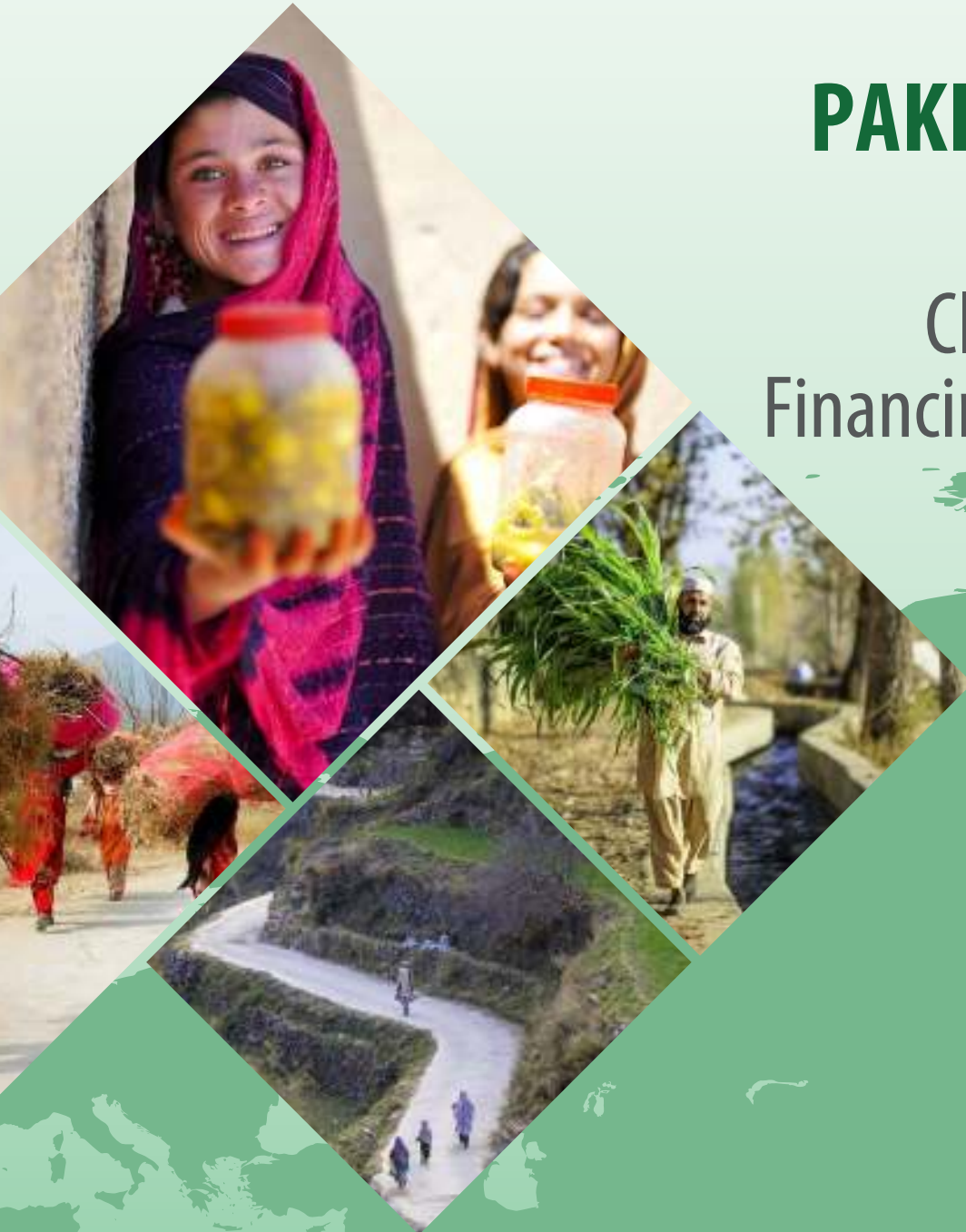




KHYBER PAKHTUNKHWA PROVINCE

Climate Change
Financing Framework



KHYBER PAKHTUNKHWA PROVINCE

Climate Change Financing Framework

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ACRONYMS

ADP	Annual Development Plan
AG	Accountant General
AGP	Auditor General of Pakistan
AJK	Azad Jammu and Kashmir
BSP	Budget Strategy Paper
CC	Climate Change
CCC	Climate Change Centre
CCFF	Climate Change Financing Framework
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
EPA	Environment Protection Agency
GFMS	Government Financial Management Information System
GFR	General Financial Rules
GHG	Greenhouse Gases
IDS	Integrated Development Strategy
IPCC	Inter-Governmental Panel on Climate Change
KP	Khyber Pakhtunkhwa
MTBF	Medium Term Budgeting Framework
NAM	New Accounting Model
NCCP	National Climate Change Policy
OBB	Output Based Budget
PDMA	Provincial Disaster Management Authority
PFM	Public Financial Management
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar



FOREWORD

The Government of Khyber Pakhtunkhwa is committed to responding to the threat posed by climate change. It is taking steps to mobilize all its resources more effectively in this regard. A provincial climate change policy was drafted and is pending Cabinet endorsement. The Green Growth Initiative was launched with several concrete measures to reduce greenhouse gases that contribute to future climate change. Disaster Risk Reduction plans that incorporate measures to reduce climate-related shocks, such as flooding, have also been developed in the districts. A \$36 million programme to combat Glacial Lake Outburst Flooding and to scale up risk management approaches—the first Green Climate Fund activity endorsed to date in Pakistan—includes a strong focus on investment in the province. A Climate Change Budget Review Guidebook has also been recently prepared and introduced in the KP Assembly as a tool to inform Members.

