Government of Nepal
Ministry of Finance
Singha Durbar, Kathmandu, Nepal

Information Brief

Harnessing Green Climate Fund Resources for Nepal

July 2017

Introduction

Nepal's temperature trend analysis from 1971 to 2014 shows a rise in average annual maximum temperature by 0.056°C[1] and during the same period 22,372 climate induced disaster events leading to huge loss of lives and property were recorded. In view of the looming uncertainties and increasing climate threats, the poor and climate vulnerable communities' ability to cope with existing and new climate risks is questionable. Sectors like agriculture, which is the single biggest contributor to Gross Domestic Product (GDP) at 31.6%[2] and employing 66% of the population[3], is already facing weather and climate impact with socio-economic implications. Other important sectors of the economy such as forestry, livestock, tourism and infrastructure are also climate sensitive. Considering these sensitivities, Nepal has prioritized climate change and disaster risk management, and acknowledged the need for international climate finance to complement national climate public financing.

Cost of Climate Change in Nepal

Climate change has challenged and affected the achievement of existing national development goals quite significantly. According to the Ministry of Home Affairs, the total economic loss from climate induced disasters such as floods, landslides and other extreme weather events is estimated at NRs 4 billion (US$ 38.4 million) for the Fiscal Year (FY) 2016/2017.[4] Similarly, an assessment of the economic cost of climate change conducted in three major sectors (i.e. agriculture, hydroelectricity and water-induced disasters) has estimated the annual economic losses to be equivalent to 1.5-2% of the GDP, which amounts to approximately US$ 270-360 million at 2013 price, while the projected losses amount to 2-3% of current GDP per year by mid-century.[5]

Despite some encouraging climate actions being undertaken in the country- a huge gap exists between the required cost of climate change action and the availability of resources. The National Adaptation Programme of Action (NAPA) prepared in 2010 estimated the total cost of implementing nine priority adaptation projects in the country at US$ 350 million.[6] Similarly, it is estimated that Nepal requires an additional investment of US$ 2.4 billion by 2030 to build resilience to climate impacts in agriculture, hydroelectricity and water-induced disasters sectors.[7]

National Climate Finance Pathway in Nepal

Translating climate priorities into results requires adequate and sustained financing. The Government of Nepal (GoN) has recognized the need to mainstream climate interventions delivered through routine service delivery and overseen by national entities (i.e. ministries, departments and local government) by integrating climate budget codes into national budget planning system. The climate budget code classifies the activities into highly relevant, relevant and neutral, based on the 11 criteria. The national climate budget coding implemented since FY 2013/14 shows that the annual climate change budget allocation has increased from 5.36% in 2013/2014 to 5.9% in 2016/2017 under "highly relevant" category and from 4.98% to 13.32% under "relevant" category for the same period.[8]

The national allocation made under "highly relevant" category stands at US$ 560 million in FY 2016/17, while the average annual estimated loss for three sectors alone amounted to US$ 270-360 million. Thus, besides mobilizing domestic resources in line with climate priorities,

1 DHM, 2017. Observed Climate Trend Analysis in the Districts and Physiographic Regions of Nepal (1971-2014)
2 Economic Survey 2015/16; Ministry of Finance, 2016
3 Karki, Y. K, (2015). Nepal Portifolio Performancce Review 2015 [Powerpoint Presentation]. http://www.mof.gov.np/uploads/document/file/Agriculture_NPPR-2015_20150913011507.pdf
4 MoHA. 2017. http://drrportal.gov.np/reports (Accessed on 20 July 2017)
5 IDS-Nepal, PAC and GCAP, (2014), Economic Impact Assessment of Climate Change in Key Sectors in Nepal
6 Ministry of Environment. 2010. National Adaptation Programme of Action to Climate Change.
7 IDS-Nepal, PAC and GCAP, (2014), Economic Impact Assessment of Climate Change in Key Sectors in Nepal
8 The figures in the table is retrieved from the 'Estimates of Expenditure: Red Book' for last five fiscal years prepared by the Ministry of Finance - http://www.mof.gov.np/en/archive-documents/budget-details--red-book-28.html

Nepal needs international climate financing. Nepal has received support from multilateral and bilateral sources and vertical funds based on NAPA recommendations. Under the changing circumstances a new funding mechanism, Green Climate Fund (GCF), has been established under the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 to enable countries like Nepal to implement mid and long-term climate change priorities.

