

NEPAL CASE

Strengthening National Strategies for Financing Adaptation in Nepal

Mobilizing Development Finance for Strategic and Scaled-up Investment in Climate Adaptation

- Raju Pandit Chhetri



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FOREWORD

The Prakriti Resources Centre prepared this case study as an input to the “Mobilizing Development Finance for Strategic and Scaled-up Investment in Climate Adaptation” research project, which was implemented by the International Institute for Sustainable Development (IISD) in partnership with the Prakriti Resources Centre in Nepal, African Centre for Technology Studies in Kenya, and Libélula in Peru. Canada’s International Development Research Centre (IDRC) provided funding for the project.

The research project explored challenges to scaling up finance for adaptation across different contexts and opportunities to overcome these constraints. One area of focus was strengthening national strategies for financing adaptation. This case study explored Nepal’s perspectives and needs in regard to increasing the volume and quality of finance for adaptation, including financing from multilateral development banks (MDBs), and initial efforts to lay the groundwork for a financing strategy for adaptation. The case study informed an IISD research paper that explored the challenges and opportunities related to the integration of adaptation finance into development finance.

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ABBREVIATIONS

CCC	Climate Change Council
CCBD	Climate Change Budget Code
CCFF	Climate Change Financing Framework
CCMD	Climate Change Management Division
CCA	Climate Change Adaptation
CCP	Climate Change Policy
CFU	Climate Finance Unit
CPEIR	Climate Public Expenditures and Institutional Review
CIF	Climate Investment Fund
CSO	Civil Society Organization
DRR	Disaster Risk Reduction
FYP	Fifteenth Five Year Development Plan
GCF	Green Climate Fund
GEF	Global Environment Facility
GLOF	Glacial Lake Outburst Floods
GoN	Government of Nepal
GRID	Green, Resilient and Inclusive Development
IDCP	International Development Cooperation Policy
IDRC	International Development Research Centre
IECCD	International Economic Cooperation Coordination Division
IISD	International Institute for Sustainable Development
LAPA	Local Adaptation Plans for Action
LDC	Least Developed Country
LTS	Long Term Strategy
MCCICC	Multi-Stakeholder Climate Change Initiative Coordination Committee
MDB	Multilateral Development Bank
MoALD	Ministry of Agriculture and Livestock Development
MoF	Ministry of Finance
MoPE	Ministry of Population and Environment
MoFE	Ministry of Forests and Environment
NAP	National Adaptation Plan
NAPA	National Adaptation Programme of Action
NDA	National Designated Authority
NDC	Nationally Determined Contribution
NGO	Non-Governmental Organization
NPC	National Planning Commission
OECD	Organization for Economic Cooperation and Development
PRC	Prakriti Resources Centre
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

INTRODUCTION

This case study explores Nepal's efforts to scale up financing for climate adaptation priorities, including plans to prepare a financing strategy for adaptation. The research explores Nepal's perspectives and needs in regard to increasing the volume and quality of finance for adaptation, including financing from multilateral development banks (MDBs), and initial efforts to lay the groundwork for a financing strategy for adaptation.

The first section sets out the national context, and Section 2 briefly describes the methodology. Section 3 provides information on policy, governance, and planning processes that influence and guide the preparation of Nepal's financing strategy for adaptation. Section 3 also explores the efforts to date to prepare the strategy and the support of MDBs for these efforts. Section 4 discusses challenges and opportunities, and the concluding section provides insights on effective strategies to finance adaptation.

NATIONAL CONTEXT

Nepal's temperature trend analysis from 1971 to 2014 shows a rise in average temperature by 0.056°C per year, and in the same period, 22,372 climate-induced disaster events with average annual frequency of 500 were recorded in the country (MoPE, 2017). Unprecedented events are being observed every year. Extreme climate impacts have been observed in flooding, landslides, retreating Himalayan glaciers, erratic but intensive rainfalls, and warm and drier winters.

Nepal is among the most vulnerable countries to the impacts of climate change due to the country's fragile topography, people's climate-sensitive livelihoods, and their limited adaptive capacity (GoN, 2020). As a Least Developed Country (LDC), Nepal has a mere per capita GNI of US\$1196 (UNDP, 2021). According to the Human Development Report 2018, Nepal lies in the low human development category, positioning at 149 out of 188 countries and territories. The poverty incidence or poverty headcount rate for Nepal is 21.6 per cent. With the observed growing trends of climate impacts and uncertain future extreme events, the poor and vulnerable communities in Nepal are least able to recover from the resultant loss and damages.

Nepal's economy is overwhelmingly dependent on agriculture, which contributes about one-third of Nepal's GDP, and employs about two-thirds of the population directly or indirectly (CBS, 2014). Over 50% of farmers are smallholders cultivating land usually less than 0.5 ha. Agriculture is primarily rainfed, and the weather and climate are increasingly highly vulnerable to climate change (MoALD, 2019). A country largely dependent upon climate-sensitive sectors, i.e. agriculture, livestock, and forestry, the changing climatic conditions negatively affect Nepal's economy.

Nepal is a signatory party of various prominent climate change, environment and sustainable development conventions and international agreements. Existing national policies are anchored towards fulfilling the international obligations while meeting national aspirations of socio-economic development. In the context of post Paris Agreement (2015) and Sustainable Development Goals (2016-2030) and changed institutional arrangement in the federal structures, policies are in the process of formulation or revision to reflect new roles, responsibilities, and priorities. Three tiers of government are in place, and it is crucial to integrate climate change and environmental issues into government programs. The delegation of powers to the provincial and local government institutions created a new situation of revisiting their roles and responsibilities. Existing policies, plans and development programmes should rest on climate-resilient development pathways emphasizing climate change impacts if they are to be successful.

Nepal's high vulnerability to the impacts of climate change pose a severe impediment in achieving sustainable development. In order to address the climate vulnerability, Nepal has invested its resources from the national fiscal budget while also mobilizing international finance. Nepal continues to explore ways to mobilize and access more international finance through bilateral, multilateral, global funds and other sources to address climate impacts.

METHODOLOGY

The case study is developed based on the available literature review and interviews with relevant stakeholders. A semi-structured questionnaire was used for interviews with key stakeholders to gather information, opinion, impressions, and views of experts working in climate change adaptation. Similarly, a validation consultation was also organized in order to share the outcome of the case study and receive comments from the stakeholders. Participants included diverse stakeholders, including the government institutions, private sector, civil society, and other relevant experts in climate change policy and financing. The inputs and comments received from stakeholders have been incorporated into the case study.

FINANCING STRATEGY FOR ADAPTATION

NATIONAL POLICY AND STRATEGY

The evolution of Nepal's climate change policy tracks back to the Earth Summit held in Rio de Janeiro, Brazil, in 1992 that eventually adopted the UNFCCC treaty. Since then, Nepal has also ratified the Kyoto Protocol and the Paris Agreement. These documents stand as the basis in helping developing countries adapt to the impacts of climate change and finance those actions. To implement adaptation actions in the country, Nepal started preparing the National Adaptation Programme of Action (NAPA) in 2010; and finalized its National Adaptation Plan (NAP) in 2021.

Similarly, in 2011, Nepal initiated formulating the National Climate Change Policy to strengthen planning and implementation of climate actions in the country. It gave a more comprehensive approach to addressing the issues of climate change. The National Climate Change Policy serves as an umbrella policy that reflects the country's position and priority areas in addressing climate change impacts where adaptation is the key focus. To respond to the latest national and global climatic context, the Government of Nepal revised the policy in 2019. This revision also aligns the policy with the new federal governance structure of the country. This policy also clearly outlines the need to access and mobilize finance for adaptation from diverse sources, including bilateral, multilateral and other international mechanisms like Green Climate Fund, Global Environment Facility, Adaptation Fund, Climate Investment Fund, and Carbon Trade (MoFE, 2019).

