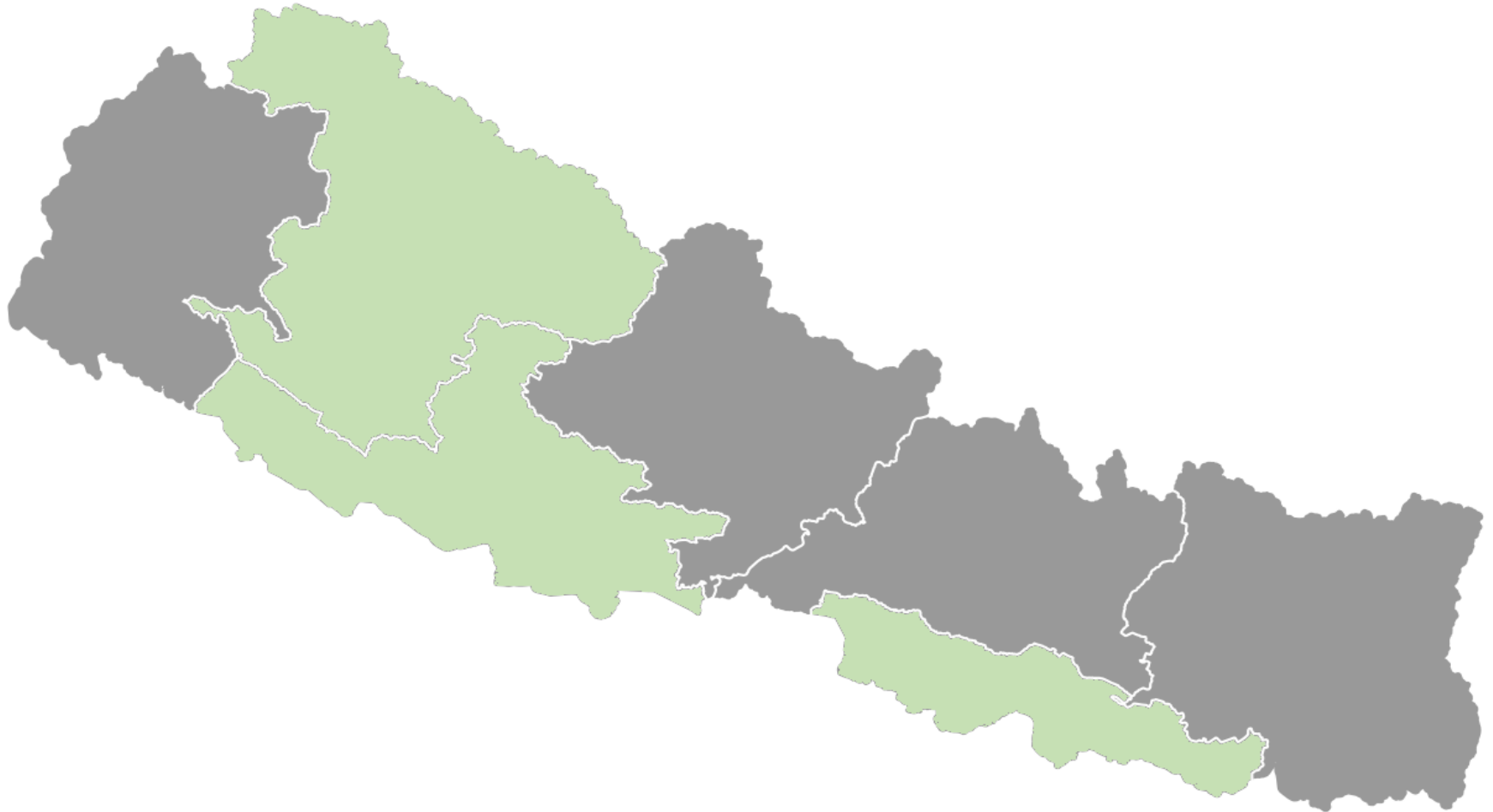




A Note on Conditional Grant Renewable Energy Budget to Local Governments of Province 2, Lumbini Province and Karnali Province



1. Overview

Conditional Grants: The Government of Nepal (GoN) provides conditional grants to the province and local level governments to implement projects as prescribed by the National Natural Resources and Fiscal Commission (NNRFC) pursuant to Article 251, Clause (c) Sub-Article (1) of the Constitution of Nepal. Along with this grant, the federal government (FG) provides the necessary terms and conditions to which sub national governments must abide during the implementation of Renewable Energy (RE) project/s. In accordance with province laws, the province may additionally provide conditional grants to local governments.

As per the fiscal discipline of GoN, the amount of conditional grants shall be used only for the purpose for which it has been obtained. The federal and sub-national governments shall undertake actions concerning fiscal arrangements in a transparent manner. Furthermore, the national and sub-national governments shall have the accounts of the statement of income and expenditure audited in accordance with the prevailing laws and disclose the particulars thereon within fifteen days from the date of completion of the audit. The federal, province and local governments shall conduct annual reviews of budget implementation and publish the report thereon by the end of *Kartik* (mid of November) each fiscal year (FY).

In this report the CG budget refers to the conditional grant budget for renewable energy provided by federal government to local governments.

