PAKISTAN
Climate Change Financing Framework

A Road Map to Systemically Mainstream Climate Change into Public Economic and Financial Management

With the assistance of the United Nations Development Programme, Pakistan

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United Nations Development Programme Pakistan
4th Floor, Serena Business Complex, Khayaban-e-Suharwardy,
Sector G-5/1, P. O. Box 1051, Islamabad, Pakistan.

UNDP Bangkok Regional Hub
3rd Floor United Nations Service Building, Rajdamnern Nok Avenue
Bangkok 10200, Thailand

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GOVERNMENT OF PAKISTAN

CLIMATE CHANGE FINANCING FRAMEWORK

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October 2017

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ACRONYMS

ADP	Annual Development Plan
AG	Accountant General
AGP	Auditor General of Pakistan
APCC	Annual Plan Coordination Committee
BCC	Budget Call Circular
BSP	Budget Strategy Paper
CC	Climate Change
CCBII	Climate Change Budget Integration Index
CCFF	Climate Change Financing Framework
CDM	Clean Development mechanism
CDWP	Central Development Working Party
CFU	Climate Finance Unit (currently part of MoCC)
CGA	Controller General of Accounts
COA	Chart of Accounts
CPEIR	Climate Public Expenditure and Institutional Review
CSO	Civil Society Organization
DAO	District Accounts Officer
DDO	Drawing and Disbursing Officer
DDWP	Departmental Development Working Party
ECNEC	Executive Committee of National Economic Council
GCF	Green Climate Fund
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFR	General Financial Rules
GHG	Green House Gases
IDS	Integrated Development Strategy
IPCC	InterGovernmental Panel on Climate Change
KP	Khyber Pakhtunkhwa
MDG	Millennium Development Goal
MoCC	Ministry of Climate Change
MoF	Ministry of Finance

MPDR	Ministry of Planning Development & Reform
MoWP	Ministry of Water and Power
MTBF	Medium Term Budgeting Framework
NAM	New Accounting Model
NCCP	National Climate Change Policy
NEC	National Economic Council
NFC	National Finance Commission
NHA	National Highway Authority
PAC	Public Accounts Committee
PDWP	Provincial Development Working Party
PIFRA	Project to Improve Financial Reporting Auditing
PFM	Public Financial Management
PSDP	Public Sector Development Program
PPP	Public Private Partnership
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change
UNDP	United Nations Development Programme
USD	United States Dollar


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EXECUTIVE SUMMARY

Climate change is real and its implications are serious. Between 1995 and 2014, climate change related incidents led to US$3.9 billion (USD Pricing Power Parity) in average economic losses annually. In the same period, the annual average lives lost to climate change stands at three individuals per million inhabitants[1].

UNDP, Pakistan's Ministry of Finance (MoF) and the Ministry of Climate Change provided technical assistance to create this Climate Change Financing Framework (CCFF) and outline the necessary public financial management processes and reforms. This defines the contours of CCFF elaboration, priority action plans, delegation of institutional responsibilities, and expected timelines. The CCFF covers the federal government's finances and investments. A similar framework and complementary efforts are being undertaken in Khyber Pakhtunkhwa (KP), and could be replicated in other provinces as well. The recommendations and proposed actions prepared in this report were discussed and finalised at a consultative workshop and bilateral meeting sessions supported by the MoF.

This document provides an overview of what a CCFF in Pakistan will look like. It presents a road map of a wide range of reforms that will require sustained efforts and commitment for implementation alongside a short to medium-term plan of action.

A policy brief on CCFF integration into PFM system has already been developed and shared with the government, which resulted in inclusion of a separate chapter on the significance of climate change the budget Strategy Paper (BSP) 2016-17.

The CCFF is a major output of the efforts of the Government of Pakistan, supported by UNDP. The process began with a CPEIR which provided useful insight into the pace and quality of climate change reforms in Pakistan and revealed next logical steps. To help establish a baseline for climate change expenditure, a Climate Public Expenditure and Institutional Review (CPEIR) was carried out by tagging climate change relevant expenditure in the government budget. This exercise led to developing a budget and expenditure-coding module within the Government Financial Management Information System (GFMIS).

On 17th March, 2017, the Upper house of the parliament (Senate) passed the Pakistan Climate Change Bill into law. The Federal Minister for Climate Change and Law introduced the legislation in the Senate, which had already been approved by the Lower house of parliament (National Assembly). Under the Act a Pakistan Climate Change Council chaired by the Prime Minister will be established. The key members of this advisory body will be chief ministers and ministers holding the environment and climate change portfolios of all Provinces and three Administrative Units.[2] A climate change authority will also be established that would play a part in implementing climate change policy. Further work would be required on the following issues:

1. In the wake of fiscal decentralization (18th amendment), the fiscal relationship between the CC Authority, a federal body and provincial climate change department/cells.
2. A CC fund will also be established under the CC Act. The criteria for disbursement and fund flow arrangement.
3. The future role of Ministry of Climate Change (MoCC) as most of its existing functions will be transferred to the CC Authority.

It is important to note that most of the responsibilities under CCFF roadmap have been assigned to MoCC or its Climate Finance Unit (CFU) with additional reference to the CC Authority. After the establishment of the CC Authority, these roles will be assigned within it. However it is difficult to decipher the organizational structure of the CC Authority as well as how much time would be required to make it functional. During the transitional phase, MoCC will remain the chief implementer of the CCFF roadmap.

1. Global Climate Risk Index 2016- Germanwatch
2. In addition, the Council will consist of 30 other members, 20 of them from non-governmental organizations, researchers, scientists, technical experts, educationists concerned with climate change.

Following are the key recommendations as prioritised by the government[3]:

Medium Term Budgeting Framework (MTBF) as a strategic entry point: A priority in the CCFF roadmap is integration of climate change in the MTBF—a key stage in the Medium Term Expenditure Framework (MTEF) process. This is essential because CC mainstreaming in annual budgeting will be effective if CC is part of the medium term objectives. This requires not only procedural reforms, but also institutional capacity building. To date, MoF has updated the Budget Call Circular (BCC) to require line ministries to identify projects and programmes relevant to climate change. In the short-to medium-term, line ministries would need extensive support to implement the new alignment of each ministry's outcome and output indicators -- KPI -- with the National Climate Change Policy and NCCP implementation framework).

Capacity building: A key challenge to integrate climate change in the country's PFM system is lack of capacity within line ministries. . This includes lack of a common understanding of climate change as a strategic risk factor among the heads of departments. Therefore, there is a need for assessing the training and capacity needs of relevant line ministries.

Climate change expenditure monitoring framework: Budget coding and expenditure tracking is another area flagged as an "immediate" priority. This would enable climate change reporting which although based on subjective classification, would still be effective for attracting political and other stakeholders' attention. When mainstreamed into development agenda this can become a critical element of public policy and pave the way for implementing other more complex reforms. A coding structure has been presented to the government. The classification of CC expenditures and the coding and tracking system was developed in consultation with the MoCC, which then shared it with the MoF. The MoF formally requested by its letter dated 10th November 2016 for configuration of the system.. Initially the CCFF has proposed three reports, Climate change Annual Financial Statements (AFS), Budget vs. Actual report with explanation of variances, and high-level Performance Assessments reports. The reports will provide consolidated reporting along with a cascading view into line ministry performance.

Information Management: The quality and timeliness of climate change reporting will depend on information management. The functions of the existing Climate Finance Unit (CFU) within the MoCC can serve as a hub for all information flows, adding national climate finance information coordination to its current focus on mobilizing external finance. The preparation of sector plans, MTBF, PC-1 proforma[4] and report generation require triangulation, validation, and analysis of various kinds and sources of information. The government plans to provide requisite human resources, training and IT infrastructure to the CFU to achieve this.

Project appraisal and selection: Recommended planning reforms include updating the Planning Commission's (PC) pro formas, including PC-I, PC-II, PC-III & PC-IV. Further medium- to long-term planning reforms will include developing or introducing climate benefit analysis tools during project appraisal, and preparing a high-level checklist for decision makers for project selection. The Ministry of Planning Development & Reforms (MPDR) will lead this change. Establishing a platform for engaging civil society organisations (CSOs) and capacity enhancement of the Office of the Auditor General (OAGP) to conduct climate change audits is another agreed action (medium-to long-term).

Legislative & institutional reforms to establish an enabling environment: Another medium- to long-term action recommended is the enactment of a Climate Change Act that envisages the establishment of a Climate Change Council and Authority. Fortunately, the Federal Government has already passed the 2017 Pakistan Climate Change Act. The law intends to provide a legislative anchor to the climate change agenda and establish an apex body to ensure policy coordination and congruency across the government. The Federal Government faces difficulty in legislating on climate change the 18th Amendment of the constitution, which has implicitly devolved climate change function to provinces.[5] The downstream legislative reforms would require line ministries to review and update sector policies and bring them in line with the National Climate Change Policy (NCCP) and the Framework for Implementation of the NCCP (2013). Similarly, the MoF would have to review the Rules of Business (RoB) to incorporate climate change activities as a functional part of each line ministry. This would require creating new positions to carry out climate change activities within line ministries, MPDR and MoF.

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3. These recommendations emanate from the analysis presented in section 3.1. Chapter 3 follows the PFM cycle covering legislative framework, sector policies, Planning & Budgeting, Project selection, Monitoring & Reporting, and accountability.
4. Proforma prescribed by the Ministry of Planning for formulation of projects
5. Climate change is not part of either the federal or provincial legislative lists. Thus, as per Constitution anything which is not assigned, is deemed to be responsibility of provincial government.t.

A Climate Change PFM Reform Roadmap

Reform Area	When	Lead Agency(ies)
Climate Change integration into MTBF		
Develop KPIs to reflect climate change responses applicable to sector ministries at the federal level and subsequently measure performance against these and discuss this in the priority committee meeting.	31st December, 2017	MoF and CC relevant sector Ministries
Capacity development of planning officers and climate change focal points to promote the design of more climate responsive programmes.	31st March, 2018	MoCC, MoPDR, and MoF
Capacity Building		
Designate focal persons in relevant sector ministries to steer the climate finance integration process, preferably representing the budget sections.	31st October, 2017	MoCC, with relevant sector ministries
Review the mandate and human resource plan for the Climate Finance Unit in MoCC to develop it into an information hub. This will promote the Unit's ability to integrate domestic and external funding to improve the coherence and effectiveness of CC Finance.	31st October, 2017	MoCC
Reporting and Monitoring		
Coding and tracking system with GFMIS in place.	30th September, 2017	MoCC and CGA
Planning Reforms		
Amend the Rules of Business to ensure that line ministries incorporate functions to support implementation of NCCP objectives and Nationally Determined Contributions under the Paris Agreement through sectoral action plans and climate risk-based programming.	30th June 2018	MoCC, with relevant sector ministries
Review and/or revise pro forma (PC-1, PC-II, PC-III & P- IV) and Project Development Manual guidelines to incorporate climate change risk and response measures, and climate finance so as to align to overall CCFF parameters.	31st December, 2017	MoPDR
Revise sector policies, strategies and action plans, to mainstream and align them with national and sub-national climate policy targets and action plans as well as budget proposals.	30th December 2018	Line ministries with coordination by MOCC
Accountability		
Develop new pilots for engaging with CSOs during the process of selecting and formulating projects with possible climate change implications.	30th September 2017	MoCC
Enhance audit functions and capacity to reflect climate change expenditure in official reports.	31st December 2018	Auditor General's Office

There are elements in CCFF, which would require piloting to validate methodology and implementation approach.

02

INTRODUCTION

Climate change impacts manifest in the form of irregular changes and more severe weather patterns, leading to floods and other natural calamities. Although there is no single internationally accepted definition of vulnerability to climate change, Pakistan ranks among the top 10 most vulnerable countries in various indexes and reports. According to one assessment, Pakistan is at number eight in terms of vulnerability to climate change[6]. The losses suffered because of climate change and its vulnerability exacerbates myriad challenges it already faces including internal security, population bulge, growing energy gap, issues with education and healthcare systems, and increasing unemployment.

There is thus an urgent need for Pakistan to address climate change immediately. This cannot be done through *ad hoc* measures or by a single ministry. It is a long-term phenomenon cutting across various sectors and thus requires coordinated and systemic responses. Pakistan has made a number of key achievements, the most prominent is the enactment of Climate Change Act including the establishment of dedicated ministry for climate change, development of National Climate Change Policy (NCCP) 2012, Framework for Implementation of NCCP 2013, and completion of a Climate Public Expenditure and Institutional Review (CPEIR) 2015, the 2017 CPEIR update, and the recently enacted 2017 Pakistan Climate Change Act.

After experiencing stagnant growth in first decade of this century, Pakistan has embarked upon an ambitious agenda to revitalize the economy. A large part of its current development strategy focuses on boosting power production to drive industrial growth, and expanding public infrastructure including road and transport networks. Climate change poses serious risk to the sustainability of this investment, unless it is addressed in the plans.

