



Government of Nepal
Ministry of Finance

Climate Change Financing Framework

A Road Map to Systematically Strengthen
Climate Change Mainstreaming into
Planning and Budgeting

Copyright ©2017

Ministry of Finance

All rights reserved. Information given in this publication may be reproduced, stored in retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – for educational purpose by duly acknowledging the source.

Citation: MoF, 2017: Climate Change Financing Framework: A roadmap to systematically strengthen climate change mainstreaming into planning and budgeting. Ministry of Finance, Government of Nepal, Kathmandu, Nepal.

Published by:

Ministry of Finance

Telephone: 01-4211372

Email: ieccd@mof.gov.np

Singha durbar, Kathmandu

Technical Support: Governance of Climate Change Finance to Benefit the Poor and Vulnerable, UNDP

Financial Support: UK Aid



Government of Nepal
MINISTRY OF FINANCE

International Economic Cooperation Coordination Division

**SINGHADURBAR
KATHMANDU, NEPAL**

Foreword

Climate change poses serious threats to Nepal's social and economic development and therefore requires a systematic approach to reduce current and future risks from climate change. Noting that availability of finance in addition to those earmarked for development is crucial for any effective risk reduction approach, Government of Nepal is all set to develop a national mechanism for accessing domestic and external sources of funding to address those risks. Over the past five years, about 5% of the national budget has been allocated annually to development programmes that are highly relevant to climate change; of which 57% comes from domestic revenue and the rest 43% from external sources.

From institutional response point of view, apart from accessing resource to address climate change, the real challenge has been to ensure that climate finance reaches the most vulnerable communities, particularly when climate programmes are directly implemented by the line ministries. Additionally, in absence of a feedback mechanism to inform the planners about the flow of funds and impacts of expenditure, opportunities of successive integration of climate change into development planning has not been fully utilized.

To address the above challenges and mitigate the gaps in the system the Government of Nepal has taken a consistent and systematic approach. The launch of 'Climate Change Financing Framework (CCFF)' by Ministry of Finance shows strong commitments of the government towards making desired institutional reforms in the system and building capacities at all levels of the government to be able to:

- a) plan and manage climate finance, where access to finance from domestic and external sources is based on predictability of climate funds required to achieve the national targets;
- b) track the quality of expenditure with respect to impacts on the lives and livelihood of the most vulnerable population; and
- c) generate and disseminate report on expenditure and impacts to strengthen accountability.

With CCFF in place, Nepal has taken a step forward to institutionalize mainstreaming climate change into national plans and budgets. I firmly believe that this framework will guide the national planning and budgetary system in the long run to make development resilient to risks, which is a prerequisite to achieve Sustainable Development Goals. I am hopeful that the experience gained in developing CCFF at national level and on-going efforts on implementation will help take a similar approach to mainstream climate change in the provincial and local level development plans.

I want to thank UNDP and UKAID for their continued support in developing the CCFF and commitments for future support in implementation.

Kewal Prasad Bhandari
Joint Secretary

ABBREVIATION USED

BMIS	Budget Management Information System
CC	Climate Change
CCFF	Climate Change Financing Framework
COA	Chart of Accounts
CPEIR	Climate Public Expenditure and Institutional Review
CSOs	Civil Society Organizations
EFLG	Environment Friendly Local Government
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
FY	Fiscal Year
GCAP	Gaurishankar Conservation Area Project
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoN	Government of Nepal
IDS	Integrated Development Society
IFMIS	Integrated Financial Management Information System
INDC	Intended Nationally Determined Contribution
IT	Information Technology
KPIs	Key Performance Indicators
LAPA	Local Adaptation Programme of Action
LMBIS	Line Ministry Budget Information System
MfDR	Managing for Development Results
MoHA	Ministry of Home Affairs
MoF	Ministry of Finance
MoFALD	Ministry of Federal Affairs and Local Development
MoFSC	Ministry of Forest and Soil Conservation
MoPE	Ministry of Population and Environment
MTEF	Medium Term Expenditure Framework
NAP	National Adaptation Plan
NDAC	National Action Development Committee
NPC	National Planning Commission
NPPR	Nepal Portfolio Performance Review
OAG	Office of the Auditor General
PAC	Public Account Committee
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Plan
SAI	Supreme Audit Institution
SDGs	Sustainable Development Goals
TSA	Treasury Single Account
UNFCCC	United Nations Framework Convention on Climate Change

Table of Content

EXECUTIVE SUMMARY	6
1. CONTEXT AND RATIONAL.....	8
2. CLIMATE CHANGE FINANCING FRAMEWORK (CCFF).....	12
3. CCFF PROGRESS TO DATE	14
4. CHALLENGES AND OPPORTUNITES	15
5. KEY ELEMENTS, FUNCTIONS AND EXPECTED RESULTS.....	19
6. BUDGET FORMULATION SYSTEM.....	20
7. REFORMS TO INTEGRATE CC FINANCING IN PLANNING & BUDGET CYCLE.....	22
8. ROLE OF STAKEHOLDERS.....	25
9. ROADMAP FOR REFORMS.....	29
10. CONCLUSIONS.....	38
11. REFERENCES.....	39
ANNEX A. KEY POLICY FEATURES OF THE CLIMATE CHANGE POLICY (2011) THAT ARE RELEVANT TO CCFF	40
ANNEX B. BUDGET CYCLE AND BUDGET CALENDAR.....	41
ANNEX C. SCOPE OF WORK OF EXISTING CLIMATE FINANCE UNIT TO INCLUDE BUDGET REFORMS NEEDS	43
ANNEX D. TOR FOR INTER-MINSTERIAL COMMITTEE.....	44

LIST OF TABLES USED

Table 1	Loss and damage due to floods (2017)
Table 2	Loss and Damage due to Climate Related Disaster events (2010 – 2016)
Table 3	Trends of Climate Change Budget allocation (in NRs billion)
Table 4	Sources contributing to Climate Change budget
Table 5	Entry Points for Mainstreaming
Table 6	Summary of Reform Progress to Date

LIST OF FIGURES USED

Figure 1	Elements of Financing Framework
Figure 2	Key Components of CCFF
Figure 3	Expected CCFF Platform in Existing PFM
Figure 4	Information Flow in Budgeting Process
Figure 5	Linkages between the CCFU and IMCC
Figure 6	Implemented and Planned Major Reform Activities in CCFF

LIST OF BOXES USED

Box 1	Medium Term Expenditure Framework (MTEF)
Box 2	Performance-based Budget Release

Executive Summary

This document provides key measures adopted by the Government of Nepal (GoN) in integrating climate change and climate finance into national planning and budgeting processes. It outlines the reforms already implemented and a road-map for where, how and by when further reforms to government processes and institutional set-ups would occur. Such a framework will facilitate integration of national policies and strategies relating to climate change finance in budgeting process and help the government to channelize all climate projects and streamline investments through the national system for a long-term scaled up approach.

Since Nepal is highly vulnerable to the effects of climate change, a strategic framework for climate investment—and one linked to its national adaptation priorities, in particular—would be highly beneficial. Although the GoN has already adopted different measures to this effect, much more work is still needed. The Nepal Climate Change Financing Framework (CCFF), which is presented in this document, can serve as the principle instrument for these reforms.

In outlining an integrated, structured set of policy and institutional reforms, primarily focused on budget systems and processes, the CCFF will serve to increase government's capacity to mobilize, manage, and target climate finance at different levels. The CCFF blends top-down guidelines under a whole-of-government approach, attached to a high-level strategic resource envelope, with bottom up approaches for prioritizing allocations through the budget cycles at various levels of governments starting with federal to the provinces and local governments. It links policy decisions to budget allocations and expenditure tracking in more structured way. It gives specific steps to integrate climate finance in Public Financial Management (PFM) systems for effective climate financing.

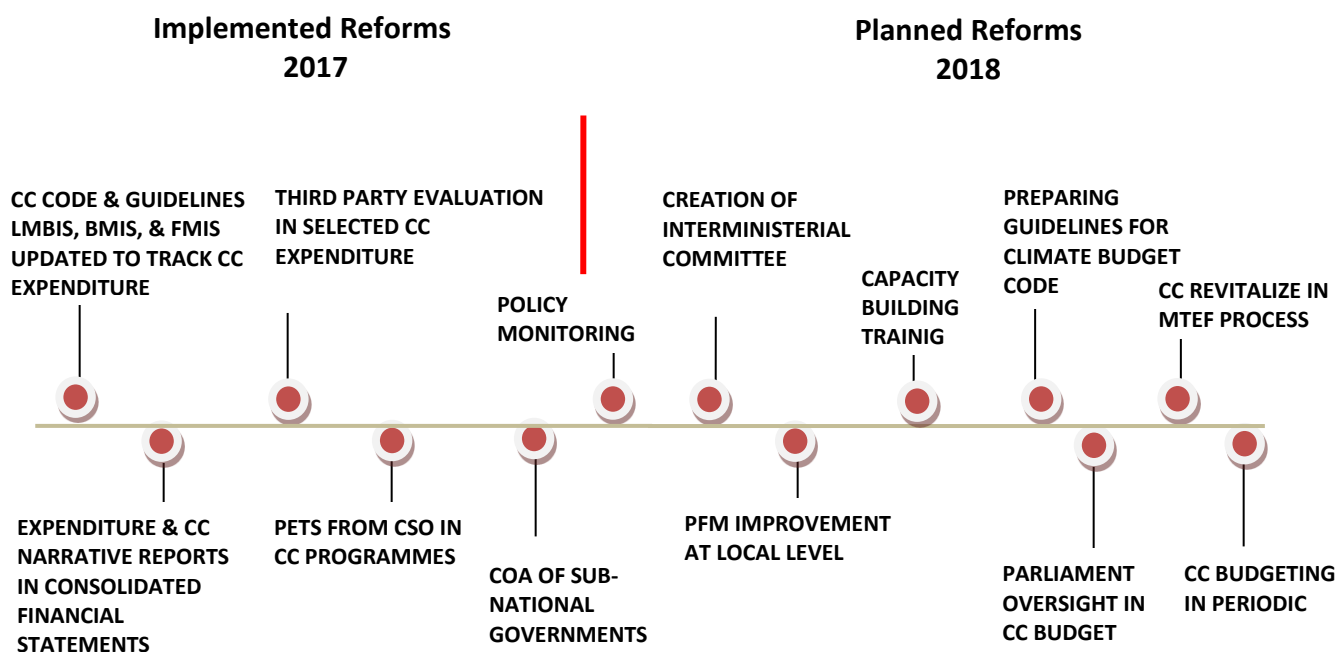
The major benefits of CCFF are as follows:

- Rather than being a separate, parallel process, mainstreaming climate finance into existing processes through a national CCFF enables top-down policy and strategic guidance to more effectively inform bottom-up planning and budget formulation, and integrate climate policy and strategies therein.
- By creating entry points *via* the budget cycle and key planning documents such as the MTEF, the CCFF facilitates allocating public funds based on priorities in a more coordinated and systematic manner.
- It supports for financing climate activities in the context of broader economic development and government fiscal planning process.
- It feeds information to budget decision makers about climate change strategies, consolidated CCFF picture, funding requirements and major outputs in a timely manner.
- Climate finance can be tracked and monitored in a more structured way, seamlessly integrated into the Financial Management Information System (FMIS).
- Monitoring through key performance indicators (KPIs) and performance audit would help increase public accountability.
- A CCFF will identify institutional entry points to mobilize public sources of climate finance through the budgeting system and encourage investing available resources more effectively and equitably in particularly targeting the poor and vulnerable areas.

The CCFF will address three main policy challenges to climate finance in Nepal. First, by establishing tools for ensuring that funds can be targeted better to reach the most vulnerable local population groups—a priority under the climate change policy (i.e. 80% of climate budget allocation should be directed at the local level). Second, by improving climate finance readiness by strengthening existing public financial management structures as well as by managing external climate funds through the country systems. And third, by improving effectiveness of existing climate finance through reforms to planning and budgeting guidelines and other tools for more informed decision-making. Better public expenditure allocations and resource management and investment decision making will lead to better climate policy outcomes.

GoN has been at the forefront in the reform of country PFM systems to address climate change. Climate budget coding was introduced from FY 2013/14 to track allocations to climate change relevant programmes and projects at national level. Integrated Financial Management Information System (IFMIS)¹ have been introduced at different levels. Budget Guidelines have been improved in line with integrating climate finance in the budgeting process. Major implemented reform measures and additional planned reforms are highlighted in figure below.

Implemented and planned major reforms



Most of the planned reform measures have already been started; however, additional work is required to finalize the initiated work in reform path.

¹ Integrated Financial Management System includes Line Ministry Budget Information System (LMBIS), which is a web based system developed for line ministry to prepare annual work plan and budget proposal; Budget Management Information System (BMIS), which provides final update of approved budget to LMBIS; Financial Management Information System (FMIS), and Treasury Single Account (TSA) that provide daily expenditure data.

1. CONTEXT AND RATIONAL

Nepal is highly vulnerable to the impacts of climate change (CC), increasing adaptation investments is a priority. Climate-related natural hazards such as floods, landslides, and drought and extreme weather events cause loss of lives and properties and pose widespread threats to physical infrastructure. Unless more ambitious actions are taken with higher impacts, climate change will continue to affect all sectors to a greater degree, undermining future development and the gains already achieved to date. Similarly, while of secondary importance, promoting greenhouse gas (GHG) mitigation activities can ultimately also contribute to less severe long-term climate-related losses and damages.

Government of Nepal (GoN) has adopted national climate policies and strategies on adaption, low-carbon development, and GHG mitigation, and has established the institutional architectures to respond to the challenge. This also includes strategic programmes. These are encapsulated into Nepal's contribution to the Paris Agreement on climate change under the UNFCCC and its Intended Nationally Determined Contribution (NDC). However, weak institutional capacity, the absence of inter-agency relationships to deal with cross-cutting issues, and inadequate means and resources constrain more effective implementation of those strategies and programmes.