Key indicators	Province 2	Lumbini Province	Karnali Province
Area	9,661 km ²	17,810 km ²	25,341 km ²
Population	▪ 5,389,671 ▪ UM*: 3,881,851 & RM*: 1,507,828	▪ 4,458,259 ▪ UM:2,321,272 & RM:2,136,987	▪ 1,555,956 ▪ UM:774,319 & RM:781,637
Households	▪ 1,057,011 ▪ UM: 773,842 & RM: 283,169	▪ 861,726 ▪ UM: 472,137 & RM: 389,589	▪ 302,174 ▪ UM: 156,748 & RM: 145,426
Electrification Status	99.05 %	91.00 %	34.75 %
Human Development Index (HDI)	0.485	0.468	0.469
No. of LGs	136	109	79
No. of urban municipalities (UM*)	77 (including 1 Metropolitan city and 3 Sub-metropolitan city)	36 (including 4 Sub-metropolitan city)	25
No. of rural municipalities (RM**)	59	73	54
No. of wards	1271 (UM Wards: 912 ; RM Wards: 359)	983 (UM Wards: 456 & RM Wards: 527)	720 (UM Wards: 303 & RM Wards: 417)

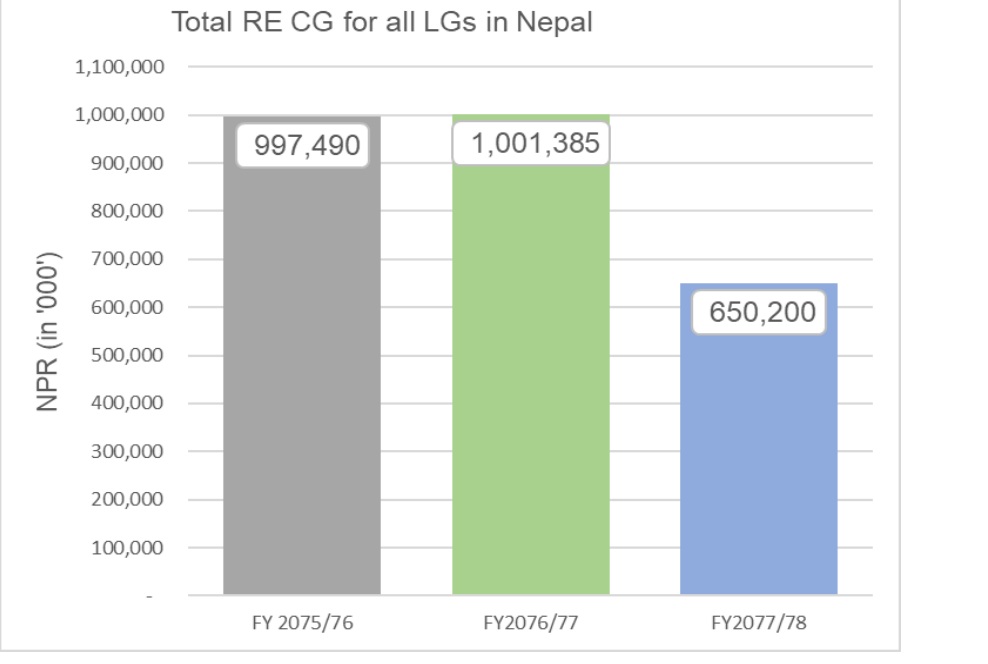
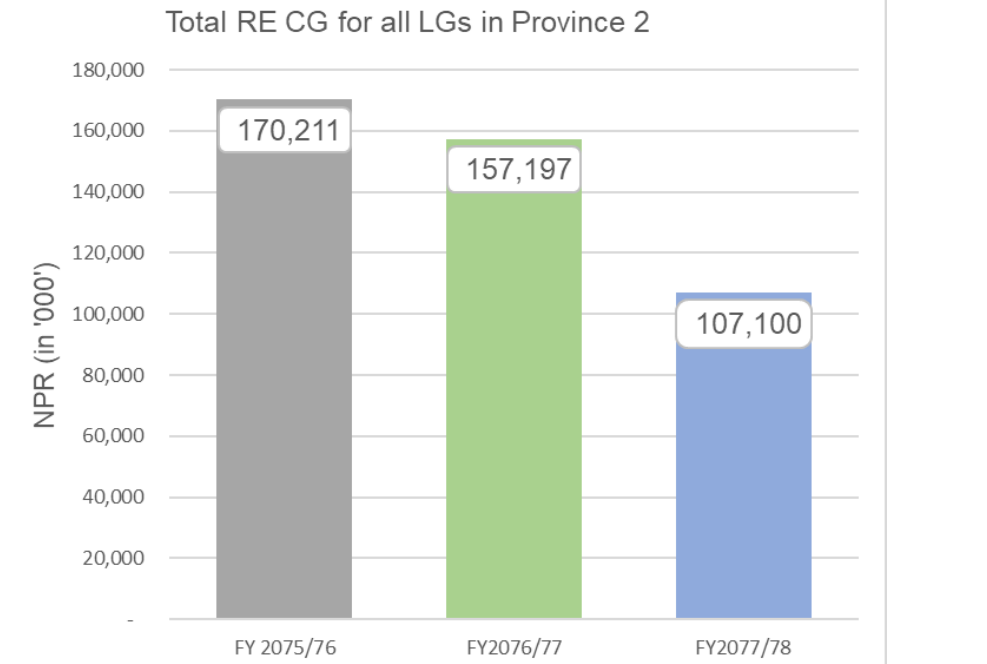
UM* – Urban municipality; RM** – Rural municipality

The electrification status of province 2 (99.05 %) Lumbini Province (91.00 %) and Karnali province (34.75 %) presented above is as per NEA's year book (2019/020) of distribution and consumer services directorate. Previously, the electrification status of Provinces - 2, Lumbini and Karnali was 79.77 %, 81.03 % and 27.03% respectively as per Nepal Electrification Statistics:2019.