The budget is the instrument through which government commits resources to implement policies. Thus, the effectiveness and efficiency of the Public Financial Management (PFM) system underpins the achievement of desired policy outcomes. Addressing climate change not only requires committed resources, but also tools to plan, use and monitor investment to mitigate risk. The Climate Change Financing Framework (CCFF) allows the government to augment the PFM system capabilities for responding to climate change challenges promoting adaptive measures, and minimizing negative fiscal impacts. The integration of CCFF in the national PFM system will ensures that public investment is hedged against future climate-related losses. The CCFF will provide the CC Authority with a head start for devising uniform institutional arrangements and introducing fiscal rules for climate change finance.

Given the narrow fiscal space, it is challenging for Pakistan to provide sufficient resources for climate change adaptation and mitigation while also trying to overcome hurdles in the way of economic progress and ensure sustainable development. Thus, access to international finance is crucial. The Global Environment Facility (GEF), Least Developed Countries Fund (LDCF), Special Climate Change Fund (SCCF), Climate Investment Funds (CIFs), Forest Carbon Partnership Facility (FCPF), Green Climate Fund (GCF), and adaptation funds are some sources of international finances now available. Efforts to date by the government to embed climate change in the PFM system to support better access to the international funding for climate change. Parties to the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC), which became international law in November 2016, committed to mobilising at least USD 100 billion of new and additional climate finance per year by 2020. Countries would have an advantage accessing this if they can demonstrate:

- A transparent public financial management system that ensures that resources are used efficiently and transparently, and
- Their own financial contributions to addressing climate change (e.g., through both unconditional and conditional pledges in their Nationally Determined Contributions or NDCs under the Paris Agreement)

6. As per global vulnerability indexes, Pakistan is one among countries most affected by climate change which can can adversely affect economic growth and Gross Domestic Product (GDP). Pakistan's high vulnerability means that costs are likely to be relatively high as predictions suggest that the impacts on the vulnerable sectors could be enormous. Latest studies have shown that Pakistan already faces significant climate-related economic losses. It was ranked third in the 2012 assessment of the Global Climate Risk Index 2014, with over 6 billion USD-PPP losses due to climate change . The average costs for annual adaptation and mitigation to climate change for Pakistan were estimated to range annually from USD 14 billion to USD 32 billion leading to 2050.

The CCFF will address these two points and much wider reforms throughout its processes.

To attract international funding, government must demonstrate the transparency and effectiveness of its budgetary systems. Development and implementation of the CCFF will provide a necessary leverage in establishing a credible PFM system, and hence, enhance the confidence of international partners and funders.

While one axis of the CCFF focuses on requisite changes to the budgetary system to make it climate-sensitive, the other exposes the financial canvas in terms of financing requirement, available funding and resource deficit. The systems aspect focuses on processes and procedures that would allow relevant line ministries to assess and evaluate climate change risks and to more strategically finance responses such as nationally appropriate mitigation actions and priority national adaptation measures. A typical CCFF includes development of systems for assessment of loss and damage, expenditure tracking, climate change financing plan, monitoring and impact evaluation, and adjustment to budget management system[7] -- but through an approach that builds on existing PFM systems and processes, rather than creating a parallel system. However, these processes and procedures require changes in institutional arrangements, and capacity building for potentially new roles and responsibilities.

Approach and Methodology: The CCFF focuses primarily on PFM systems[8] and covers the entire PFM cycle. However, supplementary reports and studies on other CCFF[9] components that feed into this cycle require further analysis. The approach that was taken allowed embedding the CCFF within existing institutional arrangements.

Each PFM element was individually examined with respect to existing legislation, institutional arrangement and operations to identify the rationale, potential entry points, and risk of implementing reforms.

- The legal/regulatory and institutional arrangement analysis assesses the enabling environment
- The review of the budget cycle forms part of the process analysis (annex-1).
- The PFM systems assessment led to identification of point of integration or entry point and extent of modifications required to effect process changes in the planning process (annex-2).

Based on the analysis a comprehensive matrix of recommendations and implementation action points are presented in Chapter 3. Each CCFF intervention relates closely to specific PFM elements and the implementation plan factors in the realities on the ground.

2.1 Progress on Climate Change Responses

Due to the long-term nature and economic consequences of global climate change, it is important that planning ministries begin the process of translating these into action plans and development policy frameworks today. Moreover, since most programmes relevant to a national climate change response are not dedicated ones, but rather integrated into routine service delivery, it is critical that policy and planning processes are reformed in order to more effectively mainstream climate change considerations. Among other things, this requires efforts to integrate climate change into planning templates and guidelines, as well as Annual Economic Reports.

Over time, Pakistan has made progress in incorporating climate change into its development strategies and actions over time, as outlined below. This has helped to start to bring investment and programme design into more alignment to the National Climate Change Policy and its Implementation Framework. However, additional efforts are required and outlined in the CCFF Road Map.

Pakistan took the first real step for climate change in 2002 when it established the Global Change Impact Study Centre (GCISC) as a dedicated climate research centre. Thereafter, in 2003, Pakistan submitted its first National Communication on Climate Change (NCCC) to the UNFCCC. Pakistan took another step in 2005 by setting up the Prime Minister's Committee on Climate Change (PMCCC)—a high-level platform to drive and coordinate Pakistan's climate policy agenda.

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7. (UNDP Report = CCFF Stock take, sept 2016)
8. PFM system aspects include budget management cycle: financial planning, project preparation, project selection, budget and expenditure tracking, reporting and financial accountability.
9. It is important to note that other components will feed into the budget management cycle. Individual papers will be developed for introducing systems for loss and damage assessment, monitoring and impact evaluation, fund mobilisation, and development of financial framework.

The Planning Commission set up the Task Force on Climate Change (TFCC) in 2008. Its objective was to stimulate and steer the formulation of a climate policy. The report of the TFCC and follow-up actions formed the basis of the NCCP produced two years later (2012). Finally, when Ministry of Environment devolved under 18th amendment, the Ministry of Climate Change (MCC) was established at federal level in 2011.

The CPEIR (2015) assessed and benchmarked climate-related public expenditures at the federal level, a province and three areas of the country. The CPEIR had specific recommendations including the development of a Climate Change Financing Framework for integrating climate change in the budgeting systems. Some of the key findings of the CPEIR are presented in Box-1.

In an another key development the upper house of the parliament (Senate) has passed the Pakistan Climate Change Bill into law. The Federal Minister for Climate Change and Law introduced the legislation in the Senate, which has already been approved by the Lower house of parliament (National Assembly). The CC bill was unanimously approved by the parliament comprising political stakeholders from all four provinces. This indicates that sound political commitment for climate change and broad agreement over the institutional and fiscal mechanism proposed in the CC Act.

Climate Change Integration in Government Systems

It is important to mainstream climate change adaptation/mitigation in all relevant areas of public policy. It is a long-term process requiring sustained efforts for awareness raising, integration into sectoral planning, and implementation of specific adaptation options. Integrating climate change risks requires more flexible, preventive and forward-looking approaches, and will involve legal, institutional and policy changes. Planning for both mitigation and adaptation requires coordinated, multi-sectoral processes that are translated into climate responsive budgets. Robust monitoring systems also need to be put in place to track both financial allocations, and measure the effectiveness of climate expenditure.

BOX-1 PAKISTAN CPEIR 2015 KEY FINDINGS

I. Climate Change has been recognized in Pakistan as a core component of the development model required for growth, poverty reduction and wellbeing of population. This is embedded in national economic policies such as the Framework for Economic Growth (FEG) 2011, Vision 2025, and the accompanying Medium-Term Development Plan (2010–2015).

II. The demand for more energy and the need to mitigate growing greenhouse gas (GHG) emissions require substantial investments of over 5 % of GDP.

III. The number of climate-relevant projects within each government institution varied widely across the studied years. The total federal expenditure on climate change was estimated to be in between 5.8 to 7.6% of the total public expenditures.

IV. In the 18th amendment of the Constitution the climate change responsibilities have been concurrently assigned to both federal and provincial governments. Mainstreaming climate change across sectors is a challenge and there is confusion on responsibilities, in terms of defining the federal and provincial mandates. In the case of provinces, the climate policy impetus is provided under the Provincial Environmental Protection Act, 2014 with the institutional remit for climate designated to the Climate Change Cell within the Environmental Protection Agency (EPA).

V. Climate change is not routinely considered in the selection of development expenditures and allocations in Pakistan. As a result there is no public financial management driver for climate-sensitive budgeting for development budgets.

VI. The integration of climate change in the budget process requires concerted efforts from the MoF, MPDR and MCC. The development of a Climate Change Financial Framework (CCFF) can serve as the instrument to link climate change policy with budget allocations.

National Climate Change Policy

The NCCP is the GoP's primary policy framework to address climate change. It provides a foundation for the CCFF and guarantees its coherence and consistency with the national climate change agenda. It also provides set of objectives and measures for each climate-relevant sector to implement. From a system strengthening perspective, the measures address capacity building, information management, collaboration with the private sector and civil society organizations, access to international funds, and integration and monitoring of climate change in the public sector. Some of the key policy measures in the NCCP that are relevant to the CCFF are:

- Ensure that Initial Environmental Examination (IEE)/Environmental Impact Assessment (EIA) and other mechanisms are strictly observed in all development projects, particularly infrastructure projects, by the concerned agencies;
- Ensure the integration of climate change and overall developmental imperatives, and that climate change and socioeconomic development are pursued as inseparable objectives;
- Establish Climate Change Cells in sectoral federal and provincial ministries;
- Improve inter-ministerial and inter-departmental decision-making and coordination mechanisms on climate change issues both at provincial and federal levels to develop Pakistan's stand on various international policies relating to climate change;
- Establish the National Climate Change Commission for coordinating all climate change activities at the national and international levels;
- Enhance capacity to undertake comprehensive assessments of the economic implications of climate change impacts on various sectors with and without using different adaptation measures;
- Build domestic response capacity to use current and future funds more effectively;
- Provide training and support, at national and international levels, to concerned officials and experts of line ministries and departments to strengthen their knowledge and capacities on climate change issues;
- Continue to assess how best to position Pakistan *vis-à-vis* other groups of developing countries in order to secure adaptation funding;
- Ensure the access and effective use of opportunities available internationally for adaptation and mitigation efforts, e.g. through the Green Climate Fund (GCF), Clean Development Mechanism (CDM), Adaptation Fund (AF), Global Environmental Facility (GEF), World Bank's Forest Carbon Partnership Facility (FCPF) and carbon credit trading;
- Establish a "Pakistan Climate Change Fund" for financing climate change related projects; and
- Develop public-corporate-civil society partnerships for financing and implementation of climate change adaptation and mitigation projects.


GOVERNANCE OF
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03

CLIMATE CHANGE FINANCING FRAMEWORK

The CCFF is the set of policies and processes that enables a systematic response to climate change by linking policy frameworks with budgeting, and ensuring transparent allocations and effective use of public resources. It provides a roadmap to integrate climate change by identifying entry points based on legal, institutional and process analysis of the existing system. It also helps to create a robust monitoring system to enable reporting on the volume and effectiveness of climate change-related expenditures. Thus, the process of developing a (CCFF) is an effective way to mainstream climate change in the PFM cycle. The whole of government approach that underpins the CCFF engages all relevant stakeholders for mobilisation, management and targeting of climate finance. The following principles underscore CCFF development:

- Definition of climate change-related activities
- Costing of planned climate change response actions in the medium- and longer terms
- Measurement of resources available to address climate change mitigation and/or adaptation in the medium- and long-terms
- Identification of the institutional entry points for climate change planning, project selection and tracking in national budgeting process, and
- Ensuring accountability over the use of climate-related budget and finances.

Pakistan's readiness to face climate change is affected by a lack of reliable data on the extent of financial losses caused by climate change, and its impact on Gross Domestic Product (GDP). International indices (e.g., Maple Croft and Germanwatch) categorise Pakistan among the countries facing extreme risk and high vulnerability from climate change. For instance the Germanwatch Global Climate Risk Index (2017) ranked Pakistan number seven in the Long Term Climate Risk Index (1996-2015). The total losses assessed in the index for the 15 year period for Pakistan stand at USD million 3823.17 Purchasing Power Parity. Pakistan is extremely vulnerable to climate change owing to its geographic, demographic and diverse climatic conditions[10]. Box-2 highlights major climate threats as identified in the NCCP. Going forward, the economic cost for Pakistan could be in the region of 5.5 per cent of GDP annually for mitigation and 1.5–3.0 per cent of GDP, annually for adaptation[11].

Therefore, significant financial resources would be required for a climate change response. For a robust response, the CCFF guides institutions of government to plan and execute the national budget for harmonising development spending with the climate change policy.

This CCFF builds on the NCCP and its Framework for Implementation, and the recommendations of the CPEIR that analysed institutional, legal and operational policies and procedures that underpin the PFM system. As a next step, it will also capture different sources of financing for climate change and gaps between flows available and that required to finance the measures in the policy.

