

The future for climate finance in Nepal

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*CAPACITY DEVELOPMENT FOR
DEVELOPMENT EFFECTIVENESS
FACILITY FOR ASIA AND PACIFIC*

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As always, responsibility for the content of this paper rests with the author alone. In particular, no responsibility for the opinions here expressed should be attributed to UNDP or to the Government of Nepal.

Abbreviations

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
CCC	Climate Change Centre
DDC	District Development Committee
DFID	Department for International Development, UK
EU	European Union
ESAP	Energy Sector Assistance Programme
FSF	Fast Start Finance
INGO	International Non Government Organisation
JFA	Joint Financing Arrangement
LB	Local Body
MCCICC	Multi-stakeholder Climate Change Initiatives Coordination Committee
MLD	Ministry of Local Development
MoE	Ministry of Environment
MoEd	Ministry of Education
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MRV	Monitoring, Reporting and Verification
NGO	Non Government Organisation
LAPA	Local Adaptation Plan of Action
LGCDP	Local Governance and Community Development Programme
NAPA	National Adaptation Plan of Action
NDRRC	Nepal Disaster Risk Reduction Consortium
ODA	Official Development Assistance
PAF	Poverty Alleviation Fund
PFM	Public Finance Management
PPCR	Pilot Program for Climate Resilience
SPCR	Strategic Program for Climate Resilience
SREP	Scaling-Up Renewable Energy Program for Low Income Countries
SSRP	School Sector Reform Programme
ODA	Official Development Assistance
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
VDC	Village Development Committee
WB	World Bank

Executive Summary

E1. This study has examined the development effectiveness dimensions of climate finance in Nepal. The analysis is based on the premise that the management of climate finance should build on relevant examples of good practice in other areas of public finance management, recognising the likely need for a variety of instruments to deliver climate change programming. As climate finance is at an early, formative stage in Nepal, this paper offers a forward looking perspective on how climate finance may be administered in the years ahead. The paper focuses on the public financing component of climate finance and the role of international support.

Lesson learning from development practice for climate finance

E2. The following issues, derived from a review of national development experiences in Nepal, have relevance for climate finance delivery:

1. Budgeting appears the weakest link in the policy, strategy, implementation chain. It is not clear whether this is because it does not receive the attention it deserves, or, because it is the most problematic stage to address.
2. Meeting the needs of the most vulnerable to climate change will require a strong local finance delivery mechanism. This is where there are already identified weaknesses in the national financial management system.
3. There is much diversity of structure and processes for the delivery of development finance. It may be expected this will also be the case for climate finance, at least in its initial stages of delivery. A key principle should be to match the finance modality with institutional function and spending objective.
4. A major weakness is the limited development of results-based frameworks. Little can be gained from the development experience. This represents a significant challenge for climate change actions where performance-related issues hold such prominence.
5. Improving transparency of climate change actions is a key reform to secure greater accountability of the public administration.
6. Finally, there appears to be limited engagement with, and recognition of, the important role to be played by the private sector in tackling climate change.

Establishing a Vision for climate finance in Nepal

E3. A new climate change policy was approved by the Government of Nepal in January 2011. Whilst this policy is comprehensive in many ways, it does not provide the detail required to define a climate finance framework for Nepal. Defining such a vision for climate finance is something that government should undertake over the next six months to guide the development of new and additional funding flows in the years ahead. Four elements, taken together, could characterise the governance of climate finance in Nepal in the future. First, the national budget should incorporate all external (official development assistance and climate finance) and domestic revenues, and allocate public finance under strong policy direction, and be accountable to the Parliament. This implies that climate finance will be channelled through the public finance system rather than relying upon a dispersed set of delivery mechanisms. Second, quality assurance and oversight mechanisms for all climate change programming should be established and implemented. Third, an institutional architecture supporting climate change programming should be integrated into appropriate sectors. And finally, any vision of climate finance would be deficient without acknowledging the important role to be played by an active private sector investing in climate resilient growth.

Fulfilling this Vision would mean that by 2020:

E4. Direct Access to international climate finance should have been established, with the appropriate institutional requirements in place that demonstrate the necessary financial integrity, institutional capacity, transparency and self-investigative powers. Being able to demonstrate these attributes should be the primary concern in determining the most appropriate institutional arrangements for managing global climate change funds.

E5. Acknowledging the centrality of the national budget, all 'off-budget'¹ external support for climate change activities involving government agencies should have ceased. The value of creating a similar mechanism to that existing in both the health and education sectors at present, with a 'one-door-only' entry point for external partners engaging with national climate change programmes, should have been investigated.

E6. Donors should have been dissuaded from developing their own projects and programmes on climate change. Government should have prepared a pipeline of investment projects for international funding and encouraged pooled funding through a joint funding arrangement. This will require significant strengthening of financial planning within national processes.

E7. The mandate of climate change public institutions should have been clarified with a clear separation according to function, recognising the policy formulation role (being Ministry-led), the regulatory role (Departmental-led), the service provision role (which will require determining the appropriate balance between public and private actors), and the potential for national revenue collection (possibly based on carbon taxes).

E8. An internationally recognised performance-based system should be in place, with strong Monitoring, Reporting and Verification (MRV) for all climate finance investments, including those that are channelled to the local level. This will likely require external support in the design and early implementation phases and will require significant strengthening of local government capacity within national processes, particularly through the Ministry of Local Development (MLD).

E9. Strong engagement of the private sector will have been secured to complement public funding with private investment. (Both SPCR and SREP have much to offer in terms of setting the early investment framework for private sector activity).

E10. A specific urban strategy to secure climate resilience among the growing urban population should have been developed.

To secure these outcomes, a number of actions over the next year are necessary:

Nos.	Priority Action	Time Frame	Lead national institution(s)
1.	A national Vision for climate finance needs to be drawn up to guide the development of new and additional funding flows that will support climate change actions up to 2020 and beyond.	High priority - immediate	NPC, MoE, MLD, Climate Change Council
2.	There is need to move quickly from project delivery to a programmatic approach for public funding of climate change actions from international sources. Government and its development partners should consider drawing up a Joint Financing Arrangement (JFA) for climate finance , taking the	High priority - immediate	MoF, MoE

¹ 'Off-budget' support is external funding that does not pass through the national budgetary system, but relies on parallel structures.

	<p>LGCDP JFA as its model. GoN would be represented by the Ministry of Finance (MoF) in all matters pertaining to financial management, with the Ministry of Environment (MoE) as the technical lead (paralleling the MoF/MLD relationship under the LGCDP). International climate funding would be transferred into a foreign currency account at the Nepal Rastra Bank for the exclusive use of national climate change actions. This account would then be used to transfer funding into a new Budget Head within the Red Book of Government's Estimates of Expenditure. This Budget Head would represent the Government's Climate Change Fund. Funding for individual projects/programmes could then be identified by sub-heads in cases where there was agreement over the further ear-marking of external funding.</p>		
3.	<p>The design of the SPCR, SREP and LAPA programmes will provide important early precedents for national climate change programmes. In all three cases, the financial arrangements appear yet to be finalized. This provides an opportunity to build the type of nationally owned system envisaged in the previous recommendation.</p>	High priority - next three months	MoF, MoE, MLD
4.	<p>A separate arrangement for the provision of technical assistance to climate change programmes should be developed, again following existing national models (e.g. LGCDP, SSRP). The arrangements for implementing a pooled mechanism, possibly through the UN system, require further investigation.</p>	High priority - next three months	NPC, MoE, MLD
5.	<p>The early creation of further new structures for climate change management brings with it certain risks (namely a diversion and dissipation of effort); there is much need to strengthen the existing structures in the short term (e.g. the MoE's role as the country's focal agency for climate change) and then to build further institutional capacity as resources permit. The policy commitment to create a climate change centre could be quickly accomplished through the re-designation of the climate change management division within the MoE, without undermining the options available for its long-term institutional setting.</p>	High priority - next six months	NPC, MoE
6.	<p>As climate change activities start with the flow of new and additional finance, there will be a premium to keep a strategic focus on early implementation to secure lesson learning. The two national programmes supported by the Climate Investments Funds, the SPCR and SREP, will provide important early experience in the implementation of climate change related actions and should therefore be managed in an inclusive way. The focus on involving private sector actors within both programmes is noteworthy and should be used to energise public policy engagement with the</p>	High priority - next twelve months	NPC, MoE, MLD

	private sector at scale.		
7.	Wider government reforms will be important for the efficient use of climate finance , in particular the further strengthening of the country's public financial management system. Comprehensive implementation of the 2007 Public Procurement Act would increase confidence in public expenditure controls. The strategic, multi-year allocation of resources to climate change actions through the Medium Term Expenditure Framework is another area of PFM reform that warrants attention.	High priority - next twelve months	MoF
8.	A climate finance sub-committee of the MCCICC should be established to take forward the climate finance agenda and to act as a national discussion group on climate finance.	Medium priority - immediate	MoE, MoF
9.	The possibility of tracking climate change public expenditure within the national budget should be explored with the MoF. This should build on the existing examples of gender and pro-poor budget tracking within the national budget, as well as the Ministry's aid information management system. A system should be designed that addresses the issue of identifying the incremental cost of making sector programmes 'climate resilient' across all sectors of the economy, as well as tracking climate expenditure flows to the local level. It should avoid solely taking a projectised approach to the tagging of climate-related expenditure. In the first instance, a design workshop (involving financial statisticians, economists and climate specialists) should be held to address the design issues of tracking climate finance.	Medium priority - next three months	MoF, MoE, MLD
10.	The Government should create a public website to act as the national information hub on all climate change actions (and be linked to the financial information at the Ministry of Finance as indicated in the previous recommendation). This should not require significant investment, but government should give priority to making such information available and not to rely on projectised activity.	Medium priority - next three months	MoE
11.	An early effort should be made to identify and record all international support for climate change actions undertaken within the country by NGOs. The MCCICC may be the appropriate forum to champion such an exercise due to its national coordination function. This information should be placed in the public domain using a web-based information portal. Civil society has an obligation to demonstrate high standards of transparency and accountability for the financial resources that it manages.	Medium priority - next twelve months	MoE

The above actions need to be complemented by two further fundamental reforms that will likely take more time to address:

E11. First, it will be most important to secure the right structures at the local level to ensure that the flow of climate finance reaches the most vulnerable communities. This will require the creation of capacity within existing district level structures. Lessons learned from the LGCDP can be drawn upon to develop mechanisms to improve local institutional capacity and accountability to implement climate change programmes. A mapping of VDC, Municipalities and DDC functions, powers, capacities and relationships would be a good starting point to identify potential local actors that could take lead roles in managing the finance and development of climate change programmes at the local level.

E12. Second, further thought is needed on how best to channel funding for climate change to all parts of the economy. An important point of principle is that such funding should pass through the national budget and be made available to all sectors for climate-related work programmes through the annual bidding round of the annual budget. A role for the MoE/CCC would be to provide the technical support to both central ministries as well as LBs to ensure that the financing bids submitted reflect the incremental costs of operating service provision in a changing climate. This reform programme will require close collaboration between MoE and MoF and represents a major undertaking for the effective and efficient delivery of climate finance.

E13. All of these issues now require further investigation and development to arrive at the most appropriate architecture for climate finance in Nepal.

1. Introduction

1. This study has examined the development effectiveness dimensions of climate finance in Nepal. The analysis is based on the premise that the management of climate finance should build on relevant examples of good practice in other areas of public finance management, recognising the likely need for a variety of instruments to deliver climate change programming. As climate finance is at an early, formative stage in Nepal, this paper offers a forward looking perspective on how climate finance may be administered in the years ahead. The paper focuses on the public financing component of climate finance and the role of international support.

2. The study is part of a broader effort by UNDP to strengthen the capacity of national and local level institutions to manage scaled-up climate finance, leading to the development of a climate fiscal framework at the national level. Such a framework will require clarity on climate-related public expenditure, improved institutional coordination between sectors and different levels of government, with strengthened fiduciary risk and public finance management.

3. The research also builds on a set of country studies carried out in 2010 that examined emerging climate change financing modalities. This led to a regional dialogue in Bangkok in October 2010, where a call was made to secure quality standards for climate finance within the countries of the region. The dialogue was facilitated by the Capacity Development for Development Effectiveness (CDDE) Facility and brought together participants representing the seven governments of Bangladesh, Cambodia, Lao PDR, Nepal, Indonesia, Philippines and Viet Nam, as well as the Pacific Islands Forum Secretariat, eight development partners and international agencies (ADB, AUSAID, JICA, OECD, SIDA, UNDP, UNEP, World Bank) and representatives from parliaments and civil society.

1.1 Climate finance defined

4. As most recently re-stated within the 2010 Cancun Agreements, climate finance has been defined within the context of the UNFCCC negotiations. Much emphasis is given to climate finance being 'new and additional', of it being 'adequate and predictable' and to defining the expected levels of international finance to be made available to developing countries over both the short to medium-term.

The 2010 Cancun Agreements of the UNFCCC

'2 (d). Mobilization and provision of scaled-up, new, additional, adequate and predictable financial resources is necessary to address the adaptation and mitigation needs of developing countries.'

'95. Takes note of the collective commitment by developed countries to provide new and additional resources, ..., approaching USD 30 billion for the period 2010–2012, with a balanced allocation between adaptation and mitigation.'

'98. Recognizes that developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries'

5. There is already considerable complexity associated with different sources, agents and channels for climate finance. At the national level, there are six different channels through which climate finance might flow in Nepal. First, through a national entity specifically for climate finance (which would need to be created); second, through traditional official development assistance (ODA) channels; third, through new and additional public finance from industrialised countries; fourth, through the emerging (but uncertain) carbon market; fifth, through private sector investment; and finally, through resources made available through the national budget. It is hard to determine the

relative contribution that each channel has made to-date, but the likelihood is that traditional ODA has been a significant source of early financing.

6. Climate finance is needed to meet the additional costs brought about by climate change. These incremental costs will be incurred by most sectors of the economy and will affect both investment programmes and the recurrent expenditure of government spending. The challenge will be to identify the level of 'top up' required for each sector and then ensure an effective mechanism is in place so that this level of finance can be accessed. Climate finance therefore represents a very significant mainstreaming challenge for public finance management and can be likened to a new funding stream across the whole of the national budget. The administration of climate finance therefore calls for a prominent role to be played by the Ministry of Finance. It also suggests that a projectised approach to climate change is not the most strategic route to take; rather a revision of the public sector finances will be required. This represents a very considerable challenge for a country such as Nepal where much development effort has focused at the sector (and sub-sector) level.