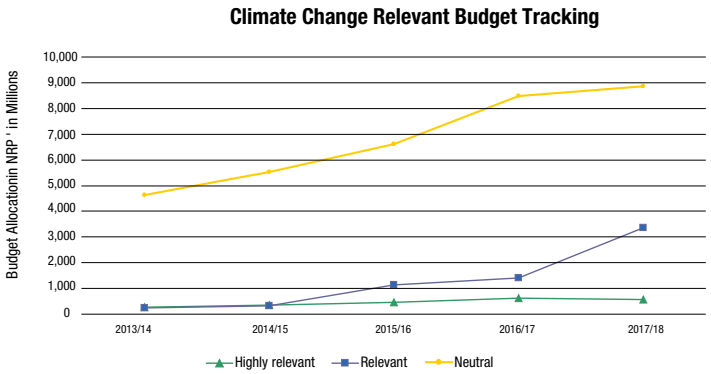

Figure 1: National climate budget allocation for the last five fiscal years by the Ministry of Finance
Source: MoF, Climate Change Budget Code 2013 to 2017

Linking National Priorities to GCF Impact Areas

GCF is mandated to promote and provide access to climate finance for the developing countries to invest in climate actions that are country-driven high impact projects and programmes on climate resilient and low carbon development. GCF aims at a balanced financial allocation between adaptation and mitigation actions in the developing countries. Adaptation allocation is prioritized for developing countries that are particularly vulnerable to the adverse effects of climate change, Least Developed Countries (LDC), Small Island Developing States (SIDS) and African States.[9] Considering the need to finance climate actions in these vulnerable countries, GCF has set forth eight result-based strategic impact areas to be taken into account while developing projects and programmes. (iterated in Table 1 and 2). Such projects/programmes also require evaluation against six GCF investment criteria, i.e. impact potential, paradigm shift, sustainable development, responsiveness to the needs of the recipient, country ownership, efficiency and effectiveness.[10] To a large extent, the countries need to be guided by well-defined and target oriented national and local climate policy framework and instruments.

Tables 1 and 2 provide a comparative analysis of existing climate relevant national policies, plans and strategies of Nepal, and GCF's strategic impact areas for adaptation and mitigation. The analysis shows that the investment areas defined and prioritized by national polices, plans and strategies fit in well with GCF impact areas, which have potential to maximize transformational impact through scaled up investments from GCF resources.

Table 1: Alignment of GCF Adaptation Impact Areas with Nepal's Adaptation Priority Areas

GCF impact areas / Nepal's priority areas	Livelihoods of people and communities	Health, food and water security	Infrastructure and built environment	Ecosystems and ecosystem services
Climate Change Policy	↱ Strengthen Forecast weather/water-induced disaster and risks ↱ Promote Farmers' Field Schools to conserve local crop varieties, promote local and indigenous knowledge and technologies ↱ Utilize and conserve forest resources as a means of alternative livelihood	↱ Develop modern water conservation technologies for flood control and irrigation systems ↱ Strengthen forecast and prevention of vector-borne, infectious and communicable diseases ↱ Develop and expand low methane emitting agricultural technologies ↱ Develop drought and floods tolerant crop varieties	↱ Formulate and implement standards for climate resilient bridges, dams and other infrastructure	↱ Promote soil and water conservation through source protection, rainwater harvesting and environmental sanitation. ↱ Sustainable management of forests, agro-forestry, pastures, rangeland and soil conservation ↱ Adopt river basin /water shed approach towater management
National Adaptation Programme of Action (NAPA)	↱ Promote DRR practices for strengthening resilience, diversifying livelihood, planning and providing insurance and developing early warning system ↱ Promote community-led DRR programmes and initiatives ↱ Monitor Glacier Lakes Outburst Floods (GLOF) risk and provide alternative livelihood opportunities to vulnerable communities	↱ Introduce better-suited crop varieties, adoption of organic farming techniques, on-farm water management, and establishment of farmers' cooperatives ↱ Promote sustainable agricultural land use system, agro biodiversity management ↱ Promote water supply and sanitation programmes in both rural and town areas	↱ Installation of disaster risk reduction structures (e.g. early warning system)	↱ Ensure ecosystem health and services through watershed and landscape level planning and management
14th Plan (2016/17 – 2018/19)	↱ Promote environment education ↱ Conserve local crop varieties including bio diversity and promote climate friendly agriculture ↱ Develop environment friendly agriculture by minimizing the negative impacts of climate change and use of climate smart technology ↱ Monitoring and forecasting of GLOF	↱ Identification of infectious disease and prevention of vector borne and infectious disease ↱ Awareness programme on environmental sanitation	↱ Promote construction of infrastructure that are environment friendly and resilient to climate change	↱ Mainstream climate change adaptation/resilience/ ecosystem based adaptation and implementation of REDD in development ↱ Build capacity of local people for adaptation, mitigation and negative impact of climate change in ecosystem

