

CLIMATE CHANGE ADAPTATION FINANCE IN NEPAL

Introduction:

This fact sheet is based on the “*Finding the Money; A Stock Taking of Climate Change Adaptation Finance and Governance in Nepal*” under a multi-country initiative, ‘Adaptation Finance Accountability Initiative (AFAI), by Oxfam in collaboration with the Overseas Development Institute (ODI), World Resources Institute (WRI) and Clean Energy Nepal (CEN). This study takes stock of climate change adaptation finance committed to Nepal from public sources of international finance during the period 2009 to 2012. The Organisation for Economic Co-operation and Development Development Assistance Committee (OECD DAC) Creditor Reporting System (CRS) database were used as the primary sources of funding information. Semi structured interviews with key officials in bilateral and multi lateral funding agencies and government ministries were also conducted. The project prepared criteria to examine the ‘Rio marking’ done by the donor agencies. Total adaptation funding is further analysed with respect to sources of funding, recipient types and sector wise allocation. This study has also looked at the governance and fund flow mechanisms of three major climate adaptation projects in Nepal, viz. Pilot Programme for Climate Resilience (PPCR), Nepal Climate Change Support Programme (NCCSP) and National Adaptation Programme of Action (NAPA) projects.

Climate Change Adaptation Finance in Nepal:

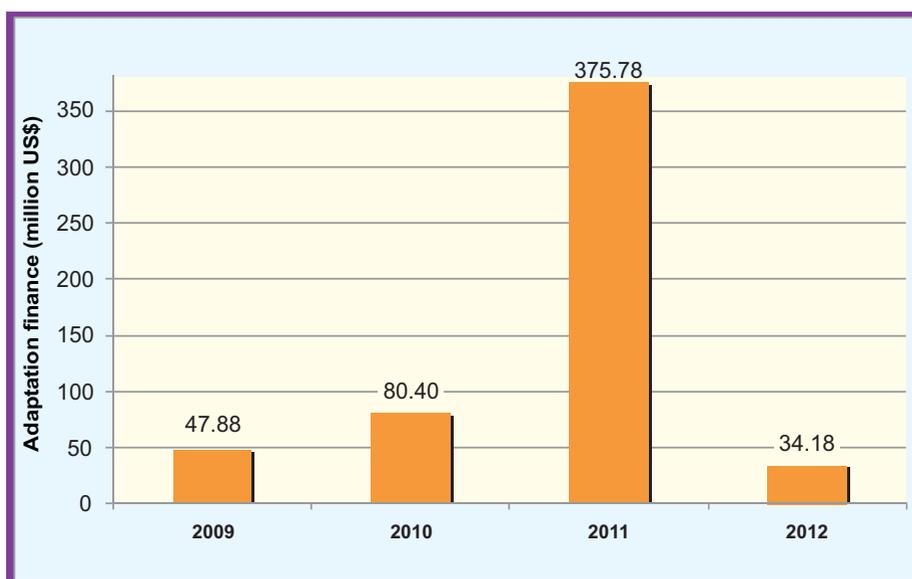


Figure 1: Donors commitment for adaptation funding in Nepal for 2009-12 as per the Rio marking (USD 538.24 million for four year)

Total committed fund for the climate change adaptation projects in Nepal for the period of 2009-2012 is USD 538.24 million as per the Rio marking by donors. The increased climate adaptation funding from 2009 corresponds to the developed countries’ collective climate commitment of USD 30 billion for 2010-2012.

In December 2009, OECD DAC approved a new marker to track aid in support of climate change adaptation. The Rio-markers give an indication whether adaptation is the primary objective of the project or program (marked as 2), whether adaptation is a secondary objective (marked as 1) or whether the program does not address adaptation at all (marked as 0 or not marked at all).

Source:
<http://www.oecd.org/dac/stats/48785310.pdf>

In this study, the list of projects that the donors marked as adaptation relevant (with Rio marking 1 or 2) was further examined using a set of criteria satisfying both international and national adaptation contexts. Based on those criteria, six types of projects have been identified, viz.

1. Pure adaptation projects (A)
2. Mitigation projects (M)
3. Projects contributing to both adaptation and mitigation (B)
4. Development assistance projects with some activities contributing to climate change adaptation (DA-A)
5. Projects not relevant to climate change (NR) &
6. Projects with no detailed information available (DNA).

