
**Understanding the Political Economy of Low Carbon and
Climate Resilient Development**

**Case Study Report: The Pilot Programme for
Climate Resilience in Nepal**

International Institute for Environment and
Development (IIED)

DRAFT



IDS

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Acknowledgements

This research has been funded by UKAid from the Department for International Development, through the Political Economy of Low Carbon Climate Resilient Development project, however the views expressed do not officially reflect the department’s policies. We gratefully acknowledge the support of Andrew Clayton, Kirsty Mason, Jane Clark, Simon Lucas and Clare Shakya.

Executive summary

1. Research objectives:

This report forms part of the DfID-funded research project *Understanding the Political Economy of Low Carbon and Climate Resilient Development* being undertaken by the Institute for Development Studies (IDS), which aims to, “inform policy and programming around climate change and development by exploring how ideas, power and resources are distributed and contested in different contexts, and the implications for development outcomes.”¹ The objectives of this case study of the Pilot Programme for Climate Resilience (PPCR) in Nepal are three fold:

- i. To understand how different world views of global environmental governance, development and climate change are interpreted and play out at the national level in relation to the PPCR;
- ii. To provide empirical analysis of how institutions, politics and power mediate the distribution of contested resources in Nepal in the context of the PPCR, and the implications for development outcomes;
- iii. To understand the flow of ideas and ideologies of the PPCR in the national context and the interactions (and/or resistance) with national policy processes and regional identities.

2. Methodology

The findings presented in this paper are based on case study data on the PPCR process in Nepal collected and analysed between July and December 2010. Methods of data collection included an initial stakeholder and institutional analysis conducted at the outset of the study and updated throughout the study period; key informant interviews; and document analysis of formal and informal PPCR and climate change planning documentation generated throughout the PPCR process to date.

3. Findings

The case study data from this study is organized around two key areas of findings:

3.i Key issues of negotiation

Three key issues of negotiation have been identified:

The relationship between the NAPA and the PPCR

The PPCR planning process in Nepal began at a similar time to the development of the National Adaption Programme of Action (NAPA). The PPCR process is mandated to “build on” NAPAs however different interpretations of what this means led to confusion over the relationship between the two. Government stakeholders and some donors had expectations that the PPCR could be used to fund some NAPA outputs, whilst the MDBs argued that funding NAPAs was not consistent with the remit of the PPCR. This led to disappointment on behalf of the government over the PPCR process, and accusations of a lack of responsiveness to national priorities by the MDBs.

¹ IDS, 2010. *Understanding the Political Economy of Low Carbon and Climate Resilient Development: Terms of Reference for Case Studies.*

This tension was recognised by the MDBs and somewhat managed by the way in which the PPCR development has explicitly built on NAPA in its development, through the engagement of the NAPA stakeholders, the repeated referencing of the NAPA throughout the PPCR inception documents, and the use of NAPA-generated information as 'background' to the PPCT processes. However, members of civil society and also from within the NAPA team suggest given there is no precedent for PPCR yet, it should be more open to the possibility.

Institutional and financial governance of the PPCR for managing climate change

There are currently three large-scale programmes of work in Nepal that aim to support an institutional and financial structure for climate change governance in Nepal: The NAPA; the DfID/EU Nepal Climate Change Support Programme (NCCSP) that aims to support a national institutional framework and financing mechanism to manage climate finance and to channel resources to local, district and sub-regional levels; and the PPCR. The need to coordinate the three processes to avoid a proliferation of potential climate change institutional structures is important.

There was general consensus from stakeholders that the three programmes of work were largely complementary:

- PPCR should “build on” NAPA but be longer term and more strategic;
- DfID/EU focuses on local scale delivery mechanisms of NAPA and other climate change programmes
- PPCR aims to support higher level climate change mainstreaming at the sectoral and national levels.

A key issue for negotiation was the role of the Ministry of Environment in any coordinated mechanism for institutional and financial management of these and other processes. Negotiation around a proposed common institutional structure has focused around current relative lack of fiduciary standards and experience versus the need for capacity building and for the MOE to demonstrate its capacity to absorb large-scale climate finance for future investments.

Loans versus grants

The PPCR funds are comprised of a mix of loans and grants. This has been controversial because of the principle that vulnerable countries should not have to take loans for adaptation, because adaptation finance should be 'additional' to development funding given that climate change is an additional burden to existing development stresses. Countries applying to the PPCR for funds are able to apply for both the loan and grant component; or the grant component only, depending on their needs.

The Government of Nepal initially only wanted the grant component of the PPCR, however following the precedents set by other PPCR countries that were taking the loan component also, a decision was taken to also accept the loan. This decision was heavily criticized by civil society. The issue remains undecided following change of Government and new Minister for Environment.

3.ii. Conceptualisation

The negotiation of the key issues above was closely tied in with the different and sometimes conflicting ways in which key concepts were conceptualised by different stakeholders, namely climate resilience (and the associated concepts of adaptation and adaptive capacity); national

ownership and 'country drivenness'; and transformative change. These different conceptualisations by different stakeholders are briefly summarised in table 1, below.

Table 1: Summary of different conceptualisations by different stakeholder groups²

| | Climate resilience | Adaptation | National Ownership | Transformational change |
|-----------------|---|---|---|--|
| Government | <ul style="list-style-type: none"> • Synonymous with adaptation • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> • The NAPA presents Government climate change priorities • Government should be able to drive design process inc. fund allocation • Consultants should be accountable to Government | <ul style="list-style-type: none"> • Beyond consultants and TA - full capacity within Government to manage CC • Adaptive capacity enhanced at the local level • Adaptive capacity no longer constrained by poverty |
| MDB/Consultants | <ul style="list-style-type: none"> • Long term and Strategic • Mainstreamed • "Climate proofing" • Climate risk management • Response to future climate change • An additional need in light of new climate risks | <ul style="list-style-type: none"> • Urgent and immediate • Short term • Projectised • Response to current climatic variability • Does not adequately address longer term climate resilience | <ul style="list-style-type: none"> • Consultants based inside Government and liaise frequently with Government • Government engaged with procurement • Consultants work with Government on drafting process | <ul style="list-style-type: none"> • Moving beyond "business as usual" • Systems, processes and procedures are climate proofed • Over and above development - influence the way development decisions are made in light of climate change risks |
| Donor | <ul style="list-style-type: none"> • The same as adaptation, ie: • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability and | <ul style="list-style-type: none"> • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability | <ul style="list-style-type: none"> • The Government should be able to define climate change risks • NAPA represents Government driven process so this should | <ul style="list-style-type: none"> • Transformation of national systems for longer term "adaptive management" • Focus on governance • Moving away from a dependence on |

² Based on analysis of KI interviews. This table summarises some key statements made by individuals and also those made in related project documentation.

| | | | | |
|--|----------------|--------------------|---|---|
| | climate change | and climate change | be built on <ul style="list-style-type: none"> Recognises high fiduciary risks | donor TA towards Governments being able to do this themselves |
|--|----------------|--------------------|---|---|

These different conceptualisations are all related and mutually reinforcing, and they have had a significant impact on what issues were negotiated and how. But these conceptualisations in turn are based on the 'bigger picture' remits and experiences of each stakeholder groups that create incentives for different approaches.

4. Recommendations

This makes the following recommendations for stakeholders engaged in the PPCR in Nepal as the process moves forward:

i) Approaches to supporting national ownership

- The “Mission-style” approach to PPCR planning was not conducive to fostering relationships between the different sets of stakeholders engaged in the PPCR or generating government ownership over the planning process. Once this was supported by the SPCR consulting team based in the Ministry, all stakeholders suggested that relations and understanding were improved and reinstating a similar mechanism for continuous working with MOE is recommended.
- However, the reporting of this team primarily to the MDBs rather than to MOE, and the limited influence of MOE over the workings of the team limited government ownership and ‘buy-in’ to the teams outputs. Further, once the team was disbanded the capacity built during their time there was also lost. It is recommended that a greater degree of control over any consulting team is given to MOE to ensure increased engagement and learning during the PPCR preparation process.
- Short time-lines were given to MOE to comment on Mission outputs, however flexibility was given where deadlines could not be met. This flexibility should be maintained but working more closely with the government drafting and documentation perhaps through the mechanisms above should help all stakeholders to set and meet more realistic deadlines for feedback.

ii) Wider incentives for transformational change

Transformational change is interpreted as more than “climate proofing” development, but in building the capacity of the government of Nepal to achieve long term climate resilient development. In line with recommendation (i) this means moving away from a dependence on donor technical assistance towards Governments long term enhanced capacity.

This requires mechanisms in place that reward greater government capacity and control, rather than those that reward fast and more tangible results. This may include:

- Building in and emphasising government capacity indicators into monitoring and evaluation systems.
- Reconsidering PPCR engagement in a multi-donor trust fund. This could increase the capacity and autonomy of the Government to manage adaptation investments, in line with “transformational change” objectives, in line with the PPCR mandate. This would increase national ownership and provide an opportunity for the Government of Nepal to demonstrate “absorptive capacity” for future large scale climate change finance.

- PPCR implementing agencies need to be allocated time and resources to support the process of “transformational change.” With limited time and resources it is difficult to implementing agencies to shift away from a ‘business as usual’ model, even if the ‘business’ is ‘climate proofed.’

Responsive approach

There are currently no precedents for PPCR planning for achieving transformational change. This creates opportunities for donors and implementing agencies to be responsive to national demands. Examples from Nepal include:

- Taking forward or incorporating some NAPA priorities.
- Supporting government decisions over loan and grant components, acknowledging the pressure the government is under from civil society on this issue.

1. Introduction

1.1 Research aims

This report forms part of the DfID-funded research project *Understanding the Political Economy of Low Carbon and Climate Resilient Development* being undertaken by the Institute for Development Studies (IDS), which aims to,

inform policy and programming around climate change and development by exploring how ideas, power and resources are distributed and contested in different contexts, and the implications for development outcomes.³

As part of this project, IIED has been commissioned to undertake a detailed case study analysis of the Pilot Programme for Climate Resilience (PPCR) in Nepal. The PPCR is a programme developed under the World Bank managed Strategic Climate Fund, one of the two Climate Investment Funds (CIFs) (see www.climateinvestmentfunds.org/cif/ppcr for more information). The CIFs were established outside the United Nations Framework Convention on Climate Change (UNFCCC) process to "bridge the financing and learning gap" to respond to the urgent need for action on climate change. Approved in 2008, the CIFs are larger than all of the existing funds under the UNFCCC process.⁴

The CIFs both reflect and are also likely to catalyse significant changes in the global political dynamics and incentive structures of climate change response measures. This changing international landscape of financial flows for climate change will inevitably influence the context of national-level of decision-making around climate change policy and investment. Yet to date there is relatively little research into how these changes to global level political and financial dynamics might play out at the national level.⁵

This study addresses this research gap through a detailed analysis of the political economy of the PPCR process in Nepal. In line with the Terms of Reference for this study, the objectives of this case analysis are three fold:

- iv. To understand how different world views of global environmental governance, development and climate change are interpreted and play out at the national level in relation to the PPCR;
- v. To provide empirical analysis of how institutions, politics and power mediate the distribution of contested resources in Nepal in the context of the PPCR, and the implications for development outcomes;
- vi. To understand the flow of ideas and ideologies of the PPCR in the national context and the interactions (and/or resistance) with national policy processes and regional identities.

1.2 Methodology

To meet these objectives, IIED collected and analysed data relevant to the political economy of the PPCR process in Nepal between July and December 2010. Methods of data collection included:

³ IDS, 2010. *Understanding the Political Economy of Low Carbon and Climate Resilient Development: Terms of Reference for Case Studies*.

⁴ Seballos, 2010. *PPCR institutional structures*. Unpublished background note provided by author.

⁵ IDS, 2010. *Understanding the Political economy of Low Carbon and Climate Resilient Development: Scoping Report and Workplan*, April 2010. IDS.

- Initial stakeholder and institutional mapping and analysis conducted at the outset of the study and updated throughout the study period in response to research findings as they emerged (see section 3);
- key informant interviews (semi-structured and open ended) with key stakeholders identified through the stakeholder mapping exercise (four groups of stakeholders were identified: Government, focusing on Ministry of Environment but discussions were also held with Ministry of Finance and National Planning Commission and the line ministry members of NAPA Thematic Working Groups; MDBs and implementing agencies; and donors, focusing on DfID as one of the main donors to the PPCR process but discussions were also held with Danida, USAID and SNV).
- Document analysis of formal and informal PPCR-related documentation generated throughout the PPCR process from its inception in May 2009 through to the outputs of the most recent mission in November 2010;
- The production of a 'living' historical timeline the PPCR process from its inception to date, that continues to be updated (presented in section 3 of this report).

This data was analysed against three sets of interrelated research questions around ideologies, institutions and power, and capacity and resources, as proposed in the overall scoping and workplan provided by IDS.⁶

Ideas and ideology

- a) How are climate change and development interventions conceptualised by different groups of actors nationally and internationally?
- b) How are these different conceptualisations interpreted and contested at national level?