1.2 Climate finance delivery

7. Significant progress has been made in establishing a coherent institutional architecture in response to the climate change challenges that now face Nepal. A Climate Change Council has been established, chaired by the Prime Minister, to provide overall policy coordination and guidance on climate change matters. A Multi-stakeholder Climate Change Initiatives Coordination Committee (MCCICC), chaired by the Secretary of the Ministry of Environment, promotes functional level coordination and information sharing. The Ministry of Environment (MoE) acts as the Government's climate change focal point, with senior staff representing Nepal at the international negotiations of the UNFCCC. A climate change management division was created within MoE in 2010 to provide further focus for national oversight on climate change. These are all new structures that will take time to become established as capacity develops over the next five to ten years.

8. The Ministry of Finance (MoF) manages the public finances and oversees the implementation of the Annual Budget. The MoF has a Foreign Aid Coordination Division and has experience of working with several modalities for development finance, some of which may be relevant for the uptake of international public climate finance. First, is budget support where external funding passes directly into the government treasury. This is as yet a little developed approach in Nepal. Second, is ear-marked support where external funding is reflected on-budget, but is channelled directly to central government programmes through dedicated foreign exchange accounts within the national bank. This modality has increased in recent years as programmatic support has developed. Third, is ear-marked support disbursed to communities and Local Bodies. These funds are also considered 'on-budget'. The fourth system is off-budget funding by donors, where finance is paid directly to the concerned implementing agency (often NGOs and INGOs).

9. The Ministry of Local Development (MLD) will likely play an important role in channelling climate finance down to the local level. The MLD holds two functions: (i) local governance support to Local Bodies (LBs) through grant disbursement and (ii) support for local infrastructure. It is not a line ministry as such. In the context of climate finance it provides an important link between the central and local government administration, where the District Development Committees (DDCs) act as the main channel for public service delivery.

10. Nepal has a longstanding relationship with international donors built up over many years of aid delivery. The UN agencies, bilateral agencies and the development banks all have a significant presence in Nepal and exert influence over government's development agenda. These same agencies are now prominent in the delivery of international support for the actions and programmes required as a result of climate change within the country.

1.3 Current and planned climate finance flows

11. The ADB, DANIDA, DFID, EU, Finland, UNDP, UNEP, USAID, WB and others have provided or are in the process of designing climate change related programmes. Fourteen development partners and the Ministry of Environment signed a Memorandum of Understanding (MoU) on 2 September 2009 that lists a set of principles to guide development partners' support on climate change. This MoU provides the basis for donors that are offering technical support and financial resources for climate change activities to act in a coordinated and coherent manner.

12. A first approximation of the level of donor support for climate change actions (up to March, 2010) is summarised in Table 1. Approximately USD 650 million of international public grant finance has been made available over the last decade, with support increasing in the last five years. However, until a national database is established, with well defined categories of expenditure, this estimate can only be considered an indicative one. Of the 71 projects listed by donors, the largest number has been capacity strengthening and awareness raising activities (Figure 1). In terms of spending on mitigation activities, projects aiming to strengthen the provision of clean (renewable) energy predominate. The dominant external actor, in terms of both number of initiatives supported and the amount of finance committed, is the World Bank.

Table 1. A first approximation of donor funding for climate change in Nepal

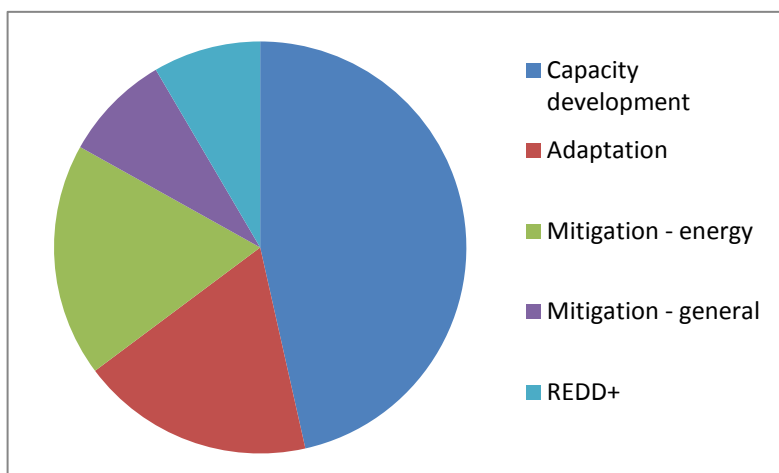
Donor	Number of climate change related initiatives	Timeline	Amount committed up to 2014 (USD million)
Denmark	4	2007 onwards	30.7
EU	3	2004 onwards	23.5
Finland	3	2009 onwards	10.4
Germany	5	1997 onwards	40.2
Japan	7	2004 onwards	12.7
Norway	5	2002 onwards	33.6
Switzerland	4	2008 onwards	20.7
ADB	8	-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

Source: World Bank

13. All of the above financial support is categorised as official development assistance, with delivery managed by bilateral development agencies and the multilateral development banks. It therefore represents an evolutionary approach to the provision of climate finance, involving the same actors and systems that have characterised the delivery of development finance over many years.

14. In terms of providing new and additional resources for climate change actions, industrialised countries' commitment to 'Fast Start Finance' (FSF) – the global commitment to reach USD 30 billion by 2012 – offers another perspective. Estimates of such resources remain hard to come by, although this should change with the commitment made in the 2010 Cancun Agreements for annual reporting on FSF.

Figure 1. Indicative thematic breakdown of donor supported climate change projects



Source: World Bank

15. A first indication of the level of FSF reaching Nepal is provided in Table 2, which is a summary of FSF provided by European countries for the first year of the three year period, 2010, as reported by the European Commission. The EU has made an early attempt to promote transparency over such commitments, however, it has had difficulty in summarising the spending of its 28 Member States (MSs). Only five MSs recorded making contributions to Nepal in 2010 and even for these MSs the complete picture is hard to determine. For example, the contributions made by the Netherlands are not disaggregated down to country level so it is not possible to determine the amount received in Nepal and the European Commission recorded having made a contribution for a programme that has yet to start. Much remains to be done to improve information provision on international climate finance flows. Recipient country spending should be recorded within country, which would allow for the validation of estimates made internationally by contributor countries.

Table 2. EU Member States reported contributions to Fast Start Finance for Nepal in 2010

Donor	Beneficiary country	Thematic Area	Project title	Implementation period	Implementation agency	Contribution (€ million)	Type (grant / loan)
Netherlands	17 countries, including Nepal	Mitigation	Energising development	2009-2013	GIZ	68.0	Grant
Netherlands	6 countries including Nepal	Mitigation	SREP	2009-2013	World Bank	54.0	Grant
Netherlands	21 countries, including Nepal	Adaptation and Mitigation	Climate resilience	2009-2014	Red Cross and Red Crescent	20.8	Grant
European Commission	Nepal	Adaptation	Building climate resilience in Nepal	2011-2013	DFID	7.0	Grant
Germany	4 countries including Nepal	Adaptation	FSF of adaptation to climate change in Asia	July 2010 - December - 2010	GIZ	2.7	Grant

Cyprus	Nepal	Adaptation	EU/DFID Project Building climate resilience in Nepal	36 Months from signing Financing Agreement between EU/DFID and Nepal	DFID	0.6	Grant
Finland	Nepal	Adaptation	Increased capacity hydro metereological services ICI project	2010-2012	Finnish Meteorological Institute	0.5	Grant
UK	Nepal	All	Support to climate change programme	2010-2011	-	0.2	Grant

Source: European Commission, Staff Working Document *EU Accountability Report 2011 on Financing for Development*

2. A Vision for climate finance in Nepal

16. A new climate change policy was approved by the Government of Nepal in January 2011. Whilst this policy is comprehensive in many ways, it does not provide the detail required to define a climate finance framework for Nepal. Defining such a vision for climate finance is something that government should undertake over the next six months to guide the development of new and additional funding flows in the years ahead. Such an exercise could build on the 2009 compact on climate change and involve the National Planning Commission, the Ministry of Environment and the Ministry of Local Development as lead agencies. It will be important to secure this national vision quickly; otherwise there is the danger that the international discourse may dominate national priorities and opportunities.

2.1 Elements of the Vision

17. Four elements, taken together, could characterise the governance of climate finance in Nepal in the future. They can be considered as operating principles that will ensure that climate finance is delivered in an efficient, effective and equitable manner.

18. First, the national budget should incorporate all external (ODA and climate finance) and domestic revenues, and allocate public finance under strong policy direction, and be accountable to the Parliament. This implies that climate finance will be channelled through the public finance system rather than relying upon a dispersed set of delivery mechanisms. Coordination challenges are already emerging associated with the different channels of climate finance and these can only become more acute in the absence of an overall national coordination mechanism, such as that provided by the national budget.

19. Second, quality assurance and oversight mechanisms for all climate change programming should be established and implemented, particularly at the local level where programmes are delivered. This will require that the public financial management system is able to budget, track and report on climate finance (both international and domestic) through all sectors. There is already experience upon which to build, associated with the mainstreaming of cross-cutting policy concerns within the annual budget. A gender responsive budget was introduced in 2007, with pro-poor budgeting having been established a year earlier. Both of these initiatives have helped to strengthen the link between policy objectives and resource allocation by making spending decisions more explicit and therefore open to scrutiny.

20. Third, an institutional architecture supporting climate change programming should be integrated into appropriate sectors. Policy leadership on climate change issues has already been demonstrated by MoE through its strong coordination role in establishing six sector working groups,

each led by a different line ministry, under the National Adaptation Plan of Action (NAPA). Important roles will also need to be played by MoF and MLD, with regard to financial planning and local-level implementation respectively. This requires a more clearly defined role for MLD in bridging national finance and local level implementation.

21. Finally, any vision of climate finance would be deficient without acknowledging the important role to be played by an active private sector investing in climate resilient growth. An enabling regulatory environment should exist to promote investment, with public finance being used to leverage further private capital flows in key sectors of the economy.

2.2 Outcomes of the Vision

22. To fulfil this vision would require that by 2020 a number of actions will have taken place. All of the following measures represent significant reform over the present situation, but they are all capable of implementation should they have political support.

1. Direct Access to international climate finance should have been established, with the appropriate institutional requirements in place that demonstrate the necessary financial integrity, institutional capacity, transparency and self-investigative powers. Being able to demonstrate these attributes should be the primary concern in determining the most appropriate institutional arrangements for managing global climate change funds.
2. Acknowledging the centrality of the national budget, all 'off-budget' external support for climate change activities involving government agencies should have ceased. The value of creating a similar mechanism to that existing in both the health and education sectors at present, with a 'one-door-only' entry point for external partners engaging with national climate change programmes, should have been investigated.
3. Donors should have been dissuaded from developing their own projects and programmes on climate change. Government should have prepared a pipeline of investment projects for international funding and encouraged pooled funding through a joint funding arrangement. This will require significant strengthening of financial planning within national processes.
4. The mandate of climate change public institutions should have been clarified with a clear separation according to function, recognising the policy formulation role (being Ministry-led), the regulatory role (Departmental-led), the service provision role (which will require determining the appropriate balance between public and private actors), and the potential for national revenue collection (based on carbon taxes).
5. An internationally recognised performance-based system should be in place, with strong Monitoring, Reporting and Verification (MRV) for all climate finance investments, including those that are channelled to the local level. This will likely require external support in the design and early implementation phases and will require significant strengthening of local government capacity within national processes, particularly through MLD.
6. Strong engagement of the private sector will have been secured to complement public funding with private investment. (Both SPCR and SREP have much to offer in terms of setting the early investment framework for private sector activity).
7. A specific urban strategy to secure climate resilience among the growing urban population should have been developed.

23. This set of actions represents a potential medium-term strategy for strengthening the administration of climate finance in Nepal.

3. Learning from recent experience with development finance

3.1 A review of development initiatives

24. Climate finance represents a new flow of international funding available to Nepal. Being new, it is not constrained by having to follow what has happened in the past. Also, climate finance is not development finance. However, an obvious operating principle is that this new funding should be utilised in an efficient and effective way, with the needs of those most vulnerable to climate change not being ignored. Paying attention to the effectiveness of climate finance is an important consideration in terms of how well actions that are funded lead to the desired result, in this case the strengthening of national (and sub-national) adaptive capacity to climate change and the mitigation of carbon emissions.

25. The working hypothesis for this study is that climate finance will be effective, efficient and equitable in its delivery if the following characteristics can be demonstrated: (i) there is national ownership over funding decisions; (ii) all external support is aligned and harmonised; (iii) there is a focus on the delivery of results; and (iv) there is mutual accountability between government and its international partners. These characteristics are the same as those that have helped guide improvements in development practice in recent years, as documented in the 2005 Paris Declaration on Aid Effectiveness.

26. To explore this hypothesis, the following initiatives have been reviewed through the lens of the development effectiveness principles:

- The Local Governance and Community Development Programme
- The Poverty Alleviation Fund
- The Nepal Peace Funds
- The School Sector Reform Programme
- The Alternative Energy Promotion Centre
- The Nepal Disaster Risk Reduction Consortium

27. These represent a variety of financing modalities and implementation models where government has worked with its development partners to secure improvements in development outcomes. The lessons learned from these management experiences can feed into the design of practical arrangements for coordinating and financing the climate change response in Nepal. Table 3 provides a summary description of these initiatives; Annex 3 provides further detail on each.

Table 3. Summary descriptions of six development initiatives

Initiative	Implementation modality	Governance issues	Financing issues
The Local Governance and Community Development Programme (LGCDP)	A model for long-term sustainability under strong national ownership. Implementation undertaken by the MLD using government systems.	A National Advisory Committee oversees strategic implementation, chaired by the Secretary MLD Joint DP meetings support coordination among a broad range of development partners.	Employs current government financial procedures. Challenges in fiduciary management related to the national spread of the programme, as local institutional capacity is low. Success of the Joint Funding Arrangement (JFA), with donor support well aligned and harmonised.
The Poverty Alleviation Fund (PAF)	A model for short-term impact, with strong results-based approach. Parallel initiative to LGCDP: same goal, but with different players employing different methods.	Legal identity created by the 2006 PAF Act - an autonomous institution. PAF Board chaired by the Prime Minister. PAF Secretariat led by an	Direct flow of funds to communities, with central budgetary support being channelled directly to community groups.

