

Funding Proposal

SAP038: Climate Adaptation, Resilience and Engagement in Local Governments (CARE-LG)

Bhutan | Bhutan Trust Fund for Environmental Conservation | Decision B.39/06

14 August 2024



**GREEN
CLIMATE
FUND**

Contents

Section A: **PROJECT / PROGRAMME SUMMARY**

This section highlights some of the project's or programme's information for ease of access and concise explanation of the funding proposal.

Section B: **PROJECT / PROGRAMME DETAILS**

This section focuses on describing the context of the project/programme, providing details of the project/programme including components, outputs and activities, and implementation arrangements.

Section C: **FINANCING INFORMATION**

This section explains the financial instrument(s) and amount of funding requested from the GCF as well as co-financing leveraged for the project/programme. It also includes justification for requesting GCF funding and exit strategy.

Section D: **EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA**

This section provides an overview of the expected alignment of the projects/programme with the GCF investment criteria: impact potential, paradigm shift, sustainable development, needs of recipients, country ownership, and efficiency and effectiveness.

Section E: **ANNEXES**

This section provides a list of mandatory documents that should be submitted with the funding proposal as well as optional documents and references as deemed necessary to supplement the information provided in the funding proposal.

Notes to accredited entities on the use of the SAP funding proposal template

- The Simplified Approval Process Pilot Scheme (SAP) supports projects and programmes with a GCF contribution of up to USD 25 million with minimal to no environmental and social risks. Projects and programmes are eligible for SAP if they are ready for scaling up and have the potential for transformation, promoting a paradigm shift to low-emission and climate-resilient development.
- This template is for the SAP funding proposals and is different from the funding proposal template under the standard project and programme cycle. Distinctive features of the SAP funding proposal template are:
 - *Simpler documents*: key documents have been simplified, and presented in a single, up-front list;
 - *Fewer pages*: A shorter form with significantly fewer pages. The total length of funding proposals should **not exceed 20 pages**, annexes can be used to provide details as necessary;
 - *Easier form-filling*: fewer questions and clearer guidance allows more concise and succinct responses for each sub-section, avoiding duplication of information.
- Accredited entities can either directly incorporate information into this proposal, or provide summary information in the proposal with cross-reference to other funding proposal documents such as project appraisal document, pre-feasibility studies, term sheet, legal due diligence report, etc.
- Submitted SAP Pilot Scheme funding proposals will be disclosed simultaneously with submission to the Board, subject to the redaction of any information which may not be disclosed pursuant to the [GCF Information Disclosure Policy](#).
- For more information on how to develop Funding Proposals under the SAP please refer to the [Simplified Approval Process \(SAP\) Funding proposal guidelines](#).

Please submit the completed form through the GCF Digital Proposal Submission Platform (DPS)¹

¹ See the [DPS user guide](#) for further information on how to access and submit proposals.

LIST OF ACRONYMS

BTFEC	Bhutan Trust Fund for Environmental Conservation
CARE-LG	Climate Adaptation, Resilience and Engagement in Local Governments
CCA	Climate-Change Adaptation
CDLG&FD	Capacity Development for Local Government and Fiscal Decentralization
CEDAW	Convention on the Elimination of all Forms of Discrimination Against Women
DLGDM	Department of Local Governance and Disaster Management
D MDF	Department of Macro-Fiscal and Development Finance
DPBP	Department of Planning, Budgeting and Performance
DTA	Department of Treasury and Accounts
EE	Executing Entity
EU	European Union
FYP	Five-Year-Plan
GDP	Gross Domestic Product
GECDP	Gender, Environment, Climate-change, Disaster and Poverty
GESI	Gender Equality and Social Inclusion
GLOF	Glacial Lake Outburst Floods
GNH	Gross National Happiness
IPCC	International Panel on Climate Change
JSP	Joint Support Programme (JSP) on Capacity Development for Mainstreaming Environment, Climate-Change and Poverty (ECP) concerns in Policies, Plans and Programmes
LoCAL	Local Climate Adaptative Living
LG	Local Government(s)
LGSDP	Local Governance Sustainable Development Programme
MEAL	Monitoring, Evaluation, Accountability and Learning
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
NCWC	National Commission for Women and Children
NAP	National Adaptation Plan
NAPA	National Adaptation Plan of Action
NDA	National Designated Authority
NDC	Nationally Determined Contributions
RGoB	Royal Government of Bhutan
PBG	Performance-Based Climate-Change Adaptation Grant
PMU	Project Management Unit
PFO	Project Focal Official
PSC	Project Screening Committee
RAFC	Resource Allocation Formula and Criteria
SDG	Sustainable Development Goals
TOC	Theory of Change
UN	United Nations
UNCDF	United Nations Capital Development Grant
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

List of definitions

Local Terms	Definition
Chiwog	Chiwogs are basic electoral constituencies within gewogs to elect one member of communities to the gewog level local government. Generally, there are 5 or 6 chiwogs in a gewog. A Chiwog may comprise of several villages
Gewog	Gewogs are the lowest administrative structure of the government system
Dzongkhag	District. Bhutan is divided into 20 districts
Gup	Elected head of a gewog
Dzongdag	Chief executive of a dzongkhag (district) or any official for the time being exercising the functions of the office of Dzongdag
Tshogpa	Elected representative of a Chiwog or a cluster of villages.
Mangmi	Elected representative of Gewog, functioning as deputy Gup

A. PROJECT/PROGRAMME SUMMARY					
A.1. Has this FP been submitted as a SAP CN before?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			
A.2. Is the Environmental and Social Safeguards Category C or I-3?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			
A.3. Project or programme	<input checked="" type="checkbox"/> Project <input type="checkbox"/> Programme	A.4. Public or private sector	<input checked="" type="checkbox"/> Public sector <input type="checkbox"/> Private sector	A.5. RfP	Not applicable
A.6. Result area(s)	<i>Check the applicable GCF result area(s) that the overall proposed project/programme targets. For each checked result area(s), indicate the estimated percentage of GCF and Co-financers' budget devoted to it. The total of the percentages when summed should be 100% for GCF and Co-financers' contribution respectively.</i>				
				GCF Contribution	Co-financers' contribution²
	Mitigation total			<u>Enter number</u> %	<u>Enter number</u> %
	<input type="checkbox"/> Energy generation and access			<u>Enter number</u> %	<u>Enter number</u> %
	<input type="checkbox"/> Low emission transport			<u>Enter number</u> %	<u>Enter number</u> %
	<input type="checkbox"/> Buildings, cities and industries and appliances			<u>Enter number</u> %	<u>Enter number</u> %
	<input type="checkbox"/> Forestry and land use			<u>Enter number</u> %	<u>Enter number</u> %
	Adaptation total			<u>Enter number</u> %	<u>Enter number</u> %
	<input checked="" type="checkbox"/> Most vulnerable people and communities			40% %	00 %
	<input checked="" type="checkbox"/> Health and well-being, and food and water security			30% %	00 %
<input checked="" type="checkbox"/> Infrastructure and built environment			30% %	0 %	
<input type="checkbox"/> Ecosystem and ecosystem services			<u>Enter number</u> %	<u>Enter number</u> %	
A.7.1. Expected mitigation outcome (Core indicator 1: GHG emissions reduced, avoided or removed / sequestered)	Indicate GHG emission reductions or removals in tCO ₂ e _q over total lifespan of the project/programme ³		A.7.2 Expected adaptation outcome (Core indicator 2: direct and indirect beneficiaries reached)	214,973 (direct and indirect) beneficiaries – 30% of total population and 49% women.	
				70,510 direct beneficiaries (49% women)	144,463 indirect beneficiaries (49% women)
				10 % of country's total population; 49% women.	20 % of country's total population; 49% women.
A.8.1. Total investment (GCF + co-finance ⁴)	Amount: 10,000,000 USD		A.8.2 Total GCF funding requested	Amount: 10,000,000 USD	
A.9. Type of financial instrument requested for the GCF funding	<input checked="" type="checkbox"/> Grant <input type="checkbox"/> Loan ⁵ <input type="checkbox"/> Equity <input type="checkbox"/> Guarantees <input type="checkbox"/> Others:				
A.10. Implementation period (months)	60 months (5 Years)		A.11. Total project/ programme lifespan (years)	180 months (15 years)	
A.12. Expected date of internal approval	The date that the AE obtained/will obtain its own approval to implement the project; <u>Click or tap to enter a date.</u>		A.13. Has Readiness or PPF support been used to prepare this FP?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
A.14. Is this FP included in the entity work programme?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		A.15. Is this FP included in the country programme?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	

² Co-financer's contribution means the financial resources required, whether Public Finance or Private Finance, in addition to the GCF contribution (i.e. GCF financial resources requested by the Accredited Entity) to implement the project or programme described in the funding proposal.

³ The total lifespan of the project/programme is defined as the maximum number of years over which the outcomes of the investment are expected to be effective. This is different from the project/programme implementation period.

⁴ Refer to the Policy on Co-financing of the GCF.

⁵ Senior loans and subordinated loans.

<p>A.16. Executing Entity information</p>	<ol style="list-style-type: none"> 1. The Project will be co-executed by the Department of Planning, Budget and Performance (DPBP) of the Ministry of Finance (MoF) and the Department of Local Governance and Disaster Management (DLGDM) of the Ministry of Home Affairs (MoHA) of the Royal Government of Bhutan (RGOB). Subsidiary agreement will be signed between BTFEC and DMDF (MoF) acting on behalf of RGOB. DMDF as the signatory of subsidiary agreement will ensure the project's alignment with the plans and execution with established system in coordination with BTFEC. 2. The DPBP is responsible to oversee effective and efficient allocation and management of public resources, including budget allocations to Local Governments (LGs) and implementation/monitoring of Performance-Based Grants (PBG) mechanism. 3. The DLGDM is the central coordinating agency (based on LG Act 2009) that manages overall capacity development of LG, supervision and monitoring of projects (on climate-change adaptation, gender mainstreaming, disaster management and other cross-cutting activities) in LGs and provides administrative and management support to LGs for implementation of decentralized functions. The Department has implemented the previous projects on PBG under Joint Support Programme (JSP), Local Governance Sustainable Development Programme (LGSDP) and the recent Capacity Development for Local Governments and Fiscal Decentralization (CDLG&FD) project under the European Union's (EU) Capital Budget Support.
<p>A.17. Scalability and potential for transformation (max. 100 words)</p>	
<ol style="list-style-type: none"> 4. CARE-LG will scale-up the Government's interventions to increase local communities' resilience and climate-change adaptive capacity that was implemented through <i>JSP</i>, <i>LGSDP</i>; and <i>CDLG&FD</i> corresponding to 10th (2008/2009 to 2012/2013), 11th (2013/2014 to 2017/2018) and 12th (2018/2019 to 2022/2023) Five-Year-Plans (FYP), respectively. Combined with the awareness and capacity building on mainstreaming CCA, these projects provided LGs with PBG for evidenced-based small scale climate resilient investments integrated within the LG annual planning and budgetary cycles within the Government's annual capital grant transfer system. 5. Financing LGs with PBG was implemented in the country since 2011 based on the UNCDF's LoCAL facility, and proved effective in transferring CCA finance directly to LGs as an incentive to mainstream CCA actions at the local level with low transaction costs and strong local ownership. CARE-LG will provide continuity to locally led adaptation planning process at the local level in the 13th FYP (2024/2025 to 2028/2029), and contribute in the Government's long-term aim to gradually cover support for adaptation to all 205 Gewogs (See section II e, Annex 2). 	