A substantial share (44.39%) of funding initially marked as adaptation relevant by donors was found to be not relevant to climate change. Most of them were regular development projects in education and health sectors, earthquake preparedness, and infrastructure construction with no evidence to suggest that climate change considerations had been integrated into their design and implementation. Similarly, 8.85% of funding was for regular development support in livelihoods, sanitation, and similar sectors, and where only few activities directly or indirectly support adaptation. If these two project categories are summed up, 53.24% of funding initially marked as adaptation relevant come out to be regular development projects that are usually funded through ODA. Similarly, 0.18% of funding initially marked adaptation relevant was found to be mitigation relevant instead.

Only 45.78% of the committed amount is totally or partially relevant to climate change adaptation according to the criteria developed by the AFAI study. If we combine pure adaptation (A) and both adaptation & mitigation (B) projects, it sums up to USD 246.44 million. Throughout the study, this amount has been taken as the total adaptation finance commitment to Nepal during the period of 2009 to 2012.

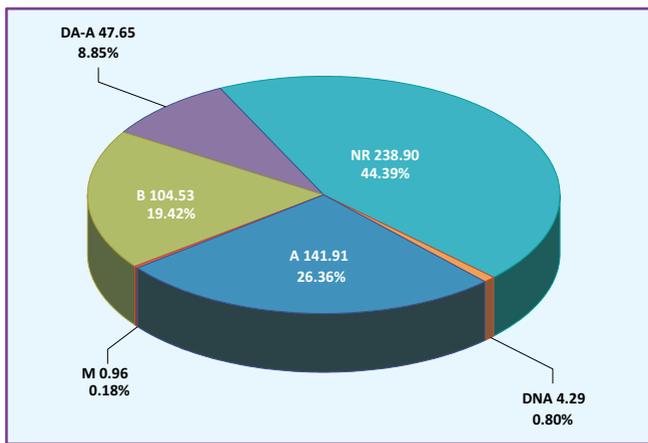


Figure 2: Adaptation funding commitment in Nepal based on AFAI study criteria (budget in million USD)

Nature of Funding Source:

Nepal's adaptation finance has been derived primarily from bilateral sources, with total amount of USD133.73 million or 54.27 % of the total funding. Dedicated climate funds such as the CIF and LDCF/GEF constitute 36.75 % of the total adaptation funding in Nepal, amounting to USD 90.55 million. Only 8.99 % of Nepal's adaptation funding is derived from multilateral sources. However, some dedicated climate funds are implemented by multilateral institutions, so this figure may underestimate the level of support from multilateral institutions. Overall, pure adaptation projects tend to be supported by dedicated climate funds and multilateral agencies, while projects supported with bilateral funds tend to combine adaptation and mitigation activities.

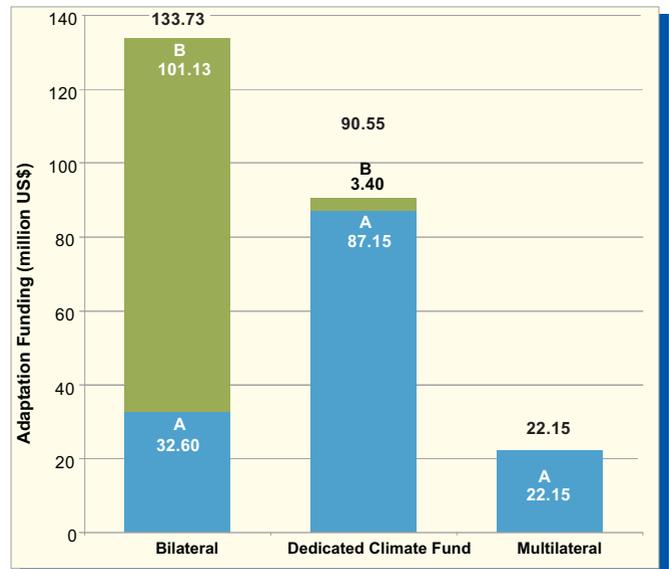


Figure 3: Adaptation funding commitment in Nepal based on funding sources

Among bilateral donors funding adaptation projects in Nepal, the United Kingdom has stood as the top bilateral donor followed by United State of America, Switzerland, Finland and the European Union respectively.