	Service provision delivered largely through the private sector and NGOs.	Executive Director. Two supporting DPs: the World Bank and IFAD.	
The Nepal Peace Funds	A model for short-term impact, with two complementary trust funds. A national fund and the UN trust fund support different actors (state and non-state).	Both funds overseen by a Board, chaired by the Minister of Peace and Reconstruction. Donor Advisory Group provides advice to the Board. Good use of websites promoting transparency.	Funds for the national trust fund are deposited in the Central Treasury under the terms of the JFA. The Board is fully authorized to approve projects and may draw from an account in the central bank. The Multi-Donor Trust Fund office of the UNDP acts as the administrative agent for the UN trust fund.
The School Sector Reform Programme (SSRP)	A model for long-term sustainability under strong national ownership. Implementation undertaken by the MoEd using government systems. This sector-wide approach has developed over almost 20 years.	Joint Steering Committee exists for Direct Funding & TA only. A Code of Conduct, the JFA and the Governance and Accountability Action Plan are key documents that contribute to the governance framework for the SSRP SWAp.	Employs current government financial procedures. Challenges have arisen over the quality of government financial reporting. JFA in place with nine DPs.
The Alternative Energy Promotion Centre (AEPC)	A Centre dependent on international funding for over 80% of its funding, with a focus on service provision (not a regulatory body).	Legal identity created by the 1956 Development Board Act - a semi-autonomous institution. AEPC Board chaired by the Minister of Environment.	Individual financed project support, some of which is over a decade old. JFA for one project indicates the start of a move towards programmatic support. The rural energy fund has been constrained by the challenges of limited capacity at the local level.
The Nepal Disaster Risk Reduction Consortium	A consortium approach, with participating organizations remaining autonomous in implementing programme activities, but agree to contribute to a prioritized set of actions.	Steering Committee established, chaired by the Secretary, Ministry of Home Affairs, with Secretariat established within the MoHA. Good demonstration of division of labour between DPs.	The funding of 'flagship programmes' is undertaken largely through project financing.

Source: Author's own research

28. These initiatives display a number of common instruments that have promoted a move towards a programmatic approach for development that is firmly under national ownership:

- The establishment of National Coordination Bodies, with various consultative mechanisms for interaction with development partners
- Joint Financing Agreements
- Codes of Conduct
- Governance and Accountability Action Plans
- Transparency of information through the use of web-based platforms

29. Delivery of targeted assistance at the local level is, and will likely remain, a major challenge as the experiences of several of the above initiatives have demonstrated. Local capacity remains limited in the absence of an elected local government structure.

30. The following sections examine the experience gained by these initiatives under each of the main effectiveness principles and consider their relevance to the application of climate finance.

3.2 National policy, planning and budgeting

31. Within development practice, it is recognised that countries should exercise leadership over their national policies and strategies and should coordinate development actions involving international partners. In Nepal, climate change policy and planning appear to be advancing well in this regard, with national policy processes having made very considerable progress over a short period of time in a broad, participatory manner. However, financial planning appears less well developed, particularly in terms of costing proposed public sector investments, where estimated budgets appear first approximations only (as suggested by the one line summary of costs for each of the nine priority activities identified by the NAPA process).

32. There is a widespread use of Programme Steering Committees for major new public sector investments, often chaired at ministerial level to secure support for the mainstreaming of actions across different sector ministries. This is particularly relevant for any national response to climate change (and is reflected in the proposed SPCR governance structure).

33. There are very considerable capacity development issues to be addressed to ensure a strong climate change government strategy. External support through both the ADB technical assistance project to the MoE and the forthcoming SPCR component 3 will be important early investments at the central ministry level. However, as several development initiatives have shown, much of the challenge will lie in securing delivery of services at the local level. The proposed development of local adaptation plans of action (LAPAs) to implement adaptation actions for communities in a number of districts of Mid and Far West Nepal will be a strategic investment in this regard. With the national climate change policy explicitly stating that 'at least 80 percent of the total funds available for climate change activities flow to the grassroots level' much attention needs to focus on the mechanics of local fund management to ensure this will happen in an efficient manner.

34. The experience of development finance flows suggest at least two different models to secure local level service delivery: one where funding passes through central ministries to Local Bodies (the LGCDP model) and one where central funds pass directly to community groups (the PAF model). There appear advantages and disadvantages to both approaches, simply characterized by the difference between an emphasis on short-term, high impact as opposed to an approach that gives greater weight to long-term, institutional development. The early LAPA experience will offer important insights and the expectation of a re-emergence of local government will also have a significant impact on finance delivery modes.

3.3 Alignment of external support

35. International support should be based on countries' national development strategies, institutions and procedures if it is to be effective. In Nepal, progress appears mixed in the move to align external support with government systems. Strongest progress appears to have been made at the strategy level, and it is weakest when it comes to donors following government procedures. There is least alignment over the use of the national financial management system, with widespread continuing reliance on external fiduciary controls as some donors lack confidence in the national system.

36. The financial management system in Nepal comprises six stages: (a) the annual budget is approved by the Parliament; (b) the Ministry of Finance authorises spending by the Secretary of each Ministry; (c) the Secretary sends authority to implementing agencies; (d) the implementing agencies send authority to the different cost centres; (e) the Financial Controller General's Office (FCGO) at the centre and its district level offices release funds to the cost centres and carry out internal audits;

and finally, (f) the Auditor General's Office, a constitutional body, conducts the final audit each year. There has been much concern raised over weaknesses at the local level, where expenditure recording has often been poor (in part caused by the very considerable communication challenges in remote mountainous areas). The recent establishment of the Local Bodies Fiscal Commission within the MLD is an important initiative to strengthen the capacity of local auditors; as is the development of social audits at the community level. This reform effort is of strategic importance to strengthen the foundation of the national system to allow for the uptake of international public climate finance.

37. With development financing, after many years of 'off-budget' activity there are moves to 'on-budget' expenditure with the transition from stand-alone projects to programmatic support for government-led actions (e.g. the SSRP). The national budget also provides the opportunity for international partners to move from earmarked support (e.g. LGCDP) to sector support (e.g. SSRP) through the use of an increasing number of Budget Heads into which external funding can be channelled. In this transition to programmatic support there are examples of project management units being embedded within the relevant ministry and staffed by civil servants (e.g. LGCDP); elsewhere, separate project implementation units continue to operate for some climate change relevant actions (e.g. ESAP).

3.4 Harmonised and coordinated action

38. An important lesson learned from development practice is that the actions of international partners need to become more harmonised, transparent and collectively effective. This represents a particular challenge for Nepal, where a diversity of donor positions on both development and climate finance is apparent. This is reflected in the differing ways that donors work with government and in the spectrum of projectised to programmatic support. There are examples of donors successfully coming together, as in the LGCDP and the SSRP, but in some cases this is limited by the institutional policies of some donor organizations. The increasing use of Joint Funding Arrangements is an important tool to assist the harmonization of external support.

39. Some important innovation is occurring within climate-related programmes. For example, the flagship coordinators in the NDRRC appear to offer potential for a more effective division of labour by donors and in stimulating a more harmonized way of working under national ownership. These coordinators, together with their government focal points, are responsible for coordinating activities, sharing information about on-going and planned projects, and ensuring appropriate consultation among relevant partners. In fulfilling this role, they are accountable to the Steering Committee of the NDRRC. This responds well to the principle of comparative advantage, where institutional contributions are determined by the level of competency available within any thematic area. Although climate change represents a major policy concern for many development partners, within-country expertise appears quite limited. There is also widespread use of joint donor advisory groups at the project level to promote harmonisation; securing this at the national level appears to be developing well through the regular meetings of the Multi-stakeholder Climate Change Initiatives Coordination Committee (MCCICC).

40. The issue of external financial support to civil society is potentially somewhat contentious. The challenge at present is to secure greater awareness of the many actions being undertaken in response to climate change across the whole country. Much externally supported NGO action remains unknown to government, raising the danger of duplication of effort and poor coordination.

3.5 Managing for results

41. In recent years, much international attention has focused on managing public resources and improving the decision making process so that it makes a clear link to results. However, it appears this is an area where the development rhetoric is much in advance of the reality of present day

systems. Managing for results is at an early stage of development within Nepal and it is not immediately clear what type of result is relevant for climate change programmes, beyond 'greater resilience' to climate change.

42. Perhaps the single most important tool in managing public finances effectively is the national budget. However, at present it is not possible to estimate total public expenditure on climate change actions as a tracking system for this across-sector expenditure has yet to be put in place.

43. There is potential for strengthening a 'managing for results' orientation within the government administration by moving beyond a reliance on traditional input indicators. Local examples of best practice offer good lesson learning opportunities. The Poverty Alleviation Fund produces a results matrix each year, which is subject to review. The matrix consists of mostly output and some outcome indicators. Impact evaluation studies have also been undertaken, based on earlier baseline research. One key lesson is the need to undertake such baseline studies at an early stage, so that future progress can be credibly assessed.

44. One of the more advanced examples of results-based management within the government administration is to be found in the MoEd, which has made considerable investments in monitoring outputs through a monitoring division within the Ministry. An example cited was the yearly target for net enrolment of schoolchildren. All schools report against this standard, with two reporting periods each year. Where the target is not met there is a system to apply remedial actions. However, capacity constraints remain a challenge, in particular the ministry is in need of improved IT equipment to manage the system efficiently.

45. The results framework of the SPCR can be expected to be influential for future climate change actions, being the first such framework drawn up for a national climate programme. Further investment will be required to strengthen this framework so that clear outcomes, with measurable success indicators can be identified. At present, there are noticeable differences in the type of expected result and indicators between components. Most discussion to-date is reported to have focused on component 1 (Building climate resilience of watersheds in mountain eco-systems). Component 4 (Building climate resilient communities through private sector participation) is considered the least well developed.

3.6 Accountability and transparency

46. A key principle of public administration is accountability. This appears a challenging area for government and donors alike, and therefore requires considerable sensitivity and understanding between partners as to who is accountable to whom. Accountability between different levels of government represents a particular challenge in Nepal. Initiatives such as the Local Bodies Fiscal Commission within the MLD appear to be making good progress in strengthening accountability systems and may be able to offer guidance on how to secure accountable climate finance flows down to the local level.

47. Accountability is being codified at both the institutional and programme levels through (i) the use of institutional MoUs (e.g. between PAF & MLD); and (ii) JFAs defining key accountabilities between government and donors. The use of tools such as partnership Codes of Conduct and Governance and Accountability Action Plans appear to offer promise for improved mutual accountability at the programme level.

48. New technology is assisting the move to greater transparency. Many programme documents are now freely available on-line and most major development investments have dedicated websites. However, financial information appears the least transparent and securing comprehensive statements on public investments remains a challenge.

3.7 Identifying the main lessons for climate finance

49. The following issues, which have come out of this review of development experiences, have relevance for climate finance delivery in Nepal:

1. Budgeting appears the weakest link in the policy, strategy, implementation chain. It is not clear whether this is because it does not receive the attention it deserves, or, because it is the most problematic stage to address.
2. Meeting the needs of the most vulnerable to climate change will require a strong local finance delivery mechanism. This is where there are already identified weaknesses in the national financial management system.
3. There is much diversity of structure and processes for the delivery of development finance. It may be expected this will also be the case for climate finance, at least in its initial stages of delivery. A key principle should be to match the finance modality with institutional function and spending objective.
4. A major weakness is the limited development of results-based frameworks. Little can be gained from the development experience. This represents a significant challenge for climate change actions where performance-related issues hold such prominence.
5. Improving transparency of climate change actions is a key reform to secure greater accountability of the public administration.
6. Finally, there appears to be limited engagement with, and recognition of, the important role to be played by the private sector in tackling climate change.

4. Next steps in moving forward on climate finance

50. Based on the analysis in the previous section and consistent with a trajectory to secure the vision for climate finance described earlier in the paper, a number of immediate actions are called for. These are listed below.

4.1 Recommendations for early action

51. There is need to move quickly from project delivery to a programmatic approach for public funding for climate change actions from international sources. Government and its development partners should consider drawing up a Joint Financing Arrangement (JFA) for climate finance, taking the LGCDP JFA as its model. GoN would be represented by the Ministry of Finance (MoF) in all matters pertaining to financial management, with the Ministry of Environment (MoE) as the technical lead (paralleling the MoF/MLD relationship under the LGCDP). International climate funding would be transferred into a foreign currency account at the Nepal Rastra Bank for the exclusive use of national climate change actions. This account would then be used to transfer funding into a new Budget Head within the Red Book of Government's Estimates of Expenditure. This Budget Head would represent the Government's Climate Change Fund. Funding for individual projects/programmes could then be identified by sub-heads in cases where there was agreement over the further ear-marking of external funding.

52. It is recommended that this approach be adopted as soon as possible, in preference to the creation of any separate financing mechanism, such as that of a trust fund. One important consideration in focusing on the national budgetary system is that climate change will require actions that are not confined to short-term activities, where establishing a temporary trust fund might be justified. Climate finance will be an important part of the public expenses for at least the next 20 years, if not longer.

53. A separate arrangement for the provision of technical assistance to climate change programmes should be developed, again following existing national models (e.g. LGCDP, SSRP). The arrangements for implementing a pooled mechanism, possibly through the UN system, require further investigation.

54. The early creation of further new structures for climate change management brings with it certain risks (namely a diversion and dissipation of effort); there is much need to strengthen the existing structures in the short term (e.g. the MoE's role as the country's focal agency for climate change) and then to build further institutional capacity as resources permit. The policy commitment to create a climate change centre could be quickly accomplished through the re-designation of the climate change management division within the MoE, without undermining the options available for its long-term institutional setting.