Institutions and power

- a) What are the formal and informal mechanisms for decision making around climate change initiatives at national and international scale?
- b) How do different groups and individuals exert power over others to enable or resist processes of change around low carbon and climate resilient development?

Capacity and resource distribution

- a) What are the barriers or constraints to technical capacity?
- b) What is the intended or actual distribution of resources?

As far as possible all data used to draw conclusions for this study has been triangulated through these different information sources to ensure accuracy and objectiveness in data analysis. A draft report was shared with all key informant interviewees to cross-check data interpretation.

1.3 Report outline

The following sections of this report present this analysis. The next section (section two) of this report presents an overview of the national climate change policy context in Nepal within which the PPCR is set. Section three details the national engagement of Nepal in the PPCR process, from country selection through to the outcomes of the PPCR mission in November 2010. This includes an analysis of the stakeholders and interests in the PPCR process in Nepal, and a historical timeline of

⁶ IDS, 2010. Understanding the Political economy of Low Carbon and Climate Resilient Development: Scoping Report and Workplan, April 2010. IDS.

the process to date. Sections four and five of this report present the outcomes of the political economy analysis of the stakeholders and events of the PPCR in Nepal. Section four draws out the key points and issues of negotiation and contestation during the PPCR process in Nepal during the process. Section five discusses the role of alternative and at times conflicting conceptualisations of some key issues in influencing negotiations. The final section of this report discusses some lessons and key areas for attention for the next phase of the PPCR process in Nepal and also for climate change policy processes elsewhere; as well as some areas of good practice from the PPCR process in Nepal that should be highlighted and strengthened.

2. The national climate change policy context in Nepal

Nepal's political priorities are dominated by the post-conflict on-going peace process and democratisation process. Nevertheless, within this overall climate of political uncertainty, climate change has received high level political support in Nepal, which in turn has led to the development of national level policies and institutions for climate change.

2.1 National policy landscape for climate change in Nepal

Climate change in national policy and planning

The integration of climate change into policy frameworks is an ongoing process in Nepal. The GoN has commissioned the preparation of a **National Climate Change Policy** which was finalised in January 2011. The policy itself has been under preparation since 2009, and has undergone several rounds of consultation with civil society and Government stakeholders. However, as the policy has only recently been approved it is difficult to assess its influence at this stage.

The most recent national effort to articulate Nepal's climate change priorities has been through the development of Nepal's **National Adaptation Programme of Action (NAPA)**, initiated in May 2009 and formally launched on November 4th, 2010. The NAPA was undertaken through six government-led **thematic working groups (TWGs)**:

- i. Agriculture and food security (Coordinator: Ministry of Agriculture and Cooperatives)
- ii. Forests and biodiversity (Coordinator: Ministry of Forests and Soil Conservation)
- iii. Water and energy (Coordinator: Ministry of Energy)
- iv. Health (Coordinator: Ministry of Health and Population)
- v. Urban settlements (Coordinator: Department of Urban Development and Building Construction)
- vi. Disaster risk reduction (Coordinator: Ministry of Home Affairs)

The final NAPA document consolidates the TWG reports and presents the national climate change vulnerability and adaptation priorities for Nepal. The final set of adaptation priorities are 'clustered' activities that have combined priority adaptation profiles from different TWGs. The NAPA priority activities are presented in annex 1.

The NAPA has been endorsed by Cabinet and the Prime Ministers office, and has been presented by the Government as the key national document to "provide a basis for the government to guide

further climate change governance and manage [climate change] financial resources in a coherent and coordinated manner."⁷

A series of National Five-Year Plans and Three-Year Interim Plans have been formulated aimed at achieving poverty reduction by providing a policy framework that encourages investments in primary sectors that form the backbone of rural development and poverty reduction. As part of this planning framework, the Government of Nepal recently issued the **Three Year Plan Approach Paper** (2010-2012) which includes the objectives of promoting green development, making development activities climate-friendly, mitigating the adverse impacts of climate change, and promoting adaptation.⁸

The new constitution is being drafted at a time when climate change is high on the national GoN agenda. As such the **draft constitution** directly references climate change, clearly stating that citizens have a 'right' to adaptation and should be compensated for the losses and damages caused by climate related disasters.

Climate change in sector-wide policies and plans

The most climate sensitive sectors in Nepal are represented by the NAPA thematic working groups listed above, and each TWG is led by the relevant line ministry. As part of the NAPA process, each NAPA TWG produced a **thematic working group report** that outlined the national climate change vulnerabilities and adaptation priorities relevant to that sector/theme.

Climate change vulnerability has been explicitly or implicitly addressed in some sector level plans. For example, the Ministry of Health has prepared a **Health Sector Strategy**, which will be implemented as a sector wide approach (SWAP) by linking the annual work plan under the strategy to the MTEF. The latest strategy includes a **chapter on climate change & health**. The **National Strategy for Disaster Risk Management** (2009) calls for a shift away from a reactive (relief and response) approach to a proactive (preparedness) approach to disaster risk reduction (DRR). It aims to mainstream DRR into sector planning and incorporates the principles of the Hyogo Framework. The proposed **Disaster Risk Reduction Action Plan for Nepal 2010-2013** calls for the preparation of a risk-sensitive land use plan for Kathmandu Valley (i.e. the five municipalities and villages within the Valley) that provide a framework for development, land allocations and related strategies, policies and regulatory tools and procedures for controlling future growth and safeguarding it from natural hazards.

Other donor investments in climate change adaptation in Nepal

The Government of Nepal is currently managing a number of donor initiatives in Nepal that have synergies with the PPCR. Two significant forthcoming investments are listed below.⁹

DfID and Danida have put significant cofinancing into the NAPA (see above).

⁷ MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal.

⁸ World Bank/ADB/IFC: Aide Memoire to the Joint Mission 15-21st November 2010: Annex 3.

⁹ A comprehensive list of donor investments in climate change in Nepal is being collated under the Climate change and Development Portal under the NAPA programme of work, available at www.climatenepal.org.np.

In addition, **DfID and EU** are currently preparing to invest approximately £16m, of which £10m will be met by DFID and £6m (Euros 8.5m) by the EU, in a Nepal Climate Change Support Programme (NCCSP). The programme will start in early 2011 to support the Government of Nepal in managing climate finance and mainstreaming climate change into local and up to national level development planning. The programme outputs include:¹⁰

- i. Poor and excluded households in the most climate vulnerable regions benefiting from locally planned climate adaptation & low emissions initiatives;
- ii. National institutional arrangements and funding mechanisms to channel resources to local, district and sub-regional climate adaptation & low emissions initiatives coordinated by the GoN climate change focal point - MoE;
- iii. Government and non-government agencies at local to national levels capable to support the design, implementation and monitoring & evaluation of climate adaptation & low emissions initiatives;
- iv. Climate compatible development strategies, policies, plans, guidelines and multi-stakeholder organizational and legal frameworks in place at all levels.

The "LAPA" area of support emerged from the NAPA programme of work and is designed to be consistent with enabling NAPA implementation at the local level.

USAID have recently announced a "Hariyo Ban" programme, to provide support to reducing the threats of to biodiversity and vulnerabilities of climate change in Nepal through appropriate site-based interventions in priority bio-diverse landscapes as well as enabling policy at the national level. The programme has three components:

- Biodiversity conservation
- Sustainable landscapes and REDD
- Climate change adaptation

The estimated total programme funding will be USD 30,000,000 and the programme will begin in early 2011.¹¹

2.2 Institutional frameworks for climate change planning in Nepal

The **Ministry of Environment (MOE)** is the focal point for most climate change activities including those under the UNFCCC and Kyoto Protocol. Under the MOE there is a **Climate Change Management Division**. MOE plays a key role in overall coordination across scales (between adaptation policy and planning and on-the-ground implementation) and across actors (coordinating between different donor support avenues, different climate change projects, and activities across Ministries under programmes of work managed by MOE).

On 23 July, 2009 the Prime Minister established the **Prime Minister's Council on Climate Change**, which has met four times since it was established. The Council is a high-level coordinating body with responsibility to:

- Provide coordination, guidance and direction for the formulation and implementation of climate-related policies;

¹⁰ NCCSP draft project document, November 2010.

¹¹ www.grants.gov/hariyoban

- Provide guidance for the integration of climate-related aspects in the long-term policies, perspective plans and programmes;
- Take necessary measures to make climate change a national development agenda;
- Initiate and coordinate activities related to additional financial and technical support to climate change-related programmes and projects;
- To initiate and coordinate for additional benefit from climate change-related international negotiations and decisions.

The Ministry of Environment functions as a secretariat to the Council.

Twenty MPs representing different parties have formed an '**informal MP's group**' on **climate change**. Some members of this group have invested their Parliamentary Development Fund into climate related projects. The group members are lobbying for institutionalising a parliamentary committee on climate change that could provide a broad framework for the government's actions on climate change.¹²

The NAPA process in Nepal received additional co-financing from DfID and Danida that was used to support an "expanded NAPA" process that included two additional components:

Component 2: A Climate Change Knowledge Management and Learning Platform for Nepal;
Component 3: and a Multi-stakeholder Framework for Action on Climate Change in Nepal.

This broader support and knowledge infrastructure was intended to ensure a more strategic approach to NAPA preparation and the longer term sustainability of the institutional and knowledge capacity built for climate change planning under the NAPA.¹³ Under the second component of the NAPA, in 2010 the GoN established a **Knowledge Management (KM) Hub** at the national level managed by National Academy of Science and Technology (NAST). This is likely to be supported by regional knowledge management hub.

Associated with component 3 of the NAPA the GoN has established the **Multi-stakeholder Climate Change Initiatives Coordination Committee (MCCICC)**. The MCCICC comprises of 21 plus members. As a coordination body at the functional level, the Committee will report to the Climate Change Council and contribute to mainstreaming the climate change programmes into the development planning and implementation. The functions of the Committee are as follows:

- Establish, maintain, and improve communication amongst institutions concerned with and working in the field of climate change;
- Coordinate climate change response in Nepal at programmatic level to foster synergy and avoid duplication of efforts. The areas that have to be contributed include, but are not limited to, policies, plans, strategies, financing, programmes and projects;
- Provide inputs for developing a national consensus in international climate change negotiations;
- Ensure strategic adaptation and other climate change-related activities financing by providing an avenue where needs are identified, articulated, and taken into account in the formulation of adaptation financing strategies by development partners and by the Government of Nepal;

¹² Paudel, N.S. 2010. Responding to climate change in a transitional Politics: Review of political context in relation to designing LAPA in Nepal. Report prepared for CADP-Nepal. November 2010.

¹³ www.napanepal.gov.np/about_napa

- Strengthen multi-stakeholder collaboration in responding to climate change including management of climate risks and opportunities, long-term adaptation to climate change, and building a low carbon and climate-resilient economy, and other areas;
- Facilitate to clarify any misunderstanding and/or confusion, if occurred, in any stages of the project cycle; and
- Provide inputs and monitor and evaluate the implementation of priority adaptation actions as identified in the NAPA and other climate change initiatives.

The Committee is Chaired by the Secretary of the Ministry of Environment, and has representation from the six coordinators of the NAPA Thematic Working Groups as well as from the National Planning Commission, the Ministry of Finance, NGOs and academia, local government associations, and donor agencies.

The six **NAPA Thematic Working Groups (TWGs)** have been institutionalised under the MCCICC and are comprised of experts representing relevant sub-sectors and are coordinated by the Joint Secretaries of the concerned Ministry. As institutional structures, they have the potential of playing a key role for future cross-sectoral integration and coordination of climate change adaptation initiatives.

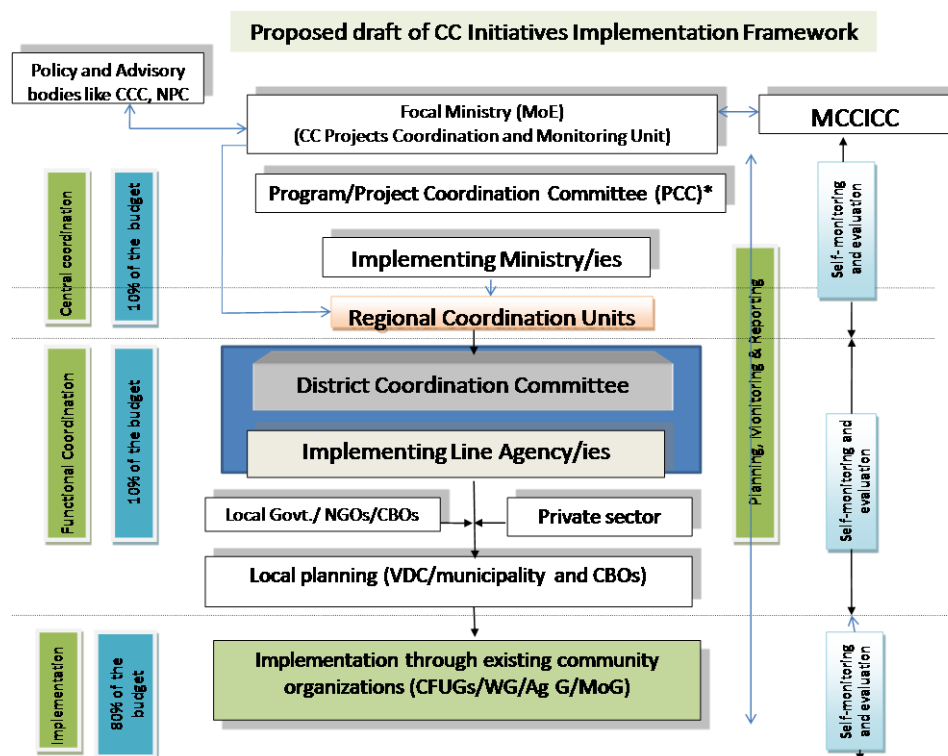
An implementation framework for climate change adaptation in Nepal

One innovative feature of the Nepal NAPA document is the presentation of an implementation framework for climate change adaptation projects in Nepal, that is intended to depict how all the above institutional structures could be operationalised in a coordinated. This structure is presented in figure 1.