A.18. Project/Programme rationale, objectives and approach (max. 300 words)

Climate rationale of the Project

6. Combination of fragile mountainous terrain and heavy reliance on climate-sensitive areas such as agriculture, forestry, and hydropower for economic development increases Bhutan's high vulnerability to climate change impacts⁶ that are felt most acutely in remote and dispersed rural communities with limited adaptation and coping capacities. Mainly due to rapid changes in temperature and precipitation patterns, all 205 Gewogs are impacted to varying extents by climate change, resulting into increased forest fire risks, seasonal water scarcity and erratic rainfall pattern posing huge adversities for farmers who largely practice rain-fed agriculture system⁷. Severe windstorms damage homes, schools, health facilities, government offices, and cultural monuments, as well as crops and livestock. Climate-induced GLOFs cause significant human and economic devastation to most people and economic activities concentrated in large river valleys.⁸ Bhutan's exposure to hazards such as flash floods, including GLOFs, forest fires, storms, and landslides highlight the high degree of vulnerability of the country⁹. According to IPCC, a high likelihood of extreme weather events with excessive monsoon rains causes landslides and floods, while late monsoonal rains result in droughts, heatwaves and increased cyclone activities¹⁰. The common climate-change impacts include drying water sources; plants' pests and diseases; disruption in drainage networks; damage of irrigation channel and road infrastructure; disabling crop, livestock and food production and transport; and, disaster risks to lives and assets¹¹ (See. Section IV, a and b of Annex 2).

Purpose and activities of the project

7. CARE-LG intends to strengthen climate resilience of most vulnerable local communities across Bhutan through mainstreaming climate responsive adaptation planning and adaptation practices that are critical for their livelihoods. The project aims to ensure that local communities have reduced vulnerability and increased resilience in the face of climate variability and extremes, and the adaptive capacity needed to maintain sustainable development pathways across a range of potential climate futures. The key project feature is the integration of climate resilience building into LGs' annual planning and budgetary cycles through allocation of small-scale CCA investment grants to be accessed based on performance, which was instituted since 2011. The PBG complement LGs' regular budget allocations for critical capital expenditure and operational needs. The activities of the Project are designed under the Project's two components: (1) Capacity-building of LG functionaries and communities in CCA planning and implementation, and adoption of climate responsive technologies and practices; and, (2) Provision of grants for adaptation investments, accessible through performance-based criteria. The project will prioritize 120 Gewogs identified based on the climate vulnerability rating. Out of these, at least 60 Gewogs will receive CCA PBG grants through a performance-based assessment and access mechanism to finance their adaptation proposals¹² (See. Section IV, a and b of Annex 2).

Climate results of the project

8. CARE-LG will help to climate-proof LGs' and communities' development plans and activities, while strengthening climate resilience of local communities through implementation of activities, led and owned by themselves in a context-specific and cost-effective approach. The Project's climate-results include reduced climate change vulnerability and adverse impacts resulting from communities' enhanced adaptive capacity towards improved community livelihoods. There will be a paradigm shift from climate change-driven development trap to a sustainable, climate change resilient development trajectory. The project will promote innovative CCA interventions encompassing both adaptation and mitigation practices that will become a 'new normal' in the long run with stronger institutions at the local community as well as national level. Promotion of PBG will empower local communities and governments with adaptive technical capacity, accompanied by institutionalization of practices, processes and guidelines necessary for effective and sustainable CCA even after the completion of the project. Monitoring, including by communities, will strengthen the impacts of local actions and the accountability of local actors, in line with Government's decentralization measures to enhance local CCA budgeting and financial performance. The project will catalyze local and national policy change through demonstration of effectiveness of small-scale, locally designed adaptation investments, and providing incentives for a greater budget allocation to climate change adaptation. These efforts will drive community ownership and buy-in while demonstrating the long-term sustainability of large-scale climate investments (See Section III c, Annex 2)

Rationale for the use of GCF funding

9. The objective of CARE-LG is directly in line with the GCF's goal of strengthening the domestic capacity of countries to address climate change, as it involves (i) deploying a climate finance facility led by the Government and aligned to national systems; and (ii) contributing to local community adaptation through the institutionalization of performance-based grant in planning, budgeting, implementation and monitoring of adaptation measures at the local level. The GCF funding is required as the local governments are unable to finance the additional costs associated

with climate change adaptation since financial transfers from the central government level are generally insufficient, and climate adaptation remains fundamentally underfunded at the local community level. GCF funds will be used specifically to address critical information and capacity gaps of local communities and governments as well as cover the additional cost of climate change adaptation as identified under NAP 2023 and proposed under GAPs (See Section II a, Annex 2 on Financing Local Governments and Capacity Building on Sustainable Development and Section III d, e and g, Annex 2)

Short justification for the chosen instrument to be financed by the GCF

10. Climate-proofing local development activities for reduced climate vulnerabilities and protection from adverse climate change effects through PBG mechanism is proven to be cost-effectiveness with efficiency in supporting climate resilience of remote vulnerable communities and sustainable mainstreaming of climate change in LG budgeting for incentivizing systematic strengthening of performance by LGs. With successful experience of PBG, communities and LGs are gaining prominence in the design and implementation of climate change adaptation action. The government is taking ownership of the mechanism and gearing towards mainstreaming the climate change adaptation across their portfolio of grant windows. The project is aligned and contributes to several Sustainable Development Goals (SDGs), in particular, SDG 1: No poverty; SDG 5: Gender Equality; SDG 8: Decent work and economic growth; SDG 11: Sustainable cities and communities; and, SDG 13: Climate Action. LGs in Bhutan have critical role in significantly addressing climate risks at local levels but lack significant capacity and resources. The integration of climate resilience building into LGs' annual planning and budgetary cycles empower local communities and institutionalize practices, processes and guidelines necessary for effective and sustainable CCA (See Chapter III, Section (b), of Annex 2).

⁶ World Bank. 2023. Climate Change Knowledge Portal. Bhutan <https://climateknowledgeportal.worldbank.org/country/bhutan>

⁷ The Climate Vulnerability Assessment conducted for the National Adaptation Plan (2023) by UNDP Bhutan.

⁸ <https://www.adaptation-undp.org/explore/bhutan>

⁹ World Bank. 2023. Climate Change Knowledge Portal. Bhutan

¹⁰ Climate Risk Country Profile: Bhutan (2021): The World Bank Group and the Asian Development Bank.

¹¹ Section IV a, Annex 2 (Pre-Feasibility Study)

¹² There are a total of 205 Gewogs. The remaining Gewogs not covered under this Project are planned to be similarly supported through subsequent GCF and other funding opportunities.

B. PROJECT/PROGRAMME DETAILS

B.1. Context and baseline (max. 500 words)

Climate vulnerabilities and impacts, and adaptation needs

11. Bhutan's vulnerability and climate-change impacts is justified in the fragile mountainous terrain with heavy reliance on climate-sensitive development sectors such as agriculture, forestry and hydropower for economic development¹³. ND-GAIN Index ranks Bhutan as the 38th most vulnerable country and the 62nd most ready country to climate change impacts¹⁴. Some of the conspicuous climate impacts are: recurrent incidences of severe windstorm damaging homes, schools, health facilities, government offices, and cultural monuments, as well as crops and livestock; hazards such as flash floods, forest fires, storms and landslides; and formation of supra-glacial lakes due to the accelerated retreat of glaciers with increasing temperatures (also refer table on record records of loss and damage due to climate hazard, Section 2B of Annex 2). Climate-induced GLOFs cause downstream human and economic devastation¹⁵, and frequent flooding is causes largest percentage of mortality¹⁶, with the overall annual impact of river flooding alone estimated to exceed 4% of GDP¹⁷. Climatic hazards and landslides disrupt drainage networks, damage irrigation channels and critical road infrastructure impacting the ability for food production and transportation, while posing serious disaster risks to the people and their assets. Fluctuations in temperature and precipitation affect crop and livestock productivity, with further declines expected in major staple and export crops (NAP 2023). Additionally, crop damages to pest and diseases linked to rising temperatures further threatens food security.
12. As a least developed country with one of the world's smallest economies, adverse climate change is hugely impacting Bhutan's small population (727,145) most of whom are based in remote and disperse rural areas (62.2%¹⁸) depending on subsistence livelihoods. ND-GAIN index assessment and other studies identify low adaptation and risk coping capacity of remote rural communities and low access to reliable basic social services as the main contributing factors to Bhutan's climate vulnerability. Local level community capacity to address these impacts is limited due to limited fiscal resources; poor infrastructure; high reliance on subsistence agriculture and climate vulnerable sectors; and remote and dispersed location of vulnerable communities. If left unaddressed, vulnerability of climate change related shocks will lead to rise in poverty and food insecurity. Therefore, locally-led and community-driven resilience building activities tailored to specific needs of LGs and communities need to be implemented in a cost-effective and context specific approach.

Baseline scenarios that the proposed intervention seeks to overcome

13. Bhutan is experiencing rapid changes in temperature and precipitation patterns, leading to multiple and cascading hazards¹⁹. Reduced precipitation during winter in recent years has caused increased forest fire risks and seasonal water scarcity in many areas. Rainfall pattern is increasingly erratic, posing huge adversities for farmers who largely practice rain-fed agriculture. Dependence on the monsoon rains and short growing periods coupled with concentration of agricultural lands on slopes vulnerable to landslides and soil erosion makes agriculture highly vulnerable to climatic conditions and climate change²⁰.
14. The country is projected to experience higher temperature increase (3.9°C) than the global average (3.7°C) by 2090s²¹. Simulated projections²² for Bhutan and the South Asia region expects: (i) an increase of surface temperature (0.8°C–1.6°C) during 2021-2050 (representing the 2030s mid-term climate change scenario), and 1.6 – 2.8°C during 2050-2100 under the RCP4.5; and, (ii) an increase in surface temperature from 2021 (between 0.8°C to more than 3.2°C) is expected towards the end of the century under the RCP8.5. Spatial variation model of the WB/ADB 2021 suggests an increase in annual temperature throughout the country (particularly in the north) and precipitation (particularly in the center by 2040-2059 and in the east by 2080-2090) using a model ensemble. These projections are confirmed by the CMIP6 family of models. The IPCC Interactive Atlas²³ projects temperature increases for South Asia of 1.3 degrees C under scenario SSP2-4.5 in the near term and increases of 1.9-2.8 degrees C in the medium to long term. These results from the Atlas confirm and agree with these model projections for both temperature and rainfall. All models show a progressive and steady increase in air temperature from 1980 to 2100, with concomitant increases in temperature extremes.

