NEPAL

COUNTRY BRIEF

Effective Governance of Climate Finance for Local Delivery in Nepal

OCTOBER 2014

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GOVERNANCE OF
CLIMATE CHANGE FINANCE
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1 INTRODUCTION

Nepal is one of the most vulnerable countries in the world to climate change. Climate change is already leading to erratic weather patterns, unpredictable rains, reduced snowfall at high altitudes, and recurrent droughts. These impacts have adversely affected agriculture and livelihoods adding further strain to small scale farmers and poor women and men. Climate change has the potential to undermine already achieved development gains and undermine future possibilities and aspirations. The nature of the climate threats facing the many different communities across Nepal is diverse and will require determining investment priorities and allocating resources effectively to ensure a location specific response, which takes account of geographical variation.

The Government of Nepal is committed to address the emerging issues of climate change through increasing the understanding and capacity of climate finance management. To date, the Government has made significant efforts to explore appropriate funding mechanisms and to develop institutional capacity to manage climate finance and integrate climate change into development planning and budgeting.

- In 2011, the Government undertook a Climate Public Expenditure and Institutional Review (CPEIR) to increase understanding of current levels of spending on climate change and financing mechanisms, for which it won an international award presented by the Head of the United Nations General Assembly.
- Based on the findings from the CPEIR, the Government has developed a climate budget code to track climate-change related expenditure on a regularly basis.
- As part of the decentralization process that is taking place in Nepal, and as a way to ensure that needs of the most climate vulnerable communities is addressed, the Government has developed an ambitious target to allocate at least 80% of climate finance to the local level . To help realize this target, the Government is undertaking a study on local climate budgeting and supported a performance-based approach to finance climate change adaptation at the local level.

This brief presents the process and findings from these three policy interventions and the next steps that the Government will take to improve climate financial management and further integrate it into existing public financial management reform and decentralization processes.

2 CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW (CPEIR)

2.1 What is CPEIR?

Nepal was the first country in the world to undertake a Climate Public Expenditure and Institutional Review (CPEIR) in 2011, an structured process to review climate related policies and institutions and assess expenditure on climate change The methodology used for the CPEIR was adapted from the World Bank's public expenditure reviews to assess current policy landscape, institutional structures and public financial management systems to finance climate change adaptation and mitigation activities. In particular, it identifies allocation and spending on climate change activities in key sectors.

The approach taken for the CPEIR was a six-month study to:

- review the climate change policy landscape in Nepal and state and non-state institutions that work on climate change related issues
- analyse the expenditure of planned and actual expenditure on climate change activities and expenditure patterns of key institutions using financial information in the Government's Estimates of Expenditure over five years
- review the Government's budgetary process on climate change activities and the integration of policy with expenditure plans

2.2 Definition of climate change and climate finance[1]

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, drawing from the definitions of the OECD as follows:

Table 1: OECD Definitions of Mitigation and Adaptation

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 Transport Industry Agriculture	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)
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	

Two main areas of climate change mitigation activity have been identified: Reducing Emission from Deforestation and Degradation of Forests (REDD) 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 based on expert judgment and review.

[1] Government of Nepal, National Planning Commission. Nepal: Climate Public Expenditure and Institutional Review, December 2011

2.3 Key findings of the CPEIR in NEPAL

Climate change policies

The review found that the overall coherence of the national response to climate change thus far appears credible and evidence-based, with the attention given to clean energy, water management, disaster risk reduction and forest protection. Though the national priority is on 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 (2011).

This policy, approved by the Government of Nepal, appears as a significant landmark, although much remains to be seen as to whether it will catalyse a major mainstreaming across all sectors of the economy. It is also in this policy that the target of 80% of climate-related expenditure to be spent at the local level is presented. Whilst the policy is comprehensive in many ways, it does not provide the details on issues such as the sources of finance, the government arrangement of financial transfers, particularly on the 80% target, and the expected scale of financing.

Institutional arrangements

A Climate Change Council (CCC) was constituted under the chairmanship of the Prime Minister prior to the 2009 United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) in Copenhagen. The CCC consists of 26 members, including 11 ministries and eight technical experts. The CCC has a mandate to: develop climate change as a major theme of the development agenda in Nepal; provide high-level policy and strategic oversight; coordinate financial and technical support to climate programs and projects; and secure measures to benefit from international climate negotiations and decisions.