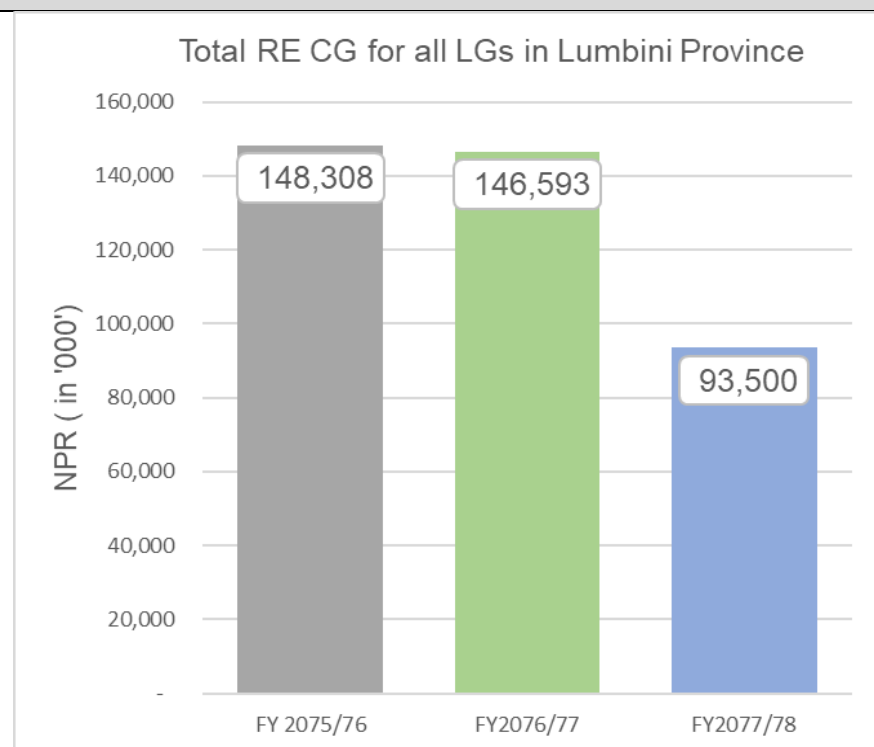
Sources:

- 1) *A book on brief introduction of rural and urban municipalities, MoFALD-GoN,2074*
- 2) *Nepal Electrification Authority-Distribution and Consumer Services Directorate, A Year Book (FY 2019/020)*

2. Trend of Conditional Grant RE Budget

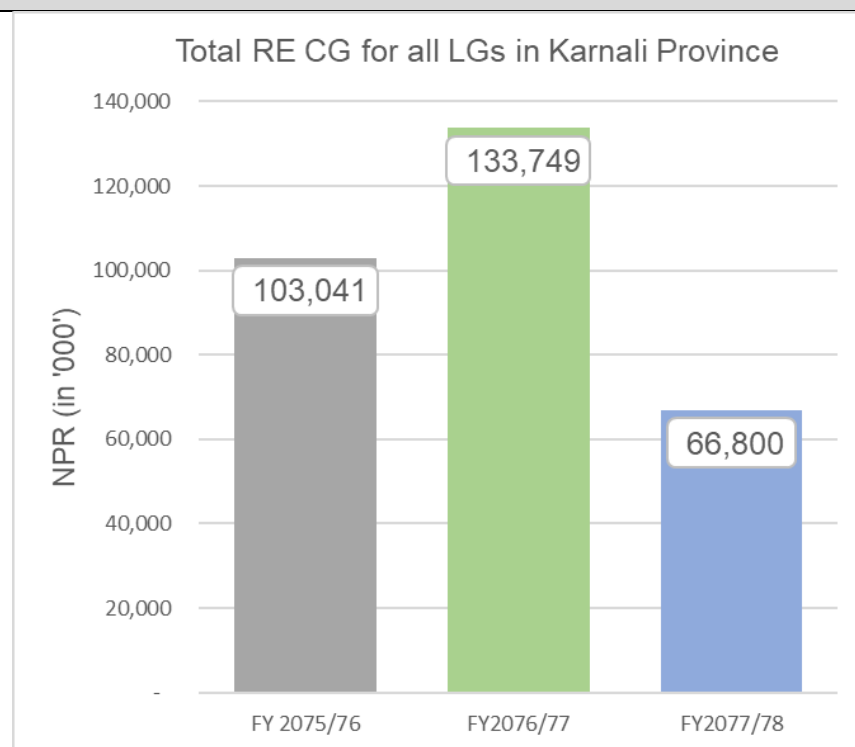
Total Conditional Grant RE budget – Nepal	Total Conditional Grant RE budget – Province 2																
 <p data-bbox="280 354 705 379">Total RE CG for all LGs in Nepal</p> <table border="1" data-bbox="112 383 1097 1013"> <thead> <tr> <th>Fiscal Year</th> <th>Total RE CG (NPR in '000')</th> </tr> </thead> <tbody> <tr> <td>FY 2075/76</td> <td>997,490</td> </tr> <tr> <td>FY 2076/77</td> <td>1,001,385</td> </tr> <tr> <td>FY 2077/78</td> <td>650,200</td> </tr> </tbody> </table>	Fiscal Year	Total RE CG (NPR in '000')	FY 2075/76	997,490	FY 2076/77	1,001,385	FY 2077/78	650,200	 <p data-bbox="1288 354 1713 379">Total RE CG for all LGs in Province 2</p> <table border="1" data-bbox="1133 383 2119 1013"> <thead> <tr> <th>Fiscal Year</th> <th>Total RE CG (NPR in '000')</th> </tr> </thead> <tbody> <tr> <td>FY 2075/76</td> <td>170,211</td> </tr> <tr> <td>FY 2076/77</td> <td>157,197</td> </tr> <tr> <td>FY 2077/78</td> <td>107,100</td> </tr> </tbody> </table>	Fiscal Year	Total RE CG (NPR in '000')	FY 2075/76	170,211	FY 2076/77	157,197	FY 2077/78	107,100
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<p data-bbox="107 1035 1102 1166"><i>The total CG allocation in FY 2076/77 was the highest with minimal increase of 0.39% from FY 2075/76. The total CG budget of all LGs decreased by 35% in FY 2077/78. Altogether 18 LGs, (3 UMs and 15 RMs) did not receive CG budget in FY 2077/78.</i></p>	<p data-bbox="1128 1035 2123 1166"><i>The CG budget of LGs in Province 2 decreased over the three fiscal years. It was highest in FY 2075/76; decreased by 7.65% in FY 2076/77; and a major decrease by 31.87% in FY 2077/78. One LG, (Auraha RM of Dhanusha district) did not receive conditional grant RE budget in FY 2077/78.</i></p>																

