



NEPAL

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

**CLIMATE RESPONSIVE PUBLIC FINANCIAL MANAGEMENT (CRPFM)
PERFORMANCE ASSESSMENT REPORT (AS OF 2022)**

April 2024



Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat





NEPAL

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

**CLIMATE RESPONSIVE PUBLIC FINANCIAL MANAGEMENT (CRPFM)
PERFORMANCE ASSESSMENT REPORT (AS OF 2022)**

April 2024



Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat



NEPAL
PUBLIC EXPENDITURE AND FINANCIAL
ACCOUNTABILITY ASSESSMENT
CLIMATE RESPONSIVE PUBLIC FINANCIAL MANAGEMENT (CRPFM)
PERFORMANCE ASSESSMENT REPORT (AS OF 2022)

Published by

Government of Nepal
Ministry of Finance
Public Expenditure and Financial Accountability Secretariat
FCGO Building, Anamnagar, Kathmandu Nepal
Tel: (+977)-01 4770706
Email: pefanepal@nepal.gov.np
Web: www.pefa.gov.np

Cover Photo by: Deepak Prasad Adhikari, Print Communication Pvt. Ltd.

Designed and Printed by: Print Communication Pvt. Ltd.
Tel: (+977)-01 5341355, 5344148, Kathmandu, Nepal



Government of Nepal

**Supplementary Framework
Climate Responsive Public Financial Management Framework
(PEFA Climate)**

February 2024

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the **'PEFA CHECK'**.

PEFA Secretariat
February 20, 2024



Government of Nepal
Ministry of Finance

Public Expenditure and Financial Accountability Secretariat



Ref No.:

Acknowledgement

The Government of Nepal has completed this first Climate Responsive Public Financial Management Assessment (CRPFM), which is a supplementary assessment to the Public Expenditure and Financial Accountability Assessment. This assessment has evaluated the extent to which the climate perspective is mainstreamed in public financial management of Nepal.

Nepal is highly vulnerable to the risks posed by climate change, with severe impacts felt by people living in poverty, especially in remote areas reliant on subsistence agriculture. Furthermore, we bear a disproportionate burden of climate change. In this context, the cost of development has substantially increased, and maintaining a tradeoff between climate and development has become challenging.

The government has demonstrated its commitment to climate-resilient development by endorsing various international climate-related instruments, including the Paris Agreement, and regularly submitting the Nationally Determined Contribution. Additionally, the Government has taken initiatives to integrate mitigation and adaptation measures into development efforts. The National Adaptation Plan of Action (2010) and the Local Adaptation Plan of Action (2011) have been executed. The National Climate Change Policy (2019) has outlined thematic areas for building climate-resilient societies.

In addition to these efforts, the government has taken steps to integrate climate change into Public Financial Management. A Climate Public Expenditure and Institutional Review was conducted in 2011 to facilitate the integration of climate change into the budgetary process. Subsequently, a national Climate Change Budget Code was introduced in 2013. This assessment has established a baseline of practices against the global benchmark of climate-responsive public financial management, against which future progress can be measured.

The assessment indicates that the climate perspective of public financial management performs from below basics to average. Out of 14 indicators, 13 indicators have been assessed and the ratings are B for two, C+ for one, C for four and D for six.

I am grateful to the PFM Reform Steering Committee and oversight team for their guidance. The support of Mr. Madhu Kumar Marasini, Finance Secretary; Dr. Ram Prasad Ghimire, Secretary (Revenue); and Mr. Hari Prasad Mainali, FCG, remained instrumental during the assessment. My appreciation also extends to the assessment team leader, Mrs. Radha Wagle and entire members of the team.

I would like to thank Mr. Syed Waseem Abbas Kazmi, Senior Financial Management Specialist, and the team from the World Bank Country Office Nepal for their expertise and support. Mr. Gokul Banstola, Member Secretary and Mr. Gorakh Bahadur Shahi, former Member Secretary, along with the entire team of my secretariat, including PFM consultants, deserve acclaim for their dedication and performance.

Than Prasad Pangyani
Coordinator, PEFA Secretariat, Nepal and Assessment Manager
April, 2024



Table of Contents

PEFA Check	III
Acknowledgement	V
Assessment Management and Quality Assurance	VIII
Abbreviations and Acronyms	XI
Methodology	XIII
1. Introduction	1
2. Assessment Findings	13
3. Detailed Assessment of Climate-Responsive Public Financial Management	19
CRPFM-1 Budget Alignment with Climate Change Strategies	20
CRPFM-2 Tracking Climate Related Expenditures	23
CRPFM-3 Climate-Responsive Budget Circular	27
CRPFM-4 Legislative Scrutiny	28
CRPFM-5 Climate-Responsive Public Investment Management	32
CRPFM-6 Climate-Responsive, Non-financial Asset Management	38
CRPFM-7 Climate-Related Liabilities	37
CRPFM-8 Climate Responsive Procurement	39
CRPFM-9 Climate Responsive Revenue Administration	41
CRPFM-10 Compliance of Climate related Expenditures	42
CRPFM-11 Climate Responsive Fiscal Decentralization Framework	44
CRPFM-12 Climate Related Performance Information	47
CRPFM-13 Climate Related Evaluation	48
CRPFM-14 Expenditure Outturn for Climate Actions	50
Annex 1: Country Questionnaire	54
Annex 2: List of People Interviewed and Sources of Information	60
Annex 3: Climate Change and Disaster Risk Management Related to Policies, Plans, Regulations and Diagnostics.	67
Glossary	75



Assessment Management and Quality Assurance

The Government of Nepal (GoN), with the technical assistance of the World Bank, completed this Climate-Responsive Public Financial Management (CRPFM) Assessment, which is a supplementary assessment to the Public Expenditure and Financial Accountability (PEFA) Assessment. This is the first time the CRPFM Assessment, also referred to as PEFA Climate, has been conducted in Nepal. The PEFA oversight team, chaired by Secretary, Ministry of Finance (MoF), provided policy guidance to ensure the completion of this assessment. The assessment was coordinated by the PEFA Secretariat (Nepal) and carried out by a working team headed by the Joint Secretary, Ministry of Forest and Environment (MoFE). The working team was responsible for data collection, preparing preliminary drafts of indicator-level assessments, and preparing the final report. The World Bank staff and consultants supported the working team throughout the process. The Nepal Public Financial Management Multi-Donor Trust Fund co-financed the assessment.

PEFA Check

The quality assurance process of this report is shown in Box 1.1 below. The draft report was submitted for peer review on September 30, 2023. Peer reviewers included representatives of the World Bank, the Foreign, Commonwealth & Development Office (FCDO), the Asian Development Bank (ADB), and the PEFA Secretariat. Other development partners were also invited to peer review this reporting, including representatives of the Australian Department of Foreign Affairs and Trade (DFAT), the European Union (EU), the International Monetary Fund (IMF), the Royal Norwegian Embassy, Switzerland's State Secretariat for Economic Affairs (SECO), and the United States Agency for International Development (USAID). The PEFA Secretariat issued the PEFA Check on February 20, 2024.

BOX 1.1: Assessment Management and Quality Assurance Arrangements

PEFA ASSESSMENT MANAGEMENT ORGANIZATION

- **Oversight Team:** Chaired by the Secretary of the Ministry of Finance (MoF) and including the following ex-officio members: Secretary, National Planning Commission (NPC); Secretary, Office of the Prime Minister and Council of Ministers (OPMCM); Financial Comptroller General, Financial Comptroller General Office (FCGO); and Country Director, World Bank, Nepal.
- **Assessment Manager:** Than Prasad Pangyani, PEFA Coordinator, PEFA Secretariat, Nepal. Hisham Waly, Practice Manager, Governance, Assessment Manager, World Bank.
- **Assessment Team Leader and Team Members:** The working group for Climate-Responsive PFM assessment comprised of: (i) Dr. Radha Wagle, Joint Secretary, MoFE (Team Leader); (ii) Subodh Khatiwada, Under Secretary, MoF; (iii) Nir Prasad Subedi, Director, OAG; (iv) Narayan Khatiwada, Under Secretary, NPC; (v) Chitra Bahadur KC, Accounts Officer, FCGO; (vi) Saroja Adhikari, Under Secretary, MoFE; (vii) Narayan Rayamajhi, Section Officer, MoFE; (viii) Sabitra Sharma, Under Secretary, Federal Parliament Secretariat; (ix) Suresh Paudel, Senior Divisional Engineer, MoPIT; and (x) Ramesh Raj Paudel, Under Secretary, Department of Archaeology.
- **PEFA Secretariat, Nepal, Team:** Gokul Banstola, current member-secretary; Gorakh Bahadur Shahi, previous member-secretary; Chitra Bahadur KC and Kavita Regmi, Accounts Officers; Padam Singh Mauni and Narahari Ghimire Accountants, Rajendra Bahadur Bajracharya and Saroj Acharya, PFM National Consultants.
- **World Bank Team:** Syed Waseem Abbas Kazmi, Senior Financial Management Specialist (Team Leader); Nayan Krishna Joshi, Economist (Team Leader); Rodrigo Martinez Fernandez (Climate Change Specialist); and Dhruva Dahal, Climate PFM Consultant.

▶ REVIEW OF CONCEPT NOTE AND/OR TERMS OF REFERENCE

- **Draft of reviewed Concept Note:** The draft Concept Note was circulated for peer review on April 13, 2021.
- **Invited reviewers:** i) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; ii) Donald Mphande, Lead Financial Management Specialist, World Bank; iii) Manoj Jain, Lead Governance Specialist, World Bank; iv) Daniel Nogueira-Budny, Senior Digital Development Specialist, World Bank; v) Egbert Pos, Governance Advisor, FCDO; and vi) the PEFA Secretariat, Washington DC.
- **Reviewers who provided comments:** i) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; ii) Donald Mphande, Lead Financial Management Specialist, World Bank; iii) Daniel Nogueira-Budny, Senior Digital Development Specialist, World Bank; iv) Egbert Pos, Governance Advisor, FCDO; and v) the PEFA Secretariat, Washington DC.
- **Date of final Concept Note:** May 7, 2021.

▶ REVIEW OF THE ASSESSMENT REPORT

- **Date of reviewed final draft report:** The draft report was circulated for peer review on September 30, 2023
- **Invited reviewers:** i) Jose Simon Rezk, Senior Financial Management Specialist, World Bank; ii) Donald Mphande, Lead Financial Management Specialist, World Bank; iii) Egbert Pos, Governance Advisor, FCDO; iv) Sarah Elizabeth Haddock, Senior Social Development Specialist, World Bank; v) Iguniwari Thomas Ekeu-Wei, Climate Change Specialist, World Bank; vi) Asian Development Bank; and vii) the PEFA Secretariat, Washington DC. The report was also shared with the PFM Working Group of the development partners in Nepal for review, including DFAT, EU, IMF, Royal Norwegian Embassy, SECO, and USAID.
- **Reviewers who provided comments:** i) Donald Mphande, Lead Financial Management Specialist, World Bank; ii) Iguniwari Thomas Ekeu-Wei, Climate Change Specialist, World Bank; iii) Asian Development Bank; iv) SECO; and v) the PEFA Secretariat, Washington DC.



Abbreviations and Acronyms

ADB	Asian Development Bank
BCG	Budgetary Central Government
CC	Climate Change
CCBC	Climate Change Budget Code
CCFF	Climate Change Financing Framework
CCIA	Climate Change Institutional Assessment
CCMD	Climate Change Management Division
CCSAP	Climate Change Strategy and Action Plan
COFOG	Classification of the Functions of Government
COVID-19	Coronavirus 2019
CPEIR	Climate Public Expenditure and Institutional Review
CRE	Climate-related Expenditure
CRPFM	Climate-Responsive Public Financial Management
CWG	Cross-cutting Working Group
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
DRRM	Disaster Risk Reduction Management
DTCO	District Treasury Controller Office
EBU	Extra-Budgetary Unit
EIA	Environmental Impact Assessment
EPA	Environment Protection Act
EPF	Environment Protection Fund
EPR	Environment Protection Rule
ESF	Environmental and Social Framework
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
GFS	Government Finance Statistics
GHG	Greenhouse Gas
GoN	Government of Nepal
IMCCC	Inter-Ministerial Climate Change Coordination Committee
IMF	International Monetary Fund
IP	Indigenous People
IPCC	Intergovernmental Panel on Climate Change

■ Abbreviations and Acronyms

IPPU	Industrial Process and Product Use
LAPA	Local Adaptation Plan of Action
LEAP	Low Emissions Analysis Platform
LMBIS	Line Ministry Budget Information System
LTS	Long-Term Strategy
LULUCF	Land Use, Land Use Change and Forestry
MoALD	Ministry of Agriculture and Livestock Development
MoCTCA	Ministry of Culture, Tourism and Civil Aviation
MoE	Ministry of Education
MoEWRI	Ministry of Energy, Water Resources and Irrigation
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoFE	Ministry of Forests and Environment
MoHA	Ministry of Home Affairs
MoPIT	Ministry of Physical Infrastructure and Transport
MoUD	Ministry of Urban Development
MTEF	Medium-Term Expenditure Framework
NA	Not Applicable
NAP	National Adaptation Plan
NAPA	National Adaptation Program of Action
NCCP	National Climate Change Policy
NDC	Nationally Determined Contribution
NGO	Non-governmental Organization
NPC	National Planning Commission
NPDRR	National Policy for Disaster Risk Reduction
NPR	Nepalese Rupee
OAG	Office of the Auditor General
OECD	Organization for Economic Co-operation and Development
PAC	Public Accounts Committee
PAMS	Public Asset Management System
PCCCC	Provincial Climate Change Coordination Committee
PDMO	Public Debt Management Office
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIM	Public Investment Management
PLGs	Provincial and Local Governments
PLMBIS	Provincial Line Ministry Budget Information System
PPA	Public Procurement Act
PPMO	Public Procurement Monitoring Office
PPR	Public Procurement Regulation
REDD	Reducing Emissions from Deforestation and Forest Degradation
SDG	Sustainable Development Goal
SNG	Sub-national Government
SOE	State-owned Enterprise
SUTRA	Sub-national Treasury Regulatory Application
TWG	Thematic Working Group
UNFCCC	United Nations Framework Convention on Climate Change



Methodology

Type of assessment:

The Government of Nepal (GoN) conducted the Climate-Responsive Public Financial Management (CRPFM) Assessment using the “PEFA Climate Framework dated August 4, 2020 – revised after the assessment performed in Samoa” issued by the PEFA Secretariat, Washington DC, (referred to as CRPFM Framework¹). This is a self-assessment conducted by the GoN with the technical support of the World Bank. It is the first CRPFM Assessment, which was carried out as a supplementary assessment corresponding to the Nepal PEFA Assessment 2022, although it is published as a distinct report.

Number of indicators used:

While conducting this assessment using a self-assessment methodology, 13 out of 14 indicators and their associated dimensions were applied, as PI-9 was not applicable.

Timeline:

The Assessment started when the assessment team was nominated on January 13, 2022. The 3-day Orientation Program was organized on March 20-22, 2022. The orientation program covered the CRPFM Framework, including tools and techniques and the field guide for the Assessment. Periodic meetings and workshops were organized at different levels to proceed with and finalize the assessment reports. This was followed by the first “Assessment Program Update,” which was organized on June 24, 2022. The final draft was shared with the World Bank in June 2023 for its feedback. Various meetings and consultations were held between the Assessment Team and the World Bank regarding the finalization and further quality enhancement of the report.

¹ <https://www.pefa.org/resources/climate-responsive-public-financial-management-framework-pefa-climate-piloting-phase>

Years covered:

The CRPFM assessment used the same coverage and time periods of assessment as for the Nepal PEFA Assessment 2022. The PEFA Assessment Field Guide (Volume-II) has been followed to determine the applicable time period for this assessment.

- (a) Years covered are the last three completed fiscal years: 2018/19, 2019/20 and 2020/21.
- (b) Last completed fiscal year: 2020/21.
- (c) Last budget submitted to the legislator: fiscal year 2022/23.
- (d) At time of assessment: fiscal year 2022/23.
- (e) The “last medium-term budget” is for the fiscal year 2021/22 and “the current medium-term budget” is for the fiscal year 2022/23.
- (f) Performance indicators and planned outputs and outcomes for the next fiscal year: 2021/22

Cut-off date:

The cut-off date for this Assessment is December 31, 2022. The cut-off date is the last date for which data was considered for inclusion in this assessment.

Coverage:

This Assessment covers the Government of Nepal (also known as the central government). The Assessment includes Budgetary Central Government (BCG), Extra-Budgetary Units (EBUs), Social Security Fund under the Central Government (CG), and the sub-national governments as required by the Assessment’s indicators and dimensions.

Sources of information:

The necessary information was collected through discussions and meetings held at various levels. The primary sources of data for this Assessment include unpublished data, official correspondence, internal decision memos/minutes, relevant reports, and PFM-related systems. Secondary sources of data, such as published reports, documents, and data were, also utilized. The assessment team conducted rigorous assessment by reviewing existing diagnostic and analytical reports and meetings with stakeholders. Annex 2 of the report presents a detailed list of institutions and people consulted, as well as documents and reports used.

Country fiscal year:

July 17 to July 16.

Exchange rate:

Exchange rate effective as of December 31, 2022

Currency unit = Nepalese Rupee (NPR)

US\$ 1.00 = NPR 132.06



1

Introduction



Purpose

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of Public Financial Management (PFM) using quantitative indicators to measure performance. Nepal has completed two PEFA Assessments, the first report was published in 2008, and the second in 2015. The climate assessment was not included in these PEFA Assessments as the supplementary framework was introduced only later. The government conducted this first CRPFM Assessment as a self-assessment with co-funding from the Nepal PFM Multi-Donor Trust Fund and technical support from the World Bank. This is as a supplementary assessment to the Nepal PEFA Assessment 2022, and it is published as a separate report

This is the first CRPFM Assessment Report of Nepal. As such, it establishes a baseline of practices against which future progress can be measured. As this is a pilot exercise, it is also anticipated that it will support the evolution of the assessment criteria developed by the PEFA Secretariat. The outcomes of the assessment are expected to assist the GoN in identifying and continuing to expand on areas of strength in relation to climate mainstreaming in Nepal's PFM. At the same time, the results of the assessment shed light on areas that require further development and strengthening in the future. The findings of the assessment will support the GoN in focusing on key reform areas.

Background

Nepal Climate Profile

Nepal is highly vulnerable to climate change and geophysical disasters. Thus, it faces both extreme and slow-onset climate-related hazards. Nepal's climate vulnerabilities emerge from an interaction of climatic factors involving: (i) its fragile mountainous topography and ecosystems; (ii) a highly variable monsoon-driven hydrology; (iii) unplanned settlements; (iv) a lack of resilient infrastructure; and (v) an economy that has sustained several shocks in the recent past. In particular, Nepal experienced the Nepal earthquake of 2015, fuel crisis in 2015 during the blockade, floods in 2017, landslides, and the COVID-19 pandemic in 2020.² Approximately 80 percent of Nepal's population is at risk from natural and climate-induced hazards.³ Nepal ranks as the 10th most affected country in the world according to the Climate Risk Index.⁴ Further, Nepal ranks as the 44th most climate vulnerable country, and 64th least ready country in the world by the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index. It is also among the top 10 countries with

² World Bank Group. *Climate Change Action Plan 2021-2015: South Asia Roadmap*, (World Bank, 2021, p. 102).

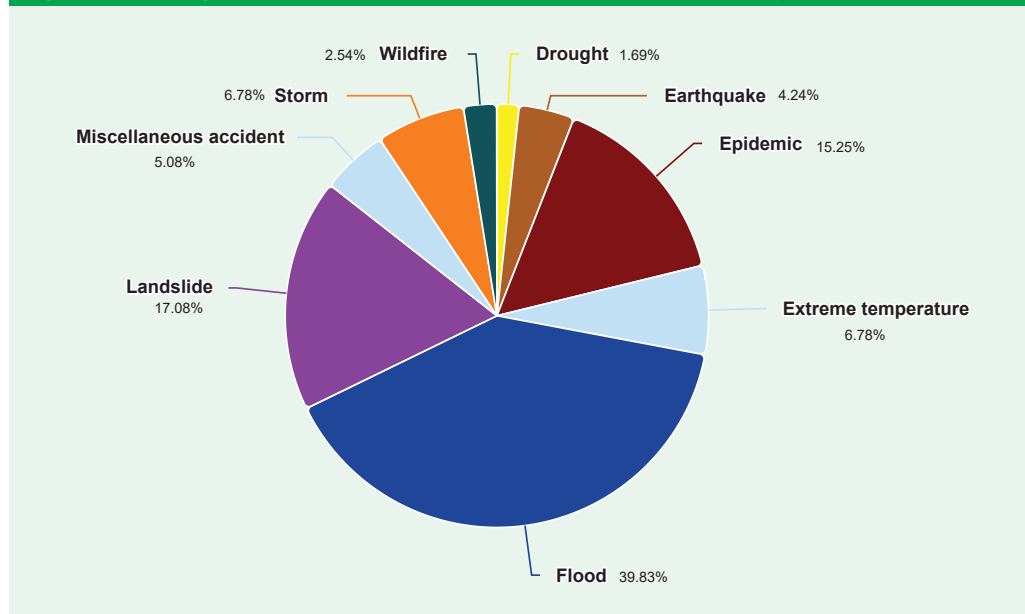
³ Eckstein, David, Vera Künzel, and Laura Schäfer. *Global Climate Risk Index 2021: Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019*. (Berlin: German Watch, 2021).