The National Climate Change Policy has identified 12 themes categorized into eight sectoral and four crosscutting. These thematic areas include 1: Agriculture and food security; 2: Forests, biodiversity and watershed conservation; 3: Water resources and energy; 4: Rural and urban settlements; 5: Industry, transport and physical infrastructures; 6: Tourism and natural and cultural heritages; 7: Health, Water and Sanitation; 8: Disaster risk reduction and management. In addition to the sectoral themes, the new policy enlists crosscutting themes as 1: Gender and social inclusion, livelihood and governance; 2: Enhanced public awareness and capacity building; 3: Research, technology and dissemination; and 4: Climate finance management (MoFE, 2019). This policy explicitly categorizes the roles of federal, provincial and local government institutions reflecting the current government structure to prioritise adaptation actions at different levels of the government. It also emphasizes tracking climate change-related budgetary provisions and expenditures through the 'climate change budget code' in the annual budget system. However, the budget code is yet to implement at the provincial and local level.

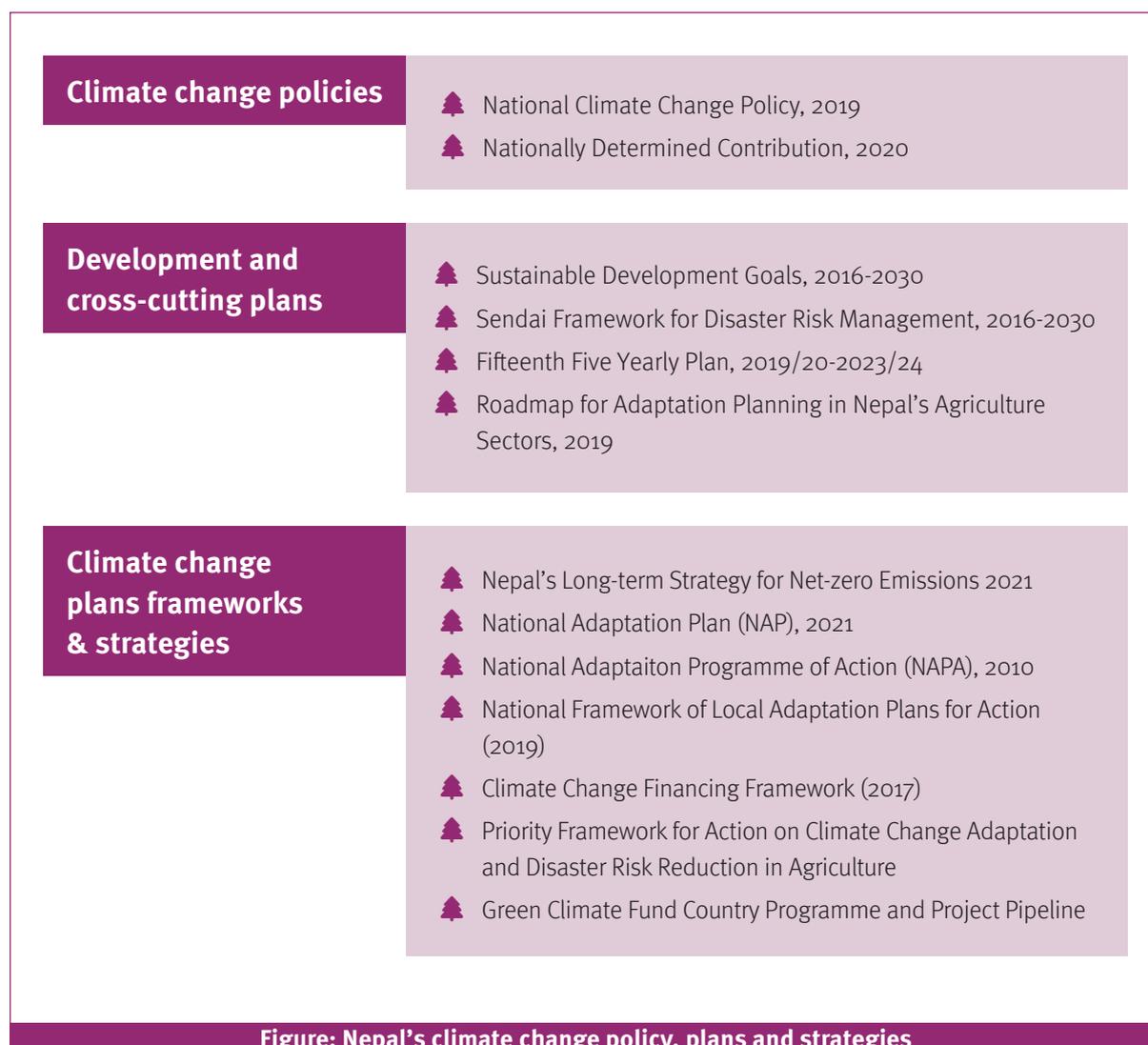


Figure: Nepal's climate change policy, plans and strategies

Nepal's existing climate change policy and programmes, particularly those dealing with climate change vulnerability and impacts, are of great concern to many stakeholders for their proper prioritization and implementation. Climate change being a highly cross-cutting agenda, policies, plans and strategies go beyond the sphere of climate to cover development plans, sustainable development goals, disaster risk management plans and other sectoral plans. Climate change is also well reflected in the Fifteenth Five Year Development Plan- 2019/20-23/24 (FYP) and other sector-wise development plans and disaster risk management plans. The FYP emphasizes addressing climate change impacts by managing it as a stand-alone approach and through integrations with other sectoral areas. It states climate change adaptability and disaster risk reduction strategies will be undertaken.

Similarly, FYP encourages all relevant sectors to address climate change through their plans. The FYP acknowledges the challenges in the agriculture sector by stating that as the majority of farmers are engaged in small or medium-scale farming, it is challenging to commercialize the sector by enhancing their capabilities to respond to natural disasters by mitigating the adverse effects of climate change (GoN, 2019). However, actions will have to be taken beyond the national level to provincial and local levels for the farmers to benefit.

Nepal's Climate Change Policy Evolution Process

1994 :	Ratified the UNFCCC
2004:	Submitted First National Communication Report to UNFCCC.
2005:	Ratified Kyoto Protocol
2010:	Submitted the National Adaptation Programme of Action (NAPA)
2011:	Approved Local Adaptation Plan of Action (LAPA)
2011:	Approved National Climate Change Policy
2014:	Submitted Second National Communication Report to UNFCCC
2016:	Ratified the Paris Agreement and submitted first NDC to UNFCCC
2017:	Approved revised Framework of National Adaptation Plan
2018:	Submitted Third National Communication Report to UNFCCC.
2019:	Approved revised National Climate Change Policy
2020:	Submitted second NDC to UNFCCC
2021:	Submitted NAP: Summary for Policy Makers to UNFCCC

Table: Climate change policy evolution process in Nepal

Through the climate change policy, Nepal Government has renewed its commitment towards fulfilling the international commitment, particularly the spirit of the Paris Agreement.

Nepal also submitted its Second Nationally Determined Contributions (NDC) to the UNFCCC in 2020 to commit to the Paris Agreement. Highlighting the context of Nepal as a highly vulnerable country to climate change, the targets are set ambitiously on both adaptation and mitigation. The adaptation component of the NDC sets out priority adaptation actions and notes that Nepal will submit an adaptation communication which will include its priorities, implementation and support needs, plans and actions through the National Adaptation Plan. The NDC document has also committed to formulating a climate finance strategy and national capacity on climate finance management by 2022 (GoN, 2020).

Various ministries and line agencies have started prioritizing climate change adaptation as a sectoral priority. For instance, the Ministry of Agriculture and Livelihood Development (MoALD) developed a 'Roadmap for Adaptation Planning in Nepal's Agriculture Sectors' in 2019. This roadmap aims to mainstream adaptation planning into agriculture as the impacts of climate change in Nepal's agriculture sector are becoming increasingly evident (MoALD, 2019). Provincial climate change strategy and action plan (s) are under discussion to make the government programs climate-resilient and ensure the program's sustainability.

