

# Civil Society Organization for Nepal's LDC Graduation: *Adaptation Guide*



जैतसरकारी संस्था गहारांघ नेपाल





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### **Disclaimer:**

This CSO Adaptation Guide is intended as an informational and strategic resource to support Civil Society Organizations (CSOs)\* in Nepal as the country approaches graduation from Least Developed Country (LDC) status in November 2026. All users are responsible for ensuring their actions comply with current laws, regulations, and best practices. The views and opinions expressed herein do not necessarily reflect the official positions of any affiliated organizations, institutions, or funding entities.

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*\* The term CSO is intentionally used to capture the diversity of Nepal's civil society landscape, which includes both registered and unregistered groups working for the public good, promoting democratic values, providing services, advocating for rights, and acting as watchdogs. This definition aligns with international standards, such as those of the OECD and CIVICUS, and reflects the practical realities of Nepal's federal context, where CSOs play a crucial role in governance, service delivery, and social transformation.*

# Acknowledgement

The development of this resource guide on Nepal's graduation from Least Developed Country (LDC) status has been a truly collaborative and participatory endeavor, reflecting the collective insights, expertise, and commitment of a diverse range of stakeholders across Nepal's civil society landscape.

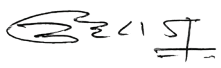
We extend our deepest gratitude to the Civil Society Organizations (CSOs) at local, provincial, and national levels, whose active engagement, candid feedback, and practical experiences have been foundational to the content and recommendations of this guide. Special thanks are due to the participants of the National CSO Conference 2025 and the respondents of the CSO Preparedness Survey, whose contributions provided crucial empirical evidence and grounded the guide in the realities faced by organizations on the frontlines of Nepal's development transition.

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A special note of thanks goes to the researchers, and facilitators at dZi Foundation/ Nepal whose tireless efforts ensured the guide's accuracy, clarity, and accessibility. Their dedication to synthesizing complex policy, financial, and operational issues into actionable guidance has made this resource a practical tool for CSOs navigating the LDC graduation process.

Finally, we recognize the grassroots communities and marginalized groups whose aspirations for inclusive and sustainable development inspire the work of Nepal's civil

society. It is our hope that this guide will support CSOs in advancing development justice- redistributive, economic, social, environmental, and accountability- so that Nepal's graduation becomes a catalyst for a more equitable and resilient future for all.



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# Executive Summary

Nepal's scheduled graduation from Least Developed Country (LDC) status in November 2026 marks a pivotal transformation in the nation's development landscape, presenting both significant challenges and opportunities for Civil Society Organizations (CSOs). This resource guide offers a comprehensive framework to help CSOs strategically adapt to the evolving funding, operational, and governance environment that will emerge post-graduation.

## Key Challenges and Context

Nepal's graduation will fundamentally alter international support mechanisms, with the loss of LDC-specific benefits such as concessional financing, duty-free market access, and targeted development aid. These changes are compounded by a critical policy incoherence: while the Voluntary National Review (VNR) recognizes CSOs' multidimensional roles in governance and development, the Smooth Transition Strategy (STS) relegates civil society to a peripheral role, resulting in operational gaps and weakened CSO influence.

Recent surveys and national conference discussions reveal an alarming preparedness gap, with 90% of federal-level CSOs reporting no formal communication from donors about post-graduation support. Sectors such as education, livelihoods, and children's welfare are identified as particularly vulnerable to funding disruptions. Notably, provincial CSOs- especially in Lumbini and Bagmati- demonstrate more sophisticated, context-driven adaptation strategies than their federal counterparts, highlighting the value of bottom-up knowledge flows.

## Strategic Adaptation Framework

The guide outlines actionable strategies across six core domains:

- *Understanding the Post-LDC Funding Landscape:* CSOs must anticipate a decline in traditional funding sources and adapt to new donor priorities, including stricter eligibility for concessional loans and increased requirements for private-sector co-funding. Diversification through social enterprises, diaspora crowdfunding, and climate finance (e.g., Green Climate Fund) is essential for sustainability.
- *Financial Resilience:* Organizations are encouraged to diversify revenue streams, optimize costs through shared services and digital tools, and establish contingency funds covering 6–12 months of core expenses. Provincial innovations in social enterprise and cost management offer valuable models for replication.
- *Operational Adaptation:* Upgrading financial management systems, prioritizing impact measurement, and investing in digital skills are critical. The ability to demonstrate results and adapt programs to national priorities (e.g., SDGs, climate resilience) will be decisive in attracting new funding and maintaining relevance.
- *Partnership Development:* Leveraging government matching funds, formalizing CSO roles in national governance structures, and building private sector and international NGO partnerships are vital. Provincial CSOs' practical engagement with local businesses and communities offers lessons for more effective partnership models.
- *Gender Equality & Social Inclusion (GESI):* Integrating GESI audits, inclusive budgeting, and participatory engagement protocols ensures that marginalized groups are not left behind. The guide stresses the importance of embedding equity and accountability in all CSO operations, especially as graduation risks exacerbating social disparities.

- *Risk Management & Monitoring:* Proactive risk assessment, operational continuity planning, and climate resilience integration are emphasized. Adaptive management and SDG-aligned impact measurement systems will help CSOs navigate uncertainties and demonstrate their ongoing value.

## Multi-Level Action Priorities

The guide recommends tailored actions at local, provincial, and national levels:

- *Local CSOs:* Conduct readiness assessments, develop context-specific social enterprises, build community ownership, and implement digital efficiency tools.
- *Provincial Networks:* Facilitate knowledge exchange, shared services, pooled funding, and policy advocacy to address regional disparities and regulatory barriers.
- *National Coalitions:* Advocate for a clear CSO sustainability policy, institutionalize government matching funds, establish transition support facilities, and harmonize VNR and STS frameworks for coherent national engagement.

## Conclusion

Nepal's LDC graduation is not merely a funding transition but an opportunity to reimagine the country's development architecture. By embracing locally-driven, sustainable models and prioritizing equity and accountability, CSOs can transform this challenge into a catalyst for inclusive prosperity. The principles of development justice- redistributive, economic, social, environmental, and accountability- should guide both policy and practice, ensuring that Nepal's development trajectory remains inclusive and resilient beyond LDC status.

