NEPAL

CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW (CPEIR)

Government of Nepal
National Planning Commission
United Nations Development Programme
United Nations Environment Programme
Capacity Development for Development
Effectiveness Facility for Asia Pacific

Kathmandu
December, 2011

Govt. of Nepal

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PEI Nepal Brief

The Poverty-Environment Initiative (PEI) in Nepal will support poverty reduction and inclusive development by integrating pro-poor climate and environmental concerns into development planning and economic-decision making. The PEI is not designed as a stand-alone project as such but rather it aims to provide a programmatic framework for targeted support to national and local level planning, budgetary and economic decision making processes through ongoing UNDP supported programmes, in particular, Strengthening Planning and Monitoring Capacity of NPC (SPMC-NPC) and the Local Government Community Development Programme (LGCDP). At the national level, the PEI will help strengthen the NPC's capacity to integrate pro-poor climate and environment concerns in the national planning, budgeting and monitoring processes. Similarly, at the local government level, it will provide technical support to the Ministry of Local Development (MoLD), and select District Development Committees (DDC) and Village Development Committees (VDC) to integrate pro-poor climate and environment priorities into local level planning and budgeting process with a particular focus on rural infrastructure. The proposed timeframe for PEI in Nepal is 35 months from February 2010 to December 2012. The PEI Programme Framework will complement the existing project documents of the above two projects, which will include the stipulated PEI activities in their respective Project Annual Work Plans (AWPs).

CDDE Facility Brief

The CDDE Facility was established in March 2009 to meet Asia and the Pacific partner country demand for peer-to-peer initiatives that help them improve the management of their aid partnership in pursuit of development effectiveness and poverty reduction. It is made possible with the financial support of the Asian Development Bank (ADB), the Government of Japan, the Government of the Republic of Korea (MoFAT) and UNDP Asia-Pacific Regional Centre in Bangkok, Thailand.

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Climate Public Expenditure and Institutional Review (CPEIR) was conceived and conducted under the joint leadership of the National Planning Commission (NPC), the Ministry of Finance, and the Ministry of Environment together with the Ministry of Local Development of the Government of Nepal (GoN). The study was carried out by an expert team led by Neil Bird of ODI with support from Mark O'Donnell, Public Financial Management Expert, and Joyce Lee, Local Governance Expert. The other members of the team were Ram Chandra Bhattarai, Financial Management Expert; Rabin Bogati, Climate and Environment Expert; and Ek Raj Sigdel, Environment Specialist of LGDCP. Overall guidance for the study was provided by Thomas Beloe and Paul Steele of the UNDP Asia Pacific Regional Office in Bangkok, together with Vijaya P. Singh, Assistant Country Director, and Dinesh Karki, Environment Programme Analyst of the Environment, Energy and Climate Change Unit at UNDP in Kathmandu.

Krishna Gyawali, Secretary of the Ministry of Environment, and Yuba Raj Bhusal, Member Secretary of the NPC provided much appreciated support and guidance. Joint Secretary and PEI focal point Gopi Nath Mainali, Programme Director Manahari Khadka, and Planning Officer Nita Pokharel of the NPC Secretariat, together with Under-secretaries Hari Pandey and Tek Bahadur Khatri of Ministry of Finance, provided valuable support to the study. Pushpa Lal Shakya, Joint Secretary of the NPC Secretariat and National Programme Director; Rabi Shankar Sainju, Programme Director of the NPC Secretariat and Project Coordinator; and Gyanendra Shrestha, National Project Manager; all of SPMC-NPC/UNDP deserve special mention for their continued support to the study. Madhukar Upadhya provided professional support and managed a team of research assistants: Merina Ranjit, Durga Bhattarai and Sujata Khanal. Anuja KC at the UNDP Kathmandu office provided logistical support to the expert team as the study progressed.

Rameshore Prasad Khanal, Independent Consultant; Pushkar Bajracharya, Former Member of the National Planning Commission; and Madhav Prashad Ghimire, Former Auditor General of the GoN reviewed the draft report and provided valuable comments to improve the document. Comments were also received from the Association of the District Development Committees Nepal (ADDCN). The study benefited substantially from the suggestions and comments provided by the participants of the two workshops held during the study. All of them deserve special appreciation.

The preparation of this report has been made possible through generous financial support provided by all PEI development partners: the Belgian Development Cooperation, the Danish Ministry of Foreign Affairs, the Capacity Development for Development Effectiveness Faculty for Asia and Pacific, the European Commission, Irish Aid—Department of Foreign Affairs, the Norwegian Ministry of Foreign Affairs, the Spanish Ministry of Foreign Affairs and Cooperation, the Swedish Environmental Protection Agency, the Swedish International Development Cooperation Agency, the UK Department for International Development, and the US Department of State. The support from these organizations is duly acknowledged.

MESSAGE

Nepal is one of the most vulnerable countries to impacts from climate change. The erratic weather patterns, unpredictable rains, poor snowfall at high altitudes, and recurrent droughts have adversely affected agriculture and livelihoods adding further strain to small farmers and poor people. Climate change has the potential to damage already achieved development gains and undermine our future possibilities and aspirations. The Government of Nepal is committed to address the emerging issues of climate change while delivering development results.

The nature of the climate threats facing communities across Nepal is diverse requiring location specific understanding of the problem in order to plan appropriate responses. It is yet to be clear as to what extent a particular economic sector in a given geographical area will be impacted by climate change, let alone appraising the effectiveness of the investment needed for adaptation. Hence, determining investment priorities for the future and allocating resources accordingly is a challenge for national planners. This will require increased understanding among policy and decision makers about how climate change and the cost to respond to its impacts will be integrated with development planning and investment propositions.

Findings of this study on the Climate Public Expenditure and Institutional Review (CPEIR) provides a gateway to climate financing in development planning and helps build our understanding of the gaps that must be addressed while responding to climate change issues. I believe that the recommendations of the study will help improve investment criteria and push us toward a pathway to set strategies to adopt the course of actions for investment. Formulating the standards and codes for development activities as recommended, will facilitate climate expenditure review and monitoring climate activities, which will help improve the current financial management by moving from input oriented tracking to outcome oriented reporting.

I commend the efforts of all those involved in conducting the study and publishing this document.

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Deependra Bahadur Kshetry
Vice Chairperson
National Planning Commission

ABBREVIATIONS

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
CCC	Climate Change Council
CDM	Clean Development Mechanism (of the Kyoto Protocol)
DANIDA	Danish International Development Agency
DDC	District Development Committee
DFID	Department for International Development, UK
DLA	District Line Agency
DRR	Disaster Risk Reduction
DRM	Disaster Rick Management
EU	European Union
ESAP	Energy Sector Assistance Programme
FSF	Fast Start Finance
GEF	Global Environment Facility
GHG	Greenhouse Gas
INGO	International Non Government Organisation
JFA	Joint Financing Arrangement
LB	Local Body
MCCICC	Multi-stakeholder Climate Change Initiatives Coordination Committee
MCPM	Minimum Conditions Performance Measure
MLD	Ministry of Local Development
MoE	Ministry of Environment
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MRV	Monitoring, Reporting and Verification
NORAD	Norwegian Agency for Development Cooperation
NGO	Non Government Organisation
LAPA	Local Adaptation Plan of Action
LGCDP	Local Governance and Community Development Programme
NAPA	National Adaptation Plan of Action
NDRRC	Nepal Disaster Risk Reduction Consortium
ODA	Official Development Assistance
PFM	Public Finance Management
PPCR	Pilot Program for Climate Resilience
REDD	Reducing Emissions from Deforestation and forest Degradation
SAARC	South Asian Association for Regional Cooperation
SPCR	Strategic Program for Climate Resilience
SREP	Scaling-Up Renewable Energy Program for Low Income Countries
TYP	Three-Year Plan
USD	United States Dollar currency
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
VDC	Village Development Committee
WB	World Bank

CONTENTS

List of Tables

List of Figures

List of Charts

Appendices

EXECUTIVE SUMMARY

This study has examined the early emphasis being given to climate change programming within Nepal. The paper focuses on the public financing component of climate change actions, but also acknowledges the role played by communities, civil society, the private sector and international support. The objective of the study has been to develop an appropriate methodology and then conduct an exploratory Climate Public Expenditure and Institutional Review (CPEIR), at both the national and local level.

This CPEIR reviews the financial management systems as well as the institutional arrangements and policy directives for allocating and spending climate change-related finance. The study entails:

- An assessment of current policy priorities and strategies as these relate to climate change.
- A review of the institutional arrangements for promoting the integration of climate change policy priorities into budgeting and expenditure management.
- A review of the integration of climate change objectives within the budgetary process, including as part of budget planning, implementation, expenditure management and financing.

Climate change policy in Nepal

Climate change has to compete for policy attention in what is already a very crowded policy space, as Nepal is presently undergoing a major constitutional transition that is far from complete. This period can be expected to continue for a number of years. It will likely result in a highly unpredictable policy environment, where security, growth and poverty reduction are the dominant public policy concerns. Climate change will have a bearing on all three of these policy themes.

Climate change has attracted much attention in recent years, driven to a large extent by the international policy debate. The 2009 Copenhagen COP meeting was a major milestone that saw a concerted national response. Further national policy development in Nepal can be expected to have a significant reactive element to it, depending on what happens within the international negotiations. This represents a strong case for Nepal to continue to invest human resources in attending the UNFCCC COP meetings.

Nationally, climate change remains an emerging policy theme, with variable interest at the sector level. The 2011 climate change policy statement appears a significant landmark, although much remains to be seen whether this will catalyze a major mainstreaming of this policy theme across all sectors of the economy. At present, climate change continues to be strongest when seen as an environmental – rather than an economic – concern. The challenge will be for climate change to move beyond its origin as an environmental matter to become a major context for all development planning.

The overall coherence of the national response to-date appears credible and evidence-based, with the attention given to clean energy, water management, disaster risk reduction and forest protection. It is well established within the climate change policy that climate impacts on various development sectors are interlinked and interdependent, and understanding the inter-linkages between climate change and various sectors will be important for building enhanced adaptation capabilities. Though the national priority is adaptation, mitigating the adverse impacts of climate change and the adoption of a low-carbon development path are also well articulated in the national climate change policy.

The climate change policy recognizes the role of communities, the private sector, civil society and the media in ensuring multi-stakeholder participation in climate change initiatives and envisions the development of various incentive mechanisms to facilitate their participation and partnership. However, some NGOs accuse Government that the voices of national organizations are not properly recognized in the present debate on the national response to climate change – rather decisions are made under the influence of international organizations.

The institutional response to climate change

Strengthening of climate change management capacities within key institutions has begun. This capacity building is getting underway at both national and local levels, and within vulnerable sectors and population groups. Projects are supporting the strengthening of capacities and institutions to integrate climate change risk management into development planning. However, much more needs to be done; the challenge is to identify and address the early strategic priorities.

Whilst the Ministry of Environment (MoE) leads on climate issues and coordinates donor funded programs at the national level, there are a considerable number of climate change-related programs carried out by sector ministries under their regular programs that do not get reflected by the MoE. In addition, many NGOs implement activities that address climate change issues, but these programmes are only recorded at the Social Welfare Council. Therefore, actual climate activities may be much larger than what is reflected in the regular government programs. However, there still remain gaps in addressing climate concerns. Perhaps the most visible gap is that the existing institutional structure does not support VDC level climate programmes. For example, if a VDC wants to make its water supply project climate resilient or plan for a climate resilient education programme, there is no institution that it can presently approach.

There is also the challenge of institutional collaboration to overcome. For example, one of the Ministry of Forests and Soil Conservation's departments is the department of watershed management. This department implements activities in priority sub-watersheds. In the current TYP the department intends to implement programs based on the river basin approach. However, it has no working relationship with the Ministry of Irrigation, which also wants to develop river basin programs. Forests and agriculture are also closely linked within any one geographical area, but none of the official programs of these sectors have a common thread that would help build synergy while addressing climate change.

There are challenges for both the public and private sectors as they develop programs that address climate change. For example, although there is external support for Clean Development Mechanism (CDM) projects, there is a gap in national support for CDM projects in the agriculture, livestock and forestry sectors. The existing capacity of climate related ministries and their departments are not enough to develop CDM projects, including the methodology for calculating the amount of carbon sequestration. CDM project requirements are stringent and CDM projects in forestry, agriculture, and waste are more complex and require extensive monitoring compared to alternative energy CDM projects. Inadequate awareness among policy makers and industrialists, weak institutional capacity, inadequate resources, and lack of baselines are the major limitations.

Climate change expenditure analysis

There is no single definition of climate change-related expenditure. A wide range of terms are used – including climate change expenditure, climate related expenditure, climate resilience expenditure, climate driven expenditure, climate induced expenditure and climate sensitive expenditure. In each case the word 'expenditure' may be substituted by 'activity'. This situation makes identifying the distinctions between each type of activity and expenditure, and therefore the intended outcomes, very difficult.

Within the Government Classification Chart there is little explicit recognition of climate change-related expenditure. Nevertheless, this study has identified 83 budget line codes with Government's Red Book as being relevant to climate change; 33 of these codes are considered highly relevant. In terms of the number of climate change-related activities, the highest number of relevant codes, and therefore discrete activities, fall under the Ministry of Forests and Soil Conservation; in terms of expenditure, the highest spending ministry is Physical Planning and Works.

The level of climate change-related expenditure by the Government of Nepal is economically, financially and managerially significant, as evidenced by:

- Annual expenditure on all climate change-related activities constitutes approximately 2% of Gross Domestic Product (GDP) and around 6% of Government Expenditure. In both cases the trend is increasing.
- Highly relevant budgeted expenditure represents around 1.8% of total Government Budgeted Expenditure.
- Around three quarters of climate change expenditure relates to adaptation activities.
- Around 60% of the climate change expenditure is executed directly by Central Government Agencies, with 40% of the nationally controlled budget being executed through Local Agencies of Ministries. This is largely driven by Unconditional Capital Grants and programmes in the Ministry of Local Development.

Funding of government climate change expenditure has a larger proportion of donor funding (55%) than the donor element of overall government expenditure, where 25% of the overall budget is funded by donors. The trend in climate change funding is moving towards increased donor funding. A significant sum of Technical Assistance, in the order of about USD 13 million per year, in respect of climate related expenditure is not budgeted or accounted for through government systems, (i.e. is 'off-budget'). This contributes to a fragmentation of budget implementation and hinders full co-ordination of expenditure to facilitate the best effect in terms of outputs and outcomes.

Adding to the challenge of understanding climate change-related expenditure is the fact that there is no common reporting system or budget / expenditure classification between central government, local government and donors. This position adds to a fragmented record of finance which could be addressed by the use of a common chart of accounts. In the short term, this makes the aim of identifying expenditure, both budget and actual, technically challenging.

National-to-Local issues

In line with the key findings at the national level, there is an absence of a coherent definition and classification of climate change and climate change-related expenditure at the local level. This has a significant impact on how local government bodies integrate climate change into their local development planning and budgeting and what they perceive as sources of climate finance. Local bodies' understanding of 'climate change' is skewed towards environment and natural resource management, which gives more attention to rural needs. A balance needs to be found to ensure that both rural and urban vulnerabilities are addressed. Although there is a good understanding of disaster risk management at the local level, its relationship with climate change has not yet been made.

Some local government bodies have incorporated climate change into their local plans and budgets. However, in the absence of a consistent climate change definition, climate related activities are not clearly defined at the local level. There is also a challenge of how national policies are going to be reflected and translated into action at the local level to ensure that climate change is mainstreamed and institutionalised into local development planning

and budgeting systematically across all local bodies. While institutional arrangements at the national and local level are in place to support local bodies on addressing climate change, the challenge will be to strengthen their capacity and influence to deliver climate finance using a cross-sectoral approach.

One of the most significant issues is how Nepal can meet the ambitious target of delivering and spending 80% of its adaptation finance at the local level. There are current challenges to local capacity on the understanding of climate change; on ability to develop clear and targeted programmes and budgets on climate change adaptation and mitigation; on capacity in public financial management to handle significant amounts of climate finance; and on the effectiveness of current institutional arrangements to support all tiers of local bodies, including those at the village and ward level. Policies and commitments on climate change need to be more realistic and reflect current capacity, particularly technical capacity, at the local level.

Issues that require further attention

Defining climate change expenditure: addressing the issue of defining each category of climate change-related expenditure requires attention at both the national and international level. In this respect, an update of national and international classification standards of public expenditure to incorporate terminology in respect of climate change should be seen as a high priority. Consideration should also be given to establishing a national budget coding system that tracks thematic climate change-related expenditure.

Capital expenditure and asset management: the apparent large percentage of climate change spend on the creation of fixed assets brings into focus the need for emphasis on improved asset management to ensure sustainable effectiveness of the assets created. As with wider governance risks this could readily be designed as an integral component of Technical Assistance and Investment projects. The rapid growth in climate change expenditure presents obvious governance, control and effectiveness risks as systems of management are placed under strain dealing with rapid change. This should be recognised at project and activity level and governance risk mitigation capacity building procedures designed as integral components of project design.

Delivering climate finance to the local level: the MLD grant funding modality should be considered to channel climate finance to local bodies. It promotes both national and local ownership and gives some discretion on spending, which is critically important in the context of targeting vulnerable communities and high-risk areas. A possible starting point is to integrate climate change as an indicator of, or a component in, the MCPM system. Currently, there is a proposal to support the review of the MCPM manual of local bodies to include pro-poor, climate and environmental sensitive indicators as a performance measure and condition for accessing future grants. While there are already efforts made, more could be done to articulate the need for climate change adaptation and mitigation in all guidelines relevant to local bodies, in all relevant sectors.

Empowering local level delivery: it is important to secure the right structures at the local level to ensure that the flow of climate finance reaches the most vulnerable communities. This will require the creation of significant new capacity within existing district level structures. Mechanisms therefore need to be developed to improve local institutional capacity and accountability to implement climate change programmes. In this regard, there is a need to understand and strengthen the role of the Energy and Environment Units within DDCs as it is envisaged that they will play a big role in coordinating climate change-related activities at the local level.

The need for a sector-led approach: climate resilience needs to be integrated into all aspects of national development, with a strong mainstreaming programme facilitated by the Ministry of Environment. However, it is important that each line ministry takes the lead in integrating a climate change response within its sector

policy. This sector-led approach needs to be reflected by increased financial and human resources at sector level specifically for climate change-related actions. Such actions should be reflected in the national budget. Some consideration should be given by government to establishing separate and explicit climate change identities for administrative units within Ministries that deal with climate change issues.

Strengthening national coordination: attention needs to be given to secure inter-sector coordination as there are many across-sector impacts of climate change. To assist this coordination effort, the MCCICC (as the major national forum on climate change) could be strengthened through a more formalised way of working to achieve enhanced coordination at the technical level, including the holding of regular meetings with formal records. It would be beneficial to have the MCCICC meeting record fully in the public domain through a dedicated website (as is now standard practice with such meetings at the international level). Civil society organizations, in particular, have a strategic role to play in responding to climate change issues. With increased government support, NGOs, federations and networks on natural resource management, such as FECOFUN, could play a significant role in community awareness and education on climate change.

International support: development partners have recognised the need for harmonization and coordination of their efforts through the 2009 Donor Compact. Building on this compact now appears to be the challenge. A significant medium to long-term challenge for Nepal is the issue of the financial sustainability of current levels of expenditure directed at climate change actions. The contribution by donors (presently more than 50%) highlights the need for a long-term financing framework to be established. Such a framework would almost certainly include multi-stream funding from both domestic and international sources. A second issue concerning international support is that consideration should be given by Government to establishing further processes to ensure compliance with the Ministry of Finance requirements to record Technical Assistance on the Aid Management Platform. By extension, consideration should be given to establishing a full record of Technical Assistance within the Red Book to ensure recognition of all aspects of Government expenditure within Country Systems. This initiative would enhance the ability to identify climate change expenditure and funding more fully and accurately.

CHAPTER 1

INTRODUCTION

1.1 Introduction to CPEIR study

This study has examined the early emphasis being given to climate change programming within Nepal. The paper focuses on the public financing component of climate change actions,but also acknowledges the role played by communities, civil society, the private sector and international support. The study is part of a broader effort by UNDP to strengthen the capacity of national and local level institutions to manage scaled-up climate finance, leading to the development of *a climate fiscal framework*[1] at the national level. Such a framework will require clarity on climate-related public expenditure, improved institutional coordination between sectors and different levels of government, with strengthened fiduciary risk and public finance management.

The objective of the study has been to refine an appropriate methodology and then conduct an exploratory Climate Public Expenditure and Institutional Review (CPEIR) at both the national and local level. A major aim has been to show how climate change-related expenditure is being integrated into the budgetary process in response to national policy setting. Through time, as the CPEIR methodology is strengthened, it will serve as a tool to enable the Government of Nepal to improve prioritisation, efficiency and effectiveness of all public resources in support of climate change actions.

The CPEIR reviews both the financial management systems as well as the institutional arrangements for allocating and spending climate-related expenditures. Given the requirement for a multi-sectoral response to climate change, this first CPEIR in Nepal should be seen as an initial contribution to a dialogue across ministries and stakeholders in the longer process of developing a comprehensive fiscal framework.

The study has covered three core aspects of climate change financing at both the national and local level:

- An assessment of current policy priorities and strategies as these relate to climate change.
- A review of the institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management.
- A review of the integration of climate change objectives within the budgeting process including as part of budget planning, implementation, expenditure management and financing.

[1] Climate Fiscal Frameworks: improving the effectiveness of climate finance at the country level. CFF Guidance note, November 2011. CDDE, Bangkok.

The methodological approach taken for the study involved the compilation of relevant documentation on climate change policy, the institutional framework and public expenditure on climate change derived from official sources and from various public documents. In addition, individual semi-structured interviews with key informants were completed to identify key areas for further analysis. The research was largely carried out at the national level, but the local analysis was enhanced by field visits to Dhading District Development Committee (DDC) and the Kathmandu Municipality. Two workshops were held during the research period where the methodology and initial results were shared with an audience of government officials and civil society representatives. This methodology takes into account the relatively recent beginning of the discussion on climate related policy, planning and budgeting within Nepal and is therefore largely exploratory in character.

Table 1: Defining Climate Change

1. Mitigation	
OECD Definition: An activity should be classified as climate change mitigation related if it contributes to the objectives of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration(OECD, 2011)	
Sector	***Example activities***
Forestry	Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation
Water and sanitation	Methane emission reductions through waste management or sewage treatment
Energy	GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing machinery or demand side management (e.g. education and training)
Transport	
Industry	
Agriculture	
2. Adaptation	
OECD Definition: An activity should be classified as adaptation-related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience (OECD, 2011).	
Sector	***Example activities***
Enabling activities	Supporting the development of climate change adaptation-specific policies, programs and plans
Policy and legislation	Capacity strengthening of national institutions responsible for adaptation
Agriculture	Promoting diversified agricultural production to reduce climate risk
Energy	Strengthening of energy transmission and distribution infrastructure to cope with the expected impacts of climate change
Forestry	Securing local rights and systems for the sustainable and long-term utilisation of the forest in order to increase resilience to climate change
Health	Strengthening food safety regulations; developing or enhancing monitoring systems
Transport	Building protection from climate hazards into existing transport infrastructures (e.g. Disaster Risk Reduction measures)
Water and sanitation	Monitoring and management of hydrological and meteorological data

Source: Handbook on the OECD-DEC climate markers. Preliminary version. OECD, 2011

1.2 Climate change and climate finance defined

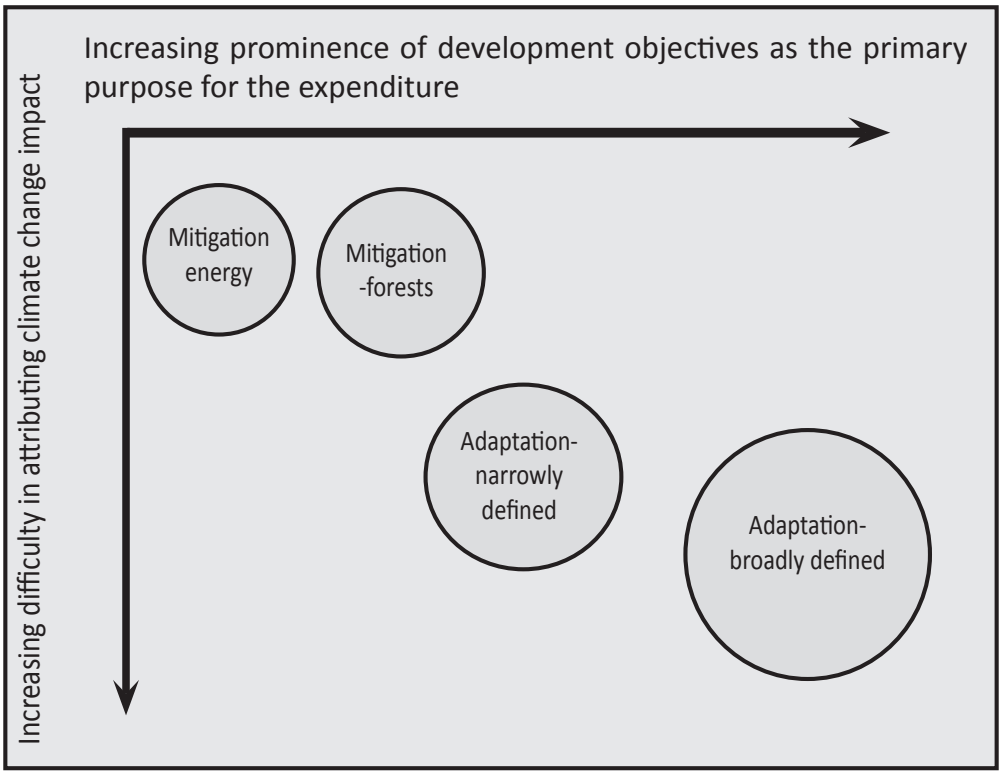
Climate change

The approach that has been developed in Nepal looks at how public expenditure is directed at climate change related actions in contributing to either (i) mitigation or (ii) adaptation (Table 1). Two main areas of climate change mitigation activity have been identified: REDD[2] and clean energy investments. For adaptation activities, the spending of a select set of sector ministries, departments and programs have been analysed to identify costs that may be attributed to climate related expenditure.

Climate finance

As most recently re-stated within the 2010 Cancun Agreements, climate finance has been defined within the context of the UNFCCC negotiations. Much emphasis is given to climate finance being 'new and additional', of it being 'adequate and predictable' and to defining the expected levels of international finance to be made available to developing countries over both the short to medium-term. What is clear is that climate finance is needed to meet the additional costs brought about by climate change. These incremental costs will be incurred by most sectors of the economy and will affect both investment programs and the recurrent expenditure of

Figure 1: Comparison of different areas of climate expenditure



[2] Reducing Emissions from Deforestation and Forest Degradation

government spending. The challenge is to identify the level of 'top up' required for each sector and then ensure an effective mechanism is in place so that this level of finance can be measured. This is proving, in practice, a very difficult endeavour.

Climate finance represents a very significant mainstreaming challenge for public finance management and can be likened to a new funding stream across the whole of the national budget. The administration of climate finance therefore calls for a prominent role to be played by the Ministry of Finance. It also suggests that a projectised approach to climate change will likely not be the most strategic route to take; rather a revision of the public sector finances will be required. This represents a very considerable challenge for a country such as Nepal where much development effort has focused on project activity at the sector (and sub-sector) level.

Without an internationally recognised definition of climate expenditure there are no clear boundaries to such spending. This represents a major challenge for any study of climate finance. Figure 1 portrays some of the components of climate finance in terms of the prominence given to developmental objectives when planning the expenditure (what are often called the 'co-benefits' of such spending) and the difficulty in attributing the climate change impact of such expenditure.

What Figure 1 suggests is that some elements of climate expenditure will be easier to identify than others. A response to such a situation is simply to accept there will be varying levels of confidence that can be placed on different estimates of expenditure.

