



Government of Nepal
Ministry of Population and Environment



Access to Climate Finance in Nepal

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Context of climate finance

Accessing and utilizing climate finance is key to enhance Nepal's programmes on low carbon and climate resilient development. Urgent adaptation actions have become necessary to address the impacts of climate change in the country. Climate induced extreme events such as floods, inundation, landslides and drought have become regular affairs and loss of human and physical property is increasing every year.

Erratic rainfall is detrimental to the rain-dependent agriculture sector in the country that contributes to almost 30% of the national Gross Domestic Product (GDP). The country is bearing annual loss of 1.5% to 2% of its GDP due to climate variability and extreme climate events. This will increase to 2 to 3% of the GDP, i.e. about US\$ 62.384 billion (2013 est.) by 2050. It requires additional US\$2.4 billion of investment in aggregate by 2030 to build Nepal's resilience to climate impacts¹. Nepal will have to explore financial resources within and outside the country to meet the growing adaptation costs.

For the last four years, the Nepal government has been allocating budget under the climate change category in the national budget. For the fiscal year 2016/2017, the allocation from the government on climate change financing is 19.22% of the national budget. In the fiscal year 2015/2016, the allocation reached to 19.45% compared to 10.7 and 10.2% in 2014/15 and 2013/14 respectively (See table).

Fiscal Year	Total Budget (in NPR.'000)	Climate Budget (in NPR.'000)		
		Direct Relevant	Indirect Relevant	Neutral
2013/14	5,17,24,00,00 (US\$5.65 b)	27,749,423 (US\$303.25 m)	25,733,093 (US\$282.22 m)	463,757,484 (US\$5.07 b)
	Percent	5.36	4.98	89.66
2014/15	6,18,10,00,00 (US\$6.59 b)	34,984,543 (US\$372.89 m)	31,365,113 (US\$334.31 m)	551,750,344 (US\$5.88 b)
	Percent	5.66	5.07	89.27
2015/16	8,19,46,88,84 (USD 8.07 b)	46,366,228 (US\$456.63 m)	112,980,501 (US\$1.11 b)	660,122,155 (US\$6.50 b)
	Percent	5.66	13.79	80.55
2016/17	1,048,921,354 (USD9.91 b)	61,851,376 (US\$5.84 m)	139,762,761 (US\$1.32 b)	847,307,217 (US\$8.01 b)
	Percent	5.90	13.32	80.78

Table: National climate budget allocation for four years

Climate coding is done by respective ministries for their projects as per the criteria approved by the Ministry of Finance. The climate finance projects are channelled and implemented via multiple mechanisms including the government's national budget processes and through various institutions such as UN Agencies, NGOs among others. Although the climate change budget allocation shows encouraging figures in the present context, there have been some concerns on the effective allocation and absorption of these resources in order to reduce the negative impact of climate change. Currently, the Government of Nepal is primarily prioritizing climate adaptation and resilience-building programmes on various sectoral issues.

A study by Oxfam Nepal in 2014 showed that 44.36% of adaptation funding was in the forest and biodiversity sector, followed by 26.94% in multi-sector projects and 16.41% in climate-induced disasters. Nepal has to explore further opportunities in accessing international funding not only to finance large adaptation gap but also to contribute in its ambition of working on low carbon resilient development that bring co-benefits to the country. Synergizing this aspect with the Sustainable Development Goals will add value in addressing the overall development needs. Hence, it requires a clear climate finance strategy in order to streamline its internal funds, access to international funding (both under UNFCCC and outside) and to make the efficient, effective and equitable distribution of fund dedicated to addressing climate change impacts.

In 2011, under the leadership of Ministry of Science, Technology and Environment (now Ministry of Population and Environment), Nepal approved its national Climate Change Policy. This policy sets out some aspiring targets covering multidimensional elements including access to financial resources and utilization to implement adaptation and low carbon programmes. One of the widely acclaimed provisions in this policy is the clear reference of spending 80% of the climate budget at the local level, which is being pioneered through the Local Adaptation Plans for Action (LAPA). In order to take the policy forward, the Nepal Government is also at the final stage of introducing the Low Carbon Economic Development Strategy (LCEDS). Huge investment is expected to incur to adopt this environmentally sustainable pathway. The cost has not been calculated yet but a large part is expected to be financed from international sources.

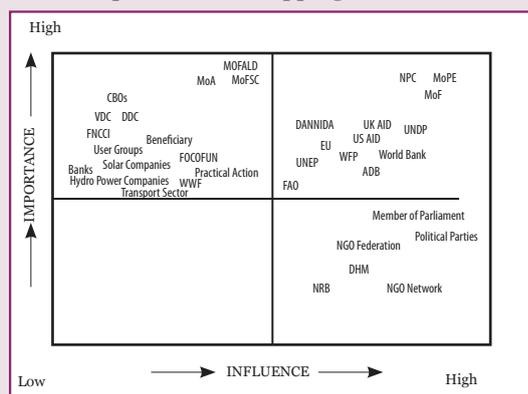
¹ Economic Impacts Assessment of Key Sectors in Nepal, Government of Nepal, 2014

The latest addition to Nepal's commitment to addressing climate change is the submission of Intended Nationally Determined Contributions (INDC) to the UNFCCC secretariat communicated in February 2016 highlighting Nepal's adaptation and low carbon development plans. The INDC envisions meeting 80% of Nepal's energy demand through renewables by 2050. However, this contribution to the adaptation and mitigation target largely depends on international financial and technical support.