Total Conditional Grant RE Budget – Lumbini Province



The CG budget of LGs in Lumbini Province decreased over the three fiscal years. It was highest in FY 2075/76; with a decrease of 1.16% in FY 2076/77; and a major decrease by 36.22% in FY 2077/78. Three LGs, (Mayadevi RM and Suddhodhan RM of Kapilvastu district and Malika RM of Gulmi district) did not receive CG budget in FY 2077/78.

Total Conditional Grant RE Budget – Karnali Province

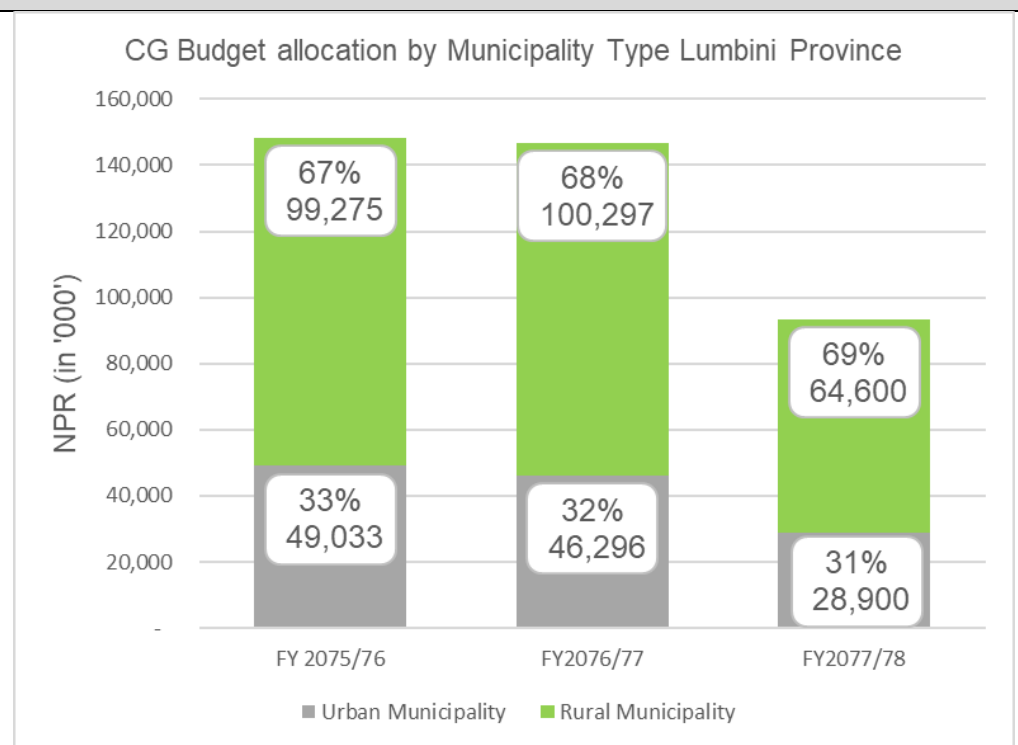


The CG budget of LGs in Karnali Province first increased by 29.80 % in FY 2076/77 compared to that of FY 2075/76. However, it has significantly decreased by 50.06 % in FY 2077/78, the highest percentage decrease amongst the 3 provinces. Three LGs, (Tribeni RM of Salyan district and Musikot UM and Tribeni RM of Rukum-West district) did not receive CG budget in FY 2077/78.