1.3 Structure of the report

After this brief introduction, the rest of the report focuses on the core aspects of the study:

- Chapter 2 examines the status of policy and planning for climate change;
- Chapter 3 describes the institutional arrangements for climate change;
- Chapter 4 details the results of the team's climate change expenditure analysis;
- Chapter 5 describes public finance management as it relates to climate change; and
- Chapter 6 examines issues of local government institutional capacity and expenditure management.

CHAPTER 2

CLIMATE CHANGE POLICY ANALYSIS

2.1 Nepal's position on climate change

The Government of Nepal's policy on climate change made rapid progress immediately prior to the 15th Session of the Conference of the Parties (COP 15) to the UNFCCC, which was held in Copenhagen in 2009. In July 2009,a Climate Change Council was established under the chair of the Rt. Hon. Prime Minister and in early December, immediately before the COP 15 meeting, a Cabinet Meeting was organized at Kalapatthar near the Mt. Everest Base Camp. This Cabinet Meeting issued the Sagarmatha Declaration on Climate Change as a symbolic gesture to draw the world's attention to the impact of global warming in the Himalayan region. The government expressed its commitment to tackle climate change and identified several themes for prioritised action, including fostering sustainable economic, social and cultural development and the conservation of biological diversity. The Declaration set national policy priorities

Figure 2: The 2009 Sagarmatha Declaration

The Government of Nepal:

1. Expresses its commitment to form an alliance with all concerned states including the South Asian nations to save the Himalayas and the mountain ecosystems, which are at risk caused by climate change and to draw the attention of the global community to the issue;
2. Commits to engage in the research and analysis of, and launch awareness campaigns at the local and national levels on, the adverse impact on local livelihoods and life-support systems caused by climate change in the Himalayan region and other related areas especially to poor, marginalized groups, ethnic and indigenous people, Dalits (oppressed) women and children;
3. Makes every possible effort to develop an early warning system, forecast modelling of climate change to respond to the negative effects of climate change and also to increase resilience in agriculture and other sectors as well as capacity development measures;
4. Declares to expand the coverage of protected areas from the existing 20% to 25%; and also to increase the forest cover up to 40% of the total landmass, in view to protecting the mountain ecosystem. In a bid to galvanize our commitment to these protection measures, further declares Gaurishankar and Appi-Nappa conservation area;
5. Seeks funding from the international community so as to effectively implement the National Adaptation Program of Action, which has been developed with the objectives of dealing with the adverse effects of climate change on Nepal's socio-economic sector especially water resources, agriculture, bio-diversity, forests, human life and human health. Also it endorses the proposal to make a contribution by developed countries equivalent to 1.5% of their GDP to the climate change Adaptation Fund;
6. Draws the attention of developed and neighbouring states for the development and easy transfer of appropriate and state-of-art technologies and investment, believing that the development of clean energy in Nepal would contribute to reduced carbon emissions in this region;
7. Urges to reframe the provisions of the Clean Development Mechanism so that Nepal and other poor and least developed countries would be able to receive the full benefit from this mechanism;
8. Emphasizes that the atmospheric concentration of greenhouse gases (GHG) must stabilize well under 350 ppm and the global average surface temperature increase should be limited to 1.5 degree Celsius above the pre-industrial level;
9. Highlights the importance of enhanced research on mountain ecosystems, snow and glacier melt processes in order to fulfil the critical knowledge gaps;
10. Appeals to the international community to mitigate the significant adverse impacts on mountain ecosystem and the Himalayas caused by greenhouses gases. It also draws the attention of the entire world community to provide relief to the adversely affected poor nations and peoples by compensating them from the greenhouse gas emitting countries.

for addressing climate change, with a focus on capacity building,expanding ecological protected areas, the implementation of a national adaptation response, developing clean development mechanism projects, and enhancing research and relief to those adversely affected, particularly the poor.

With regard to the financing of climate change actions, this statement of national policy highlights, in paragraph 5, the importance of international finance to supplement national resources (particularly for adaptation measures). There is also recognition of the role to be played by the private sector and innovative sources of funding for mitigation activities, with the reference to the Clean Development Mechanism in paragraph 7. The national response to climate change is therefore expected to depend on a mix of financing sources, domestic and international, public and private.

2.2 National policy processes

2.2.1 The Interim Constitution

The Interim Constitution (2007) recognized the 'right to live in a clean environment' for every individual. In recognition of this basic right, the state's responsibilities were seen to include the conservation and management of natural resources and the implementation of scientific land reform programs, consistent with commitments made in those multilateral agreements of which Nepal was a party. The Interim Constitution adopted policies to maintain a clean environment and to avoid the adverse effects of physical development activities on the environment. However, there is no explicit mention of climate change in the Interim Constitution, signaling that climate change had yet to be recognized as a major, long-term public policy concern.

2.2.2 The New Constitution

According to the Constituent Assembly Rules (2008), thematic committees in the Constituent Assembly (CA) are to be constituted to prepare preliminary drafts on subjects to be incorporated in the New Constitution. One of these thematic committees is the Committee on Natural Resources, Economic Rights and Revenue Sharing. This committee recognizes the role of biodiversity as a major source of livelihood that requires inter generational equity. In order to signal the need to maintain a balance between the conservation of natural resources and economic development, 'sustainable management and use of natural resources, and biodiversity conservation' will be included in the preamble of the Constitution. The CA committee has also concluded that it is the State's responsibility to maintain 40 percent forest cover in the country.

The committee recognizes the serious problem that climate change has created and has therefore recommended that the New Constitution should adopt policies to address climate change. These include implementing adaptation and mitigation measures, as well as fulfilling national commitments made within international conventions.

National and sub-national responsibilities

As opportunities for revenue generation from climate change-related activities develop the distribution of such revenues will become an increasingly important (and potentially contentious) theme of public policy. The CA committee has proposed two constitutional commissions, namely the National Natural Resource Commission (NNRC) and the National Fiscal Commission (NFC), whose findings will be significant in this regard. The NNRC will look to resolve the relationship between different levels of government and to suggest an equitable distribution of natural resource revenues. Similarly, the NFC will develop guidelines for the distribution of resources from treasury to the different levels of government.

2.2.3. Forestry Sector Policy, 2000

The Forestry Sector Policy, 2000, prioritizes biodiversity conservation while ensuring both sustainable livelihoods for people and a landscape planning approach to manage biodiversity on an ecological basis. One of the b ases for the policy was the Local Self-Governance Act of 1999, which empowered DDCs and VDCs to collect revenues from local resources, including from natural resources, and called on each local government unit to draw up a development plan of its own.

This is an example of a sector policy prepared before climate change had risen up the national policy agenda, but one where the linkages to an effective climate change response are present. The focus on inclusive natural resource management, with delegated authority to raise revenue provides an important foundation for future climate change-related strategies.

2.2.4. Sustainable Development Agenda for Nepal (SDAN), 2003

The Sustainable Development Agenda for Nepal (SDAN) aims to guide and influence national-level planning and policies up to 2017. A separate heading on climate change was included in the document and a *Future Agenda* for action prepared. The SDAN recognizes that only vigorous economic growth can provide Nepal with the means to withstand and adapt to the effects of a changing climate.The SDAN envisages integrating environment and development in the national policy making and planning framework by stressing public participation in ecosystem conservation at the landscape level. The SDAN policy guide calls for the protection of land against degradation to minimize losses from soil erosion, floods, landslides, desertification and other effects of ecological imbalance.

The SDAN document is important as it provided the first opportunity for the articulation of government policy on climate change. It also provides a good example of the challenges facing the continuity of national policy development where the international policy discourse is an important driver. SDAN does not appear to have been taken up in the subsequent development of national policies and is not a prominent reference in the current climate change policy debate. Yet climate change risks to the resource base may pose a significant challenge to achieving the goals of the sustainable development agenda, emphasizing the inherent linkages between these two policy themes.

2.2.5. Subsidy Policy for Renewable Rural Energy, 2009

This recent policy instrument recognizes the considerable potential of alternative energy sources in Nepal. The policy looks to maximize service delivery efficiency in the use of renewable energy in rural areas and to provide opportunities for low-income households to use renewable energy technologies. In addition, it supports the development and extension of such technologies by attracting private sector entrepreneurs. Subsidies are offered for micro-hydropower, solar energy, biogas, improved water mills, improved cooking stoves, wind energy and other renewable energy systems. Overall, this represents a well developed and sophisticated policy measure promoting a strategic climate change strategy.

Subsidies for Micro Hydro Power (MHP)

The new subsidy for micro hydro power is based on the number of households to be served. This is to ensure that a high number of households in each community benefit from this power source, thereby making the policy inclusive (Table 2)

Table 2: Subsidies for Micro Hydro Power

No.	Micro Hydro Power projects/ schemes	Subsidy amount per household (NRs)	Ceiling for the subsidy per kW generated (NRs)	Remarks
1	New MHP project up to 5 kW	12,000	97,500	
2	New MHP project above 5 kW and up to 500 kW.	15,000	125,000	
3	Rehabilitation of MHP projects of more than 5 kW	50% of the installation cost	62,500	
4	MHP to be installed for institutional and community use	97,500 (total) (for plants up to 5kW capacity)	30,000	Projects located in Karnali Zone and adjoining areas get NRs 30,000
6	For productive use ofEnergy, MHP with the business plan.	Additional financial support NRs 10,000 per kW	Not exceeding NRs 250,000 per project	MHP should be in operation for more than 6 months for eligibility.

Table 3: Subsidies for Biogas plants

No.	District description	Subsidy rate per plant (NRs)	Additional subsidy for Poor, Dalit, Depressed and Conflict Affected Families (NRs)
1	20 Tarai Districts with excellent accessibility	9,000	2,000
2	40 Hill Districts with road access	12,000	2,500
3	15 Hill Districts without road access	16,000	3,500
4	Additional subsidy for Hill District with low penetration	700	-
5	Additional subsidy for small capacity plants	700	-

Subsidies for Biogas plants

Government has also recognized that biogas has an important role to play in the supply of domestic energy to rural households. The subsidy policy targets households within different physiographic zones by offering differential subsidy rates (Table 3). The Government has also made the commitment to revise these subsidies to accommodate year-on-year inflation. The subsidy varies from 20 to 40 percent depending upon the plant size, remoteness of the area, and economic status of the beneficiaries.

2.2.6. Climate Change Policy, 2011

A new climate change policy was approved by the Government of Nepal in January 2011. The policy builds on previous experiences, especially major strategic decisions made between 2007 and 2010, including global commitments. The policy recognises a range of problems confronting the national response to climate change, including: inadequate information on the effects of climate change and its consequences in different sectors; lack of appropriate technology to mitigate, reduce and adapt to climate change; lack of financial and human resources to implement climate responses; and lack of a policy framework to accommodate commitments and decisions in response to international conventions and declarations.

The policy reflects the national vision in terms of climate-friendly, socio-economic development. It also signals the intent to take full advantage of the international climate change regime in implementing national policies and plans. However, whilst this policy is comprehensive in many ways, it does not provide the details required to define a climate finance framework for Nepal. The policy is silent on such issues as the different sources of finance, the governance arrangements of financial transfers (particularly those unpinning the policy position of 80 percent of climate-related expenditure to be spent at the local level), and the expected scale of financing required.

2.3. National legislation

There is no national legislation that explicitly addresses the regulatory response to climate change. However, there are various Acts related to environmental concerns that are relevant to any climate change strategy. These include:

- National Parks and Wildlife Conservation Act, 1973
- Soil and Watershed Conservation Act, 1982
- Water Resources Act, 1992
- Forest Act, 1993
- Environment Protection Act, 1996
- Local Self Governance Act, 1999

The Environment Protection Act enacted in 1996 is the umbrella legislation for environmental protection in Nepal. This Act aims to ensure sustainable development through the integration of environment and development, the sustainable use of natural resources, and the creation of a clean and healthy environment for all people in Nepal.

It is noteworthy that all the above primary legislation is more than ten years old, reflecting the period of political turmoil that has existed over that time. With the national Peace Process just resolved, there has been very little political space for the national legislature to consider new Statutes. This is reflected in the delayed authorization by Parliament of the annual Appropriation Act that approves the government budget. Under such circumstances, the legal reform process is severely hindered and this may help explain why climate change policy and strategy processes remain unsupported by any explicit legal Statute.

2.4. National strategy processes

2.4.1. The Three-Year Plan, 2010/11-2012/13

The three-year plan (2010/11-2012/13) (TYP) was formulated within a long-term vision of transforming the country from Least Developed Country status to that of a developing country. The TYP strategy places importance on generating employment opportunities, reducing poverty, improving food security and addressing the challenges of climate change. The strategy identifies the climate change challenges that the country is facing, prioritises the key sectors and proposes programmatic activities. Local Bodies are to be given resources and responsibilities through strengthened local self-governance, and the preparation of devolution action plans prepared by sector ministries in coordination with the Ministry of Local Development. Some of the sector strategies that are identified as addressing climate change issues are described below.

Agriculture and food security

The agricultural sector strategy is to develop climate change resilient technologies and to disseminate the conservation, promotion and utilization of agricultural biodiversity. The identified actions to implement the strategy are: (i) community-based agricultural biodiversity conservation;(ii) the development of appropriate technology and infrastructure for the conservation and utilization of indigenous knowledge and natural resources; (iii) encouragement of production based on agricultural biodiversity and employment and income generating activities; and (iv) promotion of market centers and entrepreneurship. Considering the considerable food insecurity that climate change may invoke, a significant increase in public spending on agricultural support systems now looks necessary.

Forestry and watershed management

The TYP acknowledges that forests are instrumental in reducing the negative impacts of climate change and assisting the adaptation of the human ecosystem to a changing environment. The TYP has set important milestones and concrete targets, including a minimum of 40 percent of the total land area of the country to be maintained as forests. It also sets in place the necessary framework for the management and distribution of potential income that accrues from climate change-related actions, such as the model programs that have been launched for the generation of financial resources under the REDD concept. Vulnerability assessments will also be conducted to assess the potential risks due to climate change and

appropriate adaptation programs will be launched to manage such risks (which will likely require considerable new public investment).

Hydropower and alternative energy

The strategic goal in the TYP for hydropower is to make hydropower projects sustainable and cost effective by making them environment friendly and responsive to climate change. The work program for developing climate change responsive projects includes adopting a river basin approach for the design and construction of hydropower projects. In addition, based on the success in generating income through biogas projects under the Clean Development Mechanism (CDM), the TYP initiates the development of micro-hydro schemes as a CDM project activity. In addition, improved cooking stoves, improved water mills and solar systems are under process of being registered with CDM. Alternative energy is now a priority for both government and donor agencies due to its importance as a climate change mitigation strategy.

Most climate change-related actions within the TYP appear to be centred on natural resource management. This represents a starting point for the mainstreaming of climate change concerns across different sectors (e.g. agriculture, forestry, energy); however, it is a restricted view, as climate change will impact the whole economy, including the social sectors of health and education. The challenge lies in the uptake of climate change concerns in these other sectors of the economy and the provision of financial and other resources to allow for appropriate responses to be made.

2.4.2. Forest Sector Strategies

The Ministry of Forests and Soil Conservation is in the process of preparing a multi-stakeholder Forestry Sector Strategy. Building on the experiences of over twenty years experience in the forestry sector supported by different donors, the ministry developed a Multi-Stakeholder Forestry Programme (MSFP) in 2011, which is in the process of approval. The MSFP has identified the role of forestry in helping Nepal adapt to climate change and mitigate its impacts. The indicative total budget for the MSFP is estimated at USD 150 million over a ten-year period. The MSFP intends to reduce climate vulnerability of 550,000 households nationwide.

Reducing Emissions from Deforestation and Degradation (REDD)

Nepal is one of 37 developing countries benefiting from the Forest Carbon Partnership Facility (FCPF), which focuses on reducing emissions from deforestation and forest degradation (REDD).The MFSC has established a REDD Cell to formulate REDD strategy options. Different benefit sharing mechanisms at the local level are being piloted in various parts of the country by using a payment for ecosystem services approach.

Participatory forest management programs

The Government of Nepal has recognized that participatory forest management programs will directly contribute to carbon sequestration. Community forestry, leasehold forestry, and collaborative forest management have been successfully implemented in Nepal and have received

domestic and international recognition. The participatory forest management programs, particularly in community forestry, have resulted in both poverty alleviation and reduced GHG emissions.

2.4.3. Clean Energy Strategies

The 2006 Rural Energy Policy defines 'Rural Energy' as energy that is environmentally friendly and used by rural households, such as micro and mini hydro, solar, wind and biomass energy. These are all forms of renewable energy. A national strategy to establish a renewable energy fund at the central level to mobilize financial resources from various sources is underway. It is planned to expand the existing Rural Energy Fund under the Alternative Energy Promotion Center (AEPC) into a Central Rural Energy Fund to develop, expand, and promote rural energy technologies and assist in rural electrification.

Clean Energy Initiatives within CDM projects

Nepal has raised revenue worth Rs.43.4 million (USD 967,000) from two biogas projects, which have been approved by the executive board of the Clean Development Mechanism (CDM) under the Kyoto Protocol of the UNFCCC. Both projects involved AEPC as the project entity and the Community Development Carbon Fund of the World Bank.

2.4.4. National Strategy for Disaster Risk Management

The government developed a national strategy for disaster risk management called the National Strategy for Disaster Risk Management (NSDRM) in 2009, which recommended the creation of a national disaster preparedness agency, the setting up of a nationwide early warning system and investing in weather prediction research. Government subsequently launched the Nepal Disaster Risk Reduction Consortium (NRRC), which brings together financial institutions and development partners with government. Based on government priorities and discussions within multi-stakeholder groups, the Consortium identified five areas for immediate disaster risk management in Nepal: (i) school and hospital safety; (ii) emergency preparedness and response capacity; (iii) flood management in the Koshi river basin; (iv) integrated community based disaster risk reduction/management; and (v) policy/institutional support for disaster risk management. The estimated total budget of these programs is US $147 million, with most activities planned to be supported through international financing.

2.4.5. The NAPA Process

The government prepared its National Adaptation Programme of Action (NAPA) in September 2010. The NAPA recognized six thematic areas: Agriculture and Food Security; Forests and Biodiversity; Water Resources and Energy; Climate-induced Disasters; Public Health; and Urban Settlements / Infrastructure as key areas for intervention. The respective line ministries led the drafting process, facilitated by the Ministry of Environment. Significant co-financing was mobilised from DFID, DANIDA and UNDP to supplement funding from GEF to prepare the NAPA. In addition, to the USD 200,000 grant from GEF (under the Least Developed Countries

Fund), a further USD 875,000 of grant aid was received from DFID, USD 200,000 from DANIDA and USD 50,000 from UNDP.

The NAPA identified and prioritised nine programs (Table 4). The total cost of these nine programs is estimated at USD 350 million, 80% of which is committed as expenditure to be spent at the village/ municipal level, channelled through a designated implementing line ministry. At the district level, project planning and delivery is the responsibility of the District Coordination Committee under the DDC. It is envisaged that a Secretariat under the DDC will be responsible for selecting local service delivery agents. The Ministry of Local Development and the Local Government Capacity Development Programme will be key institutions in supporting vertical and horizontal coordination and delivery.

2.4.6. The LAPA Process

During the NAPA preparation process it was realized that this national framework could be complemented at the local level by having a Local Adaptation Programme of Action (LAPA) to mainstream local adaptation needs into development planning. With development partner support forthcoming from DFID, a project entitled 'Climate Adaptation Design and Piloting Nepal (CADPN)' is planned to support the testing of the LAPA framework through diverse entry points, including agriculture, forestry, health, water and sanitation to assess how climate change resilience can be integrated into local-to-national planning. The VDCs and DDCs provide appropriate entry points for integrating climate change resilience into

Table 4: Prioritized programs under NAPA

No.	Prioritized Programs under NAPA	Estimated Cost (in million USD)
1	Promoting Community-based Adaptation through Integrated Management of Agriculture, Water, Forest and Biodiversity Sector	50
2	Building and Enhancing Adaptive Capacity of Vulnerable Communities Through Improved System and Access to Service Related to Agricultural Development	44
3	Community-based Disaster Management for Facilitating Climate Adaptation	60
4	GLOF Monitoring and Disaster Risk Reduction	55
5	Forest and Ecosystem Management for Supporting Climate Led Adaptation Innovations	25
6	Adapting to Climate Challenges in Public Health	15
7	Ecosystem Management for Climate Adaptation	31
8	Empowering Vulnerable Communities through Sustainable Management of Water Resource and Clean Energy Supply	40
9	Promoting Climate Smart Urban Settlement	30
	Total estimated cost	**350**

local-to-national development planning. The LAPA Framework will work to ensure that the process of integrating climate change resilience into such planning is inclusive, responsive and flexible.

2.4.7. Climate Resilient Planning

The need to mainstream climate-risk management into long-term plans, and in particular to integrate climate risks and risk reduction efforts into periodic development plans was recognised in the Approach Paper to the TYP. The plan subsequently emphasized the need to adopt a mechanism to screen development plans and programs and make them climate resilient. Climate resilience planning, a program and project screening tool for long-term climate change adaptation, was subsequently prepared in line with the TYP.

2.4.8. National Climate Change Strategy

Within the broader framework of the 2011 Climate Change Policy, the Ministry of Environment has begun the process of preparing a national strategy for climate change. This initiative has come after the preparation and endorsement of the NAPA, and during preparation of the LAPA. It is therefore expected that the climate change strategy will provide guidance for NAPA and LAPA implementation and the formulation of future programs and projects. The Ministry of Environment has received support from the Embassy of Denmark to implement the strategy preparation, which is being out sourced due to capacity constraints within the ministry. The strategy is expected to streamline all climate change activities in Nepal and will contribute to future climate change negotiations as well.

2.5. Role of development partners and major externally funded programs under preparation

2.5.1. Donor Compact on Climate Change

The ADB, DANIDA, DFID, EU, Finland, UNDP, UNEP, USAID, WB and others have provided or are in the process of designing climate change-related programs. Fourteen development partners and the Ministry of Environment signed a Memorandum of Understanding (MoU) on 2 September 2009 that lists a set of principles to guide development partners' support on climate change. This MoU provides the basis for donors that are offering technical support and financial resources for climate change activities to act in a coordinated and coherent manner. However, it is not clear how this compact is being monitored.

2.5.2. The Strategic Program for Climate Resilience

Perhaps the most significant externally supported climate change initiative to-date is the Strategic Program for Climate Resilience (SPCR), currently under preparation. It is being implemented through the Pilot Program for Climate Resilience (PPCR) of the World Bank-administered Climate Investment Funds. The rationale for support is stated in the SPCR program document as: 'Nepal is one of the poorest and most climate vulnerable countries in the world. To achieve the country's priority goal of reducing poverty,

Nepal needs to manage its substantial climate risks and chart a climate resilient growth path.'

Two principles of action are highlighted in the program documentation: (i) 'The PPCR will complement, yet go beyond, currently available adaptation financing in providing finance for *programmatic* approaches to upstream climate resilience in development planning, core development policies and strategies'; and (ii) 'the PPCR aims for an equal effort from all development partners to cooperate, engage in dialogue, and align behind this strategic approach as a common platform' (http://www.ppcrnepal.gov.np/index.html).

The program is expected to consist of five components and will run initially for four years:

1. *Building Climate Resilience of Watersheds in Mountain Eco-Regions.* (USD 41 million[3]). This component will address the problem of access to freshwater resources by communities in mountain ecosystems. The Department of Soil Conservation and Watershed Management (DSCWM) of the Ministry of Forest and Soil Conservation (MoFSC) will be the Project's executing agency. A sector approach is envisaged to provide the required flexibility to address sub-watershed specific interventions.

2. *Building Resilience to Climate-Related Hazards.* (USD 41 million). The second component will address the priority risk of floods and droughts that undermine economic growth and poverty alleviation in Nepal. The Ministry of Agriculture and Cooperatives and the Ministry of Environment/Department of Hydrology and Meteorology will be the co-lead agencies for this component.

3. *Mainstreaming Climate Change Risk Management in Development.* (USD 10 million). This component will facilitate the integration of climate change risk management into development planning and practices. The Ministry of Environment will be the lead agency.

4. *Building Climate Resilient Communities through Private Sector Participation.* (USD 2.7 million grant; USD 10 million loan). The fourth component will provide support to the private sector in a number of climate vulnerable productive sectors, including agriculture and energy. It will be administered through the IFC.

5. *Enhancing Climate Resilience of Endangered Species.* (USD 5 million). A specific component will address the risks of climate variability and change on the habitats of endangered wildlife species. The Ministry of Forests and Soil Conservation will be the lead agency.

Under the PPCR, each SPCR program will follow the investment policies and procedures of the MDB administering each component, including its fiduciary standards and environmental and social safeguards. For the Nepal SPCR, three MDBs will be involved: the World Bank (components 2 and 5); the Asian Development Bank (component 1 and 3); and the International Finance Corporation (component 4).

[3] Funding amounts for each component are those indicated in the SPCR document. However, the PPCR sub-committee subsequently endorsed a total of USD 86 million in financing and so allocations for each component will be less.

2.5.3. The Scaling-Up Renewable Energy Program for Low Income Countries

The Scaling-Up Renewable Energy Program for Low Income Countries (SREP) is a second, significant externally supported initiative in Nepal. This program is part of the Strategic Climate Fund, a multi-donor Trust Fund within the Climate Investment Funds. Its overall objective is to support investments in a small number of low income countries for renewable energy and access to modern sustainable energy. SREP became operational in December 2009 and so far has identified six pilot countries in which to work, including Nepal, where a USD 40 million finance package has been recently agreed.

The objective of the SREP in Nepal as stated in the draft Investment Plan document are to: (i) leverage complementary credit, grant and private sector equity co-financing, (ii) bring about transformational impacts through scaling up energy access using renewable energy technologies (RETs), poverty reduction, gender and social inclusiveness and climate change mitigation, and (iii) ensure sustainable operations through technical assistance and capacity building. The program is expected to consist of two components – one on hydropower and the other on mini and micro energy - that are consistent with the SREP eligibility criteria of (i) leverage, (ii) transformational impact and (iii) sustainability.

Similar to the PPCR, under the SREP, each component will follow the investment policies and procedures of the MDB administering the component including its fiduciary standards and environmental and social safeguards.

2.6. Issues and recommendations

2.6.1. Issues

Climate change has to compete for policy attention in what is already a very crowded policy space, as Nepal is presently undergoing a major constitutional transition that is far from complete. This period can be expected to continue for a number of years. It will likely result in a highly unpredictable policy environment, where security, growth and poverty reduction are the dominant public policy concerns. Climate change will have a bearing on all three of these themes.

Climate change has attracted attention in recent years, driven to a significant extent by the international policy debate. The 2009 Copenhagen COP meeting was a major milestone that saw a concerted national response. Further national policy development in Nepal can be expected to have a significant reactive element to it, depending on what happens within the international negotiations. This represents a strong case for Nepal to continue to invest human resources in attending the UNFCCC COP meetings.

At the national level, climate change remains an emerging policy theme, with variable interest as yet demonstrated at the sector level. The 2011 national climate change policy statement appears a significant landmark, although much remains to be seen whether this will

catalyze a major mainstreaming of this policy theme across all sectors of the economy. At present, climate change continues to be strongest when seen as an environmental – rather than an economic – concern. The challenge will be for climate change to move beyond its origin as an environmental matter to become a major context for all development planning. Additional resources will be hard to come by if this transition is not made.

The overall coherence of the national strategic response to-date appears credible and evidence-based, with the attention given to clean energy, water management, disaster risk reduction and forest protection. It is well established within the climate change policy that climate impacts on various development sectors are interlinked and interdependent, and understanding the inter-linkages between climate change and various sectors will be important for building enhanced adaptation capabilities. Though the national priority is adaptation, mitigating the adverse impacts of climate change and the adoption of a low-carbon development path are also well articulated in the national climate change policy.