55. As climate change activities start with the flow of new and additional finance, there will be a premium to keep a strategic focus on early implementation to secure lesson learning. The two national programmes supported by the Climate Investments Funds, the SPCR and SREP, will provide important early experience in the implementation of climate change related actions and should therefore be managed in an inclusive way. The focus on involving private sector actors within both programmes is noteworthy and should be used to energise public policy engagement with the private sector at scale.

56. Wider government reforms will be important for the efficient use of climate finance, in particular the further strengthening of the country's public financial management system. Comprehensive implementation of the 2007 Public Procurement Act would increase confidence in public expenditure controls. The strategic, multi-year allocation of resources to climate change actions through the Medium Term Expenditure Framework is another area of PFM reform that warrants attention.

57. The possibility of tracking climate change public expenditure within the national budget should be explored with the MoF. This should build on the existing examples of gender and pro-poor budget tracking within the national budget, as well as the Ministry's aid information management system. A system should be designed that addresses the issue of identifying the incremental cost of making sector programmes 'climate resilient' across all sectors of the economy, as well as tracking climate expenditure flows to the local level. It should avoid solely taking a projectised approach to the tagging of climate-related expenditure. In the first instance, a design workshop (involving financial statisticians, economists and climate specialists) should be held to address the design issues of tracking climate finance.

58. The Government should create a public website to act as the national information hub on all climate change actions (and be linked to financial information at the MoF). This should not require significant investment, but government should give some priority to making such information available and not to rely on projectised activity. The SPCR website (<http://www.ppcrnepal.gov.np/>) is a good example of the limitations of depending on project activity; since the ending of the design phase of the SPCR the website appears not to be maintained.

59. Finally, an early effort should be made to identify and record all international support for climate change actions undertaken within the country by NGOs. The MCCICC may be the appropriate forum to champion such an exercise due to its national coordination function. This information should be placed in the public domain using a web-based information portal. Civil society has an obligation to demonstrate high standards of transparency and accountability for the financial resources that it manages.

4.2 Recommendations for actions over the medium term

60. In addition to these immediate actions, which could be instigated over the next six to twelve months, there are two fundamental reforms that will likely take more time to address.

61. First, it will be most important to secure the right structures at the local level to ensure that the flow of climate finance reaches the most vulnerable communities. This will require the creation of capacity within existing district level structures. Lessons learned from the LGCDP can be drawn upon to develop mechanisms to improve local institutional capacity and accountability to implement climate change programmes. A mapping of VDC, Municipalities and DDC functions, powers, capacities and relationships would be a good starting point to identify potential local actors that could take lead roles in managing the finance and development of climate change programmes at the local level.

62. Second, further thought is needed on how best to channel on funding for climate change to all parts of the economy. An important point of principle is that such funding should pass through the national budget and be made available to all sectors for climate-related work programmes through the annual bidding round of the annual budget. A role for the MoE/CCC would be to provide the technical support to both central ministries as well as LBs to ensure that the financing bids submitted reflect the incremental costs of operating service provision in a changing climate. This reform programme will require close collaboration between MoE and MoF and represents a major undertaking for the effective and efficient delivery of climate finance.

63. All of these issues now require further investigation and development to arrive at the most appropriate architecture for climate finance in Nepal.



Terms of Reference to support analysis and dialogue on aid effectiveness dimensions and climate change finance in Nepal

FINAL DRAFT

General background to Climate Change Finance and Development Effectiveness Initiative

It is clear that the mobilisation of “adequate, predictable and sustainable” financing will be critical to address climate change in developing countries including in the Asia Pacific region.

The relatively significant financial resources committed to in the Copenhagen accord including fast start climate financing of \$30 billion between 2010 and 2012 and a commitment to generate an amount approaching \$100 billion a year by 2020 have provided some critical momentum to efforts to mobilise climate change financing. Fast start climate change financing is being mobilized, including by May 2010, \$32 billion and \$29 billion dollars of this is entirely concessional in nature. The country-level governance arrangements established for managing these sources of climate change finance will be equally critical to the success of a climate change response at the national level.

These Terms of Reference for analysis and dialogue should be seen as one step in a longer and larger process. The concept has been developed in direct response to demand from country level policy makers and practitioners, focusing on the need to strengthen the governance of public investment aimed at responding to the climate change agenda (including both international and national sources). The focus for the dialogue is on public sector officials spanning key policy makers and practitioners in both climate change and ODA management related sectors.

Based on decades of experience, donors and developing countries have agreed on five key principles and twelve indicators in the Paris Declaration to guide the management of ODA and aid partnerships. These are all relevant to the governance of public climate change financing and many of the principles are already embedded in climate change agreements such as the Marrakech Accord.

Over the course of 2010, ADB, Japan, SIDA, OECD together with UNDP supported five countries in undertaking analysis of their emerging climate change financing modalities (Bangladesh, Cambodia, Indonesia, Philippines and Vietnam) through the lens of the Paris Declaration. These five countries, as well as Laos and Nepal, then came together through a regional dialogue in Bangkok where the delegations articulated the Bangkok Call for Action – a call for quality standards in climate change financing. They also worked together to develop country specific action plans for moving forward more effective climate change financing, using peer review and support at the meeting to strengthen their plans. A regional synthesis [Link to synthesis report](#), country level reports [Link to country reports](#) as well as the Bangkok Call for Action [Link to Bangkok Call for Action](#) are all available for background. Feedback since the regional meeting in October has shown that lessons learnt from the process have fed into the design of climate funds (eg the People’s Survival Fund in Philippines) and led to stronger collaboration across policy makers and practitioners (particularly finance, planning, climate and environment colleagues).

The initiative is now being replicated in eight countries in Africa (led by AfDB and OECD) and is being taken forward in the Pacific as part of the policy dialogue on climate change. A second phase of work in Asia Pacific will support analysis and dialogue in 4-5 new countries of the Asia Pacific and will bring

countries together in a regional dialogue on climate finance and aid effectiveness in early September 2011. This regional dialogue will build on recommendations from 2010 as well as the work in Africa and the Pacific and help develop an agenda for the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, 29th November – 1st December 2011. Likewise opportunities to feed into the discussions around the Green Climate Fund and UNFCCC CoP process are also being explored.

In Asia Pacific the second phase aims to take work forward that was already started as part of Phase 1 in some countries (such as Bangladesh) and will expand to new countries that have expressed an interest including Laos, Malaysia, Maldives, Nepal, Papua New Guinea and Timor Leste. Following from demand for further analysis into the governance of climate change policy and programming generated as part of the first phase of work, countries will be provided with options as to the type of analysis they might wish to take forward including – (i) aid effectiveness analysis of current climate change financing modalities; (ii) political economy analysis of the domestic drivers for climate change policy and programming; (iii) local governance frameworks and their implications for climate change policy and programming; and (iv) analysis of mechanisms and processes for generating participation of vulnerable and excluded in climate change policy and programming.

Background to Nepal analysis and dialogue

Nepal participated in the regional dialogue meeting in October 2010 and expressed an interest in taking forward the climate change finance and aid effectiveness analysis and dialogue. Nepal has significant experience in implementing the aid effectiveness agenda. It has implemented two rounds of the Paris Declaration Survey process and has an aid information management system in the Ministry of Finance, which is already in place to track and analyse qualitative dimensions to ODA in the country. The Ministry of Finance has also been taking forward ground breaking work on tracking budget related expenditures which focus on gender and poverty. There are a number of experiences in implementing a diversity of aid modalities (such as a Programme Based Approach in Education, the multi-donor supported and Ministry of Local Development-led Local Governance and Capacity Development Programme, Alternative Energy fund, Poverty Alleviation Fund, Peace Fund) as well as coordination and alignment mechanisms (such as experience in donor alignment and division of labour behind government's Disaster Risk Reduction strategy). Lessons learnt from these ODA management experiences will clearly need to feed into the design of practical arrangements for coordinating and financing the climate change response in Nepal.

Likewise there has been significant progress in establishing a coherent framework for responding to Nepal's climate change challenges and establishing a range of programming instruments to manage resources for climate. The government's climate change policy has been approved in January 2011, a Climate Change Council established under the chairmanship of the Right Honorable Prime Minister for overall policy coordination and guidance on climate change matters, as well as a Multi-stakeholder Climate Change Initiatives Coordination Committee (MCCICC) chaired by the Secretary of the Ministry of Environment, with 38 members across government, local governments, academe, development partners and non-governmental organisation so as to promote functional level coordination and information sharing. ADB, DFID, DANIDA, EU, Finland, USAID, UNDP, UNEP, WB and others have provided and/or are in the process of designing for providing resources for the implementation of climate change related programmes. Fourteen donors/development partners and the Ministry of Environment have entered into an MoU on 2 September 2009 just after the Regional Conference on Climate Change (from Kathmandu to Copenhagen) which provides additional basis to donors and development partners to provide support and resources to Nepal on climate change activities.

Experience in ODA management and the significant progress in establishing a framework for responding to climate change in Nepal, provide an excellent basis upon which to strengthen the effectiveness of climate change finance. These terms of reference are for a process of analysis and

assessment that will feed into a dialogue across stakeholders on how to take forward this process of strengthening the effectiveness of climate finance. The analysis is built on the premise that the management of climate finance should build on relevant examples of good practice in other aspects of ODA management, recognise the need for a variety of instruments in delivering climate change programming and have a vision of where progress will need to be made to strengthen capacity to manage increasing climate change related finance over the next 9-10 years.

The analysis and assessment process will be undertaken by an independent consultant working under the management of the Capacity Development for Development Effectiveness (CDDE) Facility. The consultant will work closely with Joint Secretary Ministry of Finance and others to identify best practices in ODA management that might be relevant to the management of climate change finance, and Joint Secretaries of the Ministry of Environment to identify and assess existing climate finance programming modalities through the lens of the Paris Declaration (See framework at annex 1). Finally through consultation with both Finance and Environment as well as other Ministries such as Ministry of Local Development, and bodies – most notably the National Planning Commission – the consultant will draw up recommendations as to what arrangements for managing climate finance might be needed in 9-10 years as well as what steps might be taken over the short, medium and longer terms to achieve this vision for climate finance. The assessment will be done through extensive consultative processes. The assessment and recommendations will then be presented to the MCCICC in mid-May, and where deemed necessary and as appropriate, the Ministry of Environment – the Secretariat of the Climate Change Council – will provide briefings about the outcomes of the study during the meetings of the Council or other means. Key focal points will be the NPC and the different ministries – Environment, Finance, and Local Development – will then participate in a regional dialogue in September 2011 and develop joint recommendations across countries on how to strengthen climate finance globally, building on the Bangkok Call for Action with due consideration on the national circumstances.

Objectives

Goal: There are two overarching goals that this work will contribute to: i) improving the current climate change fiscal framework with regard to effectiveness, transparency and accountability; and ii) prepare the system for anticipated increased availability of international climate finance over the coming decade.

Purpose: To implement aid effectiveness analysis of climate change financing arrangements in Nepal and support inclusive stakeholder dialogue on this topic

Scope:

The scope of these terms of reference is to:

1. Working with Ministry of Finance and other relevant ministries draw together lessons learnt from ODA management experiences in a range of sectors that have specific relevance to the design of a framework for managing climate change finance in Nepal.
2. Working with Ministry of Environment and other related ministries assess existing and proposed climate change financing modalities through the lens of the Paris Declaration (**see Annex 1 for draft analytic framework**)
3. In consultation with the NPC and the Environment, Finance and Local Development Ministries develop independent recommendations in three parts:
 - a. What arrangements should be in place for managing climate finance effectively in 2020?

- b. What medium-long terms actions should be taken to put these arrangements in place?
 - c. What actions should be taken in the short term (6-12 months) to support this process?
4. Present the assessment and recommendations to the MCCICC at a meeting to be called by the secretary, Ministry of Environment in May 2011 (written output 1).
5. Upon receipt of feedback, findings and recommendations from Nepal will be aggregated into a draft country report (written output 2) to be circulated to country stakeholders and peer reviewed by selected/concerned personnel **by 3rd June** and subsequently revised as per feedback (written output 3) **by 17th June**.
6. The consultant should consider in their completion of the analytic work that results will need to be presented and shared broadly with government and development partners to provide feedback. The report will need to have clear recommendations and findings articulated in an executive summary.
7. The report should be 16 pages long including the executive summary and excluding annexes. It should include the assessment findings, recommendations for integrating aid effectiveness principles within governance arrangements for climate change financing, as well as specific next steps for developing capacities amongst government, donors and other stakeholders to strengthen these governance arrangements.
8. The report should also include names, positions, organisations and coordinates of the individuals included in a national dialogue and for potential aggregation into a multi-country community of practice on aid effectiveness and climate change finance and participation at the regional meeting on **xxx**.

Outputs

Three written outputs:

1. A presentation of draft findings and recommendations to country stakeholders (written output 1 by **27th May**).
2. A draft report (written output 2) to be circulated to country stakeholders **by 3rd June**
3. A revised final draft report (written output 3) **by 17th June**.

Management arrangements

Policy Specialist, Governance and Aid Effectiveness, and the Environment Advisers at UNDP APRC working as part of the Capacity Development for Development Effectiveness Facility will be involved and monitoring in the progress control. The consultant will work closely with the concerned Ministries and designated officials from each Ministry. The Ministry of Environment will provide a focal point who the consultant will work with to ensure an MCCICC meeting is convened appropriately.

Annex 1 – analytic framework for assessing the aid effectiveness dimensions of climate change finance

Introduction

The questions posed within this analytic framework build on the findings from five country analyses of the aid effectiveness dimensions of climate change finance. As with the first phase of work, the analysis will be conducted as part of country-led processes that will include extensive consultation including through a 'national dialogue' at which a range of stakeholders will have the opportunity to discuss, enrich and validate the findings of the assessment process. Resulting from the analysis and dialogue will be a country report which will include the analysis and major findings as well as recommendations for strengthening the modalities for delivering climate change finance.

Country delegations will subsequently come together for a regional peer exchange meeting in September 2011 when countries will have the opportunity to strengthen their action plans for moving forward (see steps iii-iv below) based on lessons learnt across countries. The process of analysis and dialogue is also being replicated in Africa. The process in Asia Pacific, of which this country analysis and dialogue is a part, will contribute to a global call for quality standards for climate change financing that builds on the Bangkok Call for Action (developed in 2010). The process will feed into discussion in the design of the Green Climate Fund, as well as the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, 29th November – 1st December 2011.