The Multi-Sectoral Climate Change Initiatives Coordination Committee (MCCICC) is a national body created to coordinate action on climate activities also established in 2009. It facilitates the formulation of strategic financing by the government and development partners. All the National Adaptation Programme of Action (NAPA) thematic working group coordinators (Agriculture, Energy, Forests, Health, Physical Planning and Home Affair) sit on the MCCICC. The Climate Change Management Division of the Ministry of Science, Technology and Environment (MoSTE) acts as the secretariat to the MCCICC.

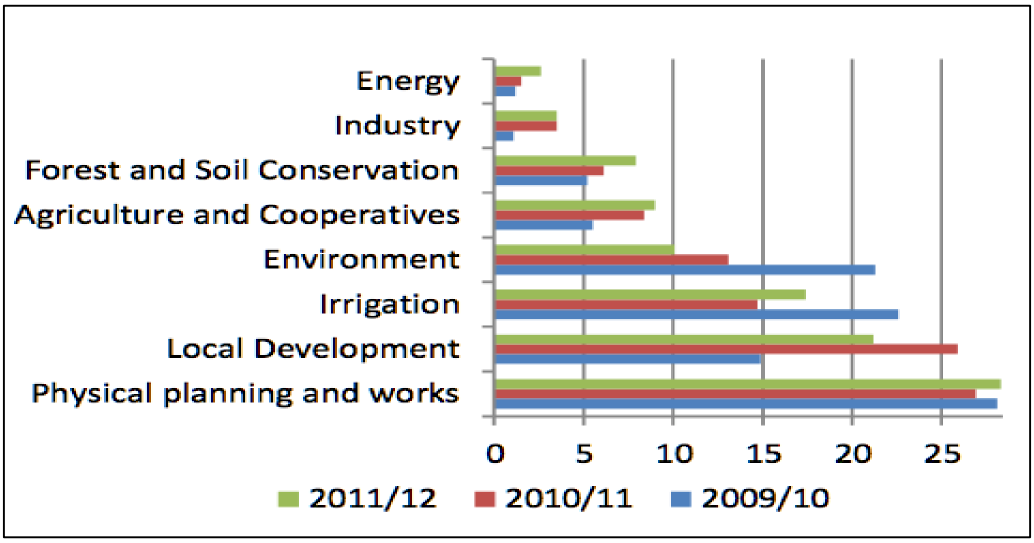
It is recommended that sector coordination at the national level should be further improved. The MCCICC should be strengthened through a more formalized way of working to achieve coordination at the technical level. It is also important to secure the right structures at the local level to ensure the flow of climate finance reaches the most vulnerable communities as envisaged in the climate change policy.

Climate budget

The CPEIR review found that the annual expenditure on all climate change related activities constitutes approximately 2% of GDP and round 6% of total government expenditure. The trend is increasing over time. Approximately three quarters of climate change expenditure are related to adaptation activities. Around 95% of expenditure are related to capital expenditure.

Four of the 10 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 (Figure 1).

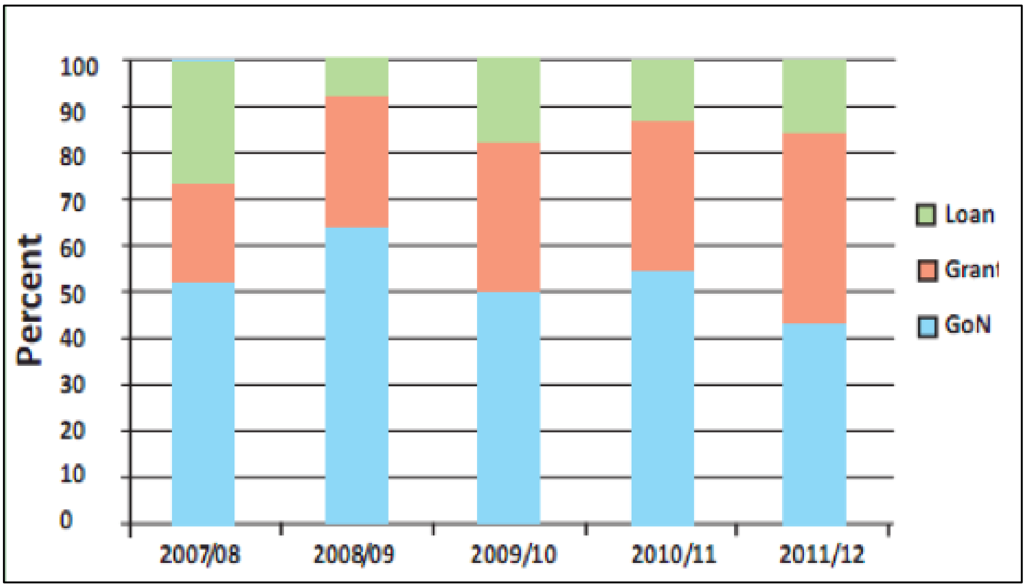
Figure 1: Climate expenditure and budget by Ministries (percent)