The Government of Nepal has also formulated and submitted National Adaptation Plan (NAP) to the UNFCCC as a commitment to the Paris Agreement. NAP covers all the vulnerable sectors to address climate adaptation as self-standing and cross-cutting areas. Ministries and line agencies see this internationally submitted document as an opportunity to advance the climate adaptation work in respective sectors and integrate them into the development planning process. The National Adaptation Plan (NAP) 2021-2050: Summary for Policy Makers indicates that a priority climate finance action is in the preparation of a strategy to finance adaptation (GoN, 2021, p. 39).

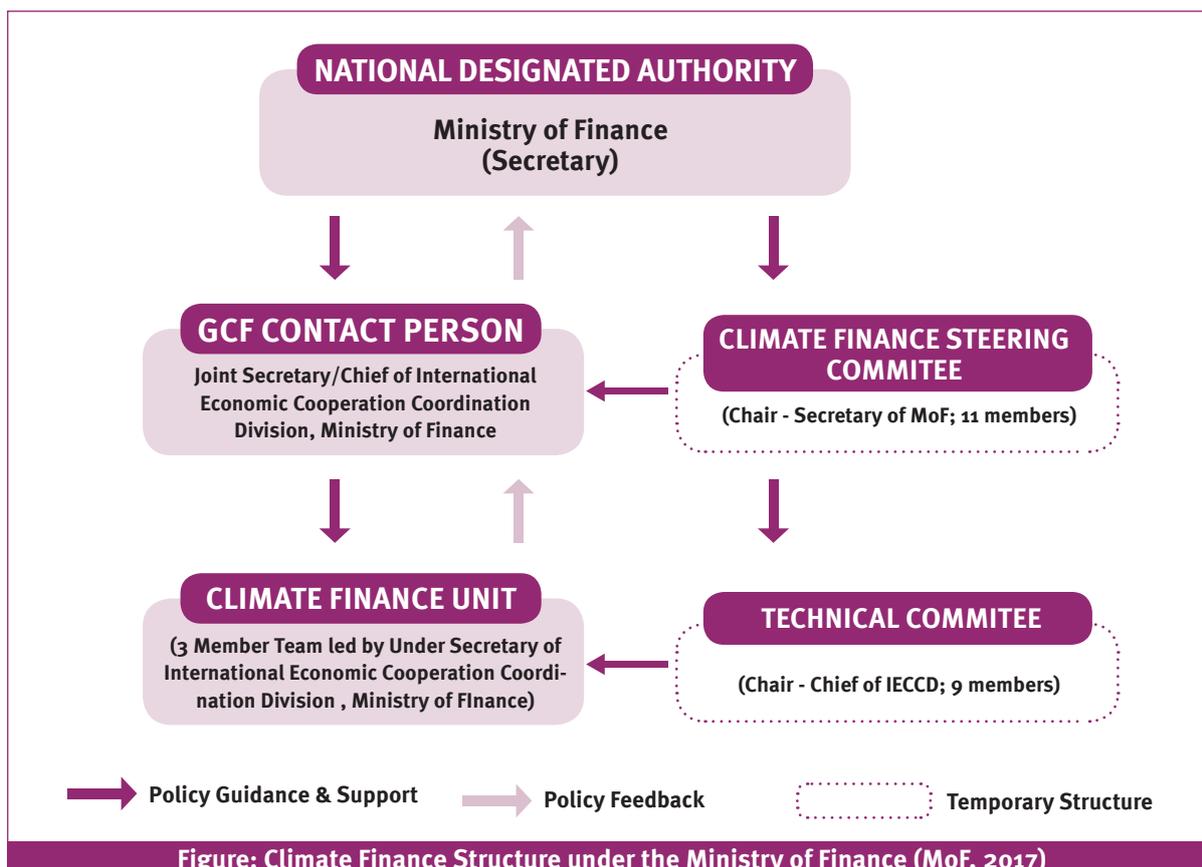
GOVERNANCE AND STRUCTURE

Ministry of Forests and Environment (MoFE) serves as the focal ministry and national authority to coordinate climate change activities among other government agencies, private sectors and civil society organizations. The ministry is also responsible for advancing the policy, discourse and coordination for climate change work in the country. This ministry has a dedicated Climate Change Management Division (CCMD) to oversight and promotes climate action nationally. However, given the cross-cutting nature of climate change, other ministries have also set up climate change focal points and begun to initiate work related to their respective sectors. As stated above, MoALD has developed a roadmap to integrate climate adaptation into its agriculture plans and actions, including the Agriculture Development Strategy. The National Planning Commission (NPC) promotes such integration through the FYP encouraging all relevant sectors to integrate climate change in their respective plans.

The national climate change policy has envisioned the necessity of integration and coordination, and has included the provision of setting up of dedicated institutions across the three levels of government – national, provincial and local to address climate adaptation. In this case, there is a provision of establishing Climate Change Council at the federal level, Climate Change Coordination Committee at the provincial level and Climate Change Sections with focal points at local government institutions. The challenge remains in the formalization and implementation of these provisions.

The Environment Protection Act, 2019 has envisioned an Environment and Climate Change Council to provide a political and strategic vision chaired by the Prime Minister. Similarly, a Multi-Stakeholder Climate Change Initiative Coordination Committee (MCCICC) is established to act as a multi-stakeholder forum chaired by the Secretary of MoFE. Various other line ministries at the federal level have nominated climate change focal points to coordinate climate change work to build synergy. Similarly, relevant institutions have been designated by the provincial and local governments to look into climate change work. These structural setups are done to build awareness, integrate climate adaptation into the planning process and effectively implement them.

In order to access and mobilize climate finance, a dedicated body, Climate Finance Unit (CFU), has been set up at the Ministry of Finance (MoF) under the International Economic Cooperation Coordination Division (IECCD). Currently, this unit assists and coordinates climate finance work, including climate adaptation. It aims to coordinate climate finance work nationally and with international development partners. IECCD directly deals with the Multilateral Development Banks and global funds like Global Environment Facility (GEF) and Green Climate Fund (GCF) as a national focal point. The CFU has started engaging with development partners and line ministries to priorities adaptation actions in the country. Several adaptation projects have been forwarded to GCF, GEF and the Climate Investment Fund. There is a need for the IECCD to better coordinate among national stakeholders and international development partners to map out climate finance for standalone and intergraded climate actions. This body can also build on the existing structure of tracking development aid and apply for climate finance.



NATIONAL ADAPTATION PLANNING PROCESSES

Nepal's initiation to address climate vulnerability began in 2010 by formulating the National Adaptation Programme of Actions (NAPA). The objective of preparing the NAPA was to address the urgent and immediate threat of climate change (MoE, 2010). NAPA was expected to provide a basis for the government to guide future climate change governance and manage financial resources coherently. The focus was to support and help people and communities adapt to climate change's adverse impacts while building on livelihood options and addressing poverty. The NAPA document also set out a national framework for implementing climate change projects and programmes with an allocation of finance going to different levels. However, before it was fully implemented, the country's governance changed to the federal structure, making the suggestion irrelevant. Some elements of NAPA have been incorporated in the national policy that laid the foundation of allocating 80 per cent international finance going to the local level, which is strongly included in the national climate change policy (MoFE, 2019).