While it is difficult to precisely value, projections suggest that losses and damages from climate-related hazards and disasters, as well as from slow onset changes, will be substantial. Already, aggregate economic costs have been increasing over the years. Increased variability and more extreme climatic events contribute to a loss of 2-3 per cent of GDP per year in the water management and agricultural sectors, with much higher losses sustained in extreme years (IDS Nepal, PAC, and GCAP, 2014). In monetary terms, the average loss has already nearly doubled from NRs. 1.2 billion per year between 1983 and 2005, to NRs. 2.2 billion between 2010 and 2016. Cumulatively, NRs. 28 billion in losses has been recorded between 1983 and 2005, increasing to NRs. 16.8 billion (see Table 1) in just 7 years between 2010 and 2016. Loss due to floods alone was estimated to be about NRs. 15.5 billion, whereas that due to landslides was over NRs. 1 billion in that period (MoHA, 2016). Table 1 shows the loss due to floods just in one year in 2017. The total estimated loss in 35 flood affected districts was NRs. 61.7 billion (NPC, 2017). While drought and forest fires have increased in frequency and coverage in the recent years, causing serious damage to agriculture and the environment, there is no information about these losses.

Table 1. Loss and damage due to floods (2017)

SN	Sector	Damages (NRs billion)
1	Housing	19.5
2	Irrigation	17.5
3	Livestock	10.7
4	Agriculture	7.2
5	Transport	2.9
6	Education	1.2
7	Water and sanitation	0.88
8	Health	0.62
8	Energy	0.22
	Total	60.72

(Source: NPC, 2017)

While comprehensive sector-specific information on climate change loss and damage is not available, some indicative evidence for agriculture and water resource management exist (see Table 2).

Table 2. Loss and damage due to climate related disaster events (2010-2016)

SN	Incident type	People killed	People missing	Houses destroyed	Estimated loss (in '000 NRs)
1	Floods	499	405	10,353	15,518,718
2	Landslides	637	205	913	1,071,802
3	Flash Flood	43	32	31	11,000
4	Heavy rain	42	1	305	218,173
5	Thunderstorm	625	1	96	25,120
6	Drought	-	-	-	na
7	Forest fire	-	-	-	na
8	Avalanches	31	18	1	na
9	Epidemics	80	-	-	1,800
	Total	1957	662	11,699	16,846,614

(Source: <http://drrportal.gov.np/reports>)

Estimates of the impact of drought on agriculture and forestry do not exist. Damage to crops by insect /pests and change in phenology is likely to increase in future as climate impacts deepen. As one of the most earthquake prone countries in the world, earthquake and other climate-induced disasters also exacerbate existing vulnerabilities to water and sanitation assets as well as food security.

Lower income households, which form a large part of the population, can incur losses from major disasters of up to ten times their annual earnings. Many never recover, keeping them in a “poverty trap”. Therefore, considering loss and damage trends in adaptation planning responses and climate budgeting is key.

Translating climate policies and action into results requires adequate, sustained financing; these resources must also be channelled to those most affected by and vulnerable to climate change. To date, climate action has been largely implemented through a project-based approach that is inherently limited both in its scope and coverage. However, an effective climate change response will entail reforms to how sectoral investments are designed and service delivery is implemented. These will need to integrate appropriate risk and mitigation response measures much more systematically. At the same time, more coherent and collective action across sectors, such as water, energy, forestry and agriculture requires new and supplementary tools to address the issue in a more integrated fashion across government. This is particularly true for infrastructure projects with a cross-regional or sectoral impact.

Being a cross-cutting policy issue, climate change and climate finance must be addressed in an integrated manner. Unlike sectors where financing gaps, institutional accountability, and budget allocation can be easily mapped, climate change is not a sector, *per se*. Routine service delivery and investment programmes fall across ministries, departments and local levels that already, to an extent, have been addressing issues relevant to climate change.

Table 3 shows actual figures to date on climate-relevant budget allocation made by sector ministries. The share of highly relevant budget has remained almost same; however, the share of relevant budget has increased sharply after 2015/16. The increase in relevant category of the budget in 2015/16 and in 2016/17 is due to budget

allocated for post-earthquake reconstruction assuming that the reconstruction works would be made climate resilient too.

The budget increased further to 26.2% in 2017/18. This increase was due to the change in the state structure. The state has changed to a federal structure with 7 provincial and 753 local governments, which receive lump sum grants from the federal government to prepare and implement their development programmes independently. The grant money has been marked as relevant to climate change because part of the money would be used to implement climate programmes at local level.

Table 3. Trends of Climate Change Budget allocation (in NRs.billion)

Budget details			Fiscal Year				
			2013/14	2014/15	2015/16	2016/17	2017/18
Total national budget			517.24	618.1	819.46	1048.92	1278.99
Climate budget	Highly relevant	Budget	27.74	34.98	46.36	61.85	57.73
		% of total budget	5.3	5.6	5.6	5.9	4.5
	Moderately relevant	Budget	25.73	31.36	112.98	139.76	335.62
		% of total budget	4.9	5.1	13.7	13.3	26.2
	Total climate budget		53.47	66.34	159.34	201.61	393.35
Climate budget as % of total budget (%)			10.34	10.73	19.45	19.22	30.76

Source: MoF Budget Speeches of respective years

Currently, Nepal's PFM system is capable of producing CC relevant budget allocations as well as expenditure reporting on a regular basis. This allows the budget decision-makers to see the CC relevant budget allocations and expenditure over a period of time and analyse the trends. However, the sector ministries have not been involved in such analysis and therefore, the integration of CC in the sectors plans with climate input to decision making has not happened yet.

PFM system also allows generating information about the sources of funding. Table 4 shows the sources contributing to the climate change budget in the last five years. The share of the government has remained between 44 and 57 per cent from 2013/14 to 2016/17. It increased to 81 per cent in the year 2017/18 primarily because of the grant provided to the newly formed provincial and local governments. The ratio of foreign loan has fluctuated between 15 and 42 percent, while the ratio of the foreign grant has remained between 14 and 32 percent except for the year 2017/18 in which the grant has dropped to only 4 per cent.

Table 4. Sources contributing to Climate Change Budget

FY	Total Climate Budget (Rs billion)	Contribution in (%)		
		Government	Foreign Grant	Foreign Loan
2013/14	53.47	57	22	21
2014/15	66.34	56	23	21
2015/16	159.34	44	32	24
2016/17	201.61	44	14	42
2017/18	393.35	81	4	15

Source: BMIS, MoF, 2017

GoN recognizes the need to move beyond largely externally financed project-based approaches toward scaled-up interventions delivered through routine service delivery and overseen by national entities. As climate finance continues to increase in the years ahead, strengthening government capacity to do this, while also meeting the robust standards and procedures of external climate financiers, will be required. As noted in the GoN’s intended Nationally Determined Contribution (INDC) submission, “Nepal will maximize the use of existing monitoring and evaluation systems to realize the state of implementation of the INDCs...”

1.1 INTEGRATING CLIMATE CHANGE IN PLANNING AND BUDGETING

Integrating CC adaptation/mitigation in all relevant areas of public policy is a long-term process requiring sustained efforts for awareness raising, integration into sectoral planning, and implementation of specific adaptation options. Integrating CC risks requires more flexible, preventive and forward-looking approaches, and will involve legal, institutional and policy changes. Planning for both mitigation and adaptation requires coordinated, multi-sectoral processes in developing plans and programmes that are focused on the identified risks and which are also prudently translated into climate responsive budgets. A robust monitoring system also need to be put in place to track both financial allocations, and to measure the effectiveness of climate expenditure to provide feedback to the decision makers in improving informed decision in planning climate programmes across the sectors. Accountability is crucial to maintain oversight functions from various agencies including Supreme Audit Institution (SAI) and parliament. Table 5 shows the key area for intervention in the course of mainstreaming.

Table 5. Entry points for mainstreaming

Programme cycle	Intervention
Planning and Budgeting	<ul style="list-style-type: none"> • Policy framework • MTEF • Plan / programme selection • Project appraisal
Monitoring	<ul style="list-style-type: none"> • Coding and tracking climate budget allocation and expenditure • Reporting and analysis of climate expenditure • Policy recommendation to decision makers in planning
Accountability	<ul style="list-style-type: none"> • Audit by Auditor General’s Office • Parliament scrutiny at various stages of budget cycle • CSO/Media engagement

By supporting more evidence-based, results-oriented budgeting through a more transparent PFM system, a CCFF will help attract new climate finance from development partners and the private sector. In addition, the CCFF will also help semi-government agencies, development banks, and other agencies engaged in climate activities from outside the formal channel to access climate finance. Gradual integration of CC finance into national systems will also ensure for more sustainable impacts of climate finance that contribute to a long-term development vision.

2. CLIMATE CHANGE FINANCING FRAMEWORK (CCFF)

A Climate Change Financing Framework (CCFF) enables a systematic response to CC by linking policy frameworks and strategies with budgeting, and ensuring transparent and informed allocations for effective use of available funds. The framework provides a roadmap to integrate CC in planning and budgeting by identifying entry points based on legal, institutional and process analysis of the existing public finance management (PFM) system. It also helps to create a monitoring system that enable reporting on the CC-related expenditures and their effectiveness and thereby provide feedback to the decision makers in directing climate budget to much needed sectors and areas to reach the poor and vulnerable. Thus, the CCFF is an effective instrument to mainstream CC in the national system by engaging all relevant stakeholders for mobilization, management and targeting of climate finance.

The following principles highlight CCFF development:

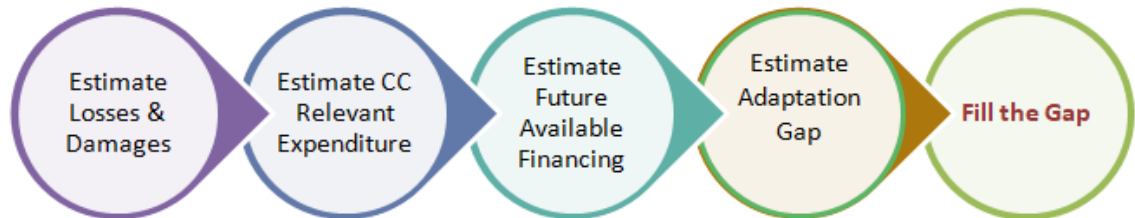
- Defining climate change-related activities,
- Identifying entry points for CC planning, project selection and tracking in national budgeting process,
- Estimating cost of planned CC response actions in the medium- and long-terms,
- Assessing resources available to address CC mitigation and/or adaptation in the medium- and long-terms,
- Ensuring accountability over the effective use of climate-related budget, and
- Providing feedback to the planners in planning climate finances.

Climate change being a cross cutting issue, the impacts are often manifested in various forms in different sectors influenced further by geographical diversity on the degree and coverage of the impacts. Hence, it will require sustained financial support to address climate impacts across sectors. The development sectors that are impacted by CC need to be enabled to address the climate threats while pursuing their sectoral goals. While doing so, it must be noted that there are areas where inter-sectoral coordination is required to help achieve enhanced adaptation capability within and across sectors, effectively. For instance, managing flood in the monsoon can also be planned in ways in which runoff water can be used to recharge groundwater to augment dry season supply. Such approaches would not only allow prudent use of limited resources in enhancing adaptation, but also help in establishing coordination between inter-sectoral climate policies, strategies and programmes. The climate-relevant ministries are already directing substantial amount of their budget to implement development programmes that are climate relevant (table 3). Increasing share of climate budget also indicates that the climate related problems are being increasing addressed by sectors. Addressing CC through the national system can help bring the synergy vital for effective climate responses.

GoN's Climate Change Policy, 2011 (CCP, 2011) provides the basis for CCFF. From the CC mainstreaming perspectives, the policy addresses formulation of strategies, guidelines, and working procedures to link climate actions with socioeconomic development and participation of local institutions including NGOs and civil society. The features of the CCP that are relevant to the CCFF are given in annex A.

This CCFF builds on the provisions of the CCP (2011) and captures key recommendations of the Climate Public Expenditure and Institutional Review (CPEIR, 2011)² and the district Climate Public Expenditure and Institutional Review (dCPEIR 2017)³, both of which emphasize mainstreaming CC in planning and budgeting. The current approaches of the CCFF have focused on the governance of the climate finance, however, the CCFF will also consider future course of actions to step into other components of climate finance framework and capture different sources of financing to meet the adaptation gap (figure 1).

Figure 1. Elements of financing framework



(Adapted from ACT, 2017)

The CCFF aims to help respond to some of the following issues:

- Identifying CC finance and reporting on what has been achieved so far in financing climate responses. It will help assess scale of loss and damage being addressed, evaluate effectiveness of the action in reducing loss and damage and estimate cost and feasibility to implement.
- Showing how to integrate CC finance into budgeting and track climate expenditure to institutionalise CC in planning and budgeting by categorising the degree of CC relevance to assess spending option, monitoring CC expenditure and building cross sectoral capacity for climate budgeting at all levels of the government.
- Enhancing capacity to coordinate across sectors / ministries by engaging central ministries and anchoring climate finance reforms in the PFM to establish evidence-based decision-making process. The process will help set up institutional arrangements and approach, and methodology needed for establishing a climate responsive PFM system.
- Developing financing options, which is a key component of CCFF to set out likely scenario of various funding sources from government to the international sources and private sector. It will also indicate types of finances and their formal entry points in the PFM system.
- Improved accountability is a must for effective climate financing and therefore the CCFF allows setting up a mechanism for increased accountability as well as calls for increased role of the civil society.
- As experience grow in improving governance of climate finance the CCFF will also be developed to show gaps in climate finances and identifying required financing sources to fill the gap.