3. Share of Urban Municipalities and Rural Municipalities in Total Conditional Grant Budget

Share of Urban and Rural Municipality CG budget – Nepal	Share of Urban and Rural Municipality CG budget – Province 2																																								
<p style="text-align: center;">CG Budget allocation by Municipality Type Nepal</p> <table border="1"> <caption>CG Budget allocation by Municipality Type Nepal</caption> <thead> <tr> <th>Fiscal Year</th> <th>Urban Municipality (NPR '000')</th> <th>Urban Municipality (%)</th> <th>Rural Municipality (NPR '000')</th> <th>Rural Municipality (%)</th> </tr> </thead> <tbody> <tr> <td>FY 2075/76</td> <td>439,645</td> <td>44%</td> <td>557,845</td> <td>56%</td> </tr> <tr> <td>FY 2076/77</td> <td>379,073</td> <td>38%</td> <td>622,312</td> <td>62%</td> </tr> <tr> <td>FY 2077/78</td> <td>244,200</td> <td>38%</td> <td>406,000</td> <td>62%</td> </tr> </tbody> </table>	Fiscal Year	Urban Municipality (NPR '000')	Urban Municipality (%)	Rural Municipality (NPR '000')	Rural Municipality (%)	FY 2075/76	439,645	44%	557,845	56%	FY 2076/77	379,073	38%	622,312	62%	FY 2077/78	244,200	38%	406,000	62%	<p style="text-align: center;">CG Budget allocation by Municipality Type Province 2</p> <table border="1"> <caption>CG Budget allocation by Municipality Type Province 2</caption> <thead> <tr> <th>Fiscal Year</th> <th>Urban Municipality (NPR '000')</th> <th>Urban Municipality (%)</th> <th>Rural Municipality (NPR '000')</th> <th>Rural Municipality (%)</th> </tr> </thead> <tbody> <tr> <td>FY 2075/76</td> <td>110,846</td> <td>65%</td> <td>59,365</td> <td>35%</td> </tr> <tr> <td>FY 2076/77</td> <td>91,585</td> <td>58%</td> <td>65,612</td> <td>42%</td> </tr> <tr> <td>FY 2077/78</td> <td>60,600</td> <td>57%</td> <td>46,500</td> <td>43%</td> </tr> </tbody> </table>	Fiscal Year	Urban Municipality (NPR '000')	Urban Municipality (%)	Rural Municipality (NPR '000')	Rural Municipality (%)	FY 2075/76	110,846	65%	59,365	35%	FY 2076/77	91,585	58%	65,612	42%	FY 2077/78	60,600	57%	46,500	43%
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<p>Compared to FY 2075/76, the CG allocated were as follows for:</p> <ul style="list-style-type: none"> Urban municipalities (UMs) decreased by 14%; i.e from NPR 439 million to 379 million in FY 2076/77. Further, in FY 2077/78, the CG allocated for all the UMs decreased by 36% ; i.e. from NPR 379 million to 244 million. Rural municipalities (RMs) increased by 12%; i.e. from NPR 557 million to 622 million in FY 2076/77. However, in FY 2077/78, the CG allocated for all the RMs decreased by 35%; i.e. from NPR 622 million to 406 million. 	<p>Compared to FY 2075/76, the CG allocated were as follows for:</p> <ul style="list-style-type: none"> Urban municipalities (UMs) decreased by 17%; i.e from NPR 110 million to 91 million in FY 2076/77. Further, in FY 2077/78, the CG allocated for all the UMs decreased by 34%; i.e. from NPR 91 million to 60 million. Rural municipalities (RMs) increased by 11%; i.e. from NPR 59 million to 65 million .However, in FY 2077/78, the CG allocated for all the RMs decreased by 29%; i.e. from NPR 65 million to 46 million. 																																								

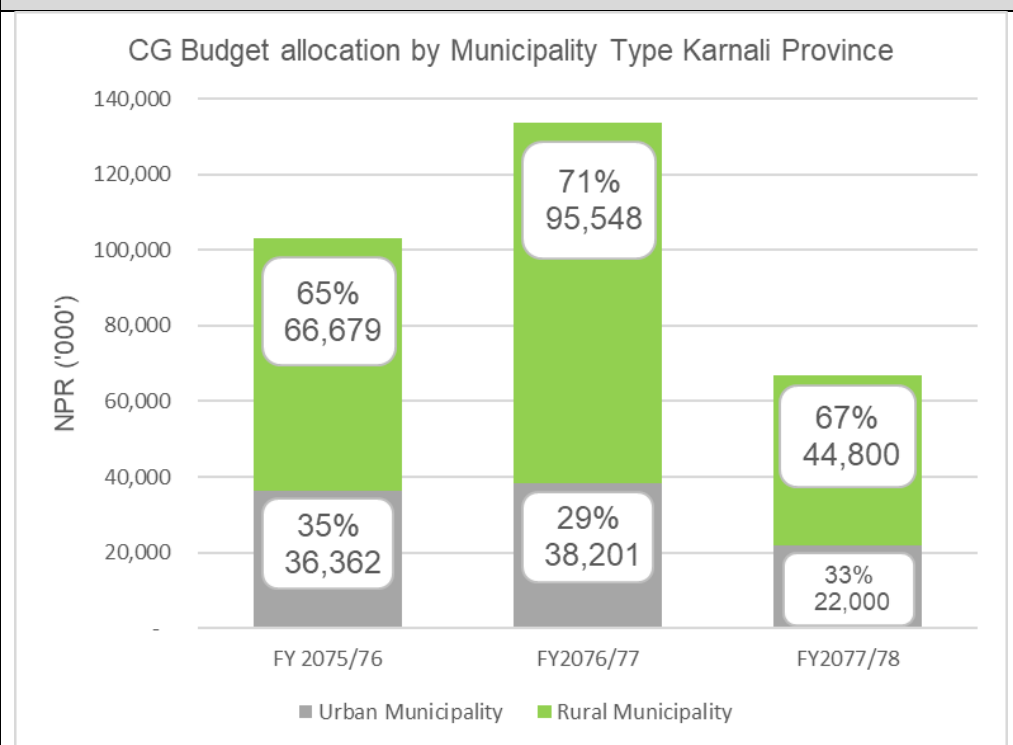
Share of Urban and Rural Municipality CG budget – Lumbini Province