To localize and support implementation of the NAPA, Nepal also immediately started formulating a framework on Local Adaptation Plans for Actions (LAPA). It was expected that this local framework would avoid or reduce climate change impacts for the security and welfare of the climate-vulnerable communities (GoN, 2011). Rather than developing a separate implementation modality, the LAPA framework was rather designed to imbed it in the development planning process of the country. In 2019, the framework was revised to suit the current governance structure of the country, considering three tiers of government. The LAPA framework was an innovative tool designed to integrate climate adaptation into the development planning process of the government. However, it did not fully materialize as separate funding sources had to be mobilized from the development partners for its implementation. The government did not finance the formulated LAPA initiatives. Nepal government also failed to communicate the LAPA priorities adequately to the development partners. Climate change adaptation was seen as a siloed activity despite LAPA calling for its integration in the development planning and implementation. MDB did not take this framework into account or their respective country strategy. Currently, it is implemented in the Western part of the country through a separate stream of financing sourced from the British government.

The formulation of NAPA and LAPA documents helped raise awareness about climate change adaptation. The 15th Five Year Plan envisions preparing and implementing 460 local level adaptation plans; while the Second NDC commits to the preparation and implementation of climate-resilient and gender-responsive adaptation plans in by all 753 local governments (GoN, 2019; GoN, 2020). Further, the Fifteenth Five-Year Plan also puts an objective to access international finance and technologies available for climate change mitigation and adaptation within the framework of the Paris Agreement and distribute the benefits equitably. However, according to the NPC representative, no budget allocation has been made to formulate and implement them from the national fiscal budget. It is left to the ministries and local government to prioritize and allocate budget for adaptation priorities.

Before attending the UN Climate Change Conference (COP26) held in Glasgow, UK, in early November 2021, the Government of Nepal submitted the National Adaptation Plan (NAP). The UNFCCC decided to help developing countries formulate and implement NAP back in 2010. For Least Developed Countries like Nepal, while NAPA would help address urgent adaptation needs, the NAP would support the identification of medium- and long-term key adaptation issues, gaps, priorities, and related resources requirements. Nepal has prioritized and costed adaptation projects through its NAP process, which is led by the Ministry of Forests and Environment. NAP outlines Nepal's contribution towards meeting the adaptation objective set out in the Paris Agreement and the required means of implementation (MoFE, 2020). The NAP process builds on the lessons learnt from the NAPA process, and the NAP document was prepared with the financial support of the Green Climate Fund (GCF).

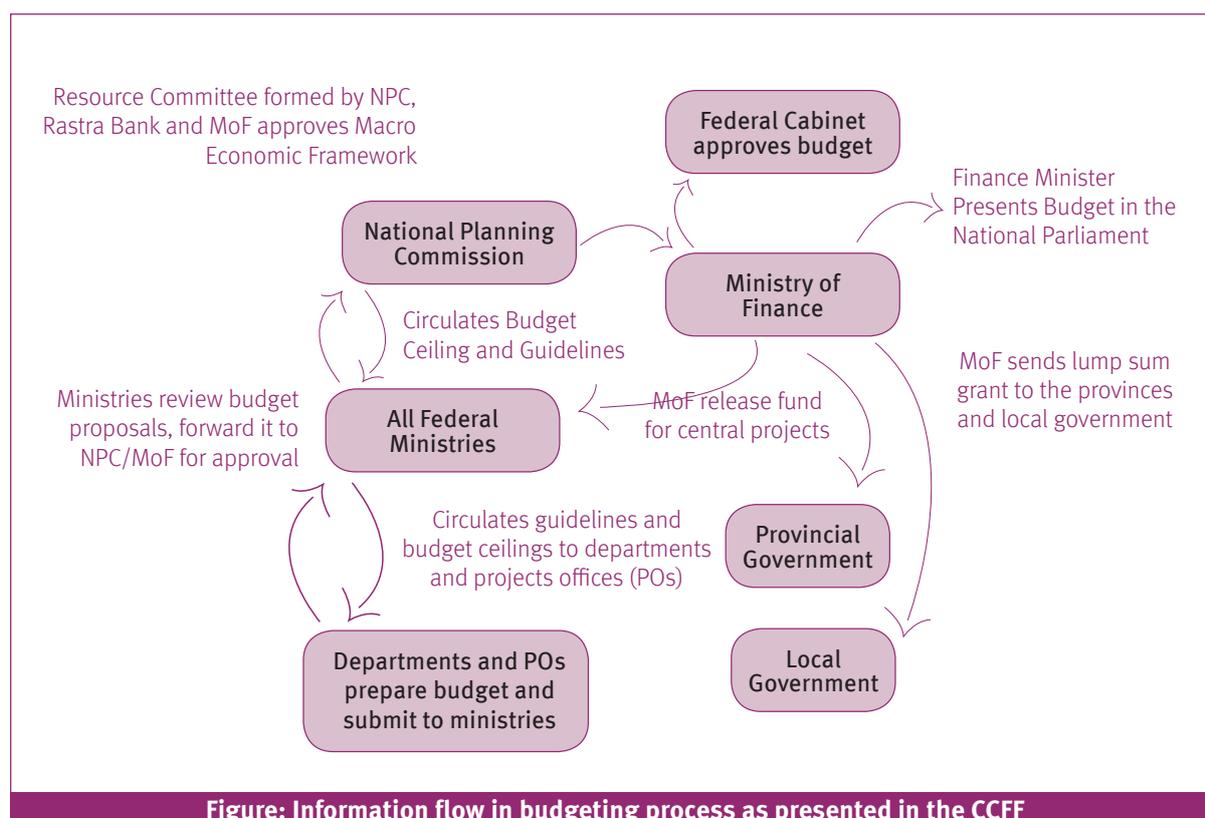
The NAP process prioritizes the thematic and cross-cutting areas as stated in the national climate change policy. It also builds on the financial provisions as stated in the policy with modalities to mobilize all resources from bilateral, multilateral and other international financial sources (MoFE, 2019). The NAP process is also in the stage of designing a NAP financing strategy. NAP is yet to go into implementation; however, the government representatives show confidence that the development partners will help finance the adaptation priorities outlined in the NAP document. The Government of Nepal plans to cover the minimum cost while the majority of the finance is expected to be mobilized from bilateral and multilateral partners and through dedicated climate finance mechanisms, such as the GCF.

Thematic and Cross-cutting Sectors	Coordinating Ministries
Thematic Sectors:	
Agriculture and Food Security	Ministry of Agriculture and Livestock Development
Disaster Risk Reduction and Management	Ministry of Home Affairs/ Ministry of Federal Affairs and General Administration
Urban and Rural Habitats	Ministry of Urban Development
Health, Drinking Water and Sanitation	Ministry of Health and Population/ Ministry of Water Supply
Forest, Biodiversity and Watershed Conservation	Ministry of Forests and Environment
Water Resource and Energy	Ministry of Energy, Water Resources, and Irrigation
Tourism, Natural and Cultural Heritage	Ministry of Culture, Tourism and Civil Aviation
Industry, Transport and Physical Infrastructure	Ministry of Physical Infrastructure and Transport/ Ministry of Industry, Commerce and Supplies
Gender, Equality and Social Inclusion, Livelihoods and Good Governance	Ministry of Women, Children, and Social Welfare
Cross-cutting Sectors:	
Awareness Raising and Capacity Development	Ministry of Education, Science, and Technology
Research, Technology Development and Expansion	Ministry of Forests and Environment
Climate Finance Management	Ministry of Finance

Table: Thematic areas of the National Adaptation Plan process, 2021

MAINSTREAMING CLIMATE CHANGE ADAPTATION INTO DEVELOPMENT PROCESS

In 2017, the Ministry of Finance issued Climate Change Financing Framework (CCFF) to show how to integrate climate change finance into budgeting and to track climate expenditure. It would support institutionalizing climate change in planning and budgeting by categorizing the degree of climate change relevance to assess spending options, monitoring climate change expenditure and building cross-sectoral capacity for climate budgeting at all levels of the government (MoF, 2017). This framework suggests a strong need for information flows between national and sub-national levels to help make an informed decision about climate change activities in the annual fiscal plan. However, the framework neither specifies support allocation for mitigation and adaptation actions nor suggests the share going to each theme. An MoFE representative indicated that this is only a suggestive framework and has not been fully rolled out other than its linkage to the budget code that has been in practice for nearly a decade.