Nepal's scheduled graduation from Least Developed Country (LDC) status in November 2026 represents a profound structural transformation in the country's development architecture<sup>1</sup> that necessitates strategic adaptation by Civil Society Organizations (CSOs). This transition, following Nepal's fulfillment of two of the three UN graduation criteria, will fundamentally restructure international support mechanisms that CSOs have traditionally relied upon, creating both challenges and opportunities for Nepal's development ecosystem.

A critical policy incoherence undermines effective preparation for this transition. The structural divergence between Nepal's Voluntary National Review (VNR) and LDC Graduation Smooth Transition Strategy (STS) creates fundamental governance inconsistencies that weaken CSOs' potential contributions. While the VNR establishes a collaborative governance model recognizing CSOs' multidimensional roles in connecting communities to policy, advancing development justice, delivering services, and ensuring accountability<sup>2</sup>, the STS reduces civil society to peripheral financial contributors without specified institutional roles in governance structures. This conceptual misalignment manifests operationally in severe implementation gaps.

Recent analysis of survey responses from 60 CSOs and national conference discussions reveals an alarming 90% of federal-level organizations report no formal communication from donors about post-graduation support, indicating a critical preparedness gap<sup>3</sup>. Organizations identify education (56.7%), livelihoods (53.3%), and children's welfare (50%) as priority sectors potentially vulnerable to funding disruptions.

Perhaps most strikingly, empirical data challenges conventional governance assumptions by revealing that provincial-level organizations- particularly in Lumbini and Bagmati- demonstrate a more sophisticated practical understanding

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1 National Planning Commission, Nepal. (2024a, May 7). *Final LDC Graduation STS*. <https://npc.gov.np/images/category/240507114612Final%20LDC%20Graduation%20STS.pdf>

2 National Planning Commission. (2024). Nepal: Voluntary National Review of Sustainable Development Goals. Government of Nepal.

3 Compiled Online Survey & National CSO Conference by NGO Federation of Nepal and dZI Foundation. (2025, March). Nepal's LDC Graduation: A Strategic Analysis of CSO Readiness and Adaptation Pathways.

of transition implications than their federal counterparts. This geographic inversion of knowledge suggests that frontline experience drives innovation more effectively than policy proximity, highlighting the strategic imperative for bottom-up knowledge flows in developing effective graduation responses.

Social entrepreneurship has emerged as the predominant adaptation strategy across regions, though implementation approaches vary significantly based on local contexts, indicating an indigenous reinvention of global concepts rather than standardized solutions. Capacity development priorities center on impact measurement (44.1%), digital skills (27.1%), and financial management (27.1%), while CSOs strongly prefer government matching funds (69.5%) as support mechanisms, signaling recognition that future sustainability depends on leveraged resources rather than single-source funding.

This guide provides a strategic framework for CSOs navigating Nepal's graduation transition, integrating theoretical concepts with empirical findings to create actionable pathways for organizational adaptation. By reframing graduation not merely as a funding transition but as an opportunity to fundamentally reimagine Nepal's development architecture, CSOs can transform this challenge into a catalyst for more sustainable, locally-owned development models that maintain momentum toward inclusive prosperity.

## **I) Understanding Post-LDC Funding Landscape**

Nepal's impending graduation from Least Developed Country (LDC) status in November 2026 represents a critical transition in the nation's development journey, particularly regarding access to international funding and support for civil society organizations. As Nepal approaches this milestone, CSOs must understand and prepare for significant shifts in the funding landscape.

### **1.1) Impact on Traditional Funding Sources**

Nepal faces considerable challenges in implementing its Smooth Transition Strategy (STS), with a substantial budget shortfall—only Rs 40 million allocated

against a required Rs 4 billion<sup>4</sup>. This fiscal constraint will likely cascade to CSOs dependent on government partnerships and international funding streams. Post-graduation, Nepal will lose access to targeted development aid and LDC-specific benefits, such as duty-free market access, intellectual property flexibilities under TRIPS, and various subsidies that indirectly support civil society initiatives<sup>5</sup>.

Concessional financing, which constituted 11–15% of Nepal's national budget, will decline as multilateral institutions like the Asian Development Bank (ADB) transition the country to higher-interest loans, straining CSO partnerships with government programs reliant on these funds<sup>6</sup>. Bilateral donors such as Japan and Germany may revise aid conditions, while support from India, China, and the UK is expected to remain relatively stable<sup>7</sup>. The European Union (EU) and other donors are shifting priorities toward infrastructure and thematic projects, often requiring CSOs to demonstrate private-sector co-funding- a challenge for smaller organizations.

The withdrawal of LDC-specific grants from agencies like UNDP and UNICEF, coupled with USAID's termination of \$319 million in health, education, and agriculture projects, has already created gaps for 120 CSOs<sup>8</sup>. Additionally, the loss of WTO Services Waiver benefits and export subsidies will reduce revenues in sectors like textiles, affecting 23 CSOs supporting 620 worker cooperatives<sup>10</sup>.

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4 Rising Nepal Daily. (2025, May 18). Nepal lacks budget for graduation from LDC status, faces loss of key benefits. <https://risingnepaldaily.com/news/62139>

5 The Himalayan Times. (2024, October 1). Nepal's LDC Graduation: Implication, Opportunities, and Pathways. <https://thehimalayantimes.com/nepal/nepals-ldc-graduation-implication-opportunities-and-pathways>

6 United Nations. (2024). *Committee for Development Policy 26th Plenary Session: Nepal* (CDP2024/PLEN/6.d). United Nations Department of Economic and Social Affairs. <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2024-6-6-Nepal.pdf>

7 European External Action Service. (n.d.). *Global Gateway*. Delegation of the European Union to Nepal. Retrieved May 21, 2025, from [https://www.eeas.europa.eu/delegations/nepal/global-gateway\\_en:contentReference\[oaicite:7\]{index=7}](https://www.eeas.europa.eu/delegations/nepal/global-gateway_en:contentReference[oaicite:7]{index=7})