The climate change policy recognizes the role of the private sector, civil society and the media in ensuring multi-stakeholder participation in climate change initiatives and envisions the development of various incentive mechanisms to facilitate their participation and partnership. However, some NGOs accuse Government that the voices of national organizations are not properly recognized in the present debate on the national response to climate change – rather decisions are made under the influence of international organizations.

2.6.2. Recommendations

- Climate resilience needs to be integrated into all aspects of national development, with a strong mainstreaming programme facilitated by the Ministry of Environment. However, it is important that each line ministry takes the lead in integrating a climate change response within its sector policy. This sector-led approach needs to be reflected by increased financial and human resources at sector level specifically for climate change-related actions. Such actions should be reflected in the national budget. Consideration should be given by government to establishing separate and explicit climate change identities for administrative units within Ministries that deal with climate change issues.

- Development partners have recognised the need for harmonization and coordination of their efforts through the 2009 Donor Compact. Building on this compact now appears to be the challenge for all development partners, as the uptake of new climate change programs and projects start to take shape.

CHAPTER 3

CLIMATE CHANGE INSTITUTIONAL ANALYSIS

3.1 Introduction

There are a wealth of institutions that have an interest in climate change-related issues. This study has identified ten government ministries where climate change is now a policy concern, with dedicated staff and new institutional structures being put in place. The situation is similar in national civil society organisations and their counterpart international NGOs. The same applies also to development partners, where climate change has been added to the job description of advisory staff. The following section details the institutional arrangements that exist and also those that are planned.

3.2 National institutional arrangements for climate change

3.2.1 Parliamentary Committees

Two committees within the national legislature hold remits that address climate change issues. The first is the committee on Natural Resources, Economic Rights and Revenue Sharing, referred to in the previous chapter. This Committee has 43 members. The ex-office members of this committee include the Prime Minister, together with the Ministers of Forests, Water Resources, Land Reform and Agriculture (but not Environment). Most importantly, this committee has recommended that climate change be included in the forthcoming New Constitution. A second parliamentary committee is the Development Committee. This thematic committee provides guidance to line ministries, including the Ministry of Environment (MoE), and has the remit to monitor and evaluate the performances of ministries. In terms of institutional arrangements, it is a statutory committee of parliamentarians, with its own secretariat and it can draw on technical support from line ministries and other institutions, as and when needed. This committee does not appear to have given attention to the MoE to-date. There is a case for this ministry to undergo parliamentary review as it adapts as an institution to take on the major new national policy theme that is climate change.

3.2.2 Government Advisory Body – the Climate Change Council (CCC)

Immediately prior to the 2009 UNFCCC Conference of the Parties (COP 15) in Copenhagen, a Climate Change Council (CCC) was constituted under the Chairmanship of the Rt. Hon. Prime Minister to develop climate change as a major theme of the national development agenda in Nepal. This is now the highest advisory body dedicated to climate change and continues to be chaired by the Rt. Hon. Prime Minister. Its task is to provide high-level policy and strategic oversight, to coordinate financial and technical support to climate change-related programs and projects, as well as securing measures to benefit from climate change-related international negotiations and decisions. Since its establishment in July 2009, the CCC has convened seven meetings, demonstrating a strong policy commitment to climate change. There are 26 members on the council, including eleven ministers and eight technical experts nominated

by the government. The Secretary of the MoE is the Secretary to the Council. Key decisions already made by the CCC include the endorsement of the NAPA and the 2011 climate change policy.

3.2.3 Government Consultative Body- the Multi-sectoral Climate Change Initiatives Coordination Committee (MCCICC)

This is a national body created to coordinate action on national climate change-related activities and collaborative programs with development partners. The MCCICC is housed at the MoE and has representatives from government ministries, national institutions, international and national NGOs, academia, the private sector and donors. All the NAPA thematic working group coordinators (Agriculture, Energy, Forests, Health, Physical Planning, and Home Affairs) sit on this committee. Since its formation in 2009, the Committee has met five times (noticeably, less often than the CCC). Its main aim is to strengthen multi-stakeholder collaboration in responding to climate change. It also has the task of facilitating strategic financing by providing a venue where needs are identified, articulated, and taken into account in the formulation of financing strategies by the government and its development partners. The Climate Change Management Division of the MoE acts as the Secretariat of this Committee. It might be expected for a national consultative body of this kind to hold meetings on a regular basis and work to a set agenda. To-date, this appears not to be the case.

3.2.4 National Climate Change Focal Point – the MoE

The MoE has the national mandate to formulate, implement, monitor and evaluate policy, plans, and programs on environment, science and technology, and climate change. This is a very considerable agenda. It is also the National Focal Point for the UN Framework Convention on Climate Change (UNFCCC). The ministry consists of three divisions: environment, climate change management, and planning, evaluation and administration. There are 11 sub-divisions within the ministry, three of which are within the Climate Change Management Division. The ministry has 53 staff posts. The ministry is a relatively small and newly created institution, with no presence outside its administrative headquarters in Kathmandu. It is currently working out to how to increase its capacity so that it can coordinate and implement climate change policies at the sub-national level.

The Climate Change Management Division of MoE is meant to coordinate all climate change-related projects implemented by government, donors, Multilateral Development Banks and other agencies. In addition, there are plans to establish a project management unit with support from climate change-related projects to oversee externally financed initiatives such as the SPCR (see previous chapter). Although this would provide immediate added capacity to the current structure, a longer-term option for channelling and harmonising increased funding for climate change-related actions needs to be developed.

The Department of Hydrology and Meteorology (DHM) is a key department for climate change-related action under the ministry. The DHM is the National Focal Point to the Inter-governmental Panel on Climate Change. In addition, the Alternative Energy Promotion Centre (AEPC) is a semi-autonomous agency under the ministry and is the national institution focused on developing and promoting

alternative energy technologies in Nepal.

The MoE has led several major national responses in climate change in recent years, including the formulation of the climate change policy, the preparation and endorsement of the NAPA, and establishing and facilitating both the CCC and MCICC. In the case of institutional reform, MoE is in the process of further examining its current structure, whilst at the same time it oversees the development of major externally supported initiatives such as the SPCR, the LAPA and the SREP programs.

3.2.5 The National Planning Commission

The National Planning Commission (NPC) advises government on all aspects associated with periodic national plans, programs, and projects. It also plays a central role in advising ministries and departments on foreign aid and is the key national institution for cross-sectoral coordination of programs under various international conventions The NPC is a ten member commission, chaired by the Rt. Hon. Prime Minister. Specific thematic fields are assigned to each Member. The NPC secretariat consists of five divisions, each headed by a Joint Secretary. The total staff complement at NPC is 152.

The NPC is responsible to screen development plans and programs and, since 2011, has had the added responsibility to ensure that such plans and programs are climate resilient. To address this latter objective, the NPC now has a climate-resilient planning tool in place. In the course of mainstreaming climate change in government programs and projects, the NPC led the incorporation of climate responsive program activities within the TYP. As a result of the TYP, line ministries are beginning to incorporate climate change-related activities in their annual plans and programs.

3.2.6 Ministry of Finance

The programs and budgets for climate change-related activities prepared by sector ministries such as Environment, Forests, Agriculture, Irrigation, Energy and Local Development, are endorsed by the National Planning Commission, and then the associated budgets are submitted to the Ministry of Finance. These budgets are then reflected in the spending plans of each sector ministry.

The Ministry of Finance has nine divisions including a Foreign Aid Co-ordination Division and a Budget and Program Division. The Budget and Program Division aims to achieve efficiency of the allocated budget by strengthening project screening, rationalizing expenditure, and introducing performance-based allocation within a multi-year funding system (the medium term expenditure framework) so that core projects do not go under-funded. The Ministry of Finance produces the government 'Red Book', in which program and operational budgets for each Ministry and projects are shown. In addition, the ministry has experience in developing both a gender responsive budget and a pro-poor budget through the development of a set of indicators by which line items of the national budget are classified. This experience has direct relevance for the possible coding of climate change activities.

3.3 Other government ministries

3.3.1 Ministry of Forests and Soil Conservation

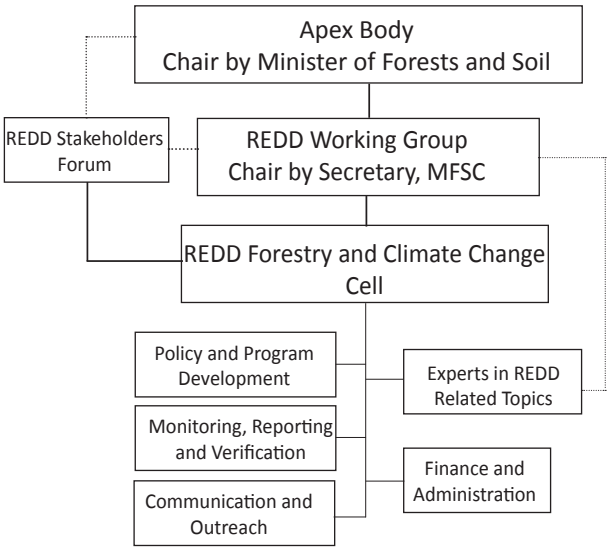
The Ministry of Forests and Soil Conservation (MoFSC) is the sector ministry with the remit to formulate and

implement policy, plans, and programs on forests, the natural environment and biodiversity. It is also responsible for the management of protected areas. The ministry has five headquarter divisions and five implementing departments, which have nationwide coverage. The ministry has a staff complement of approximately 9,500, of which 7,300 are District Forest Office staff.

The MoFSC is also the lead national institution for REDD (reducing emissions from deforestation and forest degradation) activities in Nepal. A multi-sectoral, multi-stakeholder coordinating committee has been established as the apex body for REDD policy development in the Ministry of Forests, chaired by the Minister. A REDD Working Group (RWG), under the leadership of the Secretary, Ministry of Forests, is also functional. The RWG is made of representatives from government, indigenous peoples groups, community forest user groups, the private sector and development partners. Within the ministry, a technical REDD cell has been established to coordinate the national REDD-Readiness process (Figure 3).

The REDD Cell is led by a Joint Secretary and has three sections. The Policy and Program Development section is in charge of the assessment of policies and the design and monitoring of forestry programs related to REDD and climate change, including developing extension and capacity building programs and activities. This section also provides back-up support to the Ministry of Forests with regard to the international negotiation process. A second section, the Carbon Accounting and MRV Section is responsible for the technical aspects associated with REDD, such as establishing and implementing the deforestation and forest degradation reference scenarios, as well as the monitoring and verification system for REDD implementation. The third section, the Outreach and Payment for Environmental Services section, is responsible for implementing pilot activities. It is also in charge of the documentation and dissemination of REDD-related pilot projects and providing information for both the Policy and Program Development and the Carbon Accounting and MRV sections. Additionally, this section is responsible for the implementation and delivery of extension and capacity building activities for different stakeholders, including government, civil society and the private sector.

Figure 3: Institutional arrangements for the implementation of REDD programs



3.3.2 Ministry of Agriculture and Cooperatives

The Ministry of Agriculture and Cooperatives focuses on measures to increase agricultural production and productivity. To secure this goal the ministry formulates and implements agricultural and cooperative development policies and plans. The ministry has five divisions as well as three centre level

organizations and four departments, with a total staff complement nationwide of just over 10,000.

The MOA has recently formulated a climate change adaptation framework for food security. The identified program activities include crop production management, agricultural infrastructure, the redesign of cropping systems, livestock production and management, economic access to food, and food utilization. These programs are planned, implemented and monitored by regional offices, district offices and service centers. Disaggregated information of budget and expenditure on administrative and program activities are available. The Gender Equity and Environment Division is the focal point for climate change issues in the ministry. This division has been addressing climate change issues in agriculture through agriculture and food security and agro-biodiversity conservation. The ministry is currently working to include agro-biodiversity in the post-NAPA projects.

3.3.3 Ministry of Energy

The Ministry of Energy develops policies, plans and programs for the conservation, regulation and utilization of energy. The ministry's main climate change-related function is that it is responsible for developing clean energy in Nepal. Hydropower development, irrigation and water resource management are major climate change-related program activities undertaken by the ministry. These activities are being implemented through the work of the department of energy, the electricity authority and donor-supported project offices.

The ministry is made up of five divisions and has a Rural and Alternative Energy Section within the policy and planning division. This division is the focal point for climate change issues in the ministry. The division has adapted its policy to address climate change issues within its three year plan (2010/11-12/13). In addition, the ministry has plans to address climate change by adopting a river basin approach for water resource management.

3.3.4 Ministry of Irrigation

The Ministry of Irrigation is responsible for developing policies, plan and programs for the conservation, regulation and utilization of irrigation water. It also manages activities related to water induced disaster management, prevention and rehabilitation. It consists of three divisions and two departments: the Department of Irrigation and the Department of Water Induced Disaster Prevention. Major climate change-related program activities include irrigation in agriculture for food security, irrigation system management and capacity building, river training and flood control for lives and livelihood protection. These activities are planned and implemented by the two departments, as well as by regional, divisional and river basin level offices. Disaggregated information on budget and expenditure for administrative and program activities are available.

The Ministry of Irrigation's three divisions are the Planning and Program Division, the Policy and Foreign Aid Coordination Division and the Administration Division. The Policy and Foreign Aid Coordination Division has four sections including an Environment Section. The Ministry has adopted a policy to design new project and rehabilitate old projects to address climate change adaptation issues.

3.3.5 Ministry of Local Development

The Ministry of Local Development (MLD) plays a key role in developing policy and programs on rural development and local governance, including decentralization. The ministry consists of four divisions and twelve sections. The Department of Infrastructure Development and Agriculture Roads is the only department of the ministry. It coordinates with Local Bodies on environmental planning, which is planned to be expanded to include climate change-related activities. Seventy five District Development Committees (DDCs), 58 Municipalities and 3,915 Village Development Committees (VDCs) form the Local Bodies whose interaction with the national government is channeled through the ministry.

The MLD's four divisions are Administration, Local Self Governance Coordination, Planning and Foreign Aid Coordination, and Municipal Management. The Municipal Management Division is the focal division for climate change issues and it has three sections including an Environment Section. The Environment Section is responsible for the integration of environmental aspects in the planning cycle.

3.3.6 Ministry of Home Affairs[4]

The Ministry of Home Affairs (MoHA) is the government ministry that coordinates disaster risk management (DRM) in Nepal. The Planning and Special Service Division in the MoHA is the focal point for disaster risk management. Being the national DRM focal point, the Ministry of Home Affairs has the responsibility to coordinate activities relating to disaster preparedness, reconstruction and rehabilitation together with other disaster management-related agencies. A Central Disaster Relief Committee under the chairmanship of the Home Minister provides policy guidelines and directives for rescue and relief works.

3.3.7 Ministry of Physical Planning and Works

The Ministry of Physical Planning and Works is responsible for planning, designing and executing infrastructure projects; coordinating urban planning and housing development; and constructing and operating water supply and sanitation services. All these functions can be expected to be impacted by climate change. There are three departments in this ministry: the Department of Urban Development and Housing, the Department of Water Supply and Sanitation and the Department of Roads.

3.3.8 Ministry of Health and Population

Climate change will have an impact on human health. The frequent outbreak of diarrheal disease in Far-western Nepal, associated with poor sanitation and water supply, already claimsa heavy loss of life and illness. Similarly, the recent flooding of the Koshi River led to deteriorating human health associated with the loss of services and property – and such events are expected to happen with greater frequency on account of climate change. These changing health conditions brought about by climate change will likely lead to greater demands made on the ministry's budget.

[4] This ministry coordinates DRM activities carried out by different agencies including national and international NGOs. At the district level there are District Disaster Relief Committees in all 75 districts nationwide. These DDRCs are supported by various agencies and are chaired by Chief District Officers. The National Strategy for Disaster Risk Management is the policy guide for the ministry as well as other agencies.

3.4 Key departments and agencies

3.4.1 Department of Hydrology and Meteorology

The Department of Hydrology and Meteorology (DHM) collects and disseminates hydrological and meteorological information for water resources, agriculture, energy and other development activities. It has four divisions and 15 sections with specific responsibilities, including climatology, to study and investigate climate change. The DHM is the national focal point to the IPCC, WMO and the meteorological activities of SAARC. It employs 237 personnel, of which sixty are professional staff. It presently maintains 340 met stations and 42 hydro stations from which it collects hydromet information, although there are plans to upgrade this system and build capacity under the planned SPCR programme (as described in section 2.5.2) .

3.4.2 Department of Forests

The Department of Forests is responsible for the protection, management and utilization of forests and the conservation of natural resources. It operates through four administrative levels: headquarters, district forest offices, Ilaka forest offices and range posts. Community forestry is one of the priority programs of the department, which has received considerable support from bilateral donors. Approximately 35 percent of the total development budget allocated to the ministry is spent on the Community Forestry Program and about 60 percent of this budget is funded through foreign assistance.

3.4.3 Department of Soil Conservation and Watershed Management

The Department of Soil Conservation and Watershed Management (DSCWM) prepares watershed management plans. It operates soil conservation and watershed management programs. There are District Soil Conservation offices in 56 districts, with a staff complement of approximately 650. The Districts Soil Conservation offices are planning the implementation of watershed management activities, which are regarded as climate change adaptation programs. In addition, DSCWM has major program in the Churia watershed, which was identified as a priority program under the NAPA and the SPCR.

3.4.4 Alternate Energy Promotion Centre (AEPC)

The main role of the AEPC is to provide guidance to the government on alternative and renewable energy technology policies. It supervises, monitors and evaluates the overall alternative energy and renewable energy programs conducted by NGOs, companies and line agencies. The AEPC is governed by a board headed by the Minister for Environment. It has four divisions and a total of 54 staff. The AEPC is involved in developing CDM projects in the alternative energy sector.

There are Energy and Environment units and sections in 72 districts. These district energy offices promote energy development and environmental conservation. Biogas plants have been developed and incomes have been earned under clean energy development. The AEPC has developed micro-hydro project as CDM projects. In addition, it is registering improved cooking stoves,

improved water mills and solar energy for CDM. The AEPC has a Climate and Carbon Unit for developing integrated and long-term development of CDM. The AEPC also mobilizes subsidies and facilitates loans for alternative energy promotion. Similarly, the Central Rural Energy Fund and District Energy Fund have been created.

3.5 Local bodies

3.5.1 District Level Coordination

At the district level, line agencies, non-government organizations, community based organizations, the private sector, and networks and federation of users groups support community level implementation (see chapter 6). The district development committee (DDC) leads inter-agency coordination through a coordination committee. The DDC is also responsible for planning and monitoring processes. Each DDC has an Energy and Environment Unit to facilitate services and coordination on such matters.

The National Adaptation Programme for Action (NAPA) defined that 80 percent of national climate change-related expenditure should be allocated for implementation at the local level. At the district level, the DDC is responsible for project planning and delivery. The DDC secretariat is responsible for selecting local service delivery agents. The Ministry of Local Development and the Local Government Capacity Development Programme (LGCDP) have developed minimum conditions and performance measures of Local Bodies in supporting vertical and horizontal coordination and delivery.

3.5.2 Regional Level Coordination

Line ministries such as Agriculture, Forestry and Irrigation all have regional offices. These regional offices are responsible to provide technical support, planning and monitoring. The regional directorates are also responsible for coordinating among different line ministries at the regional level. The MoE is planning to establish regional level offices, based on a River Basin approach.

3.6 Private sector organizations

The Federation of Nepalese Chamber of Commerce and Industry (FNCCI) provides advisory services to government and acts as a lobby organization during the formulation of business and industry-related policies, Acts and government programs. The FNCCI is an umbrella organization of the Nepalese private sector and has a membership that comprises 91 District/ Municipality Level Chambers in 74 Districts and 66 Commodity/Sectoral Associations. The FNCCI has established specialized cells including Industrial Environment and an Energy Promotion Program.

3.7 Civil society institutions

A number of NGOs have active climate change initiatives. As with current government programming, defining what constitutes a climate adaptation program is not entirely clear but initiatives are certainly growing within organizations and the discourse around climate change is becoming more prominent. WWF and other international NGOs have supported the Government to formulate its Climate Change Policy and are supporting implementation of adaptation projects in protected areas. National NGOs are also active. The role, contribution and value of NGOs and civil society organizations have been recognized in the Climate Change Policy, which identified the need to enhance the capacity of the private sector, NGOs and civil society involved in development.

The Climate Change Network Nepal (CCNN http://ccnn.org.np/index.php) is a loose coalition of various organisations, including national and international NGOs and donors including DFID, JICA and UNDP. The forum was established to raise awareness on climate change at the local and national level, coordinate among partners' organizations, jointly advocate for effective action for appropriate mitigation and adaptation measures regarding climate change, and establish a strong community-based focus as an information-sharing platform.

One prominent civil society institution is the Federation of Community Forestry Users Nepal (FECOFUN). FECOFUN aims to promote cooperation among forest user groups (FUGs) through the sharing of experiences and maintaining relationships between all stakeholders. It supports actions on forestry, environment, climate change, forest based entrepreneurship, green jobs, CDM projects, biodiversity, alternative energy and tourism. FECOFUN is an autonomous NGO, with a membership of just over 13,500 forest user groups.

3.8 Research organizations and academia

3.8.1 ICIMOD

The International Centre for Integrated Mountain Development, ICIMOD, is a regional centre serving the eight regional member countries of the Hindu Kush-Himalayas. It has research programs with regional partner institutions, facilitates the exchange of experience and serves as a regional knowledge hub. It covers a diverse range of subjects related to sustainable mountain development, and addresses climate change as a thematic issue.

3.8.2 Universities

The Department of Environmental Science and Engineering (DESE) in Kathmandu University currently offers academic programs related to natural resource management. Tribhuvan University and Pokhara University also run MSc programs and courses related to climate change.

3.9 Development partners active in climate change

Nepal has a long standing relationship with international donors built up over many years of aid delivery. The UN agencies, bilateral agencies and the multilateral development banks all have a significant presence in Nepal. These same agencies are now prominent in the delivery of international support for the actions and programs required as a result of climate change within the country.

It has been estimated that approximately USD 650 million of international public grant finance for climate change-related activities has been made available over the last decade, with support increasing in the last five years (Table 5). However, until a national database is established, with well defined categories of expenditure, this estimate can only be considered an indicative one. Of the 71 projects listed by donors, the largest number has been capacity strengthening and awareness raising activities. In terms of spending on mitigation activities, projects aiming to strengthen the provision of clean (renewable) energy predominate. The dominant external actor, in terms of both number of initiatives supported and the amount of finance committed, is the World Bank.

Table 5: Development partner support for climate change in Nepal

Donor	Number of climate change related initiatives	Timeline	Amount committed up to 2014 (USD million)
Denmark	4	2007 onwards	30.7
EU	3	2004 onwards	23.5
Finland	3	2009 onwards	10.4
Germany	5	1997 onwards	40.2
Japan	7	2004 onwards	12.7
Norway	5	2002 onwards	33.6
Switzerland	4	2008 onwards	20.7
ADB	8	-	56.2
UN	8	2008 onwards	2.5
UK	5	2009 onwards	42.5
World Bank	20	2006 onwards	379.4
Total	**71**		**652.4**

Source: The World Bank

3.10 Issues and recommendations

3.10.1 Issues

Strengthening climate change management capacities within key institutions has begun. This capacity building is getting underway at both national and local levels, and within vulnerable sectors and population groups. For example, projects are in the process of strengthening present capacity to ensure that government procurement practices recognize the risk associated with climate change and ensure that infrastructure design and construction are climate proofed; and that climate change risk management becomes an operational activity undertaken by those government agencies responsible for designing and building infrastructure in vulnerable areas. Such projects are supporting the strengthening of capacities and institutions to integrate climate change risk management into development planning. However, much more needs to be done; the challenge is to identify and address the early strategic priorities.

Whilst the MoE leads on climate issues and coordinates donor funded programs at the national level, there are a considerable number of climate change-related programs carried out by sector ministries under their regular programs that do not get reflected by the MoE. In addition, many NGOs implement activities that address climate change issues, but these programs are only recorded at the Social Welfare Council. Therefore, actual climate activities may be much larger than what is reflected in the regular government programs. However, there still remains a clear gap in addressing climate concerns. Perhaps the most visible gap is that the existing institutional structure does not support VDC level climate programs. For example, if a VDC wants to make its water supply project climate resilient or plan for a climate resilient education program, there is no institution that it can presently approach.

Institutional capacity is also a key aspect when analysing future climate activities. For example, DHM is a department under the MoE that generates all climate related information. However, it has limited capacity to provide area-specific information, which is important to generate information about climate

impacts at the local level. Currently, DHM collects information from less than 350 met stations and 42 hydro stations nationwide. In the mountainous terrain of Nepal, this density of measuring stations appears far from adequate.

There is also the challenge of institutional collaboration to overcome. For example, one of the Ministry of Forests and Soil Conservation's departments is the department of watershed management. This department implements activities in priority sub-watersheds. In the current TYP the department intends to implement programs based on the river basin approach. However, it has no working relation with the Ministry of Irrigation which also wants to develop basin programs. Forests and agriculture are also closely linked within any one geographical area, but none of the official programs of these sectors have a common thread that would help build synergy while addressing climate change.

There are challenges for both the public and private sectors as they develop programs that address climate change. For example, although there is external support for Clean Development Mechanism (CDM) projects, there is still a gap in national support for such projects in the agriculture, livestock and forestry sectors. The capacity of climate related ministries and their departments are not enough to develop CDM projects, including the methodology for calculating the amount of carbon sequestration. CDM project requirements are stringent and CDM projects in forestry, agriculture, and waste are more complex and require extensive monitoring compared to alternative energy CDM projects. Inadequate awareness among policy makers and industrialists, weak institutional capacity, inadequate resources, and lack of baselines are the major limitations.

3.10.2 Recommendations

- At the national level, greater attention needs to be given to secure inter-sectoral coordination as there are many across-sector impacts of climate change. To assist this coordination effort, the MCCICC should be strengthened through a more formalised way of working to achieve enhanced coordination at the technical level, including the holding of regular meetings with formal records. It would be beneficial to have the MCCICC meeting record fully in the public domain through a dedicated website (as is now standard practice with such meetings at the international level).
- It is important to secure the right structures at the local level to ensure that the flow of climate finance reaches the most vulnerable communities. This will require the creation of significant new capacity within existing district level structures. Mechanisms therefore need to be developed to improve local institutional capacity and accountability to implement climate change programs. In this regard, there is a need to understand and strengthen the role of the Energy and Environment Units within DDCs as it is envisaged that they will play a big role in coordinating climate change-related activities at the local level.
- Civil society organizations have a strategic role to play in responding to climate change issues. With increased government support, NGOs, federations and networks on natural resource management, such as FECOFUN, could play a significant role in community awareness and education on climate change.

CHAPTER 4

EXPENDITURE REVIEW

4.1 Introduction

The objectives of this expenditure analysis are: (i) to identify the scale and trends of planned and actual expenditure on climate change actions; and (ii) to understand expenditure patterns of climate sensitive spending agencies in the public and private sectors. The review has focussed on readily available financial information contained in the Government of Nepal Estimates of Expenditure (the Red Book), covering the following financial years:

Table 6: Summary of Data Sources

Year	Data	Data	Source
2007/08	Budgeted Expenditure	Source of Financing	Red Book
2008/09	Budgeted Expenditure	Source of Financing	Red Book
2009/10	Budgeted Expenditure	Source of Financing	Red Book
2009/10	Actual Expenditure	Source of Financing	Red Book
2010/11	Budgeted Expenditure	Source of Financing	Red Book
2010/11	Near Actual[5] Expenditure	Source of Financing	Red Book
2011/12	Budgeted Expenditure	Source of Financing	Red Book

In addition an analysis was conducted of 'off-budget' expenditure and sources of financing by examining secondary records in respect of Technical Assistance projects conducted in Nepal[6]. Reviews were also conducted of NGO, Community and Private Sector expenditure in respect of climate change.