Combatting climate change requires consistent policy and planning measures. But also, structured systems for budget management and well-developed financing strategies that can leverage existing public spending. In fact, in the most recent years, about 10-14% of the Province's total development budget was classified as climate change sensitive. While this is already significant, it is hoped that more and more key programmes implemented by all agencies and departments will be increasingly aligned to key climate action.

The KP Government with support of UNDP has developed this Climate Change Financing Framework which will help see climate change considerations effectively incorporated into our planning and budget processes.

The CCFF outlines a roadmap that the government and other stakeholders can follow to engender a climate change responsive public financial management system. This effort can ensure that the macro-economic impacts of climate change are limited, and add value to the execution of the National Climate Change Policy and Pakistan's international commitments in this area.

My compliments for the team that has developed the CCFF and I urge for its true and strong execution.

Shakeel Qadir Khan

Secretary, Finance
Government of Khyber Pakhtunkhwa.

MESSAGE BY COUNTRY DIRECTOR

The economic cost of climate change is mounting. For example, record-breaking high temperatures and heat waves are bringing severe detrimental social consequences and limiting economic productivity. And poor and disadvantaged groups have been shown to be disproportionately affected by climate change.

With this in mind, UNDP has for many years been actively supporting the KP Government and society to better understand climate change issues and how to access and mobilise international climate finance. UNDP has been supporting KP province in carrying out a Climate Public Expenditure and Institutional Review and in developing this Climate Change Financing Framework. A mapping of government expenditure patterns over four years between FY 2011/12 and FY 2014/15 has revealed an increasing trend in climate-relevant spending.

While this diagnostic provides a useful benchmark, the CCFF delivers a roadmap for KP Province to integrate climate change into its public financial management system. It links policy frameworks with budgeting, thereby ensuring transparent allocations and effective utilisation of public resources. A CCFF also helps to create the governance and accountability mechanisms to cater for more inclusive resource planning and responsive budget allocations. It also institutes a robust system to monitor and report on the volume and effectiveness of climate spending and establishes a thematic budget code to track allocations at the point of expenditure. Such frameworks have also been developed, with UNDP support, in Indonesia, Cambodia and Bangladesh, enabling each of these countries to develop systematic approaches to meet the most significant global challenge of our time. However, the KP CCFF is unique in being one of the first to have been endorsed at the provincial level.

I extend my congratulations to the Government of Khyber Pakhtunkhwa in successfully developing this framework which will be instrumental in adapting to the challenges and mitigating the effects of climate change. Effective implementation of CCFF will help to reduce risks and the economic, social and human costs of climate change to the citizens of Khyber Pakhtunkhwa.

Ignacio Artaza

Country Director, UNDP Pakistan



01

EXECUTIVE SUMMARY

Climate change is a major threat to sustainable development and threatens to pose serious challenges in the development efforts of the Khyber Pakhtunkhwa (KP) Government. Currently, climate change is not a thematic consideration in planning and most sectoral policies and strategic action plans remain silent on the issue. Further, budgeting processes in KP do not allow for systematically tracking and monitoring climate-relevant spending. However, climate change can be better addressed by incorporating it in the province's development plans and budget. The KP Government has developed this Climate Change Financing Framework (CCFF) in 2018 as a core pillar of its climate change response.

Pakistan is among the most vulnerable countries to climate change due to its vast geography that spans across various eco-climatic zones from the snow-capped mountains to the coastal plains. Climate change will not only adversely affect economic development but can also jeopardize the provincial efforts to attain the Sustainable Development Goals (SDGs). During 1995-2014 Pakistan's annual average economic loss due to climate change-related incidents amounted to US\$3.9 billion (USD PPP). In the same period, lives lost to climate change averaged 3 individuals per million inhabitants¹ annually.

Likewise, Pakistan's geographic location and agro-ecological diversity makes KP highly vulnerable to climate change. It has experienced severe flooding in the past and is likely to remain susceptible to calamities owing to the presence of glaciers, extreme weather ranges within the province, and a history of frequent flash floods. Floods in 2010, for example, caused financial losses amounting to \$1,272 million. Climate change will affect almost every sector, and the impact on agriculture will be very severe: the sector could face up to 30% production losses, according to one estimate.²

The KP Government has taken several steps to combat climate change. It has developed a provincial climate change policy. Its "Billion Tree Tsunami", under the Green Growth Initiative, has received international appreciation and recognition. A Climate Public Expenditure and Institutional Review (CPEIR) was carried out in KP in 2015 and subsequently updated in 2017 to identify the volume and pattern of public spending on programs seeking to tackle climate change.