8 Sigdel, P. (2025, March 12). *USAID withdraws \$319 million from Nepal*. Nature Khabar. <https://naturekhabar.com/en/archives/30977>

9 The Rising Nepal. (2025, May 18). *Nepal lacks budget for graduation from LDC status, faces loss of key benefits*. <https://risingnepaldaily.com/news/62139>

10 Sharma, S., & Balchin, N. (2023). *How to maximise the benefits of the LDC Services Waiver*. OECD. <https://oecd-development-matters.org/2023/11/17/how-to-maximise-the-benefits-of-the-ldc-services-waiver/>

Domestic fiscal constraints exacerbate these challenges, as Nepal's Smooth Transition Strategy faces a 98% funding shortfall, limiting federal grants that provided 17% of CSO income<sup>11</sup>. In terms of international and national NGOs, LDC graduation will disrupt traditional funding mechanisms, with concessional loans and bilateral grants projected to decline by 30–40% by 2027 due to stricter eligibility criteria and donor reprioritization<sup>12 13</sup>.

Nepal's Foreign Aid Mobilization Policy 2025 imposes stringent requirements on INGOs, including prior local government approvals and project implementation requirements, which risk diverting resources from smaller CSOs to administrative compliance<sup>14</sup>. Local NGOs face heightened administrative burdens, such as a 20% cap on project administrative costs and restrictions on operating in religious or politically 'sensitive' areas, limiting their programmatic flexibility<sup>15</sup>. Additionally, declining public trust in NGOs as "dollar harvesters" persists despite their receiving only 14% of total foreign aid, exacerbating challenges in domestic resource mobilization.

## 1.2) The Evolving Funding Ecosystem

Non-traditional donors, such as China through the \$50 million China-Nepal Green Development Pact, are expanding South-South cooperation, though CSOs must navigate geopolitical sensitivities<sup>16</sup>. CSOs are also diversifying revenue via social enterprises, exemplified by the Nepal CSO Coalition's \$2.1 million organic coffee exports, and leveraging diaspora networks like the Non-Resident

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11 New Business Age. (2024, July 4). *Nepal will face challenges in adjusting to LDC graduation*. New Business Age. <https://www.old.newbusinessage.com/MagazineArticles/view/4495>

12 MyRepublica. (2024, August 8). *Foreign aid: A double-edged sword for Nepal's development*.

13 Rising Nepal Daily. (2024, November 13). *Localisation of foreign aid in Nepal*.

14 New Spotlight Online. (2025, May 9). *Foreign Aid Mobilisation Policy 2025 identifies INGOs support crucial for Nepal's development*. New Spotlight Magazine. <https://www.spotlightnepal.com/2025/05/09/foreign-aid-mobilisation-policy-2025-identifies-ingos-support-crucial-for-nepals-development/>

15 KC, D. (2025, April 7). *Nepal's NGO sector at a crossroads*. The Kathmandu Post. <https://kathmandupost.com/columns/2025/04/07/nepal-s-ngo-sector-at-a-crossroads>

16 Thapa Magar, A. (2023, September 25). *Nepal and China reach agreement on 13 issues*. Nepal News. <https://nepalnews.com/s/nation/nepal-and-china-reach-agreement-on-13-issues/>

Nepali Association, which crowdfunded \$4.8 million in 2024<sup>17 18</sup>. Advocacy for transitional protections under the Doha Programme of Action, which permits 3–5-year grace periods for LDC benefits, offers a pathway to mitigate immediate funding shocks. By aligning with these trends, CSOs can offset declining traditional aid and sustain their critical role in Nepal's development.

Climate finance remains resilient, with the Green Climate Fund (GCF) approving \$150–200 million annually for Nepal, including direct access for CSOs through the Independent Redress Mechanism (IRM) to address grievances in GCF projects<sup>19 20</sup>. Strategic alignment with Nepal's GCF Engagement Strategy 2024–2027, which prioritizes Indigenous knowledge and locally-led adaptation, opens pathways for CSOs to secure grants for renewable energy and disaster resilience<sup>21 22 23</sup>. Proactive engagement with GCF's Enhanced Direct Access modality and partnerships with accredited entities like the Alternative Energy Promotion Centre (AEPC) could further stabilize funding streams.

### 1.3) Emerging Opportunities in Blended Finance and Social Enterprises

CSOs can leverage blended finance mechanisms, such as concessional loans and risk-sharing guarantees, to attract private capital for sustainable development. Nepal's Renewable Energy Fund mobilized \$16 million through

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17 Non-Resident Nepali Association. (2024, September 30). *Pledge for flood and landslide victims*.

18 Global Call to Action Against Poverty. (2024, September 4). *Nepal civil society outlines key demands ahead of the Sustainable Development Goals Summit*. <https://gcap.global/fr/news/nepal-civil-society-outlines-key-demands-ahead-of-the-sustainable-development-goals-summit/>

19 Independent Redress Mechanism. (2024, March 4). *IRM outreach with civil society in Nepal*. Green Climate Fund. <https://irm.greenclimate.fund/news/irm-outreach-civil-society-nepal>

20 Green Climate Fund. (n.d.). *Homepage*. Green Climate Fund. Retrieved May 21, 2025, from <https://www.greenclimate.fund/>

21 Government of Nepal, Ministry of Health and Population. (n.d.). *Green Climate Fund Engagement Strategy of Nepal*. Retrieved May 21, 2025, from [http://climate.mohp.gov.np/downloads/Green\\_Climate\\_Fund\\_Engagement\\_Strategy\\_of\\_Nepal.pdf](http://climate.mohp.gov.np/downloads/Green_Climate_Fund_Engagement_Strategy_of_Nepal.pdf)

22 Rai, T. B. (2024, March 26). *The Indigenous World 2024: Green Climate Fund (GCF)*. International Work Group for Indigenous Affairs. <https://iwgias.org/en/the-green-climate-fund-gcf/5410-iw-2024-gcf.html>

23 Ministry of Finance. (2017). *Green Climate Fund Handbook for Nepal*. International Economic Cooperation Coordination Division, Ministry of Finance.

interest rate buydowns, enabling CSOs to scale community solar projects in rural electrification<sup>24 25</sup>. Social enterprises, particularly in agriculture and clean energy, benefit from impact investing platforms like the Nepal Impact Investment Community (NIIC2), which pools debt, equity, and technical assistance to de-risk investments<sup>26</sup>.