4.2 Contextual overview of government expenditure and financing 2007/08 to 2011/12

4.2.1 Overall Government Budget

The overall trend in Government planned expenditure in the period reviewed is one of significant planned year-on-year increases. This pattern tends to corroborate the crowded policy agenda described previously (in paragraph 2.6.1). Increased planned expenditure is driven by planned expansion of Government activity and ultimately, given these figures are budget rather than actual, this is linked to intentions. This planned expansion is illustrated at current prices (to show real planned growth that is not simply inflation driven) in Table 7 and 2007 prices in Table 8 :

[5] This is known as the Revised Estimate
[6] The APM System, Ministry of Finance, was the primary source of data

Table 7: Contextual Overview of Government Budget and Funding Sources

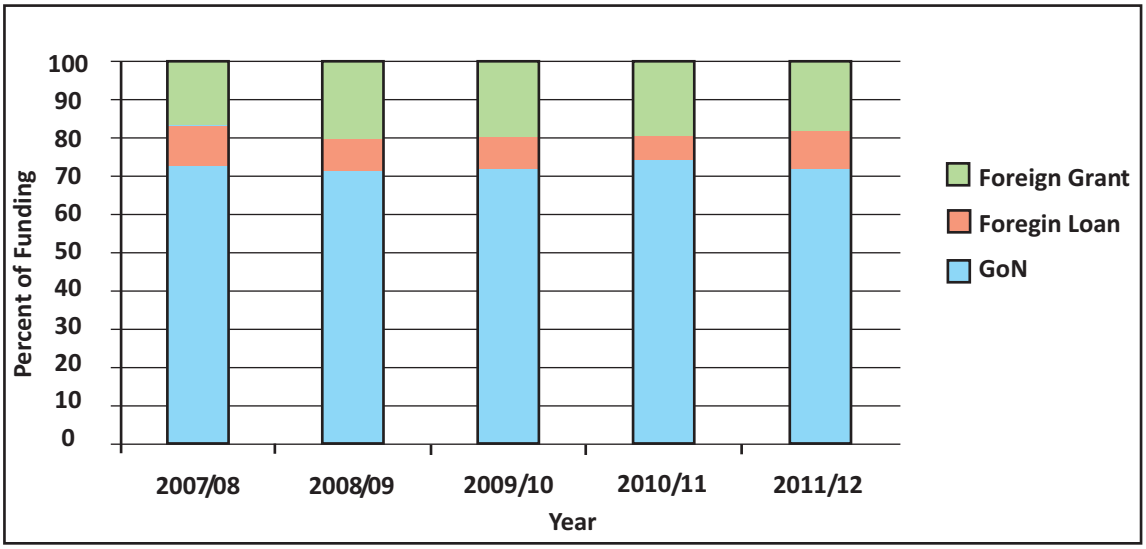
Current Prices (NRs 000)	2007/08	2008/09	2009/10	2010/11	2011/12
GoN	124,167,256	170,222,110	207,413,750	250,324,355	285,113,114
Foreign Loan	17,367,430	18,700,562	21,560,674	22,231,415	29,654,092
Foreign Grant	27,460,914	47,093,225	56,955,576	65,344,230	70,132,794
Total GoN Budget	**168,995,600**	**236,015,897**	**285,930,000**	**337,900,000**	**384,900,000**
Year-on-Year Increase (%)		**39.7**	**21.1**	**18.2**	**13.9**

Table 8: Government Expenditure and GDP (2007 Prices)

2007 Prices (NRs 000)	2007/08	2008/09	2009/10	2010/11
Gross Domestic Product (GDP)	755,257,000	844,376,000	811,878,000	822,172,000
Government Budget	161,350,000	203,976,000	198,737,000	206,548,700
Government Budget as a % of GDP	**21**	**24**	**24**	**25**

Planned government expenditure is increasing in relation to GDP and planned Government expenditure itself has also increased significantly. In real terms, the Government Budget has increased by around 28% in the period reviewed. This magnitude of growth is a significant contextual point. Real, rapid planned growth of this magnitude across a variety of policy initiatives has an inevitable effect on the governance and institutional environment and therefore the capacity to respond to climate change issues in a controlled, sustainable and consistent manner. The data from Table 7 is presented in Chart 1.

Chart 1: Sources of Government Funding 2007/08 to 2011/12



The proportions of Government funding over the period between domestic and foreign sources are broadly static, with Government sources financing around 75% of planned expenditure and foreign sources about 25 % (Chart 1). There has been a shift within the foreign sources from Loans to Grants as a means of funding, with the proportion of loan funding falling from 10% to 8% and the proportion of grant funding increasing from 16% to 18%.This is further exemplified in Table 9 :

Table 9: Proportion of Funding of Government Budget 2007/08 to 2011/12 (in Percent)

Current Prices	2007/08	2008/09	2009/10	2010/11	2011/12
GoN	73.5	72.1	72.5	74.1	74.1
Foreign Loan	10.3	7.9	7.5	6.6	7.7
Foreign Grant	16.2	20.0	19.9	19.3	18.2
Total GoN Budget	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 10: Government Budget Execution 2007/08 to 2010/11

Current Prices (NRs 000)	2007/08	2008/09	2009/10	[7]2010/11
Total GoN Budget	168,995,600	236,015,897	285,930,000	337,900,000
Actual Expenditure	161,349,894	219,661,918	259,689,106	306,270,386
Underspend	7,645,706	16,353,979	26,240,894	31,629,614
% Underspend	**4.5**	**6.9**	**9.2**	**9.4**

4.2.2 Overall Government Expenditure

The analysis presented under the budget review indicates a planned rapid expansion in government and suggests that absorptive capacity will inevitable affected by this. This position is borne out in the review of expenditure in government as a whole.

It can be seen in Table 10 that the Government has underspent its budget in each of the last four financial years where actual data is available. The effects on funding of overall expenditure of this underspend is deduced from the data presented below in Table 11 and Table 12:

Table 11: Funding of Actual GoN Expenditure 2007/08 to 2009/10 (NRs Millions)

Actual (NRs Million) (Current prices)	2007/08	2008/09	2009/10
GoN	132,049	183,309	209,920
Foreign Loan	8,979	9,969	11,223
Foreign Grant	20,321	26,383	38,546
Total Expenditure	**161,349**	**219,661**	**259,689**
Year-on-Year increase (%)		**36.1**	**18.2**

[7] Revised Estimate or Near Actual

Table 12: Funding of Actual GoN Expenditure 2007/08 to 2009/10 (in Percent)

ACTUAL	2007/08	2008/09	2009/10
GoN	81.8	83.5	80.8
Foreign Loan	5.6	4.5	4.3
Foreign Grant	12.6	12.0	14.8
Total Expenditure	**100.0**	**100.0**	**100.0**

The salient contextual points on actual overall Government expenditure and its funding are as follows:

- Government is funding around 80% of expenditure from domestic sources over the period reviewed.
- Foreign loans are reducing as a means of funding overall expenditure whilst foreign grants are increasing.
- The overall level of non-domestic funding of Government expenditure is increasing marginally over the years reviewed.

In broad terms, Government has underspent on its budget in the period reviewed and, as may be expected with rapid planned growth, the magnitude of underspend is increasing year on year. In summary therefore, the broader financial *context*for the Government's climate change response over the past five years may be characterised as follows:

- Government expenditure is increasing at a significant rate which, as with any significant change, is likely to lead to governance and institutional capacity being strained. This may be characterised as an issue of absorptive capacity that is likely to affect critical and high priority policy issues disproportionately. Essentially, the greater and longer the planned growth, the greater the underspend that arises as the institutions' absorptive capacities are put under strain to maintain pace.
- Full budget execution has fallen short in each of the last four years where data is available.
- Government funding of planned expenditure has remained broadly static at around 75% of the budget throughout this period of growth. However, perhaps due to slippage in budget execution, it is evident that Government is funding a greater proportion of overall expenditure, foregoing grant funding in the process.
- Foreign sources overall have remained broadly static in the period reviewed, however there has been a noticeable shift in the proportion of Grants versus Loans in favour of more grant funding. This is reflected in both planned and actual figures.
- This *overall* picture supports the need for institutional strengthening as well as financial support as being integral elements of the Government's response to key policy initiatives, including its response to climate change.

4.3 Identification of government climate change expenditure

4.3.3 Definition and Methodology

There are no clear definitions of climate change-related expenditure in use in the Government and a wide range of terminology in this broad area of activity was noted. This is perhaps not surprising as the GFSM[8] 2001, the international standard that sets out the Classification of the Functions of Government (COFOG), does not identify climate related expenditure other than a single reference to Climate Protection under the Pollution Abatement function in Environmental Protection.

There is no clear and adequate definition of climate change in the administrative expenditure codes of the Government. From the budget codes only environment expenditure can be identified and spending on climate change expenditure, with the notable exception of expenditure from the recently established REDD cell is not explicitly identified. Indeed the functional analysis presented in the Red Book in respect of Environmental Protection comprised activity in only four Ministries and represented less than 0.5% of Government planned and actual spend in the years 2009/10 to 2011/12.

Most of the functional budget classifications match with the national periodic plan and annual plan of the country. For example, paragraph 4 of the Budget Speech for the fiscal year 2011/12 says that the basis of the (budget) annual plan is the Approach Paper of the TYP. The TYP 2010/11-2012/13 states the programs for the implementation of the NAPA and also explains the programs under REDD. Similarly it also explains about climate change-related agricultural research. Although there is not a separate chapter on climate change, issues on climate change are included in the relevant chapters (i.e. agriculture, forestry, irrigation, alternate energy and hydrology and meteorology).

Further issues associated with the recording of climate change-related expenditure were noted in Project Approval documents. For example, the term 'climate change' did not appear in the documentation of one of the most significant Clean Energy projects in Nepal. An abstract from this document is shown at Appendix 1. It was further noted from Government documents and from general currency that a range of terminology in this field is in use, including climate protection, climate change, climate related, climate resilience, climate driven, climate induced, climate finance and climate sensitive. Accordingly, in both the Red Book and the National Planning Commission's Annual Development Programmes Volume 1, functional analyses of spend do not reference climate change explicitly as a category or function, although the latter document uses the term climate change to describe activities of named programs.

Given this background, and in conjunction with Government officials and others, a review of the relevant documents (see above) was completed and ten Ministries were identified as likely to undertake activities relevant to climate change on a functional basis. The identification of these Ministries was based on previous national classifications of those parts of government where climate change-related activities would likely occur and, in particular, the NAPA process, which had identified nine priority ministries. These Ministries and their actual (or near actual) expenditure for 2009/10 and 2010/11 and planned expenditure for 2011/12 is presented in Table 13.

[8] Government Finance Statistics Manual

Table 13: Climate Change Budgets and Expenditure – Key Line Ministries

No.	Ministry	2009/10 (Actual) NRs '000	2010/11 (Revised Estimate) NRs '000	2011/12 (Budget) NRs '000
1	Ministry of Local Development	30,560,983	35,067,404	44,500,591
2	Ministry of Physical Planning and Works	23,974,147	30,157,380	43,794,678
3	Ministry of Agriculture & Co-operatives	6,882,607	9,537,342	12,431,084
4	Ministry of Irrigation	8,463,024	7,168,855	10,028,384
5	Ministry of Forests & Soil Conservation	3,353,958	4,209,265	5,286,327
6	Ministry of Environment	3,510,137	2,611,758	2,878,329
7	Ministry of Industry	1,270,874	1,759,387	2,315,714
8	Ministry of Energy	714,870	661,213	1,363,312
9	**RELEVANT for CC MINISTRIES TOTAL**	**78,730,600**	**91,172,604**	**122,598,419**
10	**TOTAL GOVERNMENT (incl Financing)**	**259,689,106**	**306,270,386**	**384,900,000**
11	**Relevant Ministries as % of Government**	**30.3**	**29.8**	**31.9**

Each of these Ministries has programs of climate related expenditure activity either directly or indirectly, but not all of the expenditure within each Ministry is climate or climate change related. However, Table 13 illustrates the scale, scope and boundaries of the analysis undertaken and also illustrates the cross-cutting, diverse nature of climate change response and climate related activity. The diversity of Ministries also highlights the broad constituency of professional perspectives to be considered in defining climate change expenditure. Climate Change Expenditure is executed by Government within a substantial block of existing Government activity.

4.3.4 Climate Change Planned and Actual Expenditure

The major climate change programs, cost centres and projects within these Ministries were identified on a qualitative and, in the absence of consensus on definition and scope of climate change expenditure, judgemental basis from National Planning Commission ADP (NPC) Volume 1 and Ministry of Finance (MoF) internal documents. Whilst in some cases climate change activity is explicitly identified in the documentation, others indicate a climate change association by the administrative description of the activity within the classification chart – an example of this being the Hydrology code within the Ministry of Environment. In other cases, institutional knowledge was used to identify and in some cases exclude apparently likely codes[9].

This initial identification is therefore *indicative*, as some projects and codes selected may not focus entirely on climate change, whilst others have a stronger and more obvious association with this activity as it is understood in Nepal. It is also the case that some elements of climate change related activity, such as the Environmental Management Cell within

[9]Initially we identified around 120 codes on a broad, qualitative-judgement basis. This was pared down to a final list of 83 codes

the Ministry of Environment and Disaster Relief Co-ordination within the Ministry of Home Affairs[10] for example, have not been included as they do not have a separate, independent administrative identity within the Government Classification Chart and are budgeted for as part of the Ministry Secretariat code. Essentially, these activities are not separately identifiable at this time.

Using this approach, a total of 83 cost centres, programs and projects under the 10 Ministries listed in Table 13 were identified as being relevant to climate change. In the selection of relevant programs the management functions (codes) of each Ministry were not included. Whilst these codes will include activities in relation to climate change, it was not possible to identify these precisely. The analysis undertaken therefore focuses on the most direct costs, based on the judgements and research mentioned previously in respect of these 83 codes. It should be noted that within the 83 codes there are some activities that may be regarded as more relevant to climate change than others. Accordingly, the codes were further classified by these criteria. Criteria for identification of the relevant codes are noted in Table 14 below:

Table 14: Criteria for the Categorisation of Programs within Ministries

Relevancy of Code[11]	Criteria
High	Programs/Projects and cost centres with major activities on climate change adaptation/ mitigation (in term of biodiversity, energy, land, water, resource management). It has specified climate change activities in their programs. It has intensive field level implementation of the activities related to climate change.
Moderate	Programs/Projects and cost centres with significant activities related to environmental management. It does not have specific climate change headings in their project /program but those activities ultimately help in environmental protection and management.
Low	Programs/Projects and cost centres with some activities related to environmental conservations and management. Those environment related activities are not so significant in the magnitude and coverage area. These are mainly administrative activities.
Unrelated	The Programs/Projects and cost centres which have no climate change activities neither field level activities on land, water and forest nor education activities are considered as unrelated to climate change expenditure. Similarly the programs/projects without any environment conservation measures are also categorized as unrelated programs /projects.

An overall financial summary of the 83 codes is presented below in Table 15. Full details of the 83 programs are shown at Appendix 2: List of climate change administrative codes.

[10] There is a fund for disaster relief which is under the central budget. Government of Nepal, every year allocates Rs 5, 00, 00,000 through this ministry for emergency response of disaster affected people. It provides relief fund for- individual casualty of Rs 25,000, for Damage of house- Rs 5,000-10,000(per household) and Rs 1,00,000 (in each district) for each district relief fund. These figures indicate that there is no additionally in expenditure since Ministry is spending similar expenditure for the last 3 years.

[11] It was noted that in the Red Book the Government uses the classification Directly Supportive, Indirectly Supportive and Netural for the thematic analysis of Gender Responsive Budget Estimates.

Table 15: Budgeted Expenditure on Relevant Programs 2007/08 - 2011/12

Year (NRs 000)	83 Relevant Codes(Budget)	Total Government Budget	Gross Domestic Product (GDP)[12]	83 Relevant Codes as a % of Government Budget	83 Relevant Codes as a % of GDP
2007/08	9,684,560	168,995,600	755,257,000	5.7	1.3
2008/09	15,128,490	236,015,897	909,309,000	6.4	1.7
2009/10	18,564,035	285,930,000	1,060,881,000	6.5	1.7
2010/11	25,631,913	337,900,000	1,219,116,000	7.6	2.1
2011/12	27,628,848	384,900,000		7.2	
Average				**6.7**	**1.7**

The significant points to note from Table 15 are shown below:

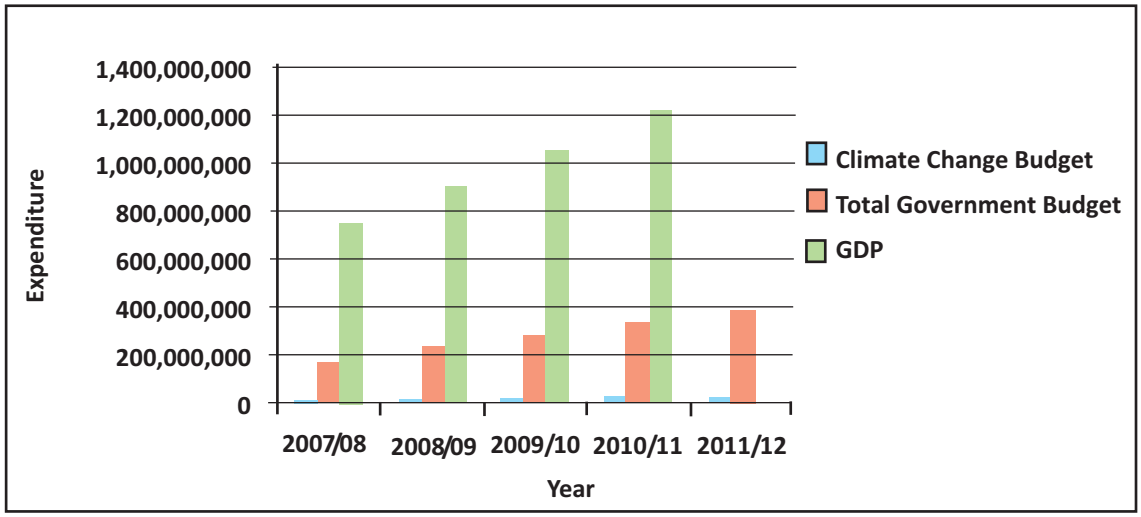
i. Budgeted climate change expenditure has been on average around 6.7% of the annual government budget over the past five years.

ii. In general terms, the data reviewed indicates that planned climate change expenditure is increasing as a proportion of both GDP and the overall government budget.

iii. The absolute value of planned climate change expenditure by the Government has increased year-on-year over the period reviewed

iv. In general terms, planned climate change expenditure has also increased year-on-year from 1.3% to 2.1% of GDP. This is illustrated in Chart 2 below:

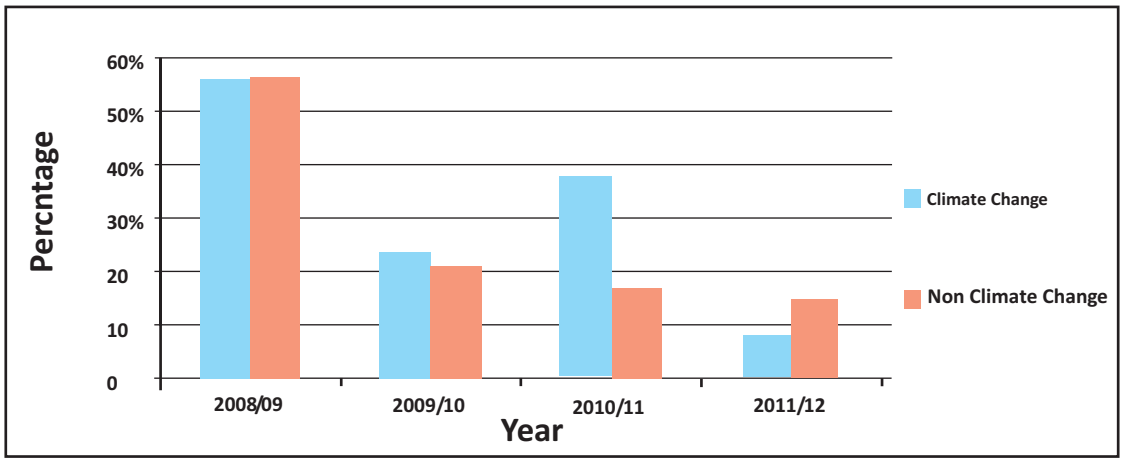
Chart 2: Budgeted Climate Change Expenditure 2007/08 to 2011/12



[12] Source, MoF, 2011, Economic Survey. 2011, Government of Nepal, Ministry of Finance

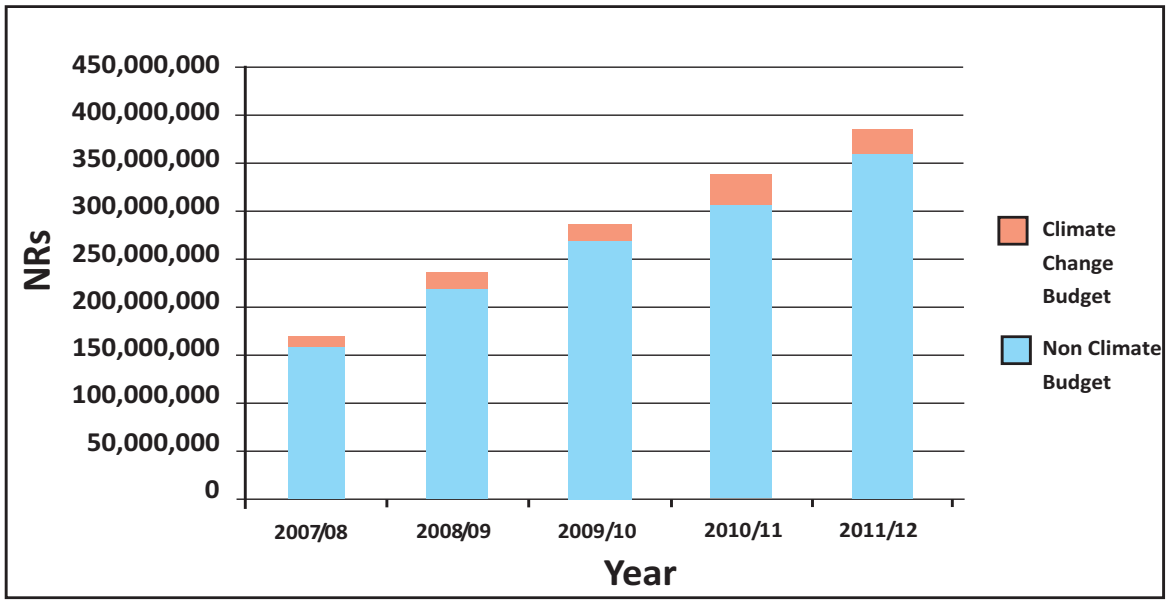
v. It was also noted that the rate of growth of the climate change budget *exceeds* the rate of growth of the Government budget as a whole in three of the last four years. This is illustrated in Chart 3 below:

Chart 3: Climate Change Budget Increase vs Non Climate Change Budget Increase



In broad terms, planned climate change expenditure has been increasing as a proportion of the Government budget over the past five years (from 5.7% to 7.2%). However, this figure should treated with caution as it is a very full estimate and comprises expenditure that is assessed as of moderate and low relevance as well as budgets that are more obviously climate change related. The overall basket of relevant budgets is illustrated in Chart 4.

Chart 4: Climate Budget as a Proportion of Government Budget (Current Price)



- The value of budgeted climate change expenditure, at current prices, has increased almost threefold in the five year period reviewed indicating significant growth in climate change functional activity.
- Climate change planned expenditure contributed around 2.1% to GDP in the last year in which full data are available.

Even allowing for methodological limitations it is difficult to escape the conclusion that climate change expenditure is a significant financial, economic, institutional and managerial undertaking for the Government of Nepal. It was concluded above that government expenditure is increasing at a rapid rate which, as with any significant change, is likely to lead to governance and institutional capacity being strained. This point perhaps applies to an even greater extent in respect of climate change activity. The rate of growth in this budget has exceeded that of the Government as a whole and of other non-climate change budgets by a significant margin. This situation, naturally, brings fiduciary risk, financial management, governance, effectiveness and internal control issues into consideration as a feature and consequence of significant growth over a relatively short period of time.

4.4 Technical assistance

In addition to the Red Book there is significant expenditure on Technical Assistance Projects by the Government of Nepal. It is noted that, typically, Technical Assistance is not captured by the Government's systems and is therefore 'off-budget'. This point was noted recently in public reports quoting the Auditor General[13]. A review of Technical Assistance was undertaken to identify climate change expenditure. An indicative figure for 'off-budget' expenditure is around USD 13m per year. This represents around 3% of the total of climate change expenditure already identified from the 83 codes summarised in Table 15. Full details of the calculation of the estimated sum of USD 13m are shown at Appendix 3: Summary of Government of Nepal Technical Assistance as at September 2011. It is understood from discussions with Ministry of Finance officials that all Technical Assistance in Nepal is 'off-budget'. Accordingly, it may be concluded that this sum is additional expenditure over and above that identified directly from primary Government sources.

4.4.5 Pipeline Development Expenditure

The majority of the analysis undertaken relates to historic trends, which showed a progressive increase in sums allocated for climate change expenditure. Table 16below is included to give an indication of future donor funding of climate change initiatives. It can be seen that the sums involved are substantial and continue the trend of significant donor funded expenditure in the area of climate change.

[13] http://www.ekantipur.com/the-kathmandu-post/2011/07/24/money/technical-assistance-donors-billions-sans-proper-auditing/224399.html

Table 16: Climate Change Financing in Nepal (Ongoing and Pipeline)

No.	Name of the Project/program[14]	Donor	Amount (USD Million)		Remarks
			Grant	Loan	
1	Nepal Climate Change Program	DFID/EU	18.9		Pipeline
2	Pilot Project for Climate Resilience (PPCR)	Climate Investment Fund (CIF)	50.0	36.0	Pipeline
3	Scaling-up of Renewable energy program	CIF	40.0		Pipeline
4	Energy Sector Assistance Program	Danida, Norway, Germany, DFID	60.0		Ongoing
5	Rural Energy for Rural for Livelihood	WB, UNDP	3.3		Ongoing/pipeline
6	Renewable Energy Project	EU	18.0		Ongoing
7	Biogas Support Program	SNV, KFW	2.4		Ongoing
8	Improved Water Mill Support Program	ADB	1.1		Ongoing
9	Global Environment Fund Allocation for Nepal (Bio-Diversity Climate Change and Land Degradation) for next 4 years	GEF	8.3		Pipeline
10	Micro Hydro Power Development Fund	Germany	7.0		Ongoing
11	REDD forestry and Climate Change	World Bank Trust Fund	3.4		Ongoing
12	Energy Efficiency Through Loss Reduction	ADB	0.3	65.0	Ongoing
13	Kathmandu Sustainable Urban Transport	GEF	2.5		Ongoing
14	Kathmandu Sustainable Urban Transport	ADB	10.0		Ongoing
	Total		**225.0**	**101.0**	

There are 13 programs, with a total cost of USD 326 million, funded or in the process of being funded by donors. Of this amount, approximately USD 225 million is in terms of grants and about USD 101 million is in terms of loan. This proportion of grant to loan (approximately 70 to 30 precent) is broadly in line with the historic five year average of the components of donor funding (75 to 25 percent). This is explored further in the following section of the report.