The majority of the adaptation funding in Nepal is from financial mechanisms outside the United Nations Framework Convention on Climate Change (UNFCCC). The total adaptation funding from outside UNFCCC mechanism is USD 239.88 million while that from within the UNFCCC mechanism is only USD 6.56 million. If two additional projects which were approved by the GEF in 2013 are also considered, the funding from within UNFCCC mechanism becomes USD 15.63 million. The GEF through Least Developed Countries Fund (LDCF) is the only funding mechanism within the UNFCCC through which adaptation projects have been funded so far in Nepal.

Recipient and Recipient Types:

The figure 4 illustrates that the national government of Nepal is the leading first order recipient of adaptation funding in Nepal, receiving USD 170.41 million in total. The national government stands atop both project categories A and B. The first order recipients have respectively received the following share of climate adaptation funding: national government agencies (RGN)-69.15%, International Nongovernmental Organizations (INGOs)-12.45%, National Private Institutions (RPRIV)-8.73%, multilateral agencies (MULT)-7.74%, national NGOs (RNGOS)-0.91% and others-1.02%.

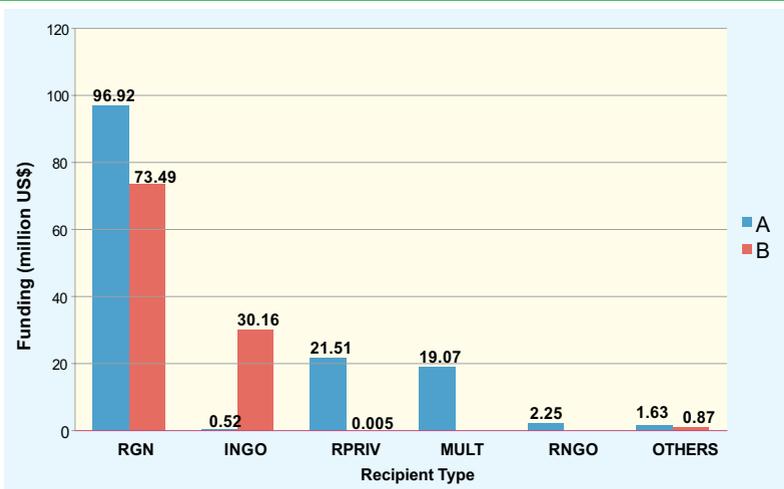


Figure 4: Major recipients of adaptation funding in Nepal

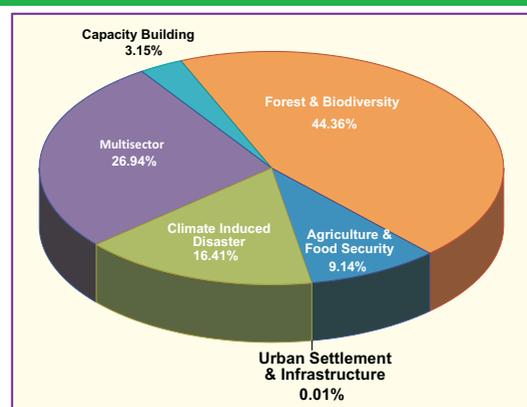


Figure 5: Sector wise distribution of adaptation funding in Nepal

Adaptation Funding by Sector:

In Nepal, 44.36 % of adaptation funding has been directed to the forest and biodiversity sector, followed by 26.94 % to multi-sector projects, 16.41% to climate-induced disasters, 9.14% to agriculture and food security sector, 3.15 % for capacity building, and 0.01% to urban settlement and infrastructure sector.

Although only 3.15 % of the total adaptation funding is allocated exclusively for capacity building, almost all projects include capacity building components. Two sectors prioritized in Nepal's NAPA - Public Health and Water Resources and Energy have received no dedicated adaptation funding so far. Similarly, sectors such as agriculture & food security and urban settlement & infrastructure appears to be underresourced.

Fund Flow Mechanisms for Adaptation Projects in Nepal: Case Studies

National Adaptation Programme of Action (NAPA) projects from LDCF, Nepal Climate Change Support Programme (NCCSP) and Pilot Programme for Climate Resilience (PPCR) are three major adaptation projects currently being implemented in Nepal. These three projects combined constitute 50% of the total climate adaptation funding in Nepal. Details of these projects are included in table 1.