The NRNA's \$10 billion development fund offers crowdfunding avenues, exemplified by its 2024 success in raising \$4.8 million for vocational training centers<sup>27 28</sup>. As discussed earlier, the Green Climate Fund permits direct CSO access through its Independent Redress Mechanism, prioritizing Indigenous-led climate adaptation projects. Policy reforms, such as tax incentives for impact investments under the Doha Programme of Action, could further stabilize funding streams if CSOs advocate for streamlined approval processes<sup>29</sup>.

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24 Dhakal, M. (2022, August 18). *Sustainable development through blended finance in Nepal*. The Himalayan Times. <https://thehimalayantimes.com/opinion/sustainable-development-through-blended-finance-in-nepal>

25 Asian Development Bank. (2024, August). *Nepal: Green and Resilience Financing Facility Investment Program (Project 58238-002)*. <https://www.adb.org/projects/58238-002/main>

26 Heifer International Nepal, & SAFAL Partners. (2025). *Impact investment landscape in Nepal: Challenges and opportunities*. Aspen Network of Development Entrepreneurs (ANDE). <https://andeglobal.org/publication/impact-investment-landscape-in-nepal-challenges-and-opportunities/>

27 Invest for Impact Nepal. (n.d.). *Invest for Impact Nepal*. <https://www.investforimpactnepal.com/>

28 Republica. (2023, June 30). *Lack of access to finance hindering growth of social entrepreneurship*. myRepublica. <https://myrepublica.nagariknetwork.com/news/lack-of-access-to-finance-hindering-growth-of-social-entrepreneurship>

29 Paudyal, B. R. (2023, September 17). *Statement for Mr. Bharat Raj Paudyal, Foreign Secretary and LDC Chair, at the SDG Action Weekend side event – “Scaling up blended finance to mobilize private SDG investments in LDCs and other vulnerable countries”*. Ministry of Foreign Affairs, Nepal. <https://mofa.gov.np/content/725/statement-for-mr--bharat-raj-paudyal--foreign/>

## 2) Financial Resilience Strategies

### 2.1) Diversification Checklist

Developing multiple revenue streams beyond traditional donor funding becomes essential as international support mechanisms change. Civil society organizations (CSOs) should aim to establish at least three diverse revenue sources, including earned income through service provision, membership fees, and social enterprise models.

In Madhesh Province, local government initiatives and enterprises have significantly boosted the visibility and economic impact of Mithila art. For example, a recent project commissioned 160 unique Mithila paintings to be created by around 50 local artists, with the provincial government investing approximately NPR 2 million in the project<sup>30</sup>. Meanwhile, in Karnali Province, women's agro-cooperatives have played a transformative role in rural economies. These cooperatives have provided training, resources, and improved market access to women farmers, contributing to increased incomes and greater financial independence<sup>31</sup>.

This aligns with the Foreign Aid Mobilization Policy 2025, which prioritizes CSO partnerships with domestic industries to leverage Nepal's NPR 10 billion diaspora fund<sup>32</sup>. Federal matching grants now cover 40–60% of social enterprise startup costs, incentivizing CSOs to blend commercial and developmental objectives<sup>33</sup>.

### 2.2) Cost Optimization Framework

Financial resilience requires not just increasing revenue but also optimizing costs. CSOs should implement systematic cost reviews that distinguish between

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30 Tiwari, A. (2024, December 1). *A wall-turned canvas*. The Kathmandu Post. <https://kathmandu-post.com/arts/2024/12/01/a-wall-turned-canvas>

31 Adhikari, S. (2023, March 7). *In Nepal, farm women are becoming entrepreneurs*. The Kathmandu Post. <https://kathmandupost.com/money/2023/03/07/in-nepal-farm-women-are-becoming-entrepreneurs>

32 Ministry of Federal Affairs and General Administration. (2023). *Prashasan*, 54(1), 125–138. <https://doi.org/10.3126/prashasan.v54i1.53223>

33 Kharel, K. R., Poudel, O., Upadhyaya, Y. M., & Nepal, P. (2024). Effect of private sector credit on economic growth in Nepal. *Financial Markets, Institutions and Risks*, 8(1), 142–157. [https://doi.org/10.61093/fmir.8\(1\).142-157](https://doi.org/10.61093/fmir.8(1).142-157)

essential and non-essential expenditures. Shared service models with other organizations can reduce administrative burdens, while digital transformation can enhance operational efficiency.

NFN-led conference in March 2025 discussions at the federal level emphasized digitization and increased AI use to reduce personnel costs, indicating awareness that technological optimization will be essential in maintaining operational capacity with reduced funding. The focus on these approaches demonstrates recognition that efficiency will become increasingly important in resource-constrained environments.

The paradoxical finding that provincial organizations often demonstrate more sophisticated adaptation strategies than their federal counterparts suggests potential for knowledge transfer from provincial to federal levels. Organizations might benefit from examining how provincial-level CSOs have implemented cost optimization approaches tailored to local contexts and resource constraints, rather than assuming that the most advanced strategies will emerge from national-level organizations.

### **2.3) Contingency Fund Establishment Guidelines**

Establishing financial reserves becomes increasingly important during this transition period. CSOs should aim to build contingency funds covering at least 6-12 months of core operating expenses to weather potential funding gaps. The need for such planning is underscored by findings that only 10% of federal-level organizations have received formal communication from donors about post-graduation support, indicating significant uncertainty in future funding landscapes.

The communication gap between donors and implementing organizations creates a strategic planning vacuum that contingency funds can help mitigate. This preparedness gap appears particularly acute at the federal level, where organizations might reasonably expect more advance communication about transition planning. Organizations should not wait for formal transition guidance before establishing reserves, particularly given the evidence that graduation impacts are already being felt in some regions like Karnali (GoN, 2025).