Under the NAPA implementation framework, technical responsibilities are delegated to the appropriate ministries and the appropriate governance level, but the implementation of all adaptation projects (including those outside the NAPA) should be subsumed under this common coordination, management and monitoring mechanism. At the central level, the MOE is responsible for coordination and for reporting to and liaising with the Climate Change Council (which forms the apex body responsible for policy coordination). Within MOE, a Climate Change Program and Monitoring Unit provides operational coordination to different programmes. It also supports village development committees and municipalities in incorporating adaptation into local planning.

At the project level, the major responsibility for implementing a project falls within the ambit of the appropriate line ministry (the "implementing ministry"). If a project is multi-disciplinary and integrated in nature MOE will designate the appropriate implementing ministry through consultation with all relevant ministries. The implementing ministry is then responsible for constituting a Project Coordination Committee to guide project implementing, comprised of representatives from all relevant line ministries, development partners, experts and beneficiary groups.

At the local level, a District Coordination Committee will be formed through the District Development Committee (although this mechanism is flexible in response to specific circumstances and capacities of the local governance systems in place). This committee will be represented by a diverse set of local actors from beneficiaries relevant to service delivery agents responsible for ultimate project implementation and monitoring and evaluation.



It is the Government of Nepal's intention that the implementation structure proposed under the NAPA forms the basis for implementation of all adaptation interventions and investments in Nepal.¹⁴ The objectives of the PPCR state that,¹⁵

The pilot programs implemented under the PPCR should be country led, build on National Adaptation Programs of Action (NAPA) and other relevant country studies and strategies, and be strategically aligned with the Adaptation Fund and other donor funded activities.

The following sections of this report will therefore include a review of the extent to which the PPCR has succeeded in engaging with, building on and coordinating with the above policy and institutional structures, and the NAPA in particular.

3. National engagement with the PPCR process

This section will first briefly review some of the key goals and objectives of the PPCR and provide some background information that is relevant to the analysis presented in later sections of this report. This section will then review the national PPCR process in Nepal from country selection through to the most recent joint mission undertaken in November 2010.

3.1 Background to the PPCR in Nepal

¹⁴ MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal; supported by interviews with MOE, MOF and NPC.

¹⁵ PPCR/SC.1/CRP.1

As noted in the introduction, the PPCR is one of the Climate Investment Funds established under the Strategic Climate Fund. The overall objective of the PPCR as described in the PPCR design document¹⁶ is to "Pilot and demonstrate ways to integrate climate risk and resilience into core development planning, whilst complementing other ongoing activities". The *aim* of the PPCR is to achieve this objective by,

"providing incentives for scaled-up action and *transformational change in integrating consideration of climate resilience in national development planning* consistent with poverty reduction and sustainable development goals".¹⁷

In support of these aims and objectives, the PPCR will support two kinds of activities:

- i. Funding for technical assistance to enable developing countries to build on existing national work to integrate climate resilience into national or sectoral development plans, strategies and financing;
- ii. Provide additional financial resources to help fund a program of public and private sector investments identified in national or sectoral development plans or strategies addressing climate resilience

The majority of funding under the PPCR is provided through grant allocations, however some of the funding is available through highly concessional loans. Countries have the autonomy to decide whether they want to take both grant and loan allocations, or only grants; although the PPCR guidelines suggest that funding for additional costs directly associated with technical assistance and institutional adjustment should be provided through grants only.¹⁸

Nepal is one of nine countries to be invited by the World Bank to participate in the PPCR.¹⁹ Countries were selected to participate in the PPCR on the basis of exposure to climatic hazards; vulnerability to climatic hazards; and 'country-preparedness' to demonstrate results.²⁰ Nepal was selected as one South Asian priority country (in addition to Bangladesh) on the basis of it being a mountain ecosystem highly vulnerable to the impacts of climate change including glacial melt; and a low adaptive capacity (based on a low Human Development Index).²¹ During selection, the capacity of Nepal to 'demonstrate results' was questioned because one of the primary indicators used to demonstrate results was the existence of a NAPA or similar adaptation planning framework at the country level.²² At the time of selection, Nepal had signed its NAPA project document in November 2008 but there was a significant lag between the signing of this document and the NAPA Inception in May 2009.

¹⁶ PPCR/SC.1/CRP.1

¹⁷ Ibid; italics own

¹⁸ Ibid

¹⁹ The others are Bangladesh, Bolivia, Cambodia, Mozambique, Niger, Tajikistan, Yemen and Zambia, in addition to two 'regional programmes' being undertaken in the Caribbean and the Pacific.

²⁰ Climate Investment Funds 2009. The Selection of Countries to Participate in the PPC: Report of the Expert Group to the Subcommittee of the PPCR.

²¹ Ibid

²² Author's notes, meeting of the Expert Group to the Subcommittee of the PPCR, World Bank, Washington DC, January 20th.

Following completion of the country selection process, the PPCR planning takes place in two phases. *Phase one* involves facilitation of a cross-sectoral dialogue process to arrive at a common vision of climate resilience in the medium and long term, and the formulation of a strategic approach for climate resilience. This involves the development of a *strategic Programme for Climate Resilience (SPCR)* that is submitted for endorsement by the PPCR Sub-committee (see box 1). *Phase two* involves the implementation of the strategic programme through the relevant multilateral development banks (MDBs) alongside their lending and technical assistance portfolios. In Nepal, the MDBs are the World Bank through partnership with the Asian Development Bank (ADB).

The following sections will describe the progress of the PCCR and SPCR in Nepal since Nepal's selection as a pilot country.

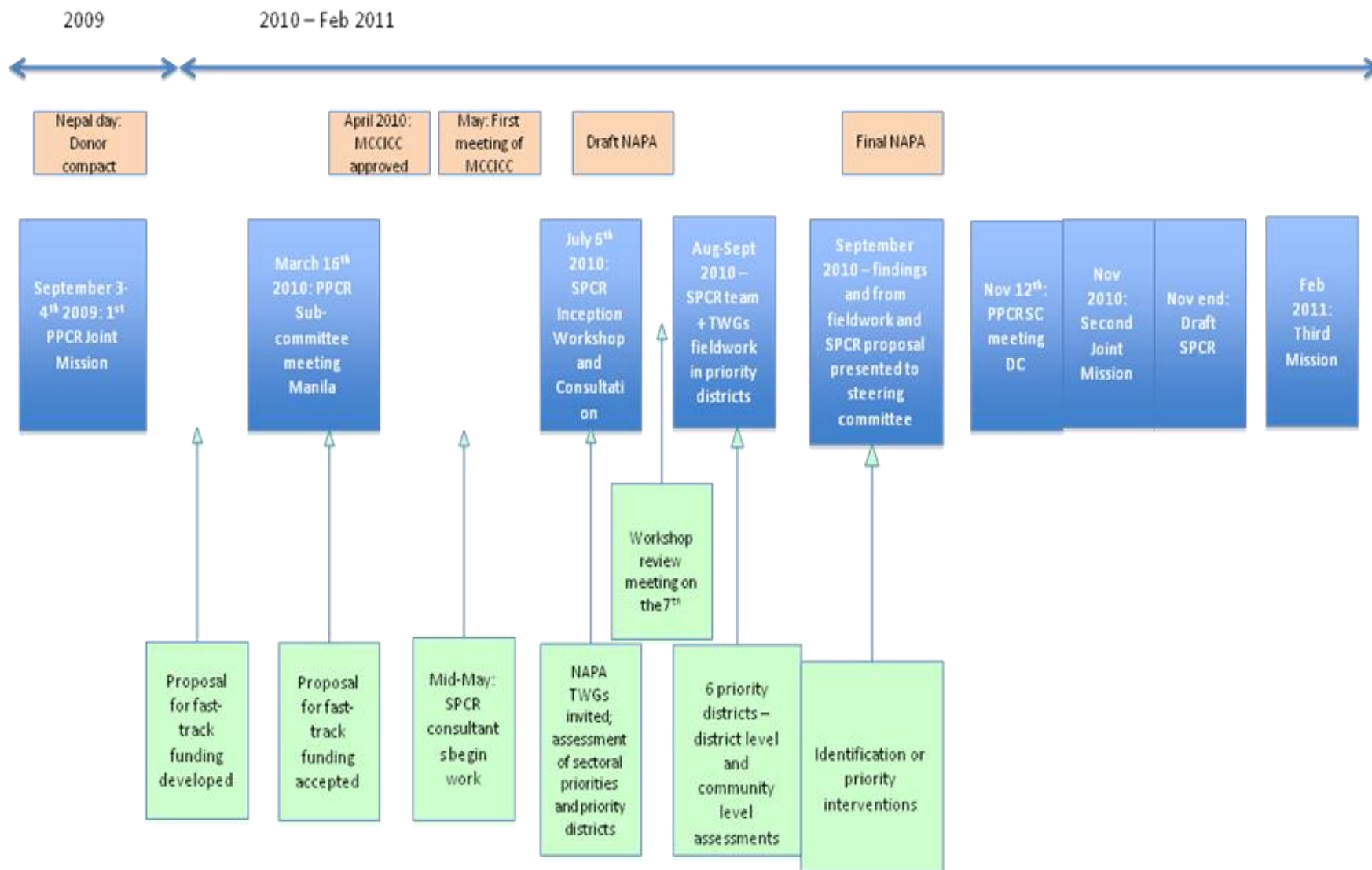
3.2 The PPCR programme in Nepal: The story so far

A timeline of key events in the PPCR process to February 2011 is presented in figure 2, below.

Box 1: Strategic Programme for Climate Resilience (SPCR)

Source: MOE/PPCR Team, 2010: Developing Nepal's SPCR: Prioritisation Planning Process (draft).

The SPCR should outline governments agreed long-term vision to agree a climate resilient trajectory and a critical path to get there. This should include the consideration of vulnerable economic sectors, specific social groups (including women, youth, indigenous peoples, and local communities) and ecosystems. The SPCR will include proposed activities or programme components for PPCR financing, including technical assistance and other investments. Detailed preparation of each activity will be pursued in accordance with the procedures of the MDB(s) partnering the country.



The first 'key date' for the PPCR in Nepal is May 2009, which marked the initiation of not only PPCR activities but also, significantly, those of the NAPA. Nepal's engagement began with the **acceptance of the offer for participation** by the Ministry of Environment (the national focal point for the PPCR) on behalf of the Government of Nepal on **13th May 2009**.²³ This was shortly before the **Inception Workshop for the NAPA**, which took place over two days between the 25th-26th of May 2009. Acknowledging the need for close coordination with the NAPA process from both the Government of Nepal and also the MDBs, the Government of Nepal invited ADB to present at the NAPA inception workshop on the PPCR and the potential for synergies with NAPA and other national climate change activities.

During the workshop presentations by ADB, DfID (one of the key donors to the PPCR as well as the 'expanded NAPA') and also the Government of Nepal discussed opportunities for synergies between NAPA and PPCR.²⁴ Presentations and discussions on coordination between the two processes show a divergence of opinions on what the synergies could be. The ADB presentation focused on opportunities for "harmonised planning" and for the PPCR to "build on" the NAPA process. However the report of the discussion following the presentation from ADB on the PPCR process shows that some workshop participants suggested that complementarities between NAPA outputs and PPCR objectives might enable "the PPCR to fund some NAPA projects but confirmation of this would depend on NAPA and PPCR processes as they develop."²⁵ Similar suggestions were also made during presentations by DfID.²⁶ The workshop therefore marks the beginning of conflicting interpretations around the relationship between the NAPA and the PPCR.

Between May and September a consultant for ADB undertook a stocktaking exercise to analyse institutional options for coordinating the design and implementation of the PPCR in Nepal, ahead of the first PPCR Joint Mission schedules for September 2009.²⁷ On the 10th of July 2009, the Ministry of Environment (MOE) convened an inter-ministerial dialogue to reach agreement on an interim institutional arrangement for managing the PPCR, during which Government stakeholders confirmed that the PPCR decision-making body would be the Climate Change Council (see section 2), with MOE serving as coordinating/facilitating agency and other agencies serving as implementing agencies for adaptation programmes and projects.