² The GoN conducted the Climate Public Expenditure and Institutional Review (CPEIR) in 2011 to stock take the climate finance situation and identify climate related institutions.

http://www.npc.gov.np/images/category/climate_public_expenditure.pdf

³ The Ministry of Federal Affairs and Local Development (MoFALD) conducted district Climate Public Expenditure and Institutional Review (dCPEIR) in 2016 to examine climate finance at the district level and found that multiple sources of funds are mobilized outside the national public finance management system by local governments, NGOs and private sector to finance climate related programmes.

3. CCFF PROGRESS TO DATE

Although the GoN has been at the forefront of PFM system reforms (overviewed in Table 6) to accommodate CC, which built a solid foundation upon which to establish the CCFF, additional measures need to be taken. These will consolidate Nepal's leadership position on this issue, globally.

Table 6. Summary of reform progress to date

Area related to CCFF	Summary of Key Achievements
Strategic climate actions and plans	<ul style="list-style-type: none"> • On 5 October 2016, the GoN ratified the Paris Agreement, which legally entered into force on 4 November 2016. It submitted its Intended Nationally Determined Contribution (INDC) on 8 February 2016. • GoN is preparing a comprehensive National Adaptation Plan (NAP) to give a strategic vision and prioritized programmes for resiliency based on evidence of most vulnerable areas, assets, and population groups. • The approved National Climate Change Policy in 2011 commits at least 80 percent of climate related budget allocation at local level. • Nepal's energy policy targets an increase in the share of renewable energy generation in its resource mix to up to 20% by 2020. In line with the Sustainable Energy for All initiative, the GoN also targets every household to have access to an improved cooking stove or modern cooking fuels by 2030. • The national REDD+ strategy, targets a goal of 14 million tons of CO₂-equivalent emissions to be sequestered in landscape restoration and reforestation activities by 2020. The country has pledged to maintain 40% of its total areas under forest cover. Community-based approaches and strengthened forest and biodiversity management plans figure considerably into the strategic approach. • The Agricultural Development Strategy (2015) incorporates policy priorities related to climate resiliency and helping local farmers and communities adapt to new climate-related challenges whilst boosting productivity and exports.
Enabling PFM reforms (general)	<ul style="list-style-type: none"> • Various planning, budgeting and expenditure tracking systems (LMBIS, BMIS, FMIS, and TSA) have been introduced at different levels. • Chart of Accounts (COA) of sub-national government has been improved to make compatible with national government's COA.⁴
Integration of CC into Planning Guidelines and Sectoral Guidance	<ul style="list-style-type: none"> • Climate change is included as a separate chapter in 14th Periodic Development Plan. • The criteria used by the National Planning Commission (NPC) to establish high-level budget ceilings were modified in FY2015/16 to support more climate-responsive public investments.⁵ • Budget Guidelines improved to integrate climate finance in budgeting process.

⁴ Recently, GON issued new COA for all level of governments with different legal provisions.

⁵For prioritization criteria for programmes under infrastructure development, climate change relevance gets 10% weightage, a significant increase from the previous weighting of 2%. However, climate change has yet to be factored in prioritization criteria of programs in Health, Education, Agriculture, Forest, Industry, Tourism and Drinking Water sectors.

Climate-responsive budgeting	<ul style="list-style-type: none"> • GoN introduced climate budget coding from FY 2013/14 to track budget allocations to climate change-relevant programmes and projects in the annual development plan. • The PFM system can generate regular budget allocation and expenditure reports on climate-relevant spending in a structured way, which allows for a review and analysis of trends.
Improved local-level planning and targeting of climate finance	<ul style="list-style-type: none"> • A Climate Public Expenditure and Institutional Review (CPEIR) at national level were conducted in 2011. This was followed in 2016 by district level CPEIRs conducted in a cross-section of representative districts, which informs policy makers and beneficiaries on budget allocation and climate finance delivered at the local level by various agencies through relevant programmes.
More accountable climate finance	<ul style="list-style-type: none"> • From 2015, the Legislative Parliament Finance Committee started pre-budget discussion with relevant stakeholders on cluster basis at regional level. • Third party/independent evaluation of selected programmes that are relevant to CC has been started by the NPC.

4. CHALLENGES AND OPPORTUNITES

Despite the progress achieved to date, some key challenges remain that the CCFF can address. Climate finance is not yet fully integrated into the PFM system. Climate strategies and targets are currently not well costed or linked to the Medium-Term Expenditure Framework (MTEF). Priority setting is done at individual programme/project level and thus prioritization of climate response measures is not getting due priority. Moreover, decision-makers need to be more informed on the climate-relevance, risks, and impact of proposed programmes before resource allocation decisions are made. At the sub-national level, most local governments do not consider these issues in planning and budgeting matters, although many activities implemented at the local level are highly relevant to a CC response. A distinct climate expenditure reporting system with subsequent analysis of progress against CC outputs, outcomes and policy objectives has just begun that needs to be consolidated.

Box 1: Medium-Term Expenditure Framework (MTEF)

MTEF is a framework for increasing the fiscal discipline, expenditure effectiveness and priority-driven strategic budget allocation process guided by periodic development plans and supported by bottom-up budget proposal processes. Since climate actions are implemented through several ministries and sector-specific plans, climate policies and targets are not specified in the MTEF.

In terms of the overall national prioritization process, the guidance issued by NPC to track and screen projects for climate risk and relevancy requires an upgrade. Current criteria and methods do not adequately capture sector-specific nuances. The scope covers 16 ministries⁶ as climate relevant and the current method used in classifying the level of relevance of a climate programme is fixed for all sectors equally. More reliable information about

⁶ The number of ministries with climate relevant programmes was 12 until the FY 2014/15, which increased to 16 when the GON created new ministries and changed the name of the Ministry of Environment, Science and Technology to Ministry of Population and Environment in FY 2016/17.

sectoral climate impacts and how it affects poverty, gender and equitable development must be generated in order to inform decision making on climate finance.

The introduction of climate budget coding as a first step towards tracking budget allocation to climate related activities in the budget has helped assess climate relevant investments through regular development programmes. The current tracking gives information about the level of public funding and helps identify the ministries implementing climate relevant programmes and their budget. However, the code is inadequate to identify the required level of funding to meet the needs in absence of required information to plan climate responses in the development plans. There is also a chance of overestimating the climate budget because a budget is counted as CC relevant if it fell within one of the eleven criteria that defines a climate activity, which is subject to the interpretation of sector planners. The criteria and the coding method have not been revisited to refine them to suit the sector specific requirements since it was introduced in FY 2013/14.

The CC budget code only reflects on the budget allocation in the national budget. Even though CC is cross cutting and several sectoral ministries implement CC relevant activities through their regular programme, there is no information about how CC will impact different sectors across the diverse geography of the country, and how will it affect GoN's efforts in meeting the SDGs including poverty, gender and equitable development. No single agency is designated to coordinate and strategically manage climate finance. The Ministry of Population and Environment (MOPE) is responsible for leading CC issues and coordination with development partners; however, the vast majority of climate-relevant programmes and budget is executed by sectoral ministries without proper coordination to collect, monitor and analyze outcomes or financing data. The MTEF does not reflect CC priorities, nor does it indicate the fiscal impact of loss and damage, or how climate strategies can be advanced through national development plans.

Recently, the MoF has taken important steps to develop an expenditure reporting system capable of producing a consolidated report on climate expenditures. It has also revised the budget guidelines and budget calendar to integrate CC; however, further improvements in the guidelines with specific focus on sectoral requirements are needed to address sector specific climate concerns. More capacity building is needed for effective implementation of climate finance. Subsequent analyses of these can inform progress against climate policy goals and feed into policy decisions.

The MoF has already established CC finance unit under the GCF readiness project. The unit is mandated to deal with all climate finance issues within the ministries. Existing unit provides excellent opportunity to expand its scope to support inter-ministerial committee proposed under the CCFF in dealing with coordination of sectoral climate budget planning, monitoring and reporting.

A CCFF would help implement strategies and action plans for mitigation and adaptation in the medium and long-term and align those to bottom-up planning and budgeting processes and articulated estimates of loss and damage. For example, the economic impact in water and agriculture is estimated to be about NRs. 35 billion a year (IDS Nepal, PAC and GCAP, 2014). The current budget allocation in programmes implemented to address climate relevant issues could provide a basis for estimating cost of climate actions required. The allocation for climate-relevant programmes in the year 2016/17 is about 19.2 percent of the budget i.e. about NRs. 201 billion (Table 3), which is borne by domestic sources (44 per cent), foreign grant (14 percent) and foreign loan (42 per cent) (table 4).

The National Adaptation Plan (NAP) formulation process and Green Climate Fund (GCF) Readiness Programme already underway is expected to generate better estimates. NAP will establish action plans to integrate CC adaptation in the national and sectoral policy, planning, and decision-making process within all sectors to reduce vulnerability to the impacts of CC. Likewise, the GCF Readiness Programme aims at strengthening national capacities particularly that of the Ministry of Finance as National Designated Authority to the GCF to effectively and efficiently access, manage, deploy and monitor climate finance from the GCF. It also aims at building national capacities across government and non-government stakeholders to prepare robust investment frameworks and a pipeline of bankable proposals for adaptation and mitigation options aimed to reduce localized climate-induced disaster risks. Since the initiatives are in their early stages they are yet to come up with assessing estimated adaptation funding needs and opportunities through various sources including global mechanisms. A Climate Investment Framework can help estimate the cost of adaptation programmes for, say for example, mountain ecosystem and agro-ecosystems.

From 2017, Nepal has adopted federal system of governance with federal, provincial and local governments. Elected local governments have been made responsible for local development works. This has opened up new opportunities to address CC issues as well. At the local level, there are opportunities to utilize locally raised funds for adaptation. However, there is no proper mechanism to track their utilization. For example, the local governments often invest the royalty from hydropower and other sectors in regular infrastructure development such as road construction rather than in the intended sectors such as rural electrification or watershed/forest conservation. It is hoped that the newly elected local governments in the federal structure will increasingly utilize the local funds for adaptation programmes.

Possibilities need to be explored to assess the extent to which local funds can be expanded for climate programmes. Potential areas for fiscal reform need to be examined to broaden the scope of raising climate funds. Revenues from sand and gravel mining and from hydropower concessions could, for example, be used to fund climate action at local level.

Assessing and projecting losses and damages from CC by sector is a challenge. The information currently available is not disaggregated by sector. In addition, a thorough mapping and account of all CC relevant budget programmes and projects will be required to see the range of available intervention mix and to identify whether there are significant gaps in matching the demand with the supply. While the information from the CC coding system will help understand the current level of available funding, the medium-term budget projections of all these available programmes and an estimate of the expected loss and damage will form the overall package of required financing for the CC theme. On the basis of this, the share to be financed by the government (in addition to the financing from the international and other sector including country's private sector) can be programmed into the MTEF.

The role of the budget decision makers across sectors will be then to analyse the financing gap and identify the sources for funding such gap (Figure 1). To do this, a climate financing gap needs to be calculated. Bottom up costing of key climate programmes of adaptation and mitigation is needed to project the level of funding along with anticipated sources of funds in the coming years.

In an ideal case, the government budget decision makers will have a comprehensive picture on both the demand and supply sides of the CC financing framework by various actors, i.e. information on international and national private sector projects and tendencies will also be part of the CCFF to more effectively use the public funding in the areas that private sector and international partners address at a lower scale. The processes above will form data and analysis flow for the CCFF that ideally will be integrated into the domestic MTEF and budget formulation processes.

4.1 CAPACITY BUILDING

Responsibility of managing CC responses collectively rests upon four key agencies with separate areas of expertise. The coordination to facilitate and integrate the climate policy into sector policies lies with the MoPE, while the sector ministries need to understand clearly the likely threats of CC to their programmes and take necessary measures in line with climate policy to make their programme climate resilient. Coordination of mainstreaming CC within the development plans lies with the NPC, while accessing and managing climate finance for proposed climate programmes is the responsibility of the MoF. In addition, a broader oversight to the effective planning and implementation of climate programme has to be provided by the people's representatives through parliament and by the members of civil society through civil society organizations. For each of these agencies to function effectively they need basic understanding of the key aspects of climate issues, national development priorities, and planning for a coordinated climate response within and across sectors. Even though some of them are good in some aspect of CC, the overall capacity to effectively plan and implement CC programmes and thereby manage climate finance is rather weak.

The capacity at NPC to examine how sectors have integrated CC into sector plans is very limited. The sector ministries are yet to bring CC at the focus of their regular programme and begin to assess the gap that they need to address in course of time. Capacity to explore, access, and manage climate finance is limited within sector ministries as well as within the MoF, and without which climate threats cannot be addressed systemically. Therefore, CCFF will emphasize building required capacity across ministries as well as within MoF to continually strengthen systems of planning, implementing and reporting on climate finances.

5. KEY ELEMENTS, FUNCTIONS AND EXPECTED RESULTS

The CCFF has been designed as a policy framework to integrate CC in the planning and budgeting process so as to mobilize, manage and target finance in support of realizing the country's strategic climate goals and targets. It has been formulated in the context of broader state economic development and fiscal policies (see figure 2). Clear cut government policies and strategies relating to CC are vital to integrate with MTEF. As GoN has made remarkable reforms in the PFM systems to improve budgeting process with effective disbursement, transparent transaction and reporting on expenditure with increased accountability, it makes it easy to integrate CCFF in planning and budgeting process in a systematic manner.