The integration of climate actions and policies in the Provincial Public Financial Management (PFM) system can ensure it is adequately addressed through a firm commitment of resources and associated mechanisms to ensure these are used as planned. KP has undertaken several budgetary reforms including the implementation of a Medium Term Budgetary Framework (MTBF), and the linking of provincial expenditures with the Integrated Financial Management Information System (IFMIS). These reforms provide viable entry points to integrate climate change thematically.

A CCFF takes a whole-of-government approach for integrating climate change in public economic and financial management. It includes the development of new processes, tools, and systems to generate data and analysis that can assist policymakers to make more informed decisions to better align climate policy goals to the provincial budget. It also promotes measures for increased transparency and accountability on climate spending and comes with a capacity building plan for augmenting PFM system capabilities to better respond to the challenges and opportunities posed by climate change.

The CCFF can assist policymakers in KP to make more informed resource allocation decisions. It can also help in aligning systems and policies to requirements laid out by development partners and financial institutions for accessing international climate finance. CCFF implementation can assist in demonstrating that the KP's PFM system is effective and efficient for responding to climate change policy and management issues, and also ensures transparent use of climate funds. At the landmark Paris Climate Conference under the United Nations Framework Convention on Climate Change (UNFCCC) in December 2015, developed countries committed to mobilizing \$100 billion per year of additional climate finance by 2020. All countries (including sub national governments) are increasingly compelled to account for how effective their use of international funding available for climate change would be including through a transparent PFM system that ensures efficient and transparent use of resources. They are also seeking to demonstrate how they are contributing financially to addressing climate change in order to access new funds.

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.

The key reform measures under the CCFF are presented below.³ Different entry points have been identified for integrating climate change in budgetary control and PFM systems along with supporting mechanisms and new institutional arrangements for effective implementation. The recommendations have emerged from discussions with the KP Government officials, consultations and individual meetings held from July 2016 - January 2018, as well as from the CPEIR process.

Key recommendations

MTBF as the key entry point: Integrating a climate change lens in the MTBF is a critical CCFF component. To ensure line departments consider climate change when identifying and proposing budgets for new projects, and developing MTBFs, the Finance Department (FD) will amend the Budget Call Circular (BCC). The amendment would ensure a climate change focus is incorporated into the MTBF for climate-relevant departments. These initiatives will require procedural reforms, some systemic changes, and institutional capacity building. It will also require analysis of the climate change risk and benefits of sectoral policies, and clear definitions of outputs/Key Performance Indicators (KPI) and sectoral outcomes.

Budget Control Management: Budget/financial reports including information on climate spending can assist policymakers in making resource allocation decisions and tracking progress against policy targets/KPIs. The quality and timeliness of climate change expenditure reporting depends on generating and managing information on allocation and spending. A cell tasked to track climate change expenditures will also be established at the Sustainable Development Unit (SDU) in the Planning & Development Department (P&DD) or Finance Department. The new cell will also analyze trends and gaps in spending and investment across sectors.

Development of the provincial adaptation plan and sector action policies will be the logical next step after systemic and process changes for climate change integration. At present some departments have specific sector policies while others plan their annual activities. A provincial-level strategic approach to climate policy and planning will require line departments to prepare sectoral policies and plans in accordance with larger goals and objectives, while accounting for sector and department level financing.

Project Screening and Appraisal: Reforms required in planning include updating Planning Commission (PC) pro forma templates PC-I, PC-II, PC-III & PC-IV. While an immediate priority is to make changes to project planning formats, in the longer term a comprehensive climate-sensitive planning framework and a tool or checklist will also be required. This can assist decision makers at both the design and preparation stages to analyze the climate benefits of potential programmes, and also during project selection and full-scale appraisal.

Legislative and Institutional Reforms: The FD and the P&DD will establish a robust coordination mechanism to provide strategic guidance to line departments. The KP Government will consider a climate change legislative gap analysis, including a review of relevant existing laws, such as the Environment Act. The review could support the strengthening of the legal basis for inclusion of climate change in planning and budget systems. Future regulatory reforms will also require congruence with provisions of the new national Climate Change Act (2017).

Oversight and Accountability: The members of the KP Provincial Assembly will have a pivotal role in steering climate budgeting and function as a platform for strengthening accountability of climate change expenditures. Civil Society Organizations (CSOs), including think tanks and media, can also play various roles throughout the budget cycle to monitor and support improve fund allocation. For instance, they can: (i) promote public policy debates and provide information on citizens' needs and demands to assist prioritization of climate responses; (ii) assist by brokering citizen inputs and voices on projects at budget formulation stage; and (iii) complement official oversight channels for holding government to account in its use of public monies.