Similarly, the Government of Nepal adopted its Fifteenth Five Year Development Plan 2019/20-2023/24 which aims to develop Nepal as a climate-resilient society. The underlying objectives to achieve the goal includes 1. Undertake mitigation and adaptation of climate change in the spirit of the Paris Agreement; 2. Adopt a framework of green, clean and environment-friendly development for climate change mitigation; and 3. Strive for access to all available international climate finances and technologies to address issues of climate change mitigation and adaptation while ensuring equitable distribution of the benefits. In a dedicated section on climate change, the plan has set a vision of developing a climate-resilient society with three objectives:

- 🌳 Develop adaptation capacity to reduce adverse impacts of climate change in line with Paris Agreement
- 🌳 Adopt and implement the approaches of environment friendly, clean energy, and green development for climate change mitigation.
- 🌳 Access to the international climate finances and technologies as provisioned by the Paris Agreement while ensuring equitable sharing of the benefits for climate change mitigation and adaptation.

This plan aligns its targets with Sustainable Development Goals (SDG), specifically to address the climate-related goal SDG13. Climate Change Adaptation (CCA) and Disaster Risk Reduction (DRR) are identified as the prioritized cross-cutting sectors and, dual interventions are envisioned— first, by executing DRR and CCA technology development and diffusion, second, screening of climate change and disaster risks in all infrastructural development. Implementation of the Paris Agreement has been given special mention as part of Nepal’s commitment to mobilize national and international financial resources to achieve the objectives of the Agreement. Interestingly, the WB and ADB have also mentioned integrating climate change adaptation through their respective country partnership strategy. Climate proofing investment has been a priority focus for the MDBs that undertake climate risk screening in their projects.

RESOURCE MOBILIZATION STRATEGY

Climate finance is critical for addressing climate change to help reduce carbon emissions and take steps to adapt to the adverse climatic impacts. Nepal already mobilises substantial domestic resources from its fiscal budget to address increasing climate-induced disasters such as landslides, floods, etc. For instance, from April to December 2021, the losses from disasters such as floods, fire and landslide was estimated to be around US\$12 million (NDRRMA, 2022). Most of the support for the affected communities from these events was borne by the government’s fiscal budget.

Various avenues like bilateral aid, multilateral institutions and dedicated climate funds are in place for Nepal to attract international climate finance. However, accessing resources from these sources to support climate affected communities is lengthy and cumbersome. The government mobilises a substantial amount of international climate finance via UN Agencies, MDBs, and other international organisations. Nepal is working to formulate a climate finance strategy for adaptation actions and streamline access. Much preparation is needed for the country to prioritise the right institutions to develop and implement climate adaptation projects. Apart from the bilateral and multilateral institutions, dedicated climate funds such as Climate Investment Fund (CIF), Global Environment Facility (GEF) and the Green Climate Fund (GCF), and a few others have been currently providing adaptation finance into the country. MDBs and the UN Agencies continue to play a significant role while a large amount of climate finance is also channelled through Non-Governmental Organisations.

In December 2018, NPC produced a report depicting the needs assessment, costing and financing strategy to achieve the national targets of Sustainable Development Goals 2016-2030 (GoN, 2018). The document provided the detailed intervention targets and estimated cost of investment priorities for all the goals. The average annual investment required for the entire SDG period is NPR 2,024.8 billion, of which only 1.2% is estimated for climate change (GoN, 2018). The cost for climate change, i.e. SDG13, has been estimated at NPR 25.6 billion per year, as shown in the table below. The financing strategy for the SDG plans to mobilise resources from public, private, and international sources. MoF and NPC believe that these resources will be mobilised to support the more significant population through integration into the budgetary process. The costing is more of a visionary number and will be broken and incorporated into the yearly fiscal plan and budget.

Required Interventions	Annual Average over 2016-30 (US\$ in million)
Building resilience and adaptive capacity	57.62
Reducing emissions through mitigation	7.63
Strengthening of climate data	11.24
Monitoring & Evaluation	7.63
Climate proofing technology for infrastructures	133.05
Annual average cost for meeting deficit caused by climate change	216.95

Note: US\$1 = NPR118
Source: Needs assessment, costing and financing strategy for SDGs, GoN, NPC 2018

Table: Estimated additional investment requirement to achieve SDG13 due to climate change

Since 2012, Nepal introduced the national Climate Change Budget Code tagging climate-relevant activities in the federal budget system. MoF and NPC are responsible for taking these climate change budget codes into implementation, working with each sectoral ministry. This is done to mobilize, coordinate and integrate climate finance in the country and track the allocation of public expenditure relevant to climate change. Nepal has been regularly allocating budget under this budget heading and continues to practice incorporating climate change and related activities in its fiscal planning and budgeting processes. However, this process has not resulted in much benefits as the development partners, including the MDBs, were not found to be using the information in allocating resources and revising their support modus operandi. This information also does not distinguish allocation and share between adaptation and mitigation. Similarly, the introduction of the budget code in the budgeting process was also not found to be influencing the allocation of resources for climate actions, either for adaptation nor mitigation measures. The representatives of MoFE and NPC also agree that the current climate budget coding/tagging system should be reviewed and updated. The coding system should guide the budget planning of climate finance into regular budgeting and planning systems pragmatically and scientifically. This tagging system is equally vital to subnational levels though it is yet to be rolled out in the province and local governments budgeting process.

Nepal recently submitted its National Adaptation Plan 2021-2050 to the UNFCCC. It aims to mobilize US\$47.4 billion to implement priority programmes up to 2050 (GoN, 2021). Nepal will internally contribute US\$1.5 billion until 2050, while the rest is expected from international sources, including the MDBs. The cost breakdown for each sector reveals that the highest cost (US\$ 11.2 billion to 2050) is required to implement the adaptation programmes in the Agriculture and Food Security sector, followed by the Forest, Biodiversity and Watershed Conservation sector (US\$ 8.7 billion to 2050) and the Disaster Risk Reduction and Management sector (US\$ 8.05 billion to 2050). The Tourism, Natural and Cultural Heritage sector is a minor programme with a budget of US\$ 1.13 billion by 2050. GESILG and the enabling actions have adaptation programmes with an indicative cost of US\$ 0.23 billion to 2050. This allows the development partners to align their adaptation investments based on these indications.