## 3) Operational Adaptation

### 3.1) Capacity Building Priorities

Financial management systems require significant upgrades as funding sources diversify and become more complex. CSOs should invest in robust accounting systems that meet international standards, build capacity for managing diverse funding instruments beyond grants, and develop expertise in strategic financial planning.

Survey findings identify impact measurement and demonstrating project success as the highest priority need (44.1%), followed equally by digital skills development and financial management (27.1% each). This prioritization reveals recognition that in competitive funding environments, evidence-based approaches become decisive differentiators. The emphasis on impact measurement suggests organizations understand that post-graduation sustainability depends not merely on finding new funding but on demonstrating concrete value and effectiveness.

Digital adaptation emerges as a critical capability dimension, with partnership finders identified as the most frequently used digital tool (58.3%), suggesting that organizations recognize network capital may become as valuable as financial capital in resource-constrained environments. This preference for collaboration-enabling technologies over administrative efficiency tools represents a sophisticated understanding of how digital tools can create strategic advantage rather than merely operational convenience.

The emphasis on impact measurement (44.1%) reveals an increasingly strategic perspective on organizational value. By prioritizing the ability to demonstrate concrete results over immediate funding acquisition skills, organizations recognize that long-term sustainability depends on evidence-based approaches that can attract diverse supporters rather than pleasing traditional donors. This capability becomes particularly important in a post-graduation context where competition for resources will likely intensify.

### 3.2) Program Alignment with National Priorities

The SDG localization matrix helps CSOs align their programs with the Sustainable Development Goals, enhancing both relevance and funding opportunities. Nepal's national vision focuses on achieving "Good Governance, Social Justice and Prosperity," comprising six strategic pillars: macroeconomic stability, trade and investment, economic transformation, productive capacity, climate change and disaster risk management, and social inclusion.

Survey and conference findings reveal consensus around services that must be preserved regardless of funding changes. Health programs, advocacy for marginalized communities, and disaster response initiatives consistently emerge as core priorities across regions. This alignment suggests shared understanding of CSO priorities in Nepal, potentially facilitating coordinated approaches during the transition period.

The structural divergence between the VNR and STS creates challenges for effective program alignment. While the VNR adopts a multi-dimensional conceptualization that recognizes CSOs as performing diverse functions including advocacy, service delivery, accountability promotion, and data contribution, the STS primarily references CSOs as financial contributors. This limited functional conceptualization in the STS inadequately recognize the broader strategic contributions that civil society makes to inclusive development, potentially constraining CSOs' ability to position their programs effectively in the post-graduation landscape.

## 4) Partnership Development

### 4.1) Government Partnerships

Engagement with government entities becomes increasingly important as Nepal transitions to developing country status. Recent findings highlight government matching funds as the preferred support mechanism, with 69.5% of survey respondents identifying this as the most beneficial approach. This strong preference for co-financing arrangements signals recognition that future sustainability depends not on standalone funding but on leveraged resources.

Conference discussions also revealed significant structural barriers to government-CSO partnerships, including regulatory ambiguity and absence of clear national policies defining CSO roles. Organizations from Lumbini Province specifically noted “ambiguity in governmental laws regarding coordination between local/provincial governments and CSOs” and the “absence of a national policy that clearly defines and recognizes the role of CSOs”.

The institutional architecture outlined in the STS establishes a High-Level LDC Graduation Steering Committee and various implementation mechanisms without specifying how civil society will participate in these structures. This omission creates an institutional vacuum that could marginalize civil society voices in graduation planning and implementation, contradicting CSOs’ expressed preference for partnership-based approaches. Addressing this governance gap requires extending the collaborative governance model from the VNR to the graduation context, formalizing CSO representation in graduation governance structures and creating consistent consultation processes across both frameworks.

### 4.2) Private Sector Partnerships

The private sector represents both a potential source of funding and a partner for creating sustainable impact. The integrated findings suggest emerging recognition of private sector partnership potential, though with considerable variation in implementation readiness. Organizations with more advanced understanding of LDC graduation implications- particularly in Lumbini and Bagmati provinces-

demonstrate more sophisticated approaches to corporate engagement, while others remain at earlier stages.

The geographic variation in partnership sophistication challenges conventional assumptions about innovation flows. The finding that provincial organizations often demonstrate more advanced partnership approaches than their federal counterparts suggests that proximity to local business communities may create more concrete partnership opportunities than theoretical knowledge of corporate social responsibility frameworks. This practical engagement appears to drive innovation more effectively than policy frameworks, highlighting the value of experiential learning in developing effective partnership models.

### **4.3) International NGO Partnerships**

International NGOs can provide valuable support during this transition through consortium relationships, technical partnerships, knowledge sharing networks, and mentoring. The conference discussions highlighted that while some existing international funding sources are considered most vulnerable to disruption, strategic partnerships with these organizations remain valuable for knowledge transfer and capacity building during the transition period.

The changing relationship between local CSOs and international NGOs represents both a challenge and an opportunity for Nepal's civil society ecosystem. As funding relationships evolve, more horizontal partnership models focusing on mutual learning and complementary expertise may replace traditional donor-recipient dynamics. This evolution aligns with broader shifts in international development practice toward locally-led development approaches that recognize and build upon contextual knowledge and capabilities.

## 5) Gender Equality & Social Inclusion Integration

### 5.1) GESI Audit Toolkit for Programs and Operations

The principle of “leaving no one behind” remains central to Nepal’s development approach even after LDC graduation, as emphasized in the Voluntary National Review (VNR) 2024<sup>34</sup>. Conference findings reveal strong consensus around preserving advocacy for marginalized communities, including GESI audit, which institutionalizes gender equity assessments in policies, budgets, and program cycles. The VNR acknowledges Nepal’s civil society framework built on five principles of development justice: redistributive, economic, social, and environmental justice, alongside accountability to marginalized groups. These principles serve as an ethical infrastructure that complements the technical orientation of government planning processes, ensuring that development interventions advance substantive equity and justice, rather than focusing solely on technical efficiency or aggregate outcomes. This dual approach not only safeguards the rights of vulnerable populations but also strengthens the legitimacy and sustainability of Nepal’s broader development agenda by embedding justice and accountability at every level of decision-making.