The CCFF aims to help respond to some of the following issues:

- Identifying what constitutes climate change finance and outlining the purpose of a CCFF.
- Highlight what has been achieved so far in climate change.
- Institutional arrangements and approach, and methodology needed for establishing a climate change resilient PFM system.
- How to operatioanlize and resource a climate change policy framework and strategic action plan.
- Establishing evidence-based decision making process.
- Identifying sources of finances, types and their formal entry points in the PFM system.
- Demonstrating how to integrate climate change finance into budgeting.
- How climate change expenditure can be tracked.
- Climate change monitoring and reporting framework -- Types and formats of financial statements and disclosure requirements.
- Sources of financing and gaps in available and required financing; and
- Accountability mechanism, and role of civil society.

10. CPEIR 2012
11. National Economy and Environment Development Study (NEED) 2011, UNDP

BOX-2 **CLIMATE CHANGE THREATS TO PAKISTAN**
National Climate Change Policy

- Considerable increases in the frequency and intensity of extreme weather events coupled with erratic monsoon rains, causing frequent and intense floods and droughts.
- Projected recession of the Hindu Kush, Karakoram and Himalayan glaciers due to global warming, and carbon soot deposits from trans-boundary pollution sources, threatening water flows in the Indus River System (IRS).
- Increased siltation of major dams caused by more frequent and intense floods.
- Rising temperatures resulting in enhanced heat and water-stressed conditions, particularly in arid and semi-arid regions, leading to reduced agricultural productivity.
- Further decreases in the already scanty forest cover from rapid change in climatic conditions to allow natural migration of adversely affected plant species.
- Increased intrusion of saline water in the Indus delta, adversely affecting coastal agriculture, mangroves and fish breeding grounds.
- Threat to coastal areas due to projected sea level rise and increased cyclonic activity due to higher sea surface temperatures.
- Increased stress between upper and lower river catchments in relation to water resource sharing.
- Increased health risks and climate change -induced migration.

The CCFF elements are presented here from a systems perspective, following a PFM cycle covering strategic planning, budgeting, accounting and reporting, and audit processes. The roadmap for CCFF implementation, however, follows prioritisation based upon decisions made by the government. CCFF development does not entail introduction of a new parallel system; rather it constitutes augmentation of the existing PFM system -- the bedrock for implementing the NCCP. It was primarily informed by the CPEIR that highlighted areas where responses could be strengthened, such as: (i) mainstreaming of climate finance (ii) promoting efficient and effective use of financial resources, and (iii) assessing policy formulation and implementation, thereby practically contributing to greater cooperation between diverse stakeholders. Building on that work, the CCFF used the CPEIR analysis of budget processes, institutions and policy to understand and identify key entry points for ensuring alignment of these processes with overall policy objectives.

The CCFF is structured as a matrix. Detail understanding of the recommendations, an analysis is also provided under each entry point below:

Analysis

- **Rationale:** Highlights the case for process development/change. It provided a basis for selecting a particular entry point and its relevance for the CCFF.
- **Assessment of existing arrangement:** Provides insight into *de-facto* (on-ground) procedure and process. The assessment can assist in designing/identifying recommendations that are relevant to the context and situation on the ground.
- **Constraining factors:** Identifies risk or issues in the PFM system that could limit the CCFF efforts. The risks are beyond the CCFF and can be addressed through larger PFM reforms -- systemic risk or system limitations.

CCFF Integration Agenda

This includes process recommendations based on the analysis and consultative process.

Entry Points	Analysis	CCFF Integration

3.1 National Climate Change Coordination Mechanism

RATIONALE

Since climate change responses cut across all three tiers of governance in Pakistan (Federal, Provincial and District) it is important to develop a unified and coherent approach. Development priorities and institutional capacity vary across provinces, as such, in the absence of a coordination system, it would be difficult to align efforts.

Public institutions and individuals involved in policy implementation require legal basis for their actions. A legal basis would also enable different interest groups to converge to a focal point and can orient various laws and policies in a coherent form.

ASSESSMENT OF EXISTING ARRANGEMENT

While the NCCP implementation framework has established an Implementation Committee, each province is developing its own climate change policy and implementation mechanism, linked to provincial development priorities and institutional capacities. This entails risking poor coordination and coherency at the level of policy implementation and monitoring.

There is is no legislative support other than constitutionally protected Fundamental Rights[12] for implementing the climate change agenda. Despite there being around 14 laws spread across various sectors that could directly or indirectly serve the climate change agenda,[13] there is no specific climate change law in Pakistan covering all facets at federal or provincial level. While debatable, some consider a framework law to be best practice.[14]

Government of Pakistan submitted Climate Change Act 2016 in December 2016 for debate in the parliament. The Act was unanimously passed by both the Upper and Lower houses of the parliament 17th and 20th March 2017 respectively, and till the filling of this report, it is now waiting for presidential approval for formal enactment. The Act envisaged establishment of Climate Change Council headed by the prime minister, Climate Change Authority and Climate Change Fund. It is yet to be seen how much time it would take for operationalization of the CC authority viz-a-viz CC fund.

A body like a national council on climate change should be established, with a terms of reference of the high level council. It is important that such council should be drawn from political leadership of each province (members of national and provincial assemblies). Ideally, the prime minister should chair and chief ministers of all four provinces should be members. A draft Climate Change Act prepared in 2012 and revised in 2016 has now been passed by the legislative assembly on 20th March 2017. The Act envisages establishment of Climate Change Council and an independent Climate Change Authority. Its an important step towards setting up of independent climate change-focussed institution in the country. Its mandate should include defining the annual agenda for climate change, establishing agreed implementation benchmarks for each province and review approval of audited of annual financial statements on of climate change fund and semi-annual performance reviews. Moving forward, it is essential that rules and regulation for functioning of the authority developed within the parameters of fiscal decentralization as enshrined the Constitution.

Review the rules of business for the Ministry of Climate Change to add climate change responsibilities to line ministries. This is the first key step to mainstream climate change in the mandate of concerned line ministries.

Establishing system for financial quantification of the losses and fiscal impact of climate change. One of the fundamental requirements for an effective climate change response is to have better understanding of projected loss and damages.[15] A separate technical report on requirements for assessment is envisioned under the CCFF road map. This is critical for Pakistan, where such information is lacking. Developing this framework would need to include understanding the data and information requirements, methods and tools, implementation, and decision- making support.

12. Climate Change and Law in Pakistan -- Ahmed Rafay Alam
13. Pakistan Environmental Protection Act (1997), Punjab Environmental Protection Act (1997 Electricity Act (1939, Amended 1971), Punjab Firewood and Charcoal (Restriction) Act (1964), Pakistan Water and Power Development Authority Act (1958), Alternative Energy Development Board Act (2010), The Regulation of Mines and Oil-fields and Mineral Development Act (1948), Punjab Land Revenue Act (1967),Land Reforms Regulation (1972), Land Acquisition Act (1894),Punjab Soil Reclamation Act (1952), Punjab Alienation of Land Act (1900), Forest Act (1927), Punjab Land Preservation Act (1900), Pakistan Environmental Protection Agency Regulations (2000) and Canal and Drainage Act (1873)
14. Countries like Philippines, Uganda, Brazil, Mexico Denmark, and Austria have climate change laws. Framework legislation has been defined as a law, or regulation with equivalent status, which serves as a comprehensive, unifying basis for climate change policy and addresses multiple aspects or areas of climate change mitigation or adaptation (or both) in a holistic manner. This definition builds on the term 'flagship legislation', used in the 4th edition of the GLOBE Climate Legislation Study (Nachmany et al., 2014). "The 2015 Global Climate Legislation Study."
15. European Capacity Building Initiative, "Loss and Damage Due to Climate Change", (2012)

Entry Points	Analysis	CCFF Integration
	CONSTRAINING FACTORS The NCCP implementation framework lists a number of actions to be undertaken by federal as well provincial governments. However, these actions are not costed or budgeted in detail. This is where enforcement of policy becomes questionable and implementing the climate change agenda becomes challenging. As a public affairs issue, climate change currently receives relatively low attention. Climate Change Act has been passed by the parliament but to functionalize the independent authority will take time. The key elements of establishment process will include appointment of independent member of CC Council, chairman and board of the CC Authority and operationalization of CC fund. The development of rules and regulation for human resource and financial management policies and procedures, CC fund's disbursement protocols, hiring of key staff and acquiring suitable infrastructure may take up to 18-24 months. Ultimately, the policy making and implementation will be transferred from MoCC to CC Authority, however, there is neither cut-off date announced by the government nor any clear strategy unveil for transitional period.	Most of the existing models and approaches are quite complex and require technical skills and in-depth knowledge that have to be developed. Similarly, capacities and skills need to be fostered by engaging national universities, to ensure that knowledge and expertise is available in country. The aim of proposed paper is to develop framework for assessing risk of loss and damages (L&D), based on following four questions[16]: (a) What are the data and information requirements for assessing impacts and climate risk, at different levels, and for a broad range of sectors and ecosystems? What data are available and where are the gaps? (b) What methods and tools are available for risk assessment, including their requirements, strengths and weaknesses, and can they address social and environmental impacts? (c) What capacity is needed for applying risk assessment methods on the ground, including for facilitating their application in developing countries? (d) How can the results of risk assessments be optimally formulated in order to support decision-making? What are the desired methods for presenting the results of risk assessment exercises so that they drive decision-making? Pakistan already has institutions involved in climate change research, disaster risk reduction, developing weather simulation models and vulnerability studies. Therefore, the proposed paper will aim to develop a framework for coordination, information sharing and distribution of responsibilities among these. Although, the main responsibility in this regard will lie with MoCC and National Disaster Management Authority (NDMA), the following federal government institutions[17] will be required to coordinate and synchronise efforts: **I. Pakistan Meteorological Department (PMD):** is a service and scientific department that functions under Cabinet Secretariat (Aviation Division). It provides information on weather, climate, and geophysical phenomena for safe air, land and sea travel, mitigation of disasters, agriculture development based on climate potential of the country, climate change, impact assessments, and future projections of climate and adaptation options for different sectors.[19]

16. "Four Questions" as presented in Thematic Area-1 of the work programme on loss and damage -- Seventeenth session of Conference Of Parties (COP)
17. Some of these federal institutions have provincial administrative units or regional offices in each province.
18. www.gcisc.org.pk
19. www.pmd.gov.pk

Entry Points	Analysis	CCFF Integration
		II. Global Change Impact Study Centre (GCISC): Established in May 2002, the Centre started functioning with seed money provided by the Ministry of Science & Technology, and functioned as a Public Sector Development Project (PSDP) for 11 years. In March 2013, GCISC was granted the status of a regular national entity by the GCISC Act 2013. It now functions as a research arm of the MoCC, under the directions of a Board of Governors (BOG-GCISC) which was duly approved in November 2013 by the Prime Minister of Pakistan (then Minister-in-charge of Climate Change Division, Cabinet Secretariat / Chairman BOG-GCISC[18]). **III. Pakistan Space and Upper Atmosphere Research Commission (SUPARCO):** is mandated to conduct R&D in space science, space technology, and their peaceful applications. Its key responsibilities include research on space and atmospheric sciences including satellite meteorology, satellite radiance, troposphere/ stratosphere studies, atmospheric pollution, satellite geodesy and astronomy.[20] **IV. National Health Emergency Preparedness and Response Network (NHEPRN):** In order to institutionalise the concept of a health emergency in Pakistan the NHEPRN was established in 2010 under the Cabinet division, and since 2013 has been transferred to the Federal Ministry of National Health Services and Regulation and Coordination (NHSR&C). It has been assigned the role of disaster risk management in the health sector and is responsible health-related emergency management including health care in disasters, disease surveillance, hazard-based mapping of health facilities, and health vulnerability studies. **V. Pakistan Agriculture Research Centre (PARC):** This is a research arm of the Ministry of Food Security. It conducts research on how to improve agriculture growth and factors that inhibit it including climate change. The Business Plan for PARC 2013-18 identifies climate smart agriculture as one of the four high priority research themes. The action matrix also suggests development of climate sensitive adaptation and mitigation plans for agriculture. **RESPONSIBILITY** Ministry of Climate Change to initiate review of RoB in consultation with the Ministry of Finance. MoCC should take a lead role in developing a "Framework for Loss and Damage assessment" with the NDMA and related federal research institutions, with technical support from UNDP. MoCC should accelerate efforts in getting implementation of the Climate Change Act as passed by the National Assembly by: i. Organising awareness-raising seminar for legislatures and other stakeholders to highlight importance of climate change. ii. Using donor forums, and collaborating with international development partners to underscore the climate change issues during project negotiations. iii. Working with civil society organisations to arrange public awareness campaigns. **Time frame:** Medium term