¹³ World Bank. 2023. Climate Change Knowledge Portal. Bhutan Study <https://climateknowledgeportal.worldbank.org/country/bhutan>

¹⁴ <https://gain-new.crc.nd.edu/country/bhutan>

¹⁵ <https://www.adaptation-undp.org/explore/bhutan>

¹⁶ World Bank. 2023. Climate Change Knowledge Portal. Bhutan

¹⁷ WRI (2018) AQUEDUCT Global Flood Analyzer

¹⁸ Population and Housing Census of Bhutan, 2017.

¹⁹ Chhogyel and Kumar *Agriculture & Food Security* (2018) 7:79.

²⁰ National Adaptation Plan (NAP) of the Kingdom of Bhutan 2023.

²¹ ibid

²² National Center for Hydrology And Meteorology (NCHM) (2019) [Analysis of Historical Climate and Climate Projection for Bhutan](#)

²³ <https://interactive-atlas.ipcc.ch/>

15. Climate models also suggest increased probability of heatwaves and droughts that are to disproportionately affect communities in Bhutan's lowlands²⁴. Higher temperatures are expected to accelerate snowmelt, potentially altering river discharge patterns and water availability. Flooding, the most critical climate-related threat in Bhutan, is expected to affect the agricultural land and infrastructure situated along vulnerable drainage basins, susceptible to heavy monsoon rains and glacial-lake outbursts. Projected rise in average mean temperatures and monsoon precipitation are expected to lead to seasonal shifts with conditions getting wetter in the summer or monsoon season and drier in the winter or dry season, with extreme temperatures and increasing frequency of extreme rainfall. See Chapter II, section (a) & (b) of Annex 2 (Prefeasibility Study) for details.

Recent or ongoing projects that are related to this FP, and how this project/programme complements these.

16. Bhutan's intervention on sustainable development, CCA and resilience, particularly at the local level, was practised since 2011 in an incremental manner and scaled up in phases through series of similar projects²⁵. At the core of all these projects was the community capacity building on CCA, accompanied by provision of PBG to Gewogs for enhancing their resilience through climate proofing of local activities. Beginning with the support of UNCDF-LoCAL facility in 2011, LGs were facilitated with the CCA ex-ante financial top-up to cover the incremental costs of climate related investments and complimenting regular allocations made through intergovernmental fiscal transfer. Based on the successful demonstration of the grants and also taking into account its long-term sustainability and high potential in replicating the model, EU Budget Support replicated the practice under the CDLG&FD component of LGSDP in the recent 12th FYP phase. The government is now taking the ownership to institutionalize this community CCA financing mechanism to mainstream CCA across all portfolio of grant windows. CARE-LG will complement this effort of the Government in the 13th FYP (2023/2024 – 2028/2029) with the aim of scaling up and replicating the adaptation investments to support the most vulnerable amongst remaining communities.

Main root causes and barriers that need to be addressed.

17. The main barriers that continue to hamper the design, planning and implementation of climate adaptation investments as well as the overall adaptive capacity of local communities and governments that needs to be addressed are:

- (a) Institutional: (i) capacity limitations of LGs to mainstream climate resilience in planning, budgeting, and implementation; (ii) limited technical and climate change knowledge in adaptation programming; and (iii) limited experience in designing, implementing and managing climate change adaptation projects and limited operational capacities.
- (b) Fiscal and Financial: Local governments and communities lack necessary finance to implement climate-resilient interventions as the magnitude of potential climate change impacts and costs of climate actions are significant.
- (c) Social: According to the Bhutan Poverty Analysis Report (NSB, 2022), poverty rate of the country is estimated at 12.4%, with the poverty incidence in rural areas being 17.5% compared to that of urban areas at 4.2%. (See section III d, Annex 2). Increased climate vulnerabilities, declining farm profitability and limited non-farm income generating options in rural areas have led to migration into urban areas (and abroad) leading to feminization and aging of farm population. Limited awareness and understanding of climate change and its impacts within communities coupled with continued outmigration especially youth, hinders capacities of vulnerable communities to take collective actions against climate change and other shocks.
- (d) Gender: The rural-urban migration particularly of youth and men has placed woman under pressure. Moreover, the traditional decision-making structures have often limited local women empowerment and participation in planning and decision-making process. The Bhutan's NAP also identifies opportunities to ensure women's/vulnerable group access to gender-friendly technologies at community level and integration of gender responsive measures. Due to gender-differentiated traditional roles in agriculture, health and nutrition, women are likely to face the heaviest burdens of climate impacts. The gender assessment for the GEF/ LDCF-NAPA III project suggested that women are likely to be vulnerable because of their roles in rural communities, which are confined to agricultural and domestic activities within the households while men go for off-farm non-agricultural work or carry out heavier tasks such as ploughing and firewood collection. At 43.5%, the agriculture sector accounts for the highest employment in Bhutan. Of this, women constitute 53.3%²⁶, implying the importance of agricultural livelihoods for the development and wellbeing of Bhutanese women and, therefore, their vulnerability to climate change. While a higher percentage of women is engaged in agriculture, surveys carried out for an in-depth assessment on climate change and gender²⁷ revealed that fewer women than men were aware of climate-smart and resilient agriculture initiatives.

B.2.1. Project/Programme description (max. 1,000 words)

²⁴ ibid

²⁵ JSP, LGSDP and CDLG&FD corresponding to 10th, 11th and 12th FYP, respectively.

²⁶ Bhutan Labor Force Survey Report 2022, National Statistics Bureau, RGoB.

²⁷ Gender and Climate Change in Bhutan: with emphasis on the NDC priority areas - Agriculture, Energy and Waste Report 2020 by UNDP, National Commission for Women and Children and the National Environment Commission.

18. Theory of Change (TOC): The project’s causal logic is captured in its TOC built on the principle that reducing the vulnerability of local communities depends on their empowerment and increased capacity to identify and understand climate change impacts on their livelihoods, and subsequently to develop and implement Gewog adaptation plans.

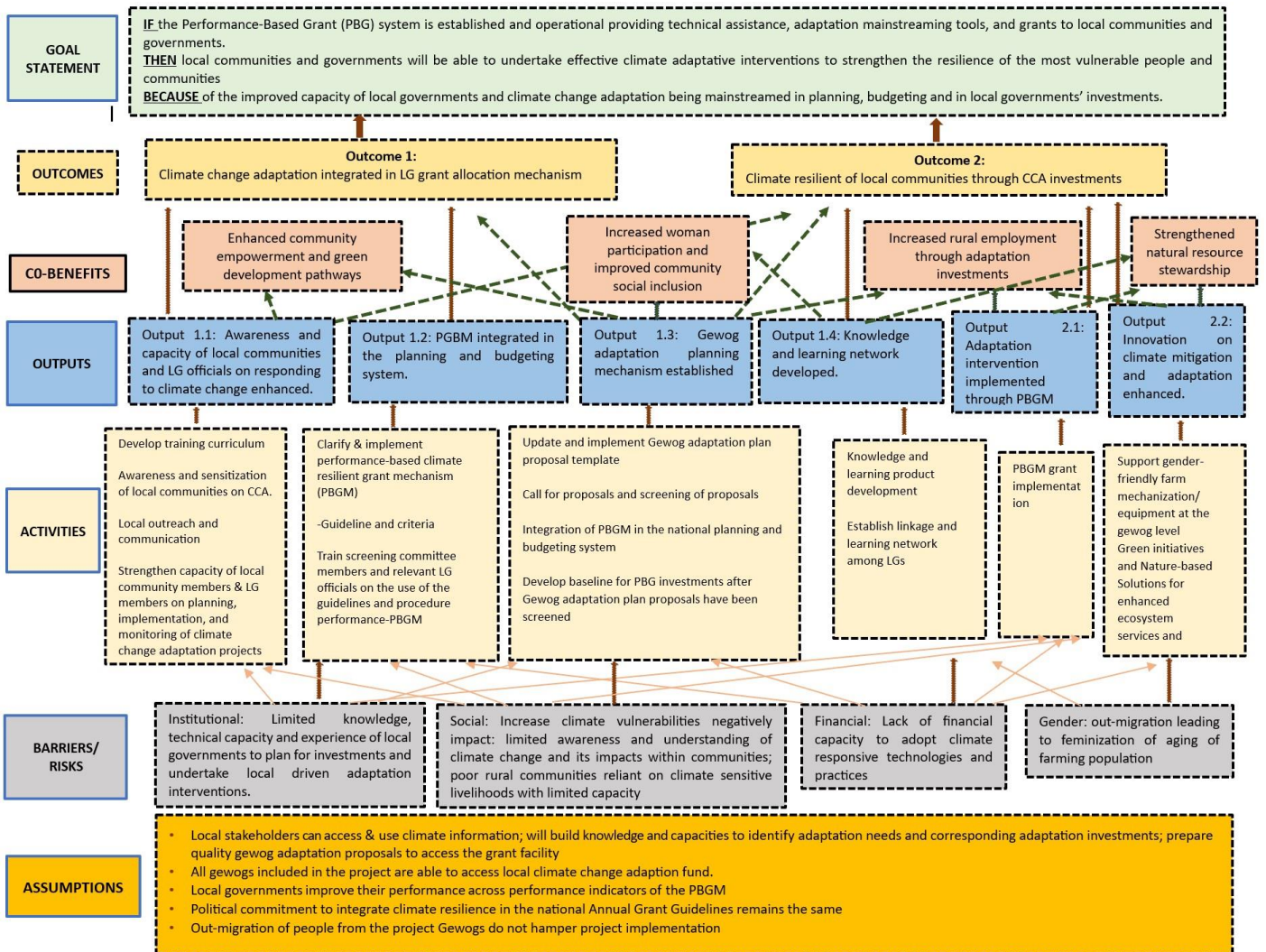


Figure 1: Project’ Theory of Change (TOC)

19. Project objective: The overall purpose and objective of CARE-LG is to strengthen climate resilience of the most vulnerable communities in Bhutan by enhancing technical and institutional adaptive capacities and knowledge, and supporting adoption of climate responsive practices integrated within the existing Government financial transfer system. The project intends to ensure that local communities have reduced vulnerability and increased resilience in the face of climate variability and extremes, and the adaptive capacity needed to maintain sustainable development pathways across a range of potential climate futures. The key feature of the proposed project will be the integration of climate resilience building into the local governments’ annual planning and budgetary cycles through allocation of investment grant resources through PBG mechanism.

20. Outcomes: The Project’s TOC goal will be achieved by two *Outcomes*, each representing one *Component* of the Project: Outcome 1: Climate change adaptation integrated in LG grant allocation mechanism ; Outcome 2 Climate resilient of local communities through CCA investment. The two outcomes will contribute to climate-resilient sustainable development by improving the resilience and enhancing the livelihoods of the most climate vulnerable communities. The two outcomes will directly address localized climate risks and vulnerabilities at the local level and strengthen LGs’ CCA capacities to implement community prioritized climate resilient investments through integration in local development planning and budgeting processes.