The 2011 review showed that in the 2010/2011 budget, approximately 26% of the local development budget is climate related. This is largely driven by unconditional capital grants and programmes in the Ministry of Federal Affairs and Local Development.

Funding of government climate change expenditure has a larger proportion of donor funding (55%) than the amount provided by donors for overall government expenditure (25%). The trend in climate change funding is moving towards increased donor funding (Figure 2). A significant sum of Technical Assistance, in the order of about $US 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.

Figure 2: Source of climate change funding



This CPEIR has led to a significant scale up of effort from the Government to take further initiatives to improve its climate finance management approach as set out below. Nepal's leadership and innovative work on the CPEIR, the process itself and the lessons learned have earned the Government the international Global South-South Development (GSSD) Leadership Award 2013.

3 CLIMATE BUDGET CODE

3.1 What is a climate budget code?

The concept of developing a climate budget code was a key recommendation of the CPEIR, which suggested developing a feasible method for tracking climate expenditure in the public finance system. In response to this, National Planning Commission (NPC) with support from the Ministry of Finance (MoF) formed a climate finance working group made up of key ministries including the Ministry of Science Technology and Environment (MoSTE); Ministry of Forest and Soil Conservation (MoFSC); and Ministry of Federal Affairs and Local Development (MoFALD). The group developed coding criteria and procedures through a series of consultations. Using the criteria and procedures developed, NPC developed a climate budget code, done at the programme level, and introduced it into the programme budget of the Fiscal Year 2012/13 and added this information to its programme budget sheets, which list major programmes of the ministries. The Ministry of Finance incorporated the climate coding in its database of the budget following approval by the Secretary, Ministry of Finance.

The approach taken by NPC to develop the climate budget code included:

- Set up a seven-member committee named "Climate Finance Working Group" comprised of officials from key ministries led by NPC
- Met to deliberate on key issues in tracking climate expenditure, including the difficulty in tracking NGO and private sector climate expenditures.
- Adopt the coding system used for pro-poor and gender budgeting
- Preparation of criteria and procedure for climate budget coding
- Instruction to line ministries to use the Climate Change Budget code in the Development Budget
- Guidelines to planning officers to develop procedures to assign codes to proposed programmes and fill in the budget form
- Development of Quick Reference Guide for Climate Change Budget Code to provide information on the context, need for climate change budget coding, definition of climate change related activities, coding procedure and template budget form
- Engage with Ministry of Finance and alignment with Medium Term Expenditure Framework (MTEF)

3.2 Climate budget code criteria[2]

Climate Change Related Activities

Development activities related to any of the following subjects have been considered as climate change related activities.

1. Sustainable management of natural resource and greenery promotion.
2. Land use planning and climate resilient infrastructures.
3. Prevention and control of climate change-induced health hazards.
4. Prevention and control of climate change-induced hazards to endangered species and biodiversity.
5. Management of landfill sites and sewage treatment for GHG emissions reduction.
6. Sustainable use of water resource for energy, fishery, irrigation and safe drinking water.
7. Plan/programmes supporting food safety and security.
8. Promotion of renewable and alternative energy; technology development for emission reduction and low carbon energy use.
9. Preparedness for climate induced disaster risk reduction.
10. Information generation, education, communication, research and development, and creation of data base.
11. Preparation of policy, legislation and plan of action related to climate change.

The criteria primarily focused on defining the climate change related development activities, and assigning codes based on the degree to which these activities are relevant to climate change. Initially, about 20 thematic areas, covering all economic sectors were categorized as climate activities. After consultations, the list of climate activities was shortened to eleven, which included all possible climate activities being implemented by the government Ministries and Departments.