Key stakeholders in climate finance

Many agencies and actors play crucial role in channelling and utilizing climate finance in Nepal. These include international donors, government institutions, UN Agencies, Multilateral Development Banks, private sector agencies, I/NGOs, local institutions and user groups, among others. These groups of actors play pivotal role in accessing finance and implement actions for climate resilient development and support the vulnerable communities in the country.

An assessment of key stakeholders was done using the tool 'importance and influence' that each actor plays in accessing and utilizing climate finance in the national context. Depending on their nature and priorities, all the actors had specific interest and influence in accessing and implementing the climate action. The figure below provides the mapping of the stakeholders.



High Importance, High Influence

The actors of this group are the key ones who had highest decision and policy-making authority when it comes to climate finance. They had highest level of access to information and power. They also need to be regularly consulted for any decisions.

High Importance, Low Influence

This is the category where the actors are assessed to be important in implementing roles. The level of engagement with these actors needs to be strong to execute the decisions.

Low Importance, High Influence

This set of actors was influential when it comes to decision-making or supporting the implementation. Their continuous involvement and consultation were necessary for decision-making and climate actions.

Low Importance, Low Influence

This set of actors had minimum role and were not mapped in this analysis.

International climate finance

Nepal highly relies on international resources to finance its regular development work. With the increase in climate impacts, additional resources will be required for the government to invest in meeting the extra costs.

In 2014, Oxfam Nepal, conducted stocktaking of climate change adaptation finance and governance in Nepal, highlighting the adaptation finance committed to Nepal from public sources of international finance during the period from 2009 to 2012. It stated that a total funding commitment of US\$ 538.24 million (around 53.82 billion NPR) was made for adaptation according to donor reports. However, the projects and programmes examined based on the project's criteria showed that only US\$ 246.44 million (around 24.64 billion NPR) or 45.78% of the committed amount was fully or partially relevant to climate change adaptation². Rest of the allocation was found to be either mitigation focused or cross cutting. This assistance comes from diverse development partners as Nepal has outreach to donor countries, development banks and other international agencies. Though the western development partners are the primary sources of funding climate change work in Nepal, in the recent years, South-South Cooperation is also increasing, with China supporting many countries, including Nepal.

Developed countries provide finance to Nepal via their own bilateral agencies and international organizations. The World Bank, Asian Development Bank (ADB) and International Financial Corporation (IFC) have also accessed finance to help build climate resilient Nepal. They are gradually increasing their internal climate investment portfolios.

As a Least Developed Country, Nepal also accesses finance from dedicated climate-related international funds established under the United Nations Framework Convention on Climate Change (UNFCCC). For instance, Nepal has projects under the Least Developed Countries Fund (LDCF), Adaptation Fund (AF) and Global Environment Facility (GEF). Now, Green Climate Fund (GCF) is also available for funding.

For international financing, the government largely accepts different kinds of financial instruments depending on the programmes such as grants, soft loans and co-financing. Similarly, to some extent, Nepal has also attracted financing on carbon-offset projects under the UN's Clean Development Mechanisms (CDM).

Challenges

Nepal, one of the most vulnerable countries as far as climate change impact is concerned, is already struggling with its socio-economic development. At this time, the country is going through a huge political change with restructuring of the country's governance system that is adding more challenges to addressing climate change. In addition, scarce financial resources pose further challenge in adequately addressing climate vulnerability.

² http://policy-practice.oxfamamerica.org/static/media/files/Nepal_AFAI_Stocktaking_Report_Final.pdf



Due to the country's low internal capacity, Nepal has been lagging behind in acquiring its share of international support of fully absorbing them. International funds, such as the Green Climate Fund, Least Developed Countries Fund, Adaptation Fund and Climate Investment Fund, exist to support the climate vulnerable countries like Nepal. However, these funds are extremely difficult to access as the processes are too cumbersome, technical, lengthy and of high standards in meeting their criteria. Hence, this is a serious obstacle for a country like Nepal to get financing through such international funds.

Furthermore, national institutions including the government, non-government and private sectors have limited information and understanding about the opportunities that exist internationally on climate finance. Institutions with inexperience and limited capacity in handling international funds find it extremely difficult in fulfilling the fiduciary standards and social and environmental safeguards of these funds.