21. **Target Beneficiaries:** Due to the fragile topographic terrains and high dependency of rural population on climate sensitive livelihood sectors, all 205 Gewogs remain highly exposed and vulnerable to climate change impacts and associated natural hazards. However, it is not possible to support all Gewogs with this project's financial size (USD 10 million). Therefore, the project intends to support 120 Gewogs (out of total 205 Gewogs) in order of the climate-vulnerability ranking assessed by the [Climate Change Vulnerability Analyses and Mapping for National Adaptation Plan \(NAP\) Formulation Process in Bhutan 2023](#)²⁸ prepared under the GCF readiness window. Out of 120 project Gewogs²⁹, at least 60 Gewogs will be prioritized to provide with PBG of up to USD 125,000 each, in line with performance-based eligibility and selection criteria, to use for investments with a strong climate rationale to be implemented through Gewog adaptation plans. This will cover about 214,973 people or 30% of the country's population³⁰, out of which 105,973 or 49% will be women. PBG for the remaining 145 Gewogs are expected to be covered in the next phase of the CARE-LG through subsequent GCF funding or other funding entities.
22. The project is expected to directly benefit 70,510 people (49% women), constituting 33% of 120 vulnerable Gewogs (33% derived from the assumption that 50% of 60 most vulnerable Gewog's population accounting to 49,013 people and 10% of 120 Gewog's population accounting 21,497 people). Approximately another 144,463 people (49% women) of the remaining 120 vulnerable gewogs constituting 20% of the country's population, are expected to benefit from the project indirectly through strengthened climate knowledge, capacity building and implementation of PBG mechanism in the project gewogs. Additionally, around 1,220 Gewog and Dzongkhag officials are expected to benefit from capacity, knowledge and skills strengthening interventions, including through support for development of Gewog level adaptation plans and implementation of adaptation investment.
23. **Co-benefits:** The project will also result in a range of tangible co-benefits for targeted beneficiaries across the social, environmental, economic and gender domains, which are summarised as follows:
- Social:** Community empowerment and green development pathways; The adoption of positive behavioural changes resulting from climate awareness program will lead to adoption of sustainable practices and green developmental pathways.
 - Environmental:** stewardship of natural resources; The skills and experience gained by the communities through CCA plans can be applied in overall natural resources management at local level.
 - Economic:** Enhanced economic services and operations as a result of reduced damage, delays and disruption due to improved climate resilience of infrastructure and protection of community assets. Rural employment opportunities will be also increased through diversification of adaptation investment opportunities.
 - Gender:** Increased gender equality in communities due to increased participation of women in rural areas. The project will provide increased opportunities for home-based and farmer women to participate and contribute in climate-related decision-making process, thereby reducing gendered climate-change impacts.
24. **Assumptions:** The project's efficient and timely implementation is subject to the following assumptions:
- Local stakeholders: can access and use climate information and that their commitment address local adaptation needs remain unchanged.
 - LGs improve their performance indicators of the PBG.
25. **Component 1. Climate change adaptation integrated in LG grant allocation mechanism:** : The component aims to enhance the capabilities of LG functionaries and local communities in climate change adaptation planning and implementation, and adoption of climate responsive technologies and practices. It is expected to enhance awareness, technical capacities and participation by local communities as well as LG officials on climate-resilient development approaches and practices; and climate responsive local level planning. The component will be achieved through delivery of the following outputs supported by respective activities as described below:
26. **Output 1.1 - Awareness and capacity of local communities and LG officials on responding to climate change enhanced:** This output will provide climate adaptation awareness and training programs to targeted local communities and LG officials, empowering them with the technical knowledge and understanding of climate change vulnerability and adaptation options to identify and prioritize adaptation actions and prepare Gewog adaptation plans. This output will be achieved through sensitization on climate risks and impacts; training on climate change adaptation planning, budgeting and implementation by way of adopting effective locally-led climate resilient interventions. The output 1.1 will be achieved through the following activities:

²⁸ The report is referred in this document as CVAM 2023.

²⁹ Indicative list of 120 Project Gewogs is attached as Annex 1 of prefeasibility study.

³⁰ Population is based on the Population and Housing Census of Bhutan (PHCB) 2017.

Activity 1.1.1: Develop training curriculum for training local communities and local government on climate change adaptation planning, implementation and monitoring;
Activity 1.1.2: Awareness and sensitisation of local communities on climate change risks and impacts;
Activity 1.1.3: Local outreach and communication strategy for climate change awareness at local level;
Activity 1.1.4: Strengthen local community level capacity on planning, implementation and monitoring of climate change adaptation projects;
Activity 1.1.5: Strengthen Dzongkhag level capacity on planning, budgeting, implementation and monitoring of climate change adaptation projects;
Activity 1.1.6: Strengthen Gewog level capacity on planning, budgeting, implementation and monitoring of climate change adaptation projects;
Activity 1.1.7: Strengthen Chiwog level capacity on planning, budgeting, implementation and monitoring of climate change adaptation projects.

27. **Output 1.2 - PBGM integrated into the planning and budgeting system:** Following identification and prioritization at the local community and government levels, this output will focus on integrating PBGM into planning and budgeting process, and training on developing climate adaptation grant proposal by the local governments targeting the grant facility. This output will adopt the procedures of preparations, submissions, screening and monitoring of Gewog Adaptation Plans. The output 1.2 shall be achieved through the following activities:
Activity 1.2.1: Clarify performance based climate resilience grant mechanism (PBGM);
Activity 1.2.2: Develop PBGM guidelines and procedure including screening criteria and procedure;
Activity 1.2.3: Endorsement of the guidelines and procedure performance- based climate resilience grant (PBGM);
Activity 1.2.4: Training to Screening Committee members and relevant LG officials on the use of the guidelines and procedure performance-based climate resilience grant (PBGM).
28. **Output 1.3 Gewog adaptation planning mechanism established:** This output will develop capacity and systems for call for proposals from the most vulnerable gewogs to prepare Gewog Adaptation Plans and establish mechanisms and capacity to assess, select and award the grants for financing the selected gewog adaptation plans. It will include updating the Gewog Adaptation Plan template and investment menu to enable preparation of gewog adaptation plans by LGs. The output 1.3 will be achieved through the following activities:
Activity 1.3.1: Update and implement Gewog adaptation plan proposal template and sensitization to Screening committee;
Activity 1.3.2: Call for proposals and screening of proposals (see paragraph 31 for details);
Activity 1.3.3: Integration of PBGM in the national planning and budgeting system;
Activity 1.3.4: Develop arrangements for planning and monitoring systems for PBGM mechanism;
Activity 1.3.5: Baseline survey for PBGM investments after Gewog adaptation proposals have been screened.
29. **Output 1.4 - Knowledge and learning network developed:** This output will promote cross-learning and create a network of climate change advocates and practitioners among LGs, and support learning exchanges and site visits to ongoing projects funded through the grant facility. The activity will build knowledge management network for cooperation and share among different local communities. The output 1.4 will be achieved through the following activities:
Activity 1.4.1: Knowledge and learning product development;
Activity 1.4.2: Establish linkage and learning network among LGs.
30. **Component 2. Climate resilient of local communities through CCA investments :** This component will be dedicated to providing grants for implementation of successful Gewog adaptation plans awarded through a performance assessment and eligibility criteria. The expected results of the component include improved resilience of pre-existing critical community infrastructure; improved community livelihoods as a result of climate resilient small scale local community assets and improved natural resources management, and innovative technologies to reduce vulnerability to hazards. This component will be achieved through delivery of the following outputs supported by respective activities as described below:
31. **Output 2.1 - Adaptation interventions are implemented through PBGM:** This output will award CCA grants to eligible gewogs through a detailed guideline covering the call for Gewog adaptation plans, pre-screening and screening of investment proposals (including for alignment with the GCF policies and requirements for the ESS category C and Exclusion List, defining eligible investments menu monitoring and evaluation and execution of PBGM for adaptation interventions. The grant facility will cover at least 60 Gewogs with the investment grant package of up to USD 125,000 per Gewog, which will be provided based on a set of eligibility and selection criteria. Indicative selection and eligibility criteria includes: (a) a Gewog should be among the 120 most vulnerable Gewogs identified

in the Climate Vulnerability Risk Assessment Report (NAP 2023); (b) proposed adaptation investments should meet requirements of Eligibility for PBGM Allocation detailed out in the Framework Guidelines for CARE-LG Performance-Based Climate Resilience Grant Mechanism (Appendix 4 of Annex 2) as well the Investment Menu in the same document; (c) proposed adaptation investments should be aligned with the GCF policies and requirements for the ESS category C and Exclusion List (each adaptation plan to be pre-screened by the ESS specialists at BTFEC and only the investments aligned with the ESS category C and Exclusion list to be submitted for the review of the Project Screening Committee); and d) proposed adaptation investment cost of the Gewog should not exceed USD 125,000. The adaptation grant proposals that pass the pre-screening for eligibility criteria will be evaluated by the Screening Committee, which will ensure that the grant proposals meet the following indicative set of selection criteria: (a) community proposals to be prepared through stakeholders' consultations, demonstrated through evidence that the Gewog Assembly meetings were held and proposals are prepared with participation of at least 50% percent of *Chiwog* population as verified by the minutes of meeting with list of participants attached; (b) strong climate rationale (based on reliable climate studies) and proposed adaptation (and mitigation) investment; (c) share of *Chiwog* population benefitting from adaptation interventions to be at least 50% of total population; and, (d) strong sustainability aspect demonstrated with arrangements for provision of adequate management, operation and maintenance. The PSC will additionally screen each grant proposal for the alignment with requirements for ESS category C and Exclusion List. The output 2.1 will be achieved through the following activities:

Activity 2.1.1: PBG mechanism implementation

32. **Output 2.2 – Innovation on climate mitigation and adaptation enhanced:** This output will provide support for additional piloting of innovative climate-responsive practices. The country is committed to further reducing its carbon footprint across all sectors, for which innovative initiatives need to be supported for both adaptation and mitigation technologies and practices. Potential technologies and practices will include (but not limited to) innovative gender friendly farm mechanization to enable communities to better adapt to climate risk: Establishment of community-based farm machinery/tools centers to enable access to efficient, climate friendly and gender responsive mechanization as well as nature-based solutions that enhance catchment protection, restoration of enhance livelihood options at local level for enhanced ecosystem services and community resilience. The output 2.2 will be achieved through the following activities:

Activity 2.2.1: Support gender-friendly farm mechanization/equipment at the Gewog level;

Activity 2.2.2: Green initiatives and nature-based solutions for enhanced ecosystem services and community resilience

B.2.2. Outcome mapping to GCF results areas and co-benefits categorization

Outcome number	GCF Mitigation Results Area (MRA 1-4)				GCF Adaptation Results Area (ARA 1-4)			
	MRA 1 Energy generation and access	MRA 2 Low-emission transport	MRA 3 Building, cities, industries, appliances	MRA 4 Forestry and land use	ARA 1 Most vulnerable people and communities	ARA 2 Health, well-being, food and water security	ARA 3 Infrastructure and built environment	ARA 4 Ecosystems and ecosystem services
Outcome 1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outcome 2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Co-benefit number	Co-benefit					
	Environmental	Social	Economic	Gender	Adaptation	Mitigation
Co-benefit 1 Community empowerment and green development pathways; The adoption of positive behavioural changes resulting from climate awareness program will lead to adoption of sustainable practices and green developmental pathways.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Co-benefit 2 stewardship of natural resources; The skills and experience gained by the communities through CCA plans can be applied in overall natural resources management at local level.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Co-benefit 3 Enhanced economic services and operations as a result of reduced damage, delays and disruption due to improved climate resilience of infrastructure and protection of community assets. Rural employment opportunities will be also	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

increased through diversification of adaptation investment opportunities.						
Co-benefit 4 Increased gender equality in community institutions beyond project area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

