TAAS-0072: Support for Strengthening Climate Finance Activities in Nepal

Situation Analysis for Nepal on Climate Finance

Submitted by:

Nepal Development Research Institute (NDRI), Nepal

in collaboration with:

Prakriti Resources Centre (PRC), Nepal

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This project, TAAS-0072: Support for Strengthening Climate Finance Activities in Nepal, was undertaken in close coordination with the Government of Nepal and the private sector, and was supported by Climate and Development Knowledge Network (CDKN).

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Acronyms:

AEPC:	Alternate Energy Promotion Center
AF:	Adaptation Fund
CCA:	Climate Change Adaptation
CDKN:	Climate and Development Knowledge Network
CDM:	Clean Development Mechanism
CIF:	Climate Investment Funds
COP:	Conference of Parties
CPEIR:	Climate Expenditure and Institutional Review
CTF:	Clean Technology Fund
DANIDA:	Danish International Development Agency
DFID:	Department for International Development
DGIS:	Directorate-General for International Cooperation
DKK:	Danish Krone
DHM:	Department of Hydrology and Meteorology
DoED:	Department of Electricity Development
DOI:	Department of Industry
DoIr:	Department of Irrigation
DOLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DOR:	Department of Road
DWIDM:	Department of Water Induced Disaster Management
EBA	Ecosystem based adaptation
EFLG:	Environment Friendly Local Governance
EIA:	Environmental Impact Assessment
EST:	Environmentally Sustainable Transport
FAO:	Food and Agriculture Organization of United Nations
FECOFUN:	Federation of Community Forestry Users Nepal
FINNIDA:	Finish International Development Agency
FIP:	Forest Investment Programme
FNCCI:	Federation of Nepalese Chamber of Commerce and Industry
FNCSI:	Federation of Nepalese Cottage and Small Industries
GCF:	Green Climate Fund
GLOF:	Glacial Lake Outburst Flood
GEF:	Global Environmental Facility
GIZ:	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Federal Enterprise for International Cooperation)

GoN:	Government of Nepal
HIDCL:	Hydroelectricity Investment and Development Company Limited
IECCD:	International Economic Cooperation Coordination Division
IEDI:	Industrial Enterprises Development Institute
INDC:	Intended Nationally Determined Contribution
IPPAN:	Individual Power Producers Association of Nepal
LAPA:	Local Adaptation Plans of Action
LCDS:	Local Carbon Development Strategy
LDC:	Least Developed Countries
MoAD:	Ministry of Agriculture Development
MoF:	Ministry of Finance
MoFALD:	Ministry of Federal Affairs and Local Development
MoFSC:	Ministry of Forest and Soil Conservation
MoI	Ministry of Industry
MoIr	Ministry of Irrigation
MoPE:	Ministry of Population and Environment
MoPIT:	Ministry of Physical Infrastructure and Transport
MoUD:	Ministry of Urban Development
NAMA:	Nationally Appropriate Mitigation Actions
NAP:	National Adaption Plan
NAPA:	National Adaptation Programme of Action
NDA:	National Designated Agency
NDC:	Nationally Determined Contributions
NDRI:	Nepal Development Research Institute
NEA:	Nepal Electricity Authority
NGO:	Non-Governmental Organization
NIE:	National Implementing Entity
NORAD:	Norwegian Agency for Development Coordination
NPC:	National Planning Commission
NPEDC:	National Productivity and Economic Development Centre
NTNC:	Nepal Trust for Nature Conservation
PPCR:	Pilot Programme for Climate Resilience
PRC:	Prakriti Resources Centre
REDD:	Reducing Emissions from Deforestation and Forest Degradation
SIDS:	Small Island Developing States
SREP:	Scaling Up Renewable Energy in Low Income Country Programme
UNFCCC:	United Nations Framework Convention on Climate Change

UNCRD	United Nations Center for Regional Development
USAID:	U.S. Agency for International Development
WECS:	Water and Energy Commission Secretariat
WFP:	World Food Programme
WB:	World Bank

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1 Introduction

This project on “Support to Climate Finance Activities in Nepal” is led by Nepal Development Research Institute (NDRI), working in collaboration with Prakriti Resources Centre (PRC) and funded by Climate and Development Knowledge Network (CDKN). The overall objective of this project is to support the Government of Nepal, particularly the Ministry of Finance (MoF) as well as the Ministry of Population and Environment (MoPE) in enhancing their understanding and capabilities towards accessing and utilizing Climate Finance to implement climate actions in the country. Specific objectives of the project are:

- Support and train potential NIEs to enhance understanding with regards to accessing international climate finance through direct access modality. The training will focus on awareness raising regarding barriers towards accessing Climate Finance both within Nepal (delivery mechanism) and international (access). It is expected that the training will provide the broader understanding of climate finance landscape at global level;
- Specifically focusing on bridging divergent views /understanding among senior government officials from the Ministry of Finance, the Ministry of Population and Environment, and others;
-
- Generation and dissemination of knowledge products that enhance the understanding of climate finance and its utilization in the country.

This report provides a baseline analysis of the status of climate finance related work in Nepal, including barriers and challenges faced by relevant actors, and the entry points for further interventions and arrangements needed on climate finance.

2 Context and Priority Areas for Analysis

The Paris Agreement, the outcome of the COP21 of the UNFCCC has delivered a framework for post-2020 climate action to aim to hold global temperatures well below 2°C pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. The action plans to achieve these goals are the regularly updated nationally determined contributions (NDCs) of the parties, as per the principle of the UNFCCC, the developing country parties and specifically the least developed country (LDC) parties require financial resources and technologies to fulfill their commitment and pursue the path of sustainable development. The Green Climate Fund (GCF) has been established with the objective to mobilize climate finance to support scaled-up mitigation and adaptation action in developing countries. The GCF's objective is to 'promote the paradigm shift towards low emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change'. The Fund will finance low-emission (mitigation) and climate resilient (adaptation) projects and programmes developed by the public and private sectors to contribute to the sustainable development goals of countries. In doing so, it will aim to equally balance its allocation between adaptation and mitigation over time, and allocate significant resources to the private sector. It also aims to allocate at least half of its resources for adaptation for least developed countries (LDCs), Small Island developing States (SIDS) and African States (**Figure 2-1)**.

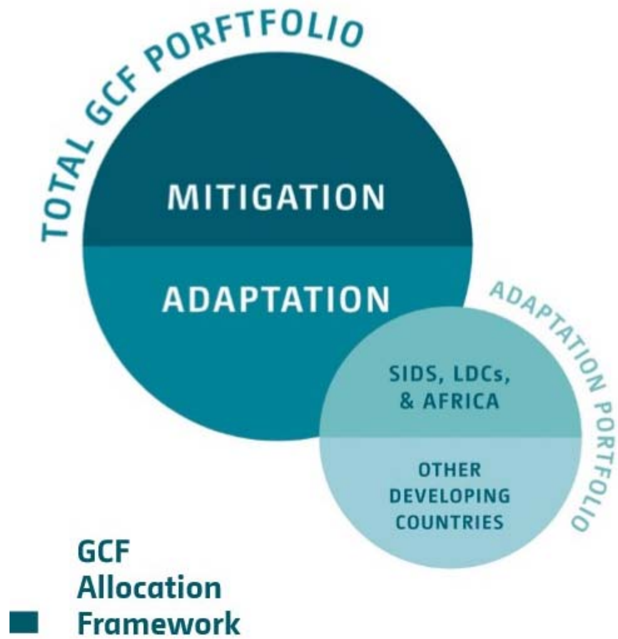

Figure 2-1: Green Climate Fund (GCF) Allocation Framework (GCF, 2015)

As per the administrative procedure of the GCF, each country has to establish and maintain a National Designated Authority (NDA) or focal point. A national designated authority or focal point is the core interface between a country and the Fund. It seeks to ensure that activities supported by the Fund align with strategic national objectives and priorities, and help advance ambitious action on adaptation and mitigation in line with national needs.

Another most important aspect of the GCF is, each country has to identify and seek accreditation of entities to access resources from the Fund. The Fund will channel its resources through a network of public, private and non-governmental institutions operating at sub-national, national, regional and international levels that meet the Fund’s standards. These institutions need to be aligned with the Fund’s objectives and meet its fiduciary standards and environmental and social safeguards through a process of accreditation. A key role of NDAs and focal points is to provide letters of nomination to direct access entities, and other roles are summed in **Figure 2-2**.

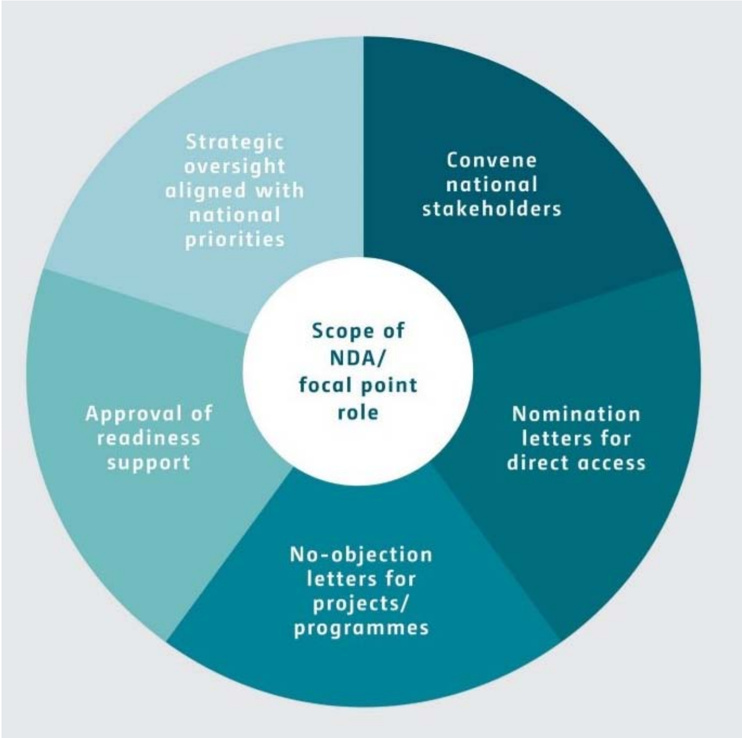

Figure 2-2: Key roles and functions of NDAs and focal points designated by countries (GCF, 2015)

Any project or programme developed for the GCF funding has to be forwarded to GCF through accredited entities. In order to receive the funds from GCF, the projects/programmes both in public sector and private sector should contribute towards achieving at least one of the eight strategic impacts areas of the Fund (**Figure 2-3**), and for any project/programme to qualify for investment from the fund, they have to be in compliance with Fund’s Six Investment Criteria, known as “IPSCEN” (**Table 2-1**).