The first Joint Mission was fielded by the World Bank, the ADB and the International Finance Corporation (IFC) from **September 3-9, 2009**. The timing of this Mission is significant because it was intentionally planned to take place immediately after a Regional Climate Change Conference that took place on 31st August-1st September, 2009. During this conference, the Government of Nepal invited 14 donors and multilaterals²⁸ to sign a **Donor Compact on Climate Change in Nepal**²⁹, in which all signatories including the Government of Nepal committed to a set of principles to guide development partners in supporting action on climate change in Nepal. These principles included acknowledging the role of line Ministries in leading the integration of climate resilience in their

²³ MOEST, 2009. Country Acceptance of Offer to Participate in the Pilot Programme for Climate Resilience.

²⁴ MOEST, 2009. NAPA Project inception Report, 25-26 may, 2009. www.napanepal.gov.np.

²⁵ MOEST, 2009. NAPA Project inception Report, 25-26 may, 2009 pp. 10.

²⁶ Ibid:14.

²⁷ Si, 2009. Climate Change Stocktaking Report for Nepal. Backgrounder for joint Programming Mission for teh Pilot Program for Climate Resilience. Draft for Workshop Participants. Unpublished copy obtained from Author, not approved for citation.

²⁸ CIDA, SDC, Finland, AUSAID, SNV, EC, ADB, WB, DfID, GTZ, UNDP, Danida, Norway, and USAID.

²⁹ www.moenv.gov.np/np/downloads/donor%20compact.pdf

respective sectors; the lead role of the MOE but acknowledging the support of the Ministry of Finance, the National Planning Commission, and in close consultation with other Ministries; and significantly, the harmonised and aligned actions on climate change by all development partners.

Organising the first Joint Mission for the PPCR had practical value. All key climate change stakeholders were together and available for consultation in Nepal, including key Government stakeholders, civil society representatives and donor and multilateral agencies. However there was also symbolic value, as the Mission presented the first opportunity for donors, multilaterals and the Government of Nepal to demonstrate their commitment to coordination and cooperation in light of the Donor Compact.³⁰

The Joint Mission started with a two-day residential meeting outside Kathmandu at Gorkana Forest Resort. As well as the MOE, ADB and WB stakeholders, the NAPA team and NAPA TWGs were also invited to participate. High-level international World Bank and IFC staff also attended. The objectives of the mission were to "take stock of the range of climate change related activities in Nepal and agree with the Government of Nepal on the process and the broad scope of potential PPCR activities."³¹ The residential meeting began with a presentation to all stakeholders by senior World Bank and ADB officials on the objectives of the PPCR; and a presentation of the stocktaking report. The rest of the meeting focused on sector-based working-group work on identifying climate change impacts; existing response systems; gaps between 'current levels and desired level of climate proofing' in sectors; policy and capacity needs for mainstreaming climate change into national/sectoral development policies and planning; and the identification of needs that PPCR could address.³²

Interviews with participants of the first Joint Mission suggest some tensions emerged during this residential phase, around two related issues. The first was around the nature of the process; some participants felt that they were being asked to identify climate change priorities for their sectors in too short a time period and without adequate consultation with wider stakeholder groups. For example, one government participant from a NAPA TWG noted that in his breakout group he worked with others to come up with some priorities but 'another set of people would have decided something different. We were a very small group all with our own agendas'. Another government TWG participant said he felt uncomfortable being asked to identify key issues for his sector in the absence of senior government staff from his sector there, given the strong hierarchy with in Government that meant participants felt they risked the outcomes of the meeting not being approved by more senior Government levels in their sectors with potentially damaging consequences for the TWG members who were engaged.

However, these concerns were in part due to a lack of clarification on the objectives of these sessions. It was stated by the MDBs that this Mission was 'to get a feel for technical assistance needs and potential future directions, not to write the PPCR in two days.'³³

A second tension arose through the emergence of confusions around the relationship between the PPCR and NAPA processes. Some workshop participants felt that the NAPA was already identifying

³⁰ Interview notes, DfID, ADB and GoN.

³¹ ADB/IFC/World Bank - Government of Nepal, 2009. Draft Aide Memoire: Multilateral Development Bank (MDB) Programming Mission for the Pilot Program for Climate Resilience, September 3-9, 2009.

³² PPCR Mission Nepal First Joint Programming Mission (ADB, World Bank, IFC) 3-9 September 2009 Mission Program/Schedule.

³³ MDB representative

national climate change priorities and adaptation options through a consultative process. Expectations had started to build during preceding months that the PPCR could fund the adaptation options that the NAPA identified, but statements made by the MDBs during the Gorkana workshop indicated that this would not be the case. This led to suggestions that the PPCR was not 'building on national priorities' (seen to be identified through the NAPA process) and that the process was 'Bank led not country led'.³⁴ The emphasis placed on climate resilience as 'climate proofing existing investments' led to some reactions on behalf of Government stakeholders that the "Banks are trying to climate proof their own projects and not Government priorities".³⁵

However, responses from the MDBs and development partners suggest that these tensions were based on misunderstandings over the purpose of this first mission, and also conflicting perspectives over whether the remit of the PPCR could enable PPCR to fund NAPA priorities. For example, one MDB representative stated that the purpose of the first mission was to get an understanding of the national climate change resilience gaps at the policy level, particularly in relation to what the key technical assistance gaps were and *not* to 'nail down the PPCR then and there'. This statement is supported by the stated objectives for the PPCR mission.

In light of these tensions, efforts were made to clarify the purpose of the workshop and the relationship between the PPCR and the NAPA. A statement on the relationship between the PPCR and NAPA was drafted with the Government of Nepal stakeholders and went through several iterations between the Government and the MDBs. However, a final version was never formally approved by the Government as an addendum to the Mission Aide Memoire, but remained an informal document for clarification.

The following six days of the joint mission involved the drafting of an Aide Memoire based on the outputs of the Gorkana Workshop; meetings with sector agencies to identify technical assistance needs; presenting findings and obtaining feedback; and finalising the Aide Memoire with the Ministry of Environment. In response to the unease generated during the Gorkana workshop, the MDBs and donor stakeholders were keen that the process of drafting and agreeing the aide memoire be used to resolve some of the tensions and clarify confusions that had emerged. The resulting Aide Memoire underwent several changes in response to Government comments, and includes the following two statements that respond in particular to the issues discussed above.³⁶

Synergies between NAPA and PPCR: As the NAPA is under preparation in Nepal there is an opportunity to bring the PPCR together in terms of linking analysis, prioritisation and future investments...There is also scope to build a joint stakeholder consultation process. An output of NAPA is a document that identifies priorities capacity building activities and investments related to adaptation. The NAPA guidelines also indicate that NAPAs can include priorities that ensure development is climate resilient. Where projects identified in the NAPA are consistent with the objectives of the PPCR, these, among other initiatives, should be financed through PPCR resources.

Employing bottom-up initiatives ...emerged as a crucial theme to building resilience...this view, strongly held by government, was reiterated at the focus group workshops and meetings organised separately for development partners, NGOs, private sector and the constituent assembly.

³⁴ NAPA TWG representative

³⁵ MOE representative

³⁶ ADB/IFC/World Bank - Government of Nepal, 2009. Draft Aide Memoire: Multilateral Development Bank (MDB) Programming Mission for the Pilot Program for Climate Resilience, September 3-9, 2009.

Nevertheless a news article published in December 2009 suggests that some of these underlying tensions persisted:

One of the main issues, sources within both the government and donor agencies said, has been who should be on the driving seat. "It was thought to be and should have been a government driven programme", they said, "But what happened was missions of World Bank and Asian Development Bank would just fly in and hold meetings the way they wished to...Sources with some bilateral agencies contributing to the programme fund say there have also been big differences on how to utilise the money. "The banks, for instance, were using the money for climate proofing the projects they are involved in where as the basic idea was to help communities really vulnerable to climate change", they said.³⁷

It is not clear whether this article was based on more recent or outdated statements from the Government and donors. Nevertheless it suggests that the issue of Government ownership is a sensitive one.

Between **November 23rd-26th** ADB and the World Bank met with MOE and the NAPA thematic working group focal persons to **follow-up** on the September joint programming mission. A meeting was also held among MOE, the National Planning Commission (NPC), the Ministry of Finance (MOF) and the Prime Minister's Office, to discuss institutional arrangements for the PPCR. It was agreed that MOE would continue to coordinate the process but that NPC, PMO and MOF will provide overall policy coordination among line agencies and higher level policy guidance; and that the Government would form an advisory group chaired by NPC to guide on prioritisation and resource allocation.

During this time it was also agreed that a greater degree of constant interaction between the MDBs and the Government was needed to find clarity on the PPCR process. Both the Government and the MDBs agreed that the Government needed to be constantly engaged with the drafting and shaping of the PPCR, but that they also need support to be able to do this, rather than simply 'handing the task over' to the Banks. The result was an agreement to contract a consulting team of national and international consultants, to be based in the Ministry of Environment, to work with the Ministry on producing the first draft of the SPCR. The consultants would be contracted by ADB but, significantly, supervised by the Ministry of Environment and would be expected to be part of the MOE PPCR team.³⁸ Between **September 2009 and March 2010** a **proposal for accelerated funding** for phase 1 activities was developed that focused on meeting this requirement.

The fast-track funding proposal requests USD 1.5 million in SPCR Technical Assistance (TA) to be released in two tranches. The first of these is a request for USD 225,000 immediately (as 'fast track') to support this consulting assistance to prepare the SPCR funding documents for both the second phase of TA and the program phase. This was **accepted** at the meeting of the **PPCR Sub-Committee on 6th March 2010**. The recruitment of one international and three national consultants began. TORs were drafted jointly between the MDBs and MOE to ensure the resulting candidates met the requirements of both. Candidates were shortlisted by the MDBs but in cooperation with MOE, to those who met the specific requirements of the TORs. Final selection of consultants was by joint decision between the MOE and the MDBs.³⁹ The **national consultants begin work in May 2010 and the international team leader joined the team in June 2010**. They were tasked to prepare the SPCR preparatory document according to the Government's expectations taking into consideration the

³⁷ "Tough Lessons". Ekantipur, December 4th 2009.

³⁸ Interview with MDB representative

³⁹ PPCR/SC.5/5. Nepal: Proposal for accelerated funding for phase 1 activities. Meeting of the PPCR Sub-Committee, Manila, Philippines March 16, 2010.

requirements of, and guidelines issued by, the PPCR subcommittee. In addition, a **private sector consultant was recruited in September 2010** to work alongside the SPCR team with a focus on private sector engagement.

An **SPCR Inception and Consultation Workshop** was held on **6th July 2010**. The workshop was attended by over 100 participants from a wide range of Government, NGO, donor, MDB and private sector stakeholders including good representation from the NAPA TWGs. The opening session of the workshop was taken by MOE who highlighted the near completion of the NAPA draft, presented initial NAPA process and priorities and stressed that the PPCR process should build on the progress of the NAPA. The following technical sessions were undertaken by MOE and ADB consultants who outlined the proposal for PPCR preparation. MOE also proposed that the SPCR use a similar implementation framework as that presented in the NAPA document (see figure 2).

During the technical session taken by ADB, principles for guiding Nepal's SPCR process were highlighted. Two in particular addressed ongoing concerns from the Government on climate change investments in general, and the PPCR in particular. First, the consultants confirmed that 80% of PPCR financing would go straight to vulnerable communities for "on the ground activities to address risk in vulnerable communities". This figure of 80% of financing 'for implementation on the ground' has been a key Government demand for all recent large investments in adaptation in Nepal, including the NAPA and the more recent DfID/EU investments. Second, the consultants addressed the relationship between PPCR and NAPA. They reiterated that the PPCR should 'build on NAPA', and specifically the SPCR planning process would:

- Build on reports of TWGs
- Utilise NAPA institutional frameworks to formulate SPCR.

The same presentation also sought to clarify the difference between the PPCR and NAPA processes, stating:

NAPAs are intended to cover urgent and immediate needs for adaptation whereas the PPCR is focused on longer term goals of achieving development that is climate resilient.⁴⁰

The ADB consultants also outlined a proposed methodology for the SPCR prioritisation planning process. They suggested that the key steps included:

- i. Assessment of climate change risks
- ii. Identification of vulnerable communities
- iii. Adaptive capacity assessment
- iv. Identification of priority interventions to address risks
- v. Resilience assessment
- vi. Cost benefit analysis and return on investment analysis (for private sector loan components).

It was proposed that TWGs be engaged in every step. It was highlighted that the assessment of climate change risks would build on the initial work undertaken during the NAPA preparation process especially in relation to setting the context of climate change risks and analysing sectoral hazards. However, it was suggested that a more detailed analysis was needed to that undertaken under the NAPA for the estimating and evaluating of climate change risks.