9 GCF. 2011. Governing Instrument for the Green Climate Fund. https://www.greenclimate.fund/documents/20182/574763/Governing_Instrument.pdf
10 GCF. 2015. GCF/B.09/07. 2015. Annex III. Further Development of the Initial Investment Framework: Sub-Criteria and Methodology. http://www.greenclimate.fund/documents/20182/24949/GCF_B.09_23_-_Decisions_of_the_Board___Ninth_Meeting_of_the_Board__24_-_26_March_2015.pdf

GCF impact areas / Nepal's priority areas	Livelihoods of people and communities	Health, food and water security	Infrastructure and built environment	Ecosystems and ecosystem services
Sectoral Policy, Plans and Strategies	**National Strategy for Disaster Risk Management, 2009** ↱ Ensure that disaster risk reduction is a national and local priority with a strong institutional basis for implementation ↱ Identify, assess and monitor disaster risks and strengthen early warning system ↱ Enhance preparedness for effective response	**Agriculture Development Strategy Action Plan 2014** ↱ Improve resilience of farmers to climate change, disasters, price volatility, and other shocks ↱ Develop modern water conservation technologies for flood control, irrigation systems		**Nepal National Biodiversity Strategy and Action plan 2014-2020** ↱ Enhance forest-based livelihood (promoting PES) ↱ Improve conservation of biodiversity in community-managed forests

Table 2: Alignment of GCF Mitigation Impact Areas with Nepal's Mitigation Priority Areas

GCF impact areas / Nepal's priority areas	Energy generation and access	Transport	Building cities, industries and appliances	Forest and Land use
Climate Change Policy	↱ Reduce GHG emissions through development and utilization of clean, renewable and alternative energy	↱ Develop and promote transport industries that use electricity (electric train, ropeway, etc.)	↱ Auditing of energy intensity of industries every two years	↱ Promote Carbon sequestration through scientific management of forests, formulation of land use plan and control of deforestation ↱ Develop scientific land use system
Nationally Determined Contributions (NDC)	↱ Generation and utilization of hydroelectricity ↱ Scaling-up production of renewable energy technologies by 2030 ↱ Energy generation from waste	↱ Develop environment friendly sustainable transport system, such as bicycles and non-motorized transport ↱ Introduce fuel tax for air quality improvement in Kathmandu valley ↱ Promote transport industries that use electricity eg. electric train, rope way, cable car etc.	↱ By 2025, Nepal will strive to decrease the rate of air pollution through proper monitoring of sources of air pollution like wastes, old and unmaintained vehicles, and industries	↱ Maintain at least 40% of the total land area of the country under forest ↱ Reduce about 14 million tons of CO_2 eq by 2020 by addressing the drivers of deforestation and forest degradation ↱ Promote carbon storage through sustainable forest management ↱ Optimum utilization and implementation of REDD+ policies ↱ Formulate and implement scientific land use plans
14th Plan (2016/17 -2018/19)	↱ Construction and development of reservoir based hydropower projects ↱ Generation of electricity from small and micro hydropower ↱ Construction and promotion of biogas, ICS and bio-briquettes focusing on household level	↱ Initiate the progress to build a Mechi-Mahakali electric railway ↱ Promotion of energy during the construction of roads network	↱ Promote climate smart villages	↱ Promote land management, watershed management and mitigation of the impacts of climate change and natural disasters ↱ Development of green entrepreneurs
Low Carbon Economic Development Strategy (Under Review)	↱ Promote hydropower as the major energy resource ↱ Promote Solar and wind energy particularly in government and public buildings within 5 years ↱ Conservation and development of indigenous technology that consumes less energy	↱ Promote environment friendly transport operated by clean energy	↱ Promote energy efficient buildings ↱ Promote smart cities	
Sectoral Policy, Plans, and Strategies	**National Energy Policy, 2013** ↱ Ensure sustainability in the consumption of biomass energy resources such as improved cooking stoves. ↱ Promote renewable energy technologies (solar and wind) ↱ Minimize detrimental environmental effects resulting from energy supply and use	**National Sustainable Transport Strategy (NSTS) for Nepal (2015-2040)** ↱ Maintain the standard of vehicle or engine condition ↱ Promote electric vehicles ↱ Greening the freight transport	**National Urban Development Strategy-2017** ↱ Promote environment, heritage and tourism friendly economic functions in the Kathmandu Valley ↱ Promote optimal use of solar energy for all purposes	**Forestry Policy, 2015** ↱ Maintain forest in 40% of the total land area of the country ↱ Increase the scope of carbon sequestration through sustainable forest management ↱ Reduce the negative affect of climate change in ecosystems by enhancing the adaptive and resilient capacity of local people ↱ Provide technical and financial support to biogas, bio-briquette, ICS and renewable energy users