⁴ Eckstein, David, Vera Künzel, and Laura Schäfer. 2021. *Global Climate Risk Index 2021: Who Suffers Most From Extreme Weather Events? Weather Related Loss Events in 2019 and 2000–2019*. Berlin: Germanwatch.

the highest occurrence of climate-induced disasters, such as floods, landslides, forest fires, and droughts. Vulnerable communities are at highest risk, particularly those living in poverty, in remote areas, as well as those working in subsistence agriculture.

Earthquake and flood risks are the most damaging natural hazards to date.⁵ However, floods and landslides were the most frequent hazards over the past 40 years (see Figure 1). The number of flood events has doubled in recent years, storms, erosion, and landslides are also on the rise, resulting in a loss of life and livelihoods⁶.

Figure 1: Average Annual Natural Hazard Occurrence in Nepal (1980-2020)



Source: "World Bank Climate Change Knowledge Portal: Nepal," Vulnerability | Climate Change Knowledge Portal (World Bank Group). <https://climateknowledgeportal.worldbank.org/country/nepal/vulnerability>

⁵ Although earthquakes are not a climate-related hazard, most policies and measures to manage risks—from construction norms to disaster risk finance instruments—should consider the full range of threats. Ignoring geophysical risks would also obscure important synergies and risks. Additionally, as the Climate Risk Country Profile: Nepal (2021) (World Bank Group and Asian Development Bank) notes, "Earthquake exposure remains relevant in the context of a changing climate. More precipitation and higher temperatures affect the stability of terrain and hence susceptibility to hazards from mudflows, avalanches, glacial lake outburst floods (GLOFs) and landslides that could be triggered by an earthquake. Additionally, the risk of simultaneous, multi-hazard, exposure is significant, for instance hydro-climatic hazards following an earthquake have been shown to compound damages."

⁶ World Bank Group and ADB. "Climate Risk Country Profile: Nepal." (The World Bank Group and the Asian Development Bank, 2021).

Climate and disaster risks are expected to further increase, adversely impacting the population, the economy, the environment, and potentially putting development gains at risk. Warming in Nepal is projected to be higher than the global average. By the 2080s, Nepal is projected to warm by 1.2°C to 4.2°C, under the highest emission scenario, RCP8.5, as compared to the baseline period of 1986–2005⁷. Rises in maximum and minimum temperatures are expected to be stronger than the rise in average temperatures, likely amplifying the pressure on human health, livelihoods, and ecosystems. Temperature increases are also expected to be strongest during the winter months, whereas monsoon summers are projected with up to a threefold increase in rainfall.

The number of people in Nepal annually affected by river flooding caused by climate change could more than double by 2030, and the economic impact could triple.⁸ This will contribute to further increasing Nepal's relative exposure to climate-related hazards, such as droughts, heat waves, river floods and glacial lake outbreaks. All these climate-related hazards are expected to intensify over the 21st century, potentially aggravating disaster risk levels and putting human life at risk. The vulnerability of Nepal's communities - particularly those living in poverty, in remote areas, and operating subsistence agriculture - increases the risks posed by climate change. Some important adaptation approaches, such as air conditioning, irrigation, water storage and new crop varieties, may be inaccessible to these communities. Furthermore, even with adaptation, they are likely to experience damages and losses. Many targets proposed by the national documents like National Adaptation Plan (NAP), Nationally Determined Contributions (NDC) are set upon the conditions that the proposed targets will be implemented if adequate support is provided by the external sources. Therefore, without this support the vulnerabilities and the inequalities are likely to widen.

By the year 2050, Nepal is set to lose 2.2 percent of its annual gross domestic product (GDP) to the challenges and disasters incurred by climate change.⁹ By the end of the century, climate change impacts could amount to a GDP per capita loss of up to 13 percent.¹⁰

⁷ World Bank Group and ADB. "Climate Risk Country Profile: Nepal." (The World Bank Group and the Asian Development Bank, 2021). Retrieved on October 15, 2022 from: <https://openknowledge.worldbank.org>

⁸ World Bank Group and ADB. "Climate Risk Country Profile: Nepal." (The World Bank Group and the Asian Development Bank, 2021). Retrieved on October 15, 2022 from: <https://openknowledge.worldbank.org>

⁹ M. Ahmed and S. Suphachalasai. *Assessing the costs of climate change and adaptation in South Asia*. (Asian Development Bank, 2014). Available from: <https://www.adb.org/sites/default/files/publication/42811/assessing-costs-climate-change-and-adaptation-southasia.pdf>

¹⁰ Matthew E. Kahn and others., "Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis" (IMF, 2019). Available from: <https://www.imf.org/en/Publications/WP/Issues/2019/10/11/Long-Term-Macroeconomic-Effects-of-Climate-Change-A-Cross-Country-Analysis-48691>

Climate Change: Overarching Policies

The Nationally Determined Contribution (NDC) and NDC Implementation Plan: The GoN submitted its second NDC for the years 2021-2030 in December 2020, setting a goal to achieve net-zero greenhouse gas emissions by 2050. The NDC Implementation Plan was endorsed by the GoN in August 2023. The plan covers all key elements and sectors such as energy, agriculture, forestry, waste, sanitation, industrial processes and product use (IPPU), tourism, gender equality and social inclusion, and governance. The total cost of implementation until 2030 is estimated at NPR 4,344 billion or US\$ 35.95 billion¹¹. The plan includes a funding mechanism to cover costs, clarity about roles and responsibilities, and prioritizes grant-based international public finance for NDC implementation. Overall, NDC implementation resources will be drawn from domestic public financing sources, domestic and international private financing sources, and international climate change financing sources.

National Adaptation Plan (NAP): The GoN published the NAP in 2021 to adapt to climate change effects over the short (until 2025), medium (until 2030), and long term (until 2050). The plan includes sectoral adaptation interventions guided by principles such as gender responsiveness, policy coherence, integration, and multi-stakeholder engagement. Nepal plans to mobilize national and international finance for NAP implementation with an estimated cost of US\$ 47.4 billion until 2050, of which US\$ 1.5 billion is estimated as a contribution from Nepal.¹² The NAP includes sixty-four strategic priority adaptation programs that address climate vulnerabilities and risks. The NAP's short-term actions align with the national development priorities, while the medium-term actions align with the priority actions in Nepal's NDC and the Long-Term Strategies (LTS) for net-zero emissions. The effectiveness of Nepal's adaptation programs involves institutional and behavioral responses, the use of technologies, and the development of climate-resilient plans and practices. The NAP implementation involves several federal, provincial, and local institutions, local climate change management committees, civil societies, women, indigenous peoples (IPs), youth networks, and the private sector.

The NAP sets out priority programs in the nine thematic sectors as outlined in the National Climate Change Policy (NCCP), 2019. The short-term actions of the 2025 plan are in line with the national development priorities, as set out in the Fifteenth Plan and the GoN's COVID-19 Recovery Plan. The medium-term actions to 2030 are aligned with the priority actions in Nepal's NDC and the LTS for net-zero emissions. These actions also adhere to the National Framework on Loss and Damage, Gender Equity and Social Inclusion (GESI)

¹¹ Government of Nepal. NDC Implementation Plan August 2023.

¹² Government of Nepal. National Adaptation Plan 2021-2050. Government of Nepal. Retrieved from: <https://mofe.gov.np/uploads/documents/nap-book-finalpdf-1278-504-1700479041.pdf>

and the Climate Change Strategy and Action Plan (CCSAP), as well as climate-resilient planning and budgeting guidelines, as informed by the Sustainable Development Goal (SDG) roadmap priorities.

Long-term Strategy (LTS) for Net-Zero Emissions: In October 2021, Nepal submitted its LTS for Net-zero Emissions to the United Nations Framework Convention on Climate Change (UNFCCC). The LTS aims to achieve net-zero emissions by 2045 and is based on a long-term climate change strategy and action plan up to the year 2050. The LTS was developed using the best available data, scenario analysis, and national and sectoral plans and policies. The Low Emissions Analysis Platform (LEAP) modeling tool was used to integrate energy and non-energy emissions into a single model. The aim was to determine when to achieve net-zero emissions in accordance with the IPCC 2006 guidelines for the greenhouse gas (GHG) inventory.

The LTS estimates the total costs of implementation for the sectors¹³ considered in the reference scenario to be US\$ 4.2 billion from 2021 to 2030, US\$ 7 billion from 2031 to 2040, and US\$ 17.5 billion from 2041 to 2050. In the With Existing Measures (WEM) scenario, the costs are higher at US\$ 42.8 billion from 2021 to 2030, US\$ 34.4 billion from 2031 to 2040, and US\$ 56.2 billion from 2041 to 2050. In the With Additional Measures (WAM) scenario, the costs are even higher at US\$ 46.4 billion from 2021 to 2030, US\$ 53.4 billion from 2031 to 2040, and US\$ 96.3 billion from 2041 to 2050¹⁴.

Climate Change Legal and Institutional Framework

Nepal has taken significant strides in establishing a legal and regulatory framework to promote climate action. The country's long-term vision of prosperity and happiness (2019)¹⁵ is based on ten national goals, four of which fall under prosperity and six under happiness. Healthy and Balanced Ecology, one of the goals identified for achieving happiness, includes targets such as a pollution-free and clean environment, ecological balance and sustainable utilization of national resources, and climate change adaptability. To strengthen the country's resilience and adaptive capacity to climate-related hazards and natural disasters, the "Sustainable Development Goals Status and Roadmap for 2016-2030" proposed key actions.

¹³ Sectors considered under the LTS: energy, industrial processes and product use (IPPU); agriculture; land use, land use change, and forestry (LULUCF), and waste.

¹⁴ Government of Nepal. Nepal's Long-term Strategy for Net-zero Emissions. October 2021.

¹⁵ The long-term vision aims to make Nepal a developing country within the first three years. It would attain the SDGs by ending absolute and multi-dimensional poverty by 2030, and it would graduate to middle-income country status and reach the level of developed countries by 2043. https://npc.gov.np/images/category/15th_plan_English_Version.pdf

The Environment Protection Act (EPA), 2019 and Environment Protection Rule (EPR), 2019 mandate that federal and provincial ministries and local governments implement climate adaptation plans¹⁶. The Climate Resilient Planning and Budgeting Guideline (2019) provides guidelines for climate change integration and planning. Moreover, Nepal prioritizes a low-carbon and climate-resilient approach to the development of its 15th Periodic Plan (2019/2020-2023/2024), the National Climate Change Policy (NCCP) 2019¹⁷, and the National Policy for Disaster Risk Reduction (NPDRR) 2018. The following acts, plans, policies, and regulations lay the groundwork for setting national and sectoral adaptation, decarbonization, and adaptation targets: the Disaster Risk Reduction and Management Act (2017) and Regulation (2019); the GESI and Climate Change Strategy and Action Plan (2019); Sectoral Policies (forestry, energy, industry, transport, agriculture); the Sustainable Development Goals Strategy; the Nepal Energy Strategy (2013); the national framework for the Local Adaptation Plan of Action (LAPA) 2011. (See the full list of climate-related legislation and policies in Annex 3).

The NCCP, 2019 aims to promote a green economy by developing policies and guidelines for all critical sectors. It also includes sectoral priorities in the spirit of federalism, with the federal, provincial, and local governments all required to plan and implement climate adaptation and mitigation measures as part of the policy. The policy also includes four cross-cutting areas: (a) gender equality and social inclusion, livelihoods, and good governance; (b) raising awareness and capacity building; (c) research, technology development and expansion; and (d) climate finance management, to ensure that climate change is mainstreamed and integrated at the federal and sub-national levels.

Despite Nepal's climate action targets being clearly articulated in the NDC, the NAP, and the LTS, the lack of a clear legal mechanism for execution and implementation makes it difficult to translate and implement targets into sector action plans and policy instruments. Sectoral ministries do not have a defined framework for building and aligning their laws to integrate climate action.

Institutional Arrangements and Coordination Mechanisms for Climate Change Mainstreaming

The government has developed comprehensive institutional arrangements for addressing climate change on all levels (federal, provincial, local) to provide overall guidance and leadership on climate change action in the country (Figure 2).

¹⁶ Government of Nepal, Chapter 4-Provisions Related to Climate Change of the Environment Protection Act-pp14.

¹⁷ National Climate Change Policy: <https://mofe.gov.np/uploads/documents/climatechangepolicyenglishpdf-9975-841-1660734867.pdf>

Federal Level: The Ministry of Forests and Environment (MoFE) is the lead entity for climate change at the federal level. However, the line ministries and provincial and local governments also have important responsibilities for key sectors and implementation on the ground. In fiscal year (FY) 2019¹⁸, the Climate Change Finance Unit of the Ministry of Finance (MoF) was reformed. Following provisions in the NCCP, 2019 (Section 9c), the Inter-Ministerial Coordination Committee was established to coordinate climate change policy implementation across sectors and ministries.¹⁹

The EPA, 2019, Chapter 4 (Sections 32, 33, and 34) guides the formation of the National Environment Protection and Climate Change Management Council under the Prime Minister's leadership. It is charged with carrying out acts relating to environmental protection and climate change. The Council is the highest political body in charge of overseeing the implementation of the EPA, 2019, the National Environment Policy (2019), and the NCCP, 2019. The Prime Minister chairs the Council, which includes the Minister of Forests and Environment, three other federal ministers, seven provincial chief ministers, members of the National Planning Commission (NPC), two academics (1 female), three climate change experts (2 female), and the Secretary of the MoFE as the Member Secretary.

At the federal level, the MoFE has a special Climate Change Management Division (CCMD) with sections for dealing with climate adaptation. The CCMD serves as a central nodal agency for climate change, leading the formulation of climate change policies, plans, and programs. The CCMD implements them in collaboration with government and non-governmental organizations. It also monitors their implementation. Finally, it serves as a focal point for the UNFCCC.

At the technical level, the MoFE has established Thematic Working Groups (TWGs)/ Cross-cutting Working Groups (CWGs) in the sectoral ministries (for 8 sectors and one cross-cutting sector, as specified in the National Climate Change Policy 2019). These groups have also provided coordination and guidance on climate change issues. The TWGs were primarily formed to work on the NAP and the vulnerability and risk assessment process.

Additionally, the NDC implementation plan for 2021 has convened a High-Level Climate Change Steering Committee (HLCCSC), chaired by the Minister of Forests and Environment. The Secretaries of all relevant sectoral ministries work together to enhance political leadership and commitment for NDC implementation.²⁰

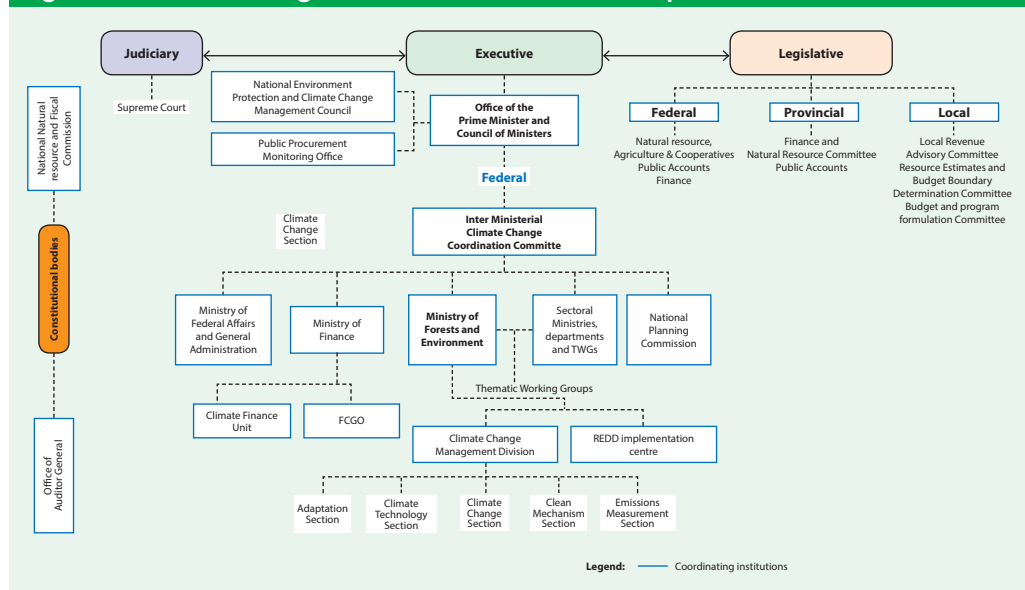
¹⁸ Although Nepal was the first country in the South Asia region to implement the Medium-Term Expenditure Framework (MTEF) from FY2003, it was discontinued from FY2014 to FY2018. It was discontinued due to the lack of legal grounds, among other reasons. It was continued from FY2019 only after the Intergovernmental Fiscal Arrangement Act of 2017 made it mandatory for all three tiers of government.

¹⁹ Asian Development Bank, "Managing the Fiscal Risks Associated with Climate Change: Nepal." Available from: <https://www.adb.org/sites/default/files/project-document>

²⁰ Government of Nepal, Nationally Determined Contribution (NDC) Implementation Plan.

Provincial Level: The provinces have been mandated by their respective acts²¹ to form the Province Environment Protection and Climate Change Management Councils. The Chief Ministers of the provinces chair these councils, which also include Ministers and representatives from the local levels. In addition to the Councils, the provinces have formed the Provincial Climate Change Coordination Committee (PCCCC), which includes external stakeholders. It is chaired by the Secretary of the provincial ministry responsible for the environment and climate change. Coordination between sectoral ministries is intended at the provincial level through the PCCCC. However, these coordination committees have only recently been established and have yet to begin operations. Provincial Climate Change Action Plans and a comprehensive set of planning guidelines have been prepared to support the implementation of the NCCP and the NPDRR.

Figure 2. Climate Change Institutional Structure in Nepal



Source: Nepal Climate Change Institutional Assessment (CCIA) Report. World Bank and Oxford Policy Management (2022). Note: FGGO= Financial Comptroller General Office; Reducing Emissions from Deforestation and Forest Degradation.

Nepal's Fiscal and Public Financial Management Profile

The government has taken steps to integrate climate change into PFM, but implementation is spotty. A Climate Public Expenditure and Institutional Review (CPEIR) was conducted in 2011 to facilitate climate change integration into the budgetary process, including as part of budget planning, implementation, expenditure management, and financing.²² Building

²¹ Except for Madhesh province, all six provinces have enacted an Environment Protection Act.

²² CPEIR (2011). Nepal Climate Public Expenditure and Institutional Review (CPEIR), Published by Government of Nepal, National Planning Commission with support from UNDP/UNEP/CDDE in Kathmandu, Nepal https://npc.gov.np/images/category/climate_public_expenditure.pdf

on the CPEIR recommendations, a national Climate Change Budget Code (CCBC) was introduced in 2013. It was updated in 2017 to track climate change-related expenditures at the national level. Eleven specific criteria were identified for climate-responsive budgeting. Based on these criteria, the budget allocation is categorized as Highly relevant (if >50 percent is allocated to climate change activities); Relevant (if 20 percent to 50 percent of the program budget is allocated to climate change activities); and Neutral (if less than 20 percent is allocated to climate-change related activities). As a part of the reform, the CCBC was also included in the Medium-term Expenditure Framework (MTEF). In 2019, the guidelines concerning the climate budget code from the Ministry of Agriculture and Livestock Development (MoALD) suggested some modifications to the methodology for the CCBC to code climate budget at activity level.²³ The MoFE endorsed the guidelines in 2021²⁴.

In 2017, the government prepared a Climate Change Financing Framework (CCFF) including top-down and bottom-up approaches to the planning process. As such, it sought to identify priority climate action-related activities and resource allocation processes, together with an improved PFM system for effective climate financing. The framework guides the GoN to structuring climate finance in terms of: (i) integrating the MTEF and PFM reform areas; (ii) integrating climate change (CC) into planning and budgeting; (iii) mobilizing resources to manage and target finance in support of realizing the country's strategic and climate goals; and (iv) tracking and reporting climate expenditures.