Compared to FY 2075/76, the CG allocated were as follows for:

- **Urban municipalities (UMs):** decreased by 6%; i.e from NPR 49 million to 46 million in FY 2076/77. Further, in FY 2077/78, the CG allocated for all the UMs decreased by 38%; i.e. from NPR 46 million to 28 million.
- **Rural municipalities (RMs):** increased by 1% i.e. from NPR 99 million to 100 million. However, in FY 2077/78, the CG allocated for all the RMs decreased by 36%; i.e. from NPR 100 million to 64 million.

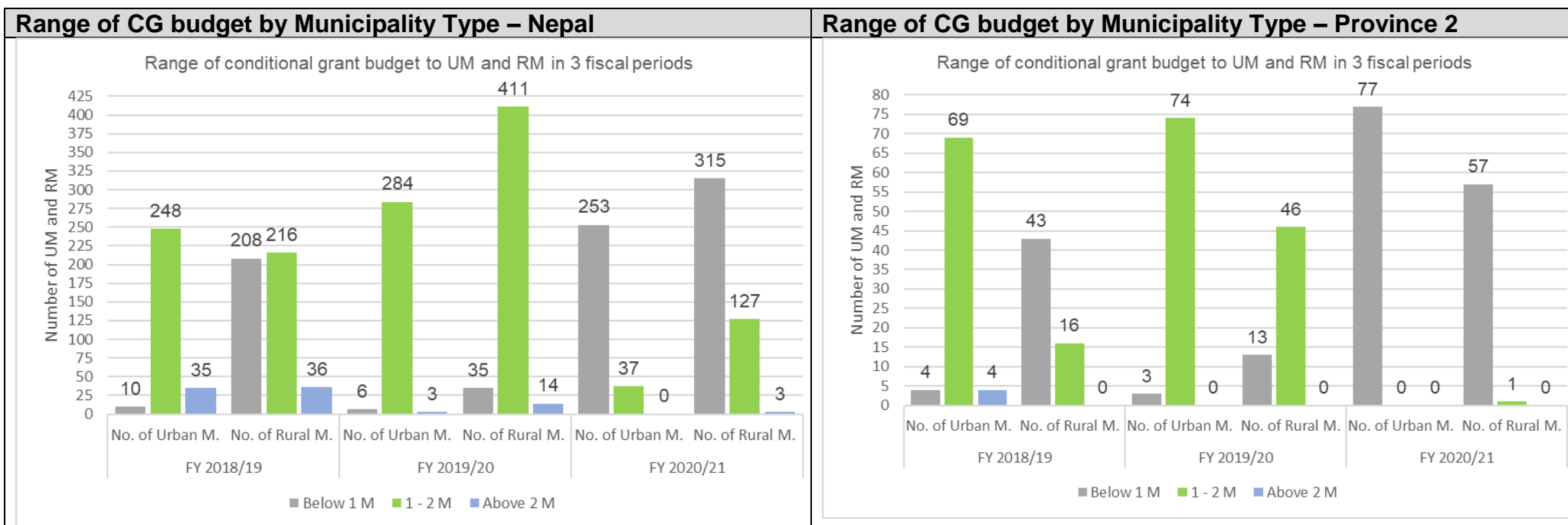
Share of Urban and Rural Municipality CG budget – Karnali Province



Compared to FY 2075/76, the CG allocated were as follows for:

- **Urban municipalities (Ums):** increased by 5%; i.e from NPR 36 million to 38 million in FY 2076/77. Further, in FY 2077/78, the CG allocated for all the UMs decreased by 46%; i.e. from NPR 38 million to 22 million.
- **Rural municipalities (RMs):** increased by 43%; i.e. from NPR 66 million to 95 million FY 2076/77. However, in FY 2077/78, the CG allocated for all the RMs decreased by 52%; i.e. from NPR 95 million to 44 million.

4. Range of Conditional Grant Budgets by Municipality Type



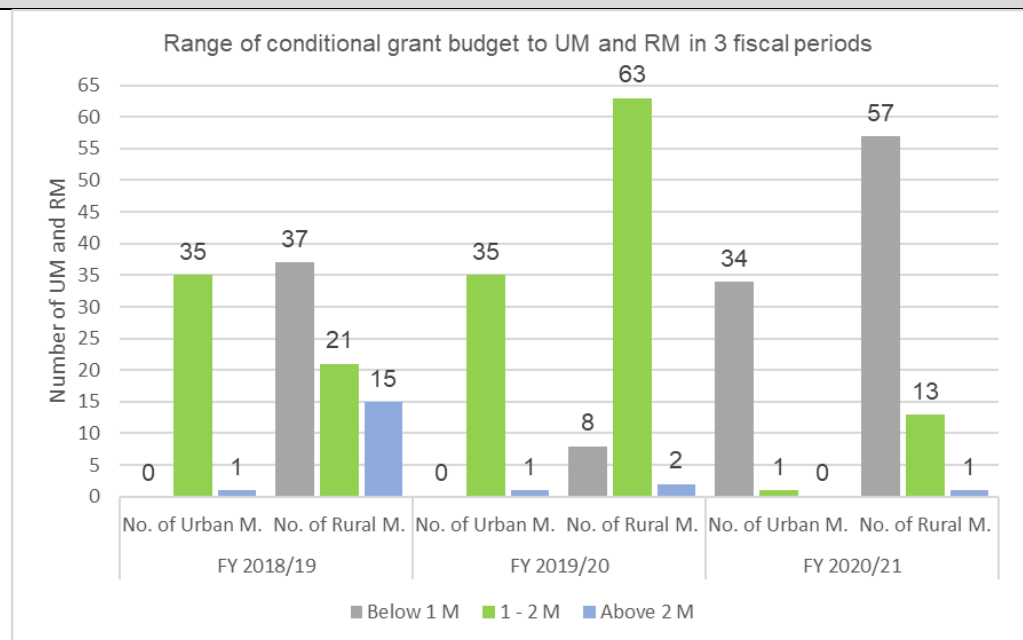
The range of allocation of conditional grant are as follows:

- Majority of the UMs (85% in FY 2075/76 and 97% in FY 2076/77) received CGs within the range of NPR 1-2 million.
- Nearly half of the LGs (47%) received CG in the range of NPR 1-2 million in FY 2075/76 but in FY 2076/77 majority of RMs (89%) received CG in the range of NPR 1-2 million.
- Nominal LGs (just 2% out of 753 LGs) have received CG higher than NPR 2 million in FY 2076/77.
- In FY 2077/78 majority of the LGs (87% UMs and 71% RMs) have received CGs below 1 million.
- Few LGs (13% UMs and 29% RMs) have received CGs within the range of NPR 1-2 million in FY 2077/78.
- Just 3 LGs (all 3 being RMs) received CG higher than NPR 2 million in the fiscal year of 2077/78.

The range of allocation of conditional grant are as follows:

- Majority of the UMs (90% in FY 2075/76 and 96% in FY 2076/77) received CGs within the range of NPR 1-2 million.
- A majority of the RMs (73%) received below NPR 1 million in FY 2075/76 but in FY 2076/77 majority of RMs (78%) received CG in the range of NPR 1-2 million.
- No LGs received CG higher than NPR 2 million in FY 2076/77 and FY 2077/78.
- In FY 2077/78 almost all the LGs received CG below NPR 1 million. Only one LG (Aurahi RM of Siraha district) received CG within the range of NPR 1-2 million in FY 2077/78.

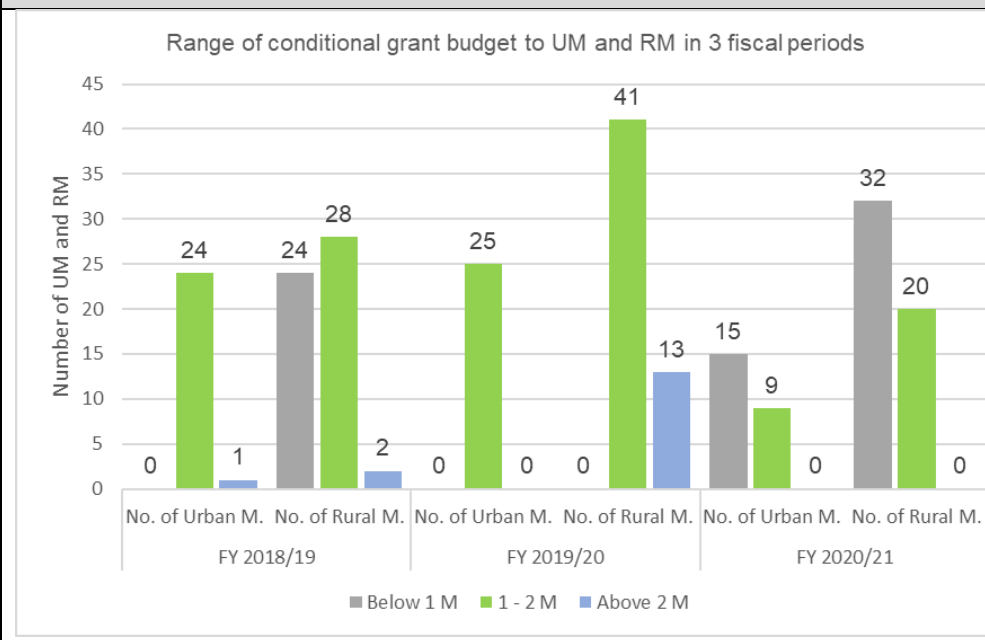
Range of CG budget by Municipality Type – Lumbini Province



The range of allocation of conditional grant are as follows:

- Majority of the UMs (97% in FY 2075/76 and FY 2076/77) received CGs within the range of NPR 1-2 million.
- A majority of the RMs (51%) received below NPR 1 million in FY 2075/76 but in FY 2076/77 year majority of RMs (86%) received CG in the range of NPR 1-2 million.
- Nominal LGs have received CG higher than NPR 2 million in FY 2076/77.
- In FY 2077/78 majority of the LGs (97% UMS and 80% RMs) have received CGs below 1 million.
- Few LGs (3% UMs and 18% RMs) have received CGs within the range of NPR 1-2 million in FY 2077/78.
- Only one LG (Triveni RM of Rolpa district) received CG higher than NPR 2 million in FY 2077/78.