4.5 Overview of sources of government climate change funding

It was noted above that the climate change budget has undergone an almost threefold increase over the past five years. An increase of this magnitude and trajectory is obviously significant and prompts the question of how it is being financed. An analysis of the 83 relevant programs by source of funding was therefore conducted. Summary results are presented in Table 17 and Table 18 below:

[14] Source: GoN, Ministry of Government, Foreign Aid Division, and AMP Nepal

Table 17: Source of Funding: Climate Change Programs 2007/08 to 2011/12 (NRs 000)

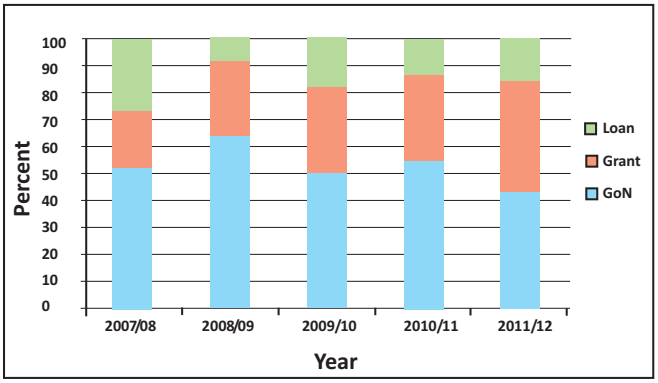
Source	2007/08	2008/09	2009/10	2010/11	2011/12
GoN	5,244,529	9,285,375	8,423,717	11,399,498	12,188,491
Grant	2,003,571	4,384,416	7,237,013	10,643,427	11,148,778
Loan	2,436,460	1,485,699	2,903,305	3,588,988	4,291,579
Total	**9,684,560**	**15,155,490**	**18,564,035**	**25,631,913**	**27,628,848**

Table 18: Source of Funding: Climate Change Programs 2007/08 to 2011/12 (%)

Source	2007/08	2008/09	2009/10	2010/11	2011/12
GoN	54.2%	61.3%	45.4%	44.5%	44.1%
Grant	20.7%	28.9%	39.0%	41.5%	40.4%
Loan	25.2%	9.8%	15.6%	14.0%	15.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Perhaps the most significant points to note are the change in, and composition of, the proportions of climate change funding in the past five years. It is also notable that the funding of climate change activity is significantly different to that of other Government of Nepal activity when each is considered as a whole. In broad terms, funding of climate change expenditure in the 83 selected programs in 2007/08 was around 45/55 between donor and government and this has moved progressively to around 55/45. In other words, the majority of funding was provided by government up to the year 2008/09 and thereafter moved towards a balance of majority donor funding. As with government budgets as a whole, there has also been a shift within climate change funding from loan funding to grant funding during this period. In respect of the 83 codes reviewed, this shift was more pronounced with grant funding doubling and loan funding almost halving in the period. This is illustrated in Chart 5: Sources of Climate Change Funding 2007/08 to 2011/12 below:

Chart 5: Sources of Climate Change Funding 2007/08 to 2011/12



The level and proportion of donor funding in respect of climate change is clearly increasing, which raises some risk associated with the long term sustainability of such spending levels.

4.6 Analysis of government climate change expenditure

4.6.1 Relevance According to Defined Criteria

As set out in Table 14: Criteria for the Categorisation of Programs within Ministries a total of 83 codes were identified and classified in terms of relevance to climate change as being highly relevant, moderately relevant or of low relevance. A summary by Ministry and assessed relevance is shown below in Table 19, together with a financial summary at Table 20.

Table 19: Number of Relevant Codes Analysed by Ministry

No.	Ministry	High	Moderate	Low	Total
1	Forests and Soil Conservation	13	7		20
2	Physical Planning and Works	2	10	2	14
3	Environment	11	1		12
4	Local Development	1	8	2	11
5	Irrigation	3	6		9
6	Agriculture and Cooperatives	3	4	1	8
7	Energy		6	1	7
8	Industry		2		2
	Total Codes	**33**	**44**	**6**	**83**

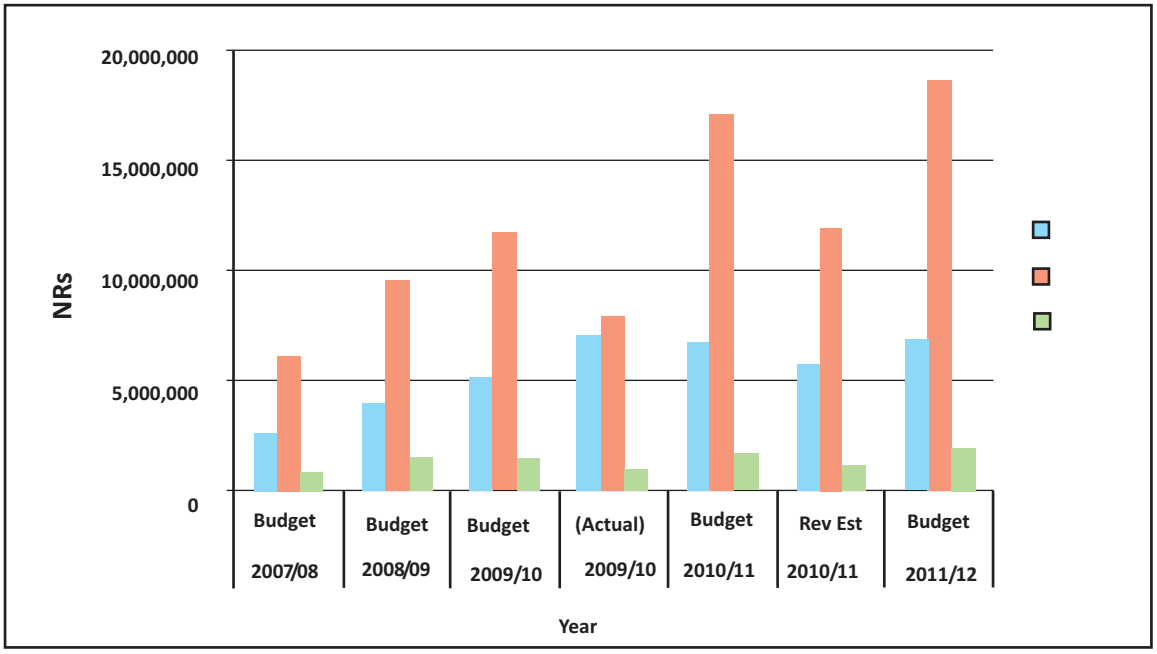
It can be seen from Table 19 that in terms of activities the Ministry with the highest number of budget line codes is the Ministry of Forests and Soil Conservation. The activities assessed as being most relevant are concentrated (with around 2/3rds of all codes) in this Ministry and the Ministry of Environment.

Table 20: Relevant Codes Budgeted Expenditure and Actual Expenditure

	2007/08	2008/09	2009/10	2009/10	2010/11	2010/11	2011/12
Classification	**Budget**	**Budget**	**Budget**	**(Actual)**	**Budget**	**Rev Est[16]**	**Budget**
High (33)	2,625,258	3,989,540	5,295,112	7,050,263	6,854,759	5,810,137	6,863,845
Moderate (44)	6,246,852	9,637,492	11,784,761	7,930,585	17,102,998	12,049,124	18,801,226
Low (6)	812,450	1,501,458	1,484,162	903,697	1,674,156	1,203,754	1,963,777
Total	**9,684,560**	**15,128,490**	**18,564,035**	**15,884,545**	**25,631,913**	**19,063,015**	**27,628,848**
Underspend				**14.4%**		**25.6%**	
GoN Total				259,689,106		306,270,386	
CC as % of Total				6.1%		6.2%	
High (33)				2.7%		1.9%	
Moderate (44)				3.1%		3.9%	
Low (6)				0.3%		0.4%	

This data is represented graphically in Chart 6:

Chart 6: Relevant Codes Budgets and Actual Expenditure (NRs. '000)



The main points to note from the data in respect of relevant programs are as follows:

- The proportion of highly relevant budgets and expenditure is low in comparison to the overall basket of relevant expenditure on a consistent basis across the years reviewed. However, it can be seen from the data that the overall level of highly relevant budgeted expenditure is increasing (from 2.6 bn Rupees in 2007/08 to 6.9 bn Rupees in 2011/12).
- On average around 27% of the total relevant climate change budget / spend was assessed as highly relevant whilst the moderately relevant component represented on average around 65% of the totals.
- For highly relevant budgeted expenditure this represents around 1.8% on average of total Government budgeted expenditure on an annual basis, whilst the moderately relevant expenditure represents around 4.4% on average of the same figure. Essentially, the highest assessed relevance category represents a very small proportion of the overall Government spend. This is perhaps the most significant aspect of the findings in the review in that budgets that are most relevant in the Government's response comprise less than 2% of the overall budget. If a cautious view is taken of the figures, given the methodological limitations it may be reasonably concluded that expenditure and budgets in respect of climate change are in the range of 1.5% to 6.0% per year.
- In the two years where budget execution data is available in respect of relevant spend, progressively increasing under-spends are noted of 14.4% and 25.6% albeit on an increasing budget provision. This is consistent with the overall Government pattern

of underspend, and is perhaps indicative of institutional strain in the face of ambitious budget levels, as mentioned in Table 12.Significantly, the magnitude of percentage under-spend in the climate change area is much higher than the government as a whole in each year – 9.2% and 9.4% in 2009/10 and 2010/11 respectively.

4.6.2 Analysis of Relevant Budgets and Expenditure by Ministry

Overall climate change budgets

The following analysis shows the administrative (Ministry) responsibility for the expenditure of the 83 relevant programs identified. A financial summary is presented in Table 21.

Table 21: Analysis of Relevant Climate Expenditure and Budgets(By Ministry)

No.	Ministry	No. of Codes	2009/10		2010/11		2011/12	
			Actual	%	Rev Est.	%	Budget	%
1	Physical Planning and Works	14	4,535,979	28.1	5,159,127	26.9	7,821,893	28.3
2	Local Development	11	2,410,007	14.9	4,966,453	25.9	5,860,176	21.2
3	Irrigation	9	3,642,385	22.6	2,814,687	14.7	4,802,444	17.4
4	Environment	12	3,436,616	21.3	2,523,549	13.1	2,780,502	10.1
5	Agriculture and Co-operatives	8	894,460	5.5	1,610,182	8.4	2,478,070	9.0
6	Forest and Soil Conservation	20	839,887	5.2	1,175,208	6.1	2,195,372	7.9
7	Industry	2	181,633	1.1	674,144	3.5	954,673	3.5
8	Energy	7	194,120	1.2	279,958	1.5	731,988	2.6
	Total	**83**	**16,135,087**	**100.0**	**19,203,308**	**100.0**	**27,625,118**	**100.0**

Analysis of the relevant 83 codes shows that four of the ten Ministries are responsible for between 77% and 87% of planned / actual expenditure over the period reviewed, indicating a concentration of expenditure within a small but diverse number of Ministries. These Ministries are:

- Physical Planning and Works
- Local Development
- Irrigation
- Environment

However, it was noted that Ministry of Forest And Soil Conservation have the largest number of relevant codes (20 of 83).

Proportions within Ministries

Table 22: shows climate change activities as a proportion of the overall expenditure of the Ministry.

Table 22: Climate Change Activity within Key Ministries

No	Ministry	2009/10 (Actual)	2010/11 (Revised Estimate)	2011/12 (Budget)
		% of Ministry		
1	Environment	97.9	96.6	96.6
2	Energy	27.2	42.3	53.7
3	Irrigation	43.0	39.3	47.9
4	Forests & Soil Conservation	25.0	27.9	41.5
5	Industry	14.3	38.3	41.2
6	Agriculture & Co-operatives	13.0	16.9	19.9
7	Physical Planning and Works	18.9	17.1	17.9
8	Local Development	7.9	14.2	13.2

The key Ministries from this perspective are:

- Environment
- Energy
- Irrigation
- Forests & Soil Conservation
- Industry

In each case, these Ministries devote over 40% of planned resources to climate change as it is understood in Nepal.

4.6.3 Mitigation Versus Adaptation

A key analysis in respect of the 83 codes is in respect of the percentages spent on mitigation and adaptation. An analysis was undertaken on a qualitative judgement basis of each of the 83 Relevant Codes as to where each would fit within the OECD Classification of Climate Change Finance. It should be stressed that this exercise is indicative only, as detailed information in respect of the activity within each code was not reviewed. Nevertheless, the main finding was that, on average, around 76% of budget allocation in the five years reviewed was for adaptation activities. It was also noted that little proportionate deviation is evident from year to year, and that both mitigation and adaptation budgets have increased by similar magnitude.

Full results of the analysis are presented in Table 23.

Table 23: Budget Analysis: Adaptation v Mitigation

Codes	42		41		
Year (NRs 000)	Adaptation	% of Annual Climate Change Budget	Mitigation	% of Annual Climate Change Budget	Total
2007/08	7,157,817	74	2,526,743	26	**9,684,560**
2008/09	11,344,108	75	3,784,382	25	**15,128,490**
2009/10	14,407,048	78	4,156,987	22	**18,564,035**
2010/11	20,061,504	78	5,570,409	22	**25,631,913**
2011/12	20,598,585	75	7,030,263	25	**27,628,848**
Average (%)	**76**		**24**		**100**

4.6.4 National Versus Local Climate Change Expenditure

The current administrative codes in the Government of Nepal permit an analysis of expenditure between National Agencies and Local Bodies. This can be achieved by analysing the six digit classification code as shown in Figure 4: Government of Nepal Classification Chart below which shows examples of how codes are structured to enable this analysis:

Figure 4: Government of Nepal Classification Chart

Ministry	Administrative
XXX	**XXX**
	Digit 1 Refers To:
	0 = Ministry
	1 = Program
	8 = Local
331	**102**
Ministry of Environment	Hydrology Program
365	**801**
Ministry of Local Development	District Development Committee Grant

A total of 16 local codes were identified from the 83 identified as relevant to climate change. A financial summary of the two financial years where expenditure data is available is presented below in Table 24:

Table 24: Local Component of Relevant Climate Change Expenditure

No.	Project Name	2009/10 Budget	2009/10 Actual	Variance	2010/11 Budget	2010/11 Rev Est	Variance
1	Community Forest Development Program (Including Green Employment)	95,696	88,494	-7,202	118,110	106,267	-11,843
2	Forestry Program For Livelihood	50,088	3,374	-46,714	51,952	66,003	+14,051
3	Dolakha Ramechhap Community forestry	10,365	10,181	-184	12,049	8,153	-3,896
4	District land protection program	448,219	427,952	-20,267	465,613	416,923	-48,690
5	Community development and forest watershed protection program	46,921	46,340	-581	47,092	43,590	-3,502
6	Botanical Conservation & Park Development Project	8,230	8,017	-213	8,929	8,745	-184
7	Botanical Utilization and marketing Program	12,328	8,205	-4,123	13,734	13,115	-619
8	Rural Drinking Water project	26,944	719	-26,225	21,475	15,000	-6,475
9	Drinking water project	1,852,772	1,832,015	-20,757	2,142,729	1,967,366	-175,363
10	Rural Drinking Water Sanitation Program	442,369	416,429	-25,940	483,568	415,903	-67,665
11	Rural Water Resource Management Project	213,622	200,677	-12,945	267,406	53,708	-213,698
12	Rural Reconstruction & Rehab Sec Dev Prog	2,114,429	767,866	-1,346,563	2,599,683	1,760,425	-839,258
13	Rural Community Infrastructure Dev Program	276,802	112,247	-164,555	398,254	326,808	-71,446
14	Environment Management Program at Local Level	80,681	80,494	-187	279,295	156,830	-122,465
15	Rural Water Supply & Sanitation Project in Western Nepal	109,089	93,539	-15,550	331,584	221,953	-109,631
	Total	**5,788,555**	**4,096,549**	**-1,692,006**	**7,241,473**	**5,580,789**	**-1,660,684**

It can be seen from the table that substantial underspends (of the order of 29% in 2009/10 and 22% in 2010/11) occurred. However, the absolute level of expenditure between the two years has actually increased. It may be suggested that this has arisen due to institutional factors that include the following:

- A substantial increase in budget has met with institutional capacity issues, such as stress on funds release or mobilisation issues at activity level, in that the budget increase may be characterised as ambitious. The level of increase in the budget between the two years was around 25% in cash terms.

Table 25: Line Ministry Climate Change Budgeted Expenditure at Local level

No	Project Name	2007/08 Budget	2008/09 Budget	2009/10 Budget	2010/11 Budget	2011/12 Budget
1	Community Forest Development Program (Including Green Employment)	47,583	59,309	95,696	118,110	166,640
2	Forestry Program For Livelihood	92,891	110,433	50,088	51,952	0
3	Dolakha Ramechhap Community forestry	30,905	19,279	10,365	12,049	0
4	District land protection program	195,331	281,446	448,219	465,613	491,405
5	Community development and forest watershed protection program	29,891	78,862	46,921	47,092	57,742
6	Botanical Conservation & Park Development Project	6,905	5,989	8,230	8,929	12,180
7	Botanical Utilization and marketing Program	4,431	5,031	12,328	13,734	12,435
8	Rural Drinking Water project	16,130	18,789	26,944	21,475	25,000
9	Drinking water project	1,311,363	1,505,552	1,852,772	2,142,729	2,456,166
10	Rural Drinking Water Sanitation Program	471,155	471,543	442,369	483,568	483,748
11	Rural Water Resource Management Project	124,928	150,016	213,622	267,406	171,950
12	Rural Reconstruction & Rehab Sec Dev Prog	800,000	823,682	2,114,429	2,599,683	3,966,030
13	Rural Community Infrastructure Dev Prog	338,932	275,192	276,802	398,254	448,956
14	Environment Management Program at Local Level	68,398	84,859	80,681	279,295	165,919
15	Rural Water Supply & Sanitation Project in Western Nepal	12,000	48,720	109,089	331,584	242,122
16	Community Irrigation Project	0	0	0	0	115,250
17	**Local Level Total**	**3,550,843**	**3,938,702**	**5,788,555**	**7,241,473**	**8,815,543**
	Total Climate Change Budget	**9,684,560**	**15,128,490**	**18,564,035**	**25,631,913**	**27,628,848**
	%	**36.7**	**26.0**	**31.2**	**28.3**	**31.9**

It can be seen from the table that the 16 codes indicate a local level programme, executed by a National Ministry, accounting for between 26% and 36% of their budget over the five years reviewed. This is some way short of the targeted 80% of climate change expenditure to be spent at the local level. However, it should be noted that elements of climate change budgeted activity within the District Development Grant, or other locally executed but centrally budgeted activities, are excluded from this analysis. It can also be seen that the sums planned to be spent at the local level are increasing in absolute terms year-on-year. Essentially, the analysis indicates that most of the expenditure in this area is executed by National Government Agencies. The following Line Ministries undertake climate change expenditure at the local level:

Table 26: Significant Spending Ministries at Local level

No	Ministry	2007/08 Budget	2008/09 Budget	2009/10 Budget	2009/10 Actual	2010/11 Budget	2010/11 Rev Est	2011/12 Budget
1	Local Development	1,815,413	1,854,012	3,236,992	1,671,252	4,359,790	2,935,627	5,593,975
2	Physical Planning and Works	1,327,493	1,524,341	1,879,716	1,832,734	2,164,204	1,982,366	2,481,166
3	Forests and Soil Conservation	407,937	560,349	671,847	592,563	717,479	662,796	740,402
	Total	**3,550,843**	**3,938,702**	**5,788,555**	**4,096,549**	**7,241,473**	**5,580,789**	**8,815,543**

It can be seen from the table that between 50% and 60% of local expenditure is made and budgeted for, on a consistent basis, by the Ministry of Local Development. This is perhaps a good illustration of the issue with regard to the definition of climate change expenditure, as the Ministry programs can readily be characterised as development spend and the additionality element that can be attributed to the effects of climate change is subsumed within the program as a whole as it addresses both development deficit and climate change issues. From an institutional point of view, whilst it would seem to be rational the Ministry of Local Development is utilised prominently to deliver climate finance.

4.6.5 Economic Analysis

An analysis by economic code of the 33 codes assessed as being highly relevant climate change-related activities was conducted to identify the expense items acquired as a result of the climate change spend. This was conducted on a focussed basis to give an indication of key issues. The classification between capital and recurrent is shown in Table 27.

Table 27: Analysis by Economic Classification

Economic Classification	2009/10 Actual	2010/11 Revised	2011/12 Budget
Capital	3,193,951	2,813,919	3,405,428
Recurrent	3,856,312	2,996,218	3,458,417
Total	**7,050,263**	**5,810,137**	**6,863,845**

The table suggests a fairly even split between capital and recurrent expenditure. However, deeper analysis of the recurrent spend indicates that most of the expenditure is in respect of 'Unconditional Capital Grant to Other Institutions & Individuals', which is shown as recurrent expenditure in the Government's Chart of Accounts. This is shown in Table 28.

Table 28: Analysis of Recurrent Expenditure and Budgets

Economic Item	2009/10 Actual	2010/11 Revised Estimate	2011/12 Budget
Unconditional Capital Grant to Other Institutions & Individuals	3,006,216	2,007,270	2,311,790
Other Recurrent Expenditure	850,096	988,948	1,146,627
Total	**3,856,312**	**2,996,218**	**3,458,417**

This analysis highlights three issues:

- There is clearly a focus on the creation of fixed assets and capital items in the highly relevant climate change spend. This suggests capacity building activity must focus on developing asset management skills and knowledge in the Government to enable sustainability.
- The use of unconditional grants as a modality introduces a need for governance structures to ensure that grants to external parties are used for the purpose intended. Essentially this introduces a need for fiduciary risk management arrangements, specifically related to transfers of funding to third parties.
- Some consideration should be given to revising the classification of Capital Grants as recurrent expenditure. The economic character of this expenditure is intended to create assets and accordingly it may be argued that this should be classified within the capital codes. Further economic analysis is presented in Table 29.

Table 29: Economic Analysis by Code

Economic Item	2009/10 Actual	2010/11 Revised Estimate	2011/12 Budget	GoN	Foreign Grant	Foreign Loan
Civil Works Construction	3,086,364	2,619,766	3,197,411	1,983,305	1,190,148	23,958
Unconditional Capital Grant to Other Institutions & Individuals	3,006,216	2,007,270	2,311,790	830,413	1,481,377	
Other Expenses	957,683	1,183,101	1,354,644	609,752	619,642	125,250
Total	**7,050,263**	**5,810,137**	**6,863,845**	**3,423,470**	**3,291,167**	**149,208**

It can be seen the vast majority of expenditure is accounted for by two capital codes (albeit one of which is classified as recurrent). It can also be seen that this expenditure is fairly evenly funded between Donor and Government. This analysis indicates a clear mutual interest between funding stakeholder partners in respect of addressing modalities and capacity as outlined previously.

4.6.6 Priority Analysis

Each administrative budget line in the Red Book is allocated a priority code by the Government as Priority 1, 2 or 3 based on a set of criteria. An analysis of the 83 codes was undertaken in the 2011/12 Budget to identify each code by priority. It is understood that a criterion and weighting in respect of climate change was added to the Government's evaluation of priority from 2011/12. A copy of the criteria is shown at Appendix 4. Weight is given to climate change programs as part of the criteria on Environmental Sustainability. The overall results of the analysis are shown below in Table 30.

Table 30: Climate Change Expenditure By Budget Priority

Priority	No. of Codes	2009/10 (Actual) (NRs '000)	%	2010/11 (Rev Est) (NRs '000)	%	2011/12 (Budget) (NRs '000)	%
1	60	15,602,703	96.7	18,451,019	96.1	26,482,948	95.9
2	20	497,873	3.1	696,368	3.6	1,086,675	3.9
3	3	34,511	0.2	55,921	0.3	55,495	0.2
Total	**83**	**16,135,087**	**100.0**	**19,203,308**	**100.0**	**27,625,118**	**100.0**

The figure of 95% of budget and expenditure as Priority 1 is fairly consistent with the Red Book as a whole, where 90% of the budget in 2011/12 achieved this priority. However, it was notable that seven codes assessed as highly relevant according to the criteria at Table 14: Criteria for the Categorisation of Programs within Ministries achieved only Priority 2 status under the Government's criteria. The seven codes are shown below in Table 31.

Table 31: Government Priority Two Expenditure

Ministry	Project / Code	2011/12 (Budget) (NR '000)
Energy	Botanical Conservation and Park Development Project	12,180
Energy	Botanical Utilization and Marketing Program	12,435
Energy	Flood Forecasting	26,355
Environment	Sustainable Soil Management Project	4,033
Environment	Bio-Diversity Program	2,780
Irrigation	Water Induced Disaster Control Technology Project	92,015
Local Development	Environment Management Program at the Local Level	165,919
Total		**315,717**

It can be seen from the table that whilst the sums involved are small there is perhaps a revealing indication of the weight given to some aspects of climate change expenditure in the priority evaluation process and again points up the need for a clear definition that enables clear decision making and policy formulation.

4.6.7 Strategy Analysis

There are seven strategic themes within the Government of Nepal Red Book and each Budget Code is allocated to one of these strategies. An analysis of the 83 relevant codes was undertaken to identify which strategies were associated with climate change expenditure. The results are shown below in Table 32.

Table 32: Analysis of Climate Change Spend By Government Strategy

No.	Strategy Analysis 83 Relevant Programs	No. of Programs	2009/10		2010/11		2011/12	
			Actual NRs '000	%	Rev Est NRs '000	%	Budget NRs '000	%
1	Employment Centric, Poverty Alleviation Orientated, Sustainable and Broad-based Economic Growth	13	2,033,177	12.6	5,368,595	28.0	6,792,465	24.6
2	Federal Structure Supportive Physical Infrastructure	4	671,234	4.2	997,707	5.2	1,180,412	4.3
3	Inclusive and Equitable Development	2	145,572	0.9	386,310	2.0	701,665	2.5
4	Economic Social Transformation	42	12,211,318	75.7	10,765,934	56.1	16,049,247	58.1
5	Good Governance and Effective Service Delivery	6	105,130	0.7	238,651	1.2	231,970	0.8
6	Mainstreaming for Industry, Trade and Service Sector	16	968,656	6.0	1,446,111	7.5	2,669,359	9.7
	Totals	**83**	**16,135,087**	**100.0**	**19,203,308**	**100.0**	**27,625,118**	**100.0**

It can be seen from the table that on a fairly consistent basis climate change expenditure is associated in large measure with Economic Social Transformation. However, a noticeable trend is emerging in respect of Strategy 1 (Employment Centric, Poverty Alleviation Orientated, Sustainable and Broad-based Economic Growth)in that budget and spend attributable to this strategy is increasing markedly. It is also notable, in the climate change context that no mention is made of climate change or climate in the strategy definitions. This can perhaps be explained by the cross-cutting nature of the Government's response.

4.7 Private sector (including community and co-operatives) climate change expenditure

There is some community financing (i.e. met by households from private income) in response to climate change. Communities are financing clean energy in terms of equity for micro-hydro, biogas, solar energy etc. Similarly, communities are contributing to the development and management of community forestry. Table 33shows the financing by the community and cooperatives for climate change-related expenditure.

Table 33: Expenditure by the Private Sector (including communities and cooperatives)

Programmes[16]	2008/09	
	Number	Amount in '000 Rs
Community Forestry (FUG)	15,000	1,267,500
Micro and Mini Hydro	12	29,491
Pico Hydro	8	3,867
Biogas	19,479	908,579
Solar	53,662	431,879
Totals	**88,161**	**2,641,316**

It is estimated that about NRs 1,267 million is being invested annually for the development and management of community forestry by the households of Forest Users Groups, mostly in terms of human labour. This can be considered as a community contribution for the addition of carbon sequestration by reducing deforestation and improving degraded forest. In recognition of the contribution made by communities in forest protection measures, Norwegian donor funding has started to pay communities in three districts of Nepal (Dolakha, Gorkha and Chitwan) under a pilot program.

In addition to this expenditure, a program on building climate resilient communities through private sector development is approved in principle under the SPCR, with the implementing agency being the Federation of Nepalese Chamber of Commerce and Industry. Co-funding will be provided from IFC. Detailed modalities for the expenditure under this program have not yet been prepared.

[16] Pokharal et.al, 2008

4.8 Climate change expenditure through NGOs

Some NGOs are also working in the climate change arena and contribute expenditure. FECOFUN, a community based NGO has three projects related to climate change.

4.8.1 Community Forest Payment Mechanism

Funds are received from the Civil Society Window of NORAD. The project has two components: capacity building and measuring carbon on community forests, and providing compensation for the increase in carbon sequestration within community forestry (as mentioned above). The program covers 105 forest users group in three districts. For this NORAD provides USD 100,000 annually for 4 years. The program began in 2009 June and will end in 2013.