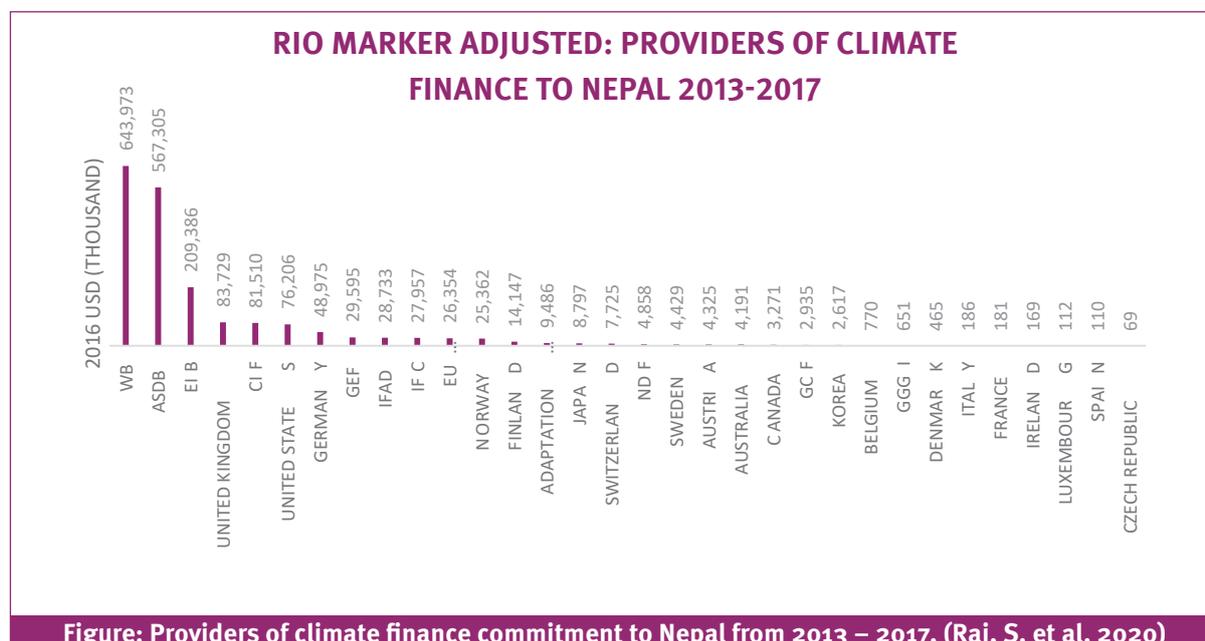
In September 2021, the Government of Nepal and development partners endorsed the ‘Kathmandu Declaration’ by adopting the Green, Resilient and Inclusive Development (GRID) approach to systematically address the impacts of COVID-19 and Nepal’s structural challenges, including a high vulnerability to climate change and environmental degradation among others. This GRID approach is expected to fundamentally shift in managing risks and development through a proactive recovery strategy for long term green growth, climate action and sustainable development for all. Development partners have committed US\$3.2 billion in resources and identified up to US\$4.2 billion in potential future support where WB and ADB are also contributors (WB, 2021). Though it is yet to unfold the details at this stage, according to the government official substantial chunk of resources is expected to go to climate actions, including adaptation.

MDB SUPPORT FOR CLIMATE CHANGE

According to the Ministry of Finance, Nepal receives international financial assistance from diverse international donors – bilateral, multilateral, international organisations and dedicated funds (IDCP, 2019). This is also clearly depicted in the report of the Organization for Economic Cooperation and Development (OECD) (Rai, S. et al. 2020). This support is utilized in various areas of development in the country. Nepal uses variety of institutions and financing instruments in accessing the needed financial resources including grants, loans and concessional loans. Nepal has well-articulated the need to mobilize international financial resources through various sources and instruments in its International Development Cooperation Policy (IDCP, 2019).

From the figure below, it can be said that over the period of 2013 to 2017, World Bank made commitments of total US\$643 million in climate finance making it the biggest contributor in the country. Similarly, World Bank was followed by the Asian Development Bank with US\$567 million and European Investment Bank (EIB)’s total commitment of US\$209 million was focused primarily in mitigation projects. The largest providers of bilateral

climate finance over the period are the UK (US\$83 million) followed by USA (US\$76 million) and Germany (US\$48 million). International climate finance plays a key role in meeting the aspiration of the country’s climate actions. These allocations are based on the internal documents of the mentioned development partners – including the stand alone support and integration in the development assistance (Rai, S. et al. 2020).



World Bank and Asian Development Bank do not have climate adaptation specific strategies for Nepal; however, they seem to be guided by an overarching action plan and strategy and the Country Partnership Strategy. In 2019, WB developed an Action Plan on Climate Change Adaptation and Resilience while the ADB has a Climate Change Operational Framework 2017-2030. In 2021, both the institutions jointly published Nepal’s Climate Risk Country Profile synthesizing the most relevant data and information on climate change, disaster risk reduction and adaptation actions and policies at the country level. This profile is designed as a quick reference source for development practitioners to better integrate climate resilience in development planning and policy-making (WB and ADB, 2021).

Through implementation of its Action Plan, the WB intends to help countries shift from addressing adaptation as an incremental cost and isolated investment to systematically managing and incorporating climate risks and opportunities at every phase of policy planning, investment design, implementation and evaluation of development outcomes (World Bank, 2019). The WB has also made climate and disaster risk screening one of the mandatory corporate climate commitments for all its international development operations. In the Country Partnership Framework for the period of 2019-2023, World Bank sets inclusion and resilience as one of its key focus areas seeking to address spatial and horizontal inequities in human development outcomes and people’s vulnerabilities to climate change, natural disasters and health shocks (World Bank, 2018). Rather than standalone support, it focuses on providing integrated support to improve climate and disaster resilience and increase effort to bring climate change co-benefit in projects by supporting Nepal to meet its NDC commitments.

Through the Country Partnership Framework, WB has also set aside US\$100 million as a Catastrophe Deferred Drawdown Option (CAT-DDO) operation to secure emergency financing in the immediate aftermath of a natural disaster (including earthquakes, flooding and landslides) which may be combined with Pandemic Emergency Financing (PEF) triggered by a health pandemic. It is unclear how much of this amount has gone explicitly to climate-induced emergencies.

Similarly, for ADB, tackling climate change, building climate and disaster resilience and enhancing environmental sustainability is one of the seven operational priorities for its investments (ADB, 2019a). ADB recognizes that developing countries are engaging in climate mitigation and adaptation interventions in line with their national climate plans and strategies, and most have outlined their post-2020 nationally determined contributions (NDCs) under the Paris Agreement. It further notes that NDCs generally depend, at least in part, on external financial and technical support for their achievement, which is also true for Nepal.

ADB's Climate Change Operational Framework 2017–2030 has identified mainstreaming climate considerations into corporate strategies and policies, sector and thematic operational plans, country programming, and project design, implementation, monitoring, and evaluation as the only institutional measure to deliver its commitments. Like World Bank, ADB's climate risk management framework requires all projects to undergo climate risk screening at the concept stage and entire climate risk and adaptation assessments for projects with medium to high risk (ADB, 2017).

In its Nepal Country Partnership Strategy 2020-2024, ADB also prioritizes environmental sustainability and resilience as a critical strategic objective focusing on enhancing knowledge and institutional capacity for environmental protection, climate change adaptation, and disaster risk management. Interestingly, the document also acknowledges the government's preference for grants on institutional capacity development, GESI, and climate change adaptation (ADB, 2019b). ADB seeks to mainstream climate change in development programmes and projects through this strategy.

Government agencies believe that the Multilateral Development Banks should support Nepal according to the priorities set in national climate change policy, NDC and NAP documents. As large project and programme funders, they should help Nepal implement the country's targets. There was a strong suggestion from the government representatives that the support for non-revenue generating investments and adaptation should be grant-based.

However, the representatives of the MDBs state that their funding priorities are set based on the country's request, and that the priorities set by different ministers do not come together. MDBs suggested that it is up to the country to decide on investment sectors and instruments as the banks have clear policies for their instruments.

The International Development Cooperation Policy (IDCP) 2019, operationalized by the Ministry of Finance, outlines various priorities for aid mobilization in the country. It states that development cooperation will be mobilized from the established Global Funds with a view to supporting sectors such as education, health, climate change and disaster management with grant assistance. Such cooperation will be mobilized on the basis of national priorities under the common provisions of such Funds applicable to all partner countries (MoF, 2019). The policy considers environmental protection and climate change a priority for the government and prefers grant assistance from the development partners.

It is interesting to note that although MoFE is the climate change focal ministry, most of the financial negotiations with the MDBs is done by the Ministry of Finance, which often seem to lack the priorities set by other line ministries. The preference for climate change appears to lack the understanding of the MoF. It also predominantly appears that the MDB have not taken into account the government's climate vulnerability assessment but instead performed their own to support the national country strategy and action plan. This seems to suggest a low level of trust among the country stakeholders.

FINDINGS

Nepal has had decades of experience in accessing and mobilizing development finance; however, adaptation finance is relatively at an early stage. Many challenges remain to be explored and addressed; however, for Nepal, opportunities also lay ahead in mobilizing development finance for strategic and scaled-up investment in climate adaptation. The government and development partners will have to work in harmony to address the interest of both parties. Some of the specific challenges and opportunities are discussed below.