To apply the climate budget code, a programme was assigned codes 1, 2, or 3 depending on whether the budget allocated for that programme is on 'highly relevant', 'relevant', and 'neutral' climate activities respectively. According to the agreed criteria, if more than 60 percent of the allocated budget of the programme is going to be spent on climate change related activities the programme will be considered 'highly relevant' to climate change, and coded as '1'. Similarly, if 20 to 60 per cent of the allocated budget of the programme is going to be spent on climate change related activities, the programme will be considered 'relevant' to climate change and coded as '2'. And if less than 20 per cent of the total allocated budget is going to be spent on climate change related activities or if the programme is not related to climate change, the programme would fall under the category of 'neutral' to climate change, and will be coded as '3'. Please see table below.

Table 2: Climate Relevance Code

Programme Budget Allocated to Climate Change Related Activities	Relevance of the Programme to Climate Change	Code to be used in the Budget Sheet
If more than 60 percent of the programme budget is allocated to climate change activities.	Highly relevant	1
If 20 to 60 percent of the programme budget is allocated to climate change activities.	Relevant	2
If less than 20 percent of the programme budget is allocated to climate change activities, or if the programme is not related to climate change activities.	Neutral	3

[2] Government of Nepal, National Planning Commission. Climate Change Budget Code: Criteria and Method, 2012

3.3 Key findings[3]

The Climate Change Budget Code became official and binding on 12 April 2012 when the National Planning Commission approved the Climate Change Budget Code procedure and required modification in the budget forms. The Climate Change Budget Code has now been implemented in the National Budget of the fiscal year 2012/2013 and 2013/2014 to facilitate tracking of climate expenditure. A review of the budget code application has been completed in June 2013 and revealed the following key findings.

Climate budget

The budget allocated for climate change related activities in 2012/13 was NRs. 27,28,26,29,000, which is 6.74 % of the total budget and 1.6 % of the total GDP. This is close to the figures of the CPEIR which found that climate expenditure was estimated at NRs. 27,62,88,48,000, which was 7.18 % of the total budget and 1.8 % of the total GDP.

Ministries with climate activities

Out of 27 ministries, eleven as shown below have climate related budget allocation in their budget headings. Of the total climate change budget, the Ministry of Agriculture and Development (MoAD) has the highest share (28%) followed by the Ministry of Urban Development (MoUD; no data for 2011/2012 as it is a new Ministry) (25.9%), Ministry of Irrigation (MoIr) (20.4%) and Ministry of Science, Technology and Environment (MoSTE) (9.6%). Thus these four ministries occupy about 84 % of the total climate change budget. The reductions of expenditures by the Ministry of Physical Infrastructure and Transport (PIT) from (from 28% to 1.5%) and the Ministry of Federal Affairs (from over 20% to less than 5%) is likely to be due to the more accurate reporting with the budget code assessment by line agencies than the preliminary assessment of the CPEIR. Another reason for the decline in the MoFLAD expenditure is also due to the fact that a new Ministry for Urban Development (MoUD) was created, whereby municipalities were removed from MoFALD, and included within the new MoUD, which has high climate relevance as shown in the Table below.

3 http://www.unpei.org/sites/default/files/e_library_documents/Nepal_Climate_Change_Budget_Code_Application_Review_2013.pdf

Table 3: Climate Change Budget of Ministries

Ministry	Climate Budget in different Fiscal Years (NRs in '000)					
	FY 2011/12 (CPEIR)		FY 2012/13		FY 2013/14	
	Amount	Share in total climate budget(%)	Amount	Share in total climate budget(%)	Amount	Share in total climate budget(%)
MoI	954673	3.5	264100	1	24089	0.05
MoE	731988	2.6	158910	0.6	920051	1.72
MoAD	2478070	9	7642389	28	11150503	20.85
MFSC	2195372	7.9	2262945	8.3	3980902	7.44
MoSTE	2780502	10.1	2628556	9.6	4949574	9.25
MoPIT	7821893	28.3	398181	1.5	1448368	2.71
MoUD	0	0	7066642	25.9	11508238	21.52
MoEd	0	0	0	0	150345	0.28
MoIr	4802444	17.4	5552932	20.4	9665118	18.07
MoFALD	5860176	21.2	1307974	4.8	2162870	4.04
MoF	0	0	0	0	7522458	14.07
Total	**27625118**	**100**	**27282629**	**100**	**53482516**	**100.00**

Source: Nepal Climate Change Budget Code Application Review 2013

In addition to the various ministries' share of the climate budget, Table 4 also points to an overall increase in the commitment of resources towards climate change as a percentage of the GDP.