Climate budget tagging and expenditure tracking have been incorporated into the MTEFs of both the federal and provincial governments. The government publishes an annual report concerning the climate public spending review in its consolidated financial statement. The Office of the Auditor General (OAG) has established a procedure (environment audit directives and disaster management audit directives) to assess climate spending in annual audit reports of all three tiers of the governments. Furthermore, policy reforms at the local government level are being implemented to track allocations and expenditures within the Subnational Treasury Regularly Application (SuTRA). Despite important advances, measures to support comprehensive climate-responsive budget allocations and expenditure tracking are still underway, and the systems have not yet been used effectively.

The government has also established dedicated funds to undertake climate and Disaster and Risk Management (DRM) actions. The EPA, 2019 requires, among other things, the

²³ MoALD (2019), "Handbook on Integrating Climate Change Adaptation to Agriculture Sector Planning of Nepal." <https://www.undp.org/sites/g/files/zskgke326/files/migration/np/Hand-Book-on-integrating-CCA-into-agriculture-planning-sector-in-nepal.pdf>

²⁴ MoFE (2021), "Directives for Planning Climate Change Interventions in Forest and Environment Sector" (<https://www.mofe.gov.np/downloadsdetail/2/2018/43993951/>)

establishment of an Environment Protection Fund (EPF) to manage climate change. The National Disaster Risk Reduction and Management Act also envisioned establishing DRM funds at the federal, provincial, and local levels to facilitate DRM-related works. The policy has articulated the provision of at least five percent of the annual budget of every public institution for DRM.

BOX 1. Climate-related Expenditures Definition in Nepal

Climate-related expenditures (CREs) have been defined as financial flows that contribute to financing climate adaptation or mitigation interventions or a combination of both. The definition of adaptation and mitigation in Nepal is based on the Organization for Economic Co-operation and Development (OECD) Rio Marker definitions, and further narrowed down by national strategies and sectoral plans. Activities and programs identified as climate relevant are classified as adaptation; mitigation; adaptation and mitigation; and/or supporting areas. There is no positive list of climate-relevant activities and programs. However, under the methodology, programs are designated if reference is made to climate change in national policy documents. The OECD adopted definitions for climate-related expenditures (mitigation and adaptation) are as follows: 1. Mitigation – activities that contribute to the objective of stabilization of greenhouse gases (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration”; and 2. Adaptation – activities that aim to “reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience”. Additionally, climate change-related expenditures include activities that respond to the damages and losses on humans, the environment and infrastructure caused by a natural disaster.

Source: Handbook on the OECD-DAC climate markers. Preliminary version. OECD, 2011

Climate Finance

The NCCP, 2019 calls for the development of a climate finance strategy and specific climate-financing instruments. It states specifically, “c) Climate change budget will be ensured in all sectoral plans at all levels, and the Climate Change Budget Code will be modified and institutionalized. ... (d) Appropriation of budget targeted to women, minorities, backward class, climate change affected areas, and vulnerable communities will be ensured. (e) Mobilization of finance from private sector will be encouraged through Green Bond, Blended Finance, Result-based Financing, Carbon Offset, and Corporate Social Responsibility.”

The CCFF is a comprehensive framework for investment planning and budgeting. It calls for the formation of an inter-ministerial committee to oversee climate finance reforms and proposed local PFM improvements. It also proposed developing guidelines for climate budget coding, parliamentary oversight of climate change budgets, and integrating climate finance and climate change budgeting into the MTEF process, as well as periodic

plans. These planned activities have been stalled due to changes in the governance structure, specifically the government's transition to the federalism process. Furthermore, under the federalist structure, the intergovernmental rules and regulations controlling climate finance mobilization and allocation are absent. The CCFF provides a legal or regulatory foundation for further developing fiscal tools and instruments, such as taxes, green revenues, subsidies, and so on. However, it does not include instruments for mobilizing domestic resources for climate action, such as green bonds, auctions, and emissions trading systems. There is no mechanism or practice in place to evaluate the effectiveness of such instruments.

The government has begun the process of preparing a climate finance strategy and action plan. It will include the necessary strategic direction and reform to access, mobilize, and manage climate finance in Nepal.



2

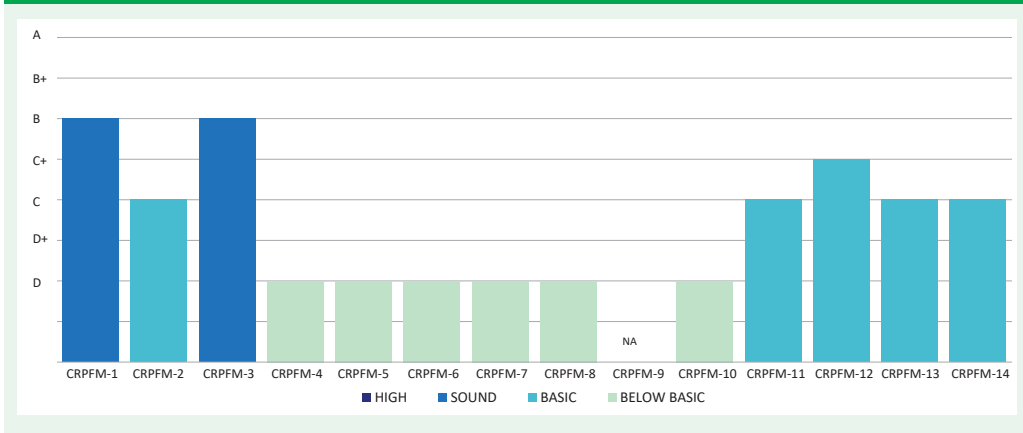
Assessment Findings



Main Findings

The assessment provides a detailed and nuanced perspective on the effectiveness of various PFM processes in addressing climate change challenges. While some PFM processes have excelled in integrating and mainstreaming climate change issues, others have been less effective. Nevertheless, the government has made significant progress in addressing climate change issues through the development of comprehensive regulatory frameworks, policies, and plans. However, when assessed using the CRPFM framework, PFM’s responsiveness shows only a basic level of performance. Among the 14 indicators, two were rated as B, one as C+, four as C, and six received a D score. One indicator was deemed not applicable.

Figure 3: PEFA Climate Scores by Indicator



The CRPFM Assessment results are presented in this section to synopsise the key PFM tools and processes that have been put in place to support the effective implementation of climate change policies, and how these processes play a significant role in achieving the three budgetary outcomes while implementing climate change policies.

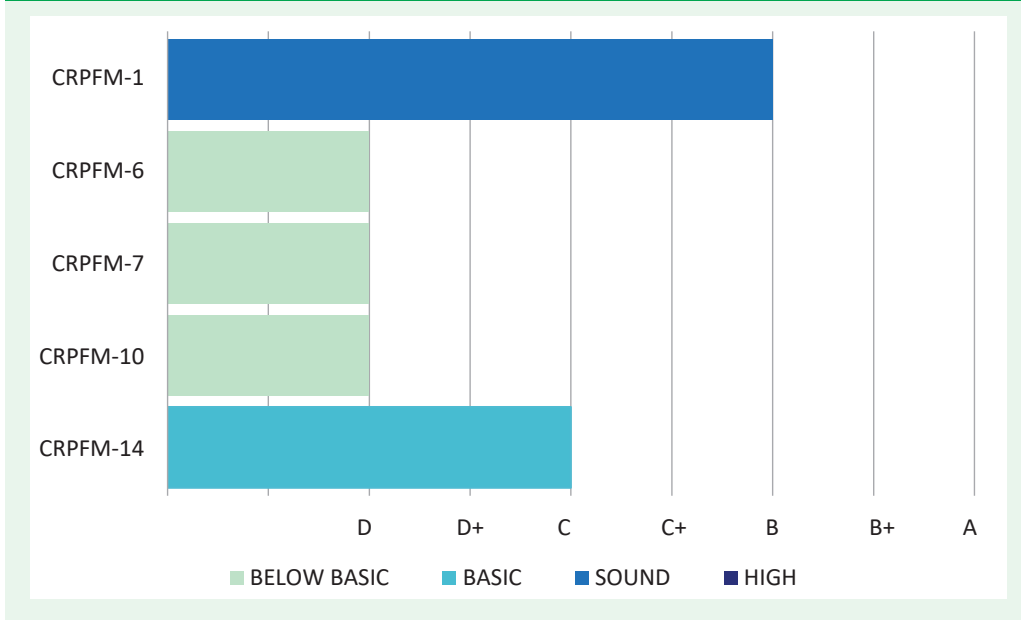
Aggregate Fiscal Discipline

The GoN has implemented a system to budget and track climate change-related expenditures. The medium-term budgets demonstrate a fair degree of alignment with the climate change strategies. However, the outturn of climate change-related expenditures, including provincial and local level expenditures, is at a basic level; the expenditure outturn only for the federal level is below the basic level of performance.

The control of climate-related transactions and related audits follow the same processes as all other transactions. However, the prescribed internal control framework does not specify any controls for the climate conditionalities of the transactions. The coverage of audit is comprehensive and covers climate-related transactions, along with all other categories and types of transactions. However, there is a lack of sufficient evidence to substantiate the percentage of climate-related transactions covered during audits.

The management of climate-related fiscal risks, debts, guarantees, and non-financial assets is currently weak. Despite strong regulatory framework, the management of debts and guarantees do not consider climate change mitigation or adaptation. Moreover, climate-related liabilities are yet to be recorded and incorporated into the government’s financial reports.

1. Aggregate Fiscal Discipline



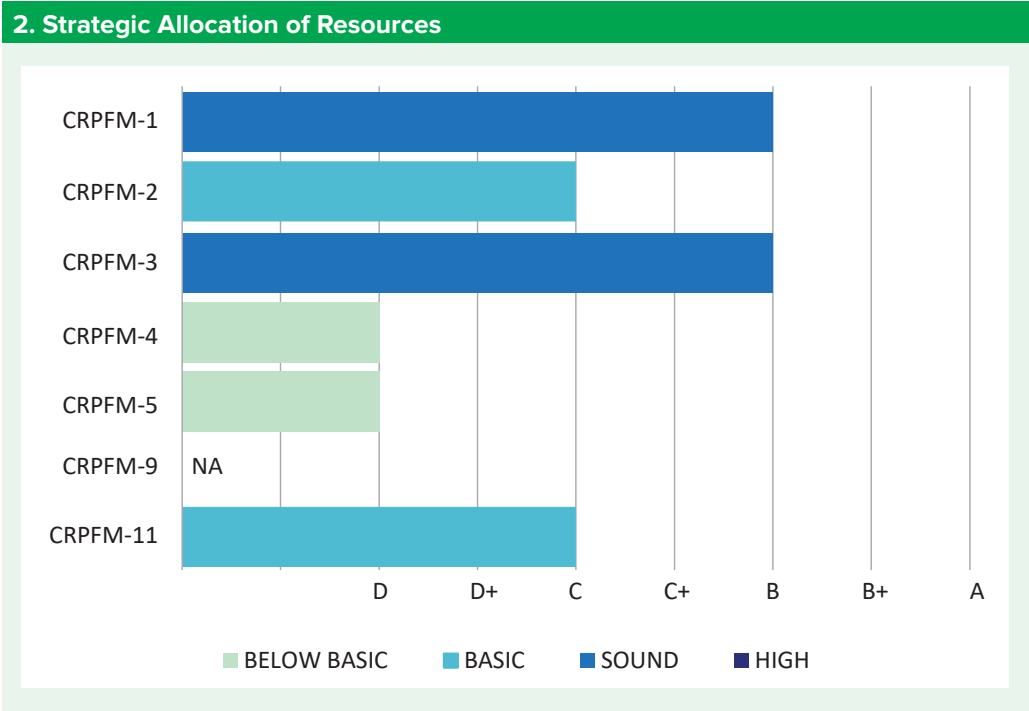
Strategic Allocation of Resources

The budget circular and formulation guidelines serve as a valuable source of guidance for tracking climate change-related expenditures and factoring in climate change mitigation and adaptation in budget proposals, as per the national climate change policies. The Climate Change Policy has played a crucial role in aligning strategies and sectoral plans with climate goals and providing budgetary allocations, including conditional transfers. However, the climate budget tagging exercise occurs late in the budget cycle and does not prioritize programs based on climate criteria. Although climate change expenditure are monitored, there is no tagging system for programs that negatively impact the climate. Moreover, the focus on climate change during legislative scrutiny of budgets and audit reports exhibit less than basic level of performance.

The regulatory framework for public investment management, as applied to the sampled projects, did not encompass provisions related to climate change. Despite the identification of environmental risks, including climate risks, during the appraisal of large projects, there is a lack of national guidelines for assessing the climate change impacts of new investment projects. However, it is worth noting that the government is taking

steps to address this issue through the implementation of a National Project Bank and the notification of new regulations that include climate-related provisions. Efforts are underway to incorporate a climate lens into project identification, screening, appraisal, and prioritization procedures, as well as information systems. However, there is a need for a standard climate taxonomy for all relevant sectors, which can help enable climate tagging at the activity level across all levels of government.

The legal framework defines the mandates of Provincial and Local Governments (PLGs) in relation to climate change, and they follow the central government’s climate policy. Climate-related conditional transfers are aligned with climate policy goals, and there is a mechanism to track financial progress. However, an effective mechanism is needed for the sectoral federal ministers to report physical and financial progress of climate-related fiscal transfers to the PLGs.



Efficient Service Delivery

The mandates of federal, provincial, and local governments encompass services that are specifically designed to contend with the impact of climate change. The budget circular provides clear guidelines for considering climate change as an integral component of expenditure frameworks and lays the foundation for the establishment of coordination committees and operational bodies for climate change plans and strategies. The National Climate Change Policy, in turn, provides further direction to entities in coping with the impacts of climate change.

Nepal employs extensive expenditure control systems, which naturally benefits climate-related expenditures. Budget performance plans and reports produced by the GoN include climate outputs. However, EBUs and public corporations do not report on climate-related matters. The OAG audits government expenditures, including those relating to climate programs, which are reviewed by the legislature. However, the legislative security for climate change, as assessed through the CRPFM lens, demonstrates a performance below basic.

Public procurement in Nepal does not yet include a specific provision for climate responsiveness. Standard bidding documents do not yet take into consideration climate-responsive standards. There is no concept of estimating life cycle costs, nor is there any management of climate considerations in terms of asset procurement, maintenance, and disposal. Nonetheless, the current procurement system does allow for the expediting of processes in the event of natural disasters, some of which can be attributed to climate change.

Climate considerations are incorporated into the Intergovernmental Fiscal Transfer System, specifically for equalization grants and revenue-sharing of some revenues. Nevertheless, there is a need to promote performance-based grants to the PLGs to incentivize climate performance.

3. Efficient Service Delivery

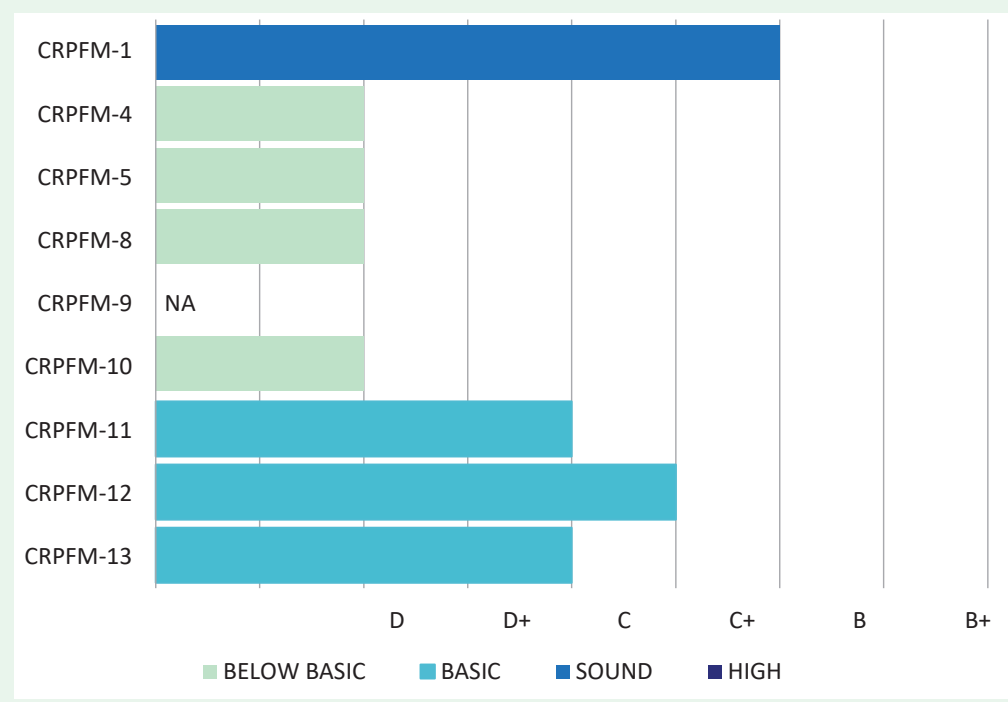


Table 1: PEFA Climate Scores by Indicator

Indicator	Dimension Score				Overall Score
	1	2	3	4	
CRPFM-1. Budget alignment with climate change strategies	B				B
CRPFM-2. Tracking climate related expenditure	C				C
CRPFM-3. Climate responsive budget circular	B				B
CRPFM-4. Legislative scrutiny	D	D			D
CRPFM-5. Climate responsive public investment management	D	C	D	D	D
CRPFM-6. Climate responsive asset management	D				D
CRPFM-7. Climate related liabilities	D	D			D
CRPFM-8. Climate responsive procurement	D	C	D	D	D
CRPFM-9. Climate responsive revenue administration	NA	NA			NA
CRPFM-10. Compliance of climate related expenditure	D	D			D
CRPFM-11. Climate responsive fiscal decentralization framework	C	C	C		C
CRPFM-12. Climate related performance information	B	C			C+
CRPFM-13. Climate related performance evaluation	B	D			C
CRPFM-14. Expenditure outturn for climate activities	C	C			C



3

Detailed Assessment of Climate-Responsive Public Financial Management

CRPFM-1. Budget Alignment with Climate Change Strategies

Indicator/Dimension	Assessment of Performance	Score
CRPFM-1. Budget Alignment with Climate Change Strategies		B
CRPFM-1.1. Budget Alignment with Climate Change Strategies	Six elements are fulfilled, including four basic (no. i, ii, iii, and iv) and two additional (no. vii and xii) as explained in the Table CRPFM-1.1.	B
Coverage	Budgetary Central Government	
Time period	Last budget and budget documentation submitted to the legislature	
Description	<p>This indicator measures the extent to which medium- and long-term climate change strategies are reflected in costed sector medium-term strategic plans and mid- and short-term budgets.</p> <p><i>Related PEFA Indicator/Dimension:</i> PI-16.3. Alignment of strategic plans and medium-term budgets</p>	

CRPFM-1.1. Budget Alignment with Climate Change Strategies

The GoN has taken significant steps to integrate climate change into national plans and budgets. The CCFF was established in 2017, which guides the integration of climate change into planning and budgeting processes. The framework also mobilizes resources to manage and target finance to support the country’s strategic and climate goals and track and report expenditures. The government has also established an EPF to manage disasters, including climate change-related disasters. The NCCP and the NDC are the guiding documents used to prepare periodic development plans and budgets.

Projects and programs at the federal level are coded based on their relevance to climate change, with the categorization applied when preparing the MTEF documents for federal and provincial governments. Climate-related annual expenditure estimates are also aligned with the MTEF. The MTEF maps out the financing needs of sector-based projects and programs, with the climate change relevance budget identified as 33.37% of the total GoN’s budget for FY 2021/22.