Scope and Limitation of the current CCFF

The scope of the CCFF is:

- The Provincial Government,
- All district governments in KP, and
- All centralized accounting entities and the self-accounting entities of the province and district governments.

Centralized accounting entities are those for which the Accountant General of the Province has the primary responsibility for processing, recording and reporting transactions⁴.

There are certain independent entities and commercial undertakings established under a state resolution or a notification of the Government our under the Companies Act, but are placed administratively under a department for the purposes of the accountability⁵. These entities are not under the purview of the proposed CCFF. Detailed procedures will need to be developed to obtain relevant financial information related to climate change from these entities.

Lower tiers of local government, which includes Tehsil Town Municipal Administration and union councils, are not included in the CCFF and therefore detailed procedures will need to be developed to obtain relevant financial information on climate change related activities from these entities.

Climate change integration in the PFM system is complex: as a crosscutting theme, there is little experience at both national and international level for facilitating the process. The CCFF prescribes a financial management framework for entities governed under the provincial PFM system. However, the methodology suggested for tracking and reporting climate-related expenditure is also applicable to central accounting and the self-accounting entities. Certain provincial entities in Pakistan have their own financial management systems and thus fall outside the responsibility of the Provincial Accountant General for accounting and reporting. Therefore a different set of procedures will be required to incorporate climate change in the accounting and reporting framework of such 'exempt entities'.

Implementation Support

The FD and P&DD will take lead roles in implementing the CCFF. An equally important role is envisaged for climate change relevant departments like the Departments of Forest and Environment, Agriculture, Irrigation and Food. There is, however, a need for technical support from development partners for facilitating implementation. UNDP will provide initial technical support. The KP Government will use the CCFF for engaging other development partners such as the World Bank, ADB, SIDA, DFID and GCF for implementing climate response interventions.

Capacity Building

A lack of adequate capacity could hamper CCFF implementation; therefore, understanding of the reforms will need to be enhanced at the level of the 'heads of department' alongside awareness building at the operational level in line departments. Members of the parliament (MPs) will also need to be oriented on the CCFF and climate finance.

³ These key recommendations emanate from the analysis presented in chapter-3, the CCFF Matrix and list the requires policy intentions. The matrix follows the PFM cycle covering the legislative framework, sector policies, planning & budgeting, project selection, monitoring & reporting, and accountability. Recommendations on systemic PFM changes can be followed up by explanatory studies on some CCFF components that need further deliberation and research in order to assess the financing needs of different sectors, and the province as a whole.

⁴ Accounting Spelling of Procedures Manual, issued by Auditor General of Pakistan

⁵ Accounting Spelling of Procedures Manual, issued by Auditor General of Pakistan

A Snapshot of the Climate Change Financing Framework Reform Roadmap

Reform Areas	When	Lead Agency(ies)
MTBF Integration		
Amend Budget Call Circular and ancillary guidelines to include climate change	30 September 2018	Finance Department
Identify one pilot department for integrating climate change in its MTBF and defining relevant outputs	30 July 2018	FD, Environment Department and relevant line departments
Develop KPIs to reflect climate change responses applicable to selected line departments, and subsequently measure performance against them. FD to facilitate with line departments. Adaptation and mitigation plans when developed, and sector policies, when aligned with climate change, will guide the KPIs.	28 February 2019	FD and relevant line departments
Institutional Co-ordination		
Establishment of a Climate Change Finance Unit	30 September 2018	Environment, Finance and P&D Departments
Amend the Rules of Business to ensure that implementation of national and provincial climate change policy objectives becomes a function of the line departments.	31 December 2018	Environment, with Establishment & Admin and relevant line departments
Capacity Building		
Designate focal persons in each relevant department to steer the climate finance integration process, preferably personnel representing the budget sections.	30 August 2018	Environment and Finance departments, with relevant sector departments
Capacity development of planning and budget officers and climate change focal persons to comply with Budget Call Circular, and guidelines on making project development and appraisal more climate change sensitive. Focus on one pilot department in 2018.	31 December 2018	FD, P&DD and relevant line department
Adaptation and Mitigation plans		
Provincial adaptation and mitigation plans will be developed to incorporate a climate lens in the provincial planning process to ensure that the climate-relevant projects are prioritized in line with the objectives as described in both the National Climate Change Policy (NCCP) and the draft provincial climate change policy.	30 June 2019	Relevant line departments
Revise sector policies, strategies and action plans to mainstream and align them with the provincial climate policy (when issued) and provincial adaptation and mitigation plans.	30 December 2019	Line departments
Project Appraisal & Selection		
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, to align them with CCF parameters.	31 December 2018	P&DD
Monitoring and Accountability		
Operationalize a climate budget coding and tracking system within GFMS.	30 September 2018	Finance Dept., CGA, AG, P&D
Develop new platforms for engaging with CSOs including media to support project formulation, selection, and monitoring.	30 December 2018	Environment department in collaboration with the Federal Ministry of Climate Change
Enhance audit functions and capacity to reflect climate change expenditure in official reports.	30 March 2019	Auditor General's Office

2. INTRODUCTION

2.1 Context

Khyber Pakhtunkhwa is one of the four provinces of Pakistan, in the country's northwestern region. It shares its borders with Islamabad, Azad Kashmir, Federally Administered Tribal Areas (FATA) and Gilgit Baltistan. The province has a population of about 30.5 million⁶. KP is the third largest provincial economy of Pakistan, yet growth in the recent past has been relatively poor due to severe internal and external shocks.