⁴⁰ Developing Nepal's Strategic Program for Climate Resilience. Presentation by ADB consultants to the Inception and Consultation Workshop of the SPCR, Everest Hotel, Kathmandu, 6th July 2010. Available at www.ppcrnepal.gov.np

It was proposed that estimating and evaluating climate change risks required a greater level of analysis to identify the event and outcome risks to specific sectors and also to identify the most vulnerable communities to those hazards. It was suggested that this analysis would be done in Kathmandu by TWGs with training and support from the PPCR team, utilising climate change knowledge (including models) and expert judgement. Once key climate risks and vulnerable communities had been identified, it was proposed that fieldwork be undertaken to the vulnerable communities by PPCR teams and TWGs to illicit local evidence and indigenous knowledge to combine with expert judgement in the assessment of key climate change community risks.

Next, it was suggested that an "adaptive capacity assessment" would need to be undertaken at the local level (using criteria defined centrally by the PPCR and TWG teams), at the sectoral level and at the national level. Based on the outputs of these steps, priority needs/investments should be identified "viable for vulnerable communities, within vulnerable sectors, and at the national level".⁴¹ These priority SPCR measures would then be evaluated through a "resiliency assessment...to determine whether the proposed measures will enhance resilience within vulnerable ecosystems, communities, sectors or at the national level".⁴² The resiliency assessment assesses proposed interventions against their potential to address exposure, sensitivity, adaptive capacity, and whether the interventions also have a positive impact on development factors related to vulnerability such as social capital, the quality of basic services, and the resilience of natural resources or essential environmental services. Finally, a cost benefit analysis would be undertaken.

The proposed activities and work plan presented by the ADB consultants in conjunction with the Government represent a response to some of the key concerns of the Government around the PPCR process. These include a recognition of the need to incorporate 'bottom-up' risk assessments; a commitment to ensure 80% of funds for PPCR are channelled 'on to the ground'; and the need to build on the NAPA process and clarify the relationship between the NAPA and PPCR.

Nevertheless discussions following the presentations suggest that there remained some confusion again around the relationship between the PPCR and the NAPA. For example, the workshop report states that the comments included:⁴³

"It seems to be that what we have already achieved in NAPA is going to repeat again."

"As NAPA has already identified projects, please just select some of them and do risk and cost benefit analysis and do the job soon."

"There are so many confusing terminologies...NAPA team conducted in-depth vulnerability assessment. Focusing on risk assessment and focusing on exposure seem like reducing vulnerability. PPCR is to mainstream climate change related issues into development processes."

"Are we repeating the same? Why not select a project from the NAPA list and proceed ahead...Let it not be parallel to NAPA."

⁴¹ Ibid

⁴² Ibid

⁴³ Developing Nepal's Strategic Program for Climate Resilience: Progress Report, May 16, 2010 - August 13, 2010. Annex 1.

On **July 7th, 2010**, a **review meeting** took place to review the outcomes of the PPCR Inception Workshop between the MDBs, the Government, and the NAPA team. This meeting re-emphasised that the starting point for PPCR preparation would be the NAPA, and confirmed the work plan presented in the previous day's workshop. However, interviews with meeting participants suggested that tensions remained over how "building on NAPA" was being interpreted. The proposed 'next step' to SPCR planning was to summarise NAPA TWG reports, and working with TWGs to identify vulnerable communities for field assessments, based on the outputs of these summaries and TWG expert opinion.

However, it was pointed out that part of the NAPA process had involved the commissioning of a study to map vulnerable communities already and that these communities had already been taken as the Government's climate vulnerability priorities. Developing a new approach to define vulnerable communities and climate change priorities was seen by Government stakeholders to undermine the NAPA process and the extensive range of stakeholders that had been engaged in this. However, one participant notes that "the general message is that the NAPA process cannot be justified/validated as per PPCR guidelines".⁴⁴

Discussions over the following week seem to have gone some way to resolving these tensions. A week later, a **PPCR Partners Meeting** was held at the Ministry of Environment on **July 14th**, attended by Government, MDB, donor and multilateral stakeholders. The meeting was opened by the Ministry of Environment, and opening remarks included clarifications on the relationship between the SPCR and NAPA, with the meeting report stating that,⁴⁵

[MOE] indicated that a Climate Change Risk Assessment, Adaptive Capacity Assessment, and Cost-benefit Analysis were not part of the NAPA process, and these were to be undertaken as part of the SPCR process in accordance with the PPCR guidelines.

And,

Clarified that the NAPA prioritised projects will also be considered when prioritising possible PPCR projects.

This last statement does not state that the PPCR can fund NAPA, but that PPCR priorities will take into account the priorities of NAPA. This is a shift from the first Aide Memoire which stated that where projects are consistent with the objectives of the PPCR these could be considered for PPCR financing.⁴⁶

During **August and September 2010**, the PPCR team and selected members of the TWGs undertook the risk assessment and adaptive capacity assessment phases of work, including fieldwork undertaken in 18 vulnerable communities in six prioritised districts. Risk assessment workshops were held at the district level with high level local government and community representatives and invited experts to identify three priority communities in each district. Within each community, household surveys and interviews were undertaken to give a "feel for" adaptive capacity.

⁴⁴ Notes from July 7th meeting provided by meeting participant

⁴⁵ Developing Nepal's Strategic Program for Climate Resilience: Progress Report, May 16, 2010 - August 13, 2010. Annex 2.

⁴⁶ ADB/IFC/World Bank-Government of Nepal, 2009. Draft Aide Memoire: MDB Programming Mission for the PPCR, September 3-9, 2009.

The 'three tier' (national, district and community level) adaptive capacity assessment outputs were combined with the vulnerability assessment analysis (including that undertaken by the NAPA) to give rise to a draft list of priority investment areas. These included:⁴⁷

- i. Water-related priorities: water basin management plans were identified as needed and interventions at the community level were suggested to show how to manage water and connectivity issues along a watershed.
- ii. Upgrading hydro and meteorology stations to provide better information and early warning services to communities
- iii. A large capacity building component to build climate change risk management into operations across scales, including at village level and municipality level and up to sectoral and national government levels. This would require the production of manuals on climate proofing as well as training.
- iv. Addressing climate change risks to critical threatened species particularly the snow leopard and the rhinoceros. Biodiversity is often overlooked in the PPCR but this was raised as a critical issue in Nepal - there is a need to climate-proof conservation plans through on-the-ground monitoring and conservation undertaken by communities.
- v. Microfinance and micro insurance: Farmers in remote rural areas have no access to these services because the government does not have the coverage to reach these excluded areas, and the private sector does not yet see the business case. There are opportunities for public/private partnerships to capitalise a micro-finance/micro-insurance scheme.
- vi. Research and development into climate-resilient seeds and dissemination to vulnerable communities, again through public/private partnerships;
- vii. Low cost multiple use emergency shelters in response to the high losses suffered during extreme weather events

At the time the suggestions were put forward the Government had not yet decided whether it would accept the grant-only component of the PPCR (totalling USD50 million), or whether to also take the concessional loan allocation (providing an additional USD 60 million). Suggestions 1-4 would be financed through a grant component of the PPCR, while suggestions 5-7 were deemed more suitable for loan financing.

These suggestions were presented by the PPCR team on **October 5th, 2010** to Ministry of Environment and MDB stakeholders. The Minister for Environment noted he was pleased with the level of work and detail that had been presented and noted the attention to the private sector that had so far been overlooked.⁴⁸ Over the following weeks the comments from the Government as well as wider stakeholder consultations were collated and used to draft an SPCR proposal that would be presented at the next Joint Mission (see below). Four draft components were agreed on that would form the basis of consultation at the next Joint mission. These were:

- i. *Building Climate Resilient Watershed and Water Resources in Mountain Eco-regions.*⁴⁹
Outputs include:
 - Communities who already have watershed management plans implement quick actions to build resilience
 - Communities and ecosystems in selected mountain watersheds (identified as significantly vulnerable to water scarcity due to climate change) have improved physical and economic resilience to changes in availability of water for domestic, agricultural and environmental use.

⁴⁷ Based on interviews undertaken with PPCR team during October 2010

⁴⁸ SPRC Meeting Minutes, October 5th, 2010: 11-14.00 hours.

⁴⁹ See Aide Memoire 10th December 2010 Annex 4.

- ii. *Building Resilience to Climate-related Extreme Events*⁵⁰. The objective of this component is to build resilience in vulnerable communities by establishing early warning systems and improving access to financial instruments that reduce the adverse impacts of climate induced shocks. Outputs include:
 - Installing real-time hydro meteorological infrastructure and information nation-wide and establish early warning systems for priority vulnerable communities.
 - Establish climate risk insurance/finance programme for vulnerable communities, home-owners and women.

- iii. *Mainstreaming Climate Change Risk Management in Development*.⁵¹ This SCR intervention will facilitate the integration of climate change risk management into development planning by developing climate change risk management guidelines and procedures and implementing a comprehensive programme of capacity building for climate change risk management at the national, sectoral, district and local levels, targeting public sector and civil society and also private sector.

- iv. *Building Climate Resilient Communities through Private Sector Participation*.⁵² The programme objective is to strengthen capacity, improve access to climate resilient technologies, and reduce key market barriers that prevent the private sector from playing a key role in building climate resilient communities. This objective will be achieved through a financing envelope of both concessional loans and grants that would support building climate resilient communities through private sector participation. The grant element will be primarily used for capacity development, covering the incremental costs of integrating climate risks and increasing awareness of climate risks among the private sector. Activities under this component support private sector engagement in the SPCR components 1, 2 and 3 above.

On **November 12th 2010** there was a **CIF meeting in Washington** to which the focal points of all PPCR countries were invited to attend to present on their progress. Unfortunately there was some confusion resulting in the missing of the deadline for MOE to submit a proposal to present at this meeting, so MOE only confirmed their attendance last minute. This caused frustrations and uncertainty about the MOE focal points availability for the next PPCR joint mission that had been planned for the following week (see below). It was suggested that communication should be better coordinated between central CIF offices, country implementing agencies and country focal points as there was a lack of clarity over roles and responsibilities for communication with central CIF counterparts.

The Government of Nepal did attend the CIF meeting in Washington and shared experiences with other countries. During this meeting the Government of Nepal became convinced to accept the loan component of the PPCR, in light of experiences in other countries, specifically Niger and Bangladesh,

⁵⁰ See Aide Memoire 10th December 2010 Annex 5.

⁵¹ See Aide Memoire 10th December 2010 Annex 6a.

⁵² See Aide Memoire 10th December 2010 Annex 7.

who were also accepting the loan component.⁵³ This meant that the funds available for SPCR now totalled USD110 million.⁵⁴

The next World Bank, ADB and IFC **Joint Mission** took place between **November 15th and 21st**. The purpose of the Joint Mission was to consult with a wide range of government, donor and civil society stakeholders on the four draft SPCR component concept notes (see above). The key actions agreed were.⁵⁵

i) Financial envelope⁵⁶

The Government proposed a financial request to the PPCR of USD 110, requesting USD 50 million in grants and USD60 million in concessional loans, with the Government to provide final guidance during the next mission. Private sector participation would be channelled both directly through the IFC and through public-private partnership. Indicative allocation for the four components total USD108 million which does not include the necessary funds for project preparation, MDB admin fees and overall SPCR programme management.⁵⁷

Also during the mission, the development partners and representatives raised the possibility of establishing a multi-donor trust fund for climate change activities in Nepal through which PPCR trust funds could be channelled. The mission concluded however that there was not enough time in the PPCR preparation process and that creating such a fund was not in the mandate for the PPCR.⁵⁸ Nevertheless it was agreed that the MDBs would continue a discussion with other donor partners on the possibility of creating such a trust fund, potentially through one of the other donor programmes on climate change being initiated in Nepal, and that if this was the case the PPCR investments would be aligned with this mechanism.⁵⁹

ii) SPCR components

The aide memoire suggests that focused consultations on the four components of the SPCR described above confirmed that they address all priority needs identified by both the NAPA and the SPCR; that they were accepted as rational, feasible and not duplicative of ongoing activities, and that many synergies existed between SPCR proposals and ongoing climate change activities.⁶⁰

In addition, the mission also held preliminary discussions with the MoFSC and UNDP concerning the possibility of an addition standalone SPCR component to ensure the sustainability of certain endangered specific in the context of climate change. UNDP is in the process of finalising a proposal for the submission of the Global Environmental Facility (GEF) for biodiversity corridor management including endangered species. The mission agreed to explore whether CIF/PPCR funds could be allocated to UNDP directly to supplement this proposed project to ensure adequate focus under the

⁵³ Interview with MOE, December 2010

⁵⁴ However, this decision has not yet be confirmed, and may not be upheld by the new Government that came into power in February 2011. The new Minister for Environment has not yet confirmed whether the loan component will be accepted.

⁵⁵ Aide Memoire 10th December 2010

⁵⁶ See footnote 52: The new Minister for Environment has not yet confirmed whether the loan component will be accepted for PPCR which affects the total allocation of financial resources.