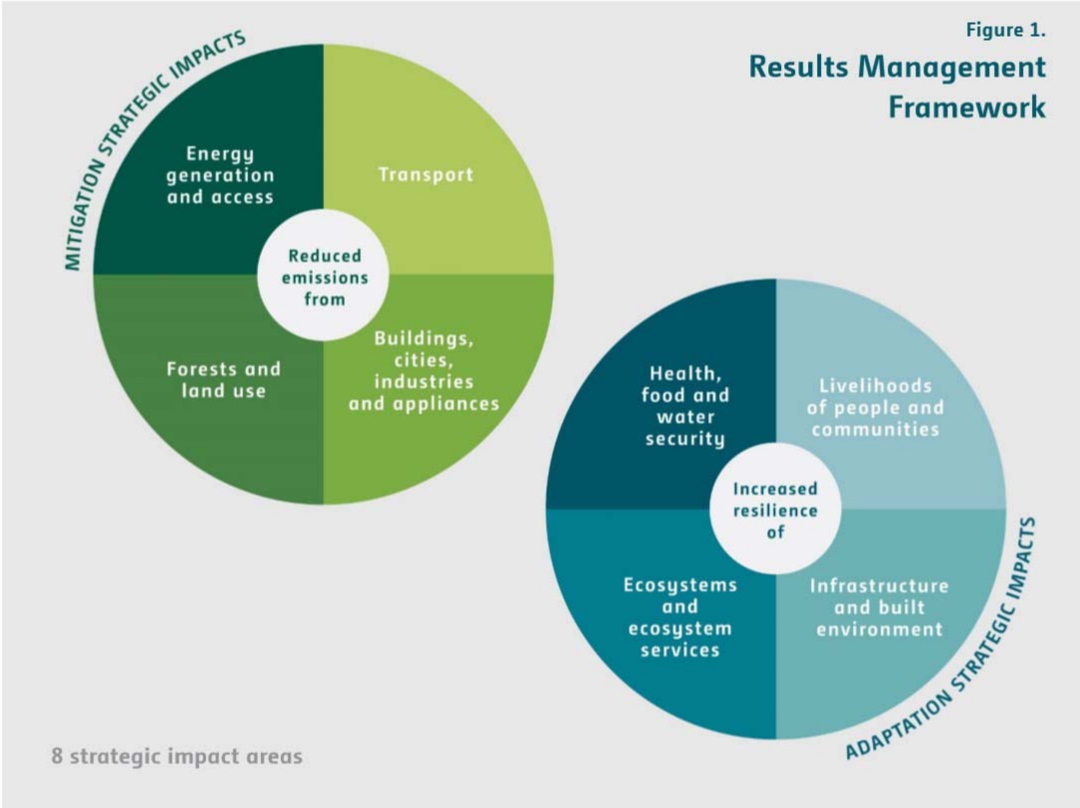

Figure 2-3: Results Management Framework (GCF, 2015)

Table 2-1: GCF's Six Investment Criteria

I	IMPACT: Potential of the programme/project to contribute to the Fund's objectives to shift towards low emission and climate-resilient sustainable development.
P	PARADIGM SHIFT: Degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment. How scalable and replicable is the project? How innovative and transformative is it?
S	SUSTAINABLE DEVELOPMENT: Wider benefits and priorities. Will the project/programme deliver meaningful environmental, social, and economic co-benefits and have a gender-sensitive development impact?
C	COUNTRY OWNERSHIP: Beneficiary country ownership of and capacity to implement a funded project. How well does the project fit within the beneficiary country's existing policies, climate strategies and institutions?
E	EFFICIENCY AND EFFECTIVENESS: Economic and, if appropriate, financial soundness of the project. For mitigation-specific projects, how cost-effective is it and how much co-financing will it bring? (Minimum concessionality test)
N	NEEDS OF THE RECIPIENT: Vulnerability and financing needs of the beneficiary country. To what extent does the project address vulnerable groups, barriers to financing and level of exposure to climate risks within the country?

Current guidance on the fund's Private Sector Facility mentions the CDM as one mechanism through which private investment into certain small-scale mitigation programmes in developing countries can be incentivized. Price guarantees on future Certified Emission Reduction sales are foreseen as one possible avenue through which the Private Sector Facility could encourage private capital deployment at scale. Furthermore, the GCF recognizes the REDD+ as a good candidate for incentivizing mitigation action through payment for verified results. Of interest to many project developers is whether the GCF could expand its form of results-based financing to the purchase of emission reduction units generated by old or new market mechanisms, such as the Clean Development Mechanism (CDM) or the Sustainable Development Mechanism contemplated under Art. 6.4 of the Paris Agreement.

As highlighted above, to have major national priority projects/programmes to benefit from the GCF and other sources of climate finance, a country needs to have national strategic frameworks that are in line with the objectives of UNFCCC and GCF, and national plans on adaptation, mitigation and technology transfer. In addition to this, to have direct access to the fund, there is the need to have national institutions accredited into the Fund. Furthermore, to have private investment in mitigation though technology transfer and technology upgradation that could generate exchangeable credits between the parties, there is the need to have a national mechanism to support such projects/investments and facilitate carbon trading. Hence the situation analysis will focus on the following aspects:

- Analysis of the latest national development policies, strategies and long term development plans in line with UNFCCC objectives and GCF investment criteria;
- Analysis of the national climate change policies, national low carbon development strategies, national plans on adaptation, mitigation, technology transfer, and national capacity building;
- Analysis of sectoral development policies, strategies and plans;
- Analysis of the roles and responsibilities of key government ministries and departments, public sector institutions, and private sector institutions involved in the promotion of the investment in the nationally prioritized projects/programmes which can be benefited with various sources of climate finance;
- Analysis of the national mechanism to promote investment in private sector to benefit from verified emission reductions.

There are reports on the Climate Expenditure and Institutional Review (CPEIR) on Nepal which have analyzed the policy and institutional reviews of the country, and hence the above analysis work will be more focused on the latest developed policies, strategies and action plans and institutions that have a greater engagement component on private sector development in the country.

3 Analysis of National and Sectoral Policies/Strategies/Plans in the Context of Climate Change and Climate Finance

Nepal, as a party to the United Nations Framework Convention on Climate Change (UNFCCC), has made the commitment to mainstreaming climate change into national and sectoral development policies, strategies and plans and pursue the path of low carbon development to achieve the national goal of poverty eradication and sustainable development. It is particularly important because climate change is a cross-cutting development issue with linkages between both causes and consequences of climate change and development. Studies show that there will be impact of climate change on achieving the goals of sustainable development (Kaur and Geoghegan, 2013, IDS et al, 2014). In Nepal, being an LDC aiming to reach to the status of middle income country by 2030, climate change also presents itself as an opportunity for sustainable development and poverty eradication. A full range of public and private financing mechanisms are available for Ministries of Finance/sectoral ministries, and National and sub-national planning bodies to support low emission, climate resilient development. In order to access the sources of finance through these established mechanisms, it is important to establish linkages of the proposed projects/programmes that not only are national and sectoral priorities but are also designed to help achieve the objectives of the convention and protocols. This chapter is therefore highlighting the country situation on mainstreaming of climate change in national and sectoral development policies/strategies and long-term plans.

3.1 National Development Policies/Strategies/Long-term Plans

Fourteenth Development Plan (016/017 – 019/20)

The 14th Development Plan is the latest long-term vision and plan of the country with the mission of promoting the country to the status of medium income country level and achieving the sustainable development goals. It recognizes the challenge of making socio-economic development priorities climate resilient and make the development environment friendly. The plan has set very ambitious targets. It aims to achieve annual economic growth of 7.2% by 2019 from the current level of 0.8%, and also bring down the people living below the poverty line to 17% by 2019 from the current level of 21.6%. In order to address the challenges of the power shortages, it has set the target of generating 2300 MW of electricity by 2019 from the current generating capacity of 851MW.

This plan provides significant importance to climate change and includes a separate chapter on "Disaster Management, Environment and Climate Change" and sets the national vision, objectives, strategies, implementation strategies and work plans to address the challenge of climate change in the country and making development activities climate resilient and environment friendly. Further, the integration of the funds from various sources of climate finance into the national development budget system is highlighted as opportunities. Under this chapter, in order to achieve objective of low carbon and climate resilient development, one of the strategy specially is on climate finance "Integrate the national and international sources of climate finance into national budget system to increase the investment to minimize the impact of climate change". As such this long term development vision of the country aims to maximize the benefits from the various sources of climate finance to achieve its goal of promoting the country to the status of medium income country. It also gives highest priority on national capacity building to maximize the flow the funds into the country from these sources.