The framework – a Climate Fiscal Framework

To respond to climate change, countries need to identify the demand and supply for climate finance. This will take the form of a climate fiscal framework and will ensure that any external finances are used most effectively. To achieve a climate fiscal framework, countries need to (i) identify their existing expenditures and modalities for delivering climate related – both vis-avis domestic resources (in the budget) and external resources (from current ODA and other forms of external finance); (ii) identify additional expenditure requirements drawing from policy and action plans such as National Adaptation Programme of Action and other sources; (iii) identify financing gaps and preferred modalities for delivering further sources of public investment (external and domestic) and creating an enabling environment for private financial flows. All the below steps are intended to help build up such a Climate Fiscal Framework recognizing this will take a number of years.

Methodology

The questions in the framework are to support a quantitative and qualitative assessment. Quantitative figures should also be drawn upon wherever available. These might be available through existing ODA database systems held in government as well as within donor offices, through government's financial management systems or through aid effectiveness surveys such as the Paris Declaration Survey process. The purpose of the country analyses is to identify potential recommendations for strengthening governance arrangements for climate change finance at the country level, as well as to provide for sharing of lessons across countries as part of a regional dialogue. The analysis is not intended to be an assessment of progress nor are they intended to be directly comparable across countries.

Given that the process of implementing the assessment is a learning process and given that different country contexts will necessarily require flexibilities in the assessment process, there will be no strict methodological guidelines as to exactly how the assessment is delivered. The assessment will be conducted through a balance of literature review, quantitative data analysis, and interview - as determined to be appropriate in each country context. However it should be a principle of all country-level assessment processes that there is a maximum depth and breadth to government and other country stakeholder participation. The emphasis will be on promoting dialogue through the analysis and in particular leading to an exchange of views across practitioners across stakeholders groups (including a range of government ministries, civil society, donor agencies and possibly the private sector) as part of a national dialogue – through which assessment findings can be discussed and reviewed.

The terms of reference are outlined as a series of 4 steps and these steps will need to be implemented in alignment with on-going country level processes. It may be that steps iii-iv which look at the establishment of specific actions and institutional responsibilities will require further deliberation and discussion in-country over the coming months and as such these steps will need to be tailored as necessary to country context. Likewise it should be noted that steps iii-iv in particular can also be taken up as part of the country delegations' discussions in the regional dialogue in September 2011.

Step i – The baseline situation & current issues

As a first step, an overview of the current situation with regard to programming, funds, modalities and coordination needs to be generated and analyzed in terms of strengths, weaknesses, and issues.

1. Paris Declaration Principles: Ownership and Alignment

1.1 Policy and Programming

- Has the country defined its climate change priorities for the coming 3-5 years, for example in a NAPA, or a climate change programme, or sectoral programmes (e.g. forestry, energy) and how do these relate to the overall national development strategy?
- Do the climate change programmes have one common results framework? If not, why?
- Do the climate change programmes have one overarching budget and how is this included as part of the overall national budgeting process? Are there specific budget lines for climate change across sectors? If not, why?
- Is the climate change programme consistent with relevant existing policy on e.g. forestry, agriculture, energy, water, decentralization, etc. If not, why?
- Which agency/ agencies are leading policy development and programming on climate change?
- How are different stakeholders involved in formulating the climate change policy and programming?

1.2 Funding (please provide figures wherever possible)

- What is the current national budget allocation for climate change? And what is the funding requirement from the international community?
- What are the current commitments and disbursements on climate change finance from ODA related sources? It might be useful to scope for climate financing to GOs, International NGOs and National NGOs and private sector by considering the possibility of double counting. This might provide comprehensive information on climate financing and help to track funding to donors, development partners and the government.
- What sources of funding are being used both externally and domestically (grants, concessional / non-concessional loans, national budget) and how has this been allocated to the country's climate change priorities?
- To what extent are international and domestic sources aligned and complimentary?
- Has a medium term budgetary framework been established for the coming 3-5 years? Have donors given commitments over 3-5 years to enhance predictability?
- Are there systems in place for monitoring public expenditure that relates to climate change such as through public expenditure reviews or public financial management systems?
- If there is a shortfall in funding, how is country planning to address this?
- What are the main issues with accessing funds for climate change programming? Are there issues of debt sustainability or absorptive capacity that need to be addressed?

2. Paris Declaration Principles: Alignment and harmonisation

2.1 Modalities to access and deliver climate finance

- Which modalities does the country use to access and manage externally provided climate funds (eg Budget support; Programme Based Approaches; projects etc)? Does the government have a policy indicating preferred modalities?
- What are the main features of these modalities in relation to alignment with government systems of public financial management, procurement, environmental & social standards, quality assurance, quality control and auditing?
- Where there are requirements from development partners to use separate systems are there plans to strengthen government systems and make increasing use of them?
- Which entities (international / national / local) are used to deliver the funds? How are decisions made with regard to distribution of funds and who is involved?
- How is information around the decision making process made available to a wide variety of stakeholders?
- Do these entities have capacity issues with delivery / project cycle management and how are international sources of finance provided in ways which build these capacities?

2.2 Coordination

- How is climate finance currently coordinated within government and between government and different development partners?
- Is there a climate finance group made up of relevant government agencies or an equivalent body?
- What are the strengths and weaknesses of the coordination system?
- To what extent does coordination build on existing aid effectiveness coordination mechanisms such as those related to Development Forums; Consultative Groups etc?

3. Paris Declaration Principles: Managing for Development Results and Mutual Accountability

3.1 Monitoring & accountability

- What systems are in place for monitoring of international climate finance and development results? Is there a financial tracking system in place to monitor flows of climate finance from domestic as well as international sources?
- What are the strengths and weaknesses of the monitoring system? Are there SMART indicators?
- Does annual reporting to parliament take place? If not, why?
- Is there a functioning dialogue mechanisms within which government, development partners and other actors discuss progress on climate change objectives?
- Do donors disclose how much funds have been provided to a recipient government in a specific fiscal year, for which subject, and (if any) what conditions? If not, why?
- To what extent are entities receiving funds held accountable (and by whom) for delivery of (value for money) results? If not, why?
- How does the general public have access to up-to-date access to information on climate finance and delivery of results?

Note from Batu Uprety, Joint Secretary Ministry of Environment: I would suggest to develop questions on funding. Who is providing funding and who is receiving CC funds from fast-start finance? How many times the same institutions are supported? What are the criteria and procedures for providing funds? How it is coordinated within the donors, development partners and with the Ministry of Finance and Climate Change Focal Point, MoE? Monitoring the effectiveness of programme supported by donors and also implemented by development partners and international / national non-governmental organisations as they are not reflected in the national budget, funding analysis need to focus for short term (might be by 2015) and then mid-term by 2020 as questions designed on funding by 2020 in most cases

Step ii: What climate fiscal framework does a country want to have in place by 2020?

Realizing that access and delivery of climate finance needs to be dramatically upscaled the coming 10 years, it needs to become clear what level of financing a country expects to need and the system it envisions to access and deliver this. While this ‘vision’ of a future climate fiscal framework cannot be expected to be very detailed, it should provide an indication of what a country wants to have in place by 2020.

Programming

- Has the country developed a national policy on climate change or related policies stipulating what should be achieved the coming 10 years? If so, what are the long term goals and does it have broad national ownership?

Funding

- Does the country have an indication of funds to be mobilized (both domestically and from external sources) and delivered to achieve these goals?
- What sources of funding does the country foresee as becoming most important?

Modalities to access and deliver climate finance

- Which modality(ies) does the country envision to be necessary / preferred by 2020?
- What capacity would be required to mobilize, programme and deliver the funds by 2020?

Coordination & harmonization

- How should climate finance be coordinated by 2020?
- How will harmonization be optimized by 2020?
- Division of labour - Which entities are foreseen to do what by 2020?

Transparency & accountability

- What mechanisms, legislation and anti-corruption measures would need to be in place by 2020?
- What should a Measurement Reporting Verification (MRV) system encompass by 2020?

Step iii – What should be achieved by 2014 in terms of establishing progress towards a comprehensive climate fiscal framework?

Based on the current situation and the desired situation by 2020, step 3 will describe what should be achieved by 2014. This “Mission” is likely to cover a number of issues such as:

- Programming
- Funding
- Modalities to access and deliver climate finance
- Coordination & harmonization
- Transparency & accountability

Step iv – Propose actions to achieve the mission

Specific actions will be identified and defined, of which the implementation should result in achieving the mission.

Annex 2. People met

Name	Position	Organisation
Dinesh Devkota	Member	National Planning Commission
Lal Shanker Ghimire	Joint Secretary	Ministry of Finance
Bhuban Karki	Under Secretary	Ministry of Finance
Gopi Khanal	Under Secretary	Ministry of Local Development
Binod Prakash Singh	Under Secretary	Ministry of Local Development
Krishna Gyawali	Secretary	Ministry of Environment
Ganesh Raj Joshi	Secretary	Ministry of Environment
Batu Krishna Uprety	Joint Secretary	Ministry of Environment
Purushottam Ghimere	Joint Secretary	Ministry of Environment
Lekha Nath Poudel	Under Secretary	Ministry of Education
Narayan Prasad Chaulagain	Executive Director	AEPC
Rabj Babu Shrestha	Executive Director	Poverty Alleviation Fund
Avishesh Neupane	Environmental Officer	Poverty Alleviation Fund
Robert Piper	UN Resident and Humanitarian Coordinator	UN
Jorn Sorensen	Deputy Country Director (Programme)	UNDP
Vijaya Singh	Assistant Country Director, Environment, Energy & Climate Change Unit	UNDP
Julien Chevillard	Facilitator for aid management and coordination	UNDP
Brian Harding	Climate Change specialist	UNDP
Neil Webster	Decentralisation and Local Governance Adviser	UNDP
Jenty Kirsch-Wood	Head, Disaster Risk Management Unit	UNDP
Anne-Sophie Le Beux	Programme specialist	UN Peace Fund for Nepal
Shahid Parwez	Programs Implementation Officer	Asian Development Bank
Anil Pokhrel	Climate Change Adviser	Asian Development Bank
Cindy Malvicini	Senior Water Resources Specialist	Asian Development Bank, Manila
Claudia Sadoff	Lead Economist	World Bank
Stephanie Borsboom	Operations Officer	World Bank

Simon Lucas	Climate change & inclusive growth adviser	DFID
William Paterson	Director, General Development Office	USAID
Kishore KC	Program Specialist	USAID
Netra Sharma	NR Governance and Climate Change	USAID
Inge Harald Vognild	First Secretary	Royal Norwegian Embassy
Shiva Sharma Paudyal	Senior Programme Officer	Embassy of Denmark
Ram Chandra Khanal	Natural Resource Management Specialist	Independent consultant
Bhushan Tuladhar	Network Coordinator	Climate Change Network Nepal (CCNN)

Annex 3. Lesson learning from six development initiatives

- The Local Governance and Community Development Programme
- The Poverty Alleviation Fund
- The Nepal Peace Funds
- The School Sector Reform Programme
- The Alternative Energy Promotion Centre
- Nepal Disaster Risk Reduction Consortium

The Local Governance and Community Development Programme

Informants:

Gopi Khanal, Programme Manager, LGCDP and Under Secretary, MLD

Binod Singh, Under Secretary, MLD

Neil Webster, Decentralisation & Local Governance Adviser, UNDP

Documents reviewed:

- 2008 Programme memorandum
- 2009 Joint financing arrangement
- 2010 Mid-term review report

Website: <http://www.lgcdp.gov.np/home/index.php>

Start/End Dates for LGCDP Programme: 16 July 2008 – 15 July 2012

Total original estimated budget: USD 463 million (four year total)

Government budget: USD 261 million (62%)

Development Partner contribution: USD 161 million

1. Description of programme

The objective of the Local Governance and Community Development Programme (LGCDP) is to contribute towards poverty reduction through inclusive, responsive, and accountable local governance and participatory community-led development. Its design combines performance-based grants with capacity development. The LGCDP has been widely recognised as being a timely response to the post-conflict situation in Nepal, and has brought Development Partners together in a programmatic way, in a sector where previous donor support had been very fragmented (Ferrazzi et al., 2011). The underlying intention of the LGCDP is ‘to move the local governance and community development sector towards a Sector Wide Approach (SWAp) for decentralisation’ (Programme Document, 2008). This issue was further explored in a Scott-Wilson study. The project covers all the country’s 75 District Development Committees, 58 Municipalities and 3,915 Village Development Committees.

Key features of sector-wide management, to be developed and introduced during LGCDP, are:

- a) The provision of a single, clear sector policy and strategic framework that links the sector policies with the LGCDP (including the expenditure plans for the sector), so that the allocation of programme resources reflects the priorities for the sector.
- b) An annual programme and budget which specify the activities to be carried out under each strategic objective and by department/divisions/local bodies.
- c) Reporting on activities and performance indicators against the plan, with common reporting and performance monitoring arrangements (rather than each funding and supporting agency having its own review process and missions). (Programme Document, 2008).

One challenge for Programme implementation identified by the mid-term review concerns fiduciary risk management: ‘The use of program funds is difficult to ascertain with precision and reliability due to the financial planning and reporting weaknesses in LGCDP. Financial reports are late, incomplete and do not sufficiently discuss variance. Reporting against program outputs and outcomes is particularly weak. These weaknesses aggravate fiduciary risk and deny management a clear picture to help in steering the program.’ (Ferrazzi et al., 2011). LGCDP has since strengthened its fiduciary

risk mitigation approach, with additional measures by government and new initiatives introduced by the DPs supporting LGCDP.