Table 4: General Trend of Climate Budget Allocation over three years (NRs in '000)

SN	Headings	Fiscal Year		
		2011/12 (CPEIR)	2012/13	2013/14
1	Annual budget	384,900,000	404,824,700	517,240,000
2	GDP[ii]	1375,000,000	1536,000,000	1702,200,000
3	Climate budget	27,628,848	27,282,629	53,482,516
4	Climate budget as per cent of total Budget	7.2	6.74	10.3
5	Climate budget as per cent of GDP	2.0	1.78	3.1
6	Number of Ministries with climate budget allocation	8	9	11
7	Number of budget heads	83	99	124
8	Relevance	Highly relevant -33, Moderate -44, Low - 6	Highly relevant- 70, Moderately relevant -29	Highly relevant-74, Relevant- 50

Source: Nepal Climate Change Budget Code Application Review 2013

Local component of climate change budget

In 2013/2014, out of 124 climate related programs identified by climate code a total of 12 programs have been found to be local programme. All of them are categorized as highly relevant programme to climate change. About 11.4 per cent of the total climate change budget is allocated to these local programmes. However, it did not include the fund allocated to climate change from the block grant2 received by the local governments. In comparison, the CPEIR had estimated about 26 % of the total climate change budget as the local component. More detailed study on local climate financing is needed as current findings show limited fund flow to the local level. This would be a significant shortfall of the national target of 80% climate finance at the local level.[4]

Table 5: Local Component of Climate Budget

SN	Budget number	Programs	Climate Budget (NRs in '000)			Remarks
			Total	Recurrent	Capital	
1	365804	Rural Drinking Water & Sanitation Program	580948	580798	150	Share of local component in total climate budget is 11.4 per cent.
2	365805	Rural Water Resource Management Project	330177	330177		
3	365821	Rural Water Supply & Sanitation Project in Western Nepal	250143	250143		
4	365833	Community Irrigation Project	600202	512037	88165	
5	365837	Small Irrigation, River Training and Other Infrastructure Program	401400	401400		
6	329801	Community Forest Development Program(Including Green Employment)	157490	68433	89057	
7	329804	District Soil Erosion Program	540245	187645	352600	
8	329805	Community Development and Forest-Watershed Protection Project	63760	18440	45320	
9	329806	Botanical Conservation & Park Development Project	52181	11151	41030	
10	329807	Botanical Utilization & Marketing Program	11980	10800	1180	
11	347801	Rural Drinking Water Project	20000	0	20000	
12	347802	Drinking Water and Sanitation Program	3113056	561911	2551145	
Total			**6121582**	**2932935**	**3188647**	

Source: Nepal Climate Change Budget Code Application Review 2013

[4] UNDP-UNEP, 2013, Nepal Policy Brief: Are local governments allocating enough budget to Sustainable Development?

4 LOCAL BUDGET FOR CLIMATE CHANGE

4.1 Study on policies, programs and budgets in Local Development Plans

Nepal's local government's system consists of 75 Districts, 3,915 Village Development Committees and 58 municipalities. A VDC (made up of 9 wards) formulates a Village Development Plan (VDC Annual Plan), which is reviewed and approved by the VDC council. The approved Village Development Plan is channeled through the Elaka (cluster of villages or sub district) to the respective subject committee of the District Development Committee (DDC). The DDC formulates a District Development Plan (DDC Annual Plan), which is approved by the DDC Council, represented by political party representatives, CSOs, line agencies, private sectors and DDC officials. At the moment, local decision-making is undertaken by DDC, VDC and Municipality officials, as there have been no local elections for over a decade.

In April 2013[5], a study commissioned by the MoFALD revealed that there is a gap between Development Plans of Local bodies and budget allocations on environment and climate change related activities from the local block grants. The review looked at the level of inclusion of environment, sanitation, gender and social inclusion and disaster risk reduction in local development planning procedures. It examined published annual development plans and budgets of 15 District Development Committees (DDC) and five Municipalities representing various ecological and development regions of Nepal over three fiscal years.