CHALLENGES

Considerable challenges lay ahead for Nepal to mobilise development finance for strategic and scaled-up investment in climate adaptation. One of the significant challenges has been inadequate coordination and coherence among the government institutions. Some efforts are being made, but these are not enough to address the climate change risks faced by the country. A higher degree of coordination among MoFE, MoF and NPC and other relevant ministries and departments is necessary to bring about coherence in policies, strategies and financing adaptation actions. In particular, because MoFE serves as the focal point for climate change policy discourse and MoF makes the financial decisions including managing foreign assistance, a stronger collaboration and cooperation between MoFE and MoF is necessary. This would also help the provincial and local governments that cannot better embrace adaptation planning and budgeting in their plans. The local and provincial government's capacity to access finance and prioritise climate change activities is equally challenging.

Climate adaptation actions are more project-based and inadequately integrated into sectoral plans at all levels. There is also a lack of incentives for incorporating climate change in their planning process. For instance, many of the LAPA prepared at the local level still await donor funding rather than being implemented by the local governments themselves. The commitments made in the FYP to formulate 460 LAPAs is still in the making, and no initiation has been taken place according to the NPC. There is also a broader understanding among government and civil society organisations that international finance should fund adaptation actions. For climate-resilient activities, the decision-making capacity of policymakers and planners based on the climatic parameters such as temperature and rainfall in the planning and budgeting process is of high importance. But the lack of capacity at all levels of the government is a big hinderance.

The approach to financing adaptation actions through international sources continues to be projectized rather than based on a system of streamlining and integrating in the national development priorities. The country strategy of WB and ADB mentions supporting the Nepal government by helping to implement NDC and integrate climate change in the development planning process. However, the NDC and climate change policies seem to be largely less prioritised when it comes to implementation. Representatives of WB and ADB argue that they work on the priorities set by the government of Nepal and in no way can intervene. However, in reality, they primarily offer support in areas where lending is possible. For example, after the 2015 earthquakes in Nepal, World Bank provided a credit of around US\$ 428 million under the "Earthquake Housing Reconstruction Project", of which 81.5% was considered adaptation-relevance in its own assessment (Rai, S. et al. 2020). Nepal is interested in grants for the adaptation projects as per the views expressed by the government officials and the IDCP. The government often fails to put forward its prioritised needs with clear articulation to the development partners, including the MDBs. The government failing to put forward its prioritised needs with clear articulation to the development partners, including the MDBs is often observed as unclarity on the part of the government. The government moving away from focusing on dedicated climate funds to varieties of modality including integration, and leveraging development finance for adaptation without compromising development assistance would help access more funds into the country.

An adequate capacity to understand and integrate climate adaptation into the development planning process is another stumbling block. Though efforts are being made at the national level, the provincial and local governments fall far behind. The LAPA process demands the integration of climate change into the development planning process, but the lack of capacity to assess potential risks and impacts makes it difficult. NGOs and

bilateral institutions seem to be supporting the national government in climate change adaptation policy processes, planning and preparing strategies through technical assistance. However, the role of MDBs is generally found to be very limited in the policy discourse and stakeholder engagements. Lately, the World Bank seems to be conducting climate adaptation assessment for its investment in Nepal, but no document in this regard is available. It is currently providing technical assistance to Nepal through the Climate Adaptation and Resilience for South Asia (CARE) project, which is in a very initial stage.

The policy environment on climate change adaptation has evolved over the past ten years, but to date, there seems to be policy crowding where numerous policies and strategies have been introduced, such as the climate change policy, NDC, NAP, etc. These policies and strategies, other sectoral policies, and development partner priorities must be made coherent. This can only lead to the proper coordination in accessing international climate and development finance, with sufficient alignment of domestic priorities. Alignment and prioritisation among government agencies and development partners are grossly found to be inadequate. Similarly, private sector involvement in climate change adaptation is almost absent, and no incentives have been put in place to encourage them for investment.

OPPORTUNITIES

Nepal's climate adaptation work appears to be advancing in the right direction by formulating national climate change policy, NAP, NDC, and other sectoral policies such as the agriculture roadmap for climate adaptation. The awareness and understanding of the need to advance climate adaptation work and its linkage to development initiatives also broaden among the stakeholders. There is an advanced understanding of climate change impacts derived from both the country's perspective and science. This is a significant strength of MoFE, the focal institution, that coordinates climate change work and leads policy processes. Of late, other sectoral ministries like the MoALD are also developing climate change adaptation strategies and plans to integrate adaptation into the development planning processes.

The government of Nepal has submitted its updated NDC and its NAP to the UNFCCC, which very much highlights the climate adaptation needs of the country. The NDC and NAP each articulated the need to mobilise adaptation finance from different sources for effective implementation. This allows Nepal to link its domestic actions to the global level. Similarly, the national policy that provides direction for climate action in the country outlines the role that different tiers of governments – federal, provincial and local- can play in the implementation, which again helps link national commitments to the local level. The FYP has well-articulated the need to embrace climate adaptation and provided guidance on how the different sectors need to consider climatic impacts and integrate them in the planning process to build climate-resilient communities. These initiatives offer robust advice for adaptation actions in the country. Political and administrative structures such as the CCC, MCCICC, CCMD, and CFU have also suggested prioritising climate adaptation and systematically addressing them through mobilisation of domestic and international finance.

Many development partners support Nepal in its drive to address climate change impacts through adaptation finance. Nepal has mobilised a considerable amount of adaptation finance from global funds like the GCF, GEF and CIF though it still is insufficient compared to the needs. This opens up opportunities to address the condition of the vulnerable communities. Similarly, bilateral and multilateral agencies have also announced finance for climate actions in response to the needs identified by Nepal in the FYP, NDC and NAP. Though details remain to be seen, recently agreed upon GRID also hints towards climate integration and green development for Nepal. Multilateral Development Banks like the WB and ADB have acknowledged Nepal's need to address climate impacts through their multi-year country programming. This provides opportunity for Nepal to access adaptation finance from MDBs to implement its priority areas identified in policy and programmatic documents. Additional opportunities from international organisations and the private sectors are also gradually opening up in sectors like crop and livestock insurance, which may be at an infant stage.

The government plans to formulate a strong climate finance strategy via the NDC and NAP process, which provides an excellent opportunity to articulate the mobilisation of national and international climate finance. The formulation of strategy demands a participatory and inclusive approach so that all stakeholders can own it and help the government

implement the NDC and NAP and government priorities. The country strategies of the ADB and the World Bank needs consideration so that they too can be a partner in helping these national priorities get implemented.

RECOMMENDATIONS

Based on the literature review, suggestions from the stakeholders and analysis of challenges and opportunities, the following recommendations could improve the strategic and scaled-up investment in climate adaptation in Nepal, and could guide the preparation of Nepal's financing strategy for adaptation.

🌲 Alignment in Access to International Finance: Access to international climate finance is more unplanned and needs alignment with national policies and priorities- both climate and development assistance. An effort is being made to access finance for adaptation from global funds like the GCF and GEF based on sector priorities, but bilateral and multilateral finance seem to be more in an ad hoc manner. All development initiatives should contribute to both development and adaptation to the extent possible. For this, a lesson can be drawn from the non-implementation of NAPA profile projects as some of the identified projects still await funding as they did not fall under the priority or ignored by the government and the development partners. This should be avoided for NDC and NAP implementation.

