



BUDGET GOVERNANCE FOR DISASTER RISK REDUCTION AND CLIMATE CHANGE ADAPTATION UNDER NEPAL'S NEW FEDERAL SYSTEM

Policy Brief

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Introduction

Floods affect more people globally than any other type of natural hazard, with over 734 million people affected in the last ten years (IFRC, 2018). With climate change, flood impacts on countries and communities are projected to increase. Nepal is exposed to a multitude of natural and human-induced hazards due to its diverse topography and complex geography. The country ranks fourth in the world to climate vulnerability (Germanwatch, 2018) and 80 percent of the land is vulnerable to multiple natural hazards (GFDRR, 2019). Climate related disasters such as droughts, floods, and landslides undermine agricultural production which employs 70 percent of the population and accounts for 30 percent of GDP. Severe flooding in August 2017 affected 1.7 million people and caused devastation amounting to 585 million USD – three percent of Nepal's GDP (Government of Nepal, 2017).

Climatic risks and disasters reverse gains in poverty reduction and hinder development. Mercy Corps, as a member of the Zurich Flood Resilience Alliance, is working on a five-year program to improve investment, and support policy and practice for improving Nepal's flood resilience.

Nepal recently implemented a new federalized governance structure – a significant shift from district level administration to a devolved structure of seven provinces and 753 municipalities covering urban and rural areas. Municipalities now have the authority and responsibility to plan and execute service delivery that was historically done at the district and national levels, including for issues on disaster risk reduction/management and climate change. Although federalism is predicted to improve service delivery in the mid-to-long term, capacity challenges at the provincial and municipal levels must be addressed to prevent under-execution of budgets for effective service delivery (World Bank, 2019).

Local government investment for disaster risk reduction (DRR) and climate change adaptation (CCA) is critical for development. Key stakeholders must understand the current governance structures, processes, and investment outcomes of municipalities for DRR and CCA so newly formulated guidelines, policies, and resources support the needs of local governments. Mercy Corps conducted research in seven municipalities¹ of Sudurpashchim province to understand how local governments are investing in DRR and CCA in the new structure. Key informant interviews, focus group discussions, secondary document review, and municipality budget analysis was conducted to understand governance processes and allocations for DRR and CCA with a special focus on flood resilience. This brief provides an overview of findings and recommendations for policy makers to improve investments for DRR and CCA at the local government level so that greater investments can be made to enhance communities' resilience.

Findings

Monitoring, evaluation, and transparency

Nepal has progressed to develop legal frameworks and policies at the national level for DRR and CCA, such as the Disaster Risk Reduction and Management (DRRM) Act 2017, National Policy for Disaster Risk Reduction 2018, National Disaster Risk Reduction Strategic Action Plan (2018-2030), 2018 and Climate Change Policy 2019. The seven local governments included in our research have largely developed the legal, institutional and fiscal frameworks as per the requirement of the Local Government Operation Act 2017, and related DRR and management acts and policies. However, local governments need monitoring mechanisms to track progress on the activation and impact of the various DRR/CCA legal and policy frameworks. Local governments use an online software, Sub-National Treasury Regulatory Application (SuTRA), recently introduced by the Ministry of Finance to track budgeting and accounting. However, the data and information in SuTRA is not openly available to the public, making oversight on budget expenditure difficult. Moreover, SuTRA does not monitor or report on the implementation of legal and policy frameworks; researched municipalities did not have any mechanism to track their progress and compliance on the various policies they had endorsed.

Horizontal and vertical coordination of governance structures

The Ministry of Home Affairs (MoHA) is the nodal ministry for the coordination of disaster management activities throughout the country with a DRR mandate, whereas the Ministry of Federal Affairs and General Administration (MoFAGA) is responsible for coordination, cooperation, facilitation, and monitoring and evaluation of local government activities. Overlapping policies leads to confusion at

¹ Bhajani, Dilasaini, Kailari, Krishnapur, Laljhadi, Parashuram, Suklaphanta.

the local level as officials try to align their planning with a multitude of national guidelines and frameworks. For example, District Disaster Management Committees, which are mandated by the DRRM Act 2017 and under the supervision of MoHA, are responsible for overall DRR and DRM at the district level; however, under the new governance structure, local governments also have authority and responsibility to formulate and implement policies related to DRR and DRM under the guidance of MoFAGA. Clarity on roles and responsibilities is necessary for coherent policy making, implementation, and evaluation.

The Disaster Risk Reduction and Management Act (2017) has provided the structures, roles and responsibilities of federal, provincial, district and local governments. Coordination between and within municipalities, as well as among the tiers of government is critical as disaster events, including floods, extend beyond administrative boundaries. For example, monsoonal flooding from the rivers in the upstream areas of the Terai Region have significant impact on downstream municipalities. However, this research observed cases where municipalities were not aware of wider provincial government initiatives to disburse funding for development interventions. Such lack of awareness and coordination led to one case where only seven percent of the allocated funds at the provincial level for municipalities was utilized. In another case, the deputy mayor of a municipality was not aware of suspension bridges that had been installed in its jurisdiction by the provincial government. Effective governance between municipalities and provinces is necessary to invest in transboundary watersheds and landscapes.