Nature Conservation: National Strategic Framework for Sustainable Development (2015-2030)

This is the latest national strategic framework on sustainable development with focus on the nature conservation and it is highlighted here because Nepal has different ecosystems and the country provides maximum focus on Ecosystem Based Adaptation (EBA). After analyzing why, the previous nature conservation strategies could not meet the desired objectives in the context of climate change, it has identified the key issues that need to be addressed by national strategies on climate change, including:

- Need to enhance knowledge on ecosystem and impact of climate change in the ecosystem
- Priority on ecosystem based adaptation measures to minimize the impact of climate change
- Need to evaluate the effectiveness of EBA on agriculture sector in the national context
- Need of development of sector specific adaption plans based on EBA
- National Capacity Development including at local and community level
- Effective utilization of available resources
- Development of indigenous technology to minimize the impact of climate change.

This strategic framework for sustainable development has the vision of a prosperous, inclusive and just Nepal that values and conserves nature for sustainable development. It has the purpose to develop nature conservation and sustainable development as complementary to each other and in order to achieve this purpose, this framework has set four strategic pillars:

- Mainstreaming nature conservation in development efforts
- Harmonization amongst sectoral strategies
- Coordination amongst related agencies
- Valuing and accounting ecosystem goods and services

In the context of climate finance, it provides highest priority to development EBA adaptation measures and focus on REDD+ so that country can benefit from the sources of climate finance in making the development more climate resilient and contribute towards making country climate neutral.

3.2 National Policies, Strategies and Plans on Climate Change

National Climate Change Policy

Government of Nepal on January 22, 2011 introduced the National Climate Change Policy which envisions a country spared from the adverse impacts of climate change, by considering climate justice, through the pursuit of environmental conservation, human development, and sustainable development--all contributing toward a prosperous society. This policy has set some quantitative targets and the statuses on these targets are presented in **Table 3-1**.

Table 3-1: National climate change policy- Quantitative targets and status

Quantitative Targets	***Current Status***
Establishment of a Climate Change Center within one year for conducting climate change research and monitoring, and regularly providing policy and technical advice to the Government of Nepal	Initiated the process but yet to be established

Quantitative Targets	***Current Status***
Initiation of community-based local adaptation actions as mentioned in the National Adaptation Programme of Action (NAPA) through managing financial resources by 2011	Local Adaptation Plans of Action (LAPA) initiated and being implemented in 14 districts.
Preparation of a national strategy for carbon trade in order to benefit from the Clean Development Mechanism by 2012	A draft National REDD Strategy
Formulation and implementation of a low carbon economic development strategy that supports climate-resilient socio-economic development by 2014	A draft policy is ready for final approval.
Assessment of losses and benefits from climate change in various geographical areas and development sectors by 2013	Works initiated and ongoing
Promotion of climate adaptation and adoption of effective measures to address adverse impacts of climate change through technology development and transfer, public awareness raising, capacity building and access to financial resources	Ongoing
Development of a reliable impact forecasting system to reduce the adverse impacts of climate change in vulnerable areas of the mountain, hill, Churiya, and Terai and in natural resources and people's livelihood	DHM is being strengthened

This policy has set seven different objectives focusing on institutional strengthening, climate change mitigation and adaption, promotion of use of clean energy, strengthening the capacities of local communities, follow the low carbon development path, institutional capacity on impact assessment and maximizing the benefits from climate finance. In order to achieve the objectives, policies for each objective are defined and altogether 61 different policies exist.

This National Climate Change policy also addressed the financial aspect and as such proposes establishing a separate “Climate Change Fund” for implementing programmes related to climate adaptation and resilience, low-carbon development, risk identification, research, and development and utilization of technologies. The fund will have contribution from Government of Nepal, bilateral and multilateral agencies, national and foreign individuals and organizations, and funds established under UNFCCC and programmes to support climate change activities. The policy also states that allocating at least 80 percent of the total budget from Climate Change Fund directly to programme implementation at the community level. However, this fund is yet to be established.

This policy provides guidance to sectoral ministries for integration of climate change issues into sectoral development policies. If the targets and provisions of this policy are realized, it could be instrumental in addressing the challenges of climate change in the country.

National Low Carbon Economic Development Strategy (Draft)

As per the commitment made in the National Climate Change Policy, this strategy[1] should have been finalized by 2012 but it is still in the draft stage. Due to the delay in finalization, it was learnt that it has again been sent to sectoral ministries for their comments. The analysis was done in the previous draft document, and there might be changes in the final draft particularly in relation to setting quantitative targets. This has been developed to guide the country to follow the low carbon development path with following goals:

- To decrease the dependence on fossil fuels by the optimal development of hydropower and other renewable energies, and build energy capacity;
- To develop climate change resilient infrastructure through the development, use and promotion of the technologies that emit low carbon;
- To reduce poverty through the growth of national production and income by attracting fund for rapid low carbon economic development.

As this Strategy is central to provide linkages for access to climate finances as national targets, the targets on prioritized strategic area is provided in **Table 3-2**.

Table 3-2: Prioritized strategic area and targets

Prioritized Strategic Area	***Targets***
Hydropower and Renewable Energy Development	• 4,000 MW of hydroelectricity by 2020 and 12,000 MW by 2030 • 2,100 MW of solar energy will be produced by 2030 with arrangements to distribute it through the grid. • Additional 220 MW of electricity from bio energy by 2030 • Additional 50 MW of electricity from small and micro hydropower plants. • Increase the share of biogas up to 10% as energy for cooking in rural areas • Every household in rural areas is equipped with Improved Cooking Stoves (ICS) by 2030
Demand Side Management	• National strategy to achieve continuous improvement in energy efficiency in transport, buildings, industry, equipment and appliances, energy utilities, and lighting. • Review of the legal system to make it conducive for competitive energy markets (retail energy prices reflect the full cost of energy supply and delivery including the environmental costs) to promote private investment in energy efficiency.

[1] This analysis is based on the draft of LCED Strategy as available on 27th March, 2017. Further changes to the draft are expected, which may change the analysis above.

Prioritized Strategic Area	***Targets***
	• Mandatory building energy codes and minimum energy performance standards for buildings. • Introduction of minimum energy performance standards for equipment and appliances to be produced and imported in the country. • Use of economic instruments to phase out inefficient lighting products and systems. • Incentives to households in cities also to install renewable sources of energy to reduce the demand of fossil fuel. • Demonstration projects in the energy efficiency in industries to promote transfer of energy efficient technologies in industries particularly in SMEs. • Maximum focus on making all the above programmes qualify for CDM.
Enhancing Carbon Sequestration	• Gradually decrease the 0.12% deforestation rate to reach 0% deforestation rate by 2030. • Achieve the 40% forest cover area by 2030 and maintain it. • Maximum utilization of REDD+ opportunity to enhance carbon sequestration through conservation, sustainable management and enhancement of forest carbon stocks • National Policy on REDD+ readiness by 2017 and monitoring mechanisms for Payments for Ecosystem Services (PES) by 2020 • Maximum focus on Community Based Adaptation (CBA) as well as Ecosystem Based Adaptation (EBA) approach • High priority in the implementation of recently approved NBSAP
Moving towards Environmentally Sustainable Transport System	• *Strategies to avoid unnecessary travel and reduce trip distances (*change in vehicle km travels per person over time in metropolitan cities and national level*)* • *Strategies to shift towards more sustainable transport mode (e.g.* Non-Motorized Transport (NMT) component in transport plan; Public Transport System; Transportation Demand Management (TDM); Intercity Goods and Passengers Transport; etc.) • *Strategies to Improve transport practices and technologies (e.g.* diversify towards electricity, hybrid and natural gases; progressive and affordable standards for fuel quality, vehicle emissions (new and in-use); I/M system; Intelligent Transport System (electronic fare system and road user charging system; transport information centers; transport control centers)) • *Cross-cutting strategies (e.g.* safety; health impacts; compliance to air quality and noise standards; climate mitigation and energy security;

Prioritized Strategic Area	*Targets*
	social equity; innovative financing mechanisms; public information and awareness; etc.)
Utilizing Waste as Resources	• Segregation of wastes at sources (households, industries, commercial institutions, schools and colleges) and used as resources by reusing, recycling and composting and thus minimizing the transport and also avoiding the possibilities of incinerating. • More demonstration programmes to promote household level composting. • Mandatory provisions for municipalities to design landfill sites with facilities with methane gas trapping and use it for power generation. • Use of CDM to make private sector investment in waste management attractive.
Promoting Climate Friendly Practices in Agriculture	• Prepare guidelines for farmers that include proper livestock management. • Establish farmers' cooperatives that will, among others, oversee proper utilization of forage resources through monitoring of stock numbers, grazing duration and grazing time, nutrient management and shrub and weed control • Take a rational approach to agricultural carbon sequestration
Land Use Plan and Urban Planning	• Land use plan and urban development plan of cities will go through the Strategic Environmental Assessment Procedures for climate resilient, healthy and smart cities.

National Adaptation Programme of Action (NAPA) and National Adaption Plan (NAP)

Government of Nepal considers adaptation to climate change as a priority to reduce the country's vulnerability to the impact of climate change. As such it is currently working to develop the National Adaption Plan (NAP) through a nationally driven consultation process. It is expected to be approved by this year. In order to build resilience to the impact of climate change, Nepal has already prepared its National Adaptation Programme of Action (NAPA) in 2010 and implementing it. Nepal has also prepared a National Framework for Local Adaptation Plans for Action (LAPA) with the twin objectives of implementing adaptation actions, and integrating climate change into local development planning and implementation.

NAPA Profiles and National Framework on LAPA

Nepal has prepared its National Adaptation Programme of Action (NAPA) for adapting to extreme climate events and variability through an extensive country-driven consultative process in 2010. NAPA includes the following priority actions:

- Promoting community-based adaptation through integrated management of agriculture, water, forest and biodiversity;

- Building and enhancing adaptive capacity of vulnerable communities through improved system and access to service for agricultural development;
- Community-based disaster management for facilitating climate adaptation;
- Glacial Lake Outburst Flood (GLOF) monitoring and disaster risk reduction;
- Forest and ecosystem management in supporting climate-led adaptation innovations;
- Adapting to climate challenges in public health;
- Ecosystem management for climate adaptation;
- Empowering vulnerable communities through sustainable management of water resource and clean energy supply;
- Promoting climate-smart urban settlements.