⁵⁷ Ibid

⁵⁸ Ibid

⁵⁹ Interview with MDB partners

⁶⁰ Aide Memoire, 10th December 2010

GEF-supported project to risks resulting from climate change, for example degrading or shifting habitats and changing food chains. Discussions around this component are ongoing.

iii) Tentative institutional structure

The institutional structure of the PPCR had been a site of contestation in the SPCR design process. The Government (MOE) indicated that the PPCR should be in line with the same institutional structure proposed under NAPA. Confusions arose around the fund-flow mechanism proposed by the PPCR (that was proposed to go through the Ministry of Finance, guided through a PPCR steering committee), which the Government at first perceived as incompatible with a NAPA-type institutional structure for implementation.⁶¹

This issue underwent extensive negotiation between the Government (including Ministry of Finance, MOE, and NPC), MDBs and donors. The final aide memoire suggests a structure that is in line with that proposed under NAPA, that is also supported by the DfID/EU programme of investment (see section 3). Under this structure, the implementation of the SPCR has been proposed as follows (See figure 4) :

- Components 1-3 will be implemented through designated project management units, with component committees chaired by secretaries of the respective component lead agencies.
- For component 4, implementation will be conducted through IFC procedures.
- A climate change programme steering committee will monitor results and provide overall coordination and guidance of all climate change programs, including NAPA, DFID/EU and SPCR. This steering committee will be chaired by MOE and co-chaired by NPC, supported by a secretariat staffed by MOE.
- The secretariat will provide regular updates to the Climate Change Council and the MCCICC.
- The current institutional mechanism of the PPCR steering committee and a Policy Advisory Committee will continue until the new SOCR implementation arrangements are established.

iv) Government counterpart staffing

The mission requested the Government of Nepal to fill vacant positions in the Ministry of Environment to help meet the increasing human capacity gap in light of the new demands of the sizable climate change investment programmes beginning in Nepal.

These outputs of the Mission were drafted into the Joint Mission 15th-21st November Aide Memoire that was **agreed by the Government of Nepal on December 10th, 2010**. This was a week later than planned, however this delay was attributed both by the Government and the MDBs to the additional time needed for the Government to fully internalise and approve the content of the Aide Memoire in light of other commitments (including COP16), and not because of any reluctance to approve the document.

A forward plan of follow-up actions from this point until the next joint mission is presented in Table 2. The next Joint Mission is currently planned for February 9th-18th, and during which time the Technical Assistance proposal for the SPCR may also be approved.^{62 63}

⁶¹ Interview with SPCR team

⁶² Interview with WB

⁶³ The February Joint Mission has now been undertaken. An update note from this mission will be included as an annex to this report.

The following section will review some of the key points and issues of negotiation from the PPCR development process described above.

Table 1: Next Steps in PPCR Preparation

Source: Joint Mission Aide Memoire 15th-21st November 2010

| Milestone | Due Date |
|---|------------------------------------|
| Mission Follow-up | |
| <ul style="list-style-type: none"> MOE to consolidate stakeholder comments and submit to MDBs | 23rd December 2010 |
| <ul style="list-style-type: none"> National Planning Commission to convene meeting of PPCR Policy and Advisory Committee | 31st December 2010 |
| SPCR Technical Assistance tasks | |
| <ul style="list-style-type: none"> ADB consultant economist will deliver a short research paper documenting annual estimates for a recent representative year that reflect national level costs incurred due to i) water variability and drought related crop losses; ii) weather-related road repairs; and iii) flood damages | 32st December |
| Component 3: Climate Risk Management TA | |
| <ul style="list-style-type: none"> MOE, with assistance from the SPCR TA team, to revise concept paper to incorporate feedback received during the workshop, and add implementation plan, itemized cost estimate, and initial draft consulting terms of reference | 15th January 2011 |
| <ul style="list-style-type: none"> MOE to engage with other relevant ministries, departments, NGOs, and development partners to take stock of ongoing programs/TAs to avoid overlaps/build synergies with the activities for the proposed component | 15th January 2011 |
| <ul style="list-style-type: none"> MOE to review ongoing related TAs and discussion among all relevant stakeholders of the lessons learned from those TAs and ways to build on current TA findings in the preparation and implementation of Component 3 | During February 2011 joint mission |
| <ul style="list-style-type: none"> World Bank to begin assessment of MOEs capacity in financial management, taking into consideration Nepal's finance laws, and roles and responsibilities of related institutions, based on the experience of the ongoing TA and to report its preliminary assessment during the next joint mission | Starting 15th January 2011 |
| <ul style="list-style-type: none"> MOE to prepare a plan for achieving the expected SPCR TA results in interagency coordination | 26th January 2011 |
| Possible Component 5 on Endangered Species Biodiversity | |
| <ul style="list-style-type: none"> MOE with assistance of the TA team to draft initial concept paper on biodiversity conservation and livelihoods, in collaboration with MoFSC, MoAC and UNDP | 30th November 2010 |
| Preparations for February 2011 Mission | |
| <ul style="list-style-type: none"> MDBs to send MOE draft mission schedule | 14th January 2011 |
| <ul style="list-style-type: none"> MOE to finalise mission schedule | 21st January 2011 |
| <ul style="list-style-type: none"> MOE to issue invitations for mission meetings | 23rd January 2011 |

4. Negotiation

As shown in the discussion above, the PPCR process in Nepal has opened up many new (and some old) issues for negotiation, and created new sites for these issues, and the institutions that govern them, to be contested. This section will expand discussions around three key issues introduced above that provided sites for negotiation or contestation.

4.1 The relationship between the NAPA and the PPCR

The first and perhaps main issue of contention and repeated renegotiation during the PPCR development process has been the relationship between the NAPA and the PPCR. The root of this tension stems from the challenges experienced by NAPA projects in other LDCs to secure funding for NAPA priorities. Nepal was one of the last countries to complete its NAPA, and as such placed a great deal of emphasis on 'learning from the experience of others.'⁶⁴ These lessons included the need to look beyond LDC Fund options for funding NAPA priorities, and therefore to:

Strategically align the NAPA with other national climate change and development processes to ensure effective mainstreaming and rapid follow-up to implementation of adaptation projects.⁶⁵

The NAPA document states that,

The Government's intention is that the prioritisation process for the NAPA is comprehensive enough to be used as a basis for the development of an adaptation strategy that will be able to draw on financial resources for implementation from various global, multilateral and bilateral sources.⁶⁶

From the perspective of the Ministry of Environment, the PPCR process, which at its inception did not yet have any precedent in place in *not* funding NAPAs, and specific requirements to *build* on NAPAs, presented an obvious opportunity for follow-up funding. These expectations were fuelled by statements made by various stakeholders at the NAPA Inception Workshop in May 2009⁶⁷ implying this *could* be the case where NAPA priorities met PPCR objectives (see section 3).

This resulted in disappointment from the Government of Nepal at the strong negative reaction of the MDBs to this proposal at the first Joint Mission to the PPCR in September 2009. This tension was recognised by the MDBs and somewhat managed by the way in which the SPCR development has (commendably) explicitly built on NAPA in its development, through the engagement of the NAPA TWGs, the repeated referencing of the NAPA throughout the PPCR inception documents, and the use of NAPA-generated information as 'background' to the SPCR processes.

However, members of civil society and also from within the NAPA team suggest that this is not enough. This dissatisfaction comes from a perceived lack of delivery of promises made during the first Joint Mission, in which the draft Aide Memoire stated that "where projects identified in the

⁶⁴ NAPA Inception Report

⁶⁵ MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal. pp.7

⁶⁶ MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal. pp.6

⁶⁷ MOEST, 2009. NAPA Project inception Report, 25-26 may, 2009 pp. 10.

NAPA are **consistent with the objectives** of the PPCR, these, among other initiatives, should be financed through PPCR resources.”⁶⁸

The MDBs and SPCR team suggest that the NAPA priorities do not meet the objectives of the PPCR; but there are questions over whether the PPCR priorities identified during the SPCR process are any more closely matched to the PPCR objectives than those from the NAPA. Initially it was argued that the NAPA could not meet the PPCR objectives because NAPAs give rise to adaptation projects, while the PPCR objectives are about "long term and strategic resilience building", that is "mainstreamed" and "programmatically".⁶⁹ Yet, as will be elaborated in the next section, the "Expanded NAPA" process explicitly moves away from projectised adaptation towards more strategic adaptation planning. Further, there are strong synergies between some of the NAPA priorities and the first three PPCR priorities:

These are presented in table 2:

| PPCR proposed component | NAPA Priority |
|--|---|
| Component 1: Building climate resilience of watersheds and water resources in mountain eco-regions | <p>Priority 1: Promoting community-based adaptation through integrated management of agriculture, water and forest and biodiversity sector</p> <p>Priority 8: empowering vulnerable communities through sustainable management of water resources and clean energy supply</p> |
| Component 2: Building resilience to climate-related extreme events | <p>Priority 3: Community-based disaster management for facilitating climate adaptation</p> <p>Priority 4: GLOF monitoring and disaster risk reduction</p> |
| Component 3: Mainstreaming climate change risk management in development | Expanded NAPA components of Climate Change Knowledge Management and Learning Platform; and Multi-stakeholder Framework for Action |

The NAPA/PPCR debate also reflects a wider debate about 'Government ownership' of the PPCR process in Nepal. The NAPA is now a government-approved document. Although there were guidelines for NAPA preparation, these were very flexible and the Government was able to shape the process significantly, mobilising donor financing in order to ensure a shift towards a more strategic and programmatic approach to adaptation planning. The MOE was familiar with the NAPA process from the outset, because it is an active member of the Least Developed Countries Expert Group, and has observed many other LDCs conduct their own NAPAs. The MOE was therefore relatively comfortable with the NAPA remit, and how it could be driven.

⁶⁸ ADB/IFC/World Bank - Government of Nepal, 2009. Draft Aide Memoire: Multilateral Development Bank (MDB) Programming Mission for the Pilot Program for Climate Resilience, September 3-9, 2009.

⁶⁹ responses collated from interviews with different MDB and PPCr consultants

The PPCR, however, is a new process, for both the MDBs and the recipient Governments. There are no precedents from which to learn. From the perception of the Government there was not clarity from the outset about how far the Government should shape the still-evolving process,⁷⁰ which is likely to have been enhanced by the conflicting messages from donors and MDBs about the extent to which the PPCR could 'fund NAPAs.' The fact that the Government's preference for using PPCR money to fund NAPA was not accepted has resulted in the sense that Government ownership is undermined in two ways; first, because the preference of the Government is not accepted; and second, because this preference was to build on a 'government led' process.

4.2 Institutional and financial governance of the PPCR for managing climate change

Another related point of negotiation in the development of the SPCR is around the institutional and financial mechanism for its management. As shown in section 2, there are currently three large-scale programmes of work in Nepal that aim to support an institutional and financial structure for climate change governance in Nepal: The NAPA (being one of the only NAPAs to include an implementation strategy that outlines how and by whom the NAPA programme for work could be implemented); the DfID/EU Nepal Climate Change Support Programme (NCCSP) that aims to support a national institutional framework and financing mechanism to manage climate finance and to channel resources to local, district and sub-regional levels; and the PPCR. The need to coordinate the three processes to avoid a proliferation of potential climate change institutional structures is perhaps inherent, but is also laid out in the Donor Compact on Climate Change to which all the supporting donors for these three programmes of work are signatory.

However, the development of common institutional design structure for these three programmes of work has been a key issue of negotiation, partly because of the different interests and incentives of the actors involved, but also partly because of confusions in how these different interests were communicated. For example, the focus of the DfID/EU and the PPCR programmes of work are different - but not incompatible. There was general consensus from stakeholders that the two programmes of work were largely complementary, with DfID/EU focusing on lower scale delivery mechanisms of NAPA and other climate change programmes, while PPCR aims to support higher level climate change mainstreaming at the sectoral and national levels. So, for example, if the DfID/EU programme of work is using 'bottom-up' local adaptation plans to identify issues within watersheds, the PPCR would be coming from the 'top-down' to work with the Ministry responsible for those issues within that watershed to develop a watershed management plan that could then support what would be implemented on the ground.⁷¹ Nevertheless this means the focus of the institutional frameworks under each programme is slightly different - DfID/EU is focused on coordination of local planning, while MDBs are focused on higher level coordination for example of different sectors.

A key issue for negotiation was the role of the Ministry of Environment vis-à-vis other Ministries. The NAPA implementation framework (see figure 1) was the Government's preference as the starting point for the implementation of all adaptation interventions and investments in Nepal.⁷² On the diagram presented in figure one, the Ministry of Environment is positioned at the top, underneath the Policy and Advisory bodies of the Climate Change Council and the National Planning

⁷⁰ Interview, Ministry of Environment

⁷¹ Interviews with donor, MDB and PCPR teams

⁷² MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal; supported by interviews with MOE, MOF and NPC.

Commission. However, because of the way the diagram is drawn, the policy and advisory bodies appear to the side, with the MOE taking the central and overarching governance role.