Finally, mayors, deputy mayors, and ward chairpersons have strong influence in decision making at the municipal level. Party agendas are also often considered in development planning processes. Budget planning and allocation is not merely a bureaucratic task aligning activities with national policies and guidelines, but a political process and outcome. Development agendas promised during the election are usually associated with Nepal's prosperity goals and directly related to day-to-day lives and livelihoods of citizens. Investments that demonstrate immediate or highly visible results are often prioritized and almost all of the consulted municipalities prioritized their budget for road, irrigation, electricity, water, and education. However, both bureaucrats and elected officials at local levels have not been appropriately trained on how to integrate DRR and CCA in broader development activities.

Budgeting process

Understanding the risk profile of the municipality is the first step to identify needs, gaps, and possible interventions. Comprehensive risk assessments of wards and communities, including analysis of natural, social, and economic vulnerabilities, is required for informed and effective planning. The municipal governments from our study areas were in the process of collecting information on hazards and risks to formulate their Local Disaster and Climate Resilience Plans (LDCRP). However, local governments often need more technical capacity and knowledge to conduct such assessments by themselves. For example, in Bhajani municipality, Mercy Corps, Nepal Red Cross Society, and Conscious Society for Societal Development supported the government to collect risk information in nine wards. The gathered information will be consolidated to prepare a municipal level disaster risk profile. The LDCRP is envisioned as an integrated plan that considers both DRR and CCA at the local level; its formulation is an opportunity for local governments to identify vulnerability, hazards, and risk through participatory processes with communities.

Challenges also exist in translating assessments and data into risk-informed investment for DRR and CCA. There are skills and capacity gaps in the newly formed municipal structures, and weak

incentives for local governments to include DRR and CCA in development activities. Many municipalities do not have systematic processes to integrate DRR and CCA into their developing planning despite the high level of risk. Projections of changes in temperature and rainfall, and increased frequency and intensity of disasters in Nepal (World Bank, 2019), means that planning and budgeting for DRR and CCA in wider development investments such as infrastructure and agriculture is increasingly important. Although some local governments have considered such components in their development activities, it is on an ad-hoc basis without any systematic procedures.

Current budgeted amounts for DRR and CCA

This research analyzed the budget of seven municipalities to understand the levels and types of investments in DRR and CCA related activities. Municipality budgets have a dedicated budget category for “Environment and Disaster Management”; however, allocation for this category ranged from only 0.7 to 3.4 percent of the total annual budget. When including allocations in different sectors which have co-benefits² to DRR and CCA, such as infrastructure projects that have perceived benefits to disaster risk reduction, this percentage rose from 3 to 7.8 percent. It is important to note that the majority of investments that have large scale impacts on DRR and CCA are generally not categorized under “Environment and Disaster Management”, but in the “infrastructure” category. Common projects allocated in the infrastructure budget that addressed DRR and CCA, especially for flood resilience, were road and embankment construction, and hume pipe installation. All five municipalities in the Terai region, which are extremely prone to flooding due to their location in downstream areas, allocated more than 60 percent of their budget related to DRR and CCA to such flood resilience activities. Mercy Corps developed a guidance document in this research to identify activities across different budget categories that contributed to DRR and CCA. Stakeholders need to consider how to track the mainstreaming of DRR and CCA, and if appropriate approaches to increasing resilience towards disaster and climate risks are being taken in different sectors.

The municipal governments have incorporated the four stages of the disaster management cycle (mitigation, preparedness, recovery and response) in their procedural documents, such as the DRRM Act 2017, but have not reflected the cycle when considering budget allocations. For example, the municipal disaster management funds are dedicated mainly for response and relief. Consultations with municipal officials clearly indicated a priority for response related activities. However, when analyzing budgeted activities allocated under “Environment and Disaster Management” as well as allocations in different sections with co-benefits to DRR and CCA, mitigation activities had the most resources in five municipalities. Municipal officials stated that the high rate for mitigation was due to the co-benefits of infrastructure projects that were perceived to improve flood resilience. Interestingly, there were no funds allocated for recovery in six of the seven municipalities. The lack of allocation for recovery could be rooted in Schedule 7 of the Constitution, which mandates provincial and federal governments to mobilize relief and rehabilitation from natural and manmade disasters. However, the Local Government Operation Act and DRRM Act 2017 delegates responsibility to municipalities for the same activities. Lack of clarity of delegated roles and responsibilities often translates into how local governments allocate resources.

² Co-benefits of DRR and CCA were determined after budget analysis and consultations with municipal officers. A guidance document was created on how to identify and classify budgets of different sectors that have DRR/CCA co-benefits.