National Framework for Local Adaption Plan of Action (LAPA) is developed to ensure the process of integrating climate change resilience from local-to-national planning is bottom-up, inclusive, responsive and flexible. LAPA is now piloted in fourteen districts of Nepal to promote and ensure people's participation and ownership, involving climate vulnerable communities in adaptation.

Nationally Appropriate Mitigation Actions (NAMA)

As a part of the agreed outcome, at COP 18 Doha, developing country Parties will take Nationally Appropriate Mitigation Actions (NAMAs) in the context of sustainable development. NAMAs refer to proposed action that reduces emissions in developing countries and is prepared under the umbrella of a national governmental initiative. NAMAs are supported and enabled by technology, financing, and capacity-building and are aimed at achieving a reduction in emissions relative to 'business as usual' emissions. Nepal is yet to register to UNFCCC a request for support in the development or implementation of NAMA.

3.3 Nepal's Nationally Determined Contribution (NDC) to UNFCCC

Government of Nepal submitted its NDC to UNFCC after the Paris Agreement, as it was not mandatory for LDCs to submit prior to it. In its NDC, Nepal has outlined the following as priorities:

- Nepal's adaptation needs, in the post 2020 context, will be envisioned by National Adaptation Plan (NAP), currently under preparation through nationally driven consultation process;
- Strengthen the implementation of Environment-Friendly Local Governance (EFLG) Framework in Villages and Municipalities to complement climate change adaptation, promote renewable energy technologies, and water conservation and greenery development;
- Develop and implement adaptation strategies for climate change affected sectors undertaking scientific approaches;
- Assessment of impact on climate change involving academic institutions;
- Formulation and implementation of Low Carbon Economic Development Strategy;
- By 2050, achieve 80% electrification through renewable energy sources and reduce its dependency on fossil fuels by 50%;
- Generate 25 MW energy from micro-hydro, and install 600,000 solar home systems, 1500 Institutional Solar Power Systems, 4,000 improved water mills, 475,000 improved cooking stoves, and biogas system in 130,000 households in 200 communities, and 1000 institutions;

- Develop electric rail network by 2040 to support mass transportation of goods and public commuting;
- Maintain 40% of the total area of the country under forest cover and forest productivity and products will be increased through sustainable management of forests;
- By 2025, decrease the rate of air pollution through proper monitoring of sources of air pollutants like wastes, old and unmaintained vehicles, and industries.

While submitting NDC, Nepal requested bilateral and multilateral grant support in the following priority areas to meet both qualitative and quantitative targets:

- Formulate and implement NAP and implementation of NAPA and LAPAs;
- Conduct research and studies on loss and damage associated with climate change impacts, and develop and implement measures to reduce climate vulnerabilities;
- Create an enabling environment to promote private sector investments and foreign direct investments in low carbon (energy efficiency and renewable energy) technologies;
- Develop electrical rail network in the low lands of Nepal;
- Control drivers of deforestation and forest degradation to enhance carbon sequestration;
- Provide better price from carbon markets to ensure an equitable benefit sharing mechanisms and maximize benefits at the local level to help sustainable management of forests;
- Sell carbon credits at a better price from its renewable energy and REDD+ programmes;
- Convert waste to energy;
- Address climate-induced disasters in earthquake affected areas and rebuild Nepal better;
- Enhance agricultural sector by adopting climate-friendly technologies and reducing climate change impacts;
- Capacity building at institutional level to plan and implement adaptation and mitigation programmes and projects;
- Nepal will maximize the use of existing monitoring and evaluation mechanisms to realize the state of implementation of the INDCs along with technical and financial support made available for Nepal.

As many other LDCs and developing countries, Nepal did not include the estimated cost to implement its NDC. As such it can be reviewed and submitted after five years.

3.4 Climate Change into Sectoral Development Policies, Strategies and Plans

GCF will finance low-emission (mitigation) and climate resilient (adaptation) projects and programmes developed by the public and private sectors to contribute to the sustainable development goals of countries. It is meant to finance projects and programmes in line with its Results Management Framework (RMF), which defines eight strategic impacts to be achieved at the Fund level – four mitigation and four adaptation related (refer figure 2 - 3 in Chapter one). Therefore, the situation analysis on sectoral policies/strategies and plans are prioritized that are related to these eight impact areas. The focus of analysis is on providing linkages to low carbon development, climate change mitigation and adaptation and reference to climate finance for effective implementation. They are divided into three groups, namely:

- Forestry and Agriculture
- Water and Energy
- Industry and Transport

3.4.1 Forestry and Agriculture Sector

Policy, strategy, plan	***Mainstreaming of Climate Change***		
	Vision/Mission/Objectives	***Adaptation/Mitigation***	***Climate Finance***
Forest Policy 2015	• Increase the benefits from environmental services of forest and forest services and ensure proper distribution • Adopt the mitigation and adaptation measures to minimize the impact of climate change	• Enhance the capacity of local communities for resilience • Develop forest management system on the basis of climate change mitigation and adaptation friendly land use policies • Increase the access to resources, technology and capacity development to minimize the impact of climate change	• Expansion of carbon sequestration areas, use of resources generated from carbon trade into forest fire control, technology transfer and development
Forestry Sector Strategy (2016-2025)	• Sustainable management of forest ecosystems, biodiversity and watersheds fully optimised for National prosperity • Enhance Nepal's forest carbon stock by at least 5% by 2025 as compared to 2015 level, and to decrease mean annual deforestation rate by 0.05% from about 0.44% and 0.18%	Strategic Pillars include: • Sustainably managed resources and ecosystem services • Climate change mitigation and resilience	Aims to put in place forest carbon trade and payment mechanism, and mainstream community/ecosystem-based adaptation by 2025

Policy, strategy, plan	Mainstreaming of Climate Change		
	Vision/Mission/Objectives	Adaptation/Mitigation	Climate Finance
	in the Terai and Siwalik hills respectively		
Agriculture Development Strategy 2015	• Sustainable modernization of agriculture must strengthen resilience to climate change, ...".	• Need of disaster response mechanism to response the challenges of climate change	• Opportunities available through different funds including the Green Climate Fund to make the agriculture sector more climate friendly
National REDD Strategy (draft)	Nepal's National REDD-plus Strategy is still in the draft stage which is planned to specifically focus on REDD+ initiatives to promote sustainable management of forests, carbon sequestration and adaptation co-benefits.		

3.4.2 Water and Energy Sector

Policy, strategy, plan	Mainstreaming of Climate Change		
	Vision/Mission/Objectives	Adaptation/Mitigation	Climate Finance
Hydropower Development Policy 2001	• Quite old comparatively and does not mention climate change • However, hydropower development as the main objective encompasses the objectives of the climate change • Aims to develop hydropower as an exportable commodity • Pursue investment friendly, clear, simple and transparent procedures so as to promote private sector participation in the development of hydropower, also taking into account internal consumption and export possibility of hydropower". Favors public private partnership in the development of hydropower sector in the country • Promotes river basin approaches for watershed management		
Water Resources Strategy 2002	This strategy, although brought on 15 years back, encompasses the social development principles, economic development principles and environmental sustainability principles. In the context of climate change, this strategy has the following specific outputs that can directly be linked to climate change related issues: • Effective measures to manage and mitigate water-induced disasters • Sustainable management of Watersheds and Aquatic Ecosystems		

Policy, strategy, plan	***Mainstreaming of Climate Change***		
	Vision/Mission/Objectives	***Adaptation/Mitigation***	***Climate Finance***
	• Adequate supply of and access to potable water, sanitation and hygiene • Appropriate and efficient irrigation available to support optimal, sustainable use of Irrigable Land • Cost-effective hydropower developed in a sustainable manner • Regional cooperation for substantial mutual benefits • Enhanced water-related information systems are functional		
Water Induced Disaster Management Policy 2015	• This policy recognizes climate change as one of the causes for water induced disasters in Nepal • Mission statement says "develop and implement programmes on adaptation to minimize the adverse impact on watersheds, infrastructures and human settlements due to climate change, population growth, migration, unscientific land use and water induced disasters" • Making the infrastructure sustainable particularly by involving communities, cooperatives and private sector • Study and research medium and long-term disaster prevention and control programmes to make them climate resilient and environment friendly		
Irrigation Policy 2013	• A recent policy of the GON with specific focus on the use of water resources for irrigation purposes fully mainstreams the climate change issues while defining the national vision, mission and setting objectives and defining strategies for the implementation of the policy • Stresses the need of adaptation programmes to address the adverse impact of climate change to the sources of water which are used for irrigation • It also stresses the need to consider the impact of climate change on the major irrigation projects and make them climate resilient • \		
Rural Energy Policy (REP) 2006	• In this policy rural energy is known as renewable energy • Overall goal of this policy is to contribute to rural poverty reduction and environmental conservation by ensuring access to clean, reliable and appropriate energy in the rural areas • Sets sector specific working policies on -micro and small hydro power; biogas; fuel-wood, charcoal, briquette, biomass energy, and biomass gasification; solar energy technology; wind energy technology; improved cook stove technology; improved water mill technology; and rural electrification • Specific strategy on subsidy for renewable energy promotion		

Policy, strategy, plan	Mainstreaming of Climate Change		
	Vision/Mission/Objectives	Adaptation/Mitigation	Climate Finance
Renewable Energy Subsidy Policy 2016:	Introduced for the implementation of REP 2006: • A latest policy of the GON to promote renewable technologies using economic instruments • Provides subsidies for different renewable energy technologies and defines the procedures for distribution of subsidies to the recipients • Involves qualified private sector institutions in the distribution of subsidies •		