NORAD also provides USD 100,000 annually for three years from 2010/11 to 2012/13 to the Carbon Fund[17]. The fund will be distributed to increase carbon sequestration in community forestry. The baseline carbon was estimated during an initial phase and the funding of USD 100,000 has already been distributed in consideration of the increase in carbon sequestration from the selected FUGs in the FY 2010/11. Criteria were developed by a committee to distribute this funding. The members of the committee included representatives from the Asia Network for Sustainable Agriculture and Bioresources (ANSAB), Federation of Community Forestry Users, Nepal (FECOFUN), Dalit NGO Federation (DNF), the REDD cell of the Ministry of Forestry, representative of Nepal Federation of Indigenous Nationalities (NEFIN) and a representative of the FUG Network of each selected district. ANSAB also receive a similar amount i.e. USD 100,000 annually for 4 years to work on the technical aspects of the measurement of carbon in the selected districts. The International Centre for Integrated Mountain Development (ICIMOD) is the coordinating agency for these programs.

4.8.2 Grass roots Capacity Building for REDD

This work is being conducted with the help of RECOFTC (The Centre for People and Forests) based in Bangkok, Thailand. This is a three-year project covering 16 districts. The project was initiated June 2010 and will end in June 2013. It will provide USD 91,000 annually for three years. The main aim of this project is capacity building of the FUGs on REDD issues.

4.8.3 Social and Environmental Project

This project is funded by CARE Denmark. The amount of this project is USD 50,000 over one year, and it will end in December 2011. The main objective is to develop a REDD standard suitable to the Nepalese context. For that purpose, FECOFUN has organised workshops to improve social safeguards and develop measures to prevent violation of user rights and gain acceptance from the prevailing Nepalese Act.

A financial summary of climate change expenditure through NGOs is shown in Table 34 below:

Table 34: Climate Change Expenditure through NGOs

Activities	Donor	2009/10 (USD)	2010/11 (USD)	2011/12 (USD)	2012/13 (USD)
Develop Community Forestry Payment Mechanism (FECOFUN and ANSAB)	NORAD	200,000	200,000	200,000	200,000
Carbon Payment Fund	NORAD		100,000[18]	100,000	100,000
Grass-root capacity building for REDD +	RECOFTC		91,000	91,000	91,000
Social and Environmental Project	CARE -Denmark		50,000		
Total		**200,000**	**441,000**	**391,000**	**391,000**

[17] This fund is piloting the development of payment mechanisms for REDD
[18] This is 'Near Actual' Expenditure for the year 2010/11

4.9 Issues and recommendations

4.9.1 Issues

In broad terms, it is noted that there is no single definition in common usage with respect of climate change-related expenditure. A wide range of terms are used – including climate change expenditure, climate related expenditure, climate resilience expenditure, climate driven expenditure, climate induced expenditure and climate sensitive expenditure. In each case the word 'expenditure' may be substituted by 'activity'. This situation makes identifying the distinctions between each type of activity and expenditure, and therefore the intended outcomes difficult. Within the Government Classification Chart there is little explicit recognition of climate change expenditure at the present time. However, the level of climate change-related expenditure in the Government of Nepal is economically, financially and managerially significant, as evidenced by:

- Annual expenditure in this area constitutes around 1.5% to 2% of Gross Domestic Product (GDP) and in the range of 2% to 6% of Government Expenditure – depending on the view taken of the relevance of the expenditure. In both cases the trend of data indicates that budget allocations and expenditure is increasing.

- Around 76% of the climate change spend identified relates to adaptation activities.

- Around 95% of expenditure, as classified on an economic (expense) basis, relates to Capital Expenditure.

- Around 60% to 70% of climate change expenditure is executed directly by Central Government Agencies and the balance of the nationally controlled budget is executed through Local Agencies of Ministries. This is largely driven by Unconditional Capital Grants and programs in the Ministry of Local Development. This perhaps points up a significant definitional point in the separation of climate change additionality in respect of spend on Development Deficit issues, as climate change expenditure may well comprise only an element of the funds directed to local level.

- There has evidently been substantial growth in budgets and expenditure in the Government of Nepal as a whole and in Climate Change in particular. This is significant in terms of the effect on the institution's ability to deliver activity. Such growth affects fiduciary risk and has, in general terms, resulted in underspends.

  Funding of government climate change expenditure has a larger proportion of donor funding (55%) than the donor element of overall government expenditure, where 25% of the overall budget is funded by donors. The trend in climate change funding is moving towards increased donor funding. A significant sum of Technical Assistance, in the order of about USD 13 million[19] per year, in respect of climate related expenditure is not budgeted or accounted for through Government systems, (i.e. is 'off-budget'). This contributes to a fragmentation of

[19] Full calculation of this estimate is shown at Appendix 3: Summary of Government of Nepal Technical Assistance as at September 2011

budget implementation and hinders full co-ordination of expenditure to facilitate the best effect in terms of outputs and outcomes.

4.9.2 Recommendations

- It is clear that addressing the issue of definition of each category of climate related spend, including climate change, is a high priority at the national and, indeed, at the international level. In this respect, it may be an opportune time to recommend an update of the GFSM 2001 to incorporate terminology in respect of climate change.

- The issue of financial sustainability of current levels of expenditure is a significant medium and long-term challenge for Nepal. The significant contribution by donors (more than 50%) highlights the need for a long-term financing framework to be established. This funding basket will almost certainly include multi-stream funding from both domestic and international sources. At this stage, the scale of expenditure required over the long-term in response to the effects of climate change in Nepal is not known; establishing this is a significant and necessary first stage in the process of creating a funding framework.

- Some consideration should be given by Government to establishing separate and explicit climate change identities for administrative units within Ministries that deal with climate change issues. In addition, some consideration should be given to establishing coding structures that track thematic climate change expenditure at the point of expenditure.

- Some consideration should be given by Government to establishing further processes to ensure compliance with the Ministry of Finance requirements to record TA on the Aid Management Platform. By extension therefore, consideration should be given to establishing a full record of Technical Assistance within the Red Book to ensure recognition of all aspects of Government expenditure within Country Systems. This initiative would enhance the ability to identify climate change expenditure and funding more fully and accurately.

- The apparent large percentage of climate change spend on the creation of fixed assets (90%) brings into focus the need for emphasis on improved Asset Management disciplines in capacity building measures to ensure sustainable effectiveness of the assets created. Asset Management is a relatively new discipline[20] and it is recommended that consideration is given by Government and Donor Partners to the development of measures in this field. As with wider governance risks (see below) this could readily be designed as an integral component of Technical Assistance and Investment projects.

- This rapid growth in climate change expenditure presents obvious

[20] The first international standard was developed in 2008 (PAS55 Institute of Asset Management)

governance, control and effectiveness risks as systems of management will be placed under strain dealing with rapid change. This should be recognised at both the project and activity level and governance risk mitigation capacity building procedures designed as integral components of project design.

- The prevailing prioritization and strategy criteria do not explicitly address climate related activities. Some consideration should be given as to how this can be addressed given the cross-cutting nature of climate activity.
- There is no common reporting system or budget / expenditure classification between central government, local government and donors. This position adds to a fragmented record of finance which could be addressed by the use of a common chart of accounts. In the short term this makes the aim of identifying expenditure, budget and actual, technically challenging.

CHAPTER 5

ASSESSMENT OF CLIMATE CHANGE PUBLIC FINANCE MANAGEMENT

5.1 Introduction

The objectives of this brief chapter are: (i) to gain a better understanding of the national budgetary process with respect to climate change and the integration of policy with expenditure plans; and (ii) to gain a better understanding of the execution (governance, control and performance management) of the climate budget.

5.2 Budget formulation and approval process

The budget preparation process in Nepal starts in January and ends in July. It starts with the budget ceiling being set. A resource committee under the chairmanship of a member of NPC is formed to decide upon the budget ceiling. A budget preparation guideline is then distributed to each line ministry and local government indicating this ceiling. The line ministries send this guideline along with budget ceilings and priorities to their departments and from the departments to the regional and district level offices. Using these guidelines the district level offices prepare the next year's programs and budget and submit back up to the Ministry level. Finally,each line ministry prepares its program and budget. All these programs (i.e. Development Budget only) are then discussed by the NPC and finalized, considering the relevancy of the program, budget and budget handling capacity of the ministry. At the same time, there are discussions in the Ministry of Finance with regard to the budget and efforts are made to maintain each ministry within the ceiling of the budget.

The budget preparation process for climate change takes the same route, as there is no separate or special process that exists specifically for these expenditures. As discussed, climate change is a cross cutting issue and comes from many relevant ministries within their different programs. Many programs include climate change-related issues under their broader headings. In 2011, the NPC revised the prioritization criteria and included the issue of climate change for the first time, allocating a 10 % weighting for sustainable environmental issues. These issues include alternative energy and the reduction of the impacts of climate change. Hence, many climate change-related budgets come under P1 programs, although as noted in Table 30: Climate Change Expenditure By Budget Priority, some are also Priority 2 projects. Details of the prioritization criteria are presented in Appendix 10: Prioritisation Calculation for Development Projects.

Normally, the finance minister consults the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), professionals, and CBOs and NGOs in the budget preparation process. There is also a provision to discuss the budget at the ward and VDC level for the preparation of the VDC plan. All local self government plans are formulated with after wide discussion at the lowest level. All these plans are submitted to the district and ultimately to the central level through the Ministry of Local Development.

After the preparation of programs plans,these arethen discussed within the NPC and finalized. Similarly, the budget for these programs is finalized after discussion with the Ministry of Finance. The detailed budget preparation process and the guidelines provided by the NPC is appended in Appendix 9: Guidelines provided by NPC for the preparation of Plan and Budget.

5.3 Budget implementation

5.3.1 Key Implementation Agencies

The Environment Ministry is the focal ministry for the implementation of climate change-related programs and projects. However, as described in chapter 3, it does not have any district level presence. Recently, the government has decided to establish a climate change unit within the District Development Committee office and all climate related activities are intended to be implemented via this office. However, this process is not yet completed in all the districts. Hence at the time of writing, the implementation of climate change activities are carried out by the ten ministries identified in chapter 4.

5.3.2 Fund Flow Mechanism of the Government in Nepal

The Budget is declared and an Advance Expenditure Bill needs to be passed by Parliament by the 16th July in each fiscal year (although delays in this process occur). After the enactment of the Advance Expenditure Bill the MoF provides an authorization letter to all Ministries and the Financial Comptroller General Office. Ministries then provide the authorization letter to the concerned district offices and the Financial Comptroller General Office (FCGO). The FCGO provides its authorization letter to its District Treasury and Controller Offices (DTCOs) in all districts. Each DTCO then enters the budget headings within their District Accounting code (DAC). Following on from this, the District level office may ask for the release of the Budget from the DTCO. The DTCO checks the program with its budget heads and if it is in conformity with the program then the budget will be released, initially one third of the year for capital expenditure and one sixth for recurrent activities. In 37 districts, the system of cash release has been changed. The Treasury Single Account (TSA) is now used in these districts, with cash control carried out by DTCOs. They do not follow the reimbursement release system, but make cash payments for each expenditure of the spending agencies through a single government account with the bank. The detail of Fund flow mechanism is presented in Appendix 8: Funds Flow Mechanism in Nepal.

5.3.3 National Mechanism to Support for the Implementation at the Local Level

The implementation of the budget at the local level is made via two channels: from the district offices of the concerned Line Ministry and from the local self government organizations (i.e. DDC, VDC, and Municipalities). In case of implementation of district level offices of line ministries there will be support from the line ministries. However, line ministries may also implement some of their programs via local self government organizations.

5.4 Financial management institutional arrangements

5.4.1 Budget

There is a planning and budget department within all ministries. These departments are responsible for the preparation of the plan and budget. Nepal adopted a Medium-Term Expenditure Framework (MTEF) in 2002. Under the MTEF, programs are categorized as P1, P2 and P3, using a set of criteria developed by the NPC. These criteria are regularly revised. Funding is first allocated to P1 projects. P1 programs for all the ministries are approved by the NPC and in most cases the funding is therefore assured.

A multi-year spending program was initiated in 2005/06 in five districts of the country as a pilot program. Seven other districts were added after two years. However, due to difficulties in accounting and problems in the reimbursement of foreign aid, this program was dropped in the fiscal year 2010/11.

One of the important issues is how the government can incorporate climate change activities in the budget as this is a cross cutting issue and included in the activities of many ministries and departments. One of the ways for this may be to follow the mechanism developed by the Gender Sensitive Budget formulation. To understand this budget formulation process a brief review of it is attached in Appendix 9: Guidelines provided by NPC for the preparation of Plan and Budget.

5.4.2 Financial Comptroller General Office (FCGO)

The Financial Comptroller General Office (FCGO), under the Ministry of Finance, consists of 4 divisions and 14 sections and has field level offices in all 75 districts of the country. It is also the main government agency responsible for revenue collection, treasury operations, financial accounting, budgetary control, funds release, financial statement preparation and internal audit. In addition to this, the FCGO also provides accounting cadre staff to about 3,910 payment centres under different line ministries. The personnel supplied by FCGO to these payment centres include senior and junior level officers and accountants. The number of accounting staff for a particular payment centre is determined on the basis of the nature and volume of financial transactions. The total number of staff administered by FCGO at present is in the range of 4,300.

5.4.3 Auditor General

The Auditor General of Nepal (AGN) conducts external audits of all the government offices. Sub-Articles (1), (2) and (5) of Article 123 of the Interim Constitution of Nepal, 2007, as well as Section 6 and 7 of the Audit Act, 1991 and other laws, specify that the scope of work of the Auditor General encompasses audit and advisory tasks related to all government offices. The AGN is a constitutional body, with the Auditor General being appointed by the President under the recommendation of the Constitutional Council. The Auditor General Office works with the objective of promoting public accountability and transparency, enhancing the effectiveness of public entities, and assisting with the compliance of existing laws.

The AGN has been critical of the way DDCs handle project implementation. The following paragraph from a 2008 report shows the situation of DDCs regarding the monitoring and evaluation of the projects and planning activities.

"It has been noticed that most of the District Development Committees did not prioritize plans, did not develop periodical plans with participatory approach, did not consider for environment friendly projects, instead, approved plans with heavy equipment which need lots of fuel, did not care for zero or minimal participation of general people and other organizations, did not prepare implementation plan, did not develop indicators of quality and effectiveness, did not follow the work plan, did not provide necessary instruction to the user groups, did not follow the provisions of agreement, provided advance repeatedly instead of providing advance money after partial completion of works and adopted practices of ratifying by the Council long after the completion of works."

The report also states that the TA expenditure is not within the government accounting system and no information is available to the government accounts regarding the expenditure from the TA. Similarly it also stated the non-compliance of legal provisions by DDCs.

5.4.4 Procurement

Procurement practice in government is operationalised by the Public Procurement Act and Regulations. 2007. Although compiled relatively recently, no explicit mention is made of climate change. However, for the execution of any program that may have an impact on the environment, Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) should be conducted. Implementation of this new procurement legislation is proving challenging.

5.4.5 Management of the budget at the local Level (District Development Committee)

There is a guideline for local government to manage grants from central government. This guideline details provisions regarding the management of revenue and expenditure and includes proper accounting for revenue and expenditure and the timely release of funds. In the case of physical infrastructure projects, additional money should not be released without an inspection or submission of a progress report by an evaluation committee. A financial report should also be submitted to the Ministry of Local Development within 35 days of the end of the fiscal year. Final auditing of DDC should be carried out by the Auditor General. Monthly Internal Auditing of DDC should also be carried out, in accordance with an internal auditing work plan. The DDC should disclose the final auditing report to the political parties, civil society and other stakeholders and should be submitted to the District Council. There is also the provision of public hearing. All these provisions are sound; the challenge lies in their implementation.

CHAPTER 6

LOCAL GOVERNMENT INSTITUTIONAL CAPACITY AND EXPENDITURE MANAGEMENT

6.1 Local government in Nepal

6.1.1 Decentralization

After the restoration of democracy in 1990, the decentralization process in Nepal began with the Local Self Governance Act (LSGA), 1999 and the Local Self Governance Regulation, 1999. Fiscal decentralization has also been shaped and guided by LSGA and the Local Body Financial Administration Regulation 1999. LSGA also gave fiscal management authority and autonomy to local bodies. These efforts were further enhanced by the Interim Constitution of Nepal 2007, which devolves power to local bodies.

However, elections have not taken place since 2002 in Nepal. At the local level, the absence of elected representatives has led to the informal and unofficial establishment of all-party committees (APC) made up of representatives from each political party. This interim committee structure has played a lead role in the decision making of local development plans and budgets in recent years. As the need to reach consensus among all party representatives has stalled local decision-making processes, the MLD has developed a code of conduct guideline for the APC to address these inefficiencies.

6.1.2 Local Actors

Local government in Nepal is often referred to as local bodies, of which there are three types: District Development Committees (DDCs), Municipalities, and Village Development Committees (VDCs). The roles and responsibilities of all local bodies are clearly defined in the LSGA. All local bodies are required to formulate annual development plans, collect data, prepare a resource map of the area, undertake feasibility studies, select, monitor and evaluate projects, and coordinate with local service providers including community based organizations, NGOs and the private sector. Municipalities and VDCs are also the primary institutions responsible for implementing development activities.

In addition to local bodies, there are also district line agencies (DLAs) in operation at the local level. They are under the direct guidance of their respective national line ministries to implement sector programs, and are required to coordinate with local bodies. In reality, there appears to be limited coordination between the planning and budgeting processes of DLAs and local bodies.

Another prominent group of local actors are community organisations, NGOs and the private sector. Their roles are set out in the Public Private Partnership White Paper and Nepal's Three Year Interim Plan Approach Paper 2007 as implementing partners of the public sector.

6.1.3 Local Fiscal Management

The LSGA regulates central government grants to be allocated to local bodies and gives authority to local bodies to raise tax and revenue to address local development issues. Local bodies also have the autonomy to make decisions on financial matters within their jurisdiction. The

revenue for local bodies is largely made up of the following:

- Conditional and unconditional capital and recurrent grants from central government;
- Revenue sharing from tax allocation by central government;
- Locally generated revenue:
  - Taxes, such as those imposed on roads, vehicles, house and land, property, business, advertisement, entertainment and use of natural resources;
  - Service charges, such as those on guest house, library, clinic, hermitage, city hall;
  - Fee and royalties, such as on water sources, boating, fishing, rafting, mountaineering, water mills, recommendation fees;
  - Contributions; and
  - Sale of fixed assets and other properties.

The MLD grant to local bodies is provided on the basis of the minimum condition performance measurement (MCPM) indicators, such as Human Development Index, population, geographical location and performance evaluation. The purpose of the MCPM is to ensure that grants are allocated to local bodies based on minimum conditions needed to deliver critical functions as well as their performance in accomplishing certain tasks and results based on key indicators. Once local bodies have met the MCPM, grants are released, on MLD's approval, from central government's Rastra Bank account to the local body's own account, usually in a separate bank within two to three days. Local bodies then use funds from this account to make payment on items such as salaries, projects and operations.

6.2 Local stakeholders' perspective of climate change

With no clear national definition of climate change and climate change expenditure, local stakeholders' perspectives of climate change adaptation and mitigation are wide ranging, including:

- Air and water pollution control
- Biodiversity conservation
- Carbon sequestration
- Climate change adaptation (although this is not further defined)
- Food security
- Forest conservation and reforestation
- Renewable energy and development
- Waste management
- Watershed management

As forests in Nepal are a key source of livelihood for many people, most local stakeholders have associated climate change interventions with forest conservation and its carbon sequestration potential. In urban areas, due to rapid urbanisation, the association of climate change is with waste management as well as air and water pollution control. The local perspective of climate change is thus skewed towards environment and natural resource management. Few local stakeholders have linked climate change with disaster risk management (DRM), infrastructure, development and planning. As such, there is a need to align the language of climate change between donors, central government and local stakeholders. With their practical views, experience and exposure to climate impacts, local bodies could play a key role in the development of a national definition of climate change and climate expenditure.

6.3 Translating national climate policies into local planning

There are currently no legal mandates or powers given to local bodies to address climate change issues. In relation to climate change, the LSGA gives autonomy to local bodies to collect and mobilize resources required to discharge their functions, duties and responsibilities to manage natural resources within their respective areas. It also provides a clear mandate for DDCs to provide disaster relief coordination.

While there are no legal mandates, Chapter 2 has set out some national policies and processes that give clear roles and responsibilities to local bodies to address climate change issues, such as NAPA, REDD and the national strategy for disaster management. For example, NAPA is now being translated to Local Adaptation Programmes of Action (LAPAs). Some NGOs are considering the development of Community Adaptation Programme of Actions (CAPAs). NAPA anticipates that 80% of the funds will be spent at the local level through DDCs. However, there is no indication that these national climate-related policies are informing local planning and budgeting processes. Even for LAPAs, it remains a donor-led initiative developed in eight pilot areas. These issues present challenges for local ownership, the relevance of national policies to local decision-making, and the ability to scale-up climate initiatives across all local bodies in Nepal.

There are also national guidelines and directives by the NPC that are beginning to give local bodies some direction on integrating climate change into local planning and budget processes. The Local Body Grant Operational Manuals, currently under preparation, gives guidance to local bodies to allocate budgets to address forest and environmental conservation, climate change, renewable energy and green management. The Local Body Planning Guidelines 2011, which are also under preparation, have provisions for local bodies to include environment conservation and climate change adaptation as one of the main criteria to be considered while prioritizing infrastructure development activities and undertaking feasibility studies.

Some local bodies have complied with these guidelines by already integrating climate change into their work. For example, Dhading DDC and Kathmandu Municipality have incorporated climate change adaptation into their annual plans with associated programmes and budgets. Dhading DDC's Annual Development Plan 2011 specifies the need for the DDC "to implement local adaptation programmes to control environment degradation and cope with climate change impacts". This demonstrates a certain degree of alignment between national and local planning on climate change. However, there are no further explanations of what these adaptation programmes would be and the budget currently allocated to these programmes is nominal and earmarked for capacity building and training only.

6.4 Institutional arrangements at the local level

All DDCs and Municipalities have established environment and energy units and Environment Management Committees, with direct support from the Ministry of Environment. In addition, an environment focal person has been appointed in all DDC and Municipalities. There are plans to incorporate functions

associated with climate change into these structures.

Sectoral committees within DDCs, such as the District Forests Coordination Committee and the District Agriculture Development Committees are also active in addressing climate related issues. For instance, the District Forests Coordination Committee in Kailali endorsed a district level Forestry Sector Plan in 2008. Though the plan does not include climate change response programs and activities explicitly, it covers activities that relate to climate change such as ecosystem based biodiversity conservation, watershed management and forest corridor and connectivity maintenance.

While it is a welcome development to have local structures in place to address climate change, it is currently using environment institutions. This presents a challenge to establishing climate change as a cross-cutting issue rather than an environmental one. As identified in Chapter 3, there are also insufficient arrangements for VDCs and the ward level, where the implementation of climate related activities is most relevant.

At the national level, MLD is one of the four key agencies with the largest share of climate-related expenditure at the local level, as identified in Chapter 4. It provides a focal point for coordinating the activities of local bodies. An environmental management section has been established in MLD to mainstream environmental considerations into local development plans. This section will soon be consolidating its existing four programmes into two key programmes on 1) climate change and disaster risk management and 2) solid waste management and the UNDP-supported poverty environment initiatives (PEI). However, there is limited capacity within the environment sector of the MLD to provide sufficient guidance on how climate change could be effectively integrated into local development planning and budgeting.

The Ministry of Environment (MoE), another key agency on climate expenditure in Chapter 4, is seen as the lead agency for climate change at the national level. This is reflected at the local level where climate change is planned to be incorporated into the environment units. However, there are constraints to the effectiveness of MoE at the local level due to their limited influence among local stakeholders. The establishment of environment and energy units within DDCs may strengthen the link between MoE and local bodies.

Ministry of Forestry and Soil Conservation, also identified in Chapter 4 as a key agency with a large share of climate related expenditure at the local level has district offices, some of which are well established with strong links to community user groups. Their roles and responsibilities are closely linked to climate change.

Structures and institutions are in place to ensure that climate change is addressed at the local level. However, the next step is to consider how these structures could be strengthened to mobilize climate finance to relevant local bodies in a coherent manner and strengthen the capacity of all tiers of local bodies to deliver climate finance.

6.5 Sources of climate finance and funding modality

6.5.4 Climate Finance and Funding Modalities

The key source of climate finance that has been identified by local stakeholders is local government's locally generated revenue. Climate change as a budget line at the local government level has only been introduced in the past year or so. The other key source of climate spending that was identified as part of the consultations with NGOs is direct donor funding to NGOs.

Local government bodies' locally generated revenue (internal sources)

Local bodies can create a climate change budget from locally generated revenue, or internal sources, that is made up from fees, taxes, penalties, charges and contributions. The allocation of internal sources to address climate change is determined by revenue forecasting by sector committees within local DDC bodies. There are two baskets of internal source funds that have been identified as potential climate finance. First, the District Environment Fund (DEF) focuses on environment and climate change projects and draws on funding from international NGOs, donors and DDCs. This fund is currently nominal and not wholly owned by the DDCs. Second, the District Development Fund (DDF) is managed by the DDC to implement all development activities, including environment, at the district level. All DDC members have a voice in determining how the DDF is spent, which gives local ownership and accountability on the activities. However, the challenge is whether the DDF allocates enough to climate change related activities given the limited climate change knowledge and capacity among decision-makers. These internal sources of climate finance are currently not accounted for in the national budget and expenditure.

Local government bodies are able to exercise discretion on how this money is spent, which promotes local ownership and, potentially, sustainability of climate financing. Some local bodies have contractual and funding agreements with community user groups, sometimes through VDCs, to implement activities. However, as climate change is not yet seen as a local priority, local discretion has meant that only a nominal amount is allocated to address climate change issues (Dhading DDC Annual Development Plan, 2011 and Kathmandu Municipality Budget, Policy and Programme, 2011) of the total of internal sources, which usually comes from the environment budget (Table 35).

This initial assessment shows a major disconnect between what local bodies constitute as climate expenditure and the target set out in NAPA for 80% of spending to be implemented at the local level. This begs the question of whether local bodies currently have sufficient understanding and capacity to manage significant amount of funding on climate change.

Direct international donor funding to NGOs

Donors channel climate finance directly to NGOs to implement climate change adaptation activities at the local level. For example, RIMS Nepal receives funding directly from DFID to support the development of LAPAs in three VDCs. RIMS Nepal spends on adaptation interventions, such as building seed resource centres and water tanks and conducting vulnerability

Table 35: Local Bodies' Locally Generated Revenue (Internal Sources)

Source of Revenue for Dhading DDC*	Total Rs.	Budget for environment activities (with % of total)	Budget for local adaptation programme (with % of total)
Estimated Budget from Internal sources (locally generated revenue)	112,455,000	5,000,000 **(4.4%)**	50,000 **(0.0004%)**
Source of Revenue for Kathmandu Municipality**	**Total Rs.**	**Budget for environment activities (with % of total)**	**Budget for climate change and carbon reduction programme (with % of total)**
Estimated Budget from Internal sources (locally generated revenue)	393,507,343	47,464,000 **(12.0%)**	150,000**(0.0004%)**

***Source:** Annual District Development Plan - 2011, Dhading DDC
****Source:** Kathmandu Metropolitan City Budget, Policy, and Program (2068/69); 2011

mapping. Some VDCs have agreed to provide funding for the maintenance of the projects. While this type of finance may reach communities more quickly, it is not accounted for in either the national or local budget and therefore lacks transparency. The LSGA stipulates that all locally implemented programmes delivered by local actors should be registered with Local Bodies, a regulation that has the potential to track all climate related expenditure. In reality, this regulation is not followed.