B.3. Implementation / institutional arrangements (max. 750 words)

33. BTFEC in coordination with MoF's DMDF (NDA) will ensure the project's alignment with the plans and execution within the established system. Under BTFEC's (accredited GCF DAE) overall supervision and monitoring, MoHA's DLGDM and MoF's DPBP will co-execute the project.
34. BTFEC has extensive experience and has implemented more than 239 projects amounting to over US\$25 million implemented till date. DPBP is the Government's focal agency for development planning, budgeting and performance monitoring, including the development of Government resource allocation formula and criteria (RAFC), based on which inter-governmental fiscal transfers are made to agencies at the central as well as local levels for implementation of the planned development activities. DLGDM is the central coordinating agency for strengthening local governance and decentralized functions, including capacity-building of both elected and appointed LG functionaries through projects that involve small grants for climate-actions within the overall Gender, Environment, Climate, Disaster and Poverty mainstreaming and resilience building, while promoting effective and efficient intergovernmental coordination mechanisms. Within its broad mandate to coordinate and strengthen LGs for sustainable development, it maintains strong ties with 205 Gewogs and 20 Dzongkhags administrations, and other agencies and partners at the local level.
35. **Fund flow and project governance/management structure:** BTFEC (DAE) will receive funds from GCF and transfer to the MoF, which will maintain a specific Bank Account for the project³¹. EE's will then access and utilize the funds depending on the project's approved planned activities under respective outputs of the two components. DLGDM will utilize the fund for awareness and capacity development activities of Outputs 1.1 and 1.4 of Component 1. DPBP will utilize the fund for activities under Output 1.2, 1.3, 2.1 and 2.2. Specifically, output 2.1 will implement the PBGM and disburse PBG to the targeted Gewogs to enable them to cover the incremental cost of CCA/climate resilience building in existing or new small scale community infrastructure. All PBG for eligible LGs will be transferred to the respective LGs' bank accounts. Subsidiary agreement will be signed between BTFEC and DMDF (MoF) acting on behalf of RGOB.
36. All procurement related to activities under different outputs will be made by respective EEs in line with the procurement rules and protocol within the Government's [procurement rules and regulations 2023](#). This is in consideration that the BTFEC follows procurement policies that are aligned with the comprehensive and widely adopted rules and regulations of the RGoB, it is proposed that the procurement pertaining to the executing entities shall follow RGoB procurement rules and guidelines (taking into consideration that the implementing entities will be the local government and currently following RGoB procurement rules and regulations in order to maintain consistency in the procurement process and also to avoid any indifferences while carrying out the audit during the project implementation stage) while the DAE shall follow its (BTFEC) procurement rules and guidelines. The Civil Service Act of Bhutan 2010 and Bhutan Civil Service Rules and Regulations (CSRR) 2023 (Chapter 3) shall be applied to the project staff and the stakeholders. The CRRR is available at: https://www.rcsc.gov.bt/wp-content/uploads/2023/12/BCSR_2023-English.pdf
37. The **Project Steering Committee (PSC)**, formed by senior officials from NDA, BTFEC, DPBP and DLGDM will act as the highest decision-making body of the project management. Through periodic meetings, PSC will approve the project plans and activities proposed by PMU after they are cleared at PMU level in consultation with EEs. A designated **Project Management Unit (PMU)** will be housed in DPBP to manage the day-to-day activities of the Project. A Project Manager (PM) will lead the PMU team, staffed by programme management and M&E expert. The PMU will be supported by the respect Component Managers of EEs. For smooth coordination and effectiveness of the project management, a designated staff from each beneficiary Gewog will function as EE's representative at the LGs and community levels of the project locations. The Technical Advisory Committee (TAC) formed by technical experts from NDA, BTFEC and EEs will support with strategic technical backstopping to PMU and PSC (See section V c of Annex 2).

³¹ Figure 2.

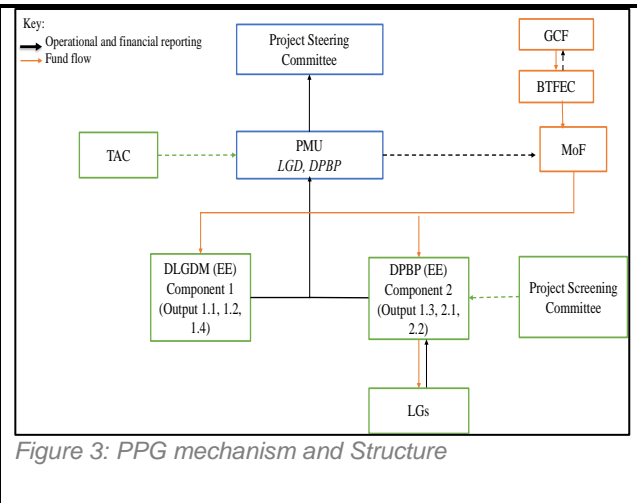
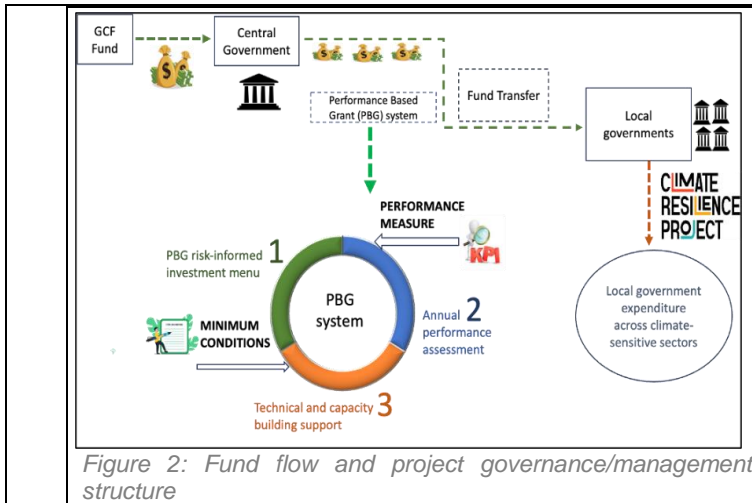


Figure 2: Fund flow and project governance/management structure

Figure 3: PPG mechanism and Structure

38. The project monitoring and evaluation (M&E) will be carried within the existing M&E framework and procedure of the Government. BT FEC as GCF DAE will carry out the overall project monitoring and supervision and ensure the project implementation is in accordance with the project design and GCF guidelines. The PMU will ensure that the LGs implement the activities in compliance to the M&E framework and process put in place at various levels and stages of project, and carry out periodic compliance assessment and reporting requirements from Executing Entities (EE) and local project representatives (See section IV, d of Annex 2).

C. FINANCING INFORMATION						
C.1. Total financing						
(a) Requested GCF funding (i + ii + iii + iv + v + vi)		Total Amount: 10		Currency: million USD (\$)		
GCF Financial Instrument		Amount	Currency	Tenor & grace	Pricing	
(i)	Senior loans	<u>Enter amount</u>	<u>Options</u>	<u>Enter years</u>	<u>Enter %</u>	
(ii)	Subordinated loans	<u>Enter amount</u>	<u>Options</u>	<u>Enter years</u>	<u>Enter %</u>	
(iii)	Equity	<u>Enter amount</u>	<u>Options</u>		<u>Enter % equity return</u>	
(iv)	Guarantees	<u>Enter amount</u>	<u>Options</u>	<u>Enter years</u>		
(v)	Reimbursable grants	<u>Enter amount</u>	<u>Options</u>			
(vi)	Grants	10	million USD (\$)			
(b) Co-financing information³²		Total amount	Currency			
		<u>Enter amount</u>	<u>Options</u>			
Name of institution	Financial instrument	Amount	Currency	Tenor & Grace	Pricing	Seniority
<u>Click here to enter text.</u>	<u>Options</u>	<u>Enter amount</u>	<u>Options</u>	<u>Enter years</u>	<u>Enter %</u>	<u>Options</u>
(c) Total investment (c) = (a)+(b)		Amount	Currency			
		10	million USD (\$)			
(d) Co-financing ratio		<u>Total co-financing / total GCF funding amount</u>				

³² If the co-financing is provided in different currency other than the GCF requested, please provide detailed financing information and a converted figure in the GCF requested currency in the comment box. Please refer to the date when the currency conversion was performed and the reference source.

(d) = (b)/(a)	
(e) Other financing arrangements for the project/programme (max ½ page)	<i>USD 700,000 as block grant to the vulnerable gewogs from RGOB</i>

C.2. Financing by component

Component	Output	Indicative cost (USD) Options	GCF financing		Co-financing		
			Amount (USD) Options	Financial Instrument	Amount Options	Financial Instrument	Name of Institutions
Component 1: Climate change adaptation integrated in LG grant allocation mechanism	Output 1.1 Awareness and capacity of local communities and LG officials on responding to climate change enhanced	1,034,310	1,034,310	Grants	Enter amount	Choose an item.	Click here to enter text.
	Output 1.2 PBGM integrated into the planning and budgeting system	51,571	51,571	Grants	Enter amount	Choose an item.	Click here to enter text.
	Output 1.3 Gewog adaptation planning mechanism established	78,429	78,429	Grants	Enter amount	Choose an item.	Click here to enter text.
	Output 1.4 Knowledge and learning network developed.	75,836	75,836	Grants	Enter amount	Choose an item.	Click here to enter text.
Component 2: Climate resilient of local communities through CCA investments	Output 2.1 Adaptation intervention implemented through PBGM	7,500,000	7,500,000	Grants	Enter amount	Choose an item.	Click here to enter text.
	Output 2.2 Innovation on climate mitigation and adaptation enhanced.	795,275	795,275	Grants	Enter amount	Choose an item.	Click here to enter text.
M&E cost	M&E	93,000	93,000	Grants			
Project Management cost	Project operation and management by PMU and EEs	371,579	371,579	Grants			
Indicative total cost (USD)		10,000,000	10,000,000		Enter amount		

C.3 Capacity Building and Technology development/transfer

C.3.1 Does GCF funding finance Capacity building activities?	1,034,310 USD
C.3.2. Does GCF funding finance Technology development/transfer?	795,275 USD

C.4. Justification for GCF funding request (max. 500 words)

39. CARE-LG has direct relevance and relation to GCF's goal of strengthening countries' domestic capacity to address climate change impacts, as it involves (i) deploying a climate finance facility led by the Government and aligned to national systems for locally led adaptation interventions; and, (ii) contributing to local community adaptation through the institutionalization of performance-based grant in planning, budgeting, implementation and monitoring of adaptation measures at the local level. GCF funding is required as LGs are constrained by financial resources to meet the additional costs associated with climate change adaptation since financial transfer from the central government is insufficient and as target communities are vulnerable both climate impact wise and financially. Due to prioritization for essential mitigation needs, and because of the reactive, rather than pre-emptive nature of adaptation expenditure, climate adaptation remains underfunded at the local community level. In Bhutan, LGs are not eligible to borrow from the financial sector due to lack of LG credit worthiness or a lack of bankable projects. LGs with limited as well as unstable revenue sources are not able to finance its CCA interventions without financial support and capacity building.