Through its climate change policies and plans, Nepal Government has outlined the broader priorities and costed some of the actions via NDC and NAP. To scale up the investment and help Nepal implement its climate adaption priorities, MDBs also have the opportunity to use their climate fund from international sources, help access resources from GCF, CIF and other potential sources by blending their resources and the trust funds they manage. Increasing alignment in accessing international finance for adaptation requires that the government:

- Encourage a higher level of coordination between the MoF and MoFE in dealing with the international development partners, including MDBs.
- Encourage bilateral and multilateral donors to step up their engagement in integrating climate components in their programmatic and project support for development. The government could encourage development partners to ensure that all investments help build the adaptive capacity and resilience of the country.

🌲 MDB Engagement in Policy Processes: Various NGOs and bilateral institutions have been providing technical assistance to MoFE and other national government agencies in climate change adaptation policy processes, planning and preparing strategies. For example, the NDC document was supported by the NDC Partnership, NAP formulation by GCF, and other policies and strategies by bilateral agencies like the Foreign, Commonwealth and Development Office of the UK, UNDP Nepal and WWF Nepal. MDBs are essentially found to be not participating in these initiatives and remain aloof in their engagement. For instance their participation in the NDC preparation, NAP preparation and other strategic engagement was nominal. To align these initiatives to the country partnership strategy of WB and ADB, it is crucial that their suggestions and opinions are also reflected to facilitate financing adaptation actions under these initiatives. The government could work with MDBs to improve access to finance for adaptation priorities by:

- Using MDBs' international expertise in mobilizing climate finance to support the Nepal government to implement its adaptation priorities. It is the joint responsibility of both the government ministry leading the processes and MDBs to work together.
- Encouraging MDBs and other development partners to simplify their funding processes and conditions so that the national institutions can easily comprehend.

🌲 Engagement in Adaptation Finance Strategies: Nepal's updated NDC document submitted to the UNFCCC commits to formulating a climate finance strategy and national capacity on climate finance management by 2022. Similarly, the NAP process is also currently working on the strategy for financing the NAP implementation. These financing strategies will be guided by the International Development Cooperation Policy implemented by the MoF. In turn, the strategies will guide the financing provided by the MDBs and other development partners (such as bilateral, multilateral and international organisations) for climate adaptation in Nepal. The government can:

- Engage development partners early on in the process of formulating these crucial documents.
- Encourage MDBs to play an important role and to consider national adaptation priorities in their country engagement strategies and programmes.

🌲 Vulnerability Assessment and Integration: MDBs conduct their climate risks and vulnerability assessments for their investment in the country. Climate vulnerability done by other stakeholders seems to be overlooked, and may result in duplication of work. The governments could work with MDBs, which would help integrate climate into the development aid by enhancing adaptive and resilience capacity and avoiding maladaptation. Nepal already spends a considerable amount of domestic budget in responding to climate impacts. Through integration MDBs can assist Nepal to leverage international finance in addition to the domestic resources mobilised. The government and MDBs could:

- Promote complementary roles in the assessment of climate impacts and costs, meaning that the government and MDBs adopt a similar approach to the design of projects and programmes.

🌲 Engaging the Private Sector: Engaging the private sector in financing adaptation has been an identified challenge for Nepal. MDBs can play a pivotal role in facilitating this engagement because they bring in rich experiences from around the world which can be tailored to fit the context of Nepal. Hence, the government could:

- Explore engaging the private sector via the upcoming adaptation financing strategy, working with MDBs.
- Work with MDBs to explore innovative finance to assist adaptation actions.

🌲 Capacity Building: Enhancing the capacity of national stakeholders from the federal to the local level and within and outside the government is crucial. It is vital to understand climate change, its science, and its impact on development initiatives. For effective implementation of adaptation actions, prioritising and intergrading them into the planning and budgeting process by the provincial and local levels is crucial, but without capacity enhancement, this is unforeseen. For instance, many LAPAs has been prepared by non-government actors, and they seem to lack ownership within the local government systems as they are neglected on budgeting and implementation. The government could:

- Raise awareness of the climate change policy, NDC, NAP and other sectoral priorities with provincial and local stakeholders; and build capacity to embed them in the planning and budgeting process.
- Enhance capacity to make decisions based on the temperature and rainfall situations (pattern, intensity and duration) and early forecasting systems. This is a minimum precondition for developing a resilient society and contributing to sustainable development goals of the country.

🌲 Coordination and Coherence: A low level of coordination between the government agencies and the bilateral and multilateral development partners leads to more disintegrated and project-focused support rather than helping the government address climate adaptation in a more integrated manner. MoFE is the overall lead in coordinating climate change, but MoF is responsible for country programming concerning GCF and GEF. Without adequate coordination, confusion arises. Climate change is a cross-cutting and global agenda; hence the national designated authority should be influential enough to intervene in policy formulation, program and budget planning, and coordinate all government agencies, including private sectors and civil societal organisations. The government could:

- Enhance development and adaptation investment in the country through a higher degree of coordination and cooperation among the lead government agencies (e.g. MoFE, MoF and NPC) and development partners.
- Enhance the engagement of NPC so that it plays a more pivotal role to further adaptation policy coherence both vertically and horizontally.

CONCLUSION

This case study was conducted to increase the understanding of what comprises an effective financing strategy for adaptation in Nepal that enables the government to make the best use of its limited resources to scale up financing. Nepal already lacks adequate financial resources to address climate change adaptation, and every year more resources are being used from the national budget to handle the increasing climate-induced disasters. The climate-vulnerable people and communities need urgent support to adapt to the impacts of climate change. For Nepal, mobilizing and accessing international finance is key to implementing its national climate change policy, NDC and NAP priorities. Without international finance, it will be difficult for Nepal to deliver its commitments made under the Paris Agreement.

Both bilateral and multilateral finance will play an essential part in the climate adaptation initiatives taken by the Government of Nepal. As long-standing development partners, MDBs like the WB and ADB will have a significant role in aligning their investment with national priorities. Both opportunities and challenges exist in implementing the plans and strategies put forward by the government. However, greater coordination and collaboration between government agencies, development partners, and other stakeholders is essential. Only good coordination and collaboration can enhance the enabling environment and scale up investment in climate adaptation.

The findings from this research are expected to help explore ways to effectively use internal resources and access international finance in the form of grants or concessional financing from MDBs through both climate and development financing. Nepal needs to attract MDB financing that supports nationally defined adaptation priorities with increased volume and quality that addresses development and climate adaptation priorities in an integrated manner.

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ANNEXE: LIST OF INTERVIEWEES

SN	Name	Position	Organisation
1	Dr. Maheshwor Dhakal	Joint Secretary	Ministry of Forests and Environment
2	Dr. Indira Kandel	Head of Climate Change Analysis Section	Department of Hydrology and Meteorology
3	Dr. Arun Bhatta	Under Secretary	Ministry of Forests and Environment
4	Mr. Sunil Acharya	Regional Advisor – Climate and Resilience	Practical Action
5	Ms. Babita Bhattarai	Section Office	National Planning Commission
6	Mr. Binod Kunwar	Section Office	Ministry of Agriculture and Livestock Development.
7	Ms. Reenu Thapalia	Section Office	Ministry of Federal Affairs and General Administration
8	Mr. Arghya Singha Roy	Principal Climate Change Specialist (Climate Change Adaptation)	Asian Development Bank
9	Mr. Arun Shamsher Rana	Senior Project Officer	Nepal Resident Mission, Asian Development Bank

Prakriti Resources Centre

Prakriti Resources Centre (PRC) is furthering the notion of sustainable development and environmental integrity in Nepal. PRC engages in national and international climate policy processes, low carbon development pathways and resilience-building & disaster risk reduction and loss and damage associated with climate change impacts. In these areas, PRC conducts research and study, carries out policy intervention, builds awareness, knowledge and capacity of civil society organizations, government and the private sector, and facilitates dialogue. PRC works in alliance and collaboration with government and other national, regional and global actors in these areas. Together with the allies, it also advocates for environmental-friendly development practices. Gender equality, social inclusion, and good governance cross-cut all PRC projects, activities and practices.



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