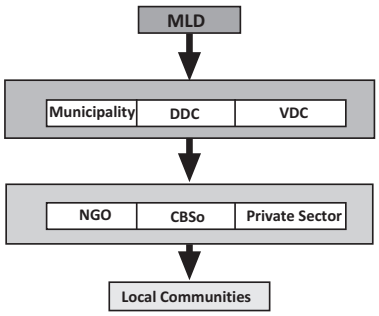
6.5.5 Central Government Funds and Funding Modalities

In addition to these two sources of climate finance, there is also central government funding to communities through MLD's local government grant and line ministries' budgets to their district line agencies. As identified in Chapter 4, these are significant sources of finance channelled to the local level, some of which could also be classified as climate expenditure. However, as local stakeholders have not associated these sources as climate expenditure during this study, they have not been explored in great depth. However, it is worth highlighting these funding modalities as potential routes for delivering climate finance to the local level.

Grant to local government bodies

The MLD allocates conditional and unconditional capital and recurrent grants to local bodies. Some of the conditional capital and recurrent grant is classified as climate expenditure under Chapter 4. Based on this classification, the MLD is one of the agencies with the largest share of spending to the local level.

Figure 5: Central Funds Flow to Local Bodies



This modality is one that has potential to channel climate finance to the local level. It also has the potential to promote national

and local ownership by allowing for some discretion by local bodies to determine spending based on local priorities. It may also strengthen the capacity of Local Bodies, which are the lead agencies at the local level responsible for local development in a cross sectoral approach.

Moreover, some donor funding is already channelled to the local level using this modality. UNDP is funding the Poverty-Environment Initiative (PEI), as part of the Local Governance and Community Development Programme (LGCDP), by channelling funds through MLD to local government bodies. It also aims to integrate environmental concerns into local planning and budgeting processes. This work is currently being expanded to include the integration of climate change issues into local development.

However, there are issues with this modality that need to be addressed. First of all, there is a need to distinguish the corporate identity of different local bodies, local government agencies and local institutions, all of which are recipients of MLD grants, to ensure that all climate expenditure is captured in the national system for better accountability and transparency, as well as to avoid doubled counting of spending.

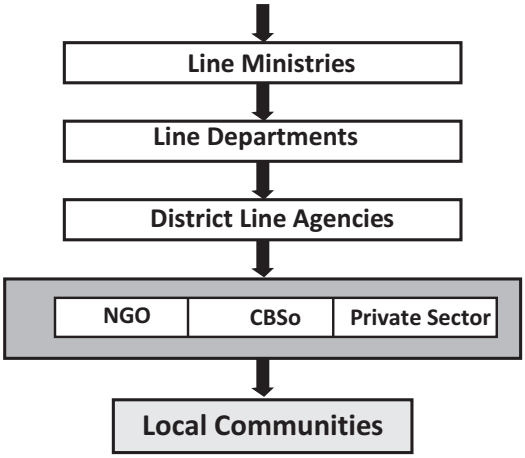
Second, a consensus needs to be reached as to whether climate expenditure to local bodies should be channelled as conditional or unconditional grants, which merits a more detailed analysis. Climate finance as ring-fenced expenditure (conditional grant) could be used to ensure local bodies are spending on activities that address climate change specific issues. Discretion on local spending (through the unconditional grant channel) would give autonomy and flexibility to local bodies to make decisions on spending based on levels of vulnerabilities to climate impacts.

Third, there is an issue of capital and recurrent grants to local bodies. To take the example of the unconditional grant in the Red Book for 2010/11, the capital grant makes up around NRs.12,000,000 lakhs, while the recurrent grant is around NRs.3,000,000 lakhs. Local bodies have expressed concerns that while assets are being created as part of the capital grant there is insufficient amount allocated to maintain the operation and running costs of these assets in the long run. These issues are particularly relevant to climate change activities, which require long-term planning to ensure the sustainability of the intervention.

Line ministries funding to DLAs

Also identified in Chapter 4 are climate expenditures from central government to district line agencies (DLAs). Line ministries allocate a budget to DLAs to address sector specific issues, such as forest conservation and soil conservation. DLAs spend the money on implementing bodies, such as community user groups and local communities to deliver activities.

Figure 6: Central Government to DLAs



This modality has the potential to address the technical gaps of climate change at the local level and make up a significant source of climate expenditure to communities. DLAs also have good links directly with community user groups. However, the challenge to using this modality is that DLAs can work in isolation with limited coordination with other DLAs as well as between DLAs and other local bodies. To ensure climate change is seen as a cross-cutting issue, the delivery of climate finance needs a more coordinated and aligned approach at the local level, which may be better placed with local bodies, such as DDCs, Municipalities and VDCs.

More research is needed on both these potential funding modalities for climate finance. Based on initial findings, both have the capacity to administer large amount of finance, and therefore have the potential to manage and meet the 80% local level climate spending commitment in Nepal. However, the key challenge to the last modality is the lack of accountability and inclusiveness. Even in the absence of elections, all-party committees that operate within local government bodies (DDCs, Municipalities and VDCs) come closest to providing some level of representation for communities through debates on local spending, which is currently not present in DLAs.

6.5.6 Other Sources of Finance and Funding Modalities

The Disaster Relief Fund

As climate change adaptation is closely linked to disaster risk management, it is worth exploring the existing disaster relief management system in Nepal as a model for effective coordination and as a funding mechanism that could be applied to addressing climate change.

Disaster relief management is current the responsibility of the Ministry of Home Affairs, which allocates funds and provides coordination to the district and village level disaster relief efforts. There is a robust vertical coordination between national, regional, district and local bodies, as well as an effective horizontal cross-sector links between the different district line agencies, such as health and irrigation, coordinated by local bodies.

Other sources of climate finance

Local and national stakeholders have indicated the possibility for local bodies to tap into other sources of finance to address climate change issues, such as income from community forest user groups and energy generation through micro-hydropower.

6.6 Civil society and the private sector

Local bodies and DLAs do not work in isolation. There is a strong culture of community mobilization in Nepal and this has been effective in addressing climate change.

NGOs have been active in policy advocacy and local planning and delivery of climate

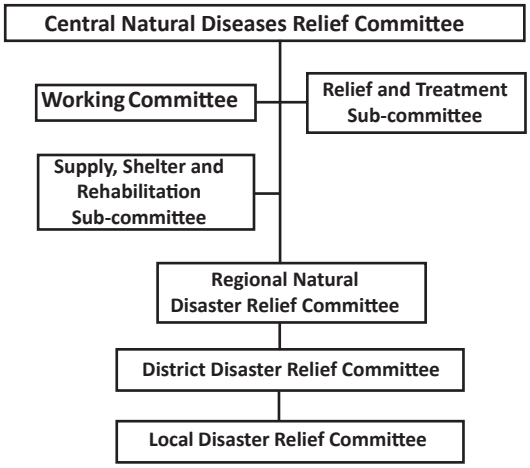


Figure 7: Central Natural Disaster Relief Structure

change activities. For example, Clean Energy Nepal (CEN) has played a role in informing Kathmandu and Lalitpur Municipalities on creating a climate budget in their annual plans. CEN is also advising the MLD on how to integrate climate change more systematically into all local bodies. RIMS Nepal is working with DFID on supporting the development of LAPAs in three VDC areas.

At the local level, ward debate forums enable public consultation on local plans and budgets. Community user groups are also used extensively in Nepal as implementing agents of development programmes and activities related to climate change, such as the active role of forestry user groups. At the national level, the MCCICC identified in Chapter 2 is a national forum that enables civil society representatives to shape national climate change planning. These mechanisms have the potential to ensure the views and needs of vulnerable and marginalized group are reflected when national and local decisions are being made to prioritise, manage and deliver climate finance.

In the absence of locally elected representatives, local bodies have emphasized the need to engage with, and sensitise, party representatives on the issues of climate change, as they play a critical role in selecting and approving programmes as part of the interim arrangement of the all-party committees.

At this stage, the private sector does not appear to be actively involved in climate change activities at the local level, except in areas highlighted in Chapter 4. However, some local bodies work with the district chamber of commerce to develop public private partnerships with local businesses working in the areas of tourism and sanitation. This partnership could be an opportunity to strengthen the private sector's involvement in contributing to and delivering climate financing.

6.7 Issues and recommendations

6.7.1 Issues

In line with the key findings of the CPEIR process at the national level, there is an absence of a coherent definition and classification of climate change and climate expenditure at the local level. This has a significant impact on how local bodies integrate climate change into their local development planning and budgeting and what they perceive as sources of climate finance.

Local bodies' understanding of 'climate change' is skewed towards environment and natural resource management, which gives more attention to rural needs. There is a balance that needs to be made to ensure that both rural and urban vulnerabilities are addressed. Although there is a good understanding of DRM at the local level, its relationship with climate change has not yet been made.

It is a welcome development that some local government bodies have incorporated climate change into their local plans and budgets. However, in the absence of a consistent climate change definition, the climate related activities are not clearly defined and scarcely funded within local government. There is also a challenge of how national policies are going to be reflected and translated into action at the local level to ensure that climate change is mainstreamed and institutionalised into local development planning and budgeting systematically across all local bodies. While some institutional arrangements at the national and local level are in place to support local government bodies on addressing climate change, the challenge

will be to strengthen the capacity and influence of these new structures to deliver climate finance, in a cross sectoral approach, to the local level.

From the perspective of local stakeholders, sources of climate finance that are channelled to the local level and delivered by local organizations come primarily from (1) donors direct funding and 2) local government bodies' internal sources. In addition, Chapter 4 has also identified a significant amount of climate finance channelled to local government and communities through (3) MLD's local government block grant, such as through LGCDP, and (4) line ministries' programme specific budget allocation to DLAs that reach communities directly. However, without a clear definition of climate expenditure, there are different opinions as to which of these sources, and potentially others, constitute 'climate expenditure'. It is also questionable which modality is the most appropriate for delivering climate finance to communities. Moreover, there is a lack of clarity on the corporate identify of different local actors, which leads to a confusion as to which climate expenditure is on-budget or 'off-budget' and whether spending is double counted. The availability of different sources of climate finance at the local level also presents a significant challenge for national government to track the totality of spending on climate change activities, and affects the prioritization, management and delivery of climate finance.

This analysis has presented some key strengths/opportunities and challenges for Nepal.

- Local government bodies are given significant autonomy on local spending, and have used this discretion when addressing climate change issues. This demonstrates a certain degree of climate change awareness among local bodies and promotes ownership of local spending, which is important to ensure the sustainability of climate financing.
- There is potential to channel climate finance through central government funding modalities (MLD's LGCDP and line ministries' spending at the district level). Both are familiar with administering large amount of finance, and therefore have the potential to work towards the 80% local level climate adaptation spending commitment in Nepal. More research is needed in this area.
- The national-to-local relationship is built on a culture of compliance, where national guidelines and directives have informed local development planning and budgeting. This could be an opportunity to ensure local bodies integrate climate change into local planning and budgets across all areas in Nepal.
- A strong culture of community mobilization in Nepal provides an opportunity for vulnerable and marginalized communities to be reflected and represented. This is particularly relevant to climate change as impacts vary across different areas and community groups. There is also an opportunity for civil society and the private sector to play a part in delivering and contributing to climate finance.

However, there are key challenges that will need to be addressed at the local level. One of the most significant issues is how 80% of adaptation finance could be administered and managed by local government based on their current understanding of climate

change and their capacity. There are current challenges in relation to their ability to develop clear and targeted programmes and allocate sufficient budgets to climate change adaptation and mitigation, public financial management capacity to handle significant amount of climate finance, and the effectiveness of current institutional arrangements to support all tiers of local bodies, including those at the village and ward level. There may be potential to channel funding from central government to district offices. However, this carries the risk of lack of accountability and inclusiveness. Policies and commitments on climate change need to be more realistic and reflective of current capacity, particularly technical capacity, at the local level. For example, the VDC, as the key implementing agent, usually relies on one secretary to coordinate spending and accounting of all activities.

6.7.2 Recommendations

1. The MLD grant funding modality to channel climate finance to local government bodies could be considered as it has the ability to manage a large amount of finance. It promotes national and local ownership and gives some discretion on spending, which is critically important in the context of targeting vulnerable communities and high-risk areas. A possible starting point is to integrate climate change as an indicator of, or a component in, the MCPM. Currently, there is a proposal, as part of LGCDP's PEI, to support the review of the MCPM manual of local bodies to include pro-poor, climate and environmental sensitive indicators as a performance measure and condition for access future grant.

   While there are already efforts made, more could be done to articulate the need for climate change adaptation and mitigation in all guidelines relevant to local government bodies, in all relevant sectors so local government could have more clarity on the need to allocate sufficient funding to address climate change issues. There is also value in using this funding modality to track expenditure on climate change activities at the local level. The current registration system under LSGA is not always followed. MLD is currently working with UNDP to explore a more robust system of tracking expenditure. This could be an opportunity for climate finance to be introduced as a category of expenditure that needs to be tracked and accounted for. There are also lessons that could be learned from the disaster relief management model of coordination and funding.

2. More research is needed to explore the potential of using the funding modality administered by central government (through DLAs) to manage climate finance. This also has the ability to manage a large sum of money, but the issue of accountability and inclusiveness will need to be addressed.

3. On delivering climate finance at the local level there issues stand out:

   - With all climate finance that will be spent at the local level, there should be a good governance and capacity development funding component as part of every programme. This would not only address technical capacity of climate change, but also strengthen the local governance arrangement and public financial management capacity of the local stakeholders to deliver climate

finance more effectively.

- Climate expenditure could focus on addressing the most pressing economic and social issues in Nepal, such as creating employment. In Dhading, the World Bank has funded the construction of a 'green' road, replacing the use of heavy equipment with labour. This reduces the destruction of the land and the ecosystem whilst generating employment for local communities.
- Climate expenditure could be spent on more comprehensive vulnerability assessments to incentivise local communities and the private sector to generate the demand for climate change activities in their area.

4. These recommendations offer short to medium term ideas for strengthening existing funding modalities and capacity gaps on climate finance at the local level, which may be applicable as a transitional approach. In preparing local government to manage significantly large amount of climate finance and move towards a more federal system, it may be necessary to consider the need for a more fundamental transformation of the institutional and financial management system at the local level.

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APPENDICES

Appendix 1: Review of project documentation - case example

Review of a Project Document from Foreign Aid Division of MoF

Much of the climate related programs are developed not for the climate change purpose but rather for other purposes. Take an example of biogas programs. The aim of the program was to create a renewable energy infrastructure in rural areas to facilitate income generation, sustainable growth, delivery of social services and alleviation of poverty. It also aims to

- Stimulate rural development by improving energy service provision to end users in VDC/village communities with no grid extension or mini grid Hydro-power potential
- Provide energy service for social services and other community end users
- Improved product quality availability, diversity and warranty support from manufacturers and suppliers of renewable energy products and systems in Nepal, especially solar power.
- Establish a sustainable financing strategy for decentralized rural energy service supply in cooperation with local financial institutions

Expected results:

1. End users applications resulting from energy service supply
   - Installation of at least 2.2 MWp of PV systems of different size, according to the energy service demand for a total amount of EUR 10 million.
   - Solar thermal systems for the total amount of 150,000 for supply of process heat (agribusiness) hot water supply for health post and tourism industry, solar cookers for clinics, schools and tourism industry.
2. Energy service provided for:

   Health posts, rural clinics,
   Primary and secondary schools for light
   Safe water provision
   Agro processing (milk chilling)
   Institutional development of community
   Institutional development of AEPC
   Quality Control

Appendix 2: List of climate change administrative codes

No	Ministry	Administrative Description	Code
01	Industry	Environmental Sector Support Program including Energy program	307101
02	Industry	Industrial Infrastructure Development Programme(including Special Economic Zone)	307108
03	Energy	Irrigation and Water Resource Management Project (Water Energy)	308102
04	Energy	Pte Sector Participation in Electricity Development	308103
05	Energy	Saptakoshi Multi Purpose Project	308104
06	Energy	Pancheshwar Multi Purpose Project	308105
07	Energy	Hydro Electricity Project Study	308106
08	Energy	Standard for Hydroelectricity Project	308107
09	Energy	Power Development Fund	308108
10	Agriculture and Co-operatives	Agriculture Research and Development Fund	312101
11	Agriculture and Co-operatives	Integrated Water Resource Management Project	312124
12	Agriculture and Co-operatives	Hill Leasehold Forestry Project (Livestock	312129
13	Agriculture and Co-operatives	Agriculture Research Program	312136
14	Agriculture and Co-operatives	Food Crisis Response Program	312141
15	Agriculture and Co-operatives	Sustainable Soil Management Project	312142
16	Agriculture and Co-operatives	Food Security Promotion Project	312152
17	Agriculture and Co-operatives	High Mountain Agri-Business & Livelihood Improvement project	312154
18	Forest and Soil Conservation	Forest research and survey projects	329101
19	Forest and Soil Conservation	Herbs Development Program	329102
20	Forest and Soil Conservation	Bio-Diversity Program	329103
21	Forest and Soil Conservation	National forest Development and management program	329106
22	Forest and Soil Conservation	Leasehold forestry and live stock development program	329108
23	Forest and Soil Conservation	Forestry conservation and trees improvement centres	329109
24	Forest and Soil Conservation	Publicity extension program	329110
25	Forest and Soil Conservation	Bio diversity program for terai and siwalic range	329111
26	Forest and Soil Conservation	Botanical study and research program	329112
27	Forest and Soil Conservation	Watershed Management Project	329113

No	Ministry	Administrative Description	Code
28	Forest and Soil Conservation	REDD -forestry and climate change cell	329123
29	Forest and Soil Conservation	President Chure protection program	329124
30	Forest and Soil Conservation	Strengthening Institutional capacity of Mountain Protected areas	329128
31	Forest and Soil Conservation	Community forest Development program including Green employment	329801
32	Forest and Soil Conservation	Forestry program for livelihood	329802
33	Forest and Soil Conservation	Dolakha Ramechhap community development project	329803
34	Forest and Soil Conservation	District soil erosion program	329804
35	Forest and Soil Conservation	Community development and forest Watershed protection project	329805
36	Forest and Soil Conservation	Botanical conservation and park development project	329806
37	Forest and Soil Conservation	Botanical utilization and marketing program	329807
38	Environment	Hydrology Program	331102
39	Environment	Metrology Program	331103
40	Environment	Weather Forecast Program	331104
41	Environment	Flood Forecasting	331105
42	Environment	Alternate Energy Promotion Centre	331108
43	Environment	Bio Gas Production Program	331109
44	Environment	Micro Hydro and Alternate Energy Program	331110
45	Environment	PDF- Community Micro Hydro REP	331111
46	Environment	Renewable Energy Dev Programme - Inc Bio Fuel Dev	331114
47	Environment	Renewable Energy For Rural Livelihoods	331118
48	Environment	Khimiti Neighbourhood Development Project	331119
49	Environment	Improved Rural Energy Service Programme kabeli Trans	331122
50	Physical Works and Planning	Environmental Sanitation Project	337166
51	Physical Works and Planning	National Information & Management Project	337167
52	Physical Works and Planning	Drinking Water & Rehab Project	337168
53	Physical Works and Planning	Deep Tubewell project	337169
54	Physical Works and Planning	Drinking Water Quality Imp Project	337171
55	Physical Works and Planning	Rural Drinking Water & Sanitation Fund	337173
56	Physical Works and Planning	Small Town Drinking Water & Sanitation Fund	337174

No	Ministry	Administrative Description	Code
57	Physical Works and Planning	Rainwater Harvesting Project	337175
58	Physical Works and Planning	Melamachi Drinking Water Project	337176
59	Physical Works and Planning	Sewerage Construction Treatment Project	337177
60	Physical Works and Planning	Second Small Town Drinking Water & Sanitation Fund	337179
61	Physical Works and Planning	Flood Damage Rehab Project	337196
62	Physical Works and Planning	Rural Drinking Water Project	337801
63	Physical Works and Planning	Drinking Water Projects	337802
64	Irrigation	System Management and Training Program	357101
65	Irrigation	Irrigation and Water Resource Management Project	357103
66	Irrigation	Community Managed Irrigated Agriculture Sector Project	357108
67	Irrigation	River Training Program	357109
68	Irrigation	Water Induced Disaster Control Technology Project	357110
69	Irrigation	Embankment Projects under Indian Grant Assistance-Including Bagmati,Kamala,Khando &	357112
70	Irrigation	New Conventional Irrigation Project	357126
71	Irrigation	Tar-Bazar Prevention Program (Indrawati Riverbank Corridor)	357131
72	Irrigation	Rani Jamara Kulariya Irrigation Project (Including System Modernization)	357132
73	Local Development	Solid Waste Management Commission	365107
74	Local Development	Chure Terai Development Programme	365109
75	Local Development	Public Private Partnership For Urban Environment	365132
76	Local Development	Nepal Food Crisis Response	365133
77	Local Development	Rural Drinking Water Sanitation Program	365804
78	Local Development	Rural Water Resource Management Project	365805
79	Local Development	Rural Reconstruction & Rehab Sec Dev Prog	365806
80	Local Development	Rural Community Infrastructure Dev Prog	365807
81	Local Development	Environment Mgt Program at Local Level	365820
82	Local Development	Rural Western Supply & San Project (W Nepal)	365821
83	Local Development	Community Irrigation Project	365833

Appendix 3: Summary of Government of Nepal Technical Assistance as of September 2011[21]

SUMMARY OF GOVERNMENT OF NEPAL CLIMATE RELATED TECHNICAL ASSISTANCE AS AT SEPTEMBER 2011

Host	Name	Start	End	Major Activities	Total TA	Currency	Years	Rounded	Annual Spend (Approx)
National Planning Commission	Strengthening Planning and Monitoring Capacity of NPC	Jan 2009	Sep 2012	PEI Mainstreaming	872,151	US$	3.72	4.00	218,000
Ministry of Industry	Vertical Shaft Brick Kiln Technology Transfer	Jan 2005	Dec 2014	Application of fuel and environment-friendly new technology in brick production	3,155,950	US$	10.00	10.00	316,000
Ministry of Energy	Energy Sector Capacity Building	Jan 2010	Jul 2011	Update hydro plans Training and support MoE Energy Policy	600,000	US$	1.55	2.00	300,000
Ministry of Physical Works and Planning	Introduction of Clean Energy by Solar Electricity Generation System	Jan 2010	Mar 2012	Purchase and Installation	9,486,848	US$	2.23	2.00	4,743,000
Ministry of Environment	Increasing Access to Energy in Rural Areas	Jan 2010	Oct 2012		933,000	US$	2.82	3.00	311,000
Ministry of Environment	Establishment of Climate and Carbon Unit in AEPC	Jan 2010	Sep 2011		166,323	US$	1.74	2.00	83,000
Ministry of Environment	Solar Energy Development in South Asia	Jan 2010	Mar 2013		1,400,000	US$	3.24	3.00	467,000
Ministry of Environment	Strengthening Capacity for Managing Climate Change and Environment	Jan 2009	Dec 2011		500,000	US$	3.00	3.00	167,000
Ministry of Environment	Second National Communications Project	Jan 2009	Apr 2012		405,000	US$	3.31	3.00	135,000
Ministry of Forests and Soil Conservation	Conservation and Sustainable Use of Wetland	Jan 2007	Feb 2012		3,600,000	US$	5.16	5.00	720,000
Ministry of Forests and Soil Conservation	Forest Resource Assessment	Jan 2009	Dec 2014		6,580,000	US$	6.00	6.00	1,097,000
Ministry of Forests and Soil Conservation	Improving Capacity of Forest Resource IT	Jan 2010	Dec 2012		357,974	US$	3.00	3.00	119,000
Ministry of Forests and Soil Conservation	Demonstration of Forest Management With Community Partnership	Jan 2011	Apr 2012	Sustainable Forest Management	500,479	US$	1.32	1.00	500,000
Ministry of Education	Emergency Preparedness / DRR	Jan 2011	Dec 2011		119,056	US$	1.00	1.00	119,000
Department of Agriculture	Enhancing Capacity for Climate Change Adaptation & DRM	Jan 2009	Aug 2011		24,849	US$	2.64	3.00	8,000
	Comprehensive DRM	Jan 2011	Dec 2015		1,169,444	US$	5.00	5.00	234,000
	Risk Management Office	Jan 2002	Oct 2012		2,353,373	US$	10.81	11.00	214,000
	REDD	Jan 2010	Dec 2011		51,547	US$	2.00	2.00	26,000
	Climate and Carbon Funding Renewable Energy Sector	Jan 2010	Jul 2011	District Energy Plans Carbon Unit in AEPC	174,159	US$	1.57	2.00	87,000
	Support to Decentralising Renewable Energy	Jan 2011	Dec 2012		237,677	US$	2.00	2.00	119,000
	Economic Growth - Environmental, Natural resources and Biodiversity programs	Jan 2009	Sep 2014		15,700,000	US$	5.73	6.00	2,617,000
	Community based land and forest met Sagarmatha	Jan 2009	Jan 2012		710,126	US$	2.98	3.00	237,000
	Cities and Climate Change Initiatives	Jan 2007	Sep 2011		22,000	US$	4.74	5.00	4,000
	Village Development	Jan 2007	Mar 2012	Bio gas (among other things)	298,382	US$	5.25	5.00	60,000
	Total				**49,418,338**				**12,901,000**

[21] Ministry of Finance AMP

Appendix 4: Basis for prioritization criteria for Development Program/projects

All the development activities being conducted by the Nepal Government will be prioritized on the basis of following mentioned criteria. Projects and programs will be categorized under three groups as P1, P2 and P3 as first, second and third. The following marks will be provided for each prioritization basis.