4.2 Key findings

Development plans of selected DDCs and Municipalities reveal that most of them include environmental management, gender equity and social inclusion, sanitation, disaster risk reduction and climate change considerations, but that these receive limited budgets. Although the majority of local bodies have included programmes related to these fields in their annual development plans, so far only an average of **8% of the budget** is allocated to implement them. Specifically within the development plans, 95% of selected DDCs and municipalities include environment management activities, 90% include sanitation activities, 80% include gender and social inclusion activities, 75% include disaster risk reduction activities and 35% have Local Adaptation Plans of Action (LAPAs) for climate change. However there is no consistency in policies, programmes and budgets related to these areas across the country. Although the country has given a high priority to gender and social inclusion, only 1% of the annual budget of local bodies is allocated to these areas.

Overall the compliance to policies is not satisfactory while formulating and allocating budgets. Central bodies envisage all of the districts will address environment and climate as indicated by the Acts, Laws, Regulations, Norms, Guidelines and Directives, and circulars from MoFALD, other line ministries and the NPC but in practice all of the districts have difficulties to comply with these. The underlying causes of non-compliance were found to be lack of awareness, capacity and motivation.

[5] UNDP-UNEP, 2013, Nepal Policy Brief: Are local governments allocating enough budget to Sustainable Development?

Planning and budgeting in environmental management and disasters risk reduction follows more of a reactive pattern than forward looking strategic allocation of budgets. For example, heavy rainfall followed by flood in the Terai region in 2009 may have triggered local bodies' allocating more budgets for disaster risk management in 2010. The concept of true integrated planning still needs to be understood and practiced at the DDC, Municipality and VDC level.

The programs and budgets did not follow any geographic or periodic trends. The needs and programs of each district are different. Some of the selected local bodies gave more importance to disaster management and others for watershed management. Overall, disaster related activities receive the biggest budget allocations by local authorities (mainly in the west and far west regions).

Environment, climate change and disaster related expenditure is hard to track. The review experienced difficulties in identifying programmes and budget for the environment, climate change and disaster management. Many of the districts have combined environment with forestry while others with agriculture. Both agriculture and forestry related spending are in principle related to environment and climate change but it is not clear whether the programs are specifically designed and targeted to address environment and climate change issues. Overall there is confusion between the term environment, climate change and disasters among local level officials.

4.3 RECOMMENDATIONS AND KEY INTERVENTIONS

Budgets allocated to pro-poor climate and environmental management, including gender equity and social inclusion should increase. Budgets allocated should be in line with the recognition they receive in most local development plans and a budget marker should be developed to track expenditure at the local level. Moreover, environmental management and climate change adaptation and mitigation should become regular programmes of DDCs and Municipalities. Under the guidance of MoFALD, DDCs are preparing periodic district development plans in close alignment with the national periodic plans, which have given special focus to the climate change and disaster risk management related issues. The MoFALD should include guidance on environment, climate and disaster in their upcoming policy directives to local bodies and provide timely oversight and feedback. Impacts of public policy related to pro-poor environmental management and climate change adaptation and mitigation should be evaluated to guide future public investments. Planning for environment, climate and disaster should not be a parallel to create a separate set of environment and climate investments, but should be designed to "climate-proof" the main investments within the development plan and budget. This is particularly important for roads which form the basis of much local level expenditure (see box 1)

Box 1 Increasing Climate Resilience of Expenditure on Rural Infrastructure: Green Roads in Nepal

Many villages in the hills of Nepal remain far removed and in some cases, completely disconnected from nearby towns and cities due to a lack of roads. To increase access to markets, reduce isolation and increase rural communities' access to services, local governments are spending large shares of their budgets on road construction. However, a rising concern with the increase in construction has been the environmental and social damage brought by methods such as the use of bulldozers that fragment ecosystems and do not take into consideration the natural slope of the mountain. With climate change, villages have become more prone to landslides which has affected these roads severely: ,As Mr. Janak Sharma, Planning Officer in the Dhadhing District Development Committee, notes in 2012 "Last year, there were three big landslides in the northern part of Dhading, because of using heavy equipment while constructing roads….the economic damages are around 10 million rupees."