20. www.suparco.gov.pk
21. www.nehprn.gov.pk

Entry Points	Analysis	CCFF Integration
3.2 Sector Policies and Planning		
	RATIONALE The impacts of climate change are likely to undermine planned development outcomes and therefore there is a strong case for integrating climate resilience in development policy and planning. The entry point for mainstreaming climate change in development processes starts with addressing climate change in existing national and sectoral plans, strategies and decision-making processes.[22] As climate change is a crosscutting issue it requires harmonisation and coordination among various sectors, and at the national and provincial levels. **ASSESSMENT OF EXISTING ARRANGEMENTS** Vision 2025 defines the development policy framework in Pakistan. The four key elements are investment in health & education (poverty reduction), private sector development, road infrastructure, and capacity building. However, Vision 2025 has not been followed up by a national action plan. KP and Punjab have developed provincial growth strategies. The federal government prepared "Framework for Economic Growth" in 2011 and National Sustainable Development Strategy (NSDS) 2012 but these have not been updated. As per the CPEIR 2015, Vision 2025 and FEG contain references to climate change but climate remains to become a decision point in policy debates. Sector level strategies for key ministries like water and power, energy, forest, environment, etc. have been developed.[23] It is not possible at this stage to assess the coherence among these strategies and to what extent they are in line with Vision 2025. It is important to note that sectors have developed their strategic plans at different points in time and these plans should have been updated after 3 - 5 years in order to incorporate the emerging requirements of the sector and national development agenda. **CONSTRAINING FACTORS** As climate change is a crosscutting issue it requires harmonisation and coordination among various sectors. This can only be possible when strategic planning processes at national, sectoral and provincial levels are synchronised.	***MoCC to undertake a review of all existing strategic plans and policies of relevant sectors to evaluate their appropriateness with climate change requirements.*** MoCC has mandate for coordination, policy setting, planning and advising systemic intervention relating to climate change. ***National Strategy for Sustainable Development (NSDS) 2012, which has climate change at its core, should be updated and presented to parliament.*** Though Vision 2025 is supposed to have longer time horizon, given the dynamic environment, the strategic plans like FEG 2011 and NSDS 2012 should be reviewed after and updated every 3-5 years. **RESPONSIBILITY** MoCC to start policy dialogue with the sector managers to incorporate climate change dimension in developing sector strategies. MoCC should engage with Planning Commission to update these strategic documents. MoCC and Ministry of Planning should make efforts to revisit the PC1 to make the planning process climate sensitive by integrating climate change at the project formulation stage. **Time frame:** Medium term

22. A framework for mainstreaming climate resilience into development planning, 2013 -- International Institute of Environment Development (iiED)
23. Federal PEFA 2012

Entry Points	Analysis	CCFF Integration
3.3 Medium Term Budgetary Framework (MTBF)		
	RATIONALE It is important that government strategises and carries out financial planning which includes costing and resources required in the medium term to achieve policy objectives. The MTBF links policy with budget and is a key instrument to distribute resources in the medium term while ensuring allocation efficiency and fiscal discipline. Integrating climate change in financial planning requires identifying activities to build resiliency and reduce loss and damage, with corresponding financing needs. The importance of effective financial planning is critical in Pakistan as available resources are limited and there are many pressing needs. Therefore, in order to link climate change policies with the budget, it is critical to integrate climate change in the MTBF. **ASSESSMENT OF EXISTING ARRANGEMENTS** MoF has made substantial progress by preparing and presenting before the parliament multiyear fiscal forecasts comprising detailed budget estimates for three years for all ministries on a rolling basis. However, the linkages between the MTBF and the subsequent year's budget ceiling are not strong. Based on the MTBF, the MoF has introduced a budget strategy paper, which provides details of the government's policies, priorities and strategic allocation of resources. Each development expenditure (project) is properly costed for recurrent and development expenditure.[24] The development projects are allocated budgets once approved by the competent forum. The MTBF contains multi-year cash outflows only for approved projects that have been allocated budget. The Budget Call Circular for 2015-16, issued by MoF, provided for line ministries to identify output indictors related to climate change. However, the requirement is limited to the output indicators contributing towards the climate change objective. There is no linkage of sector outputs with interventions identified in "Framework for Implementation of CC Policy".	MoCC in partnership with the Ministry of Finance and the CC relevant line ministries to develop CCFF document. The CCFF so developed shall be part second of the current CCFF which actually recommends systemic and policy changes for integration of CC in planning and budgeting. The CCFF document can be made part of the Medium Term Expenditure Framework (MTEF) as an additional chapter or a distinct section. The CCFF will take inputs from all climate change relevant sectors about their climate resilient activities, and formulate a financial plan consolidating sector-wide resource requirement, and integrating the source of funding.[26] This approach can help to correlate demand and supply of climate finances and in the transparent allocation of climate change funding to sectors. This can enable sector managers to develop the MTBF in line with the CCFF. Therefore, developing financing plans is the one of the important phases of the CCFF and this requires in-depth analysis and detailed guidelines for smooth implementation of the CC response. Keeping in view the importance of the area, UNDP is planning to have a detailed paper on "Financing Plans". Financing plans include following four stages: • In the first stage, the total cost of the activities individual sector departments require to achieve their objectives in the short-, medium- and long-term are estimated. • The total available resources are identified in the next step. • The third stage involves identifying the gap between the total funds required and the available resources, and • Sources are identified to fulfil the funding gap between the available resources and the required needs in the final stage. Preparation of the National Adaptation Plan and mitigation plan will serve as the first step for the preparation of financing plans. The sector plans will be developed based on this plan. These action plans is then based on the detailed loss and damage assessment conducted by each sector/ ministry department. These plans will include detailed actions that need to be taken by each sector to combat the climate change-related challenges. These plans will also identify those activities required immediately i.e. in the short term, and those that can be carried out in the medium- and long-term. The activities should include a mix of both hard and soft actions, such as the capacity building of staff in the area of climate finance and the resources needed for carrying out studies to assess the impact of climate change on the poor and vulnerable. Each sector will prepare detailed costing of each action plan by using activity based costing methodology or by using zero based costing methodology. These detailed cost estimates will also compare the total financing needs required to finance the individual sector expenditures and the potential sector loss and damage.

24. Federal PEFA 2012
25. ***Examples from Bangladesh and Indonesia*** (i) Climate Change Fiscal Framework Bangladesh, (ii) National Action Plan for Climate Change Adaptation, Indonesia and (iii) Sectoral Roadmap for Climate Change Adaptation, Indonesia
26. For development Budget, Ministry of Planning Development and Reform has a leading role, therefore their involvement would be key for development of CCFF

Entry Points	Analysis	CCFF Integration
	CONSTRAINING FACTORS Climate resilient activities need to be identified and costed at sector level for implementing the climate change strategy. Further, for mainstreaming climate change in sector financial planning processes, it is important that sector managers take into account the climate dimension while setting sector targets and outputs. This would involve setting climate change markers/dimensions within the MTBF process to identify budget, promote accountability and match expenditure and performance with the NCCP objectives. The building of requisite institutional capacity to carry out these tasks will be a challenge.	Each department will send these action plans along with the detailed cost estimates to the Climate Finance UnitChange Cell in the Provincial Forest, Environment and Wildlife Department (FEW)in the Ministry of climate Change/ CC Authority for vetting. After vetting these plans, CFU FEWwill send these plans to the provincial DepartmentMinistry of Finance that will determine the total financial need of the province federal government by collating the detailed cost estimates of the detailed action plans of the individual departments. After estimating total need, Ministry of Finance department will assess the total resources available to finance these actions in the short-, medium- and long-term. The department will also assess the gap between the available resource and that required. The next step once the gap is identified would be to identify the fund required to finance the gap. International development funds such as Nordic Development Fund, Green Climate Fund, USAID's Global Climate Change Initiative, International Development Research Centre, and UK's Climate Fund provide support for adaptation and mitigation projects. Apart from these funds, World Bank Group is also providing finance for climate change and currently about 20 per cent of total funding is climate-related and that could rise to 28 per cent in 2020.[27] Other development banks such as ADB, KfW and AFDB are also financing projects on climate change that the provinces could secure. The government should not focus only on public expenditure but also consider other options of generating resources such as developing capital markets. Recent studies estimated that about 74 per cent of the total climate finance was provided by the private sector.[28] The core participants in the capital markets are banks, insurance companies, pension funds, fund managers, mutual funds and endowment funds. Development partners could support the government with identification of alternate and/or additional sources of income for plugging financing gaps.

27. http://www.worldbank.org/en/topic/climatefinance/overview#1
28. Financial instruments and mechanisms for climate change programs in Latin America and the Caribbean

Entry Points	Analysis	CCFF Integration
		The Budget Call Circular was proposed to be amended to link line ministry output to the project mentioned in Framework for Implementation of CC Policy. The Budget Call Circular for the FY 16-17 has already been partially amended, requiring the line ministries to identify CC components in their budget. Every year the MoF issues BCC that includes detailed guidelines for annual budget preparation as well as for the MTBF. Section-2 of the BCC provides very specific guidelines for preparation of the MTBF. Line Ministry (LM) Form-1 under section 2 requires linking of input with outputs, and allocation of budgetary ceiling based on stated policy and strategy. Whereas LM Form-2 requires listing of indicators (unit of measurement) against each output.[29] In case of LM form-2 (indicator measure), the guiding notes have already provided for line ministry to reflect what output will contribute towards climate change objectives. However, after Serial 6 in LM Form-1, a column could be added to provide linkage between sector output and adaptation and mitigation interventions identified in the "Framework for Implementation of NCCP" along with the relevance. This linking exercise would require good understanding and expertise in climate change financial management. [30] At the institutional level, MoCC should take lead in capacity development of line ministries for using the climate dimension while preparing the MTBF. The arrangement would allow the MoCC to partake in budget making through these nodes. The climate change nodes should consist of one or two individuals who can provide input to the line ministry in use the climate dimension in multi-year forecasting. Effective communication of climate policy to sectors is important to ensure adequate reflection of climate activities in the MTBF's of line ministries. MoCC should organize workshops, seminars and other interactive events to assist line ministries to keep abreast with the climate change activities and their respective responsibilities in relation to climate budgeting. **RESPONSIBILITY** MoCC in partnership with the MoF and line ministries will have the responsibility to develop financing framework, however, UNDP or any other development partner will provide technical assistance to support that process. MoF to amend the BCC for linking line ministries projects with the framework for implementing the NCCP. MoF and MoCC to develop plan for appointing/ designating climate change focal persons at line ministries. **Time frame:** Medium term **Time frame:** Short term

29. Budget Call Circular 2015-16, Ministry of Finance
30. Framework for Implementation of Climate Change Policy 2014-2030, Government of Pakistan Climate Change Division, 2013

Entry Points	Analysis	CCFF Integration
3.4 Climate Change Screening and Investment Appraisal		
	RATIONALE In order to safeguard overall development portfolio against the risk of losing intended outcomes due to change in climatic conditions, it is critical to apply the climate yardstick for evaluating individual projects. To start with relevant line ministries, when discounting project benefits, should factor in a risk premium for negative climate change impacts. International literature suggests that there is an emerging need to have innate climate risk reduction measures (adaptation and mitigation) within project design to safeguard public investments.[31] At the same time, decision makers need to develop criteria-based approach for project screening as the approval process passes through various decision points. **ASSESSMENT OF EXISTING ARRANGEMENTS** The federal government produces the Public Sector Development Program (PSDP) through the MPDR, which lists all public sector projects/ programmes with allocations for a particular financial year. The Programming Section of the Planning and Development Division coordinates PSDP preparation. The procedure is laid down in detail in a PSDP call letter sent annually to all government ministries/ divisions, provincial governments and chiefs/heads of technical sections of the Planning and Development Division. The letter includes a schedule and a standard pro forma along with guidelines on the preparation of the PSDP and selection of projects. To be part of the PSDP, projects require approval by the sanctioning government authority after due scrutiny of various technical, financial and organisational aspects. As per the Constitution, the Executive Committee for National Economic Council (ECNEC) is the highest forum of approval. It is headed by the prime minister and has participation by provincial finance ministers. The detail of the project approval process is provided in Annexure-3	**MPDR to issue a high level climate change evaluation framework that would serve to all decision nodes in project approval process.** There is growing realisation that unsystematic decision-making and ad hoc selection can be addressed if appropriate information/analysis is presented to decision makers enabling them to evaluate opportunity cost of their decisions.[33] Therefore, there is a strong case for the MPDR to establish project appraisal criteria using a sustainable development lens[34]. The framework will provide basic guidelines to differentiate projects with respect to climate resilient criteria. The criteria should be simple and easy to use to assist decision nodes to evaluate: (i) additional linkage with the NCCP objectives; (ii) degree of relevance to adaptation or mitigation; (iii) opportunity cost of alternate options; and (iv) risk of loss or reduction in project outcomes due to climate change. Another step that can supplement objective project selection is an early engagement of various stakeholders in development budgeting. In Pakistan, civil society organisations always have a voice to establish pressure groups that can influence government spending choices. Evidence suggests that they have been playing vibrant roles in amplifying public concerns.[35] MoCC can arrange pre-budget seminars with CSOs and other external stakeholders to highlight the criticality of the climate change dimension for project selection. This would help in building public awareness of climate change issues. CSO can play a key role in transforming this awareness into effective public responses and thus, provide an enabling environment for a policy dialogue on climate change with government. Projects should be on the PCI/PC II pro forma which is being currently used to prepare the project documents. The MPDR will make arrangements to amend the PCI/PCII and other planning pro-formas to include climate change as one of the screening factors.