The KP Provincial Assembly acts as the legislature with complete autonomy in functions assigned in the Constitution (1973). The elected government completed its 5 year term in May 2018. In the year 2015, the provincial assembly legislated for a three-tier local government system. The KP administrative structure, subsequent to the enactment of the local government act (2015) comprises of 26 districts (formation of one district is pending judicial verdict), 77 tehsils and towns, and 3,501 villages and neighborhood councils. The executive authority rests with the Chief Minister aided by the provincial cabinet of ministers and a bureaucracy of 33 administrative departments. The provincial judiciary comprises the High Court, the Sessions and Civil Courts and Tribunals established for special purposes, such as the Banking Tribunal.

The annual growth rate for KP was 4.2% in 2011-12 -- slightly lower than the national growth rate.⁷ Economic growth in the province is expected to improve with the improving law and order situation. The main drivers of future economic growth in KP include urbanization, remittances, trade and connectivity, and a strengthened fiscal system. Its location makes it a centre for regional trade, with a high potential for reaping cross-border trade benefits (between Pakistan, Afghanistan and Central Asian States). One in four migrant workers from Pakistan hails from KP. Agriculture is also an important sector of the economy as it employs the majority of the labour force. However, agriculture also faces several problems like low productivity, underdeveloped markets and the adverse effects of climate change.

The Government of KP has been pursuing a citizen-centred model for socioeconomic development, focusing on reducing poverty and achieving peace through an integrated and holistic approach.⁸ It has also been investing in tackling climate change through initiatives such as the Billion Tree Tsunami, Peshawar Metro, and efforts to combat deforestation. According to the 2017 Climate Public Expenditure and Institutional Review (CPEIR), between 2010 and 2016 the KP government has been making climate change expenditures to the tune of 5.3% to 8.9% of total expenditures each year.

2.2 Departments Responsible for PFM in the Province

The Department of Finance is responsible for the supervision and control of provincial finances, preparation of the budget, formulation, execution and interpretation of financial rules related to employees, management of public funds and debt, banking, coordination of the National and Provincial Finance Commissions and administration of Local Fund Audit. The FD has been leading financial management reforms in the province. It has also started an ambitious program to introduce the Medium Term Budgeting Framework (MTBF), where substantive work has already been done, even though it is not yet fully functional. MTBF implementation requires engagement of line departments that have begun reforms even though their efforts remain constrained by the lack of adequate financial management capacity and the lack of control over departmental budgets.

The Planning and Development Department (P&DD) is the custodian of the development budget of the province and is therefore another important institution directly involved in PFM. The P&DD is responsible for implementing development plans and plays a critical role in policy making (provincial and sectoral policies, setting priorities of projects against resource availability, and appraising and processing development projects) and implementation (monitoring releases and inter-sectoral re-appropriation), and in monitoring and evaluation of the development projects.

The Accountant General (AG) of the province is responsible for maintaining accounting records, pre-auditing of financial transactions of centralized accounting entities in the province, and for preparing periodic financial reports for the Provincial Government. The AG also prepares the financial statements for district governments.

⁶ Provisional Result of the 6th Census Pakistan Bureau of Statistics, <http://www.pbscensus.gov.pk>

⁷ Reclaiming Prosperity in Khyber Pakhtunkhwa P&DD KP, A Medium Strategy for Pakistan F-37109-PAK-, International Growth Centre

⁸ Reclaiming Prosperity in Khyber Pakhtunkhwa P&DD KP

2.3 Climate Change Policy and Institutional Response by KP

Climate Change has evolved quickly from an environmental issue to a reality that people have begun to experience. It is negating the benefits derived from developmental efforts and is aggravating social inequality. The Inter-Governmental Panel on Climate Change (IPCC) declared that warming of the climate system was unequivocal and that land and ocean average surface temperatures suggested warming by 0.8 degree Centigrade from 1880 to 2012. Its fifth and latest report also attempted to value climate change induced losses on social and economic development.⁹

KP has been adversely affected by climate-related disasters, and the threats it faces are likely to have negative impacts on its developmental efforts. Therefore, a systematic response to climate change, which links climate-relevant policies with budgeting and planning for efficient and transparent allocations and use of financial resources, is no longer a choice but a requirement. Systemic response to climate change through integrated budgeting and planning can assist in reducing the losses.

KP is particularly vulnerable to the effects of climate change due to its varied agro-ecological diversity. It suffered the worst impacts among all provinces during the 2010 floods, with estimated losses at \$1,172 million¹⁰. Eighty one percent¹¹ of the province's population lives in rural areas and is dependent on farming and livestock for livelihood. Warmer temperatures have increased the frequency, intensity and duration of heat waves, which affect crops and farming systems. Further, climate change induced changes in the pattern and amount of rainfall, and the timing and volume of stream flows will affect the quality and quantity of farm production.

