building efforts. Here, the focus has to shift from simply addressing capacity gaps related to implementing a project or programme, to taking a broader and longer-term view. The GCF should encourage investments in capacity building processes and institutions that are embedded in national systems, and likely to survive beyond the lifetime of the GCF funded activity.

Local capacity building/provision will be required as a deliberate, planned process on its own, particularly in LDCs – not just as a support activity for a programme or project. The EDA modality should therefore also consider proposals for local capacity building and provision, specifically for approaches that are embedded in existing national institutions and systems, and builds local capability over a longer term.

### **Monitoring beyond project evaluation**

The monitoring processes of NCCSP made a start, but did not go far beyond project evaluation, and towards iterative community learning. Sufficient capacity and budgets were once again lacking.

Monitoring processes under the EDA in particular, but also other GCF modalities, should aim to go beyond traditional top-down project evaluation process to inform the GCF Board of end outcomes. The Governing Instrument of the GCF emphasises "*the use of participatory monitoring involving stakeholders*". However, the Fund's Monitoring and Accountability Framework currently interprets this narrowly, and the focus remains on monitoring to satisfy the conditions of the GCF, rather than the requirements of communities.

Instead, they should be designed by and for communities, and encourage reflective learning and innovation. Their purpose, first and foremost, should be to inform local communities whether their approaches are working, so they can take corrective action during the implementation period itself, to improve effectiveness.

Adequate budgets will be critical to develop institutional and human resource capacities for participatory monitoring systems. A percentage of the funds provided for each programme could be earmarked for the development of such systems. Specific proposals for developing national and local participatory monitoring systems should also be considered by the Board, in addition to the readiness funding that is currently available, given the importance of this element to iterative learning.

### **Allow flexibility in adaptation planning**

Despite recognition of the importance of the flexibility to revise plans in the LAPA Framework, it proved difficult to implement on the ground through the NCCSP. This was attributed by some to the rigidity of government systems, and to the rigidity of project budgets.

Adequate flexibility should be built into EDA programmes to allow for regular updates of plans, in response to changing circumstances related to climate or vulnerability, and to monitoring and feedback systems. Financial systems should also be designed to allow for this flexibility in planning, by allowing revisions of annual budgets, and of initial costings.

Further, the Paris outcome calls on the GCF to expedite support for the formulation of NAPs, and their subsequent implementation. It should be recognised, in the global negotiations and by the GCF, that these NAPs cannot be only one-off plans or processes. They will have to be reviewed and updated regularly to reflect changing circumstances, and as part of an iterative learning process. The support provided to countries for NAP processes should reflect this need. Moreover, NAPs should be encouraged to reflect and support the outcomes of local-level planning and implementation processes.

## Reaching the most vulnerable

Nepal's experience shows that devolution of climate action to the local level is already a first step towards reaching the most vulnerable. The GCF has made a start towards this objective through its EDA modality. The Fund can go a step further and emulate Nepal's goal of ensuring that a percentage of climate finance available for climate change will be channelled to the local level. The GCF Board could set a progressively higher percentage target for local-level disbursement of GCF funding, particularly through the EDA modality, to help measure and monitor progress towards this goal.

GCF's success in reaching vulnerable communities and sections of society will also rely on the success of the Fund's governing bodies, and its modalities and procedures, in prioritizing and responding to local needs. The Fund's managers will need to balance the need for fiduciary stringency, with the flexibility needed to accommodate the needs and capacities of local communities.

Moreover, the GCF will need to actively work on accessibility, particularly for the EDA modality, by vulnerable countries. Additional and more direct support will be needed by these countries, particularly LDCs, in getting national entities accredited – for example, from GCF's country programming division, which will need to be adequately staffed to provide this support.

## Ensure gender-sensitivity

NCCSP's goal of ensuring that 50% of the programme's activities will be aimed at women, women's participation in the process, and enhanced gender awareness, is also extremely worthy of emulation by the GCF. A similar target for female beneficiaries of GCF projects can help the Fund implement its gender policy and action plan, and ensure that *“women and men benefit equitably”*.

NCCSP largely achieved the 50% goal, and generated important lessons related to a gender-sensitive approach in the process. One lesson relates to the kind of activities that are planned for women, in an evolving context where a focus on areas that are traditionally linked to women may no longer be enough. For instance, male migration to cities means that women also need training in managing infrastructure.

A second relates to co-financing from beneficiaries, in the form of financial contributions or labour. While generally this is considered to contribute to better ownership, a review of NCCSP found that these requirements could exclude disadvantaged groups such as the disabled and elderly, or come at high opportunity costs – for instance, for women who may have to forgo other responsibilities in order to contribute labour.

Last but not least, women's groups who participated in the consultations in Kathmandu also highlighted the importance of targeted climate-related capacity building for women; and of ensuring access to GCF Funds by women and women's groups.

## 7. CONCLUSIONS

By recognising the need for local planning early and implementing the LAPAs, Nepal has set an important example for other countries to follow. The first phase of implementation has also thrown up important lessons for other countries in devolution – including that they must question not only the national financial and governance systems they prime for devolution, but also the nature of contributions from bilateral and multilateral agencies, and how best these should be reformed to facilitate a nationally-owned process, focused on capacitating local decision-making and implementation.

The GCF's EDA modality is a recognition of the importance of sub-national, devolved systems for delivering climate finance. It has a lot of potential and could indeed grow to be the Fund's "signature modality" and one of the transformational elements that distinguishes it from other international financial institutions. To achieve its full potential, the modality will have to build in flexibility and understanding of local contexts, and take a longer-term view, instead of the limited project-based approach traditionally adopted by multilateral institutions.

Annex 1: Composition of the NCCSP Project Steering Committee		
1	Secretary, Ministry of Population and Environment	Chair
2	Joint-Secretary, Office of the Prime Minister and Council of Minister	Member
3	Joint-Secretary, National Planning Commission	Member
4	Joint-Secretary, Ministry of Finance	Member
5	Joint-Secretary, Ministry of Federal Affair and Local Development	Member
6	Joint-Secretary, Ministry of Irrigation	Member
7	Joint-Secretary, Ministry of Home Affairs	Member
8	Joint-Secretary, Ministry of Agriculture and Cooperatives	Member
9	Joint-Secretary, Ministry of Forest and Soil Conservation	Member
10	Joint-Secretary, Ministry of Energy	Member
11	Joint-Secretary, Ministry of Livestock Development	Member
12	Representative, Nepal Agriculture Resource Council	Member
13	Representatives, local governments (associations) (3)	Member
14	Executive Director, Alternative Energy Promotion Center	Member
15	Representative, Central Department of Environmental Science, Tribhuvan University	Member
16	Executive Director, Association of District Development Committee (Now DCC)	Member
17	Executive Director, Village Development Committee (Now Rural Municipality)	Member
18	Executive Director, Municipal Association	Member
19	Representative, DFID-Nepal	Member
20	Representative, EU Nepal	Member
21	Representative, UNDP Nepal	Member
22	Representative, Federation of Nepalese Chamber of Commerce and Industry	Member
23	Chairperson, Federation of Non-Governmental Organization, Nepal	Member
24	Joint-Secretary (Tech.) and Chief, Climate Change Management Division	Member-Secretary

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