3.4.3 Industry and Transport

Policy, strategy, plan	Mainstreaming of Climate Change		
	Vision/Mission/Objectives	Adaptation/Mitigation	Climate Finance
Industrial Policy 2011	• This policy identifies insufficient energy availability, weak industrial infrastructure, low productivity, and absence of technology as some of the barriers for industrial growth • Vision of enhanced productivity and sustainability to achieve the goal of sustainable industrial development • Aims to create a conducive environment for private, public and collaborative sector to participate and contribute in the national goal of poverty reduction • Aims to establish the industry sector as one of the most reliable and dependable sector by promoting the use of modern technology and environment friendly production processes • Provide financial and technical support to proactive industries for adopting environment friendly and energy saving technologies • Initiate special programmes to establish green industries and make the existing industries *pollution free and zero carbon* • The policy also makes provision of special facilities like no royalty for energy produced by industry for its own use and also provision to sell to the national grid at market price		
Foreign Direct Investment Policy 2015	• In the context of promoting private sector investment in the cleaner technologies and cleaner industries through the market mechanism like Clean Development Mechanism or Sustainable Development Mechanism (Paris Agreement), this policy is important • Private investment and also the technology transfer requires permission from the government as per this policy		

Policy, strategy, plan	***Mainstreaming of Climate Change***		
	Vision/Mission/Objectives	***Adaptation/Mitigation***	***Climate Finance***
	• Long-term goal of this policy is to attract the foreign investment on nationally prioritized sector • The objectives include attracting the foreign money but also equally prioritizing the investment on modern technology, management skill, and high technical skills to ensure the productive and competitive industrial growth		
National Transport Policy 2001	• No specific mention of climate change in this policy, however it aims to make the transport sector environment friendly • Construction, improvement and management of the means of transport in compliance with the requirement of traffic and environmental safety • Expansion of solar power and electricity driven transport means throughout the country • Special attention to be provided in improving 'the comfort, reliability, safety, frequency, availability and affordability of public transport" to reduce the harmful emissions from mobile sources • Provision of the economic instruments in the form of custom and tax incentives to promote private sector involvement in the construction maintenance and rehabilitation of transport infrastructure and to encourage nonpolluting vehicles		
National Sustainable Transport Strategy (2015-2040) (Final Draft)	This strategy specifically analyzes the climate change and disaster vulnerability to the road infrastructure. It also provides analysis on impact of climate change on road transport and also adaptation of the road infrastructures to the climate change. The strategic component of the strategy includes: • investment for essential, people friendly and sustainable transport infrastructure • planning and development of integrated transport system • introduction of technology for efficiency and sustainability • priority for improving public transport and non-motorized transport • travel demand management • environmental and social safeguards • adoption of the concept of green freight • building climate and disaster resilient transport system and • enhancing institutional capacity and reform		

Policy, strategy, plan	***Mainstreaming of Climate Change***		
	Vision/Mission/Objectives	***Adaptation/Mitigation***	***Climate Finance***
	This strategy also recommends design considerations to address the impact of climate change and disaster on road transportation. An outcome of being member to Regional Environmentally Sustainable Transport (EST) Forum in Asia (supported by United Nation's Centre for Regional Development, Japan's Ministry of Environment, and United Nations Economic and Social Commission for Asia and the Pacific) if approved by the Government of Nepal, this can be a good example of climate friendly strategy of the country.		

3.5 National Environmental Safeguard System

One of the requirements for any project/programme to be supported by the GCF is that it complies with its environmental safeguard requirements. In this context, it is very important to know the environmental safeguard systems of the country.

Nepal initiated the environmental impact assessment procedures immediately after the Earth Summit of 1992, and it became legally mandated in 1996/97 with enactment of Environmental Act and Environmental Regulations. These legal documents require major projects to follow the Environmental Impact Assessment (EIA) procedures and other projects likely to have minimum adverse impacts on the environment to follow the Initial Environmental Examinations. The EIA reports are to be approved by the Ministry of Population and Environment and in case of IEE reports, MOPE has authorized the line ministries for the evaluation and approval of the sector specific projects. Some ministries even have given the authority of approving IEE reports to concerned departments also. Over the years, Nepal has gained significant experiences in this field and the private consulting companies or firms have developed capacities to carry the EIA procedures, even for large scale projects. Recently MOPE made amendment to the Environment Regulation to make the EIA system more transparent and efficient (making scoping mandatory and setting timeline for decision making.in every stage of EIA procedures).

4 Description of National Institutions and Coordinating Mechanism in the Context of Climate Change and Climate Finance

There are three key steps to engage with the Fund (GCF):

- Establish and maintain a national designated authority (NDA) or focal point. A national designated authority or focal point is the core interface between a country and the Fund
- Identify and seek accreditation of entities to access resources from the Fund. The Fund will channel its resources through a network of public, private and non-governmental institutions operating at sub-national, national, regional and international levels that meet the Fund's standards
- Develop and propose projects and programmes for funding through accredited entities

GCF will pursue a country driven approach, and promote and strengthen engagement at the country-level through effective involvement of relevant institutions and stakeholders. According to the GCF Architecture (**Figure 4-1),** to access the fund to add to the national development goals, a country needs institutions that are responsible for coordinating with GCF. This includes, institutions that can be accredited for direct access, and those that can develop and implement climate projects/programmes. This chapter provides description of government institutions that hold a significant role in coordination and deciding national priorities, government, public and private sector institutions with possibilities of accreditation or being executing entities. The primary criteria for identification of these institutions is based on national context, GCF impact areas, and the nature of institutions that have already been accredited for GCF.

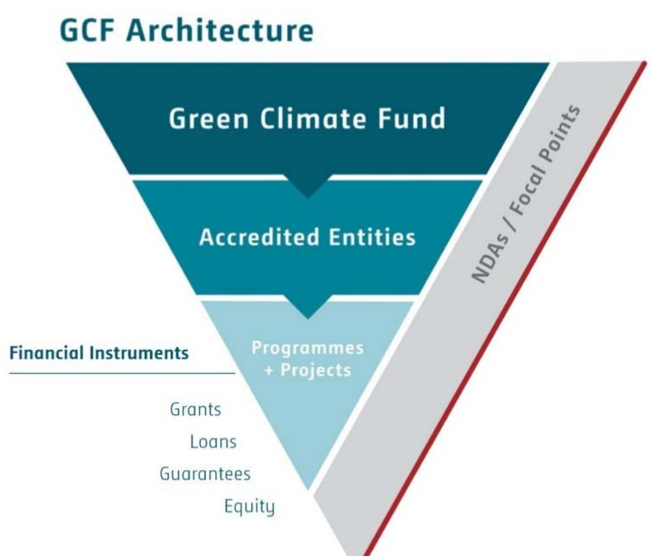

Figure 4-1: GCF architecture

4.1 Brief Description of Governmental Institutions

In the context of climate change and climate finance, the government institutions can be categorized through the following three categories:

- Responsible institutions for developing long-term national plan as well as with authority for approving sectoral annual plan, programmes and projects

- UNFCCC and Financial Mechanism Focal Institutions
- Sectoral Development Ministries and Departments responsible for infrastructure development and promoting private sector investment

4.1.1 National Planning Commission

The National Planning Commission (NPC) is the apex advisory body of the Government of Nepal headed by the Prime Minister for formulating a national vision, periodic plans and policies for development. NPC carries out assessment of the resources needs, identification of the sources of funding, and allocate budgets to socio-economic development. NPC is the central agency for monitoring and evaluating development plans, policies and programmes.

Almost all economic development and economic policies and programmes come into force either at the initiative of the Commission or on its advice or recommendations. NPC is a key coordinator in the management of economic development and general economic affairs of the country.

The Commission also serves as an institution involved in analysis and finding solution to the problems of private sector in the country. The Policy Dialogue Committee under NPC is an effective forum for co-ordination of policy implementation and to address the various problems faced by the private sector.

NPC brought the Fourteenth Development Plan (discussed in Chapter Two) which will guide all sectoral ministries to develop programmes/projects to achieve the goal of the plan. In the context of setting national priority programmes/projects and making sectoral projects to qualify for GCF, NPC is the nodal agency of the government. As NPC has to approve the sectoral programmes/projects its role is central to encourage the sectoral ministries and the private sector to be more ambitious and design appropriate programmes/projects to access climate related funds.

4.1.2 Ministry of Finance, National Designated Authority to GCF and Operational Focal Point to GEF

Ministry of Finance is the NDA for GCF for Nepal and also the Operation Focal Point for GEF. Secretary of MOF is the political focal point to GCF and GEF and the division chief, Joint Secretary of Economic Cooperation and Coordination Division is the National Focal Point for GCF and Operational Focal Point to GEF.

Ministry of Finance is the national institution of Government of Nepal responsible for maintaining both micro and macroeconomic stability in the country. MOF prepares the national budget and allocates economic resources for implementation of national and sectoral priority projects. Development of financial standards and ensuring their compliance for proper utilization of resources, revenue administration, collection and investigation, and management of government funds are also amongst the key responsibilities of the ministry. In order to fulfill all these responsibilities, there are nine different divisions within its organization structure and six departments as implementing arms.

Ministry of Finance in collaboration with UNDP and UNEP and financial support from German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) has initiated “Green Climate Fund Readiness Programme for Nepal”. This project with a total budget of USD $1.5 Million will support GoN in strengthening its national capacities to effectively and efficiently access, manage, deploy and monitor climate finance from GCF. National capacity building across government and nongovernment sectors including support to potential NIEs for accreditation to GCF lies within the scope of the project.