31. ICCAS Briefing Note- How safe is Grenada's budget 2016? The 2nd Climate Change Public Expenditure Review: Results + Methodology
32. Public Project Selection and Evaluation- Alex Mosesova Sudhakar Kota
33. An Alternative Approach to Project Selection: The Infrastructure Prioritization Framework Darwin Marcelo, Cledan Mandri-Perrott, Schuyler House, Jordan Z. Schwartz World Bank PPP Group 14 April 2016
34. "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." International Institute of Sustainable Development (IISSD). Government of Pakistan developed National Sustainable Development Strategy in 2012. However, its implementation status is subject to assessment at this stage.
35. The role of CSO has been categorically mentioned in the NCCP 2012 -- "Develop public-corporate-civil society partnerships for financing and implementation of climate change adaptation and mitigation projects". In a recent case, the Government of Punjab had to reconsider the design of the Yellow Line train project in Lahore twice due to a sustained campaign by the SCO (Full form?) to save historical sites from degradation and damage due to large-scale excavation and construction. Similarly, on the basis of litigation filed by numerous CSO and NGOs, Supreme Court order in 2013 resulted in government reversing its plan to construct a tunnel through Margalla Hills in Islamabad.

Entry Points	Analysis	CCFF Integration
	Planning Commission-1 (PC-1) is the main document used to prepare conceptual designs of projects. No project money can be spent unless it has approved PC-1. Planning Commission has issued detail guidelines and formats of PC-1 documents. The key elements of PC-1 include project objective, spatial scope, description, beneficiaries, resource requirement, financing plan, sources of funding, implementation schedule and financial and economic analysis.[36] As per latest fiduciary assessments carried out by the development partners[37], the compliance with the requirements of PC-1 is weak chiefly due to lack of capacity at line ministries. In relation to climate change, there is no specific requirement in PC-1 for marking of climate change activities, associated cost and intended benefits. The MPDR has published its Annual Plan for financial year 2014-15. **CONSTRAINING FACTORS** Firstly, it is important to establish a system of project appraisal that is sensitive to climate change, thus, allowing government to prioritise projects that promote low-carbon development and climate change resiliency. In the political economy context, the use of such a system given the existing project approval process is extremely difficult. Another issue is to design projects ensuring that they are responsive to climate change dynamics and adequate capacity is built at line ministries to run climate change-cost benefit analysis at the time of preparation.	At project level, the MPDR should review the "Manual for Development Project" in light of emerging requirement for projects to be climate resilient. The two chapters in Manual that would specifically require updating are Project Preparation -- Chapter 4 and Project Appraisal -- Chapter 5. Project preparation covers defining the project objective, scope, stakeholders, geographical information, resource requirement and outcomes. All this information is required to be submitted in PC-1 form[38]. An additional element should be added requiring linkage of project objectives and scope with the "Framework for Implementation of NCCP" and information on degree of relevance with adaptation and mitigation measures under the NCCP. If possible, the relevance percentage should be provided at activity level as identified in the PC-1. This would ensure that project design takes into account factors affecting climate change. A good example in this regard is the Government of Grenada, that has developed a project information sheet for public investment project proposals.[39] The updating of project appraisal section, Chapter 5 of the manual requires introducing new cost-benefit analysis or similar analytical tools relating to climate change evaluation. Cambodia and Thailand are few examples that have developed a CBA tool to evaluate project design.[40] Another example is Mexico where distinct project appraisal criteria have been developed for each climate change-relevant sector.[41] However, this area would require further research and introduction of any new tool should consider the training and capacity building needs of line ministries, and compatibility of tool with the existing project development cycle. It would be prudent to carry out capacity assessment of relevant line ministries before reaching any decision in this regard. **RESPONSIBILITY** The MPDR has the prime responsibility for updating of PC-I, PC-II, PC-III and PC-IV per formas to incorporate climate change dimension. Similarly, it has to lead the capacity building efforts along with MoCC for introduction and use of new tools and techniques for project appraisal and analysis. The MPDR will issue the framework/criteria to be used during project approval process. **Time frame:** Short to Medium term

36. Manual for Development Projects 2010, Ministry of Planning Development and Reforms
37. PEFA 2012, PFM Policy Recommendations 2014 -- World Bank; Federal Government Fiduciary Assessment 2014 –DFID; Country Governance Risk Assessment 2015- ADB; and Report on Country PFM Assessment, HACT Framework 2015 - UNDP
38. Currently PC-1 form have 14 different as per specific requirements of each sectors. "Manual for Development Project 2010"- Ministry of Planning Development and Reforms
39. Project Information Sheet- Public Sector Investment Programme (PSIP) of the Government of Grenada
40. Climate Change Benefit Analysis (CCBA) Guidelines 2015 -- Thailand
41. Criteria for the Selection of Projects in Mexico's Portfolio be Financed by the Global Environment Fund (GEF) for the Period 2011-14

Entry Points	Analysis	CCFF Integration
3.5 Monitoring and Reporting System		
	RATIONALE The mechanism of recording and reporting climate budget expenditures provides information on the types of activities undertaken, and feedback on the climate change policy initiatives. For this purpose, a coding system is required to track climate change spending to assist policy makers in monitoring implementation progress, matching outputs with cost, identifying financing gaps and for effective resource allocation. Thus, a budget and expenditure tracking system anchored in GFMIS is required to institutionalise climate change financial reporting at all levels of government. **ASSESSMENT OF EXISTING ARRANGEMENTS** Controller General of Accounts (CGA), a representative of the federal government, through its associated offices across the country pre-audits and make payments, records transactions and thereafter prepare financial statements. The government, under the Project to Improve Financial Reporting and Auditing (PIFRA) has adopted a fully automated, new accounting model (NAM) that covers all tiers of government, is integrated with the budget system and is capable of producing reports consistent with international good practices. It provides a potentially powerful tool for both planning and analysis, with several years of data for all tiers of government. Reports on actual expenditures are now available within a week after the end of the previous month. As yet, it is under used by line ministries and planning departments, and lacks the final coding and information needed to bring the system in full compliance with GFS 2001. The coverage of the GFMIS and applicability of the NAM chart of account is limited to centralised accounting entities (line ministries) and does not include autonomous government institutions[42]. Drawing and Disbursing Officers (DDO) execute the budget made available to them through releases in the PIFRA SAP R/3 system. Fiscal reports are generated from country FMIS every month with detailed information of budget and actual spending on the same classification commonly known as civil accounts. Annual Financial Statements of the federal government is prepared by CGA and is compliant with IPSAS cash basis prescribed format, and a statement of appropriation of grants by object for the year.	Develop a separate budget classification for tagging of climate change budget and expenditure using relevance criteria provided in the CPEIR. An initial draft for this has been prepared.[43] The proposal suggests a new mapping structure in the government's Internet-based budgeting and accounting system. The proposed budget coding can provide information on: 1. Nature of the activity financed by the government i.e mitigation or adaptation activity 2. Source of fund from which the activity is financed (i.e. Domestic or international financing) 3. Relevance of the activity to climate change -- high, medium or low, and 4. Linkage of each activity with cost centre and functional classification as per existing mapping in GFMIS. Establish roles and responsibility matrix from report generation and analysis to the final user of report. The proposed budget and expenditure tagging will be done in the GFMIS by CGA. However, responsibilities will be assigned for smooth flow of information. The reports will be generated from the GFMIS as each line ministry has access to it. The consolidated view will be available to the MoCC and MoF. Information sharing protocol needs to be developed with autonomous institutions. The government executes development projects through autonomous bodies for which transactional level data is not available in the GFMIS. For this purpose, a reporting template will be designed, consistent with the GFMIS reporting template, on which autonomous bodies will share climate-relevant budget and expenditure information with the relevant line ministry. Each line ministry will do consolidation at sector level before final submission to the MoCC and MoF. Design standard reports for climate change reporting. The MoCC will develop templates for reporting on climate change activities. These reports may include: i. Annual financial statement for climate change budget and expenditure. ii. Quarterly budget execution reports containing budget vs. actual comparisons for functional and economic classifications along with variance analysis and reason thereto. iii. High-level sectoral performance report as part of annual Economic Survey of Pakistan.

42. Examples are National Highway Authority, Pakistan Atomic Energy Commission, National Disaster Management Authority, WAPDA etc.
43. Briefing Proposal- Introduction of Climate Change Coding and Tracking System

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CONSTRAINING FACTORS

In line with the whole of government approach, one of the key principles underlying budget-coding is to bring all public sources of climate change finance (domestic and international) into the country PFM system. Being crosscutting in nature, climate change expenditure tracking would require defining *ex-ante* climate change relevant activities and their corresponding allocations and expenditures, which is consistent, agreed, and nationally-determined.[44]

Another key challenge is to establish a financial reporting framework for tracking budget spending against NCCP objectives given that the linkage between the NCCP, MTBF and annual budgets is not strong. As noted in Cambodia[45] and is also true in case of Pakistan[46] the link between the national development plan, the MTEF, and the annual budget remains weak. Therefore, it not only affects the policy feedback mechanism but will also increase the risk of priority climate strategies and action plans not being adequately funded. However, this is a systemic issue relating to the PFM system of the country and should ideally be addressed through the on-going reforms.

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Capacity of Climate Finance Units (CFU) within the MoCC/CC Authority to be augmented to act as information hub for climate change finance activities. New information requirement will come up for each stage of the PFM cycle with the integration of climate change in the system. The CFU will mainly conduct analysis of reports produced by line ministries to provide decision support to the policy makers.

The role of the CFU will also include triangulation of financial information and physical progress to produce performance reports. The data on the physical progress is outside the GFMIS domain and thus, would require separate reporting from line ministries, which generally have in-house monitoring systems. Another data source is the monitoring wing of the Planning Commission, which also collects monthly physical progress reports from project authorities.

New roles and functions would be required within line ministries to meet the localised need of the sector. Line ministries will need to synthesize and analyse information to:

i. Introduce climate change markers within the MTBF (which will require technical expertise on climate change).

ii. Establish climate change Key performance indicators (KPI) for each line ministry, and

iii. Carry out cost-benefit analysis for project appraisal at the time of project preparation.

A robust M&E tool is critical in measuring the value of the climate relevant interventions and will ensure results, cost effectiveness and allow measuring impact level outcomes. An effective monitoring and evaluation system will assure that[47]

- Identified climate relevant expenditures are important for climate change policy formulation, and the associated resource allocation across the sectors;
- Accountability of public spending is strengthened;
- Administrative gains are derived from the review of budgetary performance.

The elements necessary for conventional monitoring and evaluation (M&E) will all generally apply to climate change. The following important points should be kept in mind while developing a robust M&E framework.

- Result-based M&E system should be established and it should embed a core group of qualitative and quantitative climate-related indicators on climate-relevant interventions as well as and guidelines on how to use them. This can streamline evaluations and promote consistency and comparability.

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44. CPEIR 2015, Federal Government of Pakistan has defined and classified climate change activities within government budget.
45. Pillar-1 Policy Analysis, Budgeting for Climate Change, UNDP
46. Federal PEFA 2012, PFM Policy Recommendations 2014 Pakistan - World Bank
47. National Monitoring Approaches for Climate Change Public Finance
48. Climate Evaluation Framework for Monitoring and Evaluation of Adaptation of Climate Finance.

Entry Points	Analysis	CCFF Integration
		• The system should provide real time impact evaluation. Real time impact evaluation can provide valuable early insights on progress and facilitate corrections during project implementation and over time result in more accurate assessments of the effectiveness of climate relevant interventions. • System should have a mechanism of internal and external information sharing to promote faster learning and better accountability. **RESPONSIBILITY** The MoCC/CC Authority will be responsible for augmentation of the CFU into robust climate change information management system. The MoF and MoCC will have the key role in developing and implementation of climate change financial reporting framework. UNDP will provide technical assistance in designing and implementation of climate change financial reporting framework. The MoF in collaboration with UNDP will conduct regular workshops on climate change financial reporting for line ministries and autonomous institutions. The MoF will provide adequate budget for implementing climate change-related reforms at line ministries. **Time frame:** Short to Medium term
3.6 Accountability and Oversight		
	RATIONALE Audit is the critical part of the accountability process at it requires public disclosure of government's performance to ensure transparent governance. Besides, decision makers require accurate feedback on achievement of desired results in order to revise existing policies and/or develop new ones. Supreme Audit Institutions (SAI)[49] has a key role to play in helping governments improve performance. Thus, SAIs should carry out audits of the climate change spending and presents its report to the legislature. **ASSESSMENT OF EXISTING ARRANGEMENTS** The financial statements of federation and provinces are subject to audit by Auditor General of Pakistan in accordance with Auditor General Ordinance, 2001. Office of the Auditor General of Pakistan (OAGP) performs the following functions: inspection of any accounts office or treasury of the federation, province or district; requisition of accounts, books, papers and other documents for audit; and enquire or make observations considered necessary for audit. Audit is conducted adhering to international standards of auditing issued by the INTOSAI. The audited financial statements along with audit reports are laid before the Public Accounts Committee (PAC) of national assembly for legislative scrutiny within six months after the end of the financial year. The PAC examines the accounts and reports of the AGP. The observations and recommendations of the PAC are laid before National Assembly.	Initially the OAGP should only focus on financial audit of climate change expenditure. Financial audit processes assess the reporting on climate-related transactions and reveal how funds are spent to achieve climate policy objectives. Once the coding and tracking system are in place, it would be possible to generate annual financial statements on climate change sources (inflows) and uses (outflows) of funds. The OAGP can form opinions on whether or not the annual financial statements represent true and fair results for the year and if all mandatory disclosures hare been made. This will be a good starting point for building capacity to conduct performance audits in the later stages.