With the proposed reforms the CCFF will help consolidate various initiatives already taken by the GoN as well as by the non-state actors in knowledge generation, capacity enhancement, research, and policy formulation to strengthen the national system. The framework shows the linkages among and between various components of the

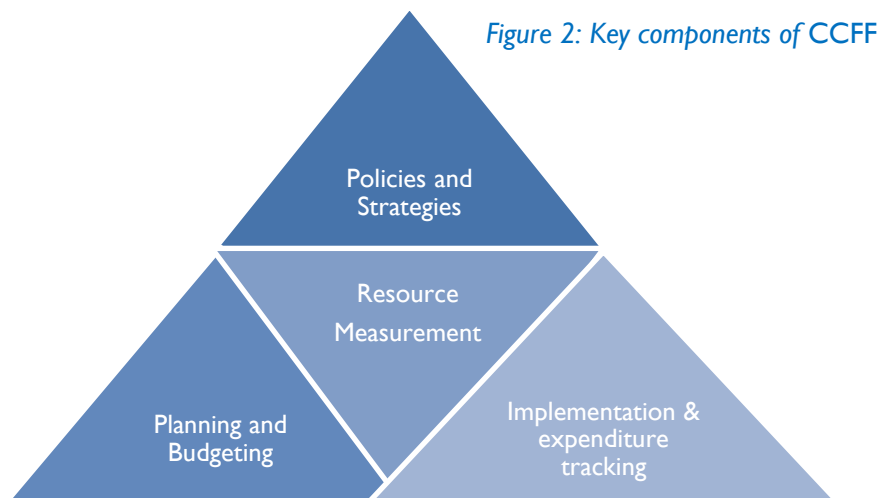


Figure 2: Key components of CCFF

planning and budgeting with regards to the integration of CC and to ensure that feedback on the expenditure and effectiveness is provided to the planners in order for them to take necessary measures to improve the effectiveness of the climate programme.

CC expenditure are routinely tracked and measured through the integrated FMIS system. Civil society organization, as well as the Parliament can have opportunities to play a role at different stages of budget cycle to contribute in improving accountability. The CCFF helps to establish a clear mandate for ministries and the national coordinating agencies, such as the NPC, to address the above concerns by making policy, regulating, as well as monitoring climate investment.

Climate investment requires a strong mechanism to monitor and track expenditure to ensure the transparency and accountability of the decision making in reaching the vulnerable area. Institutional strengthening and capacity development to coordinate budget allocation and track and report on CC expenditure as part of the budgeting process is another aspect for successful implementation.

6. BUDGET FORMULATION SYSTEM

6.1 STRATEGIC PLANNING AND MEDIUM TERM EXPENDITURE FRAMEWORK

Strategic planning forms the basis of the budget formulation process. This includes national periodic plans, sector plans, and the MTEF of the GoN. NPC prepares periodic plans (for 3-5 years) with the involvement of different government agencies and other stakeholders including parliamentarian, donors, professionals and experts, private sector and community level organizations. A chapter in the plan is designated to key challenges, opportunities, objectives, strategies, working policies and expected outputs related to CC.

Sector strategic plans are included in the plan document with sector specific long-term vision, mission, goal, objectives and strategies, and anticipated funding requirements.

The MTEF process takes on the planned expenditure framework guided by the periodic plans along with the programmes and sources of funding through line ministries. On the basis of these, programmes are prioritized and yearly budget allocations made accordingly.

6.2 RESULTS BASED BUDGETING

As part of planning and budgeting reforms, GoN has been making efforts in linking government finance to results. Result framework for each development sector has been designed from Poverty Reduction Strategy Plan (PRSP) phase (2002/03-2006/07). Linkage between sectoral results with national goals has been established in periodic development plans. MTEF has been introduced with the objectives to: (a) develop a consistent and realistic framework; (b) refocus budget allocations on priority sectors; (c) increase efficiency and effectiveness in budget utilization; and (d) make the development budget more results-oriented. Similarly, efforts have been made to institutionalize Managing for Development Results (MfDR) approach in different agencies to enhance the capacity of the government's system for development results.

The government has made mandatory provision to have log frame of every central level development projects to institutionalize the result agenda. Efforts have been made to implement performance based budget release system (see box 2). A results-based M&E Guidelines has already been published and implemented. Integrated National M&E guidelines have also been published and widely disseminated. In order to effectively implement the provisions of the guidelines, NPC has

Box 2: Performance-based Budget Release

Weighted physical progress of the project is linked with further budget release. If progress of the first and second trimester is more than 80 percent the project automatically gets budget for second and third trimester respectively. If the progress rate is between 50 to 80 percent budget release depends only the clarification of concerned ministry. Similarly, if the progress rate is below 50 percent there is a provision to take action against the concerned project manager.

formulated an M&E plan and requested line ministries to update their own plans. An independent evaluation has been made of selected projects under different ministries (MOF, NPPR, 2014).

Still, major challenges persist to institutionalize MfDR in country's planning and budgeting system, including:

- Comprehensive national results framework for sectors is not yet fully operationalized and not rolled out to all government agencies.
- Result based budgeting is yet to start in a systematic way.
- Linkage between annual plan & budget with the result framework needs to be made strong.
- Despite efforts, visible progresses have yet to be observed in the robust use of IT in planning and M&E processes.
- The MTEF process needs to be further internalized by the line ministries as it has not been able to guide the annual budget. In addition, unit costing exercise and the qualities of prioritization process has regularly been questioned.
- Because of weak M&E institutions and retention issues of trained personnel in M&E units, result based monitoring and evaluation is not fully institutionalized in practices.
- Awareness on managing for results at the policy making levels is still at low level. The results culture is still far to realize and replace the traditional focus of complying with the processes. (MOF, NPPR, 2014)

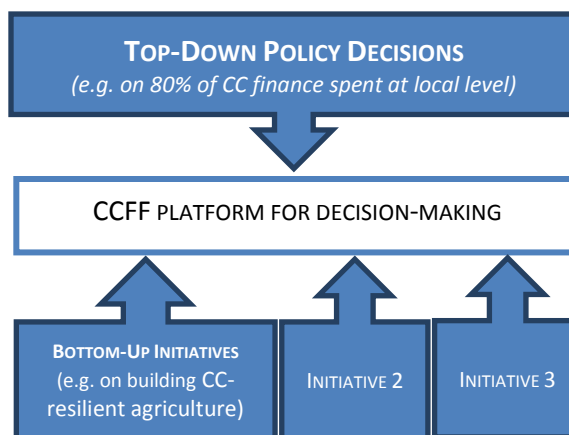
6.2 EXPECTED CCFF PLATFORM IN EXISTING PFM SYSTEM

By better integrating CC and finance in the existing PFM system at different levels, the CCFF will facilitate better bottom up planning in the light of top down government policies, strategies and targets. Entry

points via the budget cycle will be used to effectively prioritize, allocate, and subsequently track climate finance. Integrating CCFF will be the platform where policy and budget details will use a common “language” where plans will “meet” the numbers (See Figure 3).

In the two-way reforms stream, bottom-up processes must be enhanced with a CC lens applied in budget proposals so an overall picture is built. At the same time, top-down decisions must be specific enough to enable planning and budget officers to bridge those decisions with the institutional and budget implementation platforms.

Figure 3: Expected CCFF platform in existing PFM system



7. REFORMS TO INTEGRATE CC FINANCING IN PLANNING & BUDGET CYCLE

Lessons of previous work in this area and achievements to date suggest that interventions at *all* stages of the planning and budget cycle can further improve the management of climate finance. A brief account of the budget cycle along with its key elements is given in annex B. These reforms will be undertaken in the following stages of planning and budget cycle at various levels.

7.1 PRE-BUDGET PHASE

The integration of climate financing at the early stage of budget formulation includes activities such as issuing budget and planning guidelines, setting budget ceilings, and consultation with stakeholders. The periodic plan needs to include CC plans and required investment including modality of funding and the types of interventions, which will guide the MTEF in the annual budget formulation. For this, the key messages related to CC (such as reference to the CC policy, prioritization criteria, CC budget code) have now been included in the budget preparation guidelines issued by NPC and MOF.

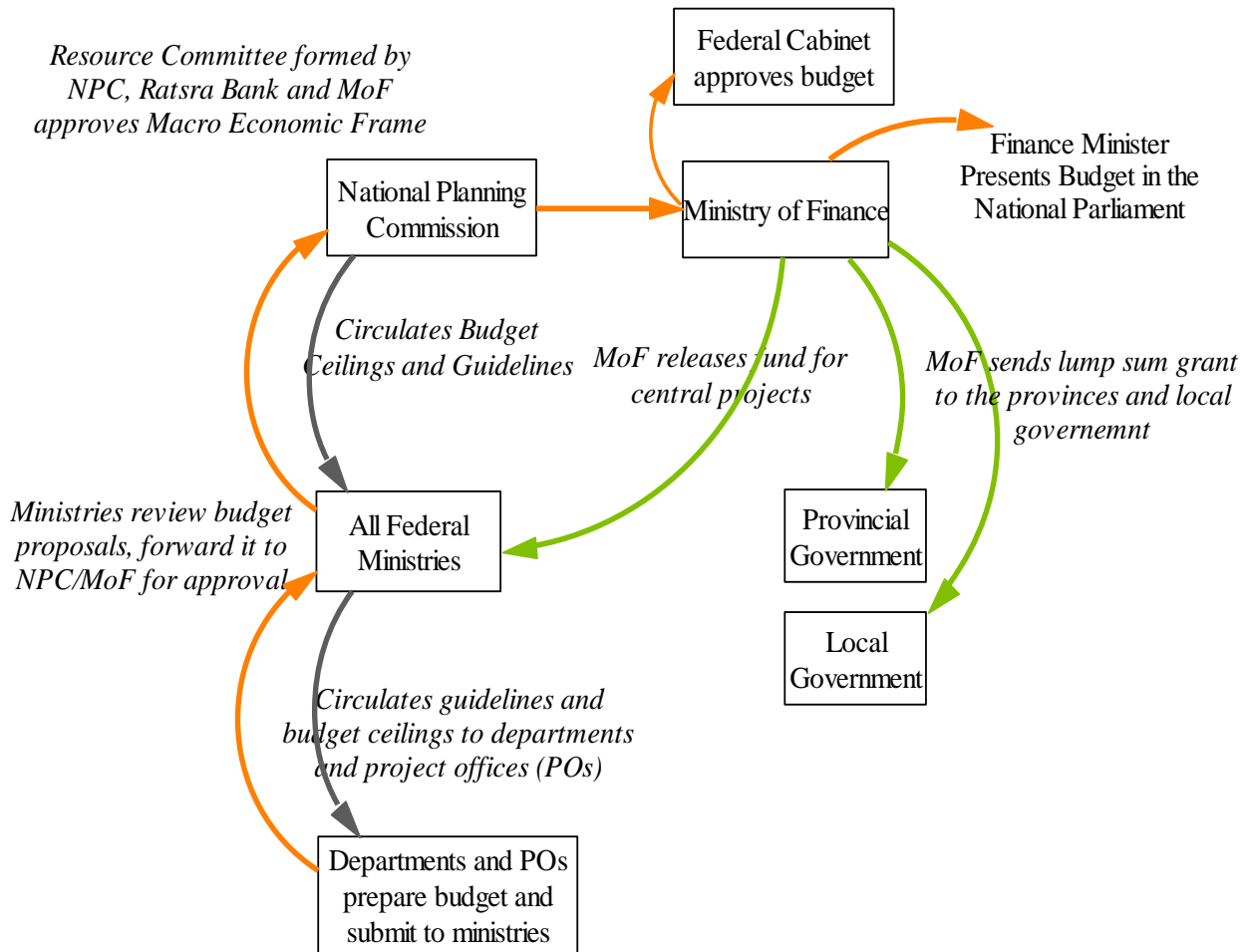
There is a strong need for information flows between national and sub-national level to help make informed decision about CC activities in the plan. Once the climate activities are defined on the plan, the information about the climate expenditure of the previous year and major achievements on increasing climate resilience or carbon sequestration need to be made available to the planners before the decision about CC activities for the following year are made. Similarly, the cost benefit analysis and climate risk assessment tools will apply gradually to increase their role in sectoral planning. Further, adaptation gap also needs to be estimated as we gain more experience with implementing climate-relevant projects with enhanced level of understanding of the climate threats.

The Finance Committee of the Legislative Parliament has started pre-budget discussion at regional level on cluster basis with relevant stakeholders from 2015. This committee provides feedback, suggestion and instruction to the government to include such suggestions and feedback received from regional discussion in the budget policy and programme. The GON, in turn, will take necessary actions to incorporate committee's directives and probable suggestions in sectoral budget preparation.

7.2 BUDGET PREPARATION PHASE

In the existing system there are two processes of budget preparation (Figure 4). Line ministries follow one stream, while local governments will follow their own planning process. Line ministries prepare budgets with a bottom-up approach and submit it to departments and submit it to NPC for approval with necessary review and adjustment. Similarly, Local Governments prepare annual budget on the basis of central grant and their internal resources. The budget and programme of the local governments are approved from their respective councils.

Figure 4: Information flow in budgeting process



Since a different process is followed at local level, updated planning guidelines need to incorporate issues to mainstreaming CC both at sectoral level and at local level and communicated well to the local level. Therefore, the following actions need to be taken to integrate CCFF in the budget cycle.

- The NPC and MOF will have necessary information about CC issues addressed by policies and strategies related to CC before issuing the budget guidelines and ceilings.
- CC will be a crucial part of MTEF process for priority setting rather than individual project priority setting in CC.
- Development sectors are already addressing climate impact through regular development programmes but without cost benefit analysis and risk assessment. The prioritization of projects at sectoral level will be based on cost benefit analysis and climate risk assessment to allocate resources in most needy programmes and projects.
- As CC is a cross cutting issue, it will be part of the budget discussion across all sectors at the time of budget discussion, rather than with single agency discussion for CC relevant projects.

- Opportunities exist to involve CSOs in creating awareness in the planning and budgeting process particularly at local level, which will help in improving planning process to ensure that adequate resources are allocated for programmes proposed for vulnerable areas.

7.3 BUDGET MONITORING AND REPORTING PHASE

A strong monitoring, reporting, and verification mechanism is a prerequisite for informed decision-making and investment spending on climate action. The existing budget monitoring system does not provide specific information about climate investment. Similarly, sector ministries do not have CC related KPIs prepared as guided by NPC's National M&E Guidelines except two indicators from MoFSC. Hence, CC relevant ministries need to prepare sector specific CC related KPIs to monitoring the financial and physical progress periodically on trimester and annual basis. On the basis of sectoral information NPC will analyze CC expenditure and monitor progress on trimester basis in NDAC meeting and on annual progress of CC expenditure towards achieving outcomes in annual basis. It will also help NPC to analyze CC expenditures towards achieving goals on midterm and at the end of periodic development plan.