Table 1: Summary of three major adaptation projects (NAPA projects, NCCSP/LAPA and PPCR) in Nepal

S.No.	Project Elements	NAPA Projects	NCCSP/LAPA	PPCR
1.	Project Name	<p>Project 1: Catalyzing ecosystem restoration for resilient natural capital and rural livelihoods in degraded forests and rangelands of Nepal</p> <p>Project 2: Reducing vulnerability and increasing adaptive capacity to respond to impacts of climate change and variability for sustainable livelihoods in agriculture sector in Nepal (Note: funding for Project 1 & 2 are approved in 2013 only)</p> <p>Project 3: Community Based Flood and Glacial Lake Outburst Risk Reduction</p>	Nepal Climate Change Support Program: Building Climate Resilience in Nepal	<p>Component 1: Building climate resilience of watersheds in Mountain Eco-Regions</p> <p>Component 2: Building Resilience to Climate-Related Hazards</p> <p>Component 3: Mainstreaming climate change risk management in development</p> <p>Component 4: Building climate resilient communities through private sector participation</p> <p>Component 5: Sustainable conservation of ecosystems and biodiversity</p>
2.	Budget	<p>Project 1: USD 5.75m</p> <p>Project 2: USD 2.95m</p> <p>Project 3: USD 6.93m (+0.95m UNDP)</p> <p>Total – USD 15.63m</p>	USD 21.5m	<p>Component 1: USD 30.11m</p> <p>Component 2: USD 32.3m</p> <p>Component 3: USD 7.16m</p> <p>Component 4: USD 8.73m</p> <p>Component 5: USD 5m</p> <p>Total – USD 82.3m</p>
3.	Funding Source	LDCF/GEF	DfID, EU, Cyprus	Climate Investment Fund (CIF)
4.	Managing Agencies	UNEP, FAO and UNDP	MoSTE and MoFALD	World Bank, ADB & IFC
5.	National Implementing Partners	MoSTE, MoAD & MoFSC; MoAD, NARC & DHM; MoSTE & DHM	MoSTE and MoFLAD	DSCWM; MoAD & DHM; MoSTE; MoAD & Private companies; MoFSC, DNPWC & DOF
6.	Funding Access	Indirect access (via UN Agencies)	Direct access (Government of Nepal)	Indirect access (World Bank, ADB & IFC)
7.	Funding Modality	Grant & Co-financing	Grant	Grant & Concessional Loan
8.	Alignment with national budget (Red Book)	Only separate special account at the NRB for government notice	Yes, special account at the NRB	Yes, special account at the NRB
9.	UNFCCC Financial Mechanisms	Within UNFCCC mechanism	Outside UNFCCC mechanism	Outside UNFCCC mechanism

For the Community Based Flood and Glacial Lake Outburst Risk Reduction in Nepal, PPCR component 2 and NCCSP/LAPA project flow charts of the governance and fund flow mechanisms are presented below in figures 6, 7 and 8 respectively.

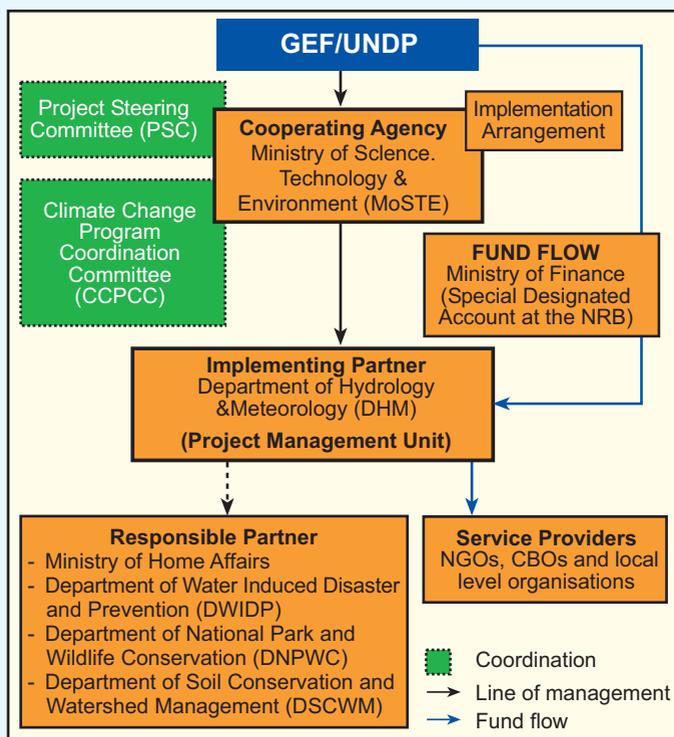


Figure 6: Governance Structure and Fund Flow Mechanism for Community Based Flood and GLOF Risk Reduction (NAPA Project)