In order to facilitate the work of NDA in a more efficient and effective manner, and to ensure timely decisions regarding the proposed projects/programmes, the ministry is in the process of establishing a high level coordination mechanism headed by the Secretary of MOF with members from key development ministries and the private sector. In addition to this, a Climate Finance Cell is planned to be developed in the Budget and Programme division of the ministry.

Ministry of Finance and Associated Agency/Board/Bank

In the context of GCF and maximizing the benefits through National Implementing Entities (NIEs), the involvement of following institutions can be instrumental.

Nepal Rastra Bank: Central Bank of Nepal is concerned with developing monetary policy, supervision, monitoring and regulation of banks and financial institutions and advising government on monetary and fiscal matters.

Agriculture Development Bank: This bank helps to mobilize internal resources for economic development and provide banking and other support services to the rural poor. It is in the process of applying for accreditation to the Adaptation Fund. This bank has branches throughout the country, supporting renewable technologies at rural areas as one of the priorities.

Employees Provident Fund: It works as an employee trust to render post-retirement benefits to its clients, under Ministry of Finance. In the mobilization of the fund, EPF has funded many infrastructure projects in the country including hydropower projects.

Citizen Investment Trust: It is established to encourage people to save and mobilize savings for productive activities and as such also financed many infrastructure projects.

Rastriya Banizya Bank: These banks provide the banking services and have branches all over the country, the bank with highest number of branches in the country.

4.1.3 Ministry of Population and Environment, National Focal Point to UNFCCC, Designated National Authority to CDM

Ministry of Population and Environment is the lead government institution made for the conservation and protection of environmental resources and to protect the constitutional right of citizens to live in a clean and healthy environment. Developing environmental policy and legislative framework and ensuring their compliance though coordination with all the stakeholders is its prime responsibility. Recently created Department of Environment is the implementation arm of the ministry and the Department of Hydrology and Meteorology is another department under the ministry. MOPE is the national focal point to UNFCCC and in addition to this it is also the national focal point to majority of Multilateral Environmental Agreements that Nepal has signed and/or ratified.

- The ministry has climate change the highest priority. One of the three divisions in the Ministry is Climate Change Management, which has four separate sub-divisions: Climate Change, Sustainable Development and Adaptation, Clean Development Mechanism, and Climate Finance Management. The DNA will approve and produce NOL for PIN and LoA for PDD of CDM Projects. NOL will be produced for PIN after acceptance by TAC. LoA will be produced for PDD after acceptance by TAC and SC.

4.1.4 Sectoral Development Ministries

Ministry	***Roles and Responsibilities, and Institutional Capacity***	***Climate Finance Context***
Ministry of Physical Infrastructure	• Policy formulation and implementation to expand land access throughout the country	• Very crucial role in design and implementation of

Ministry	*Roles and Responsibilities, and Institutional Capacity*	*Climate Finance Context*
and Transport (MOPIT)	• Policy formulation for an environmental friendly transport sector and its implementation • Mobilizes significant share of the total national budget on development • Responsible to ensure environmental safeguards and financial requirements including of donors while implementing the projects/programmes •	major mitigation projects (express way, metro, railways) and Development of climate resilient infrastructures by utilization of Green Climate Fund(two of the GCF impact areas)
Ministry of Energy	• Policy formulation and implementation in utilizing available water resources in generating clean energy through hydro power development, and promoting other renewable energy technologies • Management of production of energy for the expansion of industrial and economic activities • Create conducive environment for private sector investment in the hydropower sector •	• Major role (policy decisions, planning and oversight) in utilization of fund for hydropower development and promotion of private sector by utilizing GCF financial instruments • Utilization of GCF fund in making infrastructure more climate resilient as per the sectoral policy
Ministry of Irrigation	• Setting national policies and priorities for the utilization and management of immense quantity of water available in the country to irrigate significant percentage of agricultural land for the overall economic development of the country • Responsible for planning and execution of programmes/projects on the prevention and control of water induced disasters • Promotion of community involvement and private sector in the implementation of irrigation projects •	• Major role (policy decisions, planning and oversight) in utilization of GCF fund in the prevention and control of water-induced disasters and • Making irrigation infrastructures climate resilient as per sectoral policy

Ministry	***Roles and Responsibilities, and Institutional Capacity***	***Climate Finance Context***
Ministry of Agriculture Development	• Policy formulation for the development of agriculture sector in the country • Responsible for addressing the challenges of climate change in the agriculture sector in Nepal • Conducts R&D in the promotion of climate resilient crops and practices • Institutional set-up throughout the country with experience of implementing donor funded projects	• Access fund to implement the prioritized adaptation measures in agriculture sector • Mobilization of local level organizations in fund utilization
Ministry of Industry	• Policy formulation and implementation for promoting sustainable industrial growth in the country • Create conducive environmental for the private sector to invest in the industry sector • Responsible for attracting foreign direct investment including technology and knowledge transfer • Promotion of cleaner technology and energy efficiency in the industry sector Promotion of micro enterprises in rural areas	• Utilization of fund on technology transfer in industries, promotion of green productivity and energy efficiency • Support industries to benefit from carbon trading • Utilization of climate finance for promotion of micro enterprises
Ministry of Federal Affairs and Local Development	• Key role in developing policy, strategies and plans/programmes on rural development and local governance, including decentralization • Provide technical support to local bodies in the design and implementation of infrastructure and other socio-economic programmes/projects	• Key role in accessing funds to mobilize local bodies and communities primarily on adaptation • Currently active participation in LAPA implementation
Ministry of Urban Development	• Mainly responsible for the policy formulation and implementation for the development of urban centers with all the modern infrastructure and facilities to make them clean and healthy • Ensuring urban infrastructures including buildings are designed and implemented in compliance with prescribed standards to cope with disasters including climate induced	• Central role in making urban infrastructure climate resilient • Promoting mitigation through concept of smart cities

Ministry	***Roles and Responsibilities, and Institutional Capacity***	***Climate Finance Context***
Ministry of Forest and Soil Conservation	• Responsible for the development and implementation of national policies, strategies, programmes and plans in the forestry sector • Mainstreaming the concept of sustainable forest management, conservation and protection of natural environment and biodiversity • Management of protected areas • Promotion of community and private sector involvement in the management of forest and conservation areas	• Central role in REDD+ implementation in the country • Design and implementation of EBA measures • Mobilization of communities to benefit from carbon trade

4.1.5 Government Departments

Department	***Roles and Responsibilities***	***Climate Finance Context***
Department of Road (DOR)	• Responsible government department of MOPIT for expanding and maintaining the road networks throughout the country • A large number of projects with national budget and foreign assistance are being implemented by the department.	Projects with high mitigation potential under planning stage: • Express Way linking Kathmandu with Terai, • Outer Ring-Road in Kathmandu Valley • Tunnel between Naubishe and Thankot
Department of Railway	This department was recently added to the MOPIT to link east and west of the country through railways, linking Kathmandu with both neighboring countries, and metro system within the Valley.	GCF can be instrumental in financing these ambitious projects which have significant mitigation potentials
Department of Transport Management	This is the main responsible government authority to ensure the compliance of environment and climate friendly transport policy dealing with vehicles in the country	Promotion of mass transport, traffic management, and incentives to promote cleaner mode of transport
Department of Irrigation	• Mandate to plan, develop, maintain, operate, manage and monitor different modes of environmentally sustainable and socially	Utilization of funds both in infrastructure development and also

Department	*Roles and Responsibilities*	*Climate Finance Context*
	acceptable irrigation and drainage systems – from small to larger scale surface systems and from individual to community groundwater schemes • Carry out river training activities to protect the floodways, floodplains and agricultural lands in the form of river bank protection	prevention and control of disasters
Department of Water Induced Disaster Management	• Responsible for minimizing and mitigating the impacts of water induced disasters on vital infrastructures DWIDM has the experience of implementing major donor funded projects including World Bank (WB) and ADB in compliance with the financial requirements and environmental and social safeguards.	Potential NIE to access funds to implement prioritized adaptation measures
Department of Electricity Development (DOED)	DOED is the implementing arm of the MOE. The major functions of the Department are to ensure transparency of regulatory framework, accommodate, promote and facilitate private sector's participation in power sector by providing "One Window" service and license to power projects	Facilitate private sector to mobilize GCF to make hydropower more climate resilient
Department of Local Infrastructure Development and Agricultural Road (DOLIDAR)	Undertakes infrastructure development programmes in accordance with decentralization policies for attaining the goals set forth by the GON’s National Strategy for Rural Infrastructure Development.	Can propose and design programmes and projects for local bodies and access fund to implement them
Department of Industry	Department of Industry has the authority to approve the Initial Environmental Examination report of the industries required as per the Environmental Act and Regulation. The Foreign Investment and Promotion section of the department evaluates the proposal for foreign investment and submits with recommendation to Industrial Promotion Board.	Promotional role in access to cleaner technology and investment in industry sector
Department of Forest	Responsible for the protection, management and utilization of forests and the conservation of natural resources. Community forestry is one of the priority	Key role in the REDD+ implementation

Department	Roles and Responsibilities	Climate Finance Context
	programmes of the department, which has received considerable support from bilateral donors.	