Besides adverse impacts on agriculture and water quality, the province also faces the following threats:

- Considerable increase in frequency and the intensity of extreme weather events coupled with erratic monsoon rains that could cause frequent and intense floods and droughts;
- Projected recession of the Hindu Kush, Karakorum and Himalayan glaciers due to global warming and carbon soot deposits from trans boundary pollution sources threaten water flow in the Indus River System, and
- Increased siltation of major dams caused by more frequent and intense floods.

The national response to climate change in Pakistan has been the establishment of the Ministry of Climate Change and the adoption of the National Climate Change Policy 2012. At the provincial level, KP province is also preparing a Climate Change Policy, which can contribute towards strengthening initiatives to adapt with the change. Besides, the KP Government has also approved the Provincial Environment Protection (PEPA) Act 2014, and has initiated an ambitious Green Growth Initiative. The PEPA Act has introduced a decision support process for "Strategic Environmental Assessments" for certain areas that can guide in assessing both policies and projects.

The KP Government's "Billion Tree Tsunami" project -- part of its Green Growth Initiative -- has been internationally acknowledged. The project registered under the Bonn Challenge, a voluntary regime set up under the UNFCC umbrella for restoring 350 million hectares of forest around the world, and is the first such initiative in the world that is led by a sub-national government.

Besides the Government initiatives, the University of Agriculture Peshawar has established the Climate Change Centre (CCC) with financial and technical assistance from Inter-cooperation Pakistan through Swiss Agency for Development and Cooperation (SDC). The Centre will promote climate education and research to support adaptation of farming

⁹ The IPCC report discusses evidence of loss and damage from extreme weather events, such as floods, storms, heatwaves and cyclones/hurricanes. Intergovernmental Panel on Climate Change Fifth Assessment Report, 2014.

¹⁰ ADB & World Bank, "Pakistan Floods 2010 Preliminary Damage and Need Assessment"

¹¹ Government of KP, Bureau of Statistics, Planning and Development Department, KP In Figures.



CLIMATE CHANGE FINANCING FRAMEWORK

One specific recommendation of the CPEIR endorsed and launched in 2017 included the development of a CCFF. The CPEIR was a critical step for establishing a baseline of climate change related expenditures (both development and non-development) and to identify patterns. It looked at climate change expenditures of the province, also in relation to expenditures incurred by federal government, Azad Jammu and Kashmir (AJK) and Gilgit-Baltistan. Since a CPEIR is costly and time consuming, it is not practical to undertake every year. Therefore, a system for climate expenditure monitoring and tracking under the CCFF can generate more sustainable and reliable information for policy formulation.

The CCFF is the set of policies and processes that enables a systematic response to climate change by linking policy with budgeting, and ensuring transparent allocations and effective use of public resources. It provides a roadmap for integrating climate change in the PFM system by identifying entry points based on analysis of legal and institutional processes of existing systems. It also helps in creating a robust monitoring system for reporting the volume and effectiveness of climate change related expenditures. Having a CCFF is an effective way to mainstream climate change in the PFM cycle. The whole of government approach that underpins CCFF, engages all relevant stakeholders for mobilizing, managing and targeting climate finance. The following actions underscore the development of the CCFF:

- Definition of climate change related activities
- Costing of planned climate change response actions in the medium and long 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 the national budgeting process, and
- Ensuring accountability on the use of climate related budget and finances.

The CCFF promotes better alignment of relevant sectoral policies to combat climate change and an accountability system for ensuring effective use of resources. It provides space for supporting the institutionalisation of climate change sensitive policy responses through engagements with citizens through their representatives and media.

3. CLIMATE CHANGE FINANCING FRAMEWORK FOR KHYBER PAKHTUNKHWA

The CCFF presented here takes a systems perspective, following a PFM cycle covering strategic planning, budgeting, accounting and reporting, and audit processes. The CCFF implementation roadmap will follow the prioritization of the issue as decided by the Government. The CCFF is not a new parallel system but will augment the existing PFM system, providing a foundation for implementation of the climate change policy. The CCFF development methodology was informed by the CPEIR process (2015 and 2017), which highlighted areas where climate responses could be strengthened. These include:

- (i) assisting in 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.

The CCFF used the analysis of budget processes, institutions and policy to identify key entry points to ensure alignment of existing processes with overall policy objectives. The CCFF is presented here as a matrix with an analysis under each recommendation to facilitate understanding in the following manner:

Analysis

- (i) **Rationale:** Highlights the case for process development/change,
- (ii) **Baseline Assessment:** Existing procedures and processes, and
- (iii) **Constraining factors:** Identifies the risk or issues in the system that could limit CCFF efforts.

CCFF Road Map

- (i) This includes process recommendations based on the analysis and consultative process.