Table CRPFM-1.1: Alignment of Budget with Climate Change Strategies

PEFA Criteria	Yes/No	Justification
Basic Elements		
(I) Sectoral medium-term strategic plans are prepared, reflecting the priorities of the National Climate Change Policy and strategy - and, in their absence, NDC targets.	Yes	The NCCP 2019, the NAP, and the NDC serve as the guiding documents for periodic development plans, as well as yearly plans and budgets in Nepal. Most ministries have their own costed sectoral strategies and plans, including the Ministry of Agriculture and Livestock Development, the Ministry of Forest and Environment, and the Ministry of Urban Development. The NDC covers several sectors, such as Agriculture and Food Security, Forests, Biodiversity and Watershed Conservation, Water Resources and Energy,

PEFA Criteria	Yes/No	Justification
		Transport and Physical Infrastructure, Tourism, National and Cultural Heritage, Health, Drinking Water and Sanitation, and Disaster Risk Reduction and Management. The MTEF and budget proposals broadly align with these sectoral plans and strategies.
(II) Climate-related projects and initiatives are costed in the sector medium-term strategic plans.	Yes	Climate-related projects and initiatives stem out from the NCCP, the NDC, and the NAP and are covered in relevant sector strategies. These projects are costed in the MTEF of the relevant sector and ministry.
(III) Climate-related projects are accounted for in public investment plans.	Yes	Climate-related projects are accounted for in public investment plans, i.e., annual development program.
(IV) Climate-related expenditure policy proposals in the approved medium-term budget estimates align with the sectors' costed medium-term strategic plans.	Yes	Climate change-related project proposals are prepared and included in the MTEF. These proposals are aligned with costed sectoral strategies.
(V) Climate-related tax policy proposals in the approved medium-term budget estimates align with the national climate change strategy.	No	There is no directly imposed climate-related tax in Nepal. There are some provisions in the Finance Act related to climate, environment, and health. Health hazard taxes on tobacco products and pollution control taxes on petroleum products are just some examples. In the Consolidated Financial Statements (CFS) for FY2020/21 published by the FCGO, there are pollution control fees amounting to NPR 34.08 million (US\$ 257 thousand) under economic code 14521, as well as a health hazard tax on domestic and imported goods amounting to NPR 35.2 million (US\$ 265 thousand) under economic codes 11423 and 11424 respectively. Similarly, fines and penalties have also been provisioned in different laws relating to the environment but not explicitly climate related.
(VI) Climate-related annual expenditures and tax estimates align with the approved medium-term budget estimates for the first year.	Partially	Climate-related annual expenditure estimates are aligned with approved MTEF estimates for the first year. There is no climate-related tax in Nepal, and therefore, the aligned tax estimates with medium-term budget estimates cannot be accessed. Moreover, as assessed in main PEFA, the MTEF does not include revenue forecast by type.

PEFA Criteria	Yes/No	Justification
Additional Elements		
Climate change policy and strategies cover the sub-national governments, public corporations, and other operators in charge of implementation.	Yes	Climate change policy and strategies cover all government entities, including the sub-national governments and public corporations. The federal, provincial, and local governments are all required to plan and implement climate adaptation and mitigation measures as part of the National Climate Change Policy, 2019.
Climate change strategies and/or climate-related medium-term budget estimates identify funding gaps and funding sources.	No	Climate-related projects are costed in the MTEF. However, while the MTEF presents an overview of funding sources and shortfalls, it does not provide specific information on funding sources and gaps related to climate change strategies.
The medium-term fiscal strategy refers to climate targets.	No	Although the MTEF includes certain aspects of the fiscal strategy for the budget year, the government does not prepare a formal document that precisely delineates its fiscal strategy, encompassing distinct numerical goals, targets, and policy criteria. The MTEF refers to macro-economic and fiscal targets but does not include climate targets.
The medium-term fiscal strategy refers to climate-related fiscal risks.	No	Sectoral vulnerability and risk assessments have been prepared that guided the NAP formulation. It contains information on the current, short term and long-term risks to climate change. The Ministry of Home Affairs (MoHA) produces Disaster Risk Reduction (DRR) reports. The latest report provides a snapshot of DRR progress under the four priorities of the Sendai Framework ²⁵ . However, it does not provide medium-term, detailed information about fiscal risks. Thus, it does not include climate-related fiscal risks.
If there is a gap between the climate-related annual expenditures and tax estimates and the approved medium-term budget estimates for the first year, the annual budget document provides the underlying explanation.	No	Since climate change expenditures are defined and applicable to all government entities, climate-related expenditures are monitored and disclosed in annual budget and financial statements. However, according to the MTEF guidelines, there is no requirement for the current MTEF to include a comparison with the estimates of the previous MTEF or an explanation of changes in expenditure estimates and forecasts. Therefore, an explanation of the gap between annual estimates and MTEF is not available in the budget documents.

²⁵ The four priorities of the United Nations DRR Sendai Framework (2015-2030) are: 1: Understanding disaster risk. 2: Strengthening disaster risk governance to manage disaster risk. 3: Investing in disaster risk reduction for resilience. 4: Enhancing disaster preparedness for effective response and to “Build Back Better” in recovery, rehabilitation and reconstruction.

PEFA Criteria	Yes/No	Justification
There is an operational body, unit, or team in charge of fostering coordination for climate change activities in line with climate change policies.	Yes	The CCMD at the MoFE is responsible for coordination of national climate-related programs and investments, as well as for promoting the integration of climate change and disaster risk into the national planning frameworks. At the MoF, there is a climate change related unit at the International Economic Cooperation and Coordination Division (IECCD), as well as a climate change unit in the Budget and Program Division to coordinate the climate change budget. There is also an Environment Protection and Climate Change Management Council under the chairmanship of Prime Minister.

Based on this analysis and supporting evidence, the score for this dimension is a B.

CRPFM-2. Tracking Climate Related Expenditures

Indicator/Dimension	Assessment of Performance	Score
CRPFM-2. Tracking Climate Related Expenditures		C
CRPFM-2.1. Tracking Climate Related Expenditures	The system in place to track climate related expenditure fulfills three basic elements (no. i, ii, and iv) as explained in Table CRPFM-2.1.	C
Coverage	Budgetary Central Government	
Time period	Last completed fiscal year	
Description	This indicator measures the extent to which the government is able to track climate related expenditures. <i>Related PEFA Indicator/Dimension: PI-4. Budget classification</i>	

CRPFM-2.1. Tracking Climate Related Expenditures

Nepal CPEIR (2011) identified organizations with climate-related programs and assessed the volume of budgets allocated to climate activities. The CPEIR (2011) approach to defining climate change-related expenditures builds on the initial OECD guidelines (see Box 1) and begins by reviewing existing national policy documents. These provide insights into how climate change actions are being defined in Nepal.

Among other things, the CPEIR (2011) suggested that Nepal begin to use climate budget codes to facilitate the tracking of climate budgets and expenditures. The Climate Change Budget Code, developed in FY 2012/13 and then updated in 2017, was prepared by the NPC through a series of consultations with the stakeholders, and a climate budget code was introduced in the national FY 2013/14 budget. The Code uses the CPEIR (2011) findings and stresses that development activities related to any of the 11 activities should be considered climate change-related activities when preparing plans and budgets. These 11 activities fit into the OECD Guidelines.

The national budget incorporates the climate codes, thus creating an official analytical framework to calculate government funds channeled to programs related to climate change. The introduction of the climate change budget code is an effort to track climate change budget allocation, thereby facilitating the prioritization of allocating development investments to the most vulnerable areas and key sectors. According to the budget preparation guidelines of the MoF,²⁶ the coding criteria is based on the following three categories in terms of climate relevancy:

- **Highly relevant:** If more than 50 percent of the budget is allocated to climate change activities in any program/project.
- **Relevant:** If more than 20 to 50 percent of the budget is allocated to climate change activities in any program/project.
- **Neutral:** If less than 20 percent of the budget is allocated to climate change activities in any program/project.

The government's Chart of Accounts (CoA) contains a relevant COFOG classification field code of 705 environment protection under functional classification to identify climate change expenditures. At the program level, climate change-related budgets and expenditures can be tracked from the Line Ministry Budget Information System (LMBIS) and the Financial Management Information System (FMIS). This can be done in a structured way in line with the updated Climate Change Budget Codes. In the budget documents, climate change-related budget figures have been clearly identified. Similarly, expenditures related to climate activities are disclosed through annual development

Box 2. climate change-related activities for preparing plans and budgets

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

Source: Climate Change Budget Code, Criteria, and Method, 2012 (updated 2017)

²⁶ Government of Nepal, Ministry of Finance. Budget Formulation Guidelines- <https://mof.gov.np/site/publication-category/95>.

programs²⁷. The Financial Comptroller General Office (FCGO) includes climate-related budgets and actual expenditures in the annual consolidated financial statements, which are publicly disclosed²⁸.

Table CRPFM-2.1: Elements Enabling Tracking of Climate-related Expenditures

PEFA Criteria	Yes/No	Justification
Basic elements		
(i) The government uses a methodology that defines what constitutes “climate change expenditure.”	Yes	The GoN is following the methodology for climate change coding in the budgeting and reporting processes based on the CPEIR (2011) and the Climate Change Budget Code, Criteria and Method of 2012 (revised in 2017). Both of these processes are based on the OECD Guidelines, with the CPEIR using the definition for climate expenditure provided in the Handbook on the OECD-DAC Climate Markers 2011 and the Climate Change Budget Code using 11 development activities considered to be climate change-related activities when preparing plans and budgets.
(ii) The government applies the same methodology across all ministries, departments, and agencies in identifying climate-related expenditures.	Yes	The GoN applies the same methodology to all government entities in coding and tracking climate change-related expenditures.
(iii) Expenditures related to activities that are counter to climate policy are disclosed in budget documents and in end-of-year budget execution reports (as in Element 4). This covers spending that is explicitly or implicitly linked to climate change.	No	Expenditures that increase greenhouse gas emissions or reduce the capacity of communities, sectors, and industries to adapt to climate change are not properly disclosed in budget execution reports.
(iv) Climate-related expenditures are disclosed by the Ministry of Finance or the budgetary units in budget documents and in end-of-year budget execution reports (as in Element 3).	Yes	Climate-related expenditures are made publicly available by the MoF in budget documents and by the FCGO in the annual consolidated financial statements.

²⁷ Government of Nepal, The NPC. Annual Development Programs- https://npc.gov.np/en/category/annual_development_programs#

²⁸ FCGO-Consolidated Financial Statement- https://www.fcgo.gov.np/storage/uploads/reportpublication/2021-05-17/20210517185110_CFS_2019_20%20final.pdf

PEFA Criteria	Yes/No	Justification
(v) The methodology applied by the government to identify climate-related expenditures is reviewed by an entity other than the preparing entity.	No	As part of the external audit process, the OAG reviews climate change-related expenditure reports. However, there is currently no evidence of the review of the methodology applied by the government to identify climate-related expenditure by an entity other than the preparing entity.
Additional elements		
(vi) Climate-related expenditures are identified using specific budget expenditure line items, program codes, and elements in the government's Chart of Accounts or markers, such as the Rio Markers.	No	No specific coding is undertaken in the Chart of Accounts or in markers, such as the Rio Markers. ²⁹
(vii) Climate-related expenditures are disclosed in the in-year budget reports, including the in-year budget adjustments.	No	Expenditures related to climate activities are disclosed on a yearly basis as part of budget documents and consolidated financial statements. Though the information systems can with generate real time data, the climate-related expenditure are not disclosed in the in-year budget reports.
(viii) Budgeted climate-related transfers to subnational governments and outturn are identified.	No	The climate-related budget transfers to sub-national governments are identified, but outturns are not identified.
(ix) Budgeted climate-related transfers to extra budgetary units and public corporations in charge of implementing climate change actions and outturns are identified.	No	Budgeted climate-related transfers to extra budgetary units and public corporations are identified, but the actions and outturns are not identified.

Based on this analysis and supporting evidence, the score for this dimension is a C.

²⁹ The five statistical policy markers exist to monitor external development finance for environmental purposes within the OECD/Development Assistance Committee (DAC). These are: The 'Environment' marker (introduced in 1992), and four Rio markers covering: Biodiversity (introduced in 1998), Climate Change Adaptation (introduced in 2010), Climate Change Mitigation (introduced in 1998), and Desertification (introduced in 1998). The Rio markers are applicable to Official Development Assistance (ODA) and recently also to other official flows (OOF) (that is, non-concessional developmental flows, excluding export credits) starting from 2010. (Source: www.oecd.org/dac/dac-glossary.htm).

CRPFM-3. Climate-Responsive Budget Circular

Indicator/Dimension	Assessment of Performance	Score
CRPFM-3. Climate Responsive Budget Circular		B
CRPFM-3.1. Climate Responsive Budget Circular	The budget circular provides a methodology to track climate change related expenditure. It contains guidance on how to factor climate change mitigation and adaptation expenditure into budget proposals and refers to the national climate change strategies.	B
Coverage	Budgetary Central Government	
Time period	Last completed fiscal year	
Description	<p>This indicator measures the extent to which the budget circular takes climate change into consideration. It does so by referring to national climate change strategy, providing clear guidance on how budgetary units should propose climate change mitigation and adaptation measures, defining a methodology for tracking climate change-related expenditures, and setting expenditure targets.</p> <p><i>Related PEFA Indicator/Dimension: PI-17.2. Guidance on budget preparation</i></p>	

CRPFM–3.1. Climate Responsive Budget Circular

The MoF and the NPC issue budget formulation guidelines³⁰ and budget circulars³¹ with budget ceilings that involve project/program prioritization criteria based on a general and sectoral basis. Climate change is considered under infrastructure development and is subject to sector-specific criteria that include roads and transport, urban development, irrigation, information and communications, environment, science and technology, energy, and local development. The budget formulation guidelines provide climate change coding criteria, as well as project prioritization criteria. The LMBIS templates are used to prepare the budget, and line ministries submit budget proposals with climate change coding to the NPC and the MoF through LMBIS, in accordance with the budget formulation guidelines.

The budget circular and the budget formulation guidelines provide the methodology for tracking climate change-related expenditures but do not require to identify expenditure that are counter to climate change. The budget circular precisely defines what should be considered climate change-related expenditures and what should not-in terms of climate relevance.

The government employs sectoral experts through the Public Service Commission or outsourcing to support the line ministries meeting the requirements of the budget circular

³⁰ Government of Nepal, Ministry of Finance. Budget Formulation Guidelines- <https://mof.gov.np/site/publication-category/95>

³¹ Government of Nepal, NPC. Budget Formulation Guidelines- <https://npc.gov.np/en/category/guidelines>

related to climate-change expenditure. The MoFE has established core budgetary units, such as the CCMD, to address the requirements of the budget circular with regard to climate change specialists. The CCMD leads the formulation of climate change-related policies, plans, and programs, implements them in coordination with government and non-government organizations, and monitors their implementation. It also serves as a focal point for the United Nations Framework Convention on Climate Change (UNFCCC).

Based on this analysis and supporting evidence, the score for this dimension is a B.

CRPFM-4. Legislative Scrutiny

Indicator/Dimension	Assessment of Performance	Score
CRPFM-4. Legislative Scrutiny		D
CRPFM-4.1. Legislative Scrutiny of the Budget	Legislative scrutiny of the budget does not meet any criteria.	D
CRPFM-4.2. Legislative Scrutiny of Audit and Evaluation Reports	Legislative scrutiny of audit and evaluation reports fulfills one element: (i) a review of climate-related/executed expenditures and revenues at a level comparable with the approved budget.	D
Coverage	CRPFM-4.1. Budgetary Central Government CRPFM-4.2. Central Government	
Time period	CRPFM-4.1. Last budget and budget documentation submitted to the legislature CRPFM-4.2. Last audit reports or evaluation reports submitted to the legislature. For Element 2: audit report on end-of-year financial report.	
Description	This indicator measures how climate change aspects are included in the legislature’s scrutiny of budgets and audit reports. <i>Related PEFA Indicator/Dimension:</i> PI-18. Legislative scrutiny of budgets, PI-31. Legislative scrutiny of audit reports	

The Finance Committee of the House of Representatives has a legal mandate to scrutinize the annual budget, policies, and programs of the Government. The Sustainable Development and Good Governance Committee of the National Assembly is legally assigned with a responsibility to oversee the execution status of the SDGs, as supported by the policy and budget of the government. The Public Accounts Committee (PAC) of the House of Representative is legally mandated to scrutinize the annual audit reports submitted by the OAG.

CRPFM-4.1. Legislative Scrutiny of the Budget

The Finance Committee of the House of Representatives scrutinized the budget documents for FY 2022/23. It also arranged for the pre-budget discussions with the ministries, agencies, the private sector, and experts. It then issued recommendations to

the government for including the issues of climate change in the upcoming budget. The House of Representatives scrutinizes the annual budget presented to the Parliament. However, the legislative scrutiny of the budget does not fulfill any of the elements prescribed by the CRPRM framework.

Table CRPFM-4.1: Climate Change Aspects in Legislative Scrutiny of Budget

Elements included in the Legislature’s Scrutiny of the Proposed Budget:	Yes/ No	Justification
<p>(i) Involvement of support mechanisms, such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, and/ or others. A report about the work and conclusions of the committees or groups is published.</p>	<p>No</p>	<p>The House of Representatives Rules 2018 outline the detailed legislature’s procedures for budget scrutiny and are adhered to. Nevertheless, the legislative process only allows for a restricted number of opportunities for public input and internal administrative structures, such as specialized review committees, technical support, and negotiating procedures.</p> <p>On May 24, 2022, the Finance Committee of the House of Representatives organized a pre-budget discussion for FY 2022/23 budget. During the meeting, the committee engaged in rigorous discussions with government ministries, agencies, the private sector, and experts, and subsequently issued recommendations to the government. The Committee is also responsible for managing the legal, policy-level, and institutional provisions for prioritizing the sector of alternative financial resources, such as blended finance, the Green Climate Fund, and climate bonds for the development of projects. Furthermore, it ensures that the budget provides funding for projects that reduce carbon emissions.³²</p> <p>On May 21, 2020, the Sustainable Development and Good Governance Committee of the National Assembly sent a letter to the government regarding the implementation of the Committee’s decision to co-work within the three tiers of government to mainstream climate change issues. The Committee also made decisions on April 16, 2021, and June 6, 2021, to invite concerned government ministries, the NPC, and other experts to discuss the budget for the upcoming fiscal year 2022/23. The Committee has emphasized the importance of mainstreaming climate change in the areas of development, agriculture, and the protection of mountains, among other sectors. It has directed the government to ensure that the government budget aligns with the fulfillment of the SDGs. Although this is good practice, the Committee does not scrutinize the budgets.³³</p>

³² <https://hr.parliament.gov.np/uploads/attachments/4hiomsiomxuqjz7t.pdf>

³³ <https://na.parliament.gov.np/np/committees/Sustainable-Development-and-Good-Governance-Committee/publications>

Elements included in the Legislature's Scrutiny of the Proposed Budget:	Yes/ No	Justification
(ii) A performance or impact assessment review of: (i) climate change revenues; and (ii) climate change programs, including expected results in the future, either through specific impact assessments or information about planned performance.	No	To date, there have been no impact assessments conducted regarding the climate change revenues in Nepal. Additionally, there is no evidence of performance or impact assessment reviews of climate change programs conducted by the legislature.
(iii) A review of the positive, neutral, or negative contribution to climate change of: (i) revenues; and (ii) programs or actions that are not directly related to climate change.	No	There is no practice to review positive, neutral, or negative contributions of revenues and programs to climate change. In addition, there is no practice to review the impacts of other policies on climate change.
(iv) A review of climate-related fiscal risks.	No	The legislature's budget review only covers details of revenue and expenditure. There is no practice of the Parliament separately reviewing climate-related fiscal risks.
(v) A public consultation that includes a specific focus on climate. A report on the feedback received during public consultation is published.	No	The Sustainable Development and Good Governance Committee of the National Assembly has convened a National Climate Champion Group in collaboration with all the Seventh Provincial Assemblies. The committee has published a paper advocating a common approach to the issue of climate change. A joint interactive workshop was organized by the Committee on September 17-18, 2019. It was attended by representatives from government ministries, the Parliament, as well as experts, members of the media and NGOs. Together, the committee aims to enhance the capacity of the government and parliament in addressing the issue of climate change. There is no budget scrutiny in these activities. ³⁴

Based on this analysis and supporting evidence, the score for this dimension is a D.

³⁴ <https://na.parliament.gov.np/np/committees/Sustainable-Development-and-Good-Governance-Committee/publications>

CRPFM-4.2. Legislative Scrutiny of Audit and Evaluation Reports

The PAC scrutinizes the annual audit reports submitted by the OAG. The PAC thoroughly discusses the audit observations for all programs and projects, including climate change-related programs and projects. However, the legislative scrutiny of audit reports fulfills only one out of six criteria regarding climate change aspects.