### 5.2) Inclusive Budgeting Template

Budgeting processes in Nepal must reflect GESI commitments through gender-responsive budgeting<sup>35</sup> approaches, as mandated by the Local Government Operations Act, supported by the Ministry of Finance’s GRB (Gender-Responsive Budgeting) guidelines, and informed by tools like LISA (Local Government Institutional Capacity Self- Assessment)<sup>36</sup>. These frameworks ensure that gender equality and social inclusion are systematically integrated into planning, budgeting, and resource allocation at the local level. CSOs should track GESI-

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34 National Planning Commission. (2024). *Voluntary National Review Report 2024*.

35 Public Expenditure and Financial Accountability (PEFA). (2024). *Nepal GRPFM 2024*. <https://www.pefa.org/node/5073>

36 Ministry of Federal Affairs and General Administration (MoFAGA). (n.d.). *Local Government Institutional Capacity Self-Assessment (LISA)*. Retrieved May 21, 2025, from <https://lisa.mofaga.gov.np/>

specific expenditures and allocate a certain percentage of budgets to inclusion activities, aligning with the VNR Report 2024, which highlights persistent caste-based discrimination and unequal resource access. Survey findings indicate concerns about graduation's disproportionate impacts on marginalized groups, including potential spikes in unemployment, project terminations, and setbacks to gender equality and social inclusion, as noted in the Foreign Aid Mobilization Policy 2025. These risks underscore the need for budgeting frameworks that identify economic disparities for marginalized communities, including those facing intersectional challenges, such as Muslim and Dalit women.

### **5.3) Marginalized Group Engagement Protocols**

Social inclusion is a pillar of Nepal's LDC Graduation Smooth Transition Strategy (STS), which mandates participatory consultations with Dalit, Indigenous, and disability communities. The survey (2025) reveals anxieties about widening inequality post-graduation, necessitating protocols to ensure marginalized voices shape funding decisions. The VNR's distributional analysis, which examines differential impacts across groups, contrasts with the STS's focus on aggregate GDP growth, creating blind spots in equity monitoring. Drawing on successful models like the Citizen-Led VNR 2024 grassroots consultations<sup>37</sup>, CSOs should institutionalize regular, accessible consultations, participatory decision-making, and community-led monitoring to ensure that social inclusion remains central to Nepal's transition beyond LDC status.

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37 VSO. (2024). *Citizen-Led Voluntary National Review: Nepal's SDG Progress*.

## 6) Risk Management Framework

### 6.1) Financial Risk Assessment Matrix

CSOs should systematically assess and mitigate financial risks associated with LDC graduation. Provinces already experiencing funding disruptions- such as Karnali, which noted current impacts from funding freezes- demonstrate more concrete understanding of vulnerability patterns and corresponding risk management needs. This geographic variation highlights the importance of learning from organizations already navigating funding transitions.

The profound communication gap indicated by 90% of federal-level organizations reporting no formal donor communication about post-graduation support suggests a critical risk management challenge. This preparedness gap indicates that many organizations may face abrupt funding changes without adequate transition time, necessitating more proactive risk assessment approaches that anticipate rather than react to funding disruptions (GoN, 2025).

### 6.2) Operational Continuity Plan Template

Ensuring operational continuity during transition periods requires careful planning. The stark finding that 90% of federal-level organizations have not received formal communication from donors about post-graduation support. This underscores the urgency of developing robust continuity plans. This preparedness gap indicates that many organizations may face abrupt funding changes without adequate transition time. The apparent inversion of knowledge sophistication between provincial and federal levels suggests valuable opportunities for vertical knowledge sharing in developing continuity plans. Organizations at all levels might benefit from examining how provincial CSOs- particularly in Lumbini and Bagmati- have developed practical continuity approaches based on frontline experience with changing funding landscapes. This bottom-up knowledge flow challenges conventional capacity building approaches that typically prioritize top-down expertise transfer.

### 6.3) Climate Resilience Integration Checklist

Nepal's vulnerability to climate change necessitates attention to climate resilience in all programs. The country has adopted a homegrown Green Resilient Inclusive Development (GRID) approach, prioritizing ten key transition sectors and actions to be accomplished over the next decade<sup>38</sup>. Survey findings indicate relatively balanced vulnerability perceptions across Nepal's geographical regions, with the Terai/Plains region identified by 39.3% of respondents as requiring the most climate risk assistance, followed closely by Hills (37.7%) and mountains (23%).

This balanced geographical distribution highlights the importance of integrating climate resilience considerations into transition planning across all ecological zones rather than concentrating resources in a single region. Climate vulnerability adds another dimension to distributional analysis of graduation impacts, requiring attention to how changing support mechanisms might affect different communities' adaptive capacity in the face of increasing climate risks.

See Annex 1 for Financial Risk Matrix, Operational Continuity Plan Template and Integration Checklist.

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38 Nagarik Network. (2024). Nepal's Green Resilient Inclusive Development (GRID) Approach: Policy Brief. Kathmandu: Nagarik Network.

## 7) Monitoring & Evaluation

### 7.1) SDG-Aligned Impact Measurement System

Civil society organizations (CSOs) should adopt a systematic approach to identifying and mitigating financial risks linked to Nepal's graduation from Least Developed Country (LDC) status. Provinces such as Karnali, which have already experienced funding disruptions and freezes, provide valuable insights into patterns of vulnerability and effective risk management strategies. These regional experiences underscore the importance of cross-learning, particularly from organizations that are actively navigating funding transitions.

The survey found that a significant communication gap exists, as evidenced by the finding that 90% of federal-level organizations have not received formal communication from donors regarding post-graduation support. This lack of preparedness represents a substantial risk management challenge; many organizations may encounter sudden funding changes without sufficient time to adapt. Therefore, CSOs must prioritize proactive risk assessment and scenario planning, anticipating potential funding disruptions rather than merely reacting to them.