7.4 AUDIT AND BUDGET EVALUATION PHASE

Auditing and budget evaluation is perhaps the most important of all in the budget cycle, because it provides a basis for corrective measures to improve the effectiveness of investment in the long term by establishing accountability for budget performance at various stages. The Office of the Auditor General (OAG) - Nepal's Supreme Audit Institution (SAI) - routinely measures the performance of selected development programmes and projects through performance auditing. No specific provisions for climate budget evaluation or auditing exist in the existing audit system conducted by OAG. As a separate exercise, NPC conducts a third-party evaluation to measure the effectiveness of investment in the selected programme.

As CC expenditures have a cross-sector nature spread across ministries, it will require to establish a clear link between climate related programmes and the CC financing plans, which will help the OAG carry out performance audit of the regular development programmes that are highly relevant to CC. Similarly, the NPC will continue to conduct third party evaluation of selected programmes by recruiting independent evaluator(s).

In addition to the auditing and third-party evaluation already in the system, accountability is enhanced by involving CSOs in monitoring of the budget flow through public expenditure tracking survey (PETS) and other means in order to ensure that the budget is both adequate and that it is flowing to the most vulnerable areas and population groups as planned.

8. ROLE OF STAKEHOLDERS

The CCFF road map outlines the reforms to be carried out within a given timeframe and identifies responsible lead and support agencies with specific roles and responsibilities that build from existing institutional mandates. The specific roles of the key agencies in implementing the CCFF are given below.

8.1 NATIONAL PLANNING COMMISSION (NPC)

As an apex body responsible to coordinate the formulation of national development plans and policies, as well as to monitor and evaluate development plans and programmes, NPC plays an important role in integrating CC in national planning and budgeting. Specifically, the NPC will carry out the following.

- Support integration of CC policies and strategies together with climate finances across sectors in the periodic plans.
- Alongside overall planning and budgeting guidance, provide specific guidance to line ministries and suggestive measures for sub-national governments on mainstreaming CC risk and actions.
- Establish CC as key issue in MTEF process to provide due priority for CC integration in the plans.
- Evaluate CC relevant programmes/projects for financial and physical effectiveness based on output and results.
- Prepare climate screening guidelines for sector plans and programmes in sectoral approach papers.
- Articulate bottom-up costing of CC programmes including loss and damage at national and sub-national level.

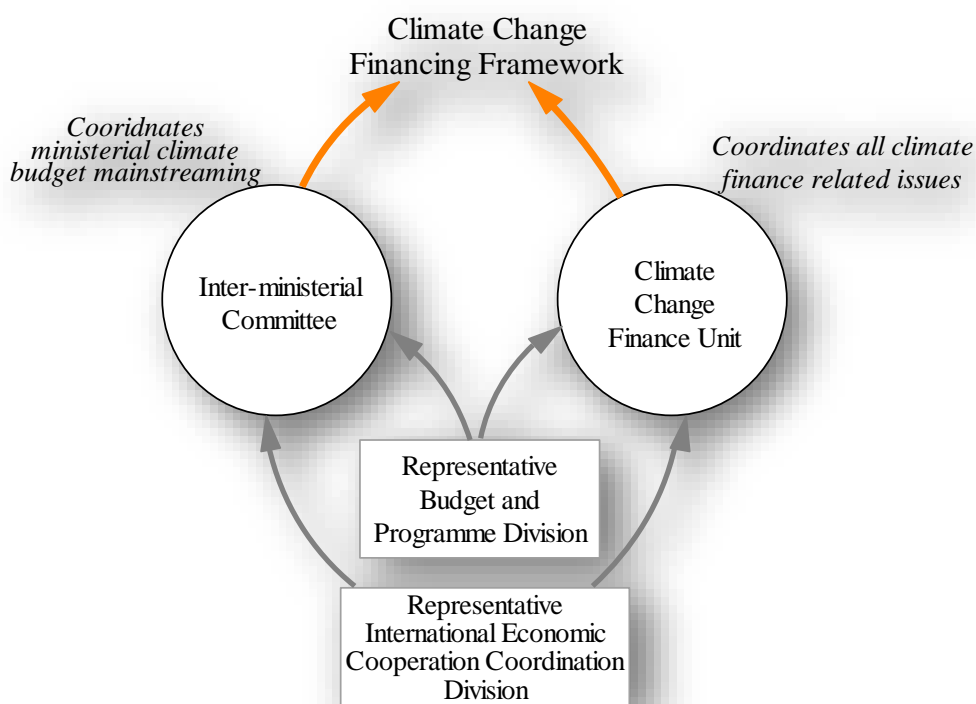
8.2 MINISTRY OF FINANCE (MoF)

MoF is the central authority responsible to maintain both micro and macroeconomic stability and management of public resources. Specifically, the MOF will carry out the following:

- Expand scope of and reform existing Climate Change Finance Unit (CCFU) to coordinate CC finances in the budget preparation and decision-making processes across sectors (Figure 5).
- Establish Inter-Ministerial Coordination Committee (IMCC) for implementation of CCFF.
- Establish mechanism for coordination between the GCF Technical Committee and the CCFF Inter-Ministerial Coordination Committee.
- Update regularly Budget Formulation Guidelines in line with the integration of climate finance.
- Ensure allocation of adequate budget to match the provision set by MTEF to CC relevant programmes and projects.

- Review and upgrade existing CC budget coding criteria of defining climate programmes/projects to establish clear procedures for sector ministries in screening development programmes/projects to improve accuracy of budget having climate relevance in adaptation, mitigation or both.
- Develop and implement appropriate CC expenditure tracking system.
- Routinely analyze climate expenditure, climate finance and its performance in *Annual Economic Survey*.
- Drive system reforms to enable stronger MRV and absorption of external climate finance through integrated platforms and climate finance tracking.
- Analyze macro-fiscal impacts of CC and integrate these into MTEF.
- Develop readiness systems and strategies to enable more effective implementation of climate targets developed through other initiatives including NAP and GCF readiness

Figure 5: Linkages between the CCFU and IMCC



8.3 MINISTRY OF POPULATION AND ENVIRONMENT (MOPE)

MoPE is the lead ministry on climate policy coordination. Specifically, it will carry out the following to facilitate implement CCFF:

- Monitor and evaluate status of implementation of National CC policy and international commitments (e.g., actions and commitments made under the UNFCCC/Paris Agreement on Climate Change)
- Liaise and coordinate with climate-relevant ministries to integrate climate policy into sector policies.

- Generate a macro picture of CC policy and plan (including policy-budget linkage and CC priorities) to facilitate implementation of policy provisions.
- Maintain databases and coordinate work on improving loss and damage and vulnerability assessments.

8.4 MINISTRY OF FEDERAL AFFAIRS AND LOCAL DEVELOPMENT (MOFALD)

MoFALD is responsible for coordination, cooperation, facilitation, and monitoring and evaluation of activities undertaken at local level. Specifically, MoFALD will carry out the following.

- Coordination of CC activities being planned at provincial and local governments.
- Improve PFM system for sub-national government (including the improvement of Chart of Accounts) to allocate budget for climate actions and to track their CC related expenditure.
- Establish coordination mechanism with MoPE and climate relevant sector agencies to implement LAPA at local level.
- Provide support to local level to integrate CC at local level planning and budgeting through the adoption of the EFLG frame.
- Monitor local government's climate budget allocations and expenditures as per recommendations of the district CPEIRs.
- Provide support and guidance to local governments to raise funds from local sources for climate adaptation.

8.5 SECTORAL MINISTRIES

The sector ministries will play the following role in the CCFF:

- Incorporate climate policy targets and goals into sector strategies and action plans.
- Provide input to climate screening and investment appraisal guidelines based on sector-specific needs and contexts.
- Prioritize CC relevant programmes/projects and conduct cost-benefit, climate risk analysis and evaluation of most cost-effective measures
- Support other climate-relevant ministries in building cross-sector aggregated CC finance picture.
- Mobilize resources from donor partners for climate-relevant actions within the ministry in collaboration with NPC and MoF.
- Set up effective monitoring system to monitor sector's contribution to NAP and LAPAs.
- Provide data on CC expenditure including departmental expenditure and the results there of, to NPC and MOF as per approved plans.
- Guide sector programme delivery including 80 percent of climate spending at the local level.
- Designate climate change focal person to represent in the CCFF.

8.6 PROVINCIAL GOVERNMENTS, LOCAL GOVERNMENTS AND COMMUNITIES

The Climate Change Policy envisages that at least 80 per cent of the available climate fund will be spent at the local level. However, capacity at local level to plan and manage an increasing amount of climate budget is generally weak. Integration of CC in planning and budgeting is a prerequisite that strengthens local capacity for effective management of climate finance. Hence, the provincial and local governments will be responsible for the following actions:

- Identify vulnerable communities, assets, and areas through public consultation and interaction in planning processes and climate-specific initiatives (e.g., LAPA, NAP).
- Prioritize actions, in coordination with relevant offices/sectors, on the basis of vulnerability and other criteria to allocate resources more wisely and avoid duplication.
- Integrate CC into regular planning processes to make the development projects climate resilient and to ensure allocation of adequate resources for timely implementation.
- Strengthen PFM system at local level in line with climate budgeting with support from Federal and Provincial Government.
- Involve CSOs to strengthen accountability in monitoring of the implemented programmes at local level.
- Raise awareness and support mobilization of local resources for climate programmes.
- Incentivize sectoral programme delivery to comply with policy commitment of using 80 percent of the budget at the community level.

8.7 OFFICE OF THE AUDITOR GENERAL (OAG)

The OAG is the supreme constitutional body to audit expenditure of government offices at national and sub national level. The OAG will help in integrating CC in the budget cycle by doing the following.

- Analyze performance of climate relevant programmes and projects on the basis of developed KPIs.
- Carry out statutory and performance audit focusing on the outcomes of selected CC relevant programmes.
- Prepare specific guidelines for auditing CC relevant programmes and projects at national and sub-national level with focus on CC issues and sector concerns.

9. ROADMAP FOR REFORMS

A summary of the proposed reforms to implement the CCFF is presented below:

Reform Areas 9.1: Integration of CC in the planning and budgeting cycle

SN	Intervention	Status	Lead Agency	Supporting agency	Remarks
9.1.1	Upgrade existing budget management IT systems to tracking and generate report on climate budget allocation and expenditures with sector disaggregated data	Completed	MoF Budget & Programme Division and FCGO	Line ministries	The work is completed with UNDP support
9.1.2	Reform existing CC Finance Unit in MoF to coordinate CC finance to present it in the high level discussion and budget decision	Planned for 2018	MOF	Line ministries	
9.1.3	Improving climate budget coding criteria along with guidelines	Planned for 2018	MoF Budget & Programme Division	NPC, Line ministries	
9.1.4	Integrate CC into MTEF processes	Planned for 2018	NPC, Economic Management Division	MOF CC Finance Unit and Line Ministries	
9.1.5	Estimate climate finance costing in 15 th Periodic Development Plan.	Planned for 2018	NPC, Economic Management Division	MOF CC Finance Unit and Line Ministries	

Reform Areas 9.2: Monitoring, reporting and verification of CC finance

SN	Intervention	Status	Lead Agency	Supporting agency	Remarks
9.2.1	Develop and generate CC expenditure reports in FMIS system in a structured way to monitor climate finance	Financial reports completed March and Narrative reports May, 2017	MoF Budget & Programme Division/ FCGO	Line ministries	Both works are completed and continuation is needed in coming years
9.2.2	Policy monitoring of CC relevant programmes	Planned for 2018	MOPE	MOF, NPC and line ministries	Incorporation of CC related major achievements in the Economic survey has been started and continuation is needed in coming years

9.2.3	Improve PFM system of sub-national government to prioritize, manage and deliver climate finance at local level	Planned for 2018	MoFALD	MOF and Local Government	Improvement of COA for Local Government has completed on Oct 2017.
-------	--	------------------	--------	--------------------------	--

Reform Areas 9.3: Improved accountability for CC finance effectiveness and efficiency in the budget

SN	Intervention	Status	Lead Agency	Supporting agency	Remarks
9.3.1	Conduct third party/independent evaluation of selected CC relevant programmes through independent agencies and or individuals	Completed in June 2017	NPC	Line ministries	Report of third party evaluation of one CC related programme
9.3.2	CSOs participation in CC budget formulation, implementation and expenditure tracking	PETS in CC completed in June 2017	CC relevant line ministries and MoFALD	MOF and NPC	Final report of PETS prepared
9.3.3	Parliamentarians use budget oversight process as a key entry point to raise questions on CC finance	Planned for 2018	Selected Committees in Parliament	MoF; NPC, MoFALD	Handbook prepared

Reform Areas 9.4: Improved capability in governance of CC finance

SN	Intervention	Status	Lead Agency	Supporting agency	Remarks
9.4.1	Members of the CC Finance unit are trained in climate change, climate finance coordination including analysing reports on expenditure and preparing narrative for economic survey.	Planned for 2018	MoF	NPC	
9.4.2	Members of the Inter-Ministerial Coordination Committee are trained in coordinated planning of climate finances.	Planned for 2018	MoF and CC relevant line ministries	NPC	
9.4.3	Planning officers, climate focal persons and gender focal persons of the sector ministries trained to screen development programmes for integrating CC.	Planned for 2018	MoF and CC relevant line ministries	NPC,	

The following narratives present elaborated description of proposed reforms that are needed to integrate CC in the planning and budgeting for effective and efficient climate financing required for sustained climate action to reduce climate risks and vulnerability.