The overall program was originally estimated to cost USD 466 million, with the Nepal government budget being USD 261 million (Programme Document, 2008). However, the government budget for the performance-based block grants has risen significantly since the original programme document. It is now estimated that the overall 4-year programme expenditure may be as high as USD 850 million (unverified). External funding support is provided by a broad range of development partners:

- Asian Development Bank (ADB)
- Danish International Development Agency (DANIDA)
- Canadian International Development Agency (CIDA)
- Department for International Development (DFID)
- United Nations System (UNDP, UNICEF, UNCDF, UNFPA, UNV)
- Government of Norway
- Swiss Agency for Development and Cooperation (SDC)
- The German Technical Cooperation (GIZ)
- Japan International Cooperation Agency (JICA)
- World Bank (WB)
- USAID

The LGCDP support for local community development parallels the objectives of the Poverty Alleviation Fund (PAF). However, these two initiatives have quite different approaches. The LGCDP works through the government system at all levels, whilst the PAF is a centrally determined initiative that makes greater use of NGO and private sector service providers. At the national level it is planned to have a coordination committee to review the coordination and linkages between PAF and the LGCDP, although this has yet to meet.

2. Management experience against the Paris Declaration Principles

National Ownership

The LGCDP is managed by the Ministry of Local Development (MLD). The MLD holds two functions: (i) local governance support to Local Bodies (LBs) through grant disbursement and (ii) support for local infrastructure. It is not a line ministry as such. A National Advisory Committee (NAC) oversees the strategic implementation of the LGCDP, meeting twice a year. A programme coordination unit within the MLD is responsible for delivering the outputs of the LGCDP.

The programmes and budget of the LGCDP are incorporated into the annual budget of GoN. There was a history of many scattered projects supporting local community development and the LGCDP was the first attempt to consolidate disparate projects within a single budgeting system under single reporting. Fifteen Development Partners (DPs) currently support LGCDP, under three types of funding arrangement:

- Six DPs (ADB, DFID, CIDA, DANIDA, Norway and SDC) support a Joint Funding Arrangement (JFA), where funding is channelled through a foreign currency account into the government treasury system: effectively an ear-marked donor basket-fund. (This arrangement covers approximately 80 percent of DP funding support).
- Six UN agencies provide technical support, together with some programme support, under a separate UN Joint Agreement. (This arrangement covers approximately 20 percent of DP support).
- Bilateral aligned support is provided by JICA, GIZ, USAID and the World Bank (Unknown spend).

The LGCDP is thus a semi-SWAp approach, with six DPs contributing to an earmarked basket fund. There are plans to consider a move to a full SWAp. The Programme is fully aligned with the Three

Year Indicative Plan, the MTEF and Annual Budget (where the LGCDP is recognised as a high priority programme, 'P1'). Hence at both planning and budgeting levels national ownership over the programme can be demonstrated.

Funding flows

The DPs supporting the JFA make funds available to the government through a foreign exchange account in the name of the Ministry of Finance at the Nepal Rastra Bank, to be used exclusively to finance the Programme. Government funding, as well as donor agencies' resources from the foreign exchange account, are released to District Development Funds and Municipal Development Funds. The District Development Committee then facilitates the release of funds to Village Development Funds and/or Community Development Funds or CBOs and then to the communities.

Alignment of donors

LGCDP fully uses government systems. There is no separate project implement unit staffed by contract staff. The programme coordination unit is made up of civil servants from the MLD, supported by donor-funded specialists at the central and district levels. The programme is well aligned with government systems. However, there are two issues raised by DPs: (i) continuing concern over fiduciary risk; and (ii) downwards accountability.

Harmonisation by donors

DPs have a harmonised approach within the programme through the Programme JFA and the UN Joint Agreement (which is the only one in Nepal). Joint donor focal group meetings take place monthly.

Management for results

A results-based framework is at an early stage of development. Traditionally much emphasis has been placed on input indicators. The programme fourth strategic implementation plan (for 2011/12) has now added output indicators for each part of the programme.

Mutual accountability

The Programme JFA specifies the commitments by both the government and development partners with regard to joint meetings, performance and financial reporting, and audits.

3. Management experience against climate finance fiduciary standards

Financial integrity

The transfer of funds is linked to the submission of financial as well as physical output reports. In the absence of reports from Local Bodies (LBs) no further transfers should take place until all problems have been resolved. The block grants have both minimum and performance-related standards, including indicators related to financial management.

There are known weakness at VDC level, where expenditure recording is poor. The Programme therefore provides support for strengthening LB audits and capacity building, including support for the development of new audit guidelines for LBs. The MLD has established a LB Fiscal Commission as a semi-autonomous body to strengthen the capacity of local audit assessors (recognising four categories of assessor).

Institutional Capacity

Local Bodies (LBs) will have to operate any reformed system of local government, which will make considerable demands on existing limited capacity. Although the present situation differs in different districts, widespread improvements will take time to come into effect.

Transparency and self-investigative powers

There are some problems concerning the implementation of the block grant system in some areas at some times. There are big delays at the village secretary level and local parties are not fully accountable. One generic problem is the rush to spend money at the end of each financial year. Much depends on there being a general level of awareness by local people. There is need to make the participatory system stronger, through the further development of social audits. The programme has introduced a local governance accountability facility, with earmarked funds to provide resources for civil society to monitor local level public expenditure.

The Poverty Alleviation Fund

Informants:

Raj Babu Shrestha, Executive Director, PAF
Avishesh Neupane, Environmental Officer, PAF

Documents reviewed:

- 2007 World Bank Project Appraisal Document
- 2010 Project Implementation Status report
- 2011 World Bank Project Paper for proposed additional funding

Website: <http://www.pafnepal.org.np/>

Start/End Dates for PAF: 2002 – 30 June 2014 (second phase)

Total estimated budget (2010/11):	USD 41.5 million
Government budget:	USD 4.3 million (10%)
Development Partner contribution:	USD 37.2 million

1. Description of programme

The Poverty Alleviation Fund Nepal (PAF, Nepal) was established in 2002 under the PAF Ordinance, 2002, and subsequently the PAF Act, 2006, as an autonomous institution. It works alongside local level government and community organizations to co-finance investments in local infrastructure, services, livelihoods activities and social mobilization for the benefit of the most excluded people in Nepalese society. The PAF began in a small set of pilot districts and has subsequently expanded to 40 districts nationwide. There are plans to cover all of the country's 75 districts.

Overall project management responsibility lies with the PAF Board, chaired by the Prime Minister, which meets every two months. The PAF is a small organisation made up of staff recruited on fixed term contracts on a competitive basis. In addition there are a number of consultants and/or NGOs who are retained to support operations as needed. Under recent scaling-up, additional Portfolio Managers have been hired. A review of staffing needs and recruitment of additional staff in administration, finance and monitoring is underway, and a PAF Human Resource Strategy is being prepared. Overall operating costs of the PAF Secretariat will be maintained at 4 percent of the total cost of the programme. As PAF is becoming a major government instrument for poverty reduction, the Government has begun mainstreaming its support by meeting up to 20 percent of the operating costs of PAF as counterpart financing.

The PAF support for local community development parallels the objectives of the Local Governance and Community Development Programme (LGCDP). However, these two initiatives have quite different approaches. The LGCDP works through the government system under the Ministry of Local Development, whilst the PAF is an autonomous entity. At the national level there are plans to have a coordination committee to review the coordination and linkages between PAF and the LGCDP.

2. Management experience against the Paris Declaration Principles

National Ownership

The PAF directly supports the social inclusion programme of the government's Three Year Interim Plan. In view of the expansion of its programme, PAF has prepared its own Long Term Vision Plan, covering 2007-2025.

PAF's approved budget is indicated in the public sector Estimates of Expenditures (Red Book) under a separate budget heading in the Prime Minister and Council of Minister's Office, and can therefore be considered 'on-budget'. The two external sources of funding (IDA and IFAD) pass through a designated foreign exchange Account for PAF.

Funding flows

Community groups, with assistance from PAF partner organisations (DDCs, VDCs, Municipalities, private firms and NGOs) submit project proposals to the national PAF secretariat for funding. Upon approval, PAF disburses funds for the sub-project to bank accounts in the name of the selected community group. Community groups choose among themselves those responsible for managing the bank account. Disbursements to the community group accounts are made in one tranche. Communities are able to access funds from their bank accounts in two tranches, with the second tranche released once agreed milestones as described in the sub-project proposal are met.

Alignment of donors

The PAF is not fully aligned with government systems but runs a complementary system that is community-based and demand-driven. Planning takes place at the district level and adopts a targeted approach for those areas where government has yet to reach.

Harmonisation by donors

The PAF is supported by two Development Partners, the World Bank (IDA) and the International Fund for Agricultural Development (IFAD).

Management for results

The PAF Secretariat produces a results matrix each year, which is subject to review. The matrix consists of mostly output and some outcome indicators. Impact evaluation studies have also been undertaken, based on earlier baseline studies. Two such studies have been completed. They have demonstrated mixed results with regard to the impact of project activity on local poverty levels, but generally indicate a positive direction. Consumption levels have increased in households that have received benefits from PAF. Some positive social changes have also been observed (children going to school, women's empowerment); other social dimensions are not yet advanced.

Mutual accountability

In 2008 a Memorandum of Understanding (MoU) was signed with the MLD to agree that PAF projects appear in the district development plans; a revised, more detailed MoU was agreed in 2010, with LGCDP collaborating in the planning process. Based on this positive experience, the PAF Secretariat is developing other MoUs with AEPC, WFP, USAID and GIZ to coordinate project activity.

3. Management experience against climate finance fiduciary standards

Financial integrity

The overall fiduciary risk associated with the project was rated as 'modest' for financial management by the World Bank, and a risk mitigation action plan has been put into effect. The PAF has placed significant emphasis on capacity building in project coordination and implementation, including financial management.

The PAF maintains a Management Information System (MIS), providing an important source of information for management decisions and for the assessment of progress. This MIS system produces data on administrative processes, fiscal flows, and targeting and programme performance.

Data are entered by individual Portfolio Managers upon their return from the field and this information is accessible from staff terminals. All staff have direct access to these data from their computers and can see the performance of their organization in real time.

PAF's monitoring data is developed on five different databases which record data at the level of partner and community organizations and monitoring of sub-project activities. These databases provide a rich source of information on PAF activities and are analyzed to improve planning and address weaknesses in the project implementation process and to identify areas of strength that can be scaled up. Various aspects of these data are accessible through the MIS which synthesizes data to monitor and report on the key monitoring indicators of the project.

Institutional Capacity

A Governance and Accountability Action Plan (GAAP) has been developed, which identifies corporate governance, coordination and cooperation between the PAF and key government agencies including OPMCM, MoF, NPC, MLD as among key areas for increased governance and accountability. The PAF GAAP proposes actions for each of the identified issues, a timeline for each action, and the responsible agency for implementation. In addition, the PAF website (www.pafnepal.org) posts procurement details of the project and updates on project activities including trimester Implementation Progress Reports (IPRs), Annual Audit Reports and partner organization evaluations.

Looking to the different procurement needs, the following provisions have been made under the project:

- PAF has a trained procurement officer conversant with IDA's procurement procedures, especially those related to small community-based investments.
- Standardized technical details for the community sub-projects have been prepared to be used as an aid to preparation and review of sub-project proposals.
- Given that the formation of groups of beneficiaries and hiring of partner organisations is a continuous process spread over the entire project period, workshops and seminars on procurement issues are organized at regular intervals to ensure good understanding of procurement procedures amongst PAF staff and partner organisations.
- A sample review of community procurement is carried out once every two years utilizing the services of an independent consultant.

Transparency and self-investigative powers

The PAF management information system is connected to the internet through the website, and some project specific data are available to the general public. Disbursement information is updated periodically, and can be queried by any member of the general public through the PAF website. Grievance recording has improved with the inclusion of a simple form added to the PAF website. Data from this source generates a periodic grievance report for action by PAF management. Written complaints are received at the PAF office or directed to them via other Government Offices.

The risk of mismanagement is mitigated by the fact that (a) PAF is managed at the national level by an independent and credible Board which includes beneficiary representation; (b) its operations are governed by Operational and Financial Management System manuals which provide simple, clear guidelines for all stages of community mobilization and sub-project selection and implementation, and these manuals are widely disseminated; (c) the project has a strong MIS, and the data it generates is widely disseminated, which facilitates social auditing of PAF activities, and (d) arrangements are in place for both internal and external financial auditing.

The Nepal Peace Funds

Informant:		
Anne Sophie Le Beux, UN		
Documents reviewed:		
<ul style="list-style-type: none"> • 2011 UN Peace Fund for Nepal fact sheet • 2010 Ninth Progress Report of the Nepal Peace Trust Fund • 2010 Third Annual Progress Report of the UN Peace Fund Nepal (draft) 		
Websites:		
http://www.nptf.gov.np/ http://mdtf.undp.org/factsheet/fund/npf00		
Start/End Dates for NPTF : February 2007 – January 2013		
Start/End Dates for UNPFN: March 2007 – unspecified end date		
	NPTF	UNPFN As of Dec 2010
Total estimated budget:	USD 101 million	USD 32 million
Total expenditure:	USD 101 million	USD 19 million
Government budget:	USD 64 million	USD 0
Development Partner contribution:	USD 35 million	USD 32 million

1. Description of the Peace Funds

The Peace process and associated aid architecture is complex. Two trust funds are in operation: the Nepal Peace Trust Fund (NPTF) and the UN Peace Fund for Nepal (UNPFN). The former was created in February 2007, the latter in March 2007.

The NPTF is a Government programme established to implement the provisions of the Comprehensive Peace Accord, which was signed in November, 2006. During its first phase, between 2007 and 2010, it disbursed just over USD 100 million for peace related activities. Approximately two-thirds of funding came from government, with additional support provided by five bilateral Development Partners: Denmark, Finland, Norway, Switzerland and the UK. All of the projects financed by the Fund have been implemented by government agencies.

The United Nations Peace Fund for Nepal (UNPFN) was established in March 2007 to complement the Government's NPTF. The UNPFN was established to mobilize resources for activities of clear, short-term relevance to the peace process where these could not be funded or implemented through the NPTF or other existing mechanisms or programmes. The Multi-Donor Trust Fund Office (MDTF Office) of the United Nations Development Programme (UNDP) is the Administrative Agent (AA) of the UNPFN. To ensure non-duplication of effort and strategic coherence in support of the peace process, the UNPFN operates within the same overall governance framework as the Government's NPTF. The UNPFN has received a total of USD 32 million, with contributions from the United Kingdom, Norway, Canada, Denmark, Switzerland and the United Nations Peacebuilding Fund (which has 45 donors). All of the projects financed by the UNPFN have been implemented by UN agencies.