Therefore, GCF funds is needed to address climate information and capacity gaps of local communities and governments as well as cover the additional cost of climate change adaptation. GCF funding is needed to implement a multi-instrument approach that can support both the enabling environment and the mobilization of additional resources that are aiming at scaling up PBG, which will be a unique solution to enhanced climate finance use in a vulnerable country and support the improvement of creditworthiness of local governments over time.

40. Bhutan has recently graduated to a lower middle-income country from its least developed country status with one of the world's smallest economies, dependent on climate-sensitive sectors such as hydropower (17% of GDP), agriculture (19% of GDP and 50% in total employment), forestry and transport³³. Mountainous and fragile geographical terrain make the country highly vulnerable to adverse climate change impacts endangering the livelihood of its small population of 727,145 out of which 62.2%³⁴ are based in remote and rural areas dependent on nature-based subsistence livelihoods. Significant exposure to various hazards such as flash floods, forest fires, storms and landslides, and GLOFs, aggravated by COVID-19 pandemic intensify its vulnerability to climate hazards and shocks (See Section III d on Climate-change Impacts on Society, Economy and Environment, annex 2).
41. Climate change, manifested in various forms from drying water sources to a rise in pests and diseases in plants, has significant impacts on important sectors such as water, agriculture, energy, human health and glaciers. Climatic hazards and landslides disrupt drainage networks, and damage road infrastructure and irrigation channels impacting the food production and transportation, while posing serious disaster risks to the people and their assets.
42. Within the goal of Gross National Happiness (GNH), Bhutan upholds pursuit of inclusive and equitable socio-economic development through sustainable strategies that promote deepened decentralization for community empowerment. The country's Constitution mandates protection and conservation of the pristine environment together with safeguarding the biodiversity to secure an ecologically balanced sustainable development³⁵. To contribute to this national aspiration, the Constitution enshrines to maintain 60% of the country's land under forest cover for all time (ibid). The country's Climate Change Policy 2020 envisions a resilient and carbon neutral Bhutan by promoting economic growth through effective adaptation and resilience to climate change impacts. The National Environment Protection Act (NEPA) 2007 maintains to achieve sustainable development by planning and executing developmental activities strategically in harmony with the sensitive ecological settings and geographical terrains. The National Forest Policy of 2011 upholds management of forest resources, watersheds and biodiversity for sustainable production of economic and environmental goods and services. The country's 2nd Nationally Determined Contribution (NDC) reinforced the national commitment to remain carbon neutral and outlined a set of actions for sustainable development³⁶. The NAP 2023 aims to address adverse impacts of climate change by building adaptive capacity and enhancing resilience to reduce vulnerability and by integrating adaptation actions into the development planning process at all levels.
43. However, a number of barriers continue to hamper climate adaptation investments, including: limited knowledge and technical capacity of LGs to mainstream climate resilience in planning, budgeting and implementation; limited technical and climate change knowledge and knowledge in adaptation programming; lack of formal regulatory frameworks to integrate climate change considerations into development planning and decision-making processes; limited fiscal capacity to increase budgetary allocations and financial resources for implementing comprehensive climate resilience strategies and projects; constrains of securing sustainable and long-term funding for climate adaptation and mitigation initiatives; insufficient microfinance and low-interest loan options tailored to support community-level climate resilience projects; limited access to and adoption of innovative climate-resilient technologies and infrastructure due to remoteness and challenging terrain; declining farm profitability and limitations in other income generating options, feminization of community works and aging in rural farm population.'
44. There are no other alternative financing options. The private sector is underdeveloped and LGs' revenue base is low and limited. Gewogs are unable to finance the additional costs associated with climate change adaptation as financial transfers from the central government level are generally insufficient to cover the cost which is not affordable for the gewog population.

C.5. Exit strategy (max. 300 words)

45. The project will build the capacity of NDA as well as EEs, LGs and communities in efficient and sustainable access and utilization of climate finance for resilience building. Through integration of PBGM within the Government's resource allocation system and LG's development planning and implementation process, future investment practices will be institutionalized. The project will help structure and implement sustainable multi-instrument approach and

³³ RMA annual report 2021, <https://www.rma.org.bt/RMA%20Publication/Annual%20Report/RMA%20Annual%20Report%202022.pdf>

³⁴ Population and Housing Census of Bhutan, 2017.

³⁵ Constitution of the Kingdom of Bhutan 2008, Article 5.

³⁶ Bhutan's 2nd NDC to Paris Agreement submitted in 2021.

decision tools to establish both the enabling environment and additional resource mobilization to scale-up the local climate action investments.

46. Performance-based grant system that promotes bottom-up approach is expected to build legitimacy of opportunities for technical, institutional, and operational sustainability at local levels while encouraging improvements over time to attract private sector co-financing for enhanced resilience. The project's outcomes will continue to provide benefits well beyond the life of the project, making this an enduring investment and replicating the approach to formalizing performance-based grants in additional communities throughout the country. Performance-based grant system through this project will also enable Government/MOF to mainstream climate finance to the vulnerable local communities and governments after the project. Moreover, helping ensure that the local communities and government are well positioned to access climate finance will reduce the risk of an adaptation deficit re-emerging at the community level after the project closes. Introduction of management, operation and maintenance criteria in selection of GAPs also support sustainability of project investments after its completion.
47. The allocation of grants based on performance will encourage LGs and community beneficiaries to own the system and perform better for subsequent access to climate actions financing. The PBGM from this project has the strong potential to catalyze additional financing for local communities and governments, particularly through its focus on capacity building for local governments to develop and implement projects, developing a fundable track record of project execution, and crucial capacity/experience showcasing effective project and financial management. All of this can help build donor/investor confidence, reduce investment risk, and ultimately unlock future projects and investment for local communities and government. With regard to the monitoring of the project implementation, the Royal Government of Bhutan has a robust monitoring system in place both at LGs and central level. Therefore, monitoring aspects of the project will also help to sustain the climate-financing and investments practice.

C.6. Financial management/procurement (max. 300 words)

48. The Project's financial management will be performed based on BTFEC's approved GCF accreditation processes (small size, category C ESS, basic fiduciary standards and project management).
49. After receiving the fund from GCF by BTFEC, the project fund will be transferred to MoF as per the Government's established norms for all donor funded projects. This requirement is put in place to facilitate proper tracking and accounting of donor public funds, and also to ensure integration of the project's fund within the national budgeting and accounting system, including the inter-governmental financial transfer system of capital grants to LGs. The project's financial management by PMU and EEs will be executed following relevant provisions of Government's [Public Finance Act 2007](#) to be implemented in accordance with the Government's [Financial Management Manual](#). PBG to targeted LGs will be integrated within the Government's planning, budgeting and capital grants system in line with [Annual Grants Guidelines for Local Governments](#) and [Guidelines for Gewog Annual Grants](#). The release of project funds to the respective EEs and LGs will be done based on the [Fund Release Guidelines](#) to be utilised in line with the [Finance and Accounting Manual](#). All procurement related to activities under different outputs will be made by respective EEs in line with the procurement rules and protocol within the Government's [procurement rules and regulations 2023](#), while the DAE shall follow its (BTFEC) procurement rules and guidelines. During the project implementation and fund utilisation, the Internal Audit Unit of LGs as well as EEs will play proactive roles based on the [Internal Audit Manual](#) to ensure that the [National Internal Control Framework](#) is implemented for the project fund utilisation.
50. The PMU will oversee and guide the project fund release and disbursement to EEs and LGs. The LGs shall incorporate project deliverables into their annual plans and will make operational and financial reporting to PMUs through the respective EEs, which will be finally submitted to PSC for review and approval. All project accounts will be subject to statutory audit, the report of which will be submitted to GCF through BTFEC and NDA. There will be no distribution, directly or indirectly, cash, vouchers, commodities or of other items of value to the beneficiaries.
51. BTFEC has assessed the capacity of EEs to manage the project funds as both EEs demonstrated long experience, knowledge and skills of having managed numerous similar donor-funded projects in the previous years. DPBP in its capacity as the overall agency for donor-funded project coordination and management has the expertise to systematic fund disbursement and allocations to different agencies across the Government in line with the national finance act, rules and regulations and guidelines. DLGDM has long experience of implementing similar donor-funded projects in and for LGs, for the previous two consecutive FYPs (10 years). Based on this verification and validation, BTFEC assures the capacity of EEs to manage and facilitate the project implementation. Moreover, the PMU will oversee and supervise the day-to-day activities of the project implementation and report periodically to BTFEC.

D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

D.1. Impact potential (max. 300 words)

52. CARE-LG will contribute to climate-resilient sustainable development through improved resilience and enhanced livelihoods of the most vulnerable communities in the targeted project Gewogs. This will be achieved through empowerment of LGs and local communities with adaptive technical capacity and knowledge required in understanding the climate change vulnerability, mainstreaming climate change adaptation plans and supporting to making investments in climate responsive community infrastructure and technologies. The project is anchored in a deep understanding of remote and rural communities' high levels of vulnerability to climate change impacts. Each project component, output and activity are developed to help these communities address one or more of their key climate drivers of vulnerability. Taking a locally led approach to adaptation ensures that the project puts the adaptation needs and capacities of communities at the centre of all activities. This will increase local ownership and ensure the project's adaptation impact lasts well beyond the project period.
53. The project will make a contribution to the GCF's overarching adaptation impact - contributing to increased climate-resilient sustainable development – by directly increasing the climate resilience of 70,510 people (49% women) in highly climate vulnerable remote and rural communities. Another approximate 144,463 people (49% women) of will benefit indirectly through demonstration effect and mainstreaming of grant mechanism for climate action at local level. The project's adaptation impact will see targeted beneficiaries (30% of country's population) with significantly increased knowledge of current and projected climate change impacts, enhanced access to climate information and early warnings, the skills and tools to develop actionable climate adaptation plans, the resources to implement priority adaptation action, and the capacity to secure further resources over time to support emerging priorities. Local level institutions (Dzongkhag and Gewog administration offices) will also have increased ability to support community level adaptation priorities in a sustainable way into the future. It is estimated that 1,220 Gewog and Dzongkhag officials will receive capacity strengthening, knowledge and skills to design and execute climate-resilient local development plans and investments in a strategic and participatory manner.
54. The project will contribute to several of the GCF's Fund-level adaptation and enabling environment outcomes including:
- ARA1 (Most vulnerable people and communities) as it targets some of the most climate-vulnerable remote and rural communities in with support to build adaptive capacity and increase resilience, reduce climate-related the risks of hazards, and increasing knowledge, awareness, and skills to address climate change at the local level.
 - ARA2 (Health, wellbeing, food, and water security) as it will help strengthen significantly local-level climate resilience via increased food and water security, diversified and climate-resilient livelihoods, reduced disaster risk.
 - ARA3 (Infrastructure and built environment) as it will enhance climate resilience of existing community infrastructure.
 - Core indicator 5 (Degree to which GCF investments contribute to strengthening institutional and regulatory frameworks for climate-resilient development pathways in a country-driven manner), as the project will support the development and implementation local level (Gewog) adaptation planning and implementation coordination mechanisms and strengthen institutional capacity.
 - Core indicator 6 (Degree to which GCF investments contribute to technology deployment, dissemination, development or transfer and innovation), as the project will support targeted communities to increase their access to adaptation technologies and practices related to risk assessment and planning, food security through climate resilient resource use.
 - Core indicator 8 (Degree to which GCF investments contribute to effective knowledge generation and learning processes, and use of good practices, methodologies and standards), as the project will enable stakeholders, communities and LG officials in non-project Gewogs and Dzongkhags to benefit from experiences and learning from project Gewogs and Dzongkhags through knowledge and exchange platform.
55. The project components and activities under the various outputs will serve the direct beneficiaries through:
- Communities' leadership in planning and involvement in local governance processes.
 - Access to appropriate adaptation infrastructure and services in the face of climate change impacts.
 - Delivery of technical assistance to local governments.
 - Opportunities to participate in the implementation of adaptation measures and infrastructure management which will include the following broad category of intervention:

- Green initiatives and Nature-based Solutions for enhanced ecosystem services and community resilience including interventions related to forests and biodiversity;
 - Climate resilient and innovative agriculture and livestock practices for improved livelihoods;
 - Climate proofing of existing critical community assets/infrastructure within limits of environmental and social risk category C (activities with minimal or no adverse E&S risks and/or impacts);
 - Disaster planning, management and response.
- Provide support for additional piloting of innovative climate-responsive practices.

56. More broadly, the following will accrue to indirect beneficiaries:

- Climate proofing of infrastructure improvements (if Gewogs are adjacent to those 60 gewogs that will receive grants for implementation of Gewog adaptation plans).
- Improved sub-national planning at the local level.
- Better awareness of climate-resilient development approaches and practices due to the visibility of project interventions on the ground.
- Reduces losses or damages through climate proofing of the existing infrastructure within ESS C)

D.2. Paradigm shift potential (max. 300 words)

57. **Paradigm shift:** As described in ToC (section **B.2.1**), the project is designed to catalyse sustainable system-level changes at multiple levels. It will enable bottom-up and locally led adaptation approach support for LGs in planning and implementation processes and top-down measures to channel technical and financial resources to LGs to meet CCA needs. Climate-proofing infrastructure, climate resilient agriculture, securing water supplies and increased protection from critical vulnerabilities and the adverse effects of climate change directly benefit local communities. Minimal adaptation support at community level, lack of LGs' institutional capacity to support adaptation planning and implementation, low levels of coordination at LGs and community levels, along with the substantial community vulnerability to climate risks and barriers to adaptation (outlined in section **B.1**) are hampering sustainable, climate-resilient development. Central to local transfer of responsibilities through decentralization are not always accompanied by the relevant fiscal and human capital resources necessary to design and manage adaptation interventions at LG level. CARE-LG will address this gap and promote paradigm shift in the LG adaptive technical capacity and knowledge to mainstream climate change adaptation in local government planning, budgeting, and implementation. At the end of the project, a systemic change is envisaged, with communities able to assess climate-related risks, develop locally led Gewog adaptation plans, and effectively implement solutions. LG institutions will be better equipped to respond to community needs and support ongoing and sustainable adaptation actions.

58. **Scaling up and replication:** CARE-LG will empower local communities and the Government with adaptive technical capacity and knowledge necessary to mainstream climate change adaptation plans and budgets, and improve access to climate finance. Based on the successful demonstration of hands-on-practical experience and knowledge on PBGM and lessons learned from the past practice (See Annex 11), the project will foster scaling up and replication of climate proofing activities beyond the project. Moreover, with capacity building and necessary training provided to all stakeholders involved directly or indirectly in the project, they can be replicated at the local government which are not covered under this phase. At the same time, the Project will encourage Government to take ownership of PBGM as effective strategy to mainstream CCA across their portfolio of grant windows by embedding performance on climate actions in the national resource allocation formulae.

59. **Potential for knowledge and learning:** The project will establish a knowledge base to support capacity building in the fight against climate change. Monitoring, including by communities, will strengthen the impacts of local actions and the accountability of local actors, in line with the Government's decentralization measures to enhance local budgeting and financial performance. The project interventions will create significant and valuable technical and institutional knowledge within local communities through peer-to-peer learning and dissemination of successful best practices, culminating in innovations becoming normal practice with stronger institutions at the local community level. Where appropriate, adaptation packages will introduce innovative technologies to reduce vulnerability to hazards identified through local planning processes.

60. **Contribution to the creation of an enabling environment:** The project will catalyze local and national policy change by demonstrating the effectiveness of small-scale, locally designed adaptation projects, and provide incentives for a greater budget allocation to climate change adaptation. At its core, the project aims to build the capacity of local communities and governments to understand climate change impacts to develop and implement

their own priority adaptation projects. These efforts will drive community ownership and buy-in while demonstrating the long-term sustainability of large-scale climate investments.

D.3. Sustainable development (max. 300 words)

61. CARE-LG is aligned and contributes to several Sustainable Development Goals (SDGs), in particular, SDG 1 - No poverty; SDG 5 - Gender Equality; SDG 8 - Decent work and economic growth; SDG 11 - Sustainable cities and communities; and, SDG 13 - Climate Action. CARE-LG will fund a variety of projects and activities (social and productive infrastructure and capacity building) that will each provide cross-cutting co-benefits, including the following:

Social co-benefits

62. Community empowerment and green development pathways; The adoption of positive behavioural changes resulting from climate awareness program will lead to adoption of sustainable practices and green developmental pathways

Economic co-benefits

63. Enhanced economic services and operations as a result of reduced damage, delays and disruption due to improved climate resilience of infrastructure and protection of community assets. Rural employment opportunities will be also increased through diversification of adaptation investment opportunities.

Environmental co-benefits

64. Stewardship of natural resources; The skills and experience gained by the communities through CCA plans can be applied in overall natural resources management at local level.

Gender-equality promotion and mainstreaming

65. In particular, the project will contribute to promotion of gender-equality in communities due to increased participation of women in planning and decision making beyond project area. The Bhutan's NAP also identifies opportunities to strengthen women's/vulnerable groups' access to gender-friendly technologies at community level and integration of gender responsive measures. The project's activities will encourage women's participation and contribution in climate-related decision-making process, as it is mostly the women and children who are impacted the most by the climate-change impacts due to their underrepresentation, lack of capacity, empowerment, access to finance and engagement platforms. This project is aimed to involve as much women and youth as possible in order to contribute to the project's objective to reduce gendered climate-change decision-making in local development plans and process. The project's Gender Assessment (Annex 2 of Pre-feasibility Study) and Gender Action Plan provided in Annex 4 outlines the gendered challenges faced in the project's LGs and communities and lists operational measures.

D.4. Needs of recipient (max. 300 words)

66. Combination of fragile mountainous terrain and heavy reliance on climate-sensitive areas increases Bhutan's high vulnerability to climate change impacts³⁷. Due to rapid changes in temperature and precipitation patterns, all 205 Gewogs are impacted to varying extents by climate change, Bhutan's exposure to hazards such as flash floods, including GLOFs, forest fires, storms, and landslides highlight the high degree of vulnerability of the country³⁸. The common climate-change impacts include drying water sources; plants' pests and diseases; disruption in drainage networks; damage of irrigation channel and road infrastructure; disabling crop, livestock and food production and transport; and, disaster risks to lives and assets³⁹ (See section on climate rationale under A 18 and Chapter IV, section (a), of Annex 2).

67. Bhutan's economy is considered, one of the fastest growing economies in the world, with hydropower making a major contribution to growth. Bhutan instituted Gross National Happiness (GNH) as a development principle, with this index increasing from 0.743 in 2010 to 0.756 in 2015. The country has a GDP of \$2.5 Billion (2019) with an annual growth rate of 5.5% and a GDP per capita of \$3,316.20 (2019), growing at 4.3%. The economy is primarily based on industry, services, and agriculture (See Section III d of Annex 2) . Employment in 2019 was concentrated in agriculture (55.8%) and services (34.1%), followed by industry (10.1%).

³⁷ World Bank. 2023. Climate Change Knowledge Portal. Bhutan <https://climateknowledgeportal.worldbank.org/country/bhutan>

³⁸ World Bank. 2023. Climate Change Knowledge Portal. Bhutan

³⁹ Section IV a, Annex 2 (Pre-Feasibility Study)

68. The adaptation priorities identified in NAP 2023 requires significant financial resources of about US\$ 14 billion for multi-faceted approach of meeting the short and long-term changes influenced by the climate variabilities. The Climate Vulnerability Assessment conducted in 2023 under the National Adaptation Plan (2023) also reveals that all 205 gewogs in the country are being impacted by climate change to varying extents. Both poverty and climate vulnerability are especially prevalent in rural areas, in particular the targeted LGs and communities prioritized to address by this project. In line with the Climate Change Policy, The GCF funded NAP identifies the primary mode of implementation of the NAP through the integration of adaptation priorities into national and local development plans (See para 1.6 of Annex 2). Without intervention, rural communities dependent on natural resources with subsistence livelihood strategies will be further exposed and lead to even higher levels of poverty and inequality. The CARE-LG will achieve the climate-results include reduced climate change vulnerability and adverse impacts resulting from the communities' enhanced adaptive capacity for sustainable livelihood. The project will address the serious social, governance, financial, technological and informational barriers that the project's targeted beneficiaries face in their daily lives. The value addition of CARE-LG is that it will address these barriers at different levels of communities and community institutions, and prepare to be better equipped to respond to their needs and support ongoing and sustainable adaptation. The proposed project scope, aligned with the accreditation scope of BTFEC, aims to prioritize 120 gewogs with the highest vulnerability rating. Out of these, approximately 60 gewogs are anticipated to receive grants through the PBGM to finance their gewog adaptation proposals. The project will address the serious social, governance, financial, technological and informational barriers that the project's targeted beneficiaries face in their daily lives. The value addition of CARE-LG is that it will address these barriers at different levels of communities and community institutions, and prepare to be better equipped to respond to their needs and support ongoing and sustainable adaptation action.

Economic and social needs of target population

69. Impacts of climate change across agriculture, hydropower, forestry and transport sectors adversely affect the rural people comprising more than 53% of the country's population. LGs and communities alike face severe barriers from climate change impacts, and their poor economic status is aggravated by lack of climate finance to implement adaptation activities and investments on resilience. According to the Bhutan Poverty Analysis Report (NSB, 2022), poverty rate of the country is estimated at 12.4%, with the poverty incidence in rural areas being 17.5% compared to that of urban areas at 4.2%. (See section III d, Annex 2).