9.1 INTEGRATION OF CLIMATE FINANCE IN THE PLANNING AND BUDGET CYCLE

9.1.1 The existing LMBIS, BMIS and FMIS system will be improved to track CC relevant budget allocation to expenditure reporting. The online linkages will be established among these systems to capture the CC budget allocations and expenditures routinely.

From the fiscal year 2014/15, the GoN has been using IT based LMBIS system and has become mandatory for budget proposal of line ministries. LMBIS system has become online down on the department and ministry level in budgeting period to submit budget proposal. Line ministries provide proposed budget information to the LMBIS system together with the degree of climate relevancy of their budget sub-heads. BMIS CC master table has been linked with FMIS system which makes it easy to track and report on climate expenditure.

On basis of LMBIS data, MOF prepares annual budget document including the Red Book through BMIS system. Further improvement is needed in LMBIS, BMIS and FMIS system to show climate budget allocation and expenditure based on their degree of climate relevancy and the type of project (adaptation and/or mitigation) with sector disaggregated data. MOF and FCGO will update LMBIS, BMIS and FMIS systems and establish online linkage among these systems regularly.

9.1.2 MOF Climate Change Finance unit will be reformed and Inter-Ministerial Coordination Committee will be established to coordinate CC policy implementation.

Currently, there is no designated body to coordinate CC policy and communicate those in the high-level planning discussion and decision making in budget process. There is a need to use climate lens in coordinating development programmes/projects that are climate relevant.

- Climate Change Finance Unit. The MOF shall restructure its existing Climate Change Finance unit within IECCD to deal with and coordinate all climate finance issues within the MoF including CC programmes/projects in high-level planning and budget discussion. The unit already has an officer deputed from the IECCD. An officer from the Budget and Programme Division (BPD) will be also be deputed to the CC Finance Unit to coordinate issues related to CC relevant budget, which are discussed during the budget discussion at the BPD. It will also support MOF Economic Policy Analysis Division to prepare Economic Survey document relating to CC.
- Inter-ministerial Coordination Committee. The MOF will establish an inter-ministerial coordination committee (IMCC) as part of the CCFF to coordinate and strengthen cross sectoral linkage among climate relevant ministries in planning and budgeting of all climate-relevant plans and programmes. The CC Finance Unit will provide backup support to the IMCC in coordinating regular climate budget of line ministries. The IMCC will be headed by the chief of the BPD and represented by climate focal persons of climate-relevant ministries.

9.1.3 Existing criteria for climate budget coding will be revisited to develop sector guidelines incorporating sector specific needs for coding

The existing method used for marking climate relevant programmes in the annual budget is based on II criteria which define climate activities. According to the budget preparation guidelines of the MoF, the level of climate relevancy of the programme is defined as 'highly relevant' where more than 50% of the budget in the programme is relevant to CC activities, whereas it is defined as relevant if 20-50% of the budget is allocated to CC relevant activities. For those programmes heads that have none or less than 20% of the budget allocated to CC activities, they are defined as 'neutral'. Since the criteria used and the budget bracket applied to define the degree to which a particular programme is relevant to CC is common for all sectors and programmes, on one hand, it is very likely that the approach does not depict the real picture of the climate finance, and on the other, it may also overestimate the climate budget. Therefore, there is a need revisit these criteria to meet the specific need of the different sectors. There is a need to develop coding guidelines for each key sector to help them meet their specific requirements in defining and marking climate activities and budget. The MoF will initiate developing guidelines for climate coding for each climate relevant sector in collaboration with NPC and the sector ministries.

9.1.4 MTEF Process will be revitalized with a holistic approach on CC rather than with a focus on specific priority project(s).

It is needed to update and revitalize the MTEF process to prioritize programmes and allocate resources in a systematic way. For this, specific information is needed in MTEF formulation process with or without CCFF. It is necessary to provide due priority to CC with a holistic approach within MTEF rather than prioritizing selected programme/project. It is also necessary to consider Loss and Damage as a priority area while preparing MTEF. Economic Management Division of the NPC has initiated steps to make CC as part of the MTEF process. With this the NPC will send CC ceilings along with MTEF ceilings to sectoral line ministries for CC programmes. Sector ministries, in turn, will prepare plans and programmes through bottom up planning process within the frame of predefined ceilings. This will facilitate the decision makers to allocate required resources to CC relevant programmes/projects in a coordinated way. In general, the revitalization of a well-functioning MTEF process will support further integration of the CC finance in budgeting in two main streams:

- Integrated financing frameworks. Incorporation of a CCFF in MTEF will systematically address the issue of CCF integration as MTEF will serve the basis for presentation, discussion and decision making over CC related budget allocations as part of the overall budget formulation process (including through ceilings that will be relevant to CC allocations)
- Linking the CC finance with expected results. MTEF can serve a solid base for framing the expected results for the CC related budget initiatives. Application of the performance based budgeting principles in CC related budget programmes will enhance the quality of decision making, especially in the context of the CCFF, which will combine the data on the demand for the CC investment (measurable policy issue) with measurable policy targets (KPIs for budget allocations).

9.1.5 CC budget in the 15th periodic plan will be estimated to arrange for necessary resources to fund climate relevant programmes/projects

The 13th periodic plan (2014-2016) mentioned CC as one of the important issues to be considered in development. However, a separate chapter has been provided in the 15th periodic plan document for CC. The 14th plan has clearly identified issues, challenges, objectives, strategies, working policies and expected outputs with respect to CC. The plan also outlines climate concerns in each climate relevant sector. An estimate of budget to implement climate relevant development programmes/projects is needed in order to arrange for necessary fund. NPC will estimate the total investment required and include it in the upcoming periodic plan document.

9.2 MONITORING, REPORTING AND VERIFICATION CLIMATE CHANGE FINANCE

9.2.1 Update FMIS system to enable on-demand CC expenditure reports.

The national FMIS system will be improved to track and report CC expenditure to enable analysis of climate expenditure. This will allow FCGO to generate information on climate expenditure against allocation. MOF started to include a separate narrative on climate expenditure in Consolidated Financial Statements and in its Economic Survey Report and other budgeting documents. Continuation is needed to enhance this process in the coming years too.

9.2.2 MoPE will carry out CC policy monitoring related to relevant sector ministries

Most CC-related programmes are implemented by sectoral ministries through their regular development programmes. Policy monitoring is needed to assess whether sectoral ministries are carrying out climate related programmes/projects as per CC policy. MoPE will carry out policy monitoring progress of achievement related to CC relevant programmes implemented by sector ministries to provide required information to MoF and NPC in order to supplement analysis of climate investment in the Economic Survey.

9.2.3 PFM systems of the local government level will be improved to enable the agencies to prioritize, manage and deliver climate finance at local level.

The GoN is committed to spend at least 80 per cent of the allocated budget of the CC projects at the local level. The constitution also has mandated the local governments with the responsibility of service delivery at the local level, which subsequently requires a large amount of the budget to be spent at local level. However, the existing PFM system is weak to prioritize, manage and deliver climate finance effectively at local level, which makes tracking and reporting CC expenditure difficult. Hence, MoFALD will take lead to improve PFM (including chart

of accounts)⁷ at local level in order to enable the sub-national governments to prioritize, manage and deliver climate finance.

9.3 IMPROVED ACCOUNTABILITY FOR CLIMATE FINANCE EFFECTIVENESS AND EFFICIENCY IN THE BUDGET

9.3.1 *Continue to Conduct third party independent evaluation of targeted CC related programmes/projects.*

Policymakers require critical analysis of the outcomes of implemented programmes in order to improve succeeding programmes/projects. In the existing system, evaluation mechanism with regard to CC is weak. NPC evaluates some selected programmes/projects annually from third party independent evaluator. In this financial year NPC's is evaluating CC related People's Embankment Project. Continuation is needed to enhance this process in the coming years too to get feedback on gaps as well as the outcomes and impacts of the programme.

9.3.2 *Civil Society Organizations*

Civil society⁸ can play an important role in the effective use of climate finance. It can be the channel through which communities voice their opinions to decision-makers, whether at the national or sub-national level. It can advocate and influence policy makers to target climate finance to communities who are most vulnerable to CC. It can conduct independent research and analysis on topical issues. It can undertake these activities in partnership with government to produce information on the effectiveness of investments related to CC to support and complement the efforts of government. In light of the various contributions they can make, the following aspects can form the basis of both the short-term and long-term efforts to increase the participation of CSOs on the effectiveness of CC finance in budgeting cycle:

CSOs act as a medium to channel the CC needs and interest of communities, particularly those who are most vulnerable to its effects.

CSOs, especially those who are based at the local level, often represent the voice of communities, and are the interface between communities and the government. Their proximity to the localities, as well as their accessibility to the government's structures enables them to be the conduit of the interests of communities. While this is relatively easier at the local level, it can also happen at national level, if there are enough opportunities and structures in place to enable the sharing of information between CSOs, the legislature, and the executive. In the context of the CCFF, this is an aspect of the engagement with CSOs that will happen gradually, over a medium to long-term period.

⁷ Recently, GON has improved COA of sub-national government compatible with federal government.

⁸ Civil society refers to non-governmental actors, and can include community groups, non-governmental organisations, labour unions, charitable organisations, foundations, as well as think-tanks.

The proximity of CSOs to local communities, their local knowledge, and their operational flexibility are strong assets that the government can optimise in implementing CC related projects.

Collaborative approach in overseeing and tracking CC expenditure

CSOs can add value in tracking expenditures from start to finish, i.e., from the budget allocation decision through to its delivery and execution at the local level. This type of assessment can occur through exercises such as the Public Expenditure Tracking Survey (PETS), which are useful in highlighting whether resources have been spent as per their intention. In turn, this information can also identify the stages where digressions occur, thereby providing the ministry of finance an overview of where some of the bottlenecks and challenges are in terms of efficient spending. These types of exercises do not necessarily provide thorough qualitative analyses, but they do provide the quantitative, objective data for further probing.

Collaborative partnership with CSOs in undertaking research and analysis

CSOs, particularly those that have a research and analysis angle to their mandates like think tanks for example, have good experiences in undertaking impact assessments and evaluations of specific projects and programmes. Very few have done similar exercises on public investment programmes that are funded through the government budget. Such types of analyses can be very useful to governments, particularly in the formulation stage of the budget, where past experiences should inform future budget allocations and priorities. Enabling CSOs to undertake this type of research and analysis, as well as providing them with a legitimate outlet for the findings should be promoted and encouraged. This type of research are good complements to exercises like PETS, as they can be more analytical, and provide qualitative perspectives to supplement them.

Developing informative materials for public consumption on climate change finance

The availability of budget related information is one step towards transparency. Unless it is accessible and understandable by non-experts, the value-added of the information remains minimal, and this is often the case. Documents produced by the Ministry of Finance, such as the budget; or specific budget information, such as those produced through the application of a climate budget tracking method or the CPEIR can be complicated, technical materials that the public, as well as parliamentarians and other policy makers do not understand fully. Transforming the technical data into easy to read and easy to understand materials can contribute significantly to transparency and accountability. Tools such as the Citizen Climate Budget is one such practical example, and their development, as well as policy briefs, videos, infographics, and topical guides for journalists are areas where CSOs and media organizations and press associations can contribute significantly.

9.3.3 Committees in Parliament will increase their budget oversight role by focusing on climate change finance

Parliamentarians have a number of core functions – representation, law-making, budgeting, and oversight. They are an important pillar of ensuring accountability on the actions of the government. For CC finance in Nepal, an effective oversight process from selected committees in parliament can help the government monitor its progress in meetings its own commitment to spend 80% of funds at the sub-national level. It can do this by raising the right question on whether funds allocated in the budget are sufficient and equitable to respond to the magnitude

of CC challenges. For this, tools such as a Climate Budget Review Toolkit will be a useful tool that the Finance Committee and the Environmental Protection Committee can use in fulfilling their oversight responsibility.

9.4 IMPROVED CAPABILITY IN GOVERNANCE OF CC FINANCE

9.4.1. Members of the Climate Change Finance unit are trained in climate change and climate finance coordination including analysing reports on expenditure and helping preparation of narratives for economic survey.

Members of the climate change finance unit have a major role to play in dealing with all aspects of climate finances within the MoF. It will include accessing, mobilizing and monitoring of public and private climate funds from both international and domestic sources. The members need to have the capacity to provide information required by the support decision within MoF in taking timely decisions for matters related to climate finances. Since committee's role also includes supporting CCFF implementation, it has to have the understanding of the finance need of the sectors. Therefore, they will be provided with necessary training of appraise them of the intricacy and nuances of the climate financing in order for them to be able to continually improve governance of climate finance.

9.4.2 Members of the Inter-Ministerial Coordination Committee are trained in coordinated planning of climate finances.

The role of the inter-ministerial committee is vital in establishing a common understanding by facilitating climate finance coordination among ministries. The committee will serve as a platform to help clarify roles, boundary of responsibilities, and identify possible gaps in functions. Its role will also be to facilitate the reforms as specified in the CCFF, for example revisiting the coding criteria to define climate programmes. The committee will also advise ministries in tracking sectoral investment, evaluate effectiveness, which the members will facilitate within respective ministries by supporting ministries to monitor climate budgets, estimate financing needs, and scope out sources of climate finance. Thereof the members will be provided with periodic training in these aspects.