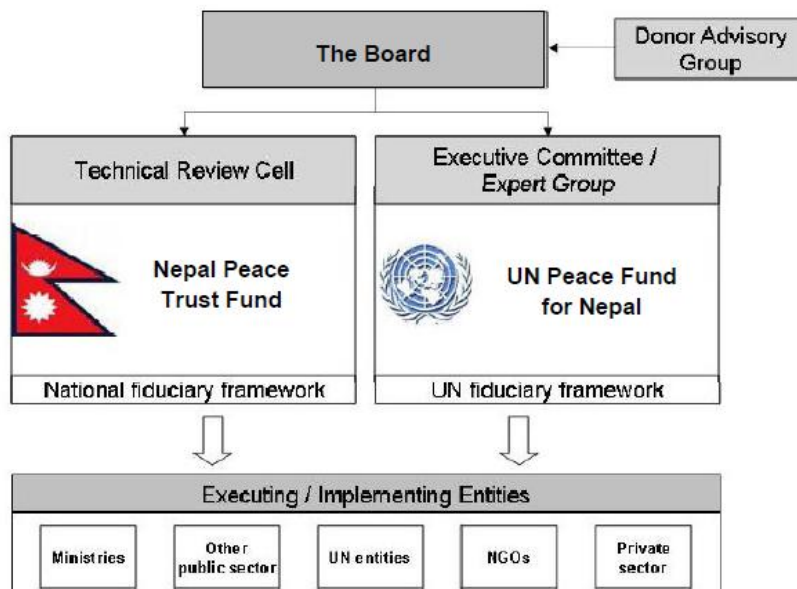
In terms of overall governance structure, the Minister for Peace and Reconstruction acts as Chair of the NPTF Board, with the Minister for Finance as Co-Chair, together with the Minister for Physical Planning and Works, the Vice-Chair from the NPC and the Secretaries from the Ministries of Home Affairs, Finance, and Peace and Reconstruction. Representatives of the five largest political parties in the Constituent Assembly are also Board Members. The Board meets three times a year.

UNPFN projects are approved and the operations of the UNPFN are carried out under the overall guidance of the Government-led NPTF Board, in consultation with the Donor Advisory Group, and according to the instructions of the UNPFN Executive Committee, chaired by the UN Resident and Humanitarian Coordinator together with a donor representative and a Government representative from the Ministry of Peace and Reconstruction.

A Donor Group (DG) [previously known as the donor advisory group (DAG)] provides advice to the Board on the operation of the two funds and is made up of DPs supporting both funds. The DG helps to avoid the emergence of gaps and duplication in funding, as well as to ensure that support to the UNPFN complements support to the NPTF and other existing funding mechanisms. Furthermore, the Government representative on the UNPFN Executive Committee is the Director of the NPTF, and plays a key coordination role between the two mechanisms.

The overall governance structure, showing the complementarity between the NPTF and the UNPFN is as follows:

Governance structure for the Nepal Peace Fund and the UN Peace Fund for Nepal



Source: UNPFN Third Annual Report, June 2010

2. Management experience against the Paris Declaration Principles

National Ownership

The Peace Fund Secretariat (PFS) is located at the Ministry of Peace and Reconstruction (MoPR) under the leadership of the Director (Joint Secretary of the MoPR). The operations of the fund is governed by The Peace Fund (Operation) Rules, 2065 (2008) as its overarching legal document. A Joint Financing Arrangement (JFA) was developed by the Government and participating donors to the Fund in February 2007. This was amended in January 2010 and again in November 2010. Since May 2008, funding for the NPTF has gone through the treasury account.

The Multi-Donor Trust Fund office (MDTFO) of the UNDP acts as the administrative agent for the UNPFN. Its responsibilities include the receipt, administration and management of contributions from donors; disbursement of funds to participating organizations in accordance with instructions from the UNPFN Executive Committee, and consolidation of narrative and financial reports produced

by each of the participating organizations, as well as the provision of these reports to the UNPFN Executive Committee for onward submission to donors.

The 2010 joint Government of Nepal and Donor review of the NPTF noted that the UNPFN's deliberate use of the same governance arrangements as the NPTF had contributed to ensuring harmonization and a coherent approach between the two funds. The review also noted that the UNPFN's mandate, its flexible and rapid approach, technical expertise, combined with its coherence with the NPTF structure, means it has had a positive, complementary role to play. This was further underlined by the relevance of the UNPFN in areas where the Government of Nepal may not have the technical expertise or capacity, such as in demining and initiatives which are politically sensitive, including the verification of combatants.

Funding flows for the NPTF

NPTF funds are deposited in the Central Treasury under the terms of the JFA. The Board is fully authorized to approve projects and may draw from an account in the Nepal Rastra Bank for such purposes. These funds are then disbursed to implementing agencies following normal GoN procedure, i.e. through the Financial Comptroller General's Office (FCGO) and District Treasury Controller's Office (DTCO). Any unspent balance of the NPTF is carried forward each financial year.

Alignment of donors

Projects implemented under the UN Peace Fund are designed and carried out under the overall guidance of the Government-led NPTF Board, in consultation with the donor group (DG), and according to the instructions of the Executive Committee. The role of the DG is to help avoid the emergence of gaps and duplication in funding, as well as ensure that support to the UN Peace Fund complements support to the NPTF and other existing funding mechanisms.

Harmonisation by donors

Seven DPs support the NPTF under one Joint Financing Agreement (Denmark, EU, Finland, Germany, Norway, Switzerland and the UK); five donors contribute to the UNPFN (Canada, Denmark, Norway, Switzerland and the UK). Four DPs are therefore contributing to both modalities.

Management for results

Monitoring has been identified as the weakest part of NPTF. Greater emphasis has been called to be given to: (i) frequent monitoring visits; (ii) hiring of a third party institution for regular M&E; and (iii) the timely production and sharing of M&E reports among concerned stakeholders

A results-based framework is under development by the UNPFN. A distinction has to be made between M&E and Results Frameworks. Currently, projects are clustered within an overarching framework for M&E. This now needs to evolve into a Results Framework.

Mutual accountability

The Seventh Progress Report of the Peace Fund Secretariat (PFS) in 2009 recorded the decision to carry out an Annual Joint GoN-Donor Review of the NPTF. The Ninth Progress report of the PFS reported that 'Financial and audit information are creating serious mistrust among NPTF partners. Therefore, it will benefit both GoN and donors that the PFS devises a mechanism, in consultation with FCGO, DG and other concerned, to timely track the spending incurred by government implementing agencies as well as produce advance audit statements with sufficient details to satisfy the ongoing serious concerns of the contributors to Fund.'

3. Management experience against climate finance fiduciary standards

Financial integrity

For the NPTF the normal government channels for audit are followed, with internal audits of project accounts carried out by the district treasury controller's office for government implemented projects. The final audit each year for the entire NPTF is undertaken by the Office of the Auditor General.

For the UNPFN, the Administrative Agent and Participating UN Organizations are audited in accordance with their own Financial Regulations and Rules and in accordance with the Framework for Auditing Multi-Donor Trust Funds, which has been agreed to by the Internal Audit Services of Participating UN Organizations and endorsed by UNDG.

Institutional Capacity

Capacity issues are complex. At the working level there is much mutual learning and progress is being made. For example, the national trust fund has borrowed systems from the UN trust fund, such as the preparation of concept notes prior to compiling the project document. GIZ is now providing technical assistance to the national trust fund.

Transparency and self-investigative powers

The major vehicle for public transparency of operations under the UNPFN is the MDTF Office-maintained UNPFN website, (www.undp.org/mdtf/nepal). The website is updated regularly and provides current information on all issues related to the UNPFN. All project approvals made by the UNPFN Executive Committee, as well as additional information and progress updates on these projects are uploaded on the website. Donor pledges, commitments, and deposits are updated monthly and provide the Executive Committee, as well as all other stakeholders, up-to-date information on the financial status of the UNPFN. The national trust fund's website in comparison is less informative and appears to be up-dated on a less regular basis.

The School Sector Reform Plan

Informant:	
Dr Lekha Nath Poudel, Under Secretary, Ministry of Education	
Documents reviewed:	
<ul style="list-style-type: none">• 2009 School sector reform plan• 2009 SSRP JFA agreement	
Website: none	(MoEd website: http://moe.gov.np)
Start/End Dates for SSRP: 23 December 2009 – 15 December 2014	
Total estimated budget:	USD 3,054 million
Government budget:	USD 2,002 million (80%)
Development Partner contribution:	USD 624 million
Govt. extra-budgetary resources:	USD 428 million

1. Description of programme

The School Sector Reform Plan (SSRP) is a 5-year programme that aims to increase access to, and improve the quality of, school education, particularly basic education and especially for children from marginalized groups.

The Ministry of Education (MoEd) has been working with international development partners (DPs) for more than three decades. During the 1980s, external support provided to MoEd was delivered through projects. This gradually evolved into a Sector-Wide Approach (SWAp) and is now moving towards budget support. The shift towards a SWAp in education has been gradual in its growth and the development has taken more than 18 years to reach its present stage.

Scott Wilson Nepal (2010) gave a detailed description of the change process that has taken place:

- Phase 1 (BPEP) (1992-97) built on project experience in the sector by expanding the programme across Nepal in 1992 with financial support from DANIDA, World Bank, UNESCO, UNICEF and UNDP.
- Phase 2 (BPEP-2, 1999-2004) opened ways for consolidation and expansion of the SWAp in Education. The main activities during this phase were: (i) integrating the project fully in MOEd's regular system; (ii) establishing a Department of Education; (iii) developing a core program document; (iv) Joint arrangements were made for annual missions and reporting mechanisms for both pooling and non-pooling partners; (v) the alignment of funds and (vi) the provision of contact points to liaise between DPs and MoEd.
- Phase 3 (Education for All 2004-09): A more advanced form of SWAp developed, with SWAp being localized in its form and functions. A Joint Financing Arrangement (JFA) was also developed and a pooled fund created. The pooling partners of the core investment programme were ADB, AusAid, Denmark, DFID, EU, Finland, Norway, UNICEF and the World Bank. Non-pooling partners included JICA, WFP and UNESCO. A Code of conduct and clear TORs were developed for all partners, including the government agencies.
- Phase 4 School Sector Reform plan (SSRP-2009-2015): the scope of SWAp widened during this phase from primary to secondary education. Nine development partners joined the pool and eight agencies remain as non-pooling partners.

The Joint Appraisal Document, the JFA, and the Governance and Accountability Action Plan are key documents that have contributed to the overarching framework for the SSRP SWAp. The Code of Conduct provides SSRP partners, including the Government, with a cohesive framework for aid effectiveness and creates a climate to work in good faith in line with the principles of Paris Declaration. Advanced School Improvement Plans offer an opportunity for the SWAp to reinforce bottom-up planning processes and have strengthened alignment, harmonization and integration of resources in the education sector.

2. Management experience against the Paris Declaration Principles

National Ownership

National ownership is strongly demonstrated, with the SSRP consistent with the Education for all National Plan of Action, 2001-2015. The Ministry of Education is the lead agency, facilitated through the Department of Education and implemented through a decentralised structure (including the VDCs and Municipalities). MoEd ensures that sufficient funds are allocated in the government's resource plan for education and that district allocations are equitable.

Funding flows

The SSRP's financial management is in line with current government financial procedures. The financial management system in Nepal comprises six stages: (a) the budget is approved by the Parliament; (b) the Ministry of Finance authorises the Secretary for Ministry of Education; (c) the Secretary sends authority to implementing agencies; (d) the implementing agencies send authority to the different cost centres; (e) the Financial Controller General's Office (FCGO) at the centre and its district level offices release funds to the cost centres and carry out internal audits; and finally, (f) the Auditor General's Office, a constitutional body, conducts the final audit each year.

Development partners are expected to provide sector budget support grants channelled through the JFA. Budget support from development partners is envisaged through predictable bilateral agreements committed to Government's Estimates of Expenditure ('the Red Book'). The average share of external funding in the total SSRP financing is approximately 24 percent. Nine DPs contribute to the pooled funding arrangement under the JFA: ADB, AusAid, Denmark, European Union, DFID, Finland, Norway, UNICEF and World Bank. Non-pooling partners for the SSRP are Japan, WFP, UNESCO, UNFPA, UNDP, INGOs and USAID.

Alignment of donors

The JFA and CoC are two instruments that have helped to increase the alignment of DP support with government policies, programmes and implementation arrangements. The 2009 School Sector Reform Plan stated: 'The Joint Financing Arrangement of 2004 is an example of the evolving *'partnership spirit'* that has led to an increase in the share of budget channelled through the Government system and for which national procedures are the basis for planning, budgeting, monitoring and reporting. This type of 'basket' funding represents a desirable programmatic funding approach that has significantly reduced the Ministry's transaction costs and has provided a foundation for further improvement in the way aid is managed in the education sector.' This clearly demonstrates that much DP support is now well aligned with national systems.

The MoEd have highlighted the following aspects of SSRP as strengthening the alignment process:

- The Ministry's policy of 'One-Door-Only' for DP interaction, with all DP interaction channelled through the Foreign Aid Coordination Sections of the MoEd
- SSRP is used as the basis for scrutinizing all aid proposals
- The SSRP LogFrame is used as the basic management tool

- There is one Joint Steering Committee to oversee and provide management oversight for all Direct Funding and Technical Assistance that is not part of GoN's Red Book
- A DF Secretariat assists in administration to reduce the administrative burden elsewhere.

Harmonisation by donors

The MoEd acknowledges the improved harmonisation by DPs brought about by the Paris Declaration. The JFA and CoC are employed to ensure that DPs are well harmonised in their efforts to support the education sector and that these are used to promote common arrangements and procedures.

Management for results

Financial, management, and technical matters for service management and service delivery at all levels are tracked and monitored. MoEd coordinates the M&E functions at the central level. At the district and local level, District Education Officers and schools are responsible for the M&E functions along with the local government. The M&E utilises key indicators and a result framework to monitor and evaluate programme interventions made under the SSRP.

Mutual accountability

A Joint Steering Committee comprising heads of the central level agencies and donor contact points undertakes planning, management, monitoring and reporting of direct funding facilities and TA. This committee ensures alignment with the Ministry's own planning processes, thereby reducing administrative costs, and improving the efficiency and effectiveness of direct funding and TA provisions.