49. In case of Pakistan Office of the Auditor General of Pakistan (OAGP) is the Supreme Audit Institution (SAI)

Entry Points	Analysis	CCFF Integration
	ASSESSMENT OF EXISTING ARRANGEMENTS The financial statements of federation and provinces are subject to audit by Auditor General of Pakistan in accordance with Auditor General Ordinance, 2001. Office of the Auditor General of Pakistan (OAGP) performs the following functions: inspection of any accounts office or treasury of the federation, province or district; requisition of accounts, books, papers and other documents for audit; and enquire or make observations considered necessary for audit. Audit is conducted adhering to international standards of auditing issued by the INTOSAI. The audited financial statements along with audit reports are laid before the Public Accounts Committee (PAC) of national assembly for legislative scrutiny within six months after the end of the financial year. The PAC examines the accounts and reports of the AGP. The observations and recommendations of the PAC are laid before National Assembly. The implementation of the Quality Management Framework (QMF) in Pakistan has strengthened both audit quality assurance and control arrangements. A training plan has been prepared and is being implemented to address the issues and weaknesses identified during quality reviews. **CONSTRAINING FACTORS** The INTOSAI has recognised that climate change audit requires deep understanding of the technical details for auditors to design an effective audit approach.[50] One of the fundamental issues is the capacity of the auditors to develop audit objectives and risk criteria relevant to the climate change. Though, climate change audit uses the same approach as other audits with focus on financial management, compliance and performance adaptation and mitigation pose distinct challenges for the auditor. Climate change audit is an emerging field and has mostly employed by SAI of developed countries like Sweden, New Zealand, and the National Accountability Office (NAO) in United States. The OAGP would require thorough capacity enhancement to be able to carry out audits, which, however, may not be possible in the short- to medium-term.	The OAGP is an active member of Asian Organization of Supreme Audit Institutions (ASOSAI) and can use this forum to conduct cooperative audits in line with guidelines issued by the Capacity Building Committee (CBC)[51] of the INTOSAI.[52] The objective underpinning cooperative audit is to encourage joint and coordinated auditing programmes within regional SAIs to validate methodology, generate guidelines, and to share or receive current knowledge in innovative audit areas. A good example on cooperative audit is the case of Pacific Association of Supreme Audit Institutions (PASAI). In 2015, using the CBC tool for cooperative auditing PASAI conducted audit for progress against Sustainable Development Goals. Under the same CBC framework, audit on Climate Change Adaptation and Disaster Risk Reduction Strategies was conducted in 2012-2013. On average 10-member SAI participated in each audit.[53] Oversight of the executives is one of the prime responsibilities of the Parliament. Parliamentary participation in the budget making process ensures that the public demands are articulated in the budgetary allocations. Active participation of the members of parliament will ensure that the budget allocations have been made for the implementation of the Climate Change Policy. Once the CCFF is implemented, expenditures and revenues of all the CC related activities will become part of the financial reports and will be subject to audit and hence will be reviewed by the PAC. The standing committee on climate change should be strengthened so that it can perform its oversight function effectively. Civil Society Organizations (CSOs) can play role in the budget cycle. For instance, they can provide inputs in the budget formulation process representing citizen voices and concerns; they also have an important role in strengthening accountability on the use of public money. In this way, CSOs can support and complement the efforts of government in identifying priorities and in making better allocation of resources by providing information on the public needs and demands.

50. Auditing the Government Response to Climate Change Guidance for Supreme Audit Institutions, 2010- INTOSAI
51. OAGP is also member of CBC
52. Auditors Helping Auditors to Strengthen SAI Competencies- Sub Committee on Cooperative Audit, INTOSAI
53. INTOSAI Capacity Building Committee Meeting Stockholm, 8-10 September 2015- Presentation by PASAI.

Entry Points	Analysis	CCFF Integration
	In Pakistan, the audit report is presented for legislative scrutiny at the PAC. The usefulness of the audit can be guaranteed only if the PAC is able to demonstrate ability and will to discuss audit reports that are technical in nature. It has been observed that the PAC's focus has been limited to the issues relating to corruption and misappropriation with little emphasis on performance and achievement of results.[54] Given the relatively low importance of climate change in the political circles, it is difficult to expect that climate change audit report would receive thorough scrutiny at the PAC.	**RESPONSIBILITY** The key responsibility to introduce climate change financial audit is with the OAGP. UNDP and other development partners can assist the OAGP in capacity development. The MoCC can conduct workshops and seminars for PAC members on the impacts of climate change and the threat it poses to development in collaboration with CSOs. The development partners and secretariat of the Assembly should develop a plan for strengthening the capacity in Parliament on climate change and increase voicing of climate change in the budgetary discourse and processes. The government should take steps to facilitate access to information to the CSOs. The CSOs in partnership with the government and development partners devise a strategy for strengthening accountability over climate change finance. **Time frame:** Long term

54. PAC annual report dated March 2013


04

CLIMATE CHANGE FINANCING FRAMEWORK ROADMAP

Implementation of the CCFF requires a well thought out strategy taking into account local context, capacity and institutional arrangements. Above all, full ownership of government is pivotal for effective implementation of the CCFF. For this purpose, a workshop was carried out under the leadership of the MoF to develop a roadmap for CCFF implementation (See Minutes in Annex 3). The workshop was designed to achieve twin objectives of sharing proposed entry points and seeking government agreement on actions and roles during implementation.[55]
There was a agreement that the CCFF was an evolutionary process and would need full ownership of line ministries for implementation.

The MoF recognises the need for the CCFF and has already taken a few steps for integration of climate change in budgeting -- a key step in this regard has been inclusion of climate change in "Budget in Brief", an important policy statement of the government on budget priorities. The budget call circular has also been modified to introduce requirements for reporting information related to climate change.

CCFF Roadmap

The CCFF reform agenda requires a thorough understanding of its different aspects, and the new functions and roles that will have to be fulfilled at various stages of the planning and budgeting process. Thus, CCFF implementation will be an iterative process and will necessitate follow-up discussions with various stakeholders based on the specific conclusions and recommendations identified at the consultative workshop. Certain CCFF elements would require piloting to validate methodology and implementation approach. The broad contours of CCFF implementation roadmap, based on the initial discussions, is presented below:

55. Workshop participants included representative from the MoF, MPRD, MoCC, MNHRSC, provincial P&DD, Ministry of Power & Energy, CGA, OAGP.

Timeframe	Actions	Lead Agency(ies)
Short term (1-12 months)		
30th September 2017	1. Finalise the classification system and put in place related coding and tracking system.	MoCC and CGA
30th August, 2017	2. Agree and finalise recommendations on the structure of Climate Change Financing Framework.	MoF, MoCC, UNDP
31st October 2017	3. Designate focal persons in each relevant sector ministry to steer the climate finance integration process, preferably representing the budget sections. The MoCC to facilitate liaison with line ministries to nominate focal persons.	MoCC, with relevant sector ministries
31st December 2017	4. Capacity development of planning officers and climate change focal points to be designated at line ministries for complying with the new guidelines of in the Budget Call Circular and to also make project development and project appraisal climate change sensitive.	MoCC, MoPDR, and MoF
31st December 2017	5. Review and/or revise Pro forma (PC-1, PC-II, PC-III & P- IV) and Project Development Manual guidelines to incorporate climate change risk and response measures and climate finance so as to align to the CCFF parameters.	MoPDR
31st March 2017	6. Develop KPIs to reflect climate change responses applicable to sector ministries at federal level and subsequently measure performance on these KPIs. MoF to facilitate with other sector ministries.	MoCC
31st October 2017	7. Review the mandate and human resource plan for Climate Finance Unit at the MoCC to consider inclusion of CCFF functions such as support for mobilisation and targeting of domestic public finance and consolidation of relevant domestic financing information for reporting to the UNFCCC, GCF, etc.	MoCC
Medium-term (12 months- 30 months)		
30th December 2018	8. Revise sector policies, strategies and action plans to mainstream and align with national and sub-national climate policy targets and action plans as well as budget proposals.	Relevant sector ministries with coordination by MoCC
30th June 2018	9. Amend the Rules of Business to ensure that implementation of national climate change policy objectives becomes a function of line ministries.	MoCC, with relevant sector ministries
31st December 2018	10. Develop new platforms for engaging with CSOs during the process of formulation and selection of projects that are likely to have climate change implications.	MoCC
Long-term (30 months and more)		
31st December 2018	11. Enhancement of audit functions and capacity to reflect climate change expenditure in official reports.	Auditor General's Office

ANNEX-1 General Political and Economic Context

Political Content

May 2013 elections brought in new governments at provincial and federal levels.

The 18th Amendment of the Constitution passed by the National Assembly on 8 April 2010, enhanced provincial autonomy and reshaped federal–provincial relations. These changes effectively re-drew the jurisdictions of Pakistan's multi-level governance structure at the federal, inter-provincial and provincial levels by revising the Federal Legislative List Part I and Part II. Furthermore, redistribution of functions at the district, tehsil and union council levels has been vested with the provincial governments in accordance with the framework enunciated in Article 140 (A) of the Constitution. A total of 43 departments in 18 ministries were abolished in 2011/12 and transferred to the provinces. In parallel, a new resource redistribution formula under the 7th National Finance Commission (NFC) Award of 2010 ensured greater funding to the provinces. The provincial taxation powers were expanded, including a sales tax on services; and internal and external borrowing by provinces was also permitted.

Economic Context

Pakistan's economy continues to maintain its growth momentum above 4.0 percent since FY 2014 for the 3rd year in a row - this growth increased to a decade high of 5.3% in FY 2017.

This acceleration was achieved on the back of a strong performance by agriculture and services sectors, which grew by 3.5% and 6.0% respectively in FY 2017. Industrial performance remained consistently above 5% for the last three years, indicating industrial revival taking place due to prudent government policies and also the confidence of business community. Services sector performance surpassed the targets and emerged as the most significant driver of economic growth, augmenting and sustaining the economic growth in the country.

The incumbent political government has taken measures to put economy on track. Under a three-year IMF Extended Fund Facility (EFF), the government has taken steps to stabilize fundamentals and change the growth trajectory. Growth prospects have led rating agencies (Moody's, S&P) to improve their outlook for Pakistan over the past year.

The government has focused on bringing improvement in real sector growth through improvements in agriculture, industrial and services sectors. In this regard, a number of development programs particularly in infrastructure and production sector have been initiated.

Overall Tax to GDP ratio was 12.6% in FY 2016, of which FBR revenues were around 11% while total revenue to GDP was 15.3% in comparison to 13.1% last year. Expenditure to GDP remained 19.9%, while fiscal deficit which was 8.2% in 2013 came down to 4.6% in FY 2016.

56. Tax to GDP ratio hovers around 11%, which is among the lowest among developing countries. Pakistan Development Update April 2016, World Bank
57. World Bank, Pakistan Development Update, April 2016

ANNEX-2 Public Financial Management Analysis

I. Legal and Regulatory Framework

The Constitution, certain legislations, and regulations provide the legal framework for PFM in Pakistan. The 1973 Constitution (as amended) provides the broad legislative framework and is supported by extensive Financial Rules and Rules of Business at the federal and provincial levels. In accordance to the above, a finance bill that covers the period from 1 July to 30 June each year is drafted. This provides a legal basis for spending over the coming financial year.

At the federal level, the parliament passed the Fiscal Responsibility and Debt Limitation (FRDL) Act in 2005. This requires the establishment of responsible and accountable fiscal management at all government levels. It requires the government to be transparent about its short- and long-term fiscal intentions and sets high standards for disclosure, including encouraging informed public debate on matters of fiscal policy. The provisions of the FDRL Act are, in practice, equally applicable to provincial governments, who can borrow domestically and internationally (backed by a sovereign guarantee from the federal government) within the ambit of the FRDL Act.