Table CRPFM-4.2: Climate Change Aspects in Legislative Scrutiny of Audit Reports

Legislative Scrutiny of Audit Reports	Yes/ No	Justification
(i) Involvement of support mechanisms, such as specialized legislative committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, and/ or others.	No	The PAC, on occasions, receive support from technical specialized group, but it is not a common practice.
(ii) A review of climate-related executed expenditures and revenues at a level comparable with the approved budget.	No	The PAC examined the effectiveness of the budget expenditures for the SDG programs and their implementation. It scrutinized the status of programs across ministries, issuing directives to guide the government toward the fulfillment of the SDG objectives. However, there is no overall review of climate-related expenditures, but these are covered as part of the PAC review of the audit reports.
(iii) A review of audit and/or evaluation reports concerning the performance of climate change programs or activities in line with planned outputs and outcomes.	No	The PAC rigorously discussed the audit arrears of the Reduction of Emissions from Deforestation and Forest Degradation (REDD) Implementation Center presented in the 58 th Report of the OAG. It issued a directive to take the benefits from carbon trade according to existing policies and more effectively implement the climate adaptation and mitigation programs. It also examined the audit arrears of the Climate Adaptation Projects of the Mountains Reservoir and issued directives for effective budget spending toward the desired goals. The OAG has undertaken performance audits of climate change programs. However, as evaluated in the PEFA Assessment (PI-31), the PAC has been unable to complete its review of the audit reports for the last three fiscal years.
(iv) A review of audit and/or evaluation reports of climate change impacts of the executed budget.	No	There is no evidence of a separate activity directed to reviewing climate change-related impacts of the executed budget.

Legislative Scrutiny of Audit Reports	Yes/No	Justification
(v) Recommendations for actions issued by the legislature to be implemented by the executive.	Yes	<p>The PAC has leveraged certain recommendations to advance climate change adaptation efforts, including discussions with the Scientific Forest Management Program. The PAC has provided the government with guidelines for developing and implementing criteria for participatory sustainable forest management, which have been used as a foundation for live discussions.</p> <p>On March 27, 2022, the Committee issued directives to the government to ensure the effective implementation of the SDGs by allocating sufficient budget and other resources to achieve SDG objectives. In response to the OAG report, the Committee issued multiple recommendations on forest protection and forest encroachment, which were forwarded to the Ministry of Finance on June 26, 2020.³⁵</p>
(vi) Follow-up on implementation	No	There is no evidence of follow-up activities concerning the PAC recommendations related to climate change.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-5. Climate Responsive Public Investment Management

Indicator/Dimension	Assessment of Performance	Score
CRPFM-5. Climate Responsive Public Investment Management		D
CRPFM-5.1. Climate Related Provisions in the Regulatory Framework for Public Investment Management	The public investment management regulatory framework applicable to the sampled projects did not include climate-related provisions.	D
CRPFM-5.2. Climate Related Project Prioritization	Project preparation and selection processes incorporate prioritization steps that rely on climate assessment to some extent.	C
CRPFM-5.3. Climate Related Provisions for Project Appraisal	Environmental risks, including climate and social risks, are well identified in appraisal of large projects, particularly those funded by donors. However, there are no approved national guidelines requiring evaluation of climate change impacts of new investment projects that applied to the projects sampled for the assessment of this dimension and indicator.	D

³⁵ The 20th and 21st annual Report of Public Accounts Committee (PAC). <https://hr.parliament.gov.np/uploads/attachments/9zlm6dfhwq1ppk3r.pdf>

Indicator/Dimension	Assessment of Performance	Score
CRPFM-5.4. Reporting from Entities In-charge of Implementation	The EBUs and public corporations produce financial statements for the government on an annual basis. However, these reports do not specifically include information on funding for climate adaptation or mitigation measures.	D
Coverage	CRPFM-5.1, 5.2, and 5.3. Central government CRPFM-5.4. Extra-Budgetary Units and Controlled Public Corporations for dimension	
Time period	Last completed fiscal year	
Description	This indicator measures the extent to which public investment management is climate responsive. <i>Related PEFA Indicator/Dimension:</i> PI-11. Public investment management	

Nepal's climate change goals are reflected in the NCCP, 2019, periodic development plans and the NDC. Public investments for infrastructure resilience against climate change impacts and NDC targets are integrated in the sectors. Climate change budget coding is used to support the prioritization of climate-relevant projects and programs in the budget formulation process. Nevertheless, ex-post reviews of climate outcomes of projects and programs are not evaluated in a systematic way. According to the EPA, 2019, Environmental Impact Assessments (EIAs) are mandatory for large projects. However, the project appraisal practices lack a thorough climate-related analysis. The assessment for this indicator was based on the sample list of ten projects listed in Table CRPFM-5 that were used to assess PI-11 in the Nepal PEFA Assessment.

Table CRPFM-5: Investment Project Costs, Budgets, and Expenditure (NPR, Millions)

S.N.	Budget Sub-Heading	Name of National Pride Projects	*Total Investment Cost	**Project Timeline	FY 2020/21 (2077/78)		FY 2020/21 Expenditure as a Percent of Total Investment Costs
					*** Budget	*** Expenditure	
1	30500108	Millennium Challenge Account Nepal	70,050	2010/11-2027/28	9,105.3	2,331.90	3.33
2	30800101	Budhi Gandaki Hydro-electricity Project	283,570	2012/13-2026/27	8,008.4	1,656.90	0.58
3	31300101	Melamchi Drinking Water Project	56,361	1998/99-2023/24	5,464.5	1,621.60	2.88

S.N.	Budget Sub-Heading	Name of National Pride Projects	*Total Investment Cost	**Project Timeline	FY 2020/21 (2077/78)		FY 2020/21 Expenditure as a Percent of Total Investment Costs
					*** Budget	*** Expenditure	
4	33700101	Kathmandu-Tarai-Madesh Fast Track	175,194	2016/17-2023/24	8,938.8	8,731.10	4.98
5	33701114	Pushpalal Highway (Mid-hills)	101,500	2007/08-2022/23	8,274.0	7,283.30	7.18
6	33701118	North- South Highway (Karnali, Kaligandaki and Koshi)	60,000	2008/09-2030/31	4,096.7	2,471.10	4.12
7	33701128	Hulaki Highway	65,240	2010/11-2023/24	7,015.2	10,201.50	15.64
8	33702101	Rail, Metrorail and Mono- rail Development Project	69,510	2009/10-2029/30	8,666.6	4,617.30	6.64
9	50125103	South Asian Tourism Infrastructure Development Project (Gautam Buddha International Airport)	30,910	2015/16-2021/22	4,725.0	1,711.20	5.54
10	50125104	Pokhara International Airport	21,600	2017/18-2022/23	10,750.0	3,072.90	14.23
Total			933,935		75,044.5	43,698.8	4.68

Sources: *MTEF, FY 2020/21, www.npc.gov.np. Page numbers 67,149,120,176,178,179,181, and 189).

**Project Timeline (According to NPC Brief Introduction of National Pride Project, page 5) (www.npc.gov.np).

***Annual Budget Review Progress Report, Annex 12 2020/21. (www.mof.gov.np).

Note: The above table represents the data of the annual initial budget and actual expenditures.

CRPFM-5.1. Climate Related Provisions in the Regulatory Framework for Public Investment Management

The NDC envisions achieving socioeconomic prosperity by building a more climate-resilient society. In accordance with the Paris Agreement, Nepal’s GHG emission targets

aim to achieve net-zero GHG emissions by 2050. By 2030, clean energy generation will be expanded from 1400 megawatts (MW) to 15,000 MW of which 5-10 percent will be generated from mini and micro hydropower, solar, wind and bio-energy sources. Adaptation priorities and actions are specified in the NCCP, 2019 covering the following thematic areas: i) agriculture and food security; ii) forest, biodiversity, and watershed conservation; iii) water resource and energy; iv) rural and urban settlements; v) industry, transport, and infrastructure; vi) tourism, natural and cultural heritage; vii) health, drinking water and sanitation; and viii) disaster risk reduction and management.

The NPC has established the Nepal Project Bank (NPB), and to operationalize the NPB, the government has developed the National Project Bank Guidelines (2020) and the Project Development, Selection, and Prioritization Integrated Standard (2023). The National Project Bank Guidelines (2020) provide the steps for identifying, appraising, selecting, and prioritizing developmental projects for inclusion in the NPB. The Project Development, Selection, and Prioritization Integrated Standard (2023) details these steps for specific sectors and includes climate-related provisions. However, the current version of the NPB has been operationalized only from FY24.

The CRPFM-5 and associated dimensions were assessed based on the sample of top ten national pride projects. The public investment management regulatory framework governing these top ten national pride projects did not incorporate climate-related provisions.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-5.2. Climate Related Project Prioritization

Since 2012, Nepal has implemented a climate-related project prioritization process. The Climate Change Budget Code, which was first introduced in 2012 and updated in 2017, mandates the use of coding criteria at the program level for all new and ongoing projects when preparing yearly budgets. These coding criteria categorize projects based on their climate relevance and place them in three categories: Highly relevant, Relevant, and Neutral. According to the Climate Change Budget Code, any new or ongoing projects and programs that fall under the eleven activities (refer Box 2) are considered climate change-related activities when preparing plans and budgets.

The National Project Bank: Guidelines for Identification, Appraisal, Selection and Prioritization of Projects issued in 2020 provide clear guidelines for project selection. The projects listed in the CRPFM-5 table were selected before the issuance of the guideline and basically followed the provisions of the Financial Procedure Rules (FPR) 2007. Rule (22) of the FPR states that the project approval should be based on a feasibility study, financial, technical, environmental, and administrative propriety of the proposed project, as well as the expected returns. The basis for approving the project is explained

in Schedule-3 of this rule. The environmental aspects cover some elements of climate assessment and prioritization criteria for selecting new projects.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-5.3. Climate Related Provisions for Project Appraisal

Prior to being included in the sectoral investment plan, mega infrastructure development projects are screened for compliance. For example, climate change adaptation measures were identified in the projects listed in table CRPFM-5, which are the ten National Pride Projects. During the preparation phase of a project, potential risks arising from climate change are identified, and corresponding adaptation measures are listed. However, there are no nationally approved guidelines for identifying such risks. Instead, they are identified based on prevailing practices.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-5.4. Reporting from Entities in Charge of Implementation

During project preparation, the additional costs that may arise due to climate change mitigation are identified, and the budget is allocated accordingly. The implementing agency handles the recommended mitigation measures in the design, but the implementation of activities is not reported. Public corporations and EBUs are required to submit annual reports to the MoF and concerned ministries on their performance, including statements of corporate objectives. However, these reporting mechanisms are general and do not include specific climate change-related activities.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-6. Climate Responsive, Non-Financial Asset Management

Indicator/Dimension	Assessment of Performance	Score
CRPFM-6. Climate Responsive Non-Financial Asset Management		D
CRPFM-6.1. Climate Responsive Non-Financial Asset Management	In general, there are legal provision relating to asset management, including use, disposal and transfer of assets. The CoA has dedicated codes for non-financial assets. The digitization of assets has been initiated through the PAMS. However, the system does not cover climate change adaptation and mitigation approaches for these assets.	D
Coverage	Budgetary Central Government	
Time period	Last completed fiscal year	

Indicator/Dimension	Assessment of Performance	Score
Description	<p>This indicator measures the extent to which non-financial assets, in particular lands and buildings, are covered by climate change adaptation and mitigation approaches regarding the identification of the risks and potential contributions, as well as their inclusion in the government's strategies, and the regulation of their use, disposal and transfer.</p> <p><i>Related PEFA Indicator/Dimension:</i> PI-12.2. Non-financial asset monitoring, PI-12.3. Transparency of asset disposal</p>	

CRPFM-6.1. Climate Responsive Non-Financial Asset Management

The government keeps the records on nonfinancial assets, such as land and infrastructure, using the Public Asset Management System (PAMS) and other information system as well as within each line ministry. However, only limited information regarding the age and utilization of these assets is accessible. All legal provisions, accounting principles, systems, and procedures do not separately incorporate climate aspects for non-financial assets in use, as well as their disposal or transfer. The mitigation aspects of these assets, the exposure and sensitivity to climate variability, extreme weather events and transition risks are not reported in the annual financial statements.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-7. Climate Related Liabilities

Indicator/Dimension	Assessment of Performance	Score
CRPFM-7. Climate Related Liabilities		D
CRPFM-7.1. Climate Related Fiscal Risks	The government fiscal risk report does not cover climate-related risks.	D
CRPFM-7.2. Climate Related Debts and Guarantees	The legal and regulatory framework does not specify arrangements for climate-related reporting on liabilities of debt and guarantees.	D
Coverage	Central Government	
Time period	Last completed fiscal year	
Description	<p>This indicator measures the extent to which the government is able to manage climate-related liabilities.</p> <p><i>Related PEFA Indicator/Dimension:</i> PI-10. Fiscal risk reporting, PI-13. Debt management</p>	

The legal framework, institutional arrangements, recording and reporting mechanism, and procedures of borrowing and guarantees in Nepal are well-structured. However, the mechanisms are not developed in terms of addressing the climate angle. None of

the domestic and external financing drawn from public, private, or alternative sources is reviewed and analyzed from a climate standpoint. While there are donor-specific environmental provisions, such as in the Environmental and Social Framework (ESF) in projects financed by the World Bank, this is not generally replicated in other debt instruments or guarantees. The National Disaster Reduction Management Authority (NDRMA) of Nepal and the MoHA produce some reports relating to the loss and damage caused by natural calamities, including flooding by the monsoon(s). However, these reports do not mention concrete liabilities originating in climate change effects.

CRPFM-7.1. Climate-Related Fiscal Risks

The main legislative framework for monitoring fiscal risks is the Financial Procedures and Fiscal Accountability (FPFA) Act, 2019 and its accompanying FPFA Regulation, 2021. The MoF is responsible for monitoring fiscal risks through its dedicated divisions and the Public Debt Management Office (PDMO). However, fiscal risk due exclusively to climate change is not reported. Moreover, the contingent liability aspect of climate risk is not covered in the annual financial statement and PDMO's annual report.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-7.2. Climate-Related Debts and Guarantees

Despite the well-structured regulatory framework in Nepal regarding debts and guarantees, climate change mitigation and adaptation are not incorporated in it. While existing reporting mechanisms capture financial information comprehensively, they do not cover climate-related liability. A similar situation is observed within the provincial and local governments, and public corporations. Based on evidence and analysis, the baseline requirement for a score of C is not met, as the conditions of (i) specifying arrangements for SNGs and public corporations in the legal or regulatory framework, and (ii) producing mandatory climate-related reporting, are not fulfilled.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-8. Climate Responsive Procurement

Indicator/Dimension	Assessment of Performance	Score
CRPFM-8. Climate Responsive Procurement		D
CRPFM-8.1. Climate Responsive Procurement Framework	There procurement framework is not climate responsive. According to legal and regulatory provisions, public entities can procure goods, works and services through simplified procedures in special circumstances, including for climate-related disasters ³⁶ however this does not constitute a climate-responsive procurement framework.	D
CRPFM-8.2. Climate Responsive Public Procurement Operations	Simplified procedures exist to expedite procurement in response to climate-induced disasters. However, standard bidding documents do not set out any climate-responsive standards ³⁷ .	C
CRPFM-8.3. Climate Responsive Public Procurement Monitoring	Procurement databases do not contain information about climate-responsiveness. However, they do contain information about emergency procurement in special circumstances, including disasters, some of which could be climate-change related. The PPMO is responsible for monitoring overall procurement. However, it does not monitor climate responsiveness separately, and it is not part of a comprehensive climate framework.	D
CRPFM-8.4. Climate Responsive Public Procurement Reporting	There is no separate provision for climate-responsive procurement reporting. There is no provision by which to verify whether contract awards and implementation are consistent with climate-responsive specifications and climate-responsive tenders.	D
Coverage	Central Government	
Time period	CRPFM-8.1, 8.2. and 8.3. Last completed fiscal year CRPFM-8.4. Last completed fiscal year (covering the last three completed fiscal years for the assessment of the CC responsive procurement)	
Description	<p>This indicator measures the extent to which climate change mitigation and resiliency measures are embedded in key aspects of procurement management. It measures the extent to which the government purchases of goods, services and works may cause minimal adverse impacts on climate change. It also evaluates the resilience and responsiveness of the procurement system to climate-induced risks, as well as the responsiveness of the system to climate-induced disasters.</p> <p><i>Related PEFA Indicator/Dimension: PI-24. Procurement</i></p>	

³⁶ The Public Procurement Act (2007), Chapter 10.

³⁷ The Public Procurement Regulation (2007), Chapter 15.

CRPFM-8.1. Climate Responsive Procurement Framework

The Public Procurement Act (PPA), 2007 and Public Procurement Regulations (PPR), 2007 outline the legal framework for all public sector procurement in Nepal. The Public Procurement Monitoring Office (PPMO) has been established under Clause 64 of the PPA, 2007. It is responsible for ensuring competition, efficiency, and transparency in all public procurement activities. It conducts capacity-building training and monitors and facilitates the procurement process. It also issues Standard Bidding Documents (SBDs) and other regulatory documents. Furthermore, the single e-GP portal is also managed by the PPMO.

The policies and regulatory provisions to support green and climate elements in public procurement practices in Nepal are inadequate. The PPA, 2007 and PPR, 2007 do not effectively and explicitly guide and provide options and procedures for adapting and promoting climate- and green-friendly works, goods and services. Climate-responsive specifications are absent in the SBDs for works, goods and services. The public procurement framework does not establish clear criteria to determine either what products or services count as climate responsive or the scope of procurement operations subject to climate responsive procurement principles.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-8.2. Climate Responsive Public Procurement Operations

The PPA, 2007, allows for simplified procedures in special circumstances, such as climate-induced natural disasters, under Section 66 and 67 of Chapter 10. These simplified procedures include limited tendering, single-source procurement, and other simplified procedures that are applicable to extraordinary situations. In such cases, the chief of the public entity must provide detailed information about the situation. In construction-related procurement operations, the contract agreement includes clauses specifying measures to minimize adverse impacts on the environment, along with the provision for geological or environment specialist mobilization and costings. There are simplified procedures and templates to expedite procurement for response to climate-induced disasters.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-8.3. Climate Responsive Public Procurement Monitoring

The PPMO is responsible for monitoring the procurement process of all public entities. The PPMO also publishes an annual report³⁸, reporting on the overall functioning of the public procurement system. However, it does not contain climate-specific information. There is no evidence to suggest that compliance with contract awards and implementation of climate-responsive specifications of tenders and contracts is verified.

Based on this analysis and supporting evidence, the score for this dimension is a D.

³⁸ PPMO - https://ppmo.gov.np/reports/annual_reports.

CRPFM-8.4. Climate Responsive Public Procurement Reporting

The PPMO publishes an annual report concerning the overall functioning of the public procurement system. However, neither the PPMO’s annual report nor any other government report provides information regarding climate-responsive public procurement.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-9. Climate Responsive Revenue Administration

Indicator/Dimension	Assessment of Performance	Score
CRPFM-9. Climate Responsive Revenue Administration		NA
CRPFM-9.1. Climate Related Tax Management, Audit and Investigation	Currently, Nepal does not have any climate-related taxes intended to reduce GHG emissions	NA
CRPFM-9.2. Climate Related Tax Arrears	There are currently no climate-related taxes in place in Nepal.	NA
Coverage	Budgetary Central Government	
Time period	Last completed fiscal year	
Description	<p>This indicator measures the government’s capacity to implement tax policies aimed at reducing GHG emissions and increase resiliency. It also evaluates the extent to which revenue collection generates arrears. It contains two dimensions and uses the conversion table for aggregating dimension scores.</p> <p><i>Related PEFA Indicator/Dimension: PI-19 Revenue administration</i></p>	

According to the CRPFM Framework, climate-related taxes consist of carbon, energy, and emission taxes, as well as carbon border adjustments. However, the excise tax on fuel is not classified as a climate-related tax, as its primary objective is to generate revenue rather than reduce GHG emissions, although it may ultimately help reduce fuel consumption. Currently, Nepal does not have any climate-related taxes intended to reduce GHG emissions, and therefore, no transfers are made to activities that demonstrate GHG reductions or removals. However, Nepal has implemented environmental taxes, such as a vehicle tax and a tax on infrastructure usage. Pollution control fees have also been levied to tackle pollution and generate revenues.

The CCFF provides a legal and/or regulatory basis to further develop fiscal tools and instruments, such as taxes, green revenues, subsidies, and so on.³⁹ However, it does not provide instruments for mobilizing domestic resources for climate action.

³⁹ Government of Nepal- Climate Change Financing Framework - <https://mof.gov.np/site/publication-detail/1874>

CRPFM-9.1. Climate Related Tax Management, Audit and Investigation

At present, Nepal does not impose a carbon tax. The government does have the authority to impose a pollution tax of NPR 1.50 per liter on petrol and diesel sold in Nepal, and the EPA 2019 has also provided for an emission or pollution tax on vehicles. However, none of these taxes are classified as carbon taxes. As a result, the score for this dimension is not applicable (NA).

CRPFM-9.2. Climate Related Tax Arrears

There are currently no climate taxes in Nepal. Hence, the score for this dimension is not applicable (NA).