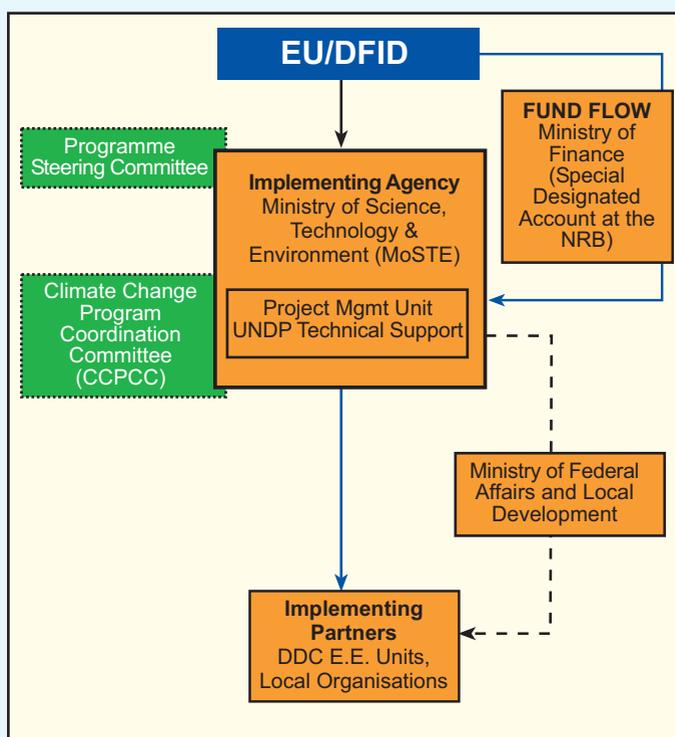


Figure 8: Governance Structure and Fund Flow Mechanism for the NCCSP/LAPA

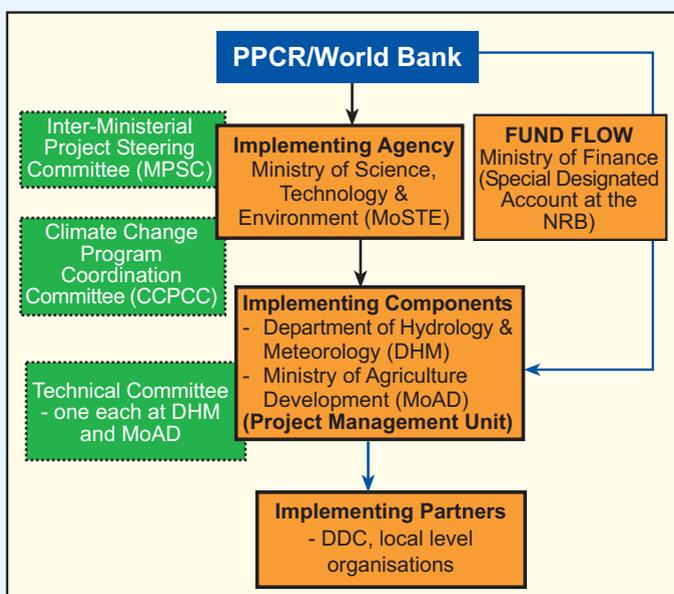


Figure 7: Governance Structure and Fund Flow Mechanism for the PPCR component 2

Mapping of governance and fund flow mechanisms of major climate change adaptation projects indicated that donors and development partners have followed their conventional development assistance models in use for many years. There appears to be limited innovation and pioneering of new ideas for financing and effective implementation of climate change projects. It would be beneficial to explore development of new and innovative models for climate funding such as the Climate Change Fund as outlined in Nepal's Climate Change Policy. Such models must ensure accessible, transparent and accountable delivery of climate finance from the central to sub national levels in the spirit of Climate Change Policy which commits that at least 80% of the climate finance must be allocated for grassroots level activities.



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