4.2 Brief Description of Public and Private Sector Institutions

4.2.1 Public Sector Institutions

Public Sector Institution	***Roles and Responsibilities***	***Climate Finance Context***
Alternative Energy Promotion Centre (AEPC)	• Public sector institution with the objective of developing and promoting renewable/alternative energy technologies in Nepal • Functions independently, and is managed by an eleven-member board with representatives from government sector, industry sector and non-governmental organizations.	Already recommended by NDA for Accreditation to GCF as NIE and application under review process
Nepal Trust for Nature Conservation (NTNC)	NTNC is an autonomous and not-for-profit organization, mandated to work in the field of nature conservation in Nepal. For over two decades, the Trust has successfully undertaken over 200 small and large projects on nature conservation, biodiversity as well as cultural heritage protection, ecotourism, and sustainable development. NTNC focuses on holistic and integrated conservation and development programme.	Already recommended by NDA for Accreditation to GCF as NIE and in the process of submitting application
Nepal Electricity Authority (NEA)	NEA is responsible for generating, transmitting and distributing adequate, reliable and affordable power by planning, constructing, operating and maintaining all generation, transmission and distribution facilities in Nepal's power system both interconnected and isolated. It is a key institution to promote the private sector investment in power sector and also in promoting renewable energy in the country.	Plan and design projects and programmes for climate resilient power sector infrastructure development, demand side management for GCF support
Industrial Enterprises Development	IEDI is a resource organization for entrepreneurship development through training, research, and consultancy and enterprise education. It provides services to a	Key institution to mobilize the fund on Private sector

Public Sector Institution	***Roles and Responsibilities***	***Climate Finance Context***
Institute (IEDI)	maximum number of organizations involved in enterprise development. IEDI's main role is capacity development of intermediary organizations.	facility for micro enterprises development
National Productivity and Economic Development Centre (NPEDC)	NPEDC is a company and is governed by a six-member board of directors of which four are nominated by MOI. It is member to the Asian Productivity Organization and is supported by APO in the promotion of green productivity in the country.	Key institution for planning, designing and implementing projects related to the productivity enhancement in the industry sector.

4.2.2 Private Sector Institutions

Private Sector Institution	**Roles and Responsibilities**	**Climate Finance Context**
Federation of Nepalese Chamber of Commerce and Industry (FNCCI)	FNCCI, is the leading umbrella institution of businesses in the country which represents the interests of the private sector and is involved in promotion of socio economic development of the country through private sector led economic growth. FNCCI has the experience of working with almost all the donors in the country. It has established an Agro Enterprise Centre, which promotes agro business in the country. FNCCI focuses on energy efficiency and an Energy Efficiency Centre is established to implement the projects on energy and environment. Currently it is implementing the Nepal Energy Efficiency Programme (NEEP) with GIZ support which started in 2009. Sustainable and Efficient Industrial Development (SEID) under the Switch Asia Project of European Union is also being implemented by FNCCI.	Key institution for planning, designing and implementing projects both on mitigation and enterprises development
Federation of Nepalese Cottage and Small Industries (FNCSI)	FNCSI is constituted to promote the micro, cottage and small (MCSI) industrial sector in the country. FNCSI has experience of implementing donor funded projects and currently implementing three projects.	One of the key institutions in promoting micro enterprises through GCF
Nepal Bankers Association	Nepal Bankers Association is the association of 29 main commercial banks of Nepal. Development	Can promote commercial banks

Private Sector Institution	**Roles and Responsibilities**	**Climate Finance Context**
	banks, financial institutions, and cooperative banks are not part of this association.	to build capacity and apply for NIEs
Individual Power Producers Association of Nepal (IPPAN)	IPPAN is the apex body of independent power producers particularly involved in the hydropower development sector and is managed by eleven-member executive committee. IPPAN works towards having better coordination between the government and private sector involved in the hydropower sector. In addition, it shares and disseminates various ideas and knowledge on hydropower, and provides forum for discussion on development of water resources and hydropower.	Can promote access to GCF by individual hydropower companies to make them more climate resilient.
Hydroelectricity Investment and Development Company Limited (HIDCL)	HIDCL mobilizes funds from domestic and international resource base to cater to the needs of investments in medium to mega hydroelectricity generation, transmission and distribution projects.	Key national institution to become a potential NIE

5 Status on Climate Finance in Nepal

United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol expect financial assistance from Parties with more resources to those less endowed and more vulnerable in achieving the convention objectives. Also the Paris Agreement stipulates that developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention. In addition, Article 9 of the Paris Agreement states that the provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.

The Convention, under its Article 11, states that the operation of the Financial Mechanism is entrusted to one or more existing international entities. The operation of the Financial Mechanism is partly entrusted to the Global Environment Facility (GEF) and at COP 17 Parties decided to designate the Green Climate Fund (GCF) as an operating entity of the Financial Mechanism of the Convention, in accordance with Article 11 of the Convention. The Kyoto Protocol also recognizes, under its Article 11, the need for the Financial Mechanism to fund activities by developing country Parties. In addition to providing guidance to the GEF, Parties have established four special funds: the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF), both managed by the GEF, and the GCF under the Convention; and the Adaptation Fund (AF) under the Kyoto Protocol. Funding for climate change activities in developing countries is also available through bilateral, regional and multilateral channels, like the Climate Investment Fund and support from DFID, European Union, DANIDA, GIZ, USAID, NORAD, FINIDA, and others.

Nepal as a Least Developed Country has various opportunities to access various climate funds to achieve the goal of poverty alleviation through a sustainable development path. Through these funds, Nepal can make the infrastructure facilities more climate resilient and also prioritize the low carbon development options. This chapter provides the status on Nepal's access to these sources of funds and also the allocation of budgets by the Government under the climate change budget heading. As such the chapter is divided into four parts:

- Status on utilization of UNFCCC and Kyoto Protocol related funds
- Status on utilization of Climate Investment Funds
- Status on Bilateral Funds
- National allocation of budget under the climate change headings

5.1 Status on Utilization of UNFCC and Kyoto Protocol Related Funds

Over the years Nepal has applied for access to finance from different funds established under the UNFCCC and Kyoto Protocol mainly through accredited institutions by the Global Environmental Facility, including ADB, UNDP, UNEP, FAO, WFP, and IUCN.

In recent years, Nepal has been very active particularly for getting fund from the Least Developed Country Fund. The status on the utilization of climate change related funds are presented in Table 4.1.

Table 4.1 Country Status on UNFCCC and Kyoto Protocol Related Fund Utilization

Fund	**Description of Project**	**Period**	**Budget (million $)**	**Implementing Agency**	**Executing Agency**
Adaption Fund (AF)	Adapting to climate-induced threats to food production and food security in the Karnali Region of Nepal	2015-2019	9.527	WFP	MOPE MFALD
Least Developed Country Fund (LDCF)	Catalyzing ecosystem restoration for resilient natural capital and rural livelihoods in degraded forests and rangelands of Nepal.	2015 - 2019	5.75	UNEP	MOPE MFSC MOAD
	Community based flood and glacial lake outburst risk reduction	2013 - 2017	6.30	UNDP	MOSTE DHM
	Reducing vulnerability and increasing adaptive capacity to respond to impacts of climate change and variability for sustainable livelihoods in agriculture sector in Nepal	2015-2019	2.95	FAO	MOAD DOA DOLS NARC
	Ecosystem-Based Adaptation for Climate-resilient Development in the Kathmandu Valley	PPG 150,000 approved Feb 2017	6.24	UNEP	Kathmandu Valley Development Authority (KVDA)
	Developing Climate Resilient Livelihoods in the Vulnerable Watershed in Nepal	PPG of 150000$ and concept approved March 2017	7.00	UNDP	MFSC, DSCWM
GEF	Kathmandu Sustainable Urban Transport Project	May 2015-	2.18	ADB	MoPIT DOTM

Fund	Description of Project	Period	Budget (million $)	Implementing Agency	Executing Agency
(Star Allocation)	Renewable Energy for Rural Livelihood Project	Mar 2014 to	2.689	UNDP	AEPC
GEF (Enabling Activities)	Preparation of the Initial National Communication to UNFCCC	2001 -2004	0.310	UNEP	MOPE and DHM
	National Capacity Self-Assessment for Global Environment Management	2006 - 2008	0.20	UNDP	MOPE MFSC
	National Adaptation Programme of Action to Climate Change	2009 - 2011	0.20	UNDP	MOPE

GEF programmatic approach (four-year period, currently GEF-6 is from July 1, 2014 to June 31, 2018) provides phased and sustained support for the implementation of a multi-year (medium to long-term) programme that better integrates global environmental objectives into national strategies and plans (e.g. biodiversity strategy, sustainable energy plan, or a strategic action programe for international waters). System for Transparent Allocation of Resources (STAR) is the GEF's resource allocation system for biodiversity, climate change, and land degradation focal areas. STAR was developed within the GEF Secretariat in 2010 (GEF-5 STAR Country Allocations) on the basis of the Resource Allocation Framework (RAF), which was the former GEF resource allocation system used in GEF-4. A status on the GEF STAR allocation for Nepal and its utilization is presented in Table 4.2 and it shows that Nepal has not fully utilized resources allocated to itself. It is an indication of inadequate coordination between UNFCCC focal points and sectoral development ministries. Another indication of this barrier is non utilization of the fund from Specific Climate Change Fund (SCCF).

Table 4.2 GEF Star Allocation and Utilization in Nepal (US$)

	Climate Change	Biodiversity	Land Degradation	Total
GEF 6				
Allocation	3,596,410	3,344,899	1,962,551	8,903,860
Utilization	0	1,500,000	0	7,403,860
GEF 5				

	Climate Change	Biodiversity	Land Degradation	Total
Allocation	4,020,000	2,670,000	1,600,000	8,290,000
Utilization	3,969,300	2,640,000	1,600,000	8,209,300
GEF 4				
Allocation	3,300,000	3,800,000	-	7,100,000
Utilization	2,772,000	896,151	-	3,668,151

5.2 Status on Climate Investment Fund

Climate Investment Funds (CIF) comprises of Clean Technology Fund (CTF), Pilot Programme for Climate Resilience (PPCR), Scaling up Renewable Energy in Low Income Country Programme (SREP), and Forest Investment Programme (FIP). Nepal has already initiated programmes/projects with SREP and PPCR and is in the final stage for initiating programmes under the FIP. The status on CIF utilization is provided in **Table 5-1**.