CRPFM-10. Compliance of Climate Related Expenditures

Indicator/Dimension	Assessment of Performance	Score
CRPFM-10. Compliance of Climate Related Expenditures		D
CRPFM-10.1. Effectiveness of the Systems of Control	The GoN has implemented a comprehensive internal control framework that extends to climate-related expenditure. However, the prescribed internal control framework does not specify any controls for the climate conditionalities of the transactions.	D
CRPFM-10.2. Audit of the Compliance of Transactions	While climate-related transactions are subject to audit, fraud investigation, and recovery procedures, there is a lack of evidence to substantiate the percentage of transactions covered during audits or whether auditors had access to information on the implementation of climate-related activities by public corporations that received funds from the BCG.	D
Coverage	Budgetary Central Government	
Time period	Last completed fiscal year	
Description	This indicator measures the extent to which efficient control systems are in place to guarantee the compliance of payments with climate change criteria. <i>Related PEFA Indicator/Dimension:</i> PI-25. Internal controls on non-salary expenditure	

The Parliament and the government have put in place various legal provisions through different acts and regulations to ensure fiscal discipline. The FPFA Act, 2019 and FPFA Regulations, 2021 set out detailed guidelines and procedures for all aspects of PFM, including budgeting, accounting, expenditure, reporting, and auditing. Government offices are required to establish robust internal control systems to ensure accurate financial reporting, mitigate risks, and improve efficiency. To support this, the FCGO has developed an Internal Control Directive. Responsible officers and department heads are required to sign performance contracts with clear outcome indicators. Central offices and

secretariats are required to monitor the internal control system biannually and provide guidance for necessary reforms.

As prescribed by law, the internal audit system is under the FCGO. It is executed through the network of the District Treasury Controller Offices (DTCOs) across the country. The FCGO has created a separate internal audit cadre to ensure that the individuals involved in accounting are not allowed to conduct internal audits. Each DTCO has a separate internal audit unit responsible for conducting internal audits of the offices under its jurisdiction. The OAG is Nepal's Supreme Audit Institution. It is headed by the Auditor General (AG). The AG has functional independence guaranteed by the Constitution of Nepal. As such, it is mandated by the Constitution and Audit Law to conduct external audits of all entities comprising the three tiers of government.

CRPFM-10.1. Effectiveness of the Systems of Control

Based on the PI-25 of the PEFA Assessment, the internal controls for non-salary expenditure are considered adequate with a rating of 'C+'. The GoN has implemented a comprehensive internal control framework that extends to climate-related expenditure. Both internal and external audit reports indicate that non-compliant expenditure represents less than 5 percent of the total, demonstrating high compliance with the prescribed internal control framework.

To achieve a score of C or above for this dimension, the CRPFM Framework requires the legal or regulatory framework to include controls for the climate conditionalities of transactions. However, the prescribed internal control framework does not specify any controls for the climate conditionalities of the transactions.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-10.2. Audit of the Compliance of Transactions

The annual external audits, conducted by OAG, encompass all government revenues, expenditures, assets, and liabilities as well as financial statements prepared on a cash basis of accounting. The annual internal audit covers all revenue and expenditure of the CG. It assesses the extent to which expenditure adheres to the prescribed rules and regulations. Regarding revenue, the internal audit primarily examines the records of entities responsible for collecting revenue and the treasury to ensure that the assessed revenue aligns with the amount collected and deposited in the treasury.

Considering the comprehensive coverage of the audits, it can be reasonably assumed that climate-related transactions, like all other categories and types of transactions, are subject to audit, fraud investigation, and recovery procedures applied to irregularities after audit findings. However, there is a lack of sufficient evidence to substantiate the

percentage of climate-related transactions covered during audits. Furthermore, evidence is not available to substantiate whether the auditors had access to information pertaining to the implementation of climate-related activities by public corporations that received funds from the BCG.

Based on this analysis and supporting evidence, the score for this dimension is a D.

CRPFM-11. Climate Responsive Fiscal Decentralization Framework

Indicator/Dimension	Assessment of Performance	Score
CRPFM-11. Climate Responsive Fiscal Decentralization Framework		C
CRPFM-11.1. Climate Responsive Fiscal Decentralization Legal Framework	The legal and regulatory framework clearly defines the competencies and mandates of the PLGs in relation to climate change. The PLGs follow the climate change policy formulated by the central government. For instance, the Local Adaptation Plan of Action (LAPA) is in place to streamline climate change strategies at the local levels. Nonetheless, there is no evaluation mechanism for the implementation of these mandates and competences.	C
CRPFM-11.2. Climate Responsive Fiscal Transfers	Climate change-related conditional transfers are associated with objectives and aligned with the NCCP, 2019. The PLGs report fiscal transfers to the central government annually through financial reporting. Although there is a mechanism to track and report on the financial progress of the climate change-related conditional grants, there is no effective mechanism for the respective sectoral ministries to report on the physical and financial progress of these conditional grants.	C
CRPFM-11.3. Climate Responsive PFM Arrangements Applied by the Subnational Governments	There is a system in place to track climate-related expenditures, at least up to the provincial level. This is achieved in a structured way through the Provincial Line Ministry Budget Information System (PLMBIS). However, there is no effective system in place to track climate expenditures at the local level.	C
Coverage	Central government and the subnational governments which have direct financial relationships with CG.	
Time period	CRPFM-11.1. At the time of assessment covering the last three completed years CRPFM-11.2. Last completed fiscal year CRPFM-11.3. At the time of the assessment	

Indicator/Dimension	Assessment of Performance	Score
Description	<p>This indicator measures the extent to which fiscal decentralization arrangements factor climate change in order to facilitate and encourage local climate policies conducted by subnational governments (SNGs), ensuring the translation of a vertical integration of climate change objectives. It contains three dimensions.</p> <p><i>Related PEFA Indicator/Dimension:</i> PI-7. Transfers to subnational governments</p>	

CRPFM-11.1. Climate-Responsive Fiscal Decentralization Legal Framework

The constitutional and legal framework of Nepal has defined the roles and responsibilities of the PLGs in terms of climate change mitigation and adaptation. LAPA is in place to streamline climate change strategies at the local levels, and the government has committed to allocating at least 80% of the budget to the local level through the mobilization of international climate finance. All 760 SNGs, including seven provinces and 753 local governments, are responsible for implementing climate change mitigation and adaptation. Climate-related conditional grants transfers are aligned with the objectives of the NCCP, 2019. Additionally, Schedule 8 of the Constitution of Nepal mandates local governments to implement environment and biodiversity conservation activities, as well as small electricity projects and alternative energy projects. Furthermore, disaster management at the local level is primarily the responsibility of the local government.

The implementation of the LAPA framework and climate change policy provisions has been less effective. The framework was more of a voluntary goal and lacked clarity about mandatory implementation procedures. The inclusion of an 80% provision in climate change legislation was deemed crucial in decentralizing climate finance⁴⁰. However, there is no evidence of an evaluation of the implementation of competencies and mandates related to climate change-specific fiscal transfers.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-11.2. Climate Responsive Fiscal Transfers

The transfers of climate-related conditional grants are linked to targets established annually by the central government's sectoral ministries, such as the MoFE yearly plan for 2020/21.⁴¹ They should also be aligned with the NCCP, 2019. The FCGO compiles financial reports of climate-related conditional grants of financial reports for all local governments.

⁴⁰ MOFE-Assessment of Climate Financing Allocation: Unpacking Eighty Per Cent Allocation to the Local Level.

⁴¹ MOFE- Annual Programs- <https://www.mofe.gov.np/resources/annual-programs-3651>

At the provincial level, the FCGO monitors climate-related conditional grants through the PLMBIS. However, there is no effective tracking of physical and financial progress of these conditional grants by the respective sectoral ministries.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-11.3. Climate Responsive PFM Arrangements Applied by Subnational Governments

The assessment of the five criteria of the fiscal decentralization arrangements is provided in the table below. Only three of the five criteria are applicable, and out of three applicable criteria only one criterion is met.

Table CRPFM-11.3: Climate Responsive PFM Arrangements of PLGs

The fiscal decentralization arrangements satisfy the following criteria:	Yes/No/NA	Justification
(i). National arrangements for tracking climate-related expenditure are applied to SNGs	Yes	There is an arrangement for tracking climate change expenditures as they occur, along with other expenditures, at least up to the province level. The same information systems are used at federal and provincial level for public financial management.
(ii). The climate change-related investment framework covers SNGs	No	The legal and regulatory investment framework does not outline climate mitigation objectives or adaptation requirements for investment programs and projects.
(iii). Procedures and rules for the transfer and disposal of CC sensitive non-financial assets apply to SNGs.	No	As specified in CRPFM-6.1, the system does not cover climate change adaptation and mitigation approaches for non-financial assets.
(iv). The legal or regulatory framework for climate-related debt and guarantees specifies arrangements for SNGs.	N/A	The legal or regulatory framework for climate-related debt and guarantee is not applicable to PLGs because PLGs have not taken any debt and guarantee until now.
(v). The climate related procurement framework covers SNGs.	N/A	There is no green procurement framework in place as assessed in CRPFM- 8.1.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-12. Climate Related Performance Information

Indicator/Dimension	Assessment of Performance	Score
CRPFM-12. Climate Related Performance Information		C+
CRPFM-12.1. Climate Related Information in Performance Plans	The major performance indicators by output are included in the budget, including climate change-related outputs. The budget documents including MTEF, ADP, semi-annual budget evaluation report, annual budget progress evaluation reports have output and quantity information of programs. These budget documents are submitted to the legislature and publicly disclosed.	B
CRPFM-12.2. Climate Related Information in Performance Reports	Sectoral performance indicators, targets, and achieved outputs are reported. However, a separate report for climate change aspects is not submitted to the Parliament.	C
Coverage	Budgetary Central Government	
Time period	CRPFM-12.1. Last budget submitted to the legislature CRPFM-12.2. Last completed fiscal year	
Description	This indicator measures the extent to which information regarding planned and achieved performance covers the climate change adaptation and mitigation policies and is included in the budget documentation. <i>Related PEFA Indicator/Dimension:</i> PI-8 Performance information for service delivery, PI-8.1 Performance plans for service delivery (for CRPFM-12.1), PI-8.2 Performance achieved for service delivery (for CRPFM-12.2)	

CRPFM-12.1. Climate Related Information in Performance Plans

As assessed in PI-8.1 of the PEFA Assessment, annual budget provides key performance indicators for sectoral and sub-sectoral programs. The MTEF and the Annual Development Program (ADP) also include results indicators and targets for T+1, T+2, and T+3 years for all central agencies. For each program and project, the MTEF and ADP provide objectives, costs, duration, sectoral strategic pillars, expected results of the program/projects, progress to date, achievement indicators for the next three years, and the main activities to be carried out.

For the NDC (2020) activity-based targets are set in key sectors, such as energy, roads, irrigation, transport, sanitation, and forests⁴². By 2030, the government expects that 15 percent of the total energy demand will be supplied by renewable energy sources.

⁴² MOFE-Second Nationally Determined Contribution (NDC) <https://mofe.gov.np/old/downloadsdetail/3/2018/98853603/>

Nepal also aims to maintain 45 percent of the total area of the country under forest cover (including other wooded land limited to less than 4 percent). In addition, the country intends to sustainably manage 50 percent of the Terai and Inner Terai forests, and 25 percent of the middle hills and mountain forests - including using funding from Reducing Emissions from Deforestation and Forest Degradation (REDD+) initiatives (NDC 2020). Nepal aims to prepare and implement climate-resilient and gender-responsive adaptation plans in all 753 local governments. The National Adaptation Plan (NAP) will be updated every ten years. Institutional mechanisms will be established and/or operationalized by 2025 for the implementation of the Plan. The NAP also aims to incorporate climate adaptation and resilience milestones to be achieved by the years 2025, 2030, and 2050.⁴³

Based on this analysis and supporting evidence, the score for this dimension is a B.

CRPFM-12.2. Climate Related Information in Performance Reports

The MoF publishes ministry-wise progress reports, outlining the policies and programs for each central agency as stated in the Budget Speech. It also publishes progress reports about these programs as of mid-April of the current fiscal year. The NPC's ADP report provides information about the quantities of outputs produced for most central agencies, grouped by six sectors. The budget documents provide information about the performance of climate-related programs against targets and outcomes. The OAG conducts at least one performance audit of environment- and climate-related programs and projects⁴⁴. However, the government does not submit a climate change-related document separately to the Parliament.

Based on this analysis and supporting evidence, the score for this dimension is a C.

CRPFM-13. Climate Related Evaluation

Indicator/Dimension	Assessment of Performance	Score
CRPFM-13. Climate Related Performance Information		C
CRPFM-13.1. Climate Related Evaluation of Expenditure	The OAG has conducted performance and environment audits of selected climate-related programs in the previous three years and published the reports.	B
CRPFM-13.2. Climate Related Evaluation of Taxes	There is no evidence of any evaluation of the contribution of tax policy to climate change.	D
Coverage	Budgetary Central Government	

⁴³ https://unfccc.int/topics/resilience/workstreams/national-adaptation-programmes-of-action/introduction?gclid=Cj0KCQjw48OaBhDWARIsAMd966Clq_UfxmU3mZ3wK0KL34OOS_2n6zCmq-KHXLLva8mKppGziGuUumwaAipEALw_wcB

⁴⁴ <https://oag.gov.np/menu-category/972/ne>

Indicator/Dimension	Assessment of Performance	Score
Time period	Last three completed fiscal years	
Description	<p>This indicator measures the existence of an evaluation of the climate change related programs as well as the inclusion of climate change in the evaluation of other programs. It covers both expenditure and revenues.</p> <p><i>Related PEFA Indicator/Dimension: PI-8.4 Performance evaluation for service delivery</i></p>	

CRPFM-13.1. Climate-Related Evaluation of Expenditures

In the past three years, the OAG has conducted performance audits of various climate-related projects, such as the Bheri Babai Diversion Multi-Purpose Project, the Safety Civil Home Program, and the National Park Management Program. Moreover, during FY 2019/20, the OAG performed environment audits of the Environmental Status Analysis of Kathmandu Valley and the Cleaning and Beautification of Bagmati River Project. In FY 2018/19, the OAG conducted performance audits on the National Park and Conservation Area Management Project, the Bagmati Corridor Construction and Cleaning under the Ministry of Urban Development, and the Scientific Forest Management under the MoFE. These audits were centered on program and program-level issues and were conducted as an environment audit. The latest performance and environment audit report conducted by the OAG is the 59th, which focuses on policy and legal provisions and provides key recommendations. All of these reports have been published and made available to the public on the OAG website⁴⁵.

Based on the analysis and supporting evidence, the score for this dimension is a B.

CRPFM-13.2. Climate-Related Evaluation of Taxes

The MoF is responsible for reviewing tax policies and making adjustments based on revenue-generating needs. However, there is no indication that the impact of tax policies on climate change mitigation outcomes is being considered. The National Climate Change Policy and other climate change policy documents do not include any tax policy proposals that directly address climate change concerns. Despite the existence of some fees and taxes related to fossil fuels and pollution, there are currently no climate-related taxes in effect in Nepal. In an audit observation, the OAG has pointed out that the pollution control fees collected by the GoN have not been allocated directly for the purpose of pollution control.

Based on the analysis and supporting evidence, the score for this dimension is a D.

⁴⁵ OAG. Performance and Special Audit Report of Climate Change- <https://oag.gov.np/uploads/files/O5s.pdf>

CRPFM-14. Expenditure Outturn for Climate Actions

Indicator/Dimension	Assessment of Performance	Score
CRPFM-14. Expenditure Outturn for Climate Action		C
CRPFM-14.1. Aggregate Climate Related Expenditure Outturn	The aggregate climate-related outturn was between 85 percent and 115 percent of the approved aggregate expenditures for climate actions of the last three years.	C
CRPFM-14.2. Climate Related Expenditure Composition Outturn	The variance in climate-related expenditure composition was less than 15 percent in the previous three years.	C
Coverage	Budgetary Central Government	
Time period	Last three completed fiscal years	
Description	<p>This indicator measures the extent to which climate related expenditures reflect the amounts originally approved, as defined in government budget documentation and end-of-year reports, both at the aggregate and at the detailed level.</p> <p><i>Related PEFA Indicator/Dimension:</i> PI-1.1. Aggregate expenditure outturn, PI.2.1. Expenditure composition outturn by function</p>	

The GoN has been tagging the climate-relevant allocation since 2012 and expenditures since 2017. The FCGO provides an overview of climate change expenditures in the annual consolidated financial statement, which are publicly available⁴⁶. At the federal level, there are 15 ministries responsible for implementing climate-related expenditures. Provincial, and local governments are also involved in climate change-related activities within their respective scopes. The details of the climate change-related budgets and expenditures over the past three years can be found in the table below.

Table CRPFM-14: Climate Related Budget and Expenditures (for the last three completed fiscal years, NPR in thousands)

Ministry	Fiscal year 2018/19		Fiscal year 2019/20		Fiscal year 2020/21	
	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure
Ministry of Finance	7,040,000	898,485	10,032,700	1,241,409	9,105,300	2,331,852
Ministry of Industry, Commerce and Supply	-	-	1,411,700	415,934	810,800	297,107
Ministry of Energy, Water Resources and Irrigation	43,930,500	30,257,515	41,485,500	21,163,286	37,423,400	21,569,004

⁴⁶ www.fcgo.gov.np

Ministry	Fiscal year 2018/19		Fiscal year 2019/20		Fiscal year 2020/21	
	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure
Ministry of Agriculture and Livestock Development	15,775,100	15,165,502	19,848,900	17,235,100	21,854,700	18,593,919
Ministry of Drinking Water	17,023,200	8,984,596	21,830,100	7,549,639	23,947,200	10,127,834
Ministry of Home Affairs	-	-	64,500,000	66,143,703	67,550,000	68,953,316
Ministry of Culture, Tourism and Civil Aviation	103,400	53,564	53,400	53,400	76,200	62,789
Ministry of Forest and Environment	5,891,200	4,861,616	8,217,500	4,929,402	7,017,400	5,082,605
Ministry of Land Management, Cooperatives and Poverty Alleviation	-	-	50,000	16,153	192,100	16,367
Ministry of Physical Infrastructure and Transport	12,066,400	5,796,086	21,449,400	6,700,210	28,967,100	9,942,616
Ministry of Urban Development	5,158,800	7,974,950	14,420,800	7,220,479	11,774,400	5,315,962
Ministry of Education, Science and Technology	140,000	66,034	900,000	391,666	544,200	460,836
Ministry of Federal Affairs and General Administration	939,900	881,810	1,686,200	305,356	3,546,100	63,431
Ministry of Health and Population	7,292,800	4,992,216	7,211,000	3,924,290	14,349,400	6,042,235
Ministry of Labor, Employment and Social Security	10,700	9,812	15,000	12,556	18,200	13,425
Ministry of Finance, Financing	43,147,500	44,808,890	48,539,800	27,203,466	46,440,700	32,780,097
Ministry of Finance, Miscellaneous	20,000,000	-	30,007,900	-	13,500,000	-
Province	113,434,100	110,466,981	99,844,400	107,409,167	99,873,700	110,348,062
Local	195,053,100	210,715,409	213,821,100	242,971,271	262,757,600	284,132,978
Total	487,006,700	445,933,466	605,325,400	514,886,487	649,748,500	576,134,435

Source: FCGO Consolidated Financial Statements.

CRPFM-14.1. Aggregate Climate Related Expenditure Outturn

During the fiscal years of 2018/19, 2019/20, and 2020/21, the percentage of climate change-related actual expenditures as a proportion of the original approved budget was 91.6 percent, 85.1 percent, and 88.7 percent, respectively.

Table CRPFM-14.1: Aggregate climate related expenditure outturn (last three completed fiscal years)

Outturn	FY2018/19	FY2019/20	FY2020/21
As a percentage of original approved budget	91.6 percent	85.1 percent	88.7 percent

Source: Table 19 FCGO Consolidated Financial Statements: FY 2018/19, FY 2019/20 and FY 2020/21. Calculation method: Variance % = Total Expenditure – Original Budget Allocation/Original Budget Allocation x 100.

Based on the analysis and supporting evidence, the score for this dimension is a C.

CRPFM-14.2. Climate Related Expenditure Composition Outturn

According to the available data from the FCGO, the variance of climate change-related expenditures composition outturn compared to original approved budget was 8.4 percent in FY 2018/19. The variance increased to 14.9 percent in FY 2019/20 and then decreased to 11.3 percent in FY 2020/21.

Table CRPFM-14.2: Climate Related Expenditure composition outturn compared to original approved budget by functional classification (last three completed fiscal years)

Variance (%)	FY2018/19	FY2019/20	FY2020/21
Functional classification	8.4 percent	14.9 percent	11.3 percent

Based on the analysis and supporting evidence, the score for this dimension is a C.