03

Recommendation	Analysis	CCFF Road Map/Action Plan
3.1 Provincial Climate Change Coordination Mechanism		
	<p>RATIONALE</p> <ol style="list-style-type: none"> The Constitution of Pakistan treats climate change as a provincial subject and the KP Government is developing a policy on this in consultation with relevant line departments.¹² The policy remains to be approved by the Chief Minister. A climate change policy will assist KP in making resource allocation decisions and in mainstreaming climate change in the development priorities and provide guidance and basis for climate related actions. Climate change is a cross cutting subject and requires a unified approach for managing the threats. It also requires a common agreement across the provincial departments, KP assembly and civil society on the importance of climate change and why it needs to be tackled. <p>ASSESSMENT OF EXISTING SITUATION</p> <ol style="list-style-type: none"> The province does not have an entity overseeing climate change. Some of the operational issues are taken up by the Environmental Protection Agency, and strategic issues by the P&DD and forest department. <p>CONSTRAINING FACTORS</p> <ol style="list-style-type: none"> KP government has been undertaking climate change responses through the environment department, which shows it has begun to attract some political attention. The Provincial Climate Policy developed in 2016 awaits ratification by the Provincial Assembly after which it will become effective. An implementation plan for the policy can be developed after it is ratified. One reason for delay in ratification is the on-going debate between Federal and Provincial Government on the need to have a separate provincial policy. Climate change, generally, does not attract wide political attention. Therefore, without a proper policy the relevant departments may not be interested in allocating resources for tackling climate change. 	<p>1. PROVINCIAL CLIMATE CHANGE POLICY</p> <p>Approval of the climate change policy can help in identifying priority areas for effectively combating climate change. CCFF can help in prioritization, efficient resource allocation, and in planning resource mobilization. It will also assist in effective resource management that is important for an effective response. The policy will provide guidance on climate change management to all sector strategies and action plans.</p> <p>2. ESTABLISHMENT OF AN APEX PROVINCIAL BODY/ COUNCIL</p> <p>An apex provincial body/council needs to be established to guide and steer the climate change agenda in the Provincial and National Climate Change policies. The proposed council needs to include members from both political and executive arms of the provincial Government and subject matter experts, including those from the private sector. The Chief Minister is best positioned to chair such a council that should include all secretaries of climate relevant line departments as members. The additional chief secretary of the P&DD should function as the secretary of the council and function as the policy lead on climate change response for KP, define the annual provincial agenda on climate change and ensure implementation of both the Federal and Provincial climate change policies. Such a body would also be capable for reviewing matters taken up at the federal level by the Ministry of Climate Change, and the newly established Climate Change Authority. It can also provide inputs to the provincial member representing KP in the Climate change Authority. The council can also be empowered to make decisions on resource allocation for climate change response and be responsible for setting performance targets and the benchmarks for provincial line departments. Further, the council can be entrusted the responsibility of reviewing the audited climate relevant financial statements.</p> <p>RESPONSIBILITY</p> <p>Final decision by the Government on Provincial Climate Change Policy should be made.</p> <p>FD and P&DD in consultation with the Environment Department should strive to establish the Provincial council.</p> <p>TIME FRAME</p> <p>Medium Term</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
3.2 Establishment of Climate Finance Unit		
	<p>RATIONALE</p> <ol style="list-style-type: none"> Climate change is a cross cutting theme and every provincial department will be engaged in either mitigation or adaptation activities to better manage the threats. Such a large-scale engagement will require dedicated coordination mechanism. All climate relevant activities carried out by the Provincial departments will require additional funds, and the financing needs will increase and affect both development, and the provincial budget. The Province will need to estimate the financing needs of every department and ensure that the required funds are mobilized. It is recommended that a dedicated Climate Finance Unit be established in either the Finance or P&DD Department¹³. This unit can play a key role in preparing climate relevant budgets, and by preparing climate relevant expenditure reports, can assist the policy makers in resource allocation decisions, policy formulation, and in monitoring and evaluating climate change related activities. <p>SITUATION ANALYSIS</p> <ol style="list-style-type: none"> Financial planning, performance coordination, and determination of financing needs are responsibilities of the FD. It plays a pivotal role in identifying resource requirements for each sector, budget formulation and execution. The MTBF is a tool for enhancing these functions, by linking policy to resource allocation and performance. P&DD is responsible for providing policy input for Provincial and sectoral development policies. It is responsible for policy and planning coordination, and to ensure a right balance between the sectoral plans and the national and provincial policies. <p>CONSTRAINING FACTORS</p> <ol style="list-style-type: none"> Tracking climate relevant expenditure and reporting requires climate finance related knowledge and skills. Absence of trained human resources in climate change finance required to be posted in CFU will pose a substantial challenge. The FD is responsible for generating resources and the line departments for determining their budgets in consultation with the FD. However, there is limited capacity on determining financing needs, particularly with reference to climate change related activities. Establishment of the financial reporting framework will pose another challenge as the linkage between the policies and the annual budget is weak. Strong linkages between the development plans, MTBF and annual budgets can enhance the quality of reporting and can enhance performance of the CFU. 	<p>1. ESTABLISHMENT OF CLIMATE FINANCE UNIT</p> <p>A dedicated climate Finance Unit needs to be established in the department of FD or in the SDU within the P&D to:</p> <ul style="list-style-type: none"> Identify the financing needs of the province for the adaptation and mitigation activities Identify the potential sources of financing Mobilize resources from identified sources, and Track expenditure tracking and prepare reports as required by the CCFF <p>One important task of the CFU will be to determine the financing needs for climate relevant activities of individual line departments and to identify the gap between the available funding and the requirement. The next important task would be to identify potential funding sources. Tracking climate relevant expenditure and preparing climate relevant financial reports would also come under its remit.</p> <p>RESPONSIBILITY</p> <p>The P&D and FD take the lead role in establishing the CFU.</p> <p>TIME FRAME</p> <p>Short Term</p>