In 2011, the UN supported the Ministry of Federal Affairs and Local Development (MoFALD) to undertake an economic study in two districts, Makawanpur and Dolakha, which analyzed investments of local governments in roads. Findings from the study suggested that the use of heavy machinery in construction resulted in high environmental costs compared to labour-based technologies that were both environmental friendly and a source of employment for surrounding communities. These technologies had about 30% more marginal economic returns than roads constructed with heavy equipment-based technologies. The study recommendations were reinforced by civil society organisations and media advocacy against using heavy machinery. As a result, several local governments banned the use of heavy machinery to construct roads, and imposed fines on violators. In addition, MoFALD encouraged the shift to using labour-intensive technologies for construction. This provided thousands of green jobs for villagers, while increasing the climate resilience of expenditure for rural infrastructure.

Source: Building Inclusive Green Economies, Stories of Change from the Poverty-Environment Initiative in Asia Pacific, 2014.

The capacity of DDC and Municipalities staff should be enhanced to prioritize activities, define long-term plans and understand integrated planning, with particularly focus on training related to environmental management, climate change adaptation and mitigation and disaster management. There should be increased participation of local communities and vulnerable groups to define development plans and pro-poor environmental management activities.

Minimum Conditions and Performance Measures (MCPM) and public hearings at VDC level have proved to be effective incentive measures to enhance local accountability and performance in planning and budgeting. Some aspects of climate and environment have been included in the Performance Measures, but this has not been fully rolled out yet. As such, a new programme, with the support of the UNCDF's Local Climate Adaptive Living (LoCAL) Facility[6], is being developed and piloted to help DDCs and VDCs promote climate change resilient communities by increasing financing for and investment in climate change adaptation at the local level. The programme is designed to re-enforce the existing national and sub-national financial and fiscal delivery systems and provides a set of minimum conditions and performance measures as incentives for DDCs and VDCs to implement 'No regrets' projects building climate resilience at local level.

[6] Local UNCDF, 2014, Local Climate Adaptive Living Facility http://www.local-uncdf.org

5 NEXT STEPS

To date, the Government has made considerable progress in strengthening its financial system through the Climate Public Expenditure and Institutional Review (CPEIR) and the introduction of a budget code to track public expenditure on climate change on an annual basis. Yet, the GoN is committed to take further steps to facilitate better allocation of public and private investments to the most vulnerable areas and key sectors.

5.1 Strengthening the Governance of Climate Change Finance

The work will continue both among the different Ministries. Within the Ministry of Federal Affairs and Local Development (MoFALD) the Ministry has decided to promote a more joined up approach among development partners by developing a Climate, Environment and Development sub-Sector Wide Approach (SWAp) for a more harmonized approach to climate finance at the local level. The Department for International Development of the UK has already provided equivalent to USD 20 million to MoFALD for local level climate activities.

MoFLAD is also being planning to undertake a report on the current status of the implementation of the policy to deliver 80% of all climate finance at local level; and to undertake district level CPEIR to develop more data on the flow of climate finance to the local level.

These latter two activities are part of a large programme coordinated by the Ministry of Finance. Currently the Government of Nepal is implementing a six-month design and preparatory plan from August 2014 to February 2015 to develop a two-year UN supported programme that will ensure better integration of climate change into the budget formulation and expenditure reporting processes. This six-month design phase will focus on the development of baselines and targets for the national programme, and stakeholder engagements in Nepal on the importance of integrating climate change into the budget cycle. This design plan will be supported by UNDP through the DfID-funded regional programme on "Strengthening the Governance of Climate Change Finance to benefit the poor and vulnerable in South Asia" and by UNDP and UNEP through the Poverty Environment Initiative. As such, the GoN will work together with UNDP and UNEP to make use of the experience built in climate financing over the years.

During an initial period of six months, a number of activities and outputs will be concluded, including: the work with MoFALD on the local level 80% target and i) a review of budget formulation guidelines; ii) a policy brief targeted to the Ministry of Finance on climate change integration to budget cycle; iii) v) a proposal to partner with relevant national and local CSO on budget policy and climate change. Based on these initial outputs, a two year work-plan will be further proposed to implement the UN-supported programme from 2015-2017

These activities were agreed upon and endorsed by a wide range of stakeholders during an inception workshop in September 2014. The MoF – specifically, the Budget and Programme Division, and the Monitoring and Evaluation Division - will take the lead in the overall management of the process, supported by UNDP and UNEP, and will have an ongoing close engagement with other key ministries and agencies, such as the National Planning Commission, MoFALD, MoSTE, key NGOs and academic institutions.

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UK Department for International Development