Annexes



Annex 1: Country Questionnaire

Section 1: International Commitments for Climate Change Mitigation and Adaptation

1. Has the country ratified the United Nations Framework Convention on Climate Change?
 - Yes, May 2, 1994 (Signed UNFCCC on June 12, 1992)
2. Has the country ratified the Paris Agreement?
 - Yes, on October 5, 2016
3. Has the country submitted Nationally Determined Contributions (NDCs)?
 - a. First NDCs
 - Yes, 2016
 - b. Second NDCs
 - Yes, December 8, 2020
4. If “Yes” to Question 3:
 - a. What aspects of climate change do the submitted NDCs address?
 - They focus on both climate change adaptation and climate change mitigation, with more of a focus on mitigation.
 - b. How does the country plan to meet its greenhouse gas (GHG) emission reduction targets as described in the NDCs?
 - **Financial support:** Nepal anticipates financial, technological, and capacity-building support from different bilateral/multilateral agencies and development partners. These funds will be utilized to bolster their limited national resources and technical capacities for scaling up climate action.
 - **Regulation:** The Nepal National Environment Policy (2019), the National Climate Change Policy (2019), the Environment Protection Act (2019), the Environment Protection Regulation (2020), the Framework on Local Adaptation Plans of Action (LAPA) (2011), the Disaster Risk Reduction National Strategic Plan of Action 2018–2030, the Fifteenth Plan (2019/2020-2023/2024) and other national strategies and action plans.
 - **Taxation:** Exemption of renewable energy technology.
 - Taxation
 - Subsidies
 - Transfers
 - Capacity building
 - Technology transfers
 - Others

- c. Specify the proportion as a percentage of total of
 - Conditional contributions 88.03 %; and unconditional contributions 11.97.
 - d. How does the country plan to meet its adaptation objectives as described in the NDCs?
 - The NAP outlines the Nepal's contribution toward meeting the adaptation goals as set out in the Paris Agreement. It also details the required means of implementation to implement that contribution, covering eight thematic and four cross-cutting areas.
5. Has the country formulated and communicated a mid-century, long-term, low greenhouse gas emission development strategy?
- Yes, Nepal has formulated a long-term, low greenhouse gas emission development strategy in October 2021. The strategy aims to achieve net-zero greenhouse gas emissions by 2045.
6. If "Yes" to Question 5:
- a. What aspects of climate change do mid-century strategies address?
 - The strategies address both climate change adaptation and climate change mitigation, with more of a focus on climate change mitigation.
 - b. How does the country plan to meet its GHG emission reduction targets as described in the mid-century strategies? (Specify)
 - By 2030, Nepal aims to expand clean energy generation from approximately 1400 megawatts (MW) to 15,000 MW, of which 5-10 percent will be generated by mini- and micro-hydro power, solar, wind and bioenergy. Of this, 5,000 MW is an unconditional target. The remainder is dependent upon the provision of funding by the international community. By 2030, it is ensuring that 15 percent of the total energy demand will be supplied by clean energy sources. By 2030, Nepal aims to maintain 45 percent of the total area of the country under forest cover (including other wooded land limited to less than 4 percent). By 2030, it will manage 50 percent of the Terai and Inner Terai forests and 25 percent of the middle hills and mountain forests sustainably, including using funding from REDD+ initiatives.
 - c. How does the country plan to meet its adaptation objectives as described in the mid-century strategy? (Specify)
 - By 2030, Nepal aims to prepare and implement climate-resilient and gender-responsive adaptation plans in all 753 local governments. The National Adaptation Plan (NAP) will be updated every ten years. Institutional mechanisms will be established and/or operationalized by 2025. The NAP will incorporate adaptation and resilience milestones to be achieved in the short-term (by 2025), medium-term (by 2030) and long-term (by 2050).

Section 2: National-level Strategies

7. Is climate change identified as a key issue in the national development plan or strategy for economic growth (or equivalent)?
 - Yes.
8. What is the climate change national framework?
 - a. What laws and regulations exist to support implementation of climate change related mitigation and adaptation actions?
 - Nepal National Environment Policy (2019)
 - National Climate Change Policy (2019)
 - Environment Protection Act (2019)
 - Environment Protection Regulation (2020)
 - Framework on Local Adaptation Plans of Action (LAPA) (2011)
 - Disaster Risk Reduction National Strategic Plan of Action 2018–2030
 - Building Act, 1998
 - National Building Code, 2020
 - Hydropower Development Policy, 2001
 - Nepal Electricity Authority Act, 1984
 - National Agroforestry Policy, 2019
 - b. Has the government developed a detailed action/implementation plan for achieving the country’s climate change goals (for example, a National Action Plan)?
 - Yes, the NAP and the NDCs are in place to implement planning for achieving the country’s climate change goals. The NDC implementation draft is under finalization.
 - c. Is there a national climate change strategic plan or a low carbon strategy?
 - Yes, the national climate change strategic plan is clearly mentioned in the Climate Change Policy and periodic plans. Similarly, there is Gender and Climate Change Strategy and an Action Plan for 2020-2030 in Nepal.
 - d. Is there a strategic document that establishes the country’s adaptation objectives (for example, National Adaptation Plan in developing countries)?
 - Yes, Nepal has a National Adaptation Plan to establish the country’s adaptation objectives.
 - e. How does regulation define what constitutes “climate change expenditure”? Does the regulation provides further refinement of the definition?⁴⁷
 - The CPEIR and climate change coding guidelines defined “Climate change expenditures,” but further refinement and clarification are needed regarding climate change expenditures.

⁴⁷ This includes climate change mitigation expenditures, climate change adaptation expenditures, climate change cross-cutting expenditures.

- f. Does regulation instruct how the budget should integrate climate change considerations? (Specify)
- Nepal's climate change policy ensured the mobilization of at least 80 percent of the amount for the implementation of programs at the local level. This is achieved by reducing administrative expenses, while also mobilizing the climate finance obtained through international mechanisms.
 - Sectorial climate change guidelines were also developed, for example, climate change budget guidelines for the forestry sector in 2021.
9. What are the institutional arrangements for executing climate change related policies and actions? (Specify)
- a. Which sectors and institutions are involved in the implementation of the national climate change strategies and policies?

Sector	Institutions (line ministries and agencies)	Sectoral Strategic Plan that Covers Climate Change?	Climate-related Budget for the Last FY	
			Submitted to MoF?	Adopted by the Legislature?
Agriculture and Food Security	MoALD	Yes	Yes	Yes
Forests, Biodiversity and Watershed Conservation	MoFE	Yes	Yes	Yes
Water Resources and Energy	MoEWRI	Yes	Yes	Yes
Rural and Urban Settlements	MoUD	Yes	Yes	Yes
Industry, Transport and Physical Infrastructure	MoPIT	Yes	Yes	Yes
Tourism, National and Cultural Heritage	MoCTCA	Yes	Yes	Yes
Health, Drinking Water and Sanitation	MoHP	Yes	Yes	Yes
Disaster Risk Reduction and Management	MoHA	Yes	Yes	Yes

- b. Is there a designated agency overseeing and coordinating the implementation of climate change activities?
- Yes, the Environment and Climate Change Council under the Chair of the Honorable Prime Minister. Other designated agencies include the Sustainable Development and Good Governance Committee in the National Assembly, and the IMCCC under the Chair of the Secretary of the Ministry of Forests and Environment, as well as the Ministry of Finance.
- c. Does the Ministry of Finance have a specific mandate in the implementation of climate change activities?
- Yes, as the MoF is responsible for coordinating all external funding, it takes the lead in the development of climate change activities in consultation with concerned stakeholders.

Section 3: Implementation of Climate Change Policies by the Government

10. What are the top five most important measures currently being implemented by the government to reduce the country's generation of GHG emissions?
 - Expand clean energy generation.
 - Promote the use of electric vehicles.
 - Promote organic agriculture production/climate-smart agriculture.
 - Implement household use of electric stoves.
 - Effective management of solid waste.
 - Sustainably manage forests.

11. What are the top five most important measures currently being implemented by the government to adapt to climate change impacts? (Specify)
 - The LAPA Framework is in place to assess the vulnerability risk in integration with DRR.
 - Awareness raising and capacity building.
 - Early warning system to mitigate loss and damage from climate-induced hazards.
 - Climate Change Financing Framework is in place to manage climate finance.
 - NAP and NDCs are endorsed and are being implemented.
 - Provincial climate change policies are under development.

12. Does the country have an operational monitoring and evaluation framework to track the implementation of its NDCs and climate actions?
 - Yes, the monitoring, reporting and evaluation framework is going to be developed. The OAG is conducting performance-based auditing of some environmental-related projects and programs.

13. In the last five years, were there any independent assessments⁴⁸ of the country's achievements in terms of climate change objectives and targets?
 - No.

14. Has the country conducted an assessment of the macroeconomic impacts of climate change?
 - Yes, the National Disaster Risk Reduction and Management Authority has conducted the assessment of macroeconomic impacts of climate change.

15. If "Yes" to Question 14
 - a. Which sectors were considered?
 - All relevant sectors.

⁴⁸ Independent would refer to an assessment undertaken by a body that is separate from and not subordinate to the government. This could involve an NGO.

- b. What methodology was used?
- Sector plans and budgetary plans.
16. Has the country assessed the macro-fiscal implications of implementing its climate change plans or NDCs?
- Yes.
17. Has the country conducted activities to mainstream its climate change plans or NDCs into its PFM systems?
- Yes.
18. Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?
- All government entities including sub-national governments, public corporations, the private sector, NGOs and civil societies.

Type of Operator	Number of Entities	Type of Funding		Total Climate-related Budget for the Last FY
		From Budgetary Central Government (BCG)	Other Sources	
Extra-budgetary units	9	BCG		
Public corporations	10	BCG		
Subnational governments	760	BCG		
All total national climate change budgets of FY 2021/22 (amount in NRS 00,000)				5,496,986

Source: Nepal Government Working Committee 11 General PEFA, 2022.

Annex 2: List of People Interviewed and Sources of Information

Annex 2a: List of People Interviewed

No.	Institution	Department	Name	Position
1	Ministry of Finance	Information Technology Section	Theku Shrestha	Under Secretary
2	National Natural Resource and Fiscal Commission		Amar Raj Mishra	Member
3	Financial Comptroller General Office	Financial Reporting and Publication Section	Ram Chandra Sharma	Deputy FCG
4	National Natural Resource and Fiscal Commission	Policy Analysis and Management Division	Gyanendra Paudel	Joint Secretary
5	Ministry of Agricultural and Development	Financial Administration	Nirmal Neupane	Undersecretary
6	Federal Parliament Secretariat	Finance Committee	Rekha Upadhaya	Undersecretary
7	National Planning Commission	Infrastructure and Production Division	Biju Kumar Shrestha	Joint Secretary
8	National Planning Commission	Social Development Division	Dr. Kiran Rupakhetee	Joint Secretary
9	District Treasury Control Office, Singhadurbar, Kathmandu		Mithu Thapa	Chief Treasury Controller
10	Ministry of Federal Affairs and General Administration	Environment Section	Rishi Raj Acharya	Undersecretary
11	Oxford Policy Management	Climate Change Lead- Policy and Institutions Facility (PIF)	Apar Paudel	Senior Consultant
12	Freelance Consultant		Madhukar Upadhaya	Climate Change Expert
13	Freelance Consultant		Ramesh Siwakoti	PFM Expert

Annex 2b: Sources of Information

PEFA Climate Indicator	Sources of Information
CRPFM-1. Budget Alignment with Climate Change Strategies	
1.1. Budget alignment	1. MOF- Climate change Financing Framework 2017- https://mof.gov.np/uploads/document/file/CCFF_FINAL_Web_20180222050438.pdf
	2. FCGO- Unified Chart of Accounts of the government https://www.fcgo.gov.np/storage/uploads/publications/2020111093022_COA_book_edited_compressed.pdf
	3. Nepal-The Fifteenth Plan: https://npc.gov.np/images/category/infographics.pdf
	4.. Nepal National Climate Change Policy 2019 https://climate.mohp.gov.np/31-acts/153-climate-change-policy
	5. Second National Determined Contribution (NDCs) 2020. https://climate.mohp.gov.np/30-manuals/167-second-nationally-determined-contribution-ndc-gon-2020
	6. Nepal- Medium Term Expenditure Framework- https://www.npc.gov.np/en/category/medium_term_expenditure_framework
	7. Nepal Disaster Risk Reduction Portal. http://drrportal.gov.np/document
	8. Nepal- Budget Speech - https://mof.gov.np/site/publication-category/87
	9.Nepal- Budget Speech - https://mof.gov.np/site/publication-category/87
	10. The four priorities of the UN DRR Sendai Framework (2015-2030- https://www.undrr.org/publication/sendai-framework-disaster-risk-reduction-2015-2030)
CRPFM-2. Tracking Climate-Related Expenditures	
2.1. Tracking climate-related expenditures	1. MoF-Budget Tarjuma Digdarshan (Budget Formulation Guidelines)- https://mof.gov.np/site/publication-category/95
	2. NPC- Annual Development Programs- https://npc.gov.np/en/category/annual_development_programs#
	3. FCGO-Consolidated Financial Statement- https://www.fcgo.gov.np/storage/uploads/reportpublication/2021-05-17/20210517185110_CFS_2019_20%20final.pdf
	4. Nepal CPEIR- https://www.npc.gov.np/images/category/climate_public_expenditure.pdf

PEFA Climate Indicator	Sources of Information
CRPFM-3. Budget Circular	
3.1. Budget Circular	1. Nepal- Climate Change Financing Framework - https://mof.gov.np/site/publication-detail/1874
	2. MoF- Budget Tarjuma Digdarshan (Budget Formulation Guidelines)- https://mof.gov.np/site/publication-category/95
	3. NPC- Budget Formulation Guidelines- https://npc.gov.np/en/category/guidelines
CRPFM-4. Legislative Scrutiny	
4.1. Legislative scrutiny of the budget	1. Sustainable Development and Good Governance Committee of the National Assembly of Nepal- https://na.parliament.gov.np/np/committees/Sustainable-Development-and-Good-Governance-Committee/publications
	2. Report of Finance Committee of the Parliament- https://hr.parliament.gov.np/uploads/attachments/4hiomsiomxuqjz7t.pdf
	3. Report of the Public Accounts Committee of the Parliament- https://hr.parliament.gov.np/uploads/attachments/9zlm6dfhwq1ppk3r.pdf
	4. The 20th and 21th Report of the Public Accounts Committee of the parliament- https://hr.parliament.gov.np/uploads/attachments/9zlm6dfhwq1ppk3r.pdf
	5. Climate Finance Hand Book for parliament - https://www.undp.org/nepal/publications/climate-finance-handbook-federal-parliament-provincial-local-assemblies
4.2. Legislative scrutiny of audit and evaluation reports	1.The 20th and 21th Report of the Public Accounts Committee of the parliament- https://hr.parliament.gov.np/uploads/attachments/9zlm6dfhwq1ppk3r.pdf
	2. Report of Public Accounts Committee of the parliament- https://hr.parliament.gov.np/uploads/attachments/9zlm6dfhwq1ppk3r.pdf
	3. Climate Finance Hand Book for parliament - https://www.undp.org/nepal/publications/climate-finance-handbook-federal-parliament-provincial-local-assemblies
CRPFM-5. Climate-Responsive Public Investment Management	
5.1. Climate-related provisions in Regulatory Framework for Public Investment Management	1. Public Procurement Act and Regulations of NEPAL- https://ppmo.gov.np/acts_and_regulations

PEFA Climate Indicator	Sources of Information
	<p>2. Nepal-The Fifteenth Plan: https://npc.gov.np/images/category/infographics.pdf</p> <p>3. Nepal National Climate Change Policy 2019 https://climate.mohp.gov.np/31-acts/153-climate-change-policy</p> <p>4. . Second National Determined Contribution (NDCs) 2020. https://climate.mohp.gov.np/30-manuals/167-second-nationally-determined-contribution-ndc-gon-2020</p>
5.2. Climate-related Project Selection	<p>1. Public procurement Act and Regulations of NEPAL- https://ppmo.gov.np/acts_and_regulations</p> <p>2. Nepal-The Fifteenth Plan: https://npc.gov.np/images/category/infographics.pdf</p> <p>3. Nepal National Climate Change Policy 2019 https://climate.mohp.gov.np/31-acts/153-climate-change-policy</p> <p>4. . Second National Determined Contribution (NDCs) 2020. https://climate.mohp.gov.np/30-manuals/167-second-nationally-determined-contribution-ndc-gon-2020</p> <p>5. MOF- <i>Budget Tarjuma Digdarshan</i> (Budget Formulation Guidelines)- https://mof.gov.np/site/publication-category/95</p>
5.3. Climate-related Provisions for Project Appraisal	<p>1. MOF- <i>Budget Tarjuma Digdarshan</i> (Budget Formulation Guidelines)- https://mof.gov.np/site/publication-category/95</p>
5.4. Reporting from entities in charge of implementation	<p>1. 1. Public Procurement Act and Regulations of NEPAL- https://ppmo.gov.np/acts_and_regulations</p> <p>2. MOF- <i>Budget Tarjuma Digdarshan</i> (Budget Formulation Guidelines)- https://mof.gov.np/site/publication-category/95</p>
CRPFM-6. Climate Responsive Non-financial Management	
6.1. Climate-responsive Non-financial Management	<p>1. MOF Economic Survey- https://www.mof.gov.np/uploads/document/file/1633341980_Economic%20Survey%20(English)%202020-21.pdf</p> <p>2. SOE Information yellow Book -https://mof.gov.np/site/publication-category/29</p>
CRPFM-7. Climate-Related Liabilities	
7.1. Climate-related Fiscal Risks	<p>[1]https://www.fcgo.gov.np/storage/uploads/publications/20210121110514_Nepal-Public-Sector-Accounting-Standards-</p>

PEFA Climate Indicator	Sources of Information
7.2. Climate-related Debts and Guarantees	1. Public Debt Act, 2059 (2002)
	2. Debt Report 2019-20- https://pdmo.gov.np/reportsdetail/3/2020/54276157/
CRPFM-8. Climate-Responsive Procurement	
8.1. Climate-responsive Procurement Framework	1. The Public Procurement Act of 2007
	2. The Public Procurement Regulations of 2007
	3. Integrating Responsible Business Conduct in Public Procurement- https://www.oecd.org/gov/integrating-responsible-business-conduct-in-public-procurement-02682b01-en.htm
8.2. Climate-responsive Public Procurement Operations	1. The Public Procurement Act 2007
	2. The Public Procurement Regulations of 2007
8.3. Climate-responsive Public Procurement Monitoring	1. The Public Procurement Act of 2007
	2. The Public Procurement Regulations of 2007
	3. PPMO Annual Reports- https://ppmo.gov.np/reports/annual_reports
8.4. Climate-responsive public procurement reporting	PPMO Annual Reports- https://ppmo.gov.np/reports/annual_reports
CRPFM-9. Climate-Responsive Revenue Administration	
9.1. Climate-related tax management, audit and investigation	1.MOF Arthik Ain - https://www.mof.gov.np/site/publication-detail/3175
	2. FCGO- Unified Chart of Accounts of the government https://www.fcgo.gov.np/storage/uploads/publications/20201111093022_COA_book_edited_compressed.pdf
9.2. Climate-related tax arrears	N/A
CRPFM-10. Compliance of Climate-Related Expenditures	
10.1. Effectiveness of the system of controls	1. Financial Procedures and Fiscal Accountability Act (2019) https://www.fcgo.gov.np/downloads/type/1