Recommendation	Analysis	CCFP Road Map/Action Plan
3.3 Provincial Adaptation and Mitigation Plans		
	<p>RATIONALE</p> <ol style="list-style-type: none"> KP needs a strategic plan in order to effectively address the challenge posed by climate change. The plan can guide managers on areas of immediate attention and where the investment should flow. It can also identify priority investment areas and assist in embedding climate resilience in the decision-making processes. An important entry point for integrating climate finance in the provincial PFM system would be to incorporate climate change in the sector policies. <p>ASSESSMENT OF EXISTING SITUATION</p> <ol style="list-style-type: none"> KP development framework is defined by the Integrated Development Strategy 2014-18 and it includes climate change as a cross-cutting issue. However, it has yet to feature in policy debates. Provincial Policy on Energy and Power mentions green energy as one of the objectives of the department but other important sectors policies do not mention climate change as an important issue. These policies/strategies were developed at different times and remain to be harmonized. Ideally such plans/strategies require periodic updating to incorporate the emerging requirements. 	<p>1. PROVINCIAL ADAPTATION PLAN</p> <p>A provincial adaptation plan needs to be prepared to support implementation of both the NCCP and the provincial climate policy (when approved). Such a plan can provide strategic direction to provincial managers for addressing climate risks, promoting green growth, and for prioritizing sectoral interventions. The next step would be to prepare sector-specific strategies on climate change to provide guidance for climate sensitive budgeting. The CCFP provides a framework and can assist in aligning these plans to budget allocations.</p> <p>2. DAMAGE ASSESSMENT</p> <p>An effective climate change response necessitates a better understanding of exposure to climate risk and magnitude of related damages and losses.¹⁴ Therefore, a provincial adaptation plan should be guided by an assessment of damages and losses being faced and anticipated.</p> <p>KP's Provincial Disaster Management Authority is responsible for disaster risk reduction, developing weather simulation models, vulnerability studies, and damage assessments. It coordinates with other departments such as the National Disaster Management Authority (NDMA), Pakistan Space and Upper Atmosphere Research Commission (SUPARCO) and Pakistan Metrological Department (PMD). PDMA is not collecting data on damages specifically caused by climate change but does collect data on damages caused by natural disasters such as rains and earthquakes. It has so far produced two reports¹⁵, both covering the period from March to October 2016:</p> <ul style="list-style-type: none"> Damages and Human Losses due to Earthquake Damages and Human Losses due to Rain <p>There have been other sporadic efforts to assess climate-linked damages, for example, studies by Pakistan Institute of Development Economics (PIDE) on climate caused damage to agriculture¹⁶. A similar study on risks to water resulting from of climate change and other factors was undertaken by UNDP. However, no comprehensive, cross-sectoral studies have been done. Therefore, the proposed assessment will need to assess damage for the next 5 years, develop a framework for coordination, information sharing and distribution of responsibilities (for damages assessment) among related institutions.</p> <p>The majority of existing models and approaches on adaptation planning are complex and require technical skills and in-depth knowledge. This is an area for capacity development. While this capacity should basically rest in the Government, it also needs to be extended to national universities, CSOs and research entities to ensure that there is knowledge and expertise in country for assessing and countering the risks and damages related to climate change.</p>

Recommendation	Analysis	CCFP Road Map/Action Plan
	<p>CONSTRAINING FACTORS</p> <ol style="list-style-type: none"> As a cross-cutting issue, climate change requires harmonization and coordination among all sectors. This will only be possible when all sectoral and departmental priorities are aligned. Lack of good quality information and data on the monetary value of climate change impacts has constrained evidenced-based decision-making. 	<p>Development of the adaptation plan would need to account for existing institutions and their capacities, and should therefore be preceded by a situation analysis, based on following five questions:</p> <ol style="list-style-type: none"> What are 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? What methods and tools are available for risk assessment, including their strengths and weaknesses, and also the capacities to address social and environmental impacts? What is the capacity needs for applying risk assessment methods on the ground, including that needed for facilitating application in developing countries? 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 to ensure that they drive