Table 5-1: Status on Utilization of CIF in Nepal

Project	Duration	Budget (million $)	Implementing Agency	Executing Agency
Scaling Up Renewable Energy Programme (SREP)- Supported Extended Biogas Project	2014-2019	7.9	IFC, WB, ADB	AEPC
Pilot Project for Climate Resilience (PPCR)		77.00	IFC, WB, ADB	MOPE
Forest Investment Programme	Planned to start in 2017			MFSC RIC

5.3 Status on Bilateral Aid on Climate Change Related Projects

UK Aid/DFID and European Union: National Climate Change Support Programme (NCCSP)

UK Aid/DFID and European Union are the funding organizations with a total contribution of 14.6 million pounds out of which DFID will contribute 7 million pounds and EU will contribute 8.6 million euros. UNDP will manage 2.8 million pounds through Technical Assistance to the government at central, regional and local level. In addition, UNDP will fund US$ 0.3 million. Starting in 2011 and currently implementing 100 LAPA in 14 districts, MoPE is the leading agency and Ministry of Federal Affairs and Local Development is supporting the project.

USAID: Hariyo Ban Project:

This project was implemented between August 2011 and December 2016 and had the goal to reduce the adverse impact of climate change and threats to biodiversity in priority landscapes of Nepal. The Implementing Partners are World Wildlife Fund (WWF) in partnership with CARE, Federation of Community Forestry Users Nepal (FECOFUN), and National Trust for Nature Conservation (NTNC) Geographic. The focus of the project was The Terai Arc Landscape and Chitwan Annapurna Landscape, complemented by policy work at the national level, covering 23 districts in the West, Mid-West and the Far-West region of Nepal. The project budget was $39 million.

USAID: Initiative for Climate Change Adaptation (ICCA) Project:

This project was started in March 2012 and will continue until March 2017. It aims to increase resilience of poor and vulnerable communities by helping them adapt to, and mitigate, the adverse impacts of climate change in Nepal. The implementing partners are International Development Enterprises (iDE Inc.), in partnership with Rupantaran and RIMS-Nepal Geographic. The total budget is $2 million.

DANIDA: National Rural and Renewable Energy Programme:

The time frame of this project is 2012 to 2017 and it is being implemented by Alternate Energy Promotion Centre (AEPC). The total budget is DKK 205 million.

In addition to this project, DANIDA has supported ESAP I, ESAP II and ESAP III since late 1990 for 20 years in the promotion of renewable energy and institutional strengthening in the country.

5.4 Status on Government of Nepal's Budgeting on Climate Change

National Planning Commission in 2013 has published a report "Review of Climate Budget Code Application" which provides information on allocation of budget under climate change from nine different ministries, for the fiscal years 2013/14, 2014/15, 2015/2016, and 2016/2017. Over the years there has been significant increase in the allocation of the budget (**Table 5-2**). It increased from Rs 28.billion in 2012/13 to 69billion in 2016/17, almost by two and a half times.

Table 5-2: Status of GON budget on Climate Change 2012/13 to 2016/17

Ministries	Budget Code	2012/13		2013/14		2014/15		2015/16		2016/17	
		Amount ('000)	%	Amount ('000)	%	Amount ('000)	%	Amount (000)	%	Amount	%
Ministry of Industry	307	264,100	1.0	1,256,034	3.0	987,688	2.1	1,532,839	2.5	2,552,666	3.9
Ministry of Energy	308	158,910	0.6	920,001	2.2	2,136,219	4.5	5,561,353	9.1	7,242,027	11.0
Ministry of Agriculture Development	312	7,642,389	28.0	11,269,342	27.0	10,851,483	23.1	12,060,339	19.7	10,376,720	15.8
Ministry of Water Supply and Sanitation	313	0	0.0	0	0.0	0	0.0	0	0.0	6,086,111	9.3
Ministry of Forestry and Soil Conservation	329	2,262,945	8.3	3,981,102	9.6	5,429,728	11.5	7,477,973	12.2	6,692,770	10.2
Ministry of Science, Technology and Environment/ Ministry of Population and Environment *	331	2,628,556	9.6	4,878,011	11.7	5,698,270	12.1	7,579,315	12.4	7,856,770	12.0
Ministry of Physical Infrastructure and Transport	337	398,181	1.5	803,696	1.9	598,890	1.3	2,695,789	4.4	11,878,606	18.1

Ministries	Budget Code	2012/13		2013/14		2014/15		2015/16		2016/17	
		Amount ('000)	**%**	**Amount ('000)**	**%**	**Amount ('000)**	**%**	**Amount (000)**	**%**	**Amount**	**%**
Ministry of Urban Development	347	7,066,642	25.9	10,948,942	26.3	11,932,162	25.3	12,889,581	21.0	921,705	1.4
Ministry of Irrigation	357	5,552,932	20.4	5,866,866	14.1	7,357,738	15.6	9,190,583	15.0	10,555,921	16.1
Ministry of Federal Affairs and Local Development	365	1,307,974	4.8	1,761,470	4.2	2,079,468	4.4	2,286,336	3.7	1,534,029	2.3
	Grand Total	27,282,629	100	41,685,464	100	47,071,646	100	61,274,108	100	65,697,325	100

* Ministry of Population and Environment since 2016/17 (Budget Code 332 has been assigned to Ministry of Science and Technology)

Source: MoF (2013), MoF (2014), MoF (2015), MoF (2016), MoF (2017)

6 Conclusion and Recommendations

Nepal has made the commitment to the Paris Agreement to pursue a low carbon and climate resilient development pathway, and as such has submitted its Nationally Determined Contribution (NDC) to the UNFCCC with the mission to reach the status of middle income country within 15 years, under its current status of Least Developed Country. Nepal is preparing itself to get the maximum support from the Green Climate Fund (GCF), serving as a financial mechanism to the Paris Agreement.

Nepal has also made significant progress in mainstreaming the objectives of UNFCCC into its national and sector development policies, strategies and long-term plans. Nepal has a National Climate Change Policy in place and its National Low Carbon Development Strategy is awaiting the approval of the Council of Ministers. National Adaption Plan (NAP) is being developed through a nationally driven consultative process and is expected to be approved by the Government by the end of this year. Nepal's Local Adaptation Plans of Action (LAPA) has set good examples to many LDCs and developing country parties. However, despite many sectoral strategies and long-term plans being supportive to achieve the objectives of mitigation, Nepal has yet to submit any Nationally Appropriate Mitigation Actions (NAMA); these have been utilized by many countries to access funding for mitigating climate impacts. In order to ensure the objectives of national and sectoral development policies are met, there is need to legalize proposed policy interventions.

In Nepal, Ministry of Finance (MoF) is the National Designated Authority (NDA) for GCF and also the Operational Focal Point for Global Environmental Facility (GEF). However, Ministry of Population and Environment (MoPE) is the national focal point for UNFCCC. MOF, in collaboration with UNDP and UNEP and financial support from the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), has initiated 'Green Climate Fund Readiness Programme for Nepal'. In order to facilitate the work of NDA in a more efficient and effective manner, and to ensure timely decisions regarding the proposed projects/programmes, the MoF has established a nine-member high level Coordination Committee for climate finance under the chairmanship of Secretary, MoF with representatives from key development ministries and a representative of private sector. Separate sections on Climate Finance are also established at MOF and MoPE.

MoF, as the NDA to GCF, has already recommended two national institutions- Alternative Energy Promotion Centre (AEPC), and Nepal Trust for Nature Conservation (NTNC) for GCF accreditation for National Implementing Entity, and the readiness project is providing technical support for this process. AEPC is mandated to promote alternative energy technologies while NTNC is working in the field of nature conservation promoting ecosystem based adaptation measures. However, even after these two institutions get accredited, Nepal still needs to approach multilateral development banks and UN agencies for access of funds to major development projects. So, key development ministries with experience of managing large scale projects funded by the World Bank, Asian Development Bank, and other development partners, need to be prepared for accreditation to GCF for large and medium sized projects of national priority with huge mitigation potentials for instance development of smart cities. Ministries with the potential for accreditation to access funding from GCF include Ministry of Physical Infrastructure and Transport, Ministry of Energy, Ministry of Irrigation, Ministry of Urban Development, and Ministry of Water Supply and Sanitation. All these ministries face the challenge of making the infrastructure development in Nepal climate resilient. Private sector can also access funds for instance in the form of concessional loans through these ministries to undertake major infrastructure projects. Financial institutions both in public sector and private sector like the Citizen's Investment Trust and Employees Provident Fund, and few commercial banks should be encouraged and supported to get GCF accreditation.

In recent years, Nepal has been successful in accessing funds from UNFCCC and Kyoto Protocol related funds, and also from Climate Investment Funds. At present, six different projects with a total grant of around 42 million USD are being implemented in Nepal from the Adaption Fund and LDCF. Nepal is implementing two projects with funding from the Climate Investment Fund (PPCR and SREP) and soon will get finance for the Forest Investment Programme. Since 2013, the Government of Nepal has adopted a separate budget code on climate change to track expenditure in climate change mitigation and adaptation. Over the years, there has been a significant increase in the allocation of the budget under this heading, and it has increased from Rs. 28.0 billion in 2012/13 to Rs. 69.00 billion in 2016/17, by almost two and a half times. However, there is still a lack of understanding about climate finance including the GCF, and awareness programmes targeting key development ministries, local bodies, and private sector are needed to prepare executing entities and NIEs.

In a very short period, this project has created awareness through sensitization and capacity assessment workshops and enhanced the understanding on GCF objectives and its direct access modalities to some of the potential National Implementing Entities (NIEs). More specific recommendations for instance on capacity building for government, development partners and private sector entities interested to engage in GCF process are made separately as part of the recommendation report of the project.

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