Budget execution is primarily controlled through General Financial Rules (GFR) issued by federal and provincial governments. The GFR coupled with Treasury Rules (TR) and a System of Financial Control and Budgeting outlines the system of financial management and control in place at all departments. The New Accounting Model (NAM), which complies with international classification standards, was introduced by the government in FY 2004-05 and is applied for all budgeting and accounting classification systems.

The Pakistan (Audit and Accounts) Order 1973, P.O. 21 of 1973 was repealed in 2001 and replaced by two sets laws that separated audit and accounts -- the AGP and CGA Ordinances of May 2001. The two laws are in accordance with provisions in Article 169 of the Constitution and now guide the audit and accounting processes.

The government is working to table the Public Finance Administration Act (PFAA). The draft PFM law seeks to address problematic areas and covers: budget preparation, expenditure control, budgeting for contingencies, financial accountability in respect of public entities, movement towards a single treasury account, and fiscal transparency.

58. Good Practice Note on Sequencing PFM Reforms – PEFA (2013).

II. Institutional Arrangements and Capacity

The institutional arrangements for PFM in Pakistan are complex, but largely similar at the federal and the provincial level. Following are the key institutions managing PFM in Pakistan:

i. The parliament and provincial assemblies have a key role (at the policy level) in authorising revenues, expenditures, and debts.

ii. Public Accounts Committees (PAC) at federal and provincial level examine the accounts showing the appropriation of sums granted by the assembly for expenditure by government, the annual accounts of the government, the report of the Auditor General of Pakistan and such other matters as the Minister for Finance may refer to it.

iii. The National Finance Commission (NFC) makes recommendations regarding the distribution of the net proceeds of defined taxes; the making of grants-in-aid by the federal government to provincial governments; the exercise by the federal government and the provincial governments of borrowing powers conferred by the Constitution. The Commission consists of the federal Ministers of Finance and provincial finance ministers, and others that the President may appoint after consulting the Governors.

iv. The Ministry of Finance at the federal, and Finance Departments at provincial levels play a pivotal role in budget preparation and expenditure control.

v. Ministry of Planning/Planning Commission at the federal, and Planning Boards/Departments at provincial level are responsible for preparing and releasing development budget.

vi. Federal Board of Revenue (FBR) has the main responsibility to regulate, administer and reform tax regime in Pakistan.

vii. Provincial Revenue Authorities regulate and administer provincial taxes.

viii. The Controller General of Accounts (CGA), with an extensive network of offices, makes payments, maintains accounts, and prepares annual financial statements. The provincial Accountant Generals (AG) and the AGPR report to the CGA at the Federal level.

ix. The Auditor General (AGP) is an SAI of the country, reviewing financial compliance and conducting performance audits.

Following are the key issues, based on the guidance note on the World Bank's policy note on PFM (2013):

i. Institutions generally do not perform regular performance monitoring, reporting and auditing, due to the lack of human and physical capacities.

ii. Government departments are unable to develop integrated budgets linking the budget estimates to implementable procurement plans.

iii. There is limited capacity to professionally manage financial management at the government departments mainly because they have not been given full authority to manage their budgets. The CGA exercises budget check, makes payments and maintains accounts.

iv. MoF manages the current, and Ministry of Planning manages the development budget.

v. The internal controls prescribed by the MoF and CGA are mainly operational and cover control activities. There is limited focus on risk management.

III. PFM Process Analysis

I. Budget Formulation

The current budget mainly comprises establishment expenditures, which are fixed costs and the variance is minimum but in case of development budget, there are significant in-year budget adjustments. Moreover, a substantial amount is included as block grants or others in the development budget that is re-allocated by the executive during the financial year. The aggregate revenue outturns have improved and the actual revenue collections were reasonably close to the budget estimates (PEFA rating is B) but the tax to GDP ratio in Pakistan remains. Moreover, there is a large potential to generate own source revenue at the provincial level but the revenue collection remains below target.

The government's budgeting process is well defined and follows budget classification based on GFS compliant Chart of Accounts, information available in budget documents is comprehensive, and budget documents are available to the general public. For linking policy and budgeting, medium term budgeting has been introduced at the federal and provincial levels except Balochistan. Sector strategies have been developed for a few departments however costing for investment and recurring expenditure needs to be incorporated.

II. Budget Execution

Predictability of funds: ThePEFA scoring for predictability has been raised. Adjustments in budgets take place administratively, and approved budgets can be minimised by object classifications. However, such measures are applicable across the board without any discrimination. udget priorities by the government can be further improved. The development budget depends largely upon the availability of funds and the reduction of available funds poses challenges. Contracting of loans and debt recording, and cash balances, are appropriately managed.

Internal Controls: In terms of expenditure, budget execution remains relatively weak. A major issue in the expenditure control system is weak recording and reporting as a part of the GFMIS system that makes control of non-salary expenditure weak. Rules for internal controls are comprehensive but not risk-based or oriented. In the last three years AGP audit reports noted numerous observations about serious internal control weaknesses and frequent non-compliance to rules. Internal Audit, in accordance with approved definitions and professional international standards, has not been developed in the civil federal administration.

Fiscal Risk Monitoring: Implementation and Economic Reforms Unit of Ministry of Finance has been publishing Report on "State Owned Entities Performance Review", for past two years. It is based on data from audited financial statements of about 200 PSEs falling in the domain of the Federal Government, and provides information on the financial and operational performance of these PSEs. Presently two SOE Performance Review reports are available for FY 2013-14, & 2014-15, while work is underway on report for FY 2015-16.

III. Intergovernmental Financial Arrangements

Federal fiscal transfers account for more than 80 per cent of provincial government receipts. Poor predictability of transfers can affect financial management in the provinces. PEFA Assessments of Punjab (2012) and Sindh (2013) assessed the predictability of transfer and noted decent performance for general transfers. There was less than 10 per cent deviation between actual transfers and the original estimated amount and the federal government transferred funds largely in compliance with the agreed timetable for in-year disbursements. However, in respect of earmarked grants, there was a significant variance between actual and estimated transfer of grants (rated D). Earmarked grants constitute about 5-7 per cent of total federal transfers.

IV. Budget Accounting and Reporting

The quality of the in-year and year-end financial reports is gradually improving, but the reports do not include complete information about assets, liabilities, and commitments (PEFA rated C+). The reports are prepared on Cash Basis of Accounting using the GFMIS that enables timely preparation of the reports. The government's accounting policies and procedures require recording and reporting of assets, liabilities and commitments but this has not been fully implemented. The financial reports do not also include complete information about direct payments made by donors on behalf of the government. Moreover, the government owned enterprises are not consolidated in the government's financial reports. Monthly reconciliations of the bank as well as suspense accounts are performed but there remains certain unresolved difference that impacts the quality of information in the financial reports. The GFMIS has been rolled out across all tiers of the government and it provides reliable information about resources received by the service delivery units (rated A).

V. External Audit and Oversight

The external audit of a majority of entities is completed expeditiously, but the same is not subject to timely legislative scrutiny. The SAIof the country has the constitutional mandate to conduct audit of all government entities. The audits are conducted using INTOSAI Auditing Standards and audit reports have been consistently presented to the legislature within eight months of the close of the financial year (rated B). However, there is a significant delay in the review of the external audit reports by the legislature and a backlog remains on compliance with instructions. Whilst the scope of the legislature's review of the annual budget is relatively strong, the effectiveness of this is negated by time constraints under which the legislature has to operate when reviewing the annual budget, and by the constitutional provision that caters for extensive reallocations and expansion of expenditure by the executive, without a requirement for prior recourse to the legislature. The weakness of legislative scrutiny of external audit reports has been a fundamental problem in the accountability process for many years and the PACs are overburdened with the task of working through an extensive reports backlog.

SAI Pakistan also conducts an audit of most donor-funded projects, but there have been some concerns on the quality and timeliness of audit reports. The World Bank is leading the development of harmonised Terms of Reference for audit of donor-funded projects.

Annex 3: Planning and Budgeting Processes and CCFF Entry Points

1. STRATEGIC PLANNING PROCESS

Vision → **"Vision 2025" - 7 Pillars** →

1. Developing social and human capital & empowering women
2. Sustained, indigenous and inclusive growth
3. Institutional reforms and modernisation of public sector
4. Energy, water & food security
5. Private sector & entrepreneurship-led growth
6. Developing competive knowledge economy through value addition
7. Modernising transport & regional connectivity

i. National Vision was prepared as part of the country wide consultative process in 2014. All four provinces participated in the process. The vision was approve by the National Economic Council (NEC) on 29th November 2014, which is chaired by PM with CM of all four provinces as its members.

ii. The vision document underscores climate change as one of the key challenges faced by Pakistan. Under Pillar IV "Energy, water & food security" climate change goals have been stated as (i) designing CC sensitive policies; (ii)identifying risk associated with economic and social costs; and (iii) implementation of well-designed adaptatition & mitigatition strategies and measures.

iii. The document highlights that Pakistan can access international climate finance like "Green House Fund" and "National Appropriate Mitigation Action" to get resources for mitigation and adaptation. It also encourages the government to seek assistance from UNFCCC for capacity building interventions to strengthen institutional arrangement for addressing climate change related issues.

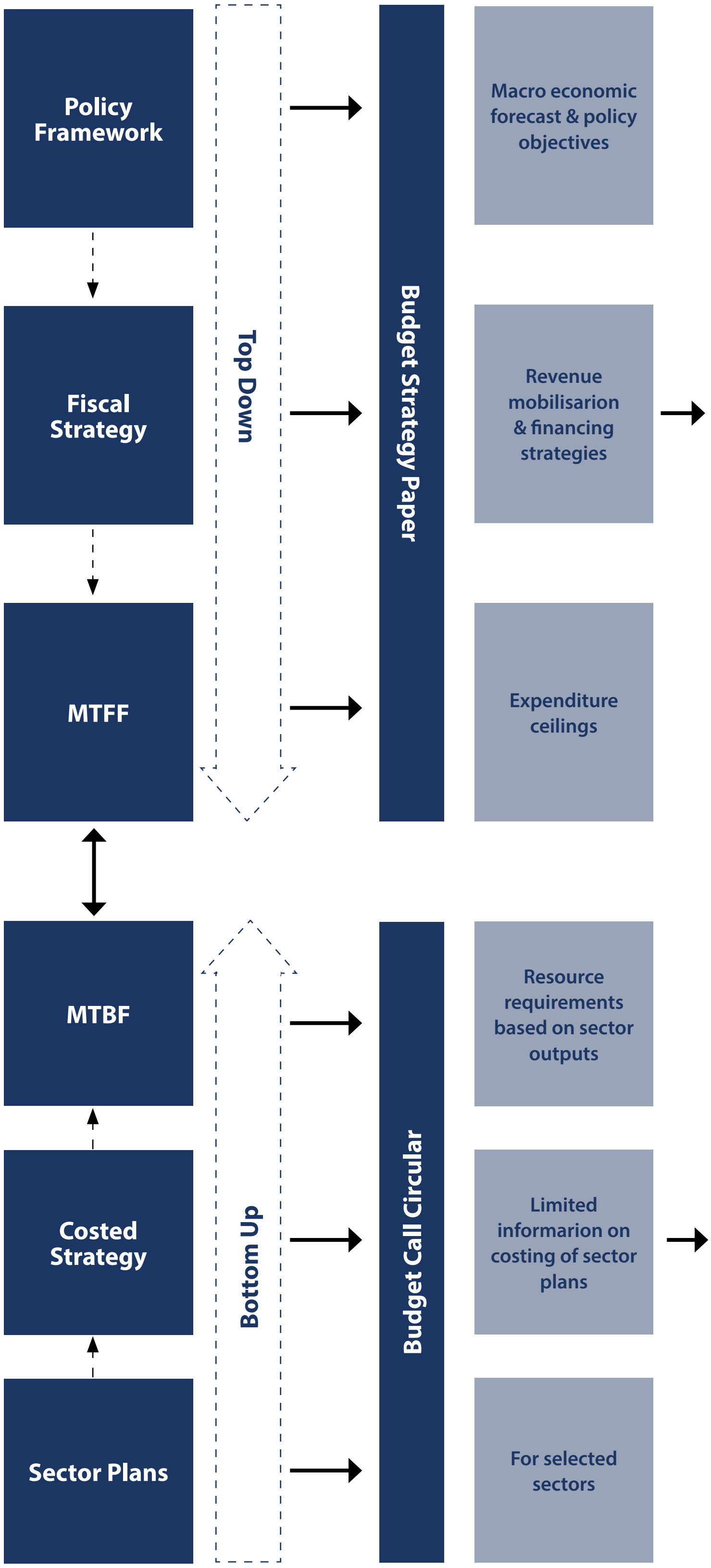
Strategy → **No growth strategy document** →

"Framework for Economic Growth 2011" was prepared by the Planning Commission as a strategic document identifying growth drivers and opportunities. The document was scrapped by the caretaker government in 2013.

Development Action Plan → **Framework for 11th Five year plan 2013-15** →

Framework for 11th Five year 2013-15 was approved by the PM in June 2015 as part of NEC meeting. However, approval was granted on a condition that discrepancies in growth projections be removed before its issuance, which contradicted "Medium term macro economic framework 2015-18" issued by MoF. The framework for 11th Five year plan 2013-15 has not been issued to date.