9.4.3 Planning officers, climate focal persons and gender focal persons of the sector ministries trained to screen development programmes for integrating climate change

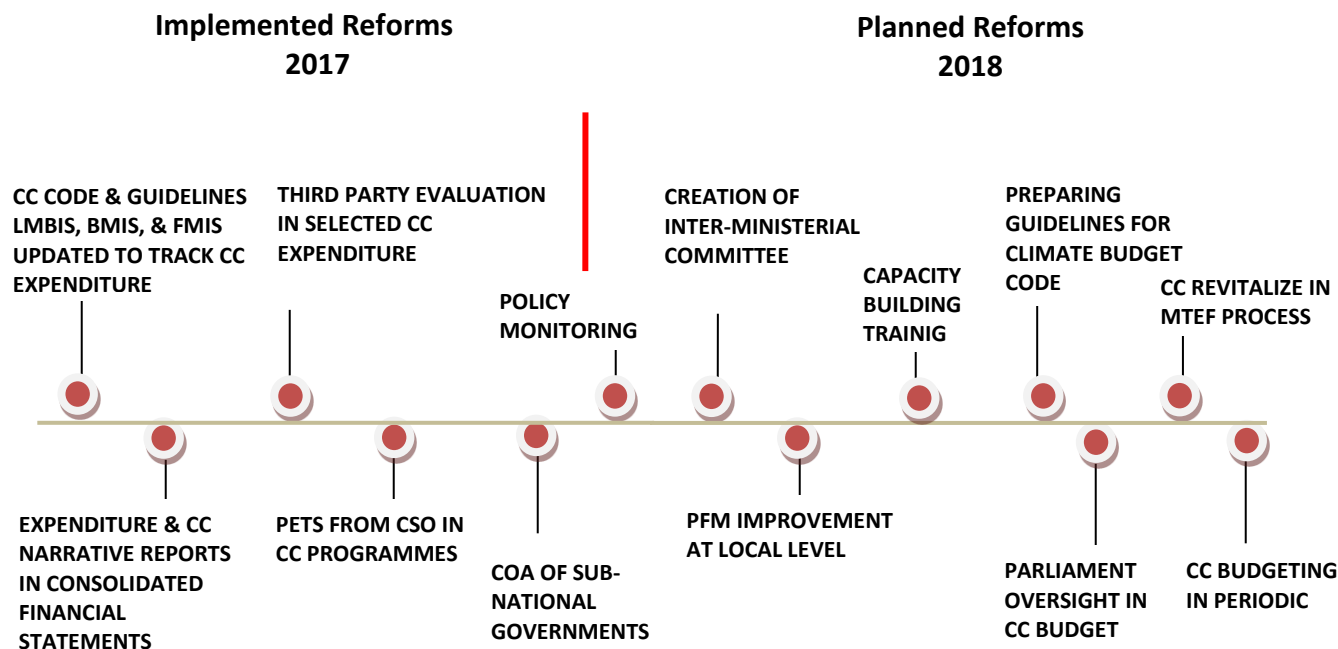
Some ministries already have designated climate and gender focal persons. The gender focal persons provide support in screening proposed development programmes for gender responsiveness but the climate focal persons have not been engaged in facilitating tagging of climate-relevant programmes. The climate code that appears in the programme is not actually done at the ministry level in most cases. Linking gender with climate budget is necessary to evaluate the effectiveness of the climate budget in supporting vulnerable community from gender perspective. However, no effort has been made in this regard by the ministries, even though they are aware that both coding has been introduced for longer than 5 years. Therefore, the planning officers, climate focal persons, and the gender focal persons need to be oriented towards, i) using climate budget code in the

ministries before the plans are proposed and, ii) link climate and gender budget to see how the investment in climate- relevant programmes help support vulnerable groups to respond to the climate impacts. Periodic training will be provided to them by MoF in collaboration with sector ministries.

9.5 REFORM TIMELINE AT A GLANCE

As part of planning and budgeting reform process GoN has been making efforts in linking CC in government's plan and budget. The GoN approved a national Climate Change Policy in 2011. National Adaptation Plan (NAP) formulation process and Green Climate Fund (GCF) Readiness Programme are already underway. CC budget coding has been included in budgeting system from 2013/14. Different types of planning; budgeting and expenditure tracking systems (LMBIS, BMIS, FMIS, and TSA) have been introduced at different levels. Climate change has been included as a separate chapter in the 14th Periodic Development Plan. MoF has improved Budget Formulation Guidelines in line to integrate CCFF in planning and budgeting process. Now the GoN's PFM system can generate CC budget allocation and expenditure reports in a structured way, which allows for review and analysis of budgeting and expenditure trends. Though these reform measures provide support in overall planning and budgeting process further reforms are needed for integrating CCFF in government budgeting system as stated below (Figure 6)

Figure 6: Implemented and Planned Major Reform Activities in CCFF



These planned reform activities are supportive for completed reform measures and most of these planned reform measures have already been started in the reform process.

10. CONCLUSIONS

The GoN is committed to take all necessary measures to address the challenge of CC through the national system. The effectiveness and sustainability of public investments depends on how well CC is integrated into planning and budgeting and mainstreamed into routine development programmes across ministries and line departments of the federal and provincial governments as well as of the local governments. Based on the experiences, results, and shortcomings of past measures, further reforms have been planned as part of the CCFF in all stages of the budget cycle, from planning to reporting and expenditure analysis at the federal level. It is recognized that further reform measures are needed to integrate CC finance in local and provincial level budgeting system in the near future.

All relevant institutions have crucial role to play for successful implementation of this reform plan. The NPC and MOF have the largest roles to play in the roadmap, whereas the role of MOPE is vital in the policy aspect. MoFALD takes lead in reforms for CC integration at local level. This ministry is the central level agency to coordinate, cooperate, facilitate, monitor and evaluate activities undertaken by local governments. PFM improvement at local level is needed to manage, prioritize and deliver climate finance at local level effectively in the new scenario. Climate change relevant line ministries' role is also important to plan and implement CC activities at implementation levels. They will coordinate planning and monitoring of the CC finances and evaluate effectiveness under respective ministries.

Constitutionally, OAG plays imperative role to improve accountability at different levels conducting statutory and performance audit. CSOs involvement is also supportive to strengthen public accountability particularly at local level. Finally, it would expect broad ownership of both the process and the framework at different levels to implement the CCFF roadmap effectively.

11. REFERENCES

- ACT, 2017: Developing an Applied Understanding of the Economic Impacts of Climate Change, Action on Climate Today, 2017.
- CCP, 2011: Climate Change Policy (Nepali), Ministry of Population and Environment, Government of Nepal, Kathmandu, 2011
<http://doenv.gov.np/files/download/Climate%20Change%20Policy%202067%202011%20Nepali.pdf>
- CPEIR, 2011: Climate Public Expenditure and Institutional Review (CPEIR), National Planning Commission, Government of Nepal, Kathmandu, 2011
http://www.npc.gov.np/images/category/climate_public_expenditure.pdf
- dCPEIR, 2017: district Climate Public Expenditure and Institutional Review (dCPEIR), Ministry of Federal Affairs and Local Development, Government of Nepal, Kathmandu, 2017
- IDS Nepal, PAC and GCAP, 2014: Economic Assessment of Climate Change in Key Sectors in Nepal, IDS Nepal, Kathmandu.
- MoF, 2013: Budget Speech 2013/14, Ministry of Finance, Government of Nepal
http://www.mof.gov.np/uploads/document/file/Final%20Translation%20Bud%202013-z14_20141228083332.pdf
- MoF, 2014: Budget Speech 2014/15, Ministry of Finance, Government of Nepal
http://www.mof.gov.np/uploads/document/file/Budget%20Speech%20Final%20English_20140727050302.pdf
- MoF, 2015: Budget Speech 2015/16, Ministry of Finance, Government of Nepal
http://www.mof.gov.np/uploads/document/file/Final%20Budget%20Speech%202015-16%20English_20150715122729.pdf
- MoF, 2016: Budget Speech 2016/17, Ministry of Finance, Government of Nepal
http://www.mof.gov.np/uploads/document/file/Budget_Speech_final_2016_20160602105902.pdf
- MoF, 2017: Budget Speech 2017/18, Ministry of Finance, Government of Nepal
http://www.mof.gov.np/uploads/document/file/Budget_Speech_207475_20170530011441_20170601052107.pdf
- MoF, NPPR, 2014: Nepal Portfolio Performance review NPPR 2014, Portfolio Performance for Development Results, Ministry of Finance, Government of Nepal, 2014.
- MOHA, 2016: disaster information, drrportal.gov.np/reports
- NPC, 2017: Nepal Flood 2017, Post Flood Recovery Needs Assessment, National Planning Commission, Government of Nepal, Kathmandu.

ANNEX A. KEY POLICY FEATURES OF THE CLIMATE CHANGE POLICY (2011) THAT ARE RELEVANT TO CCFF

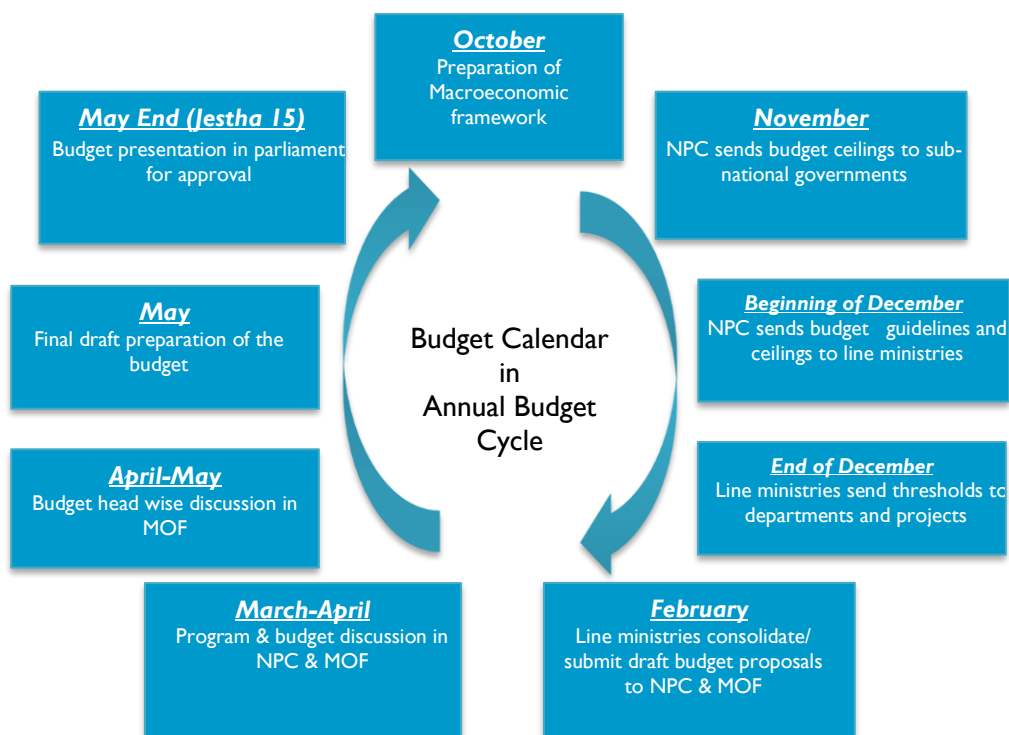
- Formulating and implementing the necessary strategies, guidelines and working procedures to support a socio-economic development that is climate-friendly and resilient
- Linking and implementing climate adaptation with socio-economic development and income-generating activities to the extent possible;
- Formulating and implementing integrated programmes taking into consideration the objectives and the provisions of the conventions related to climate change, desertification and biodiversity;
- Managing the financial resources from current and future multilateral and bilateral support for climate change activities and the Climate Change Fund
- Utilizing the financial resources available from national and international sources for climate adaptation, adverse impacts mitigation and low carbon development activities, as well as for food, health and livelihood security of victims of water-induced disasters, such as floods, landslides and droughts
- Allocating at least 80 percent of available funds for field-level climate change activities;
- Managing the fund and making it easily accessible for the climate adaptation, resilience and other climate change-related programmes.
- Implementing local climate change-related programmes through local institutions by enhancing their capacity
- Increasing the participation of local institutions, expertise-based federations, NGOs and civil society for information dissemination and capacity building of common people by involving them in awareness raising, training and empowerment-related activities;

ANNEX B. BUDGET CYCLE AND BUDGET CALENDAR

Budget cycle covers all budgetary process from strategic planning to audit and evaluation. It starts from strategic planning to budget formulation, implementation, monitoring, reporting and then to audit and evaluation of the budget. Yearly budget making process generally starts with collection of information to identify the sources of revenues and tentative areas of expenditures. NPC prepares macroeconomic framework and the Resource Committee finalizes and approves it every year in October. NPC issues budget guidelines and circular to all line ministries with sector ceilings along with budget formats. MoF also issues budget directives, manual, norms and standards of expenditure. It has introduced the Line Ministry Budget Information System (LMBIS) guidelines to all line ministries. Line ministries circulate these budget ceilings and guidelines to departments and projects with added sector guidelines. Project offices submit budget proposal to the concerned departments/Project Coordinator Offices (PCOs). Departments/PCOs review, compile and submit it to concerned line ministries and line ministries submit budget proposal with necessary review to NPC and MoF. NPC and MoF finalize the draft of the budget. The council of ministers (the cabinet) approves the budget, which is then presented in legislative parliament on 15th of Jestha (Nepalese Calendar) or May end by the finance minister for approval.

Budget calendar in budget cycle

The dates for budget forecasting, ceiling setting, negotiating and budget finalizing are spelled out in Budget Formulation Guidelines. However, there is no specific law to oversee adherence to the fiscal calendar relating to budget process except constitutional provision to submit budget in the parliament on a fixed date.



Local governments are independent to prepare their annual budget which is approved by their respective councils. The major sources of fund for the local governments the grant from the central government, locally generated revenue and shared revenue with the national government. The local government follow their own budget cycle, which generally coincides with the national budget cycle.

Budget Guidelines

NPC and MoF prepare budget guidelines every year and circulate it to the line ministries. The guidelines cover national policy and strategy, prioritization process of budget formulation, approval, execution, monitoring and evaluation and reporting. The budget guidelines provide direction to government agencies to link budget proposal with MTEF. Directives and approaches for coding the pro-poor budget, gender responsive budget and climate change responsive budget are also included in the guidelines with greater focus in the periodic development plan. Similarly, directives are also included to fill needed planning and budgeting formats through LMBIS, which is an online system to be filled by ministries and departments to submit budget proposal. The Budget Guidelines from MoF specifically mention integrating climate change into budgeting process.