PEFA Climate Indicator	Sources of Information
	2. Financial Procedures and Fiscal Accountability Regulation (2020) - https://www.fcgo.gov.np/downloads/type/1
	3 FCGO- Internal Control Manuals 2075 (B.S.) - https://www.fcgo.gov.np/downloads/type/2
	4. FCGO- Internal Auditing Procedures Guidelines 2073 (B.S.)- https://www.fcgo.gov.np/downloads/type/3
	5. FCGO- Internal Audit Report - https://www.fcgo.gov.np/reporttype/13
	6. OAG-Annual Audit Report - https://oag.gov.np/menu-category/926/en
10.2. Compliance of transactions	[1] FCGO- Internal Audit Report - https://www.fcgo.gov.np/reporttype/13
CRPFM- 11. Climate-Responsive Fiscal Decentralization Framework	
11.1. Climate-responsive fiscal decentrali-zation legal framework	1. OAG-Annual Audit Report - https://oag.gov.np/menu-category/926/en
	2. The Constitution of Nepal- www.lawcommission.gov.np
	3. Nepal Law Commission- Sthaniya Sarkar Sanchalan Ain (Local Government Operation Act)- https://lawcommission.gov.np/np/wp-E0%A5%AA.pdf
	4. OAG -Performance Audit Report of 2019/20- https://oag.gov.np/menu-category/972/en
	5. MOFE-Assessment of Climate Financing Allocation: Unpacking Eighty Percent Allocation to the Local Level
	6. Local Adaptation Plans of Action (LAPA)- https://climate.mohp.gov.np/downloads/National_Framework_Local_Adaptation_Plan.pdf
11.2. Climate-responsive fiscal transfers	[1] MOFE- Annual Programs- https://www.mofe.gov.np/resources/annual-programs-3651
	1 FCGO- Consolidated Financial Statements- https://www.fcgo.gov.np/reporttypes
	2 Local Adaptation Plans of Action (LAPA)- https://climate.mohp.gov.np/downloads/National_Framework_Local_Adaptation_Plan.pdf
11.3. Climate-Responsive PFM Arrangements Applied by Subnational Governments	1. FCGO- Consolidated Financial Statements- https://www.fcgo.gov.np/reporttypes
	2. Nepal Law Commission- Sthaniya Sarkar Sanchalan Ain (Local Government Operation Act)- https://lawcommission.gov.np/np/wp-E0%A5%AA.pdf
	3. Local Adaptation Plans of Action (LAPA)- https://climate.mohp.gov.np/downloads/National_Framework_Local_Adaptation_Plan.pdf

PEFA Climate Indicator	Sources of Information
CRPFM-12. Climate-Related Performance Information	
12.1. Climate-related information in performance plans	1. MOFE-Second Nationally Determined Contribution (NDC) – https://mofe.gov.np/old/downloadsdetail/3/2018/98853603/
	2. NPC- MTEF- https://npc.gov.np/en/category/medium_term_expenditure_framework
	3. MOF- Economic Survey- https://www.mof.gov.np/site/publication-detail/3171
	4. MOF- Budget Speech - https://www.mof.gov.np/site/publication-category/87
12.2. Climate-related information in performance reports	1.MOFE-Second Nationally Determined Contribution (NDC) – https://mofe.gov.np/old/downloadsdetail/3/2018/98853603/
	2. National Adaptation Programs of Action- https://unfccc.int/topics/resilience/workstreams/national-adaptation-programmes-of-action/introduction?gclid=Cj0KCQjw48OaBhDWARIsAMd966Clq_UfxmU3mZ3wK0KL34OOS_2n6zCmq-KHXLLva8mKppGziGuUumwaApipEALw_wcB
CRPFM-13. Climate-Related Evaluations	
13.1. Climate related- evaluation of expenditures	1. OAG- Performance and Special Audit Report of Climate Change- https://oag.gov.np/uploads/files/O5s.pdf
	2. OAG- Performance and Special Audit Report of Climate Change- https://oag.gov.np/uploads/files/O5s.pdf
13.2. Climate-related evaluation of taxes	1. OAG- Performance and Special Audit Report of Climate Change- https://oag.gov.np/uploads/files/O5s.pdf
	2. Madhav Khanal -Nepalese Tax Structure: An Analytical Perspective (2018) - https://www.nepjol.info/index.php/JMCRJ/article/download/34355/27011/
CRPFM-14. Expenditure Outturn of Climate Actions	
14.1. Aggregate climate expenditure outturn	1. FCGO Consolidated Financial Statement of the Government- www.fcgo.gov.np
14.2. Climate-related expenditure outturn	FCGO Consolidated Financial Statement of the Government- www.fcgo.gov.np

Annex 3: Climate Change and Disaster Risk Management Related to Policies, Plans, Regulations and Diagnostics.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
National Adaptation Programs of Action (NAPAs), 2010	The NAPA identified nine urgent and immediate climate change adaptation priority programs related to six thematic sectors (agriculture, forest biodiversity, water resources, health, infrastructure, and disasters). As the first comprehensive government response to climate change, the NAPA also specified a coordination mechanism and implementation modality for climate change adaptation programs in Nepal.
Local Adaptation Plans of Action (LAPAs) (2011)	The LAPA framework was formulated to translate the suggestions into actions, as well as to assist in the identification of local adaptation actions with people’s participation, as prescribed in the NAPA at the local level.
Climate Public Expenditure and Institutional Review (CPEIR)	The CPEIR was conducted to facilitate the integration of climate change into the budgetary process, including as part of budget planning, implementation, expenditure management, and financing. The CPEIR highlighted the need for improvements to the institutional and financial management systems at the local level to help the local governments better manage climate finance. Further to this, district-level CPEIRs were conducted in five representative districts. They provided recommendations for sector-specific climate change relevant assessment criteria to be used by the provincial and local governments.
Climate Change Financing Framework (CCFF), 2017	The CCFF aims to mainstream climate change in planning and budgeting at all levels of government. It focuses on reforms in three broad areas: (i) integration of climate change in the planning and budgeting cycle; (ii) monitoring, reporting, and verification of climate change financing; and (iii) improved accountability in climate change financing.
Disaster Risk Reduction and Management Act, 2017	<p>This Act incorporated the whole spectrum of the disaster management cycle (disaster preparedness, response, rescue, relief, recovery, and rehabilitation), as well as the diversity of disasters.</p> <p>-Disasters are defined distinctly as natural and human-induced. As such, the Act</p> <p>provides for a detailed action plan from the central government to the district and local levels with the aim of implementing and executing a disaster management plan.</p>

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
	<p>The Act also includes the following:</p> <ul style="list-style-type: none"> ■ Provision for the establishment of the National Council on Disaster Risk Reduction Management (DRRM) under the Chair of the Prime Minister. ■ Provision for the establishment of the Multi-stakeholder Executive Committee on DRRM under the Chair of the Home Minister. ■ Provision for the establishment of the National Disaster Management Authority (NDMA) under the Home Ministry. ■ Provision for the establishment of the District and Local Risk Reduction Committee. ■ Definition of the roles of security forces, fire brigades, and public and commercial institutions, ■ Provision for the establishment of the Disaster Management Fund at the national, provincial and local levels.
Local Government Operationalization Act, 2017	The Act established the rights at the local level, as prescribed in the Constitution.
National Disaster Risk Reduction Policy, 2018	<p>The Act includes the following provisions:</p> <ul style="list-style-type: none"> ■ Provision for the inclusion of all of society in the DRRM; ■ Provision for the building of coherence of DRR with SDGs, food security, health, climate change adaptation, and environmental management; ■ Provision for the promotion of public, cooperative, and private sector financing in DRRM; ■ Provision for the establishment of a National Disaster Risk Reduction Research and Training Centre; ■ Provision for the development of guidelines on climate adaptive, flood and earthquake-resilient buildings, roads, bridges, powerhouse, industries, and so on; ■ Provision for formulating regulations for the mandatory assessment of DRR and climate change, including the formulation and design of developmental activities; ■ Provision for a National Disaster Management Authority; ■ Provision for formulating regulation to enable the investment of the private sector, cooperatives, insurance companies, and banks in DRRM; ■ Provision for an allocation of at least 5 percent of the annual budget of any public institution in DRRM; ■ Provision of the establishment of a DRRM fund at the federal, provincial, and local levels; ■ Provision for the publishing of a National Disaster Report on an annual basis.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
Disaster Risk Reduction National Strategic Plan of Action 2018–2030	The action plan was formulated to support the sound management and guidance for effective long-term disaster reduction, as well as an efficient and effective response in managing the multidimensional aspects of disaster management.
Sustainable Development Goals Status and Roadmap: 2016-2030	The Roadmap proposed key actions to strengthen the country's resilience and adaptive capacity to climate-related hazards and natural disasters, such as having a climate change adaptation plan, putting forth the idea of climate-smart villages and climate-smart farming, as well as climate change education in schools.
National Climate Change Policy (NCCP), 2019	<p>The goal of the NCCP is to contribute to the socioeconomic prosperity of the nation by building a climate-resilient society. The NCCP has the following objectives:</p> <ul style="list-style-type: none"> ■ Enhance climate change adaptation capacity of persons, families, groups, and communities vulnerable to and at risk of climate change. ■ Build resilience of ecosystems that are at risk of adverse climate change impacts. ■ Promote a green economy by adopting the concept of Low Carbon Emission Development. ■ Make judicious mobilization of international financial resources for climate change adaptation and mitigation. ■ Support research, technology development, and information service delivery related to climate change effects. ■ Integrate the climate change issues into policies, strategies, plans, and programs of all state levels and clusters. ■ Mainstream gender equality and social inclusion (GESI) into climate change adaptation and mitigation programs.
Environment Protection Act (EPA), 2019	The EPA incorporated the provisions related to climate change in Chapter 4, which legalizes the periodic study and assessment of climate change impacts in the country. It calls for the preparation of an adaptation plan by the federal, provincial and local governments on an as needed basis. Additionally, among other things, the Act provides a basis for the enactment of necessary policies and technical standards for the development of technology in the sectors identified.
Environment Protection Regulation (2020)	The regulation was enacted to effectively implement the climate change strategies and policy.
Nepal National Environment Policy (2019)	The Policy was prepared as a part of the government's continuing efforts to incorporate environmental concerns into the country's development programs.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
NDC (2020)	The Second Nationally Determined Contribution (SNDC) target is to have climate-resilient and gender-responsive adaptation plans in all of the 753-local governments by 2030. Furthermore, the SNDC has specifically outlined the timeline for the NAP update (every 10 years) and the National-level Vulnerability and Risk Assessment (every 5 years). Additionally, a National Strategy and Action Plan on Loss and Damage (L&D) associated with climate change impacts is expected to be prepared by 2025 under the SNDC adaptation targets.
Local Level Development Planning Guideline, 2021	The Local Level Development Planning Guidelines prepared by the National Planning Commission aim to enable local governments to undertake holistic planning, while also considering climate change and disaster risk in their development planning processes.
National Adaptation Plan (NAP), 2021	The plan sets out short-term priority actions to 2025; medium-term priority programs to 2030; and long-term adaptation strategic goals to 2050. These plans and goals aim to assist Nepal in better integrating actions and strategies to address climate risk and vulnerability in development planning and implementation.
Fifteenth Plan (2019/2020-2023/2024)	Climate change has been included in a separate chapter in the periodic plan with the following strategies: <ul style="list-style-type: none"> ■ To improve and enhance necessary policies and institutional structures at the federal, provincial, and local levels for climate change management. ■ To implement national, provincial, and local adaptation plans to reduce the vulnerability of communities. ■ To adopt the concept of green development and promote clean energy to mitigate climate change. ■ To advocate at the international level for easy access to climate finance and distribute any potential benefits to the provincial, local, and community levels. ■ To carry out research and capacity-building activities in the field of climate change.
Building Act, 1998	The Act provides the necessary provisions for the regulation of building construction works in order to protect building against earthquakes, fires and other natural calamities.
National Building Code, 2020	This code covers the requirements for seismic analysis and the design of various building structures to be constructed in the territory of the country.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
Hydropower Development Policy, 2001	The policy was developed to generate electricity at a low cost by utilizing the water resources available in the country. It also seeks to: (i) extend reliable and qualitative electric services at a reasonable price; (ii) tie electrification with the economic activities; (iii) render support to the development of the rural economy by extending electrification; and (iv) develop hydropower as an exportable commodity in the country.
Nepal Electricity Authority Act, 1984	The Act was passed to increase power supply by generating, transmitting, and distributing electricity in an efficient and reliable manner.
National Agroforestry Policy, 2019 (2076)	This policy incorporates provisions, such as the development, expansion and promotion of agroforestry including concessional loans to the fruit production sector.
Gender and Climate Change Strategy and Action Plan, 2020-2030	The report aims to guide government action in achieving climate goals at the country level, particularly those related to the Paris Agreement on Climate Change.
Climate Change Institutional Assessment (CCIA, 2022)	<p>The Climate Change Institutional Assessment (CCIA) at the Federal level in Nepal focused particularly on the subnational governments' role for effective climate action. Given the key role of State-Owned-Enterprises in the climate agenda of Nepal, the assessment also focuses on their roles in climate response.</p> <p>The assessment outlines the need for robust policies and planning supported by systematic implementation in the three tiers of government as well as other relevant agencies and stakeholders in consideration of the required climate action. The identified gaps and corresponding recommendations are provided in Chapters 2 – 6 with summary provided in Chapter 7 of the CCIA.</p> <p>Summary of Identified Gaps:</p> <p>A. Organization:</p> <ul style="list-style-type: none"> ■ Lack of clarity in roles and responsibilities among sectoral ministries, State-Owned Enterprises, and other entities like the private sector and civil society organizations. ■ Inadequate specificity regarding the roles of subnational governments in achieving national climate objectives. ■ Weak coordination mechanisms at the local level, with existing ones proving ineffective. ■ Capacity gaps across the three tiers of government, particularly at the local level.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
	<p>B. Planning:</p> <ul style="list-style-type: none"> ■ Medium- and long-term strategies exist at the national level, but integration into sectoral, subnational, and State-Owned Enterprises’ plans is lacking. ■ Limited availability of vulnerability and risk information at subnational and local levels. ■ Incomplete sector-wise greenhouse gas emissions data. ■ Lack of Monitoring, Reporting, and Verification practices at the province and local levels. ■ Data gaps and limited capacity hinder robust planning, especially at the subnational level. <p>C. Public Finance:</p> <ul style="list-style-type: none"> ■ Climate Change Financing Framework (CCFF) exists, but there’s a need for ex-ante climate planning and mainstreaming in public financial management. ■ Insufficient consideration of climate targets in public investment, budget formulation, procurement, and reporting. ■ Lack of resources to meet ambitious national climate targets, with estimated financing needs of USD 280 billion. <p>D. Subnational Governments and State-Owned Enterprises (SOEs):</p> <ul style="list-style-type: none"> ■ Unclear roles and responsibilities for subnational governments in meeting national climate targets. ■ Inadequate representation of local governments in coordination mechanisms. ■ Intergovernmental fiscal transfer system does not incentivize climate action performance. ■ Capacity constraints at the subnational level, especially at the local level. ■ No legal or regulatory requirement for SOEs to prepare for and respond to climate change. <p>E. Accountability:</p> <ul style="list-style-type: none"> ■ Limited availability and accessibility of localized climate vulnerability and risk information. ■ Lack of a transparent integrated database system for climate information hampers evidence-based planning. ■ Insufficient stakeholder engagement impacting accountability. ■ Capacity constraints in legislative bodies, supreme audit institutions, and judiciary affect effective climate oversight. <p>Reference: Nepal Climate Change Institutional Assessment (CCIA) Report. World Bank and Oxford Policy Management (2022).</p>

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
District Level Climate Expenditure and Institutional Review (d-CPEIR)	<p>The District Climate Public Expenditure and Institutional Review (d-CPEIR) was conducted in 2016-2017 in Nepal in the districts: Udayapur, Dhading, Myagdi, Bardiya, Achham.</p> <p>The d-CPEIR's focus was to understand local level climate finance budgeting and planning. It also reviewed responses made in the districts for addressing climate-relevant impacts. This document is the synopsis of the five reports that provides basic information about what already exists to assist the integration of climate change in sub-national planning and budgeting.</p>
	<p>The conclusions and recommendations from the District Climate Public Expenditure and Institutional Review (d-CPEIR) are summarized as follows:</p> <p>Contextual Changes:</p> <ul style="list-style-type: none"> ■ The review acknowledges changes in the state structure since FY 2017/18, with local and provincial governments taking responsibility for development works, including climate change (CC)-relevant activities. <p>Policy and Strategy Frameworks:</p> <ul style="list-style-type: none"> ■ Existing programs address climate-related issues but lack explicit planning for climate responses. ■ Recommendations include incorporating CC considerations in planning guidelines, updating budget circulars for coding CC-related allocations, and aligning national CC policies with sector policies. <p>Institutions:</p> <ul style="list-style-type: none"> ■ Lack of coordination among sectors and weak linkages hinder effective climate response. ■ The recommendation emphasizes establishing a coordination committee to integrate CC-relevant activities into local government plans. <p>Governance and Planning:</p> <ul style="list-style-type: none"> ■ Local initiatives face obstacles due to sector priorities. ■ Suggested measures include basing planning and budgeting on CC analysis, engaging climate experts, and enhancing local leaders' understanding of climate impacts.

Policy, Plan, Regulation, Key Diagnostic	Brief Explanation of Content
	<p>Budgeting, Expenditure, and Reporting:</p> <ul style="list-style-type: none"> ■ Information gaps exist in capturing total district-level budgets and expenditures, especially from NGOs. ■ Recommendations involve local governments recognizing CC activities in development plans and modifying reporting formats for NGOs to capture climate-relevant expenditure. <p>Capacity Building:</p> <ul style="list-style-type: none"> ■ Capacity building is essential at the local level for understanding and responding to climate change. ■ A comprehensive CC capacity development strategy is recommended, including collaboration between ministries, the Central Bureau of Statistics, and local governments. In summary, the recommendations aim to enhance the integration of climate change considerations in policies, institutional frameworks, governance structures, and budgeting processes at both local and national levels. The emphasis is on coordination, awareness, and capacity building to effectively address climate-related challenges.

Glossary

Subject	Description
Budgetary Central Government	The sector of government where revenues and expenses are regulated and controlled by a Ministry of Finance, or its functional equivalent, by means of a budget approved by the legislature.
Central Government	The Central Government is comprised of a Budgetary Central Government, and Extra-Budgetary Units.
Climate Public Expenditure and Institutional Review	A diagnostic tool to assess opportunities and constraints for integrating climate change concerns into the national and subnational budget allocation and expenditure processes. The framework has three key pillars: Policy Analysis, Institutional Analysis, and Climate Public Expenditure Analysis.
Climate Related Expenditure	Climate-related expenditures (CREs) have been defined as financial flows that contribute to financing climate adaptation or mitigation interventions or a combination of both. The definition of adaptation and mitigation is based on the Organization for Economic Co-operation and Development (OECD) (Rio marker) definitions, and further narrowed down by national strategies and sectoral plans. Activities and programs identified as climate relevant are classified as adaptation; mitigation; adaptation and mitigation; and/or supporting areas. There is no positive list of climate-relevant activities and programs. However, under the methodology, programs are designated if reference is made to climate change in national policy documents. The OECD adopted definitions for climate-related expenditures (mitigation and adaptation) are as follows: 1. Mitigation – activities that contribute to the objective of stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration”; and 2. Adaptation – activities that aim to “reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience”. Additionally, climate change-related expenditures include activities that respond to the damages and losses on humans, the environment and infrastructure caused by a natural disaster.
Climate-Responsive Assets	Non-financial assets owned by the government with a clear goal to reduce GHG emissions. For example, the government could replace normal vehicles with a fleet of electric or hybrid cars. Other examples include carbon sinks, such as forests and wetlands, as well as public lands that manage to retain and/or capture carbon in vegetation and soils.

Subject	Description
Climate-Vulnerable Assets	Non-financial assets owned by the government, such as lands, buildings, subsoils, production units, infrastructure, transportation systems, and other network infrastructure systems where physical risks arising from changes in environmental conditions and extreme weather events may lead to the damage or loss of assets, and loss of asset value. Thus, they could adversely affect the delivery of public services and economic activities on public lands. It can also include transition risks that may arise because of changes in technology, regulations and market conditions as economies decarbonize. This could in turn lead to “stranded” assets that can no longer operate economically.
Extra Budgetary Units	Operate under the authority or control of a central, state, or local government. Extra-budgetary entities are not fully covered by the general budget. As such, they may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources.
National Adaptation Plan	A plan submitted to the United Nations Framework Convention on Climate Change (UNFCCC) by the least developed countries to describe the country’s perception of its most “urgent and immediate needs to adapt to climate change.”
Nationally Appropriate Mitigation Actions	Any action reducing emissions in developing countries. It is prepared under the umbrella of a national governmental initiative.
Nationally Determined Contributions	National Determined Contributions are embodied in efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement requires each Party to prepare, communicate and maintain successive nationally determined contributions that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions.
Paris Agreement	An international agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future.
Public Expenditure and Financial Accountability PEFA) Assessment	A framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. The PEFA Assessment is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, thereby providing a summary of changes over time.

Subject	Description
United Nations Framework Convention on Climate Change (UNFCCC)	<p>The UNFCCC entered into force on March 21, 1994. At the end of 2020, it had 197 Parties (196 countries and European Union (27 countries)) that are signatories to the Convention. As part of the ratification process, they have taken on the ultimate objective of “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.”</p>

Public Financial Management Multi-Donor Trust Fund

Supported by:



European Union



Norway



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

State Secretariat for Economic Affairs SECO



from the British people



USAID
FROM THE AMERICAN PEOPLE



Administered by:
THE WORLD BANK