Convening and Coordination of Stakeholders Participation

GCF has created formal space for engaging stakeholders at all levels including the country level to ensure country-ownership throughout the project cycle. The entire process of accessing GCF fund is moderated and monitored by the National Designated Authority (NDA), which also has the mandate to bring together all the stakeholders. International Economic Cooperation Coordination Division (IECCD) under the Ministry of Finance hosts Nepal's NDA and acts as an interface between the GCF and the country. Figure 2 describes the various stakeholders and their expected level of engagement for GCF in Nepal. The NDA is also mandated to coordinate and ensure multi-stakeholder engagement in defining country strategic framework (based on national climate change priorities and strategies)[11] and development of funding proposals by accredited entities. The participation and input of stakeholders including the private sector actors, civil society organizations, vulnerable groups, women and indigenous people is important at all stages of project design and implementation.

11 GCF 2015. http://www.greenclimate.fund/documents/20182/466886/Best_Practices_for_Country_Coordination_and_Multi-Stakeholder_Engagement.pdf

In terms of accessing and managing resources from GCF, various stakeholders have their own roles and function in the process. Any national institution can qualify as the direct (national) accredited entity after fulfilling the requirements set by GCF. However, national institutions can also mobilize resources as an executing entity. Similarly, other stakeholders such as user groups, civil society organizations, indigenous and women groups, etc. have crucial supportive role in ensuring effective delivery of the project.

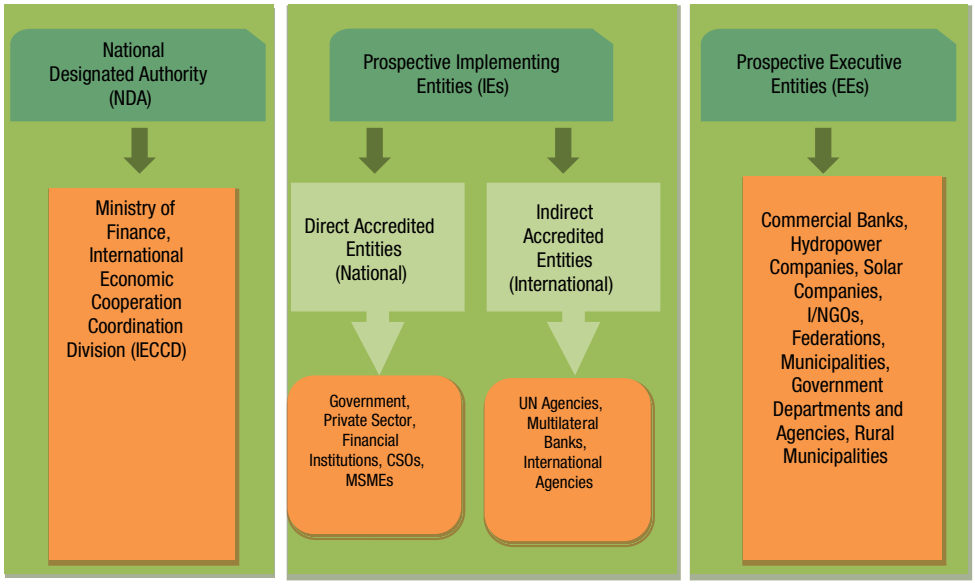

Figure 2: Stakeholders related to Green Climate Fund in Nepal

Conclusion

Considering the increasing vulnerability and economic costs of climate change in the country, it is imperative that Nepal mobilizes national and international climate finance to protect its population and communities from climate risks and safeguard development gains. Nepal's commitment to climate actions is reflected in the increasing trend of climate relevant allocation in its annual budget. The increasing trend of public climate budget allocation gives an indication of a more coherent climate finance to address increasing negative impacts of climate change and probability of scaling up of high impact climate action.

GCF aspires to support countries to increase the resilience and adaptive capacity against mounting climate risks. However, to access resource from GCF, Nepal needs to identify and prioritize cross-sectoral strategic investment priorities based on national needs. The engagement of all relevant national stakeholders in setting up priority climate actions is essential in the GCF process. It is necessary that national institutions understand and enhance their strength and capacity in line with GCF's guidelines to function as Direct Access Entity to develop high impact projects and programmes,while other interested entities play the role of executing entities in implementing them.

Disclaimer:
The product is part of Green Climate Fund Readiness Programme (GCF-RP) implemented by Government of Nepal, Ministry of Finance (MoF) in collaboration with the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) to strengthen Nepal's national capacities to effectively access, manage, deploy and monitor climate finance from the Green Climate Fund. The work is supported by German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

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