This structure with MOE playing such a central position raised initial concerns for the MDBs, because it is not clear from the diagram how fiduciary standards will be managed. As noted in interviews with several MDB actors and consultants, the MOE is a relatively junior Ministry that is now taking a senior central coordination role around climate change activity. Yet to date the Ministry has not had the opportunity to demonstrate its capacity in this pivotal coordination role. At the same time, the PPCR programme as a 'pilot' scheme has to demonstrate lessons and results quickly, which does not provide incentives for taking new risks on administrative structures when the programme itself is already new and unprecedented.

Instead, the incentives are directed towards maintaining low fiduciary and management risks, which lean towards the engagement of the Ministries of Finance and NPC with whom the banks are used to working with in a higher level role. The MDBs also pointed out that while climate change has raised the profile of MOE significantly, there remain important issues of Government protocol that need to be kept in mind; senior ministries carry more weight in Government than junior ones, and this is important for the PPCR to achieve its goal of mainstreaming climate change and achieving “transformational change” across sectors.

Another issue of negotiation was that of financial flow. From the PPCR perspective, fund flow comes from two envelopes - the loan component and the grant component. The loan component might go straight to the private sector; and there might also be another 'package' of grants and loans for the Government. In line with common practice of the MDBs and also most donors, this money would flow through the Ministry of Finance, and under this a PPCR programme steering committee would manage how this money was disbursed - i.e. fund flow and fiduciary accountability will go straight to Programme or Project Management Units. This mechanism was initially presented to the Government as part of the management framework and caused considerable confusion on behalf of the Government, and MOE in particular, who felt that their role as coordinating agency was being undermined.

This confusion has since been clarified through ongoing efforts by the MDBs, donors and PPCR consultants to work through the potentially confusing range of options with the different government line ministries to ensure that the Government plays a significant role in deciding on appropriate options that can meet the needs of all stakeholders. These discussions also led to the proposal of a possible 'trust fund' as a longer term goal, through which the Government can look into self financing schemes to take greater ownership of climate change financing and to reduce dependency on the PPCR as part of a process of 'transformational change' (see section 5). This proposal was supported by ADB and DfID and is in line with other ADB Technical Assistance programmes in Nepal.

However, it was eventually decided that this was beyond the mandate of the PPCR preparation process⁷³ but that this is something that could be taken on under one of the other donor programmes of work and that if this was the case the PPCR investments would be aligned with this mechanism.⁷⁴ Yet, a trust-fund mechanism could potentially provide a high-level platform from which the Government manages funds down to investments, increasing the capacity and autonomy

⁷³ Ibid

⁷⁴ Interview with MDB partners

of the Government to manage adaptation investments, in line with “transformational change” objectives. Therefore such a mechanism is not outside the mandate of the PPCR.

4.3 Loans versus grants

Another area of negotiations around financial issues was around the question of 'loans versus grants'. As noted, the PPCR offers funding in both loan and grant form. This proved a controversial point in the establishment of the CIFs, because of the principle that funding for adaptation finance should be 'additional' to development funding because climate change is an additional burden to existing development stresses. Climate finance is also provided on the basis of 'compensation' - developed countries are committed to paying the additional costs of adaptation to developing countries because of their relative historic responsibility for causing climate change, and these payments therefore represent should compensation to developing countries who suffer disproportionately from the impacts. Requiring developing countries to take loans to finance their own adaptation clearly goes against these principles.

However, because the PCPR was established outside the UNFCCC, donors have contributed funds through both grants and highly concessional loans. Countries applying to the PPCR for funds are able to apply for both the loan and grant component; or the grant component only, depending on their needs. When Nepal was first invited to apply for the PPCR, there was a strong feeling from within the Ministry of Environment that the Government would only accept grant funding. Interviews with MOE stated at the time that this was because Nepal should not be taking loan money for adaptation 'on principle', and that this could set a bad precedent in international forums for funding adaptation through loan mechanisms.

From the perspective of the MDBs, this reluctance to accept the loan component of the PPCR was coming from the MOE only and did not represent the overall Government opinion. It was suggested that MoF and NPC could see the value in taking highly concessional soft loans for investments that could potentially generate revenue, such as microfinance, whereas MOE were reluctant because of a misconception that they would be under pressure to demonstrate revenue generation from all projects under the PPCR. The MDBs also felt that the PPCR did not represent loans financing for adaptation', but for 'climate resilient development' (see section 5).

The decision to take the loan⁷⁵ as well as the grant component was made by the Government following their trip to Washington to the CIF meeting in November 2010 (see section 3). During this meeting, the Government of Nepal met with other CIF pilot country teams, and learned that other countries, notably Bangladesh and Niger, would be accepting the loan component. Interviews with MOE suggested that this convinced the Government that they would not be setting a precedent for loan financing for adaptation. Further, the Ministry suggests that accepting highly concessional loans is a practical solution to financing more resilience-building activities that would otherwise not be funded. The MDBs suggested that the meeting had provided an opportunity for the MOE to better understand how a loan component could be used, and that the loans were highly concessional and 'soft', reducing the pressure felt by MOE to meet the requirements of repayment from all projects.

⁷⁵ This decision has not yet be confirmed, and may not be upheld by the new Government that came into power in February 2011. The new Minister for Environment has not yet confirmed whether the loan component will be accepted.

The negotiation over grants versus loans again represents an issue over which the Government of Nepal, and the MOE in particular, felt a strong need to be able to control. The perceived pressure from the MDBs to accept 'loans for adaptation' was taken as a clear indication that the MDBs were not supporting a principle that was important to the MOE, especially in light of Nepal's active position in the LDC Expert Group under the UNFCCC, and its bid to develop a Mountain Alliance of vulnerable mountainous countries to climate change. While this issue was eventually resolved, much of the tension generated around this negotiation could have potentially been avoided with earlier clarity and sensitivity towards a principle that was important to the MOE.

5. Conceptualisation

The negotiation of the key issues above was closely tied in with the different and sometimes conflicting ways in which these concepts were conceptualised by different stakeholders.

5.1 Climate resilience, adaptation, and adaptive capacity

First, confusion over the precise remits of the NAPA and the PPCR, and therefore the relationship between them, can be traced back to how different stakeholders perceive 'climate resilience' and 'adaptation.' From the perspectives of the PPCR consulting team, "adaptation" as defined under the NAPA refers to "urgent and immediate adaptation needs", and is "projectised", where as "climate resilience" is "long term and strategic", "mainstreamed" and "programmatic".⁷⁶

It is worth noting here that "mainstreamed" is generally taken by this group of stakeholders to refer to "climate proofing", and applied to ensuring infrastructure and in some cases policy is robust under future climate change scenarios. From this perspective, the focus of "climate proofing" is adding to existing measures to make them more resilient to a *future climate change*. Climate change is an additional stressor to development needs and requires additional information and expertise in order to manage this.

This interpretation resulted in a strong emphasis under the PPCR of climate change trend analysis and climate project information in the analysis of "adaptive capacity". For example, the assessment of adaptive capacity under the SPCR preparation in Nepal required the assessment of information against:

- knowledge (including indigenous knowledge) and awareness of climate change risks;
- awareness of appropriate mechanisms to address climate risks;
- ability to implement appropriate climate risk management mechanisms as measured by access to resources and ability to deploy such resources;
- ability to implement climate change risk monitoring and continuous improvement.

The focus is on the capacity of communities, sectors or agencies to be more resilient to future climate changes. This is well exemplified by the way in which 'progress' against 'adaptive capacity' will be monitored and evaluated under the SPCR. The SPCR project document states that,

In order to establish a benchmark against which SPCR interventions will be measured, an adaptive capacity assessment will also be done within identified resilient communities for the following events - flood, drought, heat, extreme event, climate variability.

This assumes that 'resiliency' can be controlled for, and is a factor of the capacity to respond to these five climate-change related impacts. "Adaptive capacity" under the PPCR refers largely to "climate risk management capacity".⁷⁷

The Government and to some extent donors however interpreted adaptation under Nepal's NAPA as *also* long term and strategic, rather than projectised. This is explicit in the way in which cofinancing was mobilised in order to ensure a more "programmatic and long term approach" to NAPA

⁷⁶ responses collated from interviews with different MDB and PPCr consultants

⁷⁷ Developing Nepal's Strategic Program for Climate Resilience: Prioritisation and Planning Process (Draft). 2010.

preparation.⁷⁸ From this perspective, using a distinction between 'adaptation' and 'resilience' as a reason for why the PPCR cannot be used to finance NAPA caused a lot of confusion for the Government and donor stakeholders; as remarked by one donor, "it's splitting hairs. What's the point of adaptation if it is not also long term and strategic?" The Government also felt that the MDB definition of adaptation under the NAPA undermined the significant effort that had gone into moving *away* from projectised perceptions of adaptation. As noted by one member of MOE,

"we have learned a lot from other countries NAPA..and [we are] using this learning in the Nepal NAPA, to make adaptation part of a longer term strategy, this should be recognised".

However, adaptation, resilience and adaptive capacity *are* interpreted differently in the way in which the NAPA work programme was operationalised. From the NAPA perspective an integrated and strategic approach to climate change risk management lies less in 'climate proofing' existing development interventions, but more with strengthening those interventions that are most relevant for enabling long term response to climate change. This means less emphasis on climate *change* risks and information against these; and more information on what constitutes vulnerability to *current* climate variability. The NAPA process therefore placed less emphasis on climate change information in its risk assessment; and focused instead on vulnerability analysis. Therefore in order to fulfil the mandate of the PPCR as interpreted by the MDBs - in terms of a 'climate risk management' approach to adaptive capacity - there *was* a need to conduct additional climate risk management assessments to that which had already been done under the NAPA process.

5.2 National ownership and a country-driven approach

Different conceptualisations of what constitutes climate change resilience, are closely linked with similarly divergent concepts of what 'national ownership' and a 'country-driven approach' look like. From the Government's perspective, if the PPCR is 'country driven', then they should be able to define how "climate resilience" is interpreted, especially in light of the fact that there is not yet any precedent for PPCR. Under NAPA, factors that contributed to government ownership included the capacity of the MOE to interpret the NAPA guidelines and decide on activities in the NAPA preparation process; the Government, rather than the implementing agency, who were ultimately accountable for the 'success' of the project (because the MOE reported to the Least Development Countries Expert Group under the UNFCCC). Other factors included the Government leadership of all TWGs (also employed by the PPCR); and the autonomy of the Government in financial matters such as budget management and allocation and procurement.

The PPCR has adopted many of these mechanisms, such as operating through Government-led TWGs. However, the MDBs also faced a challenge in enabling the same extent of Government ownership over the PPCR as had been afforded in the NAPA. First, because the PPCR does not fall under the UNFCCC, it is the MDBs rather than the countries for whom ultimate accountability rests to demonstrate lessons for climate resilience from the pilots. The MDBs are working on a process for which there is not yet any precedent, and they are directly engaging with new administrative structures and ministries that do not have senior coordination experience. The precedent that does exist is standard donor-recipient relationship and standard MDB management procedures. At the same time the MDBs need to demonstrate good results, in a timely way. The incentives for strong government ownership are therefore not aligned with those for low fiduciary risk and fast results.

⁷⁸ MOE, 2010. *Government of Nepal National Adaptation Programme of Action to Climate Change*. Ministry of environment, Government of Nepal; supported by interviews with MOE, MOF and NPC.

In Nepal, this tension was managed through the use of a consulting team, hired in conjunction with the Government, whose remit was drafted in close coordination with the Government. The consulting team is based in the ministry and was given primary responsibility for the drafting of the SPCR, shifting the power away from the MDBs and towards the consulting team. As noted by one MDB representative,

Other SPCR processes have tended towards standard Bank practices where Banks draft the documents and then go through an iterative process of agreement with Governments and consultants. In Nepal the consultants are based in the Government, working directly with the Government on drafting the documentation. The Banks only come in at a later stage to ensure technical standards are there and that the proposals are realistic for implementation - as a review process, not as a drafting process - so the process is based on nationally identified priorities that we support. This is more time and resource challenging, but we feel is a more appropriate and country driven way of doing things.

This represents a compromise by the MDBs towards greater government ownership of the process. However, the MOE suggested that greater government ownership would have included more autonomy particularly over the PPCR funds; and suggested that the consultants were accountable to the MDBs and not to the Government. Therefore in Nepal, the SPCR development process was certainly *more* government owned than it had been in some other PPCR countries, and certainly than it could have been. But, as pointed out by one donor, "it depends how you define government ownership".

5.3 Transformational change

The stated objective of the PPCR is,

To provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals.⁷⁹

However, this "transformational change" remit has not been consistently defined by different stakeholders in the PPCR process in Nepal, and has been used to justify a number of different sometimes conflicting approaches. Box 2 describes three interpretations of "transformational change" from different stakeholder groups.