Municipalities also noted difficulties in budgeting for DRR and CCA activities that go beyond their jurisdiction and resources. For example, the Rangon River is a major threat to the development of Parashuram and the municipality need to invest in embankments; however, the estimated necessary budget is more than the total budget of the municipality. Local governments rely on grants from the national and provincial governments in addition to revenues from taxes and fees. It is yet unclear how complementary and special grants, which can be utilized for larger infrastructure interventions, will be disbursed from the national government. Improved awareness of local government officials on the various opportunities for budget disbursement from provincial and national governments, including timeline and specific procedures, is critical for more efficient allocation and securing of appropriate funds to manage disaster and climate risks.

Recommendations

1. Improved coherence between planning for DRR and CCA will improve efficiency and streamline planning and investment in resilience building. An integrated plan of DRR and CCA should be developed as a single document at the local level. The Local Disaster and Climate Resilience Plan (LDCRP) aims to be an overarching document and the national government is in the process of developing guidelines for municipalities to formulate the LDCRP. The LDCRP guidelines should lay out a step by step process for municipalities to formulate actionable plans. A clear roll out plan including capacity development needs and resourcing requirement plan is needed to undertake LDCRP planning across the most vulnerable municipalities. Reaching this scale will require support from non-government agencies and a roll out plan will help to coordinate inputs and actor involvement. Mercy Corps has produced a separate policy brief on how to further develop the LDCRPs.
2. Risk assessments are key to laying the groundwork for effective planning, budgeting, implementing, and monitoring of DRR and CCA activities under the LDCRP. The LDCRP guidelines for the municipalities should provide guidance on how to identify risk, including specific methods (such as hazard, vulnerability, and capacity assessments; historical disaster data and local knowledge collection; timeline creation of frequented disasters; mapping vulnerabilities), timeline, and estimated budget for such assessments. Municipalities should allocate budget for risk assessments under the “Environment and Disaster Management” section every year, and reflect the information into their annual and multi-year development plans. Provinces need to collect the municipal assessments and develop provincial level risk profiles to understand transboundary issues surrounding watersheds and landscapes. Provincial governments with high risk landscapes such as watersheds and river basins should additionally consider multi-stakeholder platforms for sharing risk information and joint planning across administrative boundaries.
3. The move of civil servants to the provincial and municipal levels in the new federalist structure under the Civil Servants Adjustment Ordinance, and the capacity building of such staff, are critical for local governments to effectively execute service delivery. Moreover, the Ministry of Federal Affairs and General Administration (MoFAGA), which is responsible for direct communication and coordination with local government, should lead training for both civil servants and elected officials at the local government levels on DRR and CCA. The Local Development Training Academy (LDTA), an autonomous institution which closely works with MoFAGA, recently developed a DRR and CCA mainstreaming training manual for the capacity

building of local government. This training manual of the LDTA should be rolled out together with the Local Level Capacity Development Division of MoFAGA to institutionalize DRR and CCA mainstreaming at the local level. The training should also ensure the participation of local planning officers and the DRR focal officer so they can learn how to identify, design, and integrate DRR and CCA activities in their local budgeting and planning processes.

4. A monitoring and evaluation mechanism should be established by the new National Disaster Risk Reduction and Management Authority at the national level and the Disaster Management Executive Committee at the province level to oversee progress and impact of policies and legal frameworks. Such mechanisms will also help measure and report on the short, medium, and long term targets set in National DRR and Strategic Plan of Action (2018-2030). It is important for the monitoring and evaluation should go beyond tracking of budget allocation and expenditure, and also assess the quality and impact. Moreover, information on budget allocation and expenditure, including for DRR and CCA, should be easily accessible to the public to increase accountability and transparency; public disclosure of data and information entered into SuTRA should be considered.
5. The provincial and local governments should develop and endorse Disaster Fund Management Laws as soon as possible to ensure proper allocation and expenditure of the funds in all four stages of the disaster management cycle as defined in the Disaster Risk Reduction and Management Act 2017. Guidance is necessary on how to translate the disaster management cycle articulated in various policies to budget allocation, so the gap between written policy and implementation is reduced.
6. As the national government develops various guidelines and training for local governments related to DRR and CCA, concrete examples and estimated budget amounts of effective resilience investments need to be provided. Currently, the “Environment and Disaster Management” section is perceived to be the sole section for DRR/CCA initiatives in local budgets, and mainstreaming of DRR and CCA into other sectors is lacking. Local governments require tangible examples of how to integrate DRR and CCA components in broader development budget sections such as infrastructure and agriculture. For example, municipalities should budget for and conduct risk assessments of the environment, and calculate potential economic and non-economic impact to the community when building embankment structures for flood management. Setting a numerical percentage goal of budget allocation to DRR and CCA at the municipal level can be one benchmark, although the quality and impact of the investments also need to be monitored so fund distribution does not become an end in itself.

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