The project implementation, particularly on procurement of goods and services are often burdened with lengthy decision-making procedures that pose a challenge in effective implementation of climate actions. Implementing any projects from national to local level is time consuming and often confusing on the roles of actors. Public Finance Management System (PFMS) is gradually being reformed but it further needs to adopt the right tools and techniques for efficient and enhanced absorption capacity of climate finance. The low level of understanding of the national financial planning tools and processes among the stakeholders make it extremely challenging as well.

The government has put in every effort in fulfilling an uphill task of fully implementing the 80% mark of climate funds going to the local level as stated by the climate policy. Nepal has huge ground experience in implementing climate actions but the work needs better documentation and shared for future learning

and expansion. Evidence documents of the good practices must be preserved and internalized for sustained learning.

Nepal government also faces huge limitation in tracking climate finance due to lack of internationally agreed definition and criteria. The climate change indicators for the national budget code seem to be vague, and as a result the coding system has exponentially increased the size of the national climate finance budget. It is also limited to only public finance excluding climate investments done by non-governmental actors. The climate change coding only captures the allocation of resources and does not provide the full status of the expenditures. The sources of climate change is scattered and often accounted with Official Development Assistance (ODA) posing a big setback in rendering the true picture of climate finance in the country.

Opportunities

The challenges that Nepal embraces also come with many opportunities. The international community is ready and willing to engage with the Nepal Government. Every year, Nepal receives international assistance and assurances to fight climate change and more development investment. The government has formulated national policies, plans and structures and has pioneered innovative programmes like the LAPA that has helped Nepal receive additional support.

The creation of numbers of international climate funds under the United Nations and other forums provide avenues for Nepal to design climate programmes and access funding. Green Climate Fund, Least Developed Countries Fund and Climate Investment Fund are some of the major ones that prioritize climate vulnerable countries like Nepal. For instance, the investment areas of the Green Climate Fund are very much in line with the areas prioritized by Nepal's climate change policy and NAPA. It is also the right time for Nepal to shift its development paradigm by adopting low carbon pathways and investments.

The provisions in the Green Climate Fund and the Adaptation Fund has opened new window of opportunity for developing countries to access resources directly by the national institutions. This allows building national capacity, improving fiduciary standards and playing active role in the country's economic and green development. Direct access to climate finance also gives national institutions the confidence, trust and helps become self-reliant in the long run. Accessing and utilizing international financial resources by national institutions enhances effectiveness, improves institutional capacity and helps tackle climate change sustainably.

Way forward

In order to effectively access and mobilize financial resources to tackle climate change in Nepal, number of steps must be taken. Considering some of the major aspects around capacity building, institutional strengthening and reviewing the current flow of finance would help in the future.

- Climate Finance Section existing in the Ministry of Population and Environment (MoPE) and the National Designated Authority (NDA) of the Green Climate Fund at the Ministry of Finance must be institutionally strengthened with a dedicated structure, office and human resource to facilitate international climate finance into the country.
- Understanding the process of accessing and utilizing international climate finance from the Green Climate Fund, Adaptation Fund and other sources among national stakeholders, including government institutions, private sectors and NGOs must be enhanced. Accessing dedicated readiness programme from the Adaptation Fund and the GCF can adequately support this.
- Government must identify dedicated national institutions to serve as the implementing entities of the GCF and strengthen them to access finance through direct access modality. This helps build country's internal capacity, strengthen national institutions and make the country self-reliant for future climate financing.
- National institutions delivering climate projects and human resources must be strengthened to overcome current shortcomings in finance delivery systems targeting

efficiency and improved fiduciary standards in programme implementation. This must be done in compliance with the national policies, plans and strategies that are country-driven and owned.

- In Nepal, private sector lags behind in climate-friendly investment, hence, sensitizing and encouraging them with targeted activities for partnership and collaboration on sectors such as energy, transportation, among others, is crucial. They must be considered under the readiness programme.
- From the experience of LAPA model and other climate investments currently being implemented, fund absorption capacity and structure of mobilizing climate funds from national to local level must be built to reach the most vulnerable and poor communities.
- The current climate change criteria for the national budget code that focuses on finance allocation are broad, hence, developing concrete and smart indicators from the current implementation standards would help clarify climate finance and support higher degree of transparency. Tracking the expenditure is also imperative.

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Author: Mr. Raju Pandit Chhetri. Mr. Chhetri works on climate change adaptation and finance policy. He can be reached at raju@prc.org.np.



About PRC

Prakriti Resources Centre (PRC) is furthering the notion of sustainable development and environmental integrity, focusing primarily in climate change, low carbon development and food security. PRC engages with diverse stakeholders including policy makers, government institutions, NGOs, academia and private sector for research and policy influence.

Prakriti Resources Centre (PRC)

107/22 Aruna Lama Marg,
Ganesh Basti, Narayan Gopal Chowk,
Kathmandu, Nepal
☎ +977-1-4428602 ✉ info@prc.org.np
🌐 www.prc.org.np

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