From the perspective of the Government, transformational change means the capacity to adapt at all scales, from national and sectoral governance systems right down to the local level. The Government has put a great deal of emphasis on enabling adaptive capacity at the local level - exemplified by their focus on ensuring that 80% of funds for climate finance go on project implementation and not on higher level technical assistance (the Government has insisted that this is the case under the NAPA implementation; DfID/EU programme of work; and the PCPR). For the Government, transformational change is about seeing investments in climate change adaptation and resilience building realised on the ground through long term and sustainable mechanisms. They specifically argued that it is not all about building technical capacity at the national level, and that consulting services is not transformational. As noted by one MOE official,

⁷⁹ www.climateinvestmentfunds.org/cif/ppcr

Stop trying to build *my* capacity! We have done the NAPA, we have the capacity. Now we need to deliver to the ground. We need to deliver resources to help vulnerable people adapt and cope. When the vulnerable people can adapt, that is when transformation has happened.

From the MDB perspective, 'transformational change' means providing access to knowledge and resources to be able to 'climate proof' development investments. Climate change is bringing about new risks, so 'business as usual' development planning is no longer enough and planning systems need to be 'transformed' in order to be able to take account of these risks. The Aide memoire from the second PPCR mission operationalises this perception in relation to SPCR planning in Nepal, as follows:

The traditional "business as usual" approach to development planning in Nepal is not designed to cope with current climate risks. National efforts to build climate resiliency suffers from a lack of high quality standardised data to inform early warning systems and insufficient technical capabilities to apply appropriate climate change risk management tools...In light of Nepal's resource (human, technical, financial) constraints, without SPCR intervention it is unlikely that the country could systematically undertake the transformational change required to build climate resiliency into development planning.⁸⁰

Thus, transformational change from this perspective is dependent on data and technical capacity in Government planning systems.

The donor perspective presented in box 2 represents DfID country office. DfID is one of the main donors to the PPCR in Nepal, and also to the two other major climate change investment programmes discussed here - the NAPA and the DfID/EU work programme. As such, DfID has a vested interest in seeing the PPCR well coordinated with the other climate change investment programmes; but this also perhaps encourages a 'bigger picture' perspective beyond the remit of the PPCR towards how to enable effective climate change resilience more generally, and creating an agenda behind which all investments can align, and a framework that would support all investments. A strong governance framework that enables access to financial, social, political and information resources that people need to adapt with, is an obvious fit.

For the MDBs on the other hand, their primary remit is to demonstrate results and draw lessons against building climate resilience. As stated in the recent Aide memoire,

"A key goal of Nepal's SPCR is to provide lessons through learning-by-doing over the next few years that demonstrate modalities for building climate resilience in water resource management and community development planning which can be replicated in other river systems and vulnerable communities."⁸¹

Integrating climate change information into existing development strategies as a key aspect of transformational change is relatively straightforward approach that can be assessed and learned from. Transforming what is meant by 'business as usual' in the first place, is much more problematic.

⁸⁰ Joint Mission Aide Memoire 15th-21st November 2010: Annex 3

⁸¹ Joint Mission Aide Memoire 15th-21st November 2010: Annex 3

Box 2: Interpretations of "Transformational change"

Government: Transformational change means knowledge and capacity building - knowledge and skills and capacity to adapt that should be beyond consultants - capacity needs to be integrated right down to the local level. Transformational change means people who need to adapt having the knowledge and skills to do it...and the support in place to let this happen and access to the resources and information they need, so they are not constrained by poverty, at all levels.

MDBs: Transformational change means changing the way things are done so investments are not "business as usual"...this means new systems, processes and procedures in place for tackling climate change over and above development processes, for example early warning systems, integrated climate risks into systems of planning, the way choices about development investments are made, new approaches to engineering designs. With mitigation - this is easier - you can see how to transform the energy mix - but with adaptation we are learning - we need lessons about how to do things differently.

Donors: Transformational change is about encouraging long term capacity to adapt, to build resilience. It is about the transformation of national systems for longer term "adaptive management" - we want Governance systems to be able to manage and respond to vulnerability, to be resilient enough to be able to manage the additional risks of climate change and to do this we need more effective systems of governance than we have now.

Generating "incentives for transformational change" therefore depends on how transformational change is understood. If "transformational change" is "climate-proofing" development, then the incentives are not to *change* existing approaches to development but to adapt them. The easiest way to demonstrate results is maintain existing donor-recipient relations – for donors to manage the process and not to take risks by transferring greater responsibility to governments, particularly as the adapted aspects of the development process are novel and require high technical and fiduciary standards. Indeed these incentives are embedded in the PPCR institutional framework because it sits outside the UNFCCC, underpinning the maintenance of existing donor-recipient relationships.

On the other hand if transformational change means capacity building of the Government, the incentives are to give Government a greater degree of autonomy in managing the process, supported by capacity building but not driven by it. 'Results' from this perspective would reward increasing government ownership because this would be a key indicator of greater capacity, rather than the outputs of the strategy itself (although this too is of course important).

6. Conclusions and recommendations

This report has described the PPCR preparation in Nepal in detail from inception to date, before discussing some of the main points of negotiation, including the relationship between the NAPA and the PPCR; the institutional and financial governance of the PPCR for managing climate change; and the question of loan versus grant allocation. It then went on to consider how these negotiations were influenced by different conceptualisations of some key themes that run through the PPCR preparation process, namely climate resilience (and the associated concepts of adaptation and adaptive capacity); national ownership and 'country drivenness'; and transformative change. These different conceptualisations by different stakeholders are briefly summarised in table 1, below.

Table 1: Summary of different conceptualisations by different stakeholder groups⁸²

| | Climate resilience | Adaptation | National Ownership | Transformational change |
|-----------------|---|---|---|--|
| Government | <ul style="list-style-type: none"> • Synonymous with adaptation • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> • Long term and strategic • Programmatic and integrated • Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> • The NAPA presents Government climate change priorities • Government should be able to drive design process inc. fund allocation • Consultants should be accountable to Government | <ul style="list-style-type: none"> • Beyond consultants and TA - full capacity within Government to manage CC • Adaptive capacity enhanced at the local level • Adaptive capacity no longer constrained by poverty |
| MDB/Consultants | <ul style="list-style-type: none"> • Long term and Strategic • Mainstreamed • "Climate proofing" • Climate risk management • Response to future climate change • An additional need in light of new climate risks | <ul style="list-style-type: none"> • Urgent and immediate • Short term • Projectised • Response to current climatic variability • Does not adequately address longer term climate resilience | <ul style="list-style-type: none"> • Consultants based inside Government and liaise frequently with Government • Government engaged with procurement • Consultants work with Government on drafting process | <ul style="list-style-type: none"> • Moving beyond "business as usual" • Systems, processes and procedures are climate proofed • Over and above development - influence the way development decisions are made in light of climate change risks |
| Donor | <ul style="list-style-type: none"> • The same as adaptation, ie: • Long term and strategic • Programmatic | <ul style="list-style-type: none"> • Long term and strategic • Programmatic and integrated | <ul style="list-style-type: none"> • The Government should be able to define climate change risks • NAPA represents | <ul style="list-style-type: none"> • Transformation of national systems for longer term "adaptive management" |

⁸² Based on analysis of KI interviews. This table summarises some key statements made by individuals and also those made in related project documentation.

| | | | | |
|--|--|--|---|---|
| | <ul style="list-style-type: none"> and integrated Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> Addresses underlying vulnerability to climate variability and climate change | <ul style="list-style-type: none"> Government driven process so this should be built on Recognises high fiduciary risks | <ul style="list-style-type: none"> Focus on governance Moving away from a dependence on donor TA towards Governments being able to do this themselves |
|--|--|--|---|---|

One of the key findings to emerge from this exploration of the PPCR preparation process, is that these different conceptualisations are all related and mutually reinforcing, and they have had a significant impact on what issues were negotiated and how. But these conceptualisations in turn are based on the 'bigger picture' remits and experiences of each stakeholder groups that create incentives for different approaches. For example, DfID as a donor not only to the PPCR but also to the DfID/EU programme of work and also to the NAPA, has a vested interest in seeing all investments as mutually reinforcing.

For the Ministry of Environment, they have domestic accountability to both the Government and the people of Nepal (and frequently held to account by a vibrant civil society and media); and also to the international community under the UNFCCC, to which they have to demonstrate a good NAPA and to show that they have used the delay in NAPA preparation to their advantage. This makes sense in light of MOE's focus on using adaptation finance for delivery and not just TA (to generate visibility of climate change investments at the national and local scales); and also the strong requirements that the PPCR should build on NAPA.

For the MDBs, the incentives are effectively to demonstrate results of the PPCR specifically - to "provide lessons through learning-by-doing over the next few years that demonstrate modalities for building climate resilience".⁸³ The need to demonstrate results "in a few years" is at odds with an interpretation of "transformational change" that would see longer term support to stronger governance systems to support "adaptive management". The latter involves taking risks, handing over greater responsibility to national governments that may or may not have the capacity to take the agenda forward quickly and effectively.

Thus, incentives are generated to 'climate proof' existing investments, rather than finding new ways to develop climate resilience. This is represented operationally by the fact the draft CIFs results framework actively rewards programmes that build on current MDB investments - a very different set of incentives to those required to achieve "transformational change" in the way that it is understood by the Government and donors.

In practical terms, this study has highlighted the importance of understanding the underlying political economy behind certain conceptualisations that can drive negotiations around key issues. For example, the awareness of Nepal of the struggle many other LDCs faced in funding their NAPAs , in addition to pressure Nepal faced to demonstrate a successful NAPA given the additional effort and cofinancing that had gone into the process, may have been important factors in the Government's desire that PPCR could be used to fund NAPAs, and the resistance of the Government to the notion

⁸³ Joint Mission Aide Memoire 15th-21st November 2010: Annex 3

that the PPCR had a different remit. Greater clarity should have been given at the outset of the PPCR process if this was never going to be the case; but if there was and continues to be a possibility that PPCR may fund NAPA activities, then this should be prioritised as an option given the importance of this to the Government.

Recommendations

In light of the above analysis this study makes the following recommendations for stakeholders engaged in the PPCR in Nepal as the process moves forward:

i) Approaches to supporting national ownership

- The “Mission-style” approach to PPCR planning was not conducive to fostering relationships between the different sets of stakeholders engaged in the PPCR or generating government ownership over the planning process. Once this was supported by the SPCR consulting team based in the Ministry, all stakeholders suggested that relations and understanding were improved and reinstating a similar mechanism for continuous working with MOE is recommended.
- However, the reporting of this team primarily to the MDBs rather than to MOE, and the limited influence of MOE over the workings of the team limited government ownership and ‘buy-in’ to the teams outputs. Further, once the team was disbanded the capacity built during their time there was also lost. It is recommended that a greater degree of control over any consulting team is given to MOE to ensure increased engagement and learning during the PPCR preparation process.
- Short time-lines were given to MOE to comment on Mission outputs, however flexibility was given where deadlines could not be met. This flexibility should be maintained but working more closely with the government drafting and documentation perhaps through the mechanisms above should help all stakeholders to set and meet more realistic deadlines for feedback.

ii) Wider incentives for transformational change

Transformational change is interpreted as more than “climate proofing” development, but in building the capacity of the government of Nepal to achieve long term climate resilient development. In line with recommendation (i) this means moving away from a dependence on donor technical assistance towards Governments long term enhanced capacity.

This requires mechanisms in place that reward greater government capacity and control, rather than those that reward fast and more tangible results. This may include:

- Building in and emphasising government capacity indicators into monitoring and evaluation systems.
- Reconsidering PPCR engagement in a multi-donor trust fund. This could increase the capacity and autonomy of the Government to manage adaptation investments, in line with “transformational change” objectives, in line with the PPCR mandate. This would increase national ownership and provide an opportunity for the Government of Nepal to demonstrate “absorptive capacity” for future large scale climate change finance.
- PPCR implementing agencies need to be allocated time and resources to support the process of “transformational change.” With limited time and resources it is difficult to implementing

agencies to shift away from a ‘business as usual’ model, even if the ‘business’ is ‘climate proofed.’

Responsive approach

There are currently no precedents for PPCR planning for achieving transformational change. This creates opportunities for donors and implementing agencies to be responsive to national demands. Examples from Nepal include:

- Taking forward or incorporating some NAPA priorities.
- Supporting government decisions over loan and grant components, acknowledging the pressure the government is under from civil society on this issue.

Annex 1: NAPA Priorities

| Priority | Project Profile |
|----------|--|
| 1 | Promoting Community-based Adaptation through Integrated Management of Agriculture, Water, Forest and Biodiversity Sector |
| 2 | Building and Enhancing Adaptive Capacity of Vulnerable Communities Through Improved System and Access to Service Related to Agricultural Development |
| 3 | Community Based Disaster Management for Facilitating Climate Adaptation |
| 4 | GLOF Monitoring and Disaster Risk Reduction |
| 5 | Forest and Ecosystem Management for Supporting Climate Led Adaptation Innovations |
| 6 | Adapting to Climate Challenges in Public Health |
| 7 | Ecosystem Management for Climate Adaptation |
| 8 | Empowering Vulnerable Communities through Sustainable Management of Water Resource and Clean Energy Supply |
| 9 | Promoting Climate Smart Urban Settlement |