Financial needs

70. The adaptation priorities identified by the country's NAP require significant financial resources of about US\$ 14 billion for multi-faceted approach of meeting the short and long-term changes influenced by the climate variabilities (see para 108 of Annex 2). The LGs have insignificant local revenue base, and the budgetary transfer from the central Government is insufficient to meet the additional cost of climate-change impacts and adaptation measures. Climate change adds intense challenges to an already fragile country and population, and COVID-19 has also impacted the country's economy, with severe reductions in employment and incomes, reductions in food security, and reduced economic growth leading to significant outmigration of youth from rural areas to urban areas and abroad. Most international donor-supported programmes focus on immediate development priorities with only a minor focus on climate change, and only a small number of programmes integrate evidence-based climate change risk and resilience building into their core objectives. As climate risks increase, the viability of these investments too will be put at risk. Given the public good nature of the adaptation investments and a lack of incentives and awareness, investments for adaptation measures remain largely underfunded. This is aggravated by a lack of private-sector partnerships or other potential donors. The UNCDF LoCAL facility has been discontinued due to insufficient size of the support and the EU Budget Support has completed by 2023, with the future support not ascertained. Therefore, the GCF fund will fill up and bridge the financial as well as the capacity gaps of local communities and governments to meet the additional cost of CCA. The GCF funding support will not create enhanced use of climate finance in a vulnerable country, but also support the improvements of technical performance, awareness-raising, good governance, and financial management at the local level which can improve the creditworthiness of LGs over time (See Section III f of Annex 2). The country's broader financial landscape and the small amount of external climate capital currently serving adaptation needs highlights the country's need for targeted adaptation capital.

Institutional needs

71. In general LGs and communities lack the required capacity to effectively coordinate addressing the priority adaptation needs of remote and rural communities. Capacity gaps and constraints are particularly acute at the sub-national level, where there is the need to integrate climate change risks and adaptation actions within the development planning and budgeting processes. CARE-LG will work directly at both community and Gewog level

to help address these capacity gaps and constraints with the goal to build LG's institutional capacity and institutions in LGs to support community adaptation planning and implementation.

D.5. Country ownership (max. 500 words)

72. CARE-LG responds to Bhutan's international commitments under the UNFCCC, as outlined in Bhutan's Third National Communication (2020) and NDC (2015). Specifically, it focuses on integrating climate-resilient strategies and low emissions practices into rural settlements. This encompasses adapting agricultural technology and management systems to climate change impacts, fortifying infrastructure against climate-related challenges, addressing water and food security concerns, and reducing overall vulnerability to hazards. It facilitates the implementation of local priorities National Adaptation Plan (NAP), 2023, prepared through the GCF Readiness support. It also is aligned with national frameworks on climate change and decentralization including the national Government's planning and intergovernmental fiscal transfer system; Climate Change Policy (2020); the Joint Support Programme on Capacity Development for Mainstreaming Environmental, Climate Change, Poverty Concerns in Policies, Plans, and Programmes; and other initiatives for mainstreaming the cross-cutting issues of gender, environment, climate change, disaster management, and poverty in policies, planning, and programs. It is also in harmony with the National Environment Protection Act (NEPA) of 2007, the National Forest Policy of 2011, and the Economic Development Policy (EDP) of 2016.

73. CARE-LG preparation has been spearheaded by the DMDF (NDA) and has been endorsed the NDA. The design and preparation of CARE-LG was based on a consultative process involving key stakeholders from relevant Government Ministries and agencies. Right from the stage of concept development, a Technical Working Group (TWG) was formed with the official directive from the Ministry of the Macro-Fiscal and Development Finance (DMDF) of the Bhutan's Ministry of Finance. Under the overall guidance of DMDF and coordination support of BTFEC, the TWG members maintained continuous touch and held series of discussions (See section V a, b, c and Appendix 5 on stakeholder engagement plan of Annex 2).

74. The BTFEC is entrusted with the mandates to promote the socio-economic welfare of Bhutanese citizens. It has extensive experience in the development and implementation of community-based and environment and gender-sensitive approaches to resilience building across a wide range of sectors. Since inception, BTFEC has awarded more than 239 projects amounting to over US\$25 million. Projects are granted through the Request for Proposals process with an overall budget of US\$1.5 to 2 million annually. As the a DAE to the Adaptation Fund, BTFEC is already implementing a USD 10 million project on Adaptation to Climate-induced Water Stresses through Integrated Landscape Management in Bhutan. The two Executing Entities of CARE-LG, The DPBP and DLGDM have extensive experience in managing and delivering climate change programs across Bhutan at a range of scales and from a variety of funding sources (EU, UNCDF, GEF).

D.6. Efficiency and effectiveness

D.6.1. Estimated cost per t CO ₂ eq, defined as total investment cost / expected lifetime emission reductions (Mitigation and Cross-cutting)	(a) Total project financing	US\$_____
	(b) Requested GCF amount	US\$_____
	(c) Expected lifetime emission reductions	_____ tCO ₂ eq
	(d) Estimated cost per tCO ₂ eq (d = a / c)	US\$_____ / tCO ₂ eq
	(e) Estimated GCF cost per tCO ₂ eq removed (e = b / c)	US\$_____ / tCO ₂ eq
D.6.2. Expected volume of finance to be leveraged by the proposed project/programme and as a result of the Fund's financing, disaggregated by public and private sources (Mitigation and Cross-cutting)	(f) Total finance leveraged	US\$_____
	(g) Public source finance leveraged	US\$_____
	(h) Private source finance leveraged	US\$ <u>n/a</u>
	(i) Total Leverage ratio (i = f / b)	_____
	(j) Public source leverage ratio (j = g / b)	_____
	(k) Private source leverage ratio (k = h / b)	_____

D.6.3. Describe how the financial structure is adequate and reasonable in order to achieve the proposal's objective(s), including addressing existing bottlenecks and/or barriers; providing the minimum concessionality; and without crowding out private and other public investment. (max. 500 words)

75. The adaptation priorities identified in NAP 2023 requires significant financial resources (See Section D 4). However, there is a limited availability of public and private funding to support this transformation. Bhutan's risk of overall and external debt distress is being assessed as moderate by the World Bank and IMF as part of their Debt

Sustainability Analysis conducted in 2022, meaning that non-concessional instruments would be unfeasible (particularly for a climate change adaptation project). Most development projects will still have to be reliant on various grants while domestic resources are used to meet recurrent expenditures. LGs are not currently eligible to borrow from the financial sector due to lack of local government credit worthiness and a lack of bankable projects (See Section III f of Annex 2).

76. The GCF support in form of grant is crucial to address substantial adaptation needs identified in the NAP 2023. Given the programme's geographical location (rural and isolated areas) and targeted actors (Gewogs with unstable and limited revenue sources), its interventions are not likely to be financed without support and capacity building. Project intervention with investment in climate-proofing results in positive results on the adaptive capacities of local communities. Intervention without the GCC investments in climate resilience will result in no incremental ability of communities to owing to budgetary and fiscal constraints. CARE-LG financing is essential to bridge the country's resource gap and capacitate the project to withstand climate risk and impact at local level in Bhutan.
77. The proposed programme aims to build the adaptive capacity of vulnerable LGs and communities and to implement a variety of adaptation interventions for the increased climate resilience of communities and livelihoods. The aim is to initiate an overarching approach that would support the identification of locally led, most suitable interventions and in doing so lay the foundations for further scaling-up beyond the programme lifetime. Community participation will improve the cost-effectiveness of the project, and local gewogs and chiwogs benefiting from the adaptation investments will provide some labour and materials for activities under Component 2. The proposed project aims to put in place the PBGM for climate finance, which is proven to be the most cost-effective and efficient approach of supporting climate resilience of vulnerable remote communities through competitive performance-based selection (both within the country and globally – refer to relevant evaluation reports of LOCAL and PBGM projects). The PGB mechanism is also proven to support sustainable mainstreaming of climate change in local governments budgeting and incentivize systematic strengthening of performance by LGs.
78. The proposed programme aims to build the adaptive capacity of vulnerable LGs and communities and to implement a variety of adaptation interventions for the increased climate resilience of communities and livelihoods. The aim is to initiate an overarching approach that would support the identification of locally led, most suitable interventions and in doing so lay the foundations for further scaling-up beyond the programme lifetime. Community participation will improve the cost-effectiveness of the project, and local gewogs and chiwogs benefiting from the adaptation investments will provide some labour and materials for activities under Component 2. The proposed project aims to put in place the PBGM for climate finance, which is proven to be the most cost-effective and efficient approach of supporting climate resilience of vulnerable remote communities through competitive performance-based selection (both within the country and globally (See Annex 11). The PGB mechanism is also proven to support sustainable mainstreaming of climate change in local governments budgeting and incentivize systematic strengthening of performance by LGs. The GCF support in form of grant is crucial to address substantial adaptation needs identified in the NAP 2023. Given the programme's geographical location (rural and isolated areas) and targeted actors (Gewogs with unstable and limited revenue sources), its interventions are not likely to be financed without support and capacity building.
79. The economic analysis has not been performed as it is not relevant for the proposed project although the project's adaptation investments will be in both productive as well as social infrastructures and technologies and both will lead to productivity increases and reduction in losses and damages, but, the incremental income from this will be very limited as most of the intervention beneficiaries will be local community people and subsistent farmers.
80. The CAREE-LG project builds on the lessons learnt and experiences from similar past projects (see Annex 11) and a list of investment menus based on practices that are currently applied in Bhutan (See Frame Work Guidelines for CARE-LG PBGM, appendix 4 of Annex 2).

E. ANNEXES

E.1. Mandatory annexes

- Annex 1 NDA No-objection Letter(s) ([Template](#))
- Annex 2 Pre-feasibility (or feasibility) study ([Guidance](#))
- Annex 2a Logical Framework ([Template](#))
- Annex 2b Timetable ([Template](#))
- Annex 3 Budget plan that provides breakdown by type of expense including AE fees ([Template](#))
- Annex 4 Gender assessment and action plan ([Template](#))
- Annex 5 Co-financing commitment letter if applicable ([Template](#))
- Annex 6 Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule
- Annex 7 Risk assessment and management ([Template](#))
- Annex 8 Procurement plan model ([Template](#))
- Annex 9a Legal Due Diligence (regulation, taxation and insurance) ([Template](#))
- Annex 9b Legal Opinion/Certificate of Internal Approvals ([Template](#))

E.2. Other annexes to be submitted when applicable/requested

- Annex 10 Economic and/or financial analysis ([Guidance](#))
(mandatory for private-sector proposals)
- Annex 11 Appraisal, due diligence or evaluation report for proposals based on up-scaling or replicating a pilot project
- Annex 12 Environmental and Social Action Plan (ESAP) ([Template](#))
- Annex 13 Operations manual for EDA projects ([guidance](#))
- Annex 14 Assessment of GHG emission reductions and their monitoring and reporting (for mitigation and cross cutting-projects)⁴⁰
- Annex xx Other references

***** Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents. *****

1. ⁴⁰Guidance on GHG emission reduction calculations for GCF projects/programmes is available on the GCF Programming Guidance (<https://www.greenclimate.fund/sites/default/files/document/gcf-programming-manual.pdf>), Box 12 “How to estimate greenhouse gas emission reductions for GCF”. This annex is mandatory for Mitigation and Cross-cutting projects