Range of CG budget by Municipality Type – Karnali Province



The range of allocation of conditional grant are as follows:

- Majority of the UMs (96% in FY 2076/77 and 100% in FY 2076/77) and received CGs within the range of NPR 1-2 million.
- In case of RMs (52% in FY 2076/77 and 76% in FY 2076/77) received CGs within the range of NPR 1-2 million.
- Nominal LGs have received CG higher than NPR 2 million in FY 2075/76 whereas one-fourth of RMs have received CG higher than 2 million in FY 2076/77.
- In FY 2077/78 majority of the LGs (62% of UMS and RMs each) have received CGs below 1 million.
- Few LGs (38% of UMs and RMs each) have received CGs within the range of NPR 1-2 million in FY 2077/78.
- No LGs received CG higher than NPR 2 million in FY 2077/78.

5. Expenditure of Conditional Grant RE Budgets of FY 2075/76

Based on sampled 11 LGs expenditure data- Province 2	Based on sampled 10 LGs expenditure data- Lumbini Province																
<p data-bbox="232 245 875 277">Expenditure of Conditional Grant RE budget</p> <table border="1" data-bbox="152 309 958 863"> <thead> <tr> <th>Range of Expenses</th> <th>Percentage of LG</th> </tr> </thead> <tbody> <tr> <td>No Expense</td> <td>50</td> </tr> <tr> <td>Expenses below 50%</td> <td>30</td> </tr> <tr> <td>Expenses above 80%</td> <td>20</td> </tr> </tbody> </table>	Range of Expenses	Percentage of LG	No Expense	50	Expenses below 50%	30	Expenses above 80%	20	<p data-bbox="1144 245 1854 277">Expenditure of Conditional Grant RE budget</p> <table border="1" data-bbox="1055 309 1951 863"> <thead> <tr> <th>Range of Expenses</th> <th>Percentage of LG</th> </tr> </thead> <tbody> <tr> <td>No Expense</td> <td>0</td> </tr> <tr> <td>Expenses below 50%</td> <td>0</td> </tr> <tr> <td>Expenses above 80%</td> <td>100</td> </tr> </tbody> </table>	Range of Expenses	Percentage of LG	No Expense	0	Expenses below 50%	0	Expenses above 80%	100
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<p data-bbox="107 900 674 932">From the sampled 11 LGs of province 2 :</p> <ul data-bbox="107 948 987 1230" style="list-style-type: none"> - 20 percent of the LGs had spent more than 80 percent of the CG budget. - 30 percent of LGs spent below 50 percent of the CG budget - Remaining 50 percent of the LGs did not spend any from the CG - Most of these LGs used the CG in installation of solar street light and biogas. 	<p data-bbox="1016 900 1621 932">From sampled 10 LGs of Lumbini Province:</p> <ul data-bbox="1016 948 2011 1230" style="list-style-type: none"> - All 10 LGs spent minimum of 80 percent of the CG budget; 40 percent of the LGs had spent 100 percent. - 90 percent of these LGs used CG budget for solar back up in palika/ward offices, solar street light, metallic stoves and biogas. - Remaining 10 percent of LGs have spent on maintenance of MHP and installation of solar home system. 																

Note: The information on expenditure was collected through field visits in early 2020; many LGs were not forthcoming on data from phone interviews.

6. Further Observations and Recommendations

- **The majority of cases in the last two FYs show that the CG for renewable energy was found to have a weak relationship with human development index (HDI), infrastructure development, geographic area of the palika and demographic details (population and households).** As per NNRFC, the fiscal distribution of grants should consider these key indicators. The three-year data also shows that electrification access was not considered in the CG allocation as NREP analysis showed a weaker correlation.

The primary recommendation is to consider at least the energy/electricity access/status, poverty, remoteness and population for allocating the CG for renewable energy from next FY onwards. Linkage with electrification access also needs to be made.

- **The distribution of CG amongst LGs did not reflect their needs particularly in provinces 2 and Lumbini.** In provinces 2 and Lumbini the CG has decreased year on year. In comparison to province Lumbini, the CG allocation is lower in P2 despite lower electricity access (~ 2% less) and higher population (~ 1 million more). During FY 2075/76 and FY 2076/77, the CG in Lumbini province reduced by only 1% while the overall CG in P2 reduced by 8%. In the current FY 2077/78, there are 18 LGs without CG allocation. LGs without CG in Lumbini and Karnali provinces have electricity access lower than their district average. Hence, it is recommended that the LGs that have high needs of CGs should not be left behind irrespective of the provinces they are in.
- **Data on expenditure is not available, field interviews showed a low level of capacity at the local level on utilisation.** Data from section 5 shows the expenditure in sampled LGs. Monitoring the effective use of CGs and mix of different public grants all need increased evidence generation. Proper guidance for utilisation of CGs is needed lest it is spent without significant outcomes. It is recommended to all LGs to disclose the detailed account of expenditure of conditional grant budget soon after completion of audit as per the fiscal discipline of GoN.
- **In total, NPR 2.65 Arab (eqv. USD 22 million) have been disbursed as CG from FY 2075/76 to FY 2077/78.** Based on the 15th Plan targets for different renewable energy activities, NREP estimates nearly USD 1 billion will be required to meet the target of reaching 100% electrification

by 2024. Apart from the allocation of RE budgets by the Alternative Energy Promotion Center (AEPC), the CG disbursed represents approximately 22% of the budget required to meet the target. Grants should be allocated to align and meet both the targets/needs of LG and the 15th Plan.