### 7.2) Donor Reporting Optimization Strategies

Efficient reporting processes save resources and improve stakeholder relationships. As funding sources diversify, reporting requirements often proliferate, creating administrative burdens that divert resources from program implementation. Strategic approaches to reporting can reduce these burdens while still meeting accountability requirements and effectively communicating impact.

The divergent approaches to monitoring and evaluation between the VNR and STS create challenges for reporting optimization. While the VNR emphasizes participatory monitoring that incorporates civil society contributions to data collection, validation, and interpretation, the STS adopts a more technical approach to monitoring that focuses on economic indicators and government-led assessment processes, with limited attention to civil society's potential

monitoring contributions. Developing reporting approaches that can address both frameworks while minimizing duplication represents a significant opportunity for efficiency improvement.

### **7.3) Adaptive Management Cycle Implementation Guide**

Adaptive management enhances program effectiveness in rapidly changing contexts. The integrated findings reveal significant variations in understanding and adaptation strategies across regions, with some provincial-level organizations demonstrating more sophisticated practical understanding than their federal counterparts. This suggests valuable opportunities for structured knowledge-sharing between regions and greater coordination between federal and provincial levels.

The apparent inversion of knowledge sophistication between provincial and federal levels challenges conventional assumptions about expertise distribution. The finding that provincial organizations- particularly in Lumbini and Bagmati- often demonstrate more advanced adaptive management approaches than their federal counterparts suggests that proximity to implementation challenges may foster more responsive management systems than theoretical knowledge. This practical engagement appears to drive innovation more effectively than policy proximity, highlighting the value of experiential learning in developing adaptive management capabilities.

## 8) Multi-Level Action Items for Effective Transition

### 8.1) Local Level Action Priorities

Individual CSOs and community-based organizations must take immediate steps to prepare for Nepal's LDC graduation. Based on the integrated findings from both survey responses and conference discussions, local organizations should prioritize:

1. Conducting organizational readiness assessments that evaluate financial vulnerability, existing competencies, and transition needs. Given that 90% of organizations report no formal communication from donors, CSOs must proactively analyze their own position rather than waiting for external guidance.
2. Developing localized social enterprise models appropriate to specific regional contexts and existing capabilities. Following the example of Madhesh Province's Mithila painting enterprises and other region-specific initiatives, organizations should identify unique cultural, agricultural, or service-based opportunities within their operational areas.
3. Building community ownership structures that increase local investment and support for programs, reducing dependency on external funding. This approach aligns with survey findings emphasizing the need for community-based resource mobilization strategies as traditional funding diminishes.
4. Implementing digital efficiency tools to reduce operational costs while maintaining program quality. Conference findings highlight digitization and AI (Artificial Intelligence) applications as strategic approaches for maintaining operational capacity with reduced funding.
5. Developing impact measurement frameworks that clearly demonstrate program value to potential funders and partners. With 44.1% of survey respondents identifying impact measurement as their highest priority need, this represents a critical capability for local organizations.

The geographic variation in adaptation sophistication suggests that local organizations should not wait for national-level guidance before developing transition strategies. The finding that provincial organizations often demonstrate more advanced adaptation approaches than their federal counterparts highlights the value of locally-developed solutions that respond to specific contextual challenges rather than standardized approaches developed at higher governance levels.

## **8.2) Provincial Level Coordination Mechanisms**

Provincial networks, federations, and coordinating bodies have unique opportunities to facilitate knowledge sharing and collective action. The integrated findings highlight significant disparities in understanding between provinces, suggesting critical roles for provincial-level coordination:

1. Establishing provincial knowledge exchange platforms that enable organizations to share adaptation strategies and lessons learned. The significant variation in understanding depth between provinces- with Lumbini and Bagmati demonstrating comprehensive understanding while others remain at developing stages- highlights the value of structured provincial knowledge sharing.
2. Developing shared service models for administrative functions, technology infrastructure, and specialized expertise. This approach addresses the cost optimization needs identified in conference discussions while leveraging provincial networks to achieve economies of scale.
3. Creating provincial-level collective funding mechanisms such as basket funds or pooled financing arrangements. Survey findings indicate strong preference for collaborative financing systems with transparent fund allocation and accountability mechanisms.
4. Coordinating provincial policy advocacy to address identified structural barriers like regulatory ambiguity and unclear CSO-government coordination frameworks. Conference findings from Lumbini Province specifically highlighted these governance challenges as significant obstacles to effective partnership development.

5. Implementing province-specific impact measurement frameworks that aggregate organizational contributions to provincial development priorities. This approach aligns with the identified need for evidence-based approaches while creating coherent provincial-level narratives about CSO contributions.

The finding that provincial-level organizations- particularly in Lumbini and Bagmati- demonstrate more sophisticated practical understanding than their federal counterparts suggests that provincial coordination mechanisms could facilitate valuable upward knowledge flows to national levels. Rather than viewing provinces merely as implementation units for nationally-developed strategies, effective coordination recognizes provincial networks as innovation sources that can inform national approaches through their practical experience with transition challenges.

### **8.3) National Level Strategic Initiatives**

National networks, apex bodies, and policy advocacy coalitions must address systemic challenges requiring coordinated responses. The integrated findings point to several critical actions at the national level:

1. Advocating for a national CSO sustainability policy framework that clearly defines relationships between government and civil society in the post-LDC context. Conference discussions consistently identified the “absence of a national policy that clearly defines and recognizes the role of CSOs” as a structural barrier requiring national-level response.
2. Developing national-level guidance on government matching fund mechanisms, which 69.5% of survey respondents identified as the preferred support model. National advocacy should focus on institutionalizing this approach across government entities.
3. Establishing a national transition support facility offering technical assistance, training, and resources for organizations navigating the graduation process. With resource mobilization emerging as the most requested training need (61.7%), a coordinated national approach to capacity development would address critical skill gaps.

4. Creating structured dialogue mechanisms between CSOs, government, and development partners regarding post-graduation support strategies. The finding that 90% of federal-level organizations report no formal communication from donors underscores the urgent need for improved transition communication.
5. Developing a national social enterprise ecosystem that supports the emergence of sustainable funding models. With social entrepreneurship identified as the predominant adaptation strategy across regions, national-level support for enabling legislation, access to capital, and market development would enhance implementation effectiveness.