Very Good..... 3
Good..... 2
Satisfactory..... 1
Low 0

1. Projects that contribute for the poverty reduction and broad based economic growth

a	Direct and valuable contribution for following Increase in production - Increase in Income - Minimization of poverty - Equitable distribution - Improvement in productive resources	Very good
b	Indirectly and specially contribute for the above	Good
c	Indirectly and generally contribute for the above	Satisfactory/general
d	Very low contribution for the above	Low

2. Contribution for peace promotion

a	Direct and valuable contribution for following Maintain peaceful cooperation and coexistence Rehabilitation Reconstruction Reintegration Conflict resolution	Very good
b	Indirectly and specially contribute for the above	Good
c	Indirectly and generally contribute for the above	Satisfactory/general
d	Very low contribution for the above	Low

3. Contribute to Millennium Development Goals

a	**Contribute directly the achievement of Millennium Development Goal** - Eradication of extreme poverty and hunger - Achievement of fundamental primary education - Increase in gender equality and women empowerment - Decrease in child mortality rate - Improvement in Maternal health - Control of HIV AIDS and other diseases - Guarantee of environmental sustainability - Worldwide cooperation for development	Very good

b	Indirectly and specially contribute for the above	Good
c	Indirectly and generally contribute for the above	Satisfactory/general
d	Very low contribution for the above	Low

4. Contribute to inclusiveness and gender balance

a) Regional Inclusiveness (0.4)

a	Districts at C category on the basis of Macro indicators	Very good
b	Districts at C category on the basis of Macro indicators	Good
c	Districts at C category on the basis of Macro indicators	Satisfactory/General
d	The projects and programs that do not clear contribution for regional balance	Low

b) Contribute for social inclusiveness (0.3)

a	Directly and Substantially contribution for inclusiveness	Very good
b	Indirectly and substantially contribution for inclusiveness	Good
c	Indirectly and general contribution for inclusiveness	Satisfactory /General
d	Very little contribution on the above	Low

c) Gender balance (0.3)

a	Direct contribution for gender balance	Very good
b	Indirectly and substantially contribution for gender balance	Good
c	Indirect and general contribution on the above	Satisfactory /General
d	Very little contribution on the above	Low

5. Contribute to productive employment

a) Human Capital Formation (0.4)

a	Direct and substantial contribution for the productive employment and human resource development.	Very good
b	Indirect and substantial contribution for the productive employment and human resource development.	Good
c	Indirect and general contribution on the above]	General/Satisfactory
d	Very little contribution on the above	Low

b) Use of Labour induced technology (0.2)

a	Fully use of labour induced technology	Very good
b	Use of labour induced technology in majority	Good

c	Partially use of labour induced technology	Satisfactory/general
d	Very little use of labour induced technology	Low

c) Contribution for the employment generation (0.4)

a	Direct and substantial contribution for the productive employment]	Very good
b	Indirect and substantial contribution for the productive employment	Good
c	Direct and general contribution for the productive employment	Satisfactory/general
d	Very little contribution in the above	Low

6. Participation

a) Peoples Participation. –Civil society, community organization, NGOs, Users group/ beneficiary) (0.4)

a	Sharing of cost and participation in design and execution and take the responsibility of execution	Very good
b	Participation in design and implementation and sharing of cost only	Good
c	Participation in design and implementation and only in Kind participation in cost sharing.	Satisfactory/general
d	No peoples participation	Low

b) Participation of local community (0.3)

a.	Participation in design and execution, cost sharing by 15 % and above and take full responsibility in future management	Very good
b	Participation in design and execution, cost sharing by 10-14 % and above and take full responsibility in future management	Good
c	Participation in design and execution cost sharing by 9 % and above and take full responsibility in future management.	Satisfactory/ general
d	No participation of the local government	Low

c) Private sector Participation (0.3)

a	Programs that promote highly for the participation of private sector	Very good
c	Programs that promote for the participation of private sector in medium way	Very good
c	Programs that promote for the little participation of private sector	Satisfactory/general
d	No private sector participation	Low

7. Contribution to physical capital formation

a	Substantial and direct contribution for the capital formation.	Very good
b	Indirect and substantial contribution in the above	Good
c	General and indirect contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

8. Contribution to environmental sustainability

a) Contribution for the decrease in pollution (0.2)

a	Direct contribution for the reduction of Air, solid waste, soil, water and sound pollution	Very good
b	Indirect contribution in the above	Good
c	General contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

b) Contribution for climate change (0.2)

a	Direct and substantial contribution for the clean technology in climate change	Very good
b	Indirect and substantial contribution in the above	Good
c	General contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

c) Promotion of bio-diversity conservation (0.2)

a	Direct and substantial contribution for bio-diversity conservation	Very good
b	Indirect and substantial contribution in the above	Good
c	General contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

d) Minimization of Disaster (0.2)

a	Direct and substantial contribution for Minimization of Disaster	Very good
b	Indirect and substantial contribution in the above	Good
c	General contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

e) Minimization of Landslides (0.2)

a	Direct and substantial contribution for Minimization of Land slides	Very good
b	Indirect and substantial contribution in the above	Good

c	General contribution in the above	Satisfactory/general
d	Very low contribution in the above	Low

9. Project status

a) Full performance (0.4)

a	90 % and above performance for the last three years	Very good
b	Performance 70 % -89 % for the last three years	Good
c	50 to 74 % performance for the last 3 years	Satisfactory/general
d	Less than 50 % performance for the last three years	Low

b) Completion status (0.2)

a	Certainty to complete in the next year	Very good
b	Completion within next three years	Good
c	Will be completed within five years	Satisfactory/general
d	Will be completed within five years or not above to forecast	Low

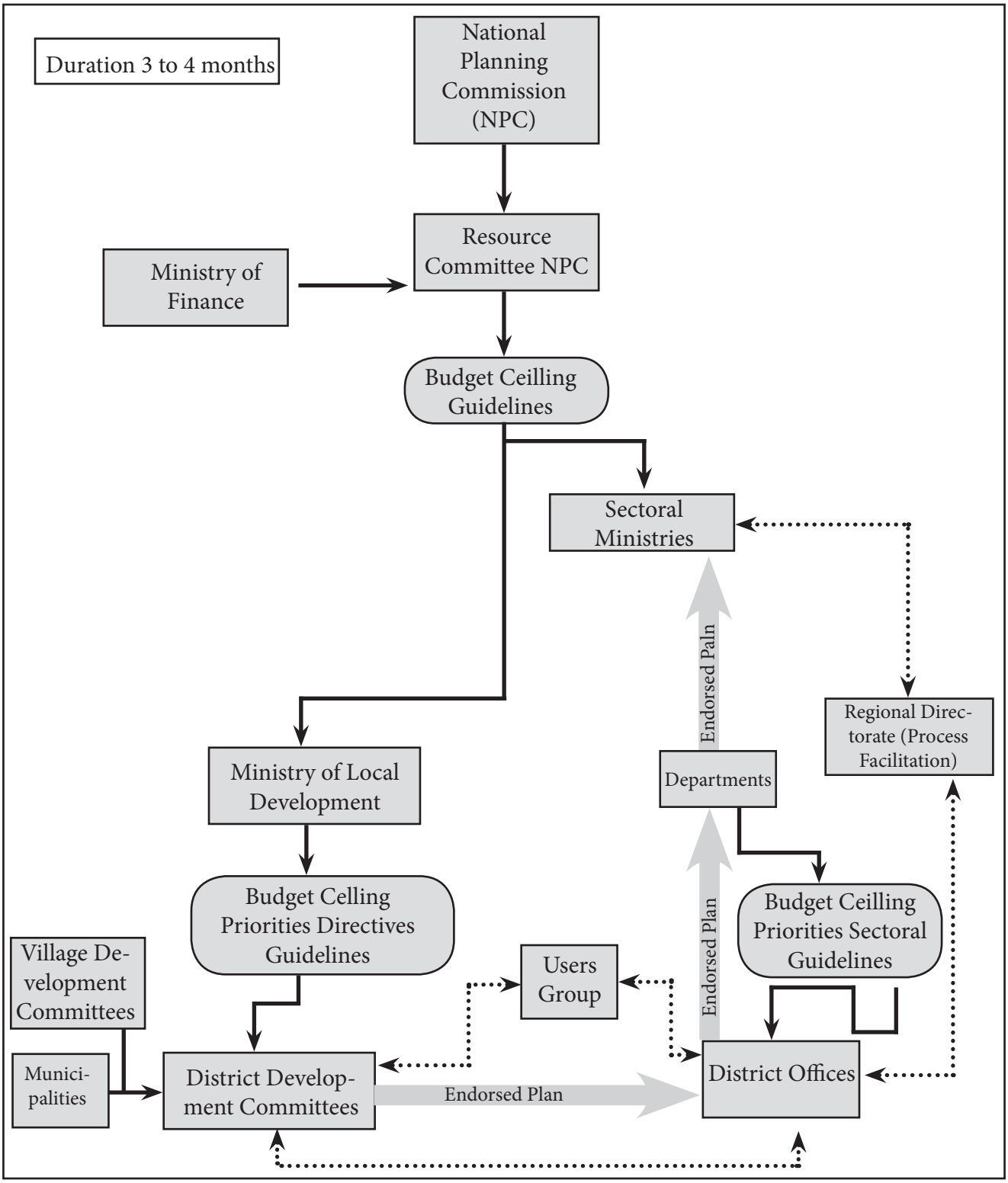
c) Status of repair and maintenance (0.4)

a	Direct provision of repair and maintenance for the sustainability of the project	Very good
b	Necessary provision for the repair and maintenance for sustainability of the project	Good
c	General provision for the repair and maintenance for the sustainability of the project	Satisfactory/general
d	No provision of repair and maintenance	Low

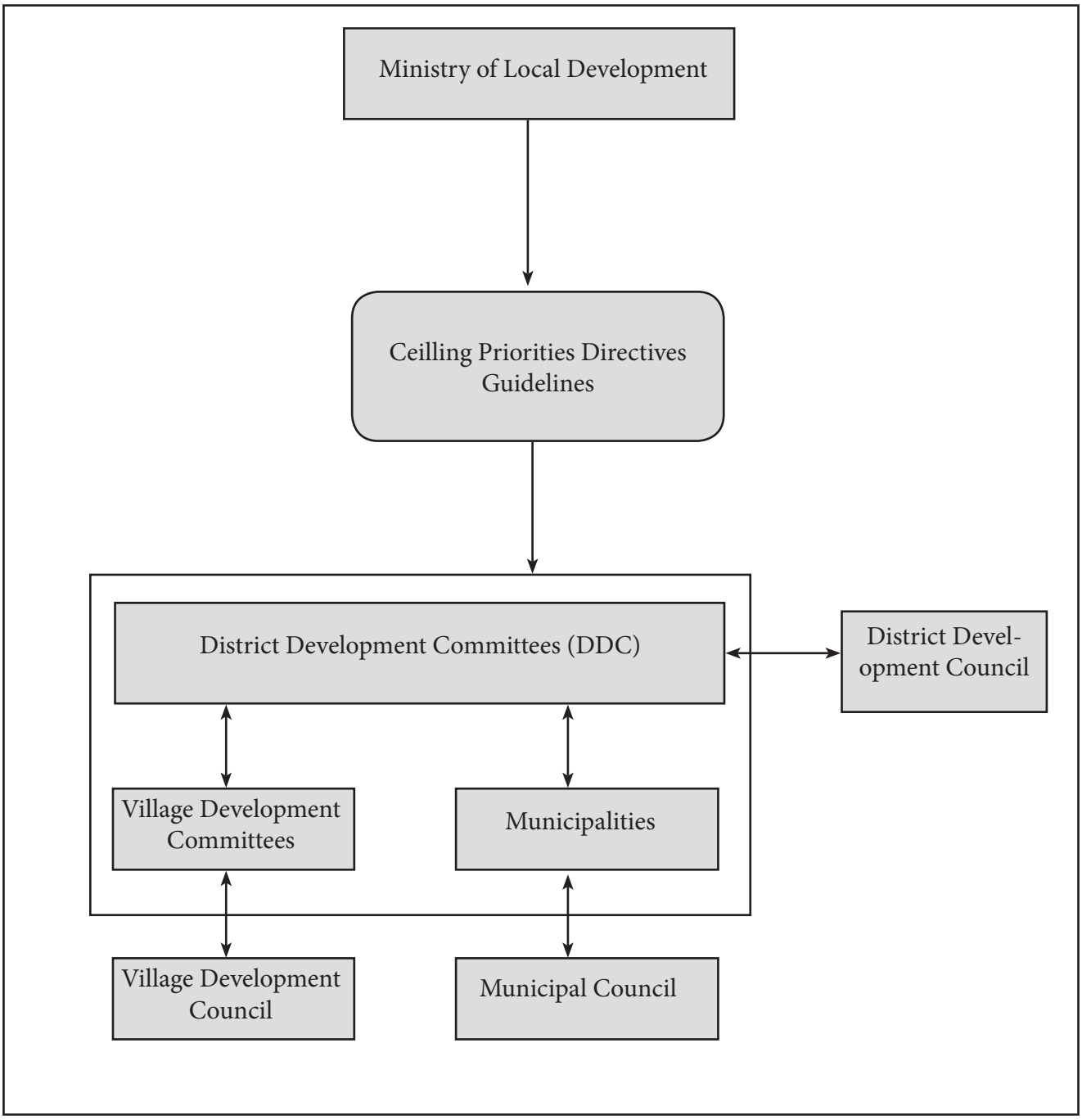
Note

a. All the projects/ programs within the ministry should be prioritized/both new and old programs should be privatized.
b. The basis of marking should be stated in separate page.

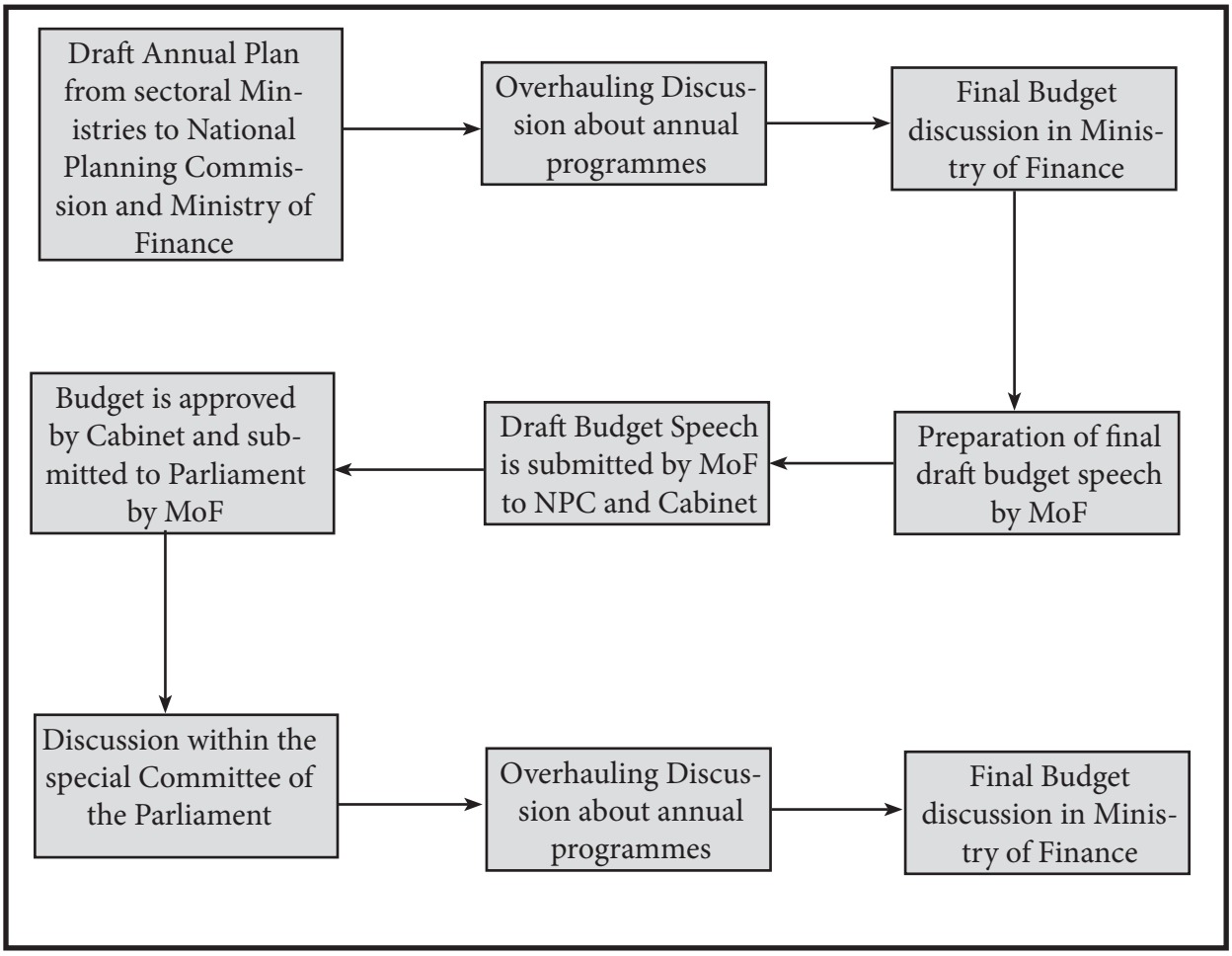
Appendix 5: Annual Plan Formulation Process in Nepal



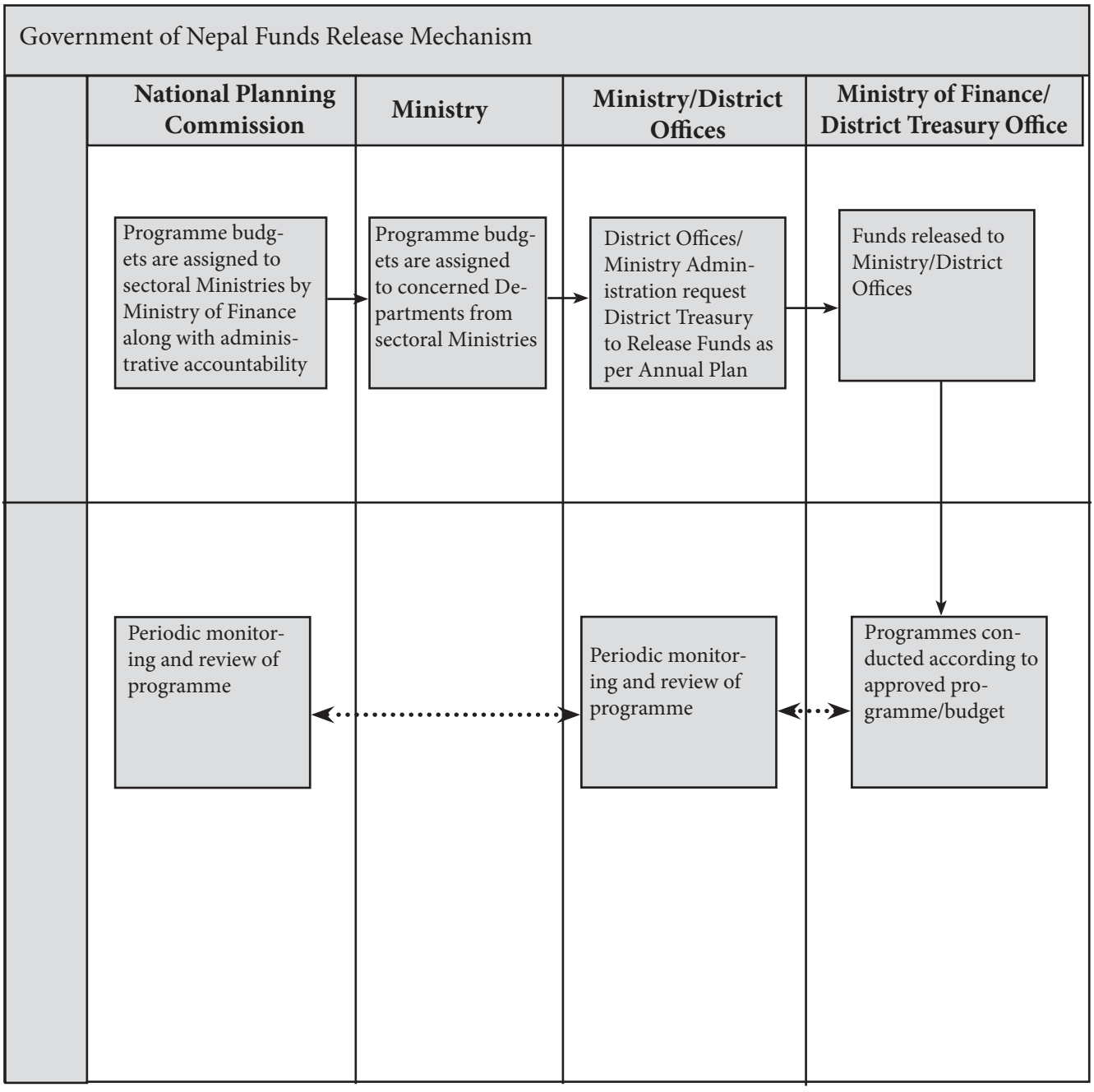
Appendix 6: District Level Annual Planning Process (As per the Local Self Governance Act)



Appendix 7: Program and Budget Finalization Process



Appendix 8: Funds Flow Mechanism in Nepal



Appendix 9: Guidelines provided by NPC for the preparation of Plan and Budget

1. Agriculture and cooperatives

1.1 Rs 30 billion(3 arba) has been allocated on subsidy of chemical fertilizer, 25 Crore has been allocated on compost fertilizer in fiscal year 2068/69, Rs 40 billion in 2069/70 and 450 billion in 2070/71 so proposal will be made accordingly.

1.2 The provision of programme formulation an implementation will be made in order to get self sufficient on meat, milk product and apple.

1.3 Rs 20 Crore should be allocated on co-operative farming, small irrigation and transportation of seed fertilizer

1.4 The development project will be formulated according to develop the commercial agriculture pockets on Madhya Pahadi lokmarga, south west highway road corridor.

1.5 The programme will be formulated according to policies on agriculture, co-operatives, food security, rural agriculture and micro credit.

1.6 The priority will be given on export promotion and export substitution while allocating budget in different projects.

1.7 The programme will be formulated to increase local production in those regions lacking sufficient production, food and nutrition

1.8 Budget will be allocated in different district so make regional balance

1.9 The concrete project will be proposed in order to make co-operative farming as a model

1.10 Budget and programme will be proposed with business plan in order to support "management for development result'

1.11 Co-operative strengthen programme will be carried by focusing Agro centred co-operatives. The programme related to agro production processing, seed promotion, agricultural market development will implemented by co-operation of govt and co-operatives

1.12 The annual development programmes are to be formulated by incorporating the available budget in local level in accordance with Local governance act 2055

1.13 Programmes are to be formulated by effective evaluation of the project carried out by line organization

1.14 A copy of draft provided by ministry to the department should be given to secretariat.

2. Forest and soil conservation

2.1 The programmes on climate change and forest, herbs, policies related to wildlife, minimum common programmes of govt, are to be formulated in accordance with interim constitution 2063 and ongoing three year plan so that employment increases and thereby high and sustainable economic growth can be achieved.

2.2 Attention will be given to the programmes of Kabuliyati forest for marginalized class and increment of their income, employment so that targeted people will have contribution on national development strategy.

2.3 Programmes on forest and land protection are also formulated so that poverty reduction, employment, regional balance, decentralization,gender and inclusion development, high economic growth could be achieved.

2.4 Forest and land protection management programmes are formulated by ensuring the role of public and private sector.

2.5 In 2068/69, district based budget will be allocated 40% on forest development indicator, 20% on forest covered area, 20 % on human development indicator and 10% on development cost indicator.

2.6 Budget on subsectors of forest sector(like forest, land protection, national

conservation, herbs and forest research are to be allocated by determining the basis and weightage of budget.

2.7 Concrete plan and programmes are to be proposed to gain maximum return from forest and forest product without negative impact on forest conservation

2.8 The action plan are to formulated on mitigation and adaptation from the problem created by climate change with co-operation of stakeholders of carbon trade and REDD+

2.9 Long run strategies are to be formulated to achieve sustainable development by creating green employment.

2.10 Rs 6 Crore is allocated in tiger conservation for upcoming fiscal year, Rs 3 Crore for 2069/70 and Rs 3 Crore for 2070/71

2.11 Rs 25 Crore is allocated on Chure conservation

2.12 Programmes are to be formulated to development Karnali region as a herbs area.

3. Ministry of Environment

3.1 Emphasis will be given on development of Renewable energy/alternative energy, reduction in cost, increase in capacity and technology transfer with the participation of private and NGOs.

3.2 Emphasis will be given to awareness programmes by co-ordinating govt organizations and NGOs in order to protect environment

3.3 Study and development of mechanism to keep the urban environment will be carried out from concerned offices

3.4 Special attention to be given to minimize the environment pollution and conservation of natural environment protection.

3.5 Priority will be given to the programs of mitigation and adaptation from the effect of climate change

3.6 The program like "Mountain Alliance Initiative" will be encouraged with special agenda

3.7 Priority will be given to promote the program like "Clean Development Mechanism"

4. Ministry of Science and Technology

4.1 Special attention will be given to develop, research and utilization of science and technology

4.2 Emphasis will be given to enhance the capacity of RONAST

4.3 Programmes will be operated to help the implementation of E-Governance

4.4 Emphasis will be given to public-private partnership on human development, institutional enhancement for the development of science and technology.

5. Drinking water and sanitation

5.1 Priority will be given to economically backwarded class, cast, community and region during the implementation of new project

5.2 Priority will be given to those projects that has participation of consumer

5.3 Emphasis will be given to operate the project by utilising local resources and ensuring the participation of local organisations.

5.4 The completed drinking water project will be handed over to the local level

5.5 Emphasis will be given for the treatment of polluted water and water with Arsenic

5.6 Cleanliness programmes are to be integrated with drinking water.

5.7 Rain water harvesting programme will be initiated in those places where sources of water is not available.

5.8 Coordinating Govt and NGOs working in drinking water and cleanliness programmes

Appendix 10: Prioritisation Calculation for Development Projects

Priority code of Project/program

Area:
Name of ministry
Department name

		1	2	3	4				5				6				7	8						9				10	11	12	13	14		15
S. N	Name of project/program	Propoor and contribute to wide-economic growth	Contribute to peace promotion	Support to achieve Millenium Development Goal	Contribute in Inclusiveness and genderizationa.a.regional inclusiveness(0.4) b.contribute in social inclusiveness (0.3) c.Genderization(0.3)				Contribute in productive employment a.human resource development(0.4). B. Use of technology (0.2) c. Create employment opportunity (0.4)				Participation a.People's participation, civil society, community organization, Non-government organization,User's group,benefeciaries(0.4) b.Participation of local bodies (0.3) c.Participation of provate sector (0.3)				Contribution in infrastructure capital development	Contribution in environmental sustainability a.reduction in pollution(0.2). b Balance in climate change(0.2) c. Conservation of bio diveristy(0.2) c. Disaster mitigation(0.2) d.Lanslide mitigation(0.2)						Project situation a.Pre-work editing(0.4) b.closing situation(0.4) c.Reestablishment and construction-0.4)				** Total scored mark = Scored marks/full marks * 100	weightage marks obtained	priority code	poverty code	gender code	Strategic code	Remarks
	weightage (%) *	15	10	10	10				15				10				10	10						10										
	Marks **	3	3	3	3				3				3				3	3						3										
					A	B	C	Total	A	B	C	Total	A	B	C	Total		A	B	C	D	E	Total	A	B	C	Total							
								0				0				0							0				0	0.00	0.00					
								0				0				0							0				0	0.00	0.00					
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	Sample of numbering	3	3	2	3	2	2	2.4	3	2	1	2	2	3	2	2.2	2	2	1	2	1	3	1.5	2	3	3	2.4	75.93	76.67					

Note

1 Determine the priority code of each project/program
2 Priority code under chapter 12 should be determined on the basis of total marks obtained in chapter 10.
3 Project/program priority should be presented in numerical format like 1, 2, and 3 under the chapter 12
4 Program that supports poverty alleviation directly should be provided with 1 and indirect support should be given 2.
5 While giving code under chapter 14, program directly targeted towards gender equity should be given 1, indirect support should be given 2 and 3 to the neutral.
6 Strategic code should be given on the basis of three year plan under chapter 15.

Appendix 11: Base of prioritization of ordinary and administrative expenditure

Expenditure should be prioritized like the expenditure under development programs, although the basis for prioritization can be different. Generally, expenditure of ordinary and administrative can be categorized in to five categories.

1. Direct help and support to the public.
2. Contribute to maintain good governance.
3. Help to generate revenue
4. Contribute in development program and
5. Contribute in human resource development, environment conservation and regional balance.

These priorities should be given the following points:

1. Most highly supported sector 5.0
2. Highly supported sector 3.5
3. General supported sector 2.0
4. Non-supported sector 0.0

On the basis of the given points:

- any program/project which receives at least 17.5 point should be given the first priority;
- second priority to any program/project which receives 10 points; and
- third priority to the program/project which gets less than 10 point.

All expenditure which is included on capital expenditure should be placed as a first priority.

The detail on priorities of general administrative expenditures is given below.

1. **Direct help and support to the public.**
    - Citizenship and passport related.
    - Primary and emergency health services
    - Land management
    - Drinking water supply and sanitation
    - Communication services like radio, television, telephone and post service
    - Public transportation services
    - Education
    - Social security
    - Justice delivery related

2. **Contribute to maintain good governance.**
    - Promote public accountability and transparency
    - Mobilization of public resources
    - Increase the efficiency of government agencies
    - Ensure the transparency and clarity in administrative, economic and executive process
    - Help to promote rule of law
    - Help to abolish corruption and declare punishment and reward system
    - Help to maintain peace and harmony

3. **Help to generate revenue**
    - Collection of tax and revenue
    - Non-tax revenue collection

4. **Contribute in development program**
    - Help in poverty elimination
    - Help in local development
    - Help in development of physical infrastructure
    - Promote tourism
    - Promotion of industrial sector

5. **Contribute in human resource development, environment conservation and regional balance.**
    - Increase People's participation in development, management and conservation of land and forest resources.
    - Help in conservation of environment, biodiversity, herbs, plants as well as natural resources.
    - Benefits to the public from biodiversity and tourism development.
    - Help in scientific study, research, analysis, preservation and promotion of historical, cultural and archaeological resources of Nepal.
    - Help in conservation of indigenous residing in different parts of Nepal and their language, culture and scripture.

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