2. MEDIUM TERM EXPENDITURE FRAMEWORK



1. An annual pre-budget analytical 'Budget Strategy Paper 2016/17-2018/19' has been prepared, which included a 3-year macro-fiscal framework, budget policies, and indicative ceilings (resource limits) for Ministries / Divisions. The Budget Strategy Paper was tabled in the Cabinet meeting where discussions on policy priorities, allocations, and performance against targets were held. BSP 2016-17- 2018-19 was approved by federal cabinet on 26th April, 2016.
2. A separate chapter was included in BSP regarding Climate Change initiatives being carried out in Pakistan. Most significantly, it was highlighted that the Finance and Climate Change Divisions will lead these reforms and involve Federal Ministries/ Divisions that undertake climate change initiatives.

Entry Point:

1. **BSP should have financial framework for climate change that based on NCCP and "Framework for implementation of NCCP" already developed by MoCC.**
2. **Reference could be made to accessibility to international Climate finance available through multi donor funds like GHF and other adaptation funds.**

1. Sector policies or strategies are not available for all climate relevant sectors and in case where developed, they are not regularly updated.
2. BCC, issued by MoF, is the key instrument to prepare MTBF. BCC requires each sector to submit annual and three year forward estimates based on their respective sector plan/strategies.
3. BCC 2016-17 has been updated to the extent that it requires each line ministry to reflect how its policies will address climate change issues and thus, identify climate change relevant projects.

Entry Point:

1. **Sector policies to be updated in line with NCCP and sector plans should be aligned with the framework for implementation of NCCP.**
2. **BCC should include listing of ministries output with the framework for implementation of NCCP.**

3. ANNUAL PLANNING PROCESS

1. Federal Government identify mega projects at the start of the year

2. Line ministries also identify development projects in line with sector plan

3. Projects are approved by the respective ministers

4. Respective line ministries prepare conceptual design of Project & share with Planning Commission (PC)

Mostly mega projects, relating to power, communication and social sectors.

At this stage line ministries also prepare Budget Call Circular (BCC) for submission to MoF.

Entry point for CC integration - update BCC and update projection preparation guidelines like PC-I & PC-II

5. Submission of details of PSDP projects by each line ministry to PC as per PSDP guidelines

6. Sector Chief in PC review relevant project proposals. After discussion with respective line ministries finalise projects for inclusion in PSDP.

7. Priority Committee meeting to identify priority (on going + new) projects.

PC issues guidelines entailing fund allocations basis for new and on going development project depending upon government priorities.

Entry point for CC integrationupdate guidelines

Priority Committee is a consultative forum at federal level headed by federal additional secretary finance, MoF.

8. Federal PSDP is finalised and becomes part of the federal development budget.

9. Consolidated view of prioritised allocation are presented to Annual Plan by Coordination Committee (APCC).

10. The final set of allocations are presented to Natuonal Economic Council for approval

11. Federal budget is printed and presented to the federal cabinet and lastly to national assembly for debate and approval.

APCC is a federal forum headed by Deputy Chairman Planning Commission (PC). Here project allocations are finalised in consultation with provinces keeping in view the overall resource envelop. PM chairs the meeting and is also attended by provincial ministers and chief secretaries.

NEC is the apex body for all economic affairs of the country. It gives final approval of the government's development program for that particular year. PM heads the NEC and is attended by Finance Minister, Deputy Chairman SBP, Deputy Chairman PC and governors and chief ministers of all 4 provinces.

2. MEDIUM TERM EXPENDITURE FRAMEWORK

Preparation of pre feasibility, feasibility or conducting survey. For this purpose PC-II format is used

Line Ministries

1. PC-II is only prepared for large project and even in that case it is is rarely developed.

Entry Point: Update PC-II format

Line misnistries submit initial proposal to Planning Commission (PC)

line ministries

PC

1. The proposal is first received at coordination wing of PC, which then send PC-1 to the relevant sector chief & appraisal wing within PC.
2. PC has issued detailed guidelines fro preparation of PC-1.

Entry Point: Update PC-I guidelines

3. Key features of PC-1 are: Economic analysis, NPV, IRR, environment, gender, financing plan, project physical activities and outputs.

Entry Point: Introduce Climate benefit Analysis (CBA)

Evaluation PC-1

Appraisal Wing PC

Sector Chief PC

line ministries

1. While appraisal wing evaluates the economic and financial analysis, the sector chief evaluates the project technical aspects. A technical committee is formed for the purpose of technical evaluation. Line ministries and sectoral chief are member of the committee..

Entry Point: Introduce check list to evaluate climate change dimension in the project

2. After initial consultations, PC-1 is either accepted or sent back for revision. PC-1 may go through several revisions depending upon the quality of initial submission.

Approval of PC-1

ECNEC

CDWP

DDWP

1. Executive committee for National Economic Council (ECNEC) is the highest forum of approval, which is headed by PM and participated by provincial Finance Ministers, Additional Chief Secretaries (development) and Chairman P&DD. All projects above Rs. 10B (provincial) & Rs. 500 M (federal) come under ECNEC mandate. Besides any project, which has foreign funding of more than 25% all requires approval from this forum.
2. Central Development Working Party (CDWP) is another forum at federal level to approve PC-1 for projects up to Rs. 500M (federal) & 10B (provincial) . It is headed by chairman PC with participation of provincial ACS (development). It also acts a clearing house (economic, financial, technical analysis) for all projects that require ECNEC approval.
3. All projects under Rs. 200 M are approved at the forum of Departmental Development Working Party, which is headed by respective Secretary.

ANNEX 4 - Minutes from National CCFF Consultative Workshop

18 July 2016
Serena Hotel Islamabad

- **UNDP/Pakistan** (Asad Maken) welcomed the participants and gave a brief overview of the purpose of the meeting and the work that precipitated this event. He invited participants to give candid feedback on the findings and to be frank on their opinions of the recommendations and future directions. Participants introduced themselves.
- The **Ministry of Finance** (Special Secretary) also welcomed participants and expressed thanks to UNDP for their support in convening the meeting and for working with the Ministry on mainstreaming of climate change in budgeting and planning and on developing a CCFF. The reality of climate change is that it is the "new normal." There is enough disruption taking place to demonstrate that a "new business as usual" or business model geared toward climate change sensitive planning and development is need of the hour in Pakistan. The role of MOF understands that it should act as the "ring leader" to take this framework forward, and help to build more momentum for developing this new approach; however, in order to take this forward role of Ministry of Climate Change and Ministry of Planning will be critical, and of course the CC relevant line ministries. Adequate information and building capacity of all stakeholders shall be required to make the framework work. He underlined that the CCFF was an idea that has been developed by UNDP in consultation with some of the officials present in this consultative workshop and on one of the critical component i.e coding and tracking several meetings have been held; for the overall CCFF this is first of the consultative workshop which provides a good opportunity to the stakeholders to provide their feedback and inputs for a comprehensive CCFF. He informed that MoF fully appreciates the need for CCFF and has already taken a few steps for integration of CC in budgeting- a key step in this regard is inclusion of climate change budgeting in "Budget in Brief", which is a very important policy statement of the government on budget priorities. The budget call circular has also been modified to introduce requirements for information reporting related to climate change. There is a need to track expenditures through the IFMIS and work is now progressing on this front as well and Pakistan has benefited from valuable input and exchange of information from UNDP experts and from bilateral exchange with Nepal. The Auditor General's Office and the Controller General of Accounts have also been intimately involved in this work. The Secretary also recognized the growing role of CSOs in monitoring and accountability of development spending.
- **Ministry of Climate Change** (MoCC) gave a presentation on the work so far done on climate change finance. It mentioned the Climate Public Expenditure and Institutional Review done in 2015, noting that mainstreaming climate change into the PFM system will help to mobilize additional climate finance, and suggested that building accountability over expenditures was the ultimate destination.
- **Hammad Yunus**, consultant, gave an overview presentation for input by line ministries and other stakeholders. He walked through the 6 main "entry points" by which the CCFF would be integrated into the PFM system and mentioned additional cross-cutting activities around institutional/policy coordination and accountability. The presentation addressed how CCFF can help better manage the effectiveness and efficiency of existing resources dedicated to respond to climate change whilst also building the credibility of national systems to attract addition finance (i.e., development of a PFM system responsive to climate change would be more compliant to international standards for climate financiers). He reiterated the fact that the financial reporting frameworks will be developed through the exercise which would address the information needs and requirements of different end-users, including line ministries, Parliamentary committees, Auditor General, etc.

Consultations on CCFF:

- Accept that CCFF is an evolutionary process and that some of the recommendations are long-term. While some decisions can be taken up in the short term others do require a slower change to institutions and reforms to the rules of business. For example, the history of environment department evolving from out of P&D serves as a guide. In the larger perspective, there remains perhaps some ambiguity about the boundary of responsibility at federal vs. provincial level which creates some obstacles to take forward proposed climate change Act. While there is a process to establish a National CC Council and Fund with proposal being put forward to Cabinet, climate change is not specifically articulated as under the federal domain of authority in 18th amendment that poses complications; however, federal government does address issue through multilateral agreements and international processes so a case can be made.
- More elaboration or argument should be part of the scope of the work in terms of policy recommendations. The government wants more donor's intervention in review of sector policies and suggestions to fill up gaps. (gaps between NCCP and sector policies)
- Means to end - track expenditure to help tap funds and make better case for priority of accessing climate funds and setting those priorities.
- Overall response to budget call circular was low. Most line ministries had a low understanding. Compliance – capacity about knowing how MOF can get information from line ministries. Some good input from MOCC. Ownership should lie with the line ministries.
- Methodological issues and rigor will need to be enhanced over time (for example, starting coding with a "CC objectives" lens (e.g., mitigation/adaptation/both) and then gradually adding more information on incremental costs/benefits of specific programmes in the criteria or guidelines).
- KP noted the positive that CPEIR showed that planning department was heavily involved and trying to integrate CC. Most figures are FY 13/14, two sectors like forestry and water and irrigation have very high cc relevance. Huge increase in funding in a key cc relevant sector in last couple of years (almost 20 times for forestry and doubled for water). So CC spending is likely to increase from single digits to double digits. Also micro-hydro major expansion of funding. So these can paint a fairer picture that Pakistan is doing a lot.
- From MOCC perspective energy needs to be at the heart of the CCFF work at sector level. Ministry of Energy and Power noted that it was currently making more investments in supercritical coal, bagasse, wind power, and hydropower. Looking to get funds from ADB.

KP Finance Department : Requested that coding and tracking be shared with Provinces before developing new COAs. Provincial Envt'l Protection Act has some focal areas and at province level PND will be playing a role as well as finance. Ultimate success will be when MOCC and provincial environment ministries are taking lead role. While the provincial level P&D has an important regulatory oversight role, environment line departments and MOCC at sub-national level need to play the fundamental, catalytic role. UNDP clarified that once the climate change budget classification and coding criteria is finalized, a presentation will be made with all provincial stakeholders before further rolling out the CCFF.

MoHRC: From experience with health, they doubt Pakistan's GFMIS is capable of showing how any programme (whether public or donor financed) is able to show how it contributes to an overarching national strategy or targets, which should be the case for CCFF. She mentioned that usually the current expenditure is not taken into account whole calculating expenditures. UNDP explained that these were taken into account in the last CPEIR.

- **UNDP** (Tracy Vienings, DCD) congratulated Pakistan on its leadership role in setting up mechanisms for financing the SDGs and for targeting the right issues. She applauded inclusion of climate change in the 2016/17 Budget Brief and expressed enthusiasm for UNDP's engagement on the CCFF with MOF and other stakeholders in the coming months. She thanked the team and colleagues from UNDP regional office for their work.

- **Secretary MOCC** in closing the workshop said that despite the constraints MoCC is trying to strengthen its role on coordination and information management mechanisms for climate change. It would need to build on the existing climate finance unit that is currently focused on external finance resource mobilization. It is looking to "back-up" mechanisms to advance regulatory and policy compliance in the case that the proposed national CC Council proposal does not advance further. He also emphasized that the different components of CCFF referred to by Mr. Yunnus should support one another and should also have clear linkages with the National Climate Change Policy.
- The government stakeholders will conduct a series of meetings with UNDP team to further elaborate the CCFF reforms entry points. The objective is to formulate the final set of options and recommendations and present those to the CCFF project Steering Committee by September 2016.The consultant will incorporate the workshop recommendation in the CCFF. CCFF outputs would need to be guided by objectives and subjective determination of priority needs along different time-scales.
- The comprehensive nature of the CCFF requires thorough understanding of some aspects of the CCFF reforms plan which need follow-up discussions based on the outcomes of the consultative workshop. UNDP team committed to further elaboration of technical parameters of the CCFF development process and the specific roles of stakeholders during various parts of the planning and budgeting processes, as well as reporting and analysis of climate change expenditures.

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