Prioritization criteria and planning and budgeting templates

From the FY 2015/16, NPC has changed project/programme prioritization criteria based on; (i) general basis and (ii) sectoral basis, of which climate change has been mentioned as sector specific criteria under infrastructure development. It includes programmes and projects of Road and Transport, Urban Development, Irrigation, Information and Communication, Environment, Science and Technology, Energy and Local Development. The weight given to climate change in these areas is mentioned as 10% of the total. However, Health, Education, Agriculture, Forest, Industry, Tourism and Drinking Water under different sectors do not have climate change as prioritization criteria. There is a need to consider climate change as general criteria for prioritization for these sectors.

Different templates are used for planning and budgeting, which indicate the basis of prioritization, project history, output indicators, MTEF related and monitoring and evaluation, etc. From FY 2014/15, LMBIS system has become online in budgeting. Sectoral line ministries and departments fill these templates online to submit to NPC and MoF. MoF has recently taken steps to improve LMBIS, BMIS and FMIS system to track and report climate budget allocation and expenditure according to climate change relevancy (adaptation and mitigation).

ANNEX C. SCOPE OF WORK OF EXISTING CLIMATE FINANCE UNIT TO INCLUDE BUDGET REFORMS NEEDS

जलवायु वित्त शाखाको कार्य विवरण

यस शाखाले जलवायु परिवर्तन सम्बन्धिनिम्नअनुसारका कार्य गर्ने छ :

- जलवायु परिवर्तन नीतिमा भएको व्यवस्था कार्यान्वयनकालागि प्रत्येक वर्ष परिपत्रहुने बजेट मार्गदर्शनमा समावेश हुनुपर्ने वुदाहरु अध्यावधिक गर्न समन्वय गर्ने
- मध्यकालिनखर्च संरचनाकालागिजलवायु परिवर्तन सम्बन्धिआवश्यक पर्ने श्रोतको आकलन सहितका सूचनाहरु अध्यावधिक गर्ने
- राष्ट्रिय योजना आयोग र अर्थ मन्त्रालयमा विभिन्न मन्त्रालयको जलवायु परिवर्तन सम्बन्धि मन्त्रालयगत बजेट तथा कार्यक्रम छलफल हुदा शाखाको तर्फबाट छलफलमा सहभागिता जनाई जलवायु वित्तको व्यवस्था बारे भएका व्यवस्था र प्रतिबद्धता संबन्धि जानकारी गराउने
- जलवायु परिवर्तन नीतिको कार्यान्वयनमा जलवायु वित्त संबन्धि अन्तरमन्त्रालय सहकार्यकोलागि समन्वयात्मक भूमिका निवार्ह गर्ने
- जलवायु परिवर्तनका क्षेत्रमा सरकारी लगानी वढाउन प्राथमिकिकरणका भार वढाउदै लान पहल गर्ने
- विषयगत मन्त्रालयहरुको आवश्यकतालाई दृष्टिगत गर्दै जलवायु परिवर्तनकोडका लागिप्रयोग गरिएका मापदण्डलाई परिमार्जन र परिस्कृत गर्दै जलवायु परिवर्तन वित्तप्रारूप(Climate Change Financing Framework)लाई योजनातथा बजेट प्रणाली भित्र समायोजन गर्न पहलगर्ने
- वार्षिक कार्यक्रम तर्जुमा गर्दा जलवायु परिवर्तन कोडको प्रयोग गर्ने विषयमा मन्त्रालय, विभागका सम्बन्धित कर्मचारीहरुलाई तालिमको व्यवस्थागर्ने

ANNEX D. TOR FOR INTER-MINISTERIAL COMMITTEE

जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूप कार्यान्वयन अन्तर मन्त्रालय समितिको कार्य विवरण (TOR of Inter-Ministerial Committee to implement CCFF Road Map)

१. पृष्ठभूमि

जलवायु वित्तलाई व्यवस्थित रूपमा व्यवस्थापन र परिचालन गरी लक्षित वर्गसम्म पुऱ्याउन जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूप (Climate Change Financing Framework-CCFF) निर्माण गर्नु आवश्यक र अनिवार्य हुन आउँदछ। संयुक्त राष्ट्रसंघ विकास कार्यक्रमको सहयोगमा जलवायु परिवर्तन वित्तलाई समग्र बजेट प्रणाली भित्र समायोजन गर्न नेपाल सरकारले जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूप (CCFF) निर्माण गरेको छ। यस अन्तर्गत सरकारको जलवायु परिवर्तन नीति र योजनालाई प्रभावकारी रूपमा कार्यान्वयनकानिम्ति योजना तथा बजेट प्रकृयाका विभिन्न चरणमा संलग्न निकायको संस्थागत सुधार गरी जलवायु परिवर्तनलाई सार्वजनिक वित्त व्यवस्थापन (Public Financial Management) भित्र एकिकृत गर्नुपर्ने हुन्छ।

जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूपलाई सरकारको बजेट प्रणाली भित्र एकिकृत गर्ने सन्दर्भमा कतिपय कार्यहरु सम्पन्न भै सकेका छन् भने केही कार्यहरु हुने क्रममा छन्। जलवायु परिवर्तन बजेट कोड लाई व्यवस्थित रूपमा सरकारी बजेट प्रणाली भित्र लागु गर्ने नेपाल संसारकै पहिलो देश हो। नेपालले सन् २०११ मा जलवायु परिवर्तन क्षेत्रमा विनियोजन भएको बजेट र खर्च एकिन गर्न Climate Public Expenditure and Institutional Review (CPEIR) अध्ययन गरी आर्थिक वर्ष २०७०/२०७१ देखि जलवायु परिवर्तन कोड लाई बजेट प्रणाली भित्र समायोजन गरिसकेको छ। यस प्रकृत्यालाई निर्देशित गर्न CCFF को Background paper, Climate Change Financing Framework र CCFF Road Map जस्ता दस्तावेज समेत तयार भै CCFF Road Map मा उल्लेख भएका कतिपय कुराहरु कार्यान्वयन भएका र कतिपय कुराहरु कार्यान्वयनका चरणमा रहेका छन्।

राष्ट्रिय योजना आयोगले पहिलो पटक १४ औं आवधिक योजनाको अवधारणा पत्रमा जलवायु परिवर्तन संवन्धि दीर्घकालिन सोच, उद्देश्य, रणनीति, कार्यनीति र अपेक्षित उपलब्धि जस्ता कुराहरु उल्लेख गरी जलवायु परिवर्तनका कुरालाई महत्त्व दिएको छ। जनसंख्या तथा वातावरण मन्त्रालयले छुट्टै जलवायु परिवर्तन वित्त शाखा स्थापना गरी यस क्षेत्रमा हुने लगानीलाई व्यवस्थित गर्न खोजेको देखिन्छ। यसैगरी स्थानीय तहमा हुने जलवायु परिवर्तनको स्थिति थाहा पाउन म्याग्दी लगायत अन्य ४ जिल्लामा जिल्ला तहको CPEIR अध्ययन सम्पन्न भै सकेको छ। यि सबैको सारांश प्रतिवेदन प्रकाशनको तयारीमा रहेको छ। जलवायु परिवर्तन क्षेत्रमा भएको खर्चलाई ट्र्याकिङ गर्ने संवन्धमा अर्थमन्त्रालयको BMIS Climate Change Master Table लाई महालेखा नियन्त्रक कार्यालयमा रहेको FMIS सग लिङ्ग गर्ने कार्य समेत सम्पन्न भै सकेको छ। आर्थिक वर्ष २०७४/७५ देखि LMBIS, BMIS र FMIS प्रणाली लाई परिमार्जन गरी सो प्रणालीबाट बाट जलवायु परिवर्तन सम्बन्धि अनुकुलन र न्यूनिकरण समेत देखिने गरी बजेट अनुमान र यथार्थ खर्च सम्बन्धि विभिन्न प्रकृतिका प्रतिवेदन तयार हुने पद्धतिको बिकास भएको छ। सरकारको आर्थिक सर्भेक्षण दस्तावेजमा जलवायु परिवर्तनमा गरिएको खर्चबाट क्षेत्रगत रूपमा भएका उपलब्धिहरुलाई समावेश गर्न पनि थालिएको छ। CCFF लाई सरकारी बजेट प्रणाली भित्र एकिकृत गर्ने सम्बन्धमा आगामी दिनहरुमा जलवायु परिवर्तन कोडलाई परिष्कृत गर्दै लाने लगायतका कार्यहरु निरन्तर रूपमा नै भैरहेका छन्।

२. जलवायु परिवर्तन विषयलाई ब्यबस्थित र प्रभावकारीरूपमा कार्यान्वयन गर्देलाने शिलसिलामा CCFF अन्तर मन्त्रालय समिति गठन गर्नुको मुख्य उद्देश्य जलवायु परिवर्तनको विषय अन्तर निकाय सम्बन्धि (Cross cutting) विषय भएकाले यस सम्बन्धि कृयाकलापहरु संचालन गर्दा समन्वयात्मक रूपमा संचालन गर्नु नै हो। सरकारले अंगिकार गरेका जलवायु परिवर्तन नीति र

योजनालाई सरकारी वित्त व्यवस्थापन भित्र एकिकृत गरी केन्द्र देखि स्थानीय तहसम्म विभिन्न निकायबाट संचालन हुने कार्यक्रमहरूलाई प्रभावकारी रूपमा संचालन गर्न समन्वयात्मक भूमिका प्रदान गर्नु जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूपअन्तर मन्त्रालय समिति गठन गर्नुको अर्को मुख्य उद्देश्य हो । यसकालागि अर्थमन्त्रालयको बजेट तथा कार्यक्रम महाशाखाका सह-सचिवको संयोजकत्वमा जलवायु परिवर्तन सम्बन्धि मुख्य मुख्य भूमिका निर्वाह गर्ने विभिन्न मन्त्रालय र निकायका प्रतिनिधिहरू सदस्य रहनेगरी एउटा समिति गठन गर्नु आवश्यक हुन आउँछ ।

३. समितिको स्वरूप

यस समितिको स्वरूप निम्न अनुसारको हुनेछ :

(क) सह-सचिव, अर्थ मन्त्रालय बजेट तथा कार्यक्रम महाशाखा	संयोजक
(ख) कार्यक्रम निर्देशक, राष्ट्रिय योजना आयोग वातावरण शाखा	सदस्य
(ग) उप-सचिव, जनसंख्या तथा वातावरण मन्त्रालय, जलवायु परिवर्तन वित्त व्यवस्थापन शाखा	सदस्य
(घ) उप-सचिव संघीय मामिला तथा स्थानीय विकास मन्त्रालय, वातावरण शाखा	सदस्य
(ङ) उप-सचिव कृषि विकास मन्त्रालय, वातावरण शाखा	सदस्य
(च) उप-सचिव वन तथा भूसंरक्षण मन्त्रालय, वातावरण शाखा	सदस्य
(ड.) उप-महालेखा नियन्त्रक महालेखा नियन्त्रक कार्यालय तत्थ्यांक तथा विश्लेषण शाखा	सदस्य
(च) उप-सचिव अर्थ मन्त्रालय बजेट तथा कार्यक्रम महाशाखा	सदस्य सचिव

संयोजकले आवश्यकता अनुसार जलवायु परिवर्तन सग सम्बन्धित अन्य मन्त्रालयका प्रतिनिधि र विभिन्न क्षेत्रका विषय विज्ञलाई समेत सो बैठकमा आमन्त्रण गर्न सक्नेछन् ।

४. समितिका कामहरू

यस समितिका कार्यहरू मुख्यत निम्न अनुसार हुने छन् :

- जलवायु परिवर्तन वित्त व्यवस्थापन प्रारूप तथा यस अन्तर्गत गरिने कार्यको कार्यान्वयनकालागि विभिन्न निकायहरू विच समन्वयगर्ने ।
- नीति निर्माणकर्तालाई नियमित रूपमा जलवायु परिवर्तन संवन्धि क्षेत्रगत कार्यक्रमहरू बजेट तथा कार्यक्रममा एकिकृत गर्न आवश्यक सूचना प्रदान गर्ने ।
- जलवायु परिवर्तन संवन्धित मन्त्रालयहरूमा जलवायु परिवर्तन संवन्धि कार्यक्रमहरू प्रभावकारी र समन्वयात्मक रूपमा कार्यान्वयन गर्न सल्लाह र सुझाव प्रदान गर्ने र कार्यक्रम कार्यान्वयनमा कुनै कठिनाई आईपरेमा सोको समाधानकालागि पहल गर्ने ।
- जलवायु परिवर्तन सग संवन्धित मन्त्रालयमा कार्यरत योजना तथा बजेट संग सम्बन्धित कर्मचारीहरूलाई जलवायु परिवर्तन क्षेत्रमा भएको खर्च ट्र्याकिङ गर्न र सो बाट भएका उपलब्धि समेतको विश्लेषण गर्न सुझाव र निर्देश गर्ने ।
- जलवायु परिवर्तन संवन्धि मन्त्रालयहरूमा बजेट व्यवस्था र खर्चको आवश्यकता अनुसार अनुगमन गरी नीति निर्माण तहमा सुझाव प्रदान गर्ने ।
- जलवायु परिवर्तन योजनासंग लिङ्ग हुनेगरी जलवायु परिवर्तन संवन्धि मन्त्रालयलाई मुख्य मुख्य कार्य सम्पादन सूचकहरू (Key performance Indicators –KPIs) निर्माण र कार्यान्वयन गर्न सहयोग पुऱ्याउने ।

समितिको बैठक बजेट चक्रको विभिन्न चरणमा आवश्यकता अनुसार बस्ने छ ।

With support from:



**GOVERNANCE OF
CLIMATE CHANGE FINANCE**
TO BENEFIT THE POOR AND VULNERABLE
IN ASIA PACIFIC
www.CFADE.org