The JFA intentionally reduced the number of consultations with DPs to one annual review and one annual consultation. This high level annual review addresses issues at overall policy and outcome levels. It focuses mainly on results reported from the agreed indicators in the monitoring system of SSRP. The main objective of the annual consultation is to assess progress and the achievements of the joint agreement and agree the financial requirement for the coming fiscal year.

3. Management experience against climate finance fiduciary standards

Financial integrity

Implementation of the programme was interrupted in 2010, when DP disbursements were suspended due to fiduciary issues related to SSRP operation. Late submission of financial monitoring reports (FMRs) further compounded the situation. The Government responded to these concerns and there was a change in the Minister for Education. Subsequently, the pooled development partners informed the GoN that based on progress made in addressing the fiduciary concerns and the submission of FMRs, they were ready to reimburse expenditures incurred in the previous fiscal year.

Institutional Capacity

The 2009 sector reform plan stated: 'The [SSRP] programme aims to promote sustainability by operating within the framework of the Government's regular planning and reporting cycle, policies and structures, and by explicitly aiming to strengthen the institutional capacity at all levels of the Government.' This is clearly a long-term goal, as evidenced by the Ministry's efforts over the last 20 years.

Transparency and self-investigative powers

The mandatory provisions of social audit in schools and communities will be reinforced under the SSRP to improve transparency and accountability.

The Alternative Energy Promotion Centre

Informant:

Dr Narayan Chaulagain, Executive Director, AEPC

Documents reviewed:

- 2010 Feasibility study on the possibility of the sector wide approach (SWAp) in the rural and renewable energy sector
- 2011 Joint review of energy sector assistance programme Nepal - draft
- 2011 AEPC Strategic organization development plan. Volume 1

Website: <http://www.aepc.gov.np/>

Start Date for AEPC: 3 November 1996

Total estimated annual budget:	USD 27 million		2 billion NPR
Government budget:	USD 5 million	(19%)	400 million NPR
Development Partners budget:	USD 22 million		1,600 million NPR

1. Description of Alternative Energy Promotion Centre

AEPC was established in 1996 (under the Development Board Act of 1956) to promote the use of alternative/renewable energy technologies to meet the energy needs of Nepal. This semi-autonomous Centre has a small permanent staff and is governed by a nine member Board. The Minister of Environment chairs the Board with representatives from government ministries, industry and NGOs. AEPC provides direct financial and technical support for rural energy systems and facilitates credit and subsidy arrangements through financing institutions and the Rural Energy Fund (REF). The REF, which is managed through project assistance, subsidises micro-hydro, solar energy and other rural electrification initiatives.

AEPC is at a key stage in its institutional development, with a planned new AEPC Act that is aimed at securing its autonomous position (similar to the PAF). An initiative under the planned institutional reform programme is the creation of a national trust fund, the Central Renewable Energy Fund, which would be governed by its own Board. There is the expectation that the AEPC will benefit from international climate finance, as new funding for clean energy and energy efficiency becomes available. (Nepal is one of six pilot countries for the Scaling-Up Renewable Energy Program for Low Income Countries, SREP, administered by the World Bank).

AEPC has supported Local Bodies to establish the district energy and environment sections/units, although it does not have direct vertical downward linkages with district and local institutions.

2. AEPC management experience against the Paris Declaration Principles

National Ownership

A Rural Energy Policy, which was finalized by AEPC, was approved by Government in 2006. The preparation of a 20-year Perspective Plan for Renewable Energy (RE) is also underway. This plan is being coordinated by the Secretary of the MoE to map out the national vision. Policy and planning therefore appear well advanced.

With regard to budgeting, the GoN's contribution in FY 2007–08 was about 17 percent of AEPC's total budget, implying very considerable dependence on international funding agencies. Since then,

this level of contribution has continued and it is expected to remain the case for the foreseeable future, with between 15 -20 percent of AEPC activities funded by government. With such a heavy reliance on external funding, the alignment and harmonisation of development partner (DP) actions are high priorities for the AEPC. The possibility of moving towards a SWAp for the rural energy sector is being explored at present to help address these issues.

Funding flows

All DP support to the AEPC is provided through stand-alone projects, which raises challenges for financial oversight. The two major AEPC projects are both very longstanding initiatives: (i) the Rural Energy Development Program (supported by UNDP and World Bank), which began in the same year as the AEPC was created in 1996; and (ii) the Energy Sector Assistance Program (ESAP) since 1999. A Joint Financing Arrangement (JFA) is in operation for ESAP, with donor contributions channelled through a foreign exchange account at the central bank.

The projectised nature of DP support to the AEPC means that individual financial arrangements apply for all other projects implemented at the Centre. Each project has an account in the name of the project at commercial banks, into which donors make deposits. Withdrawals from these accounts are then made by the individual project managers. However, this funding is deemed to be 'on-budget', as it is recorded in the Government 'Red Book'.

Major projects of AEPC

Project	Major Support Areas	Donors
Energy Sector Assistance Program (ESAP)	Micro/mini-hydro, solar energy, biomass energy, institutional support	Danida, Norway, Germany (KfW), DFID, under JFA arrangement
Rural Energy Development Program (REDP)	Micro/mini-hydro, community mobilization, environment, and sanitation	UNDP, World Bank
Renewable Energy Project (REP)	Community/institutional solar energy systems	European Commission
Biogas Support Program (BSP)	Biogas	DGIS-SNV, KfW
Improved Water Mill Support Program	Improved water mills	DGIS-SNV

The AEPC has received support from the following Development Partners:

- The World Bank
- UNDP
- DANIDA
- Norway
- Germany (KfW)
- European Commission
- The Netherlands
- UK (DFID)

Alignment of donors

A Joint Financing Arrangement (JFA) was signed by the Governments of Nepal, Denmark and Norway on 15th March 2007 and subsequently by KfW and DFID in 2010 for the Energy Sector Assistance Program. In the JFA the DPs committed themselves to the principles of harmonisation and 'to strive for the highest degree of alignment with the budgetary and accountability system and legislation of the Government of Nepal so as to enhance effective implementation, reduce the administrative burden of the Government of Nepal and minimise transaction costs' (clause 4).

Harmonisation by donors

AEPC's position as the focal point for the promotion of RE in Nepal provides excellent potential for donor harmonization and alignment. The first DP coordination meeting on rural electrification was held in December 2008 and included 19 representatives from the international community, reflecting a desire to work together in a harmonised way.

However, at the project level harmonisation does not appear to be well advanced. The 2010 Scott Wilson report noted: 'The programmes within AEPC are still doing the same thing - despite some progress in convergence - and with different modalities in almost similar context. Interestingly, programme designs still do not adequately reflect on the experience of partner programmes. As a result, both ESAP and REDP are implementing solar and micro-hydro as separate programmes within the same umbrella organization of AEPC. This naturally incurs higher transaction costs. Similarly, payment modalities could be converged as ESAP and REDP have different modalities to make their payments.' (page 47).

Management for results

Currently monitoring and evaluation is project based; there is a recognised need to move to a programmatic approach that will operate across the AEPC and to move towards outcomes indicators of success.

Mutual accountability

Almost all project activity is now recorded on-budget, so that government is aware of the expenditure levels of external support. The ESAP JFA provides a framework for the mutual accountability of government and a group of donors; elsewhere individual project agreements define respective responsibilities.

3. AEPC management experience against climate finance fiduciary standards

Financial integrity

There have been reported widespread difficulties with the REF, associated with the delay in obtaining reimbursements on a timely basis, due to inadequate communication and connectivity (in terms of lack of road access, electricity and office automation/technology). This has led to delays in getting expenditure reports from the more remote districts. However, the REF is double audited by both DPs and government to ensure financial integrity of the fund, and over its four-year history 1.9 billion NPR (USD 26 million) has passed through this fund.

Institutional Capacity

The AEPC has to follow the national system of government expenditure controls for its budget expenditure. A new set of procurement laws has been enacted and put into effect, which has incorporated the best global practices in the field, including on developing standard bidding documents. These new rules have also benefited from DPs sharing their inputs. Now the issue is to ensure effective implementation. A high-level body under the Office of the Prime Minister and Council of Ministers (OPMCM) has recently been established to coordinate such action across the government administration.

Transparency and self-investigative powers

The establishment of a rational, national RE-subsidy and its efficient implementation through the Rural Energy Fund is recognized as one of the success stories of AEPC (Norad, 2011). The subsidy modality has a number of positive features, one of which is transparency. Subsidies to individual

household technologies are given as a fixed payment per system irrespective of size. This high level of transparency in REF administration has now been formalised through ISO Certification.

Misappropriation of funds within the government administration is a general concern among DPs. This led Danida to introduce complex bureaucratic control procedures in the administration of its project funds provided to AEPC. As a consequence, ESAP has been managed 'more as a project rather than as a support programme' (Norad, 2011).

The Nepal Disaster Risk Reduction Consortium

Informant:

Jenty Kirsch-Wood, Head, DRR management unit, UNDP

Documents reviewed:

- 2011 Disaster Risk Reduction in Nepal – Flagship Programmes
- 2011 Nepal Risk Reduction Consortium: April Progress Update
- 2011 Disaster Risk Reduction in Nepal – background brief

Website: <http://www.un.org.np/nrrc>

Start Date for DRR Programme: May 2009

Total estimated budget: USD 147 million (for 5 flagship programmes)

Government budget: USD million (unknown)

Development Partner contribution: USD 22 million

1. Description of Nepal Disaster Risk Reduction Consortium

In May 2009, the Government of Nepal launched the Nepal Disaster Risk Reduction Consortium (NDRRC), building on the national strategy for disaster risk management. The founding members of the NDRRC were the Asian Development Bank (ADB), the International Federation of the Red Cross and Red Crescent Societies (IFRC), the United Nations Development Programme (UNDP), UN Office for the Coordination of Humanitarian Affairs (OCHA), UN International Strategy for Disaster Reduction (ISDR) and the World Bank. An important operating principle of the NDRRC is that participating organizations remain autonomous in implementing programme activities, but agree to contribute to a prioritized common set of disaster risk reduction (DRR) actions.

Based on Government priorities and discussions with multi-stakeholder groups, the Consortium members and government identified five flagship areas of immediate action for disaster risk management in Nepal:

1. Improved school and hospital safety: structural and non-structural aspects of making schools and hospitals earthquake resilient through retrofitting, training and awareness raising.
2. Enhanced emergency preparedness and response capacity: this flagship seeks to enhance the Government of Nepal's response capabilities at the national, regional, and district level.
3. Strengthened flood management in the Koshi river basin: as the biggest river basin in Nepal, flooding in the Koshi severely impacts communities in Nepal as well as across the border in Bihar, India. This programme focuses on developing a design strategy that includes both structural and non-structural components aimed towards comprehensive disaster management.
4. Integrated community based disaster risk reduction/management: this seeks to capitalize on the community based disaster risk management (CBDRM) activities and experience that has already accumulated to create a more consistent, systematic and harmonized approach to CBDRM to be conducted at the VDC level.
5. Policy/Institutional support for disaster risk management.

The following table illustrates the coordination and funding position for each of the five flagship programmes:

5 Flagship Programmes	Coordinator	Amount	Committed	Gap
School and hospital safety – structural and non-structural aspects of making schools and hospitals earthquake resilient	AsDB (WHO)	\$50.8 million	\$5.7 million	\$45.1 million
Emergency preparedness and response capacity	OCHA	\$28 million	\$5.7 million	\$22.3 million
Flood management in the Koshi River basin	World Bank	\$24.2 million	\$2 million	\$22.2 million
Integrated community based Disaster Risk Reduction / management	IFRC	\$30 million	\$2.4 million	\$27.6 million
Policy/institutional support for disaster risk management (DRM)	UNDP	\$13.8 million	\$5.9 million	\$7.9 million
Total		\$146.8 million	\$21.7 million	\$125.1 million

Source: Disaster Risk Reduction in Nepal – Flagship Programmes, 2011

2. Management experience against the Paris Declaration Principles

National Ownership

The Government formally established the NDRRC Steering Committee on 19 March 2010. The committee is chaired by the Secretary from the Ministry of Home Affairs (MoHA). Members include the Joint Secretaries of the Ministries of Finance, Education, Irrigation, Local Development, Physical Planning, Health and Population, and the National Planning Commission. Directors and Representatives of the ADB, WB, UNDP, OCHA, IFRC, NRCS, and DP-Net are also members. A Secretariat has also been created to support the work of the Steering Committee and is comprised of the Joint-Secretary and Under-Secretary of MoHA. A NRRC Coordinator was originally financed by ISDR, UNDP and the WB and these costs has now been taken up by DFID.

The Ministry of Education has started to include DRR as a separate activity in its annual budget for 2010/2011. A National Emergency Operations Centre has also been opened by the Ministry of Home Affairs in December 2010; and Ministries, departments and agencies have allocated Disaster Risk Management Focal Points, with the majority having received basic orientation training.

Funding flows

The funding of flagship programmes is undertaken through projectised assistance, although some of the financing to improve school safety has been obtained through the SSRP programme. There is some early discussion over establishing a trust fund under the consortium.

Alignment of donors

The US Government, the Humanitarian Aid Department of the European Commission (ECHO) and the Department for International Development (UK AID) formally joined the Consortium in 2010/2011 increasing the level of development partners' alignment with this government-led initiative.

Harmonisation by donors

One innovation of the NDDRC is the recognition of flagship coordinators within participating agencies. These coordinators, together with their government focal points, are responsible for coordinating activities, sharing information about on-going and planned projects, and ensuring appropriate consultation among relevant partners. In fulfilling this role, they are accountable to the Steering Committee. This provides a good demonstration of division of labour between DPs.

Management for results

The approach taken by the NDRRC to-date has been to adopt a light reporting structure, with the Steering Committee relying on the substantial bureaucratic structures that already exist within each implementing agency.

Mutual accountability

Dialogue between government and donors takes place at two levels: within the NDRRC Steering Committee as well as within the framework of individual project agreements.

3. Management experience against climate finance fiduciary standards

These aspects do not apply to the NDRRC, as there is no intention to standardise standards across the implementing agencies.