The structural divergence between the VNR and STS frameworks creates an urgent need for harmonization initiatives at the national level. Extending the collaborative governance model from the VNR to the graduation context, formalizing CSO representation in graduation governance structures, and creating consistent consultation processes across both frameworks would enhance policy coherence and implementation effectiveness. This harmonization would create more consistent engagement pathways for civil society actors while reducing transaction costs for CSOs working across both SDG implementation and graduation planning.

## Conclusion

Nepal's graduation from LDC status in 2026 represents both a challenge and an opportunity for Civil Society Organizations. The integrated analysis reveals Nepal's civil society sector at a pivotal juncture- recognizing graduation challenges while developing diverse adaptation strategies. The most sophisticated understanding appears in provinces with direct experience of funding transitions, suggesting that practical engagement may drive adaptation more effectively than theoretical knowledge.

The multi-level action framework outlined in this guide provides a comprehensive approach to navigating this transition successfully. By coordinating efforts across local, provincial, and national levels while implementing the strategic approaches to financial resilience, operational adaptation, partnership development, GESI integration, risk management, and monitoring frameworks, CSOs can transform graduation challenges into catalysts for more sustainable, locally-owned development models.

Perhaps most significantly, the findings suggest that LDC graduation represents not merely a funding transition but an opportunity to fundamentally reimagine Nepal's development architecture. By necessitating shifts from international dependency toward locally-sustained models, graduation could accelerate the emergence of more contextually-appropriate, domestically-owned approaches to sustainable development. This reframing of graduation- from challenge to transformation opportunity- offers a compelling vision for Nepal's continued development journey beyond LDC status.

As Nepal advances toward this milestone, these stakeholder perspectives provide valuable guidance for developing responsive strategies that harness domestic resources, strengthen institutional capabilities, and maintain momentum toward sustainable development. The transition represents not just a threshold to cross but an opportunity to establish more resilient, locally-owned, and contextually-appropriate development models for Nepal's future.

The principles of development justice articulated by Nepal's civil society- redistributive justice, economic justice, social justice, environmental justice, and accountability to the people- provide a valuable ethical framework for guiding both policy and practice. By more fully recognizing and supporting CSOs' contributions to these principles, Nepal can enhance the inclusivity and sustainability of its development trajectory, creating a model for other countries facing similar transitions.

# Annex I: Financial Risk Matrix, Operational Continuity Plan Template and Climate Resilience Integration Checklist.

The following tools help CSOs systematically identify, assess, and address the financial, operational, and climate risks associated with Nepal's LDC graduation, drawing on best practices and practical guidance from both national and international sources. It is, however, recommended to adapt the tools to best suit the context and realities of the CSO as these are intended for illustrative purposes only.

## 1. Financial Risk Assessment Matrix

<i>Risk Description</i>	<i>Likelihood (Low/ Med/ High)</i>	<i>Impact (Low/ Med/ High)</i>	<i>Current Controls/ Measures</i>	<i>Mitigation Actions</i>	<i>Responsible Person</i>	<i>Status/ Review Date</i>
1. Donor funding freeze	High	High	Reserve fund (3 months)	Diversify funding, engage new donors	Finance Lead	Quarterly
2. Delayed donor communication	High	Medium	Regular donor check-ins	Proactive outreach, scenario planning	Director	Quarterly
3. Provincial funding disruptions	Medium	High	Provincial contingency plans	Share best practices, cross-provincial MoUs	Program Lead	Biannual
4. Currency/ Inflation risk	Medium	Medium	Budget buffer (10%)	Adjust budgets, monitor exchange rates	Finance Officer	Monthly
5. Loss of LDC-specific grants	High	High	None	Identify alternative grants, local fundraising	Chair/ ED/ Board	Quarterly

**Instructions:**

- Identify risks by consulting staff and stakeholders.
- Assess each risk's likelihood and impact.
- Document current controls and additional mitigation actions.
- Assign responsibility and set a regular review schedule.
- Update matrix as new risks emerge or circumstances change

## 2. Operational Continuity Plan Template

<i>Section</i>	<i>Details/Actions</i>
Essential Functions	List critical services/programs that must continue (e.g., health outreach, education support).
Key Personnel & Roles	Assign staff for essential functions; provide contact details and backups.
Alternate Work Locations	Identify primary and backup locations (e.g., partner offices, remote work).
Communication Plan	Outline how to notify staff, stakeholders, and beneficiaries of disruptions and recovery.
Resource Inventory	List vital documents, equipment, and supplies needed for continuity.
Activation Triggers	Define scenarios that activate the plan (e.g., funding loss, disaster).
Recovery Steps	Step-by-step actions to restore normal operations, including timelines.
Knowledge Sharing	Mechanisms for capturing and sharing lessons learned, especially from provincial CSOs.
Review & Update	Schedule for plan review (e.g., annually or after major incidents).

**Instructions:**

- Customize for your CSO's context and size.
- Practice activation through simulations or drills.
- Incorporate feedback from provincial CSOs with practical experience in funding transitions.

### **3 Climate Resilience Integration Checklist**

- Have climate risks for all program areas been identified (e.g., floods, droughts, heatwaves)?
- Has a vulnerability assessment been conducted for each ecological zone (Terai, Hills, Mountains)?
- Are adaptation actions aligned with Nepal's GRID approach and National Adaptation Plan?
- Are marginalized and at-risk groups included in climate risk consultations?
- Are climate resilience measures integrated into project design and budgeting?
- Is there a system for monitoring and updating climate risk information regularly?
- Are staff and partners trained in climate adaptation and risk management?
- Are lessons from previous climate events and provincial best practices documented and shared?
- Is there a plan for rapid response and recovery from climate-related disruptions?
- Are partnerships established with local governments and technical agencies for climate resilience?

#### **Instructions:**

- Use this checklist during project planning, implementation, and review.
- Update regularly as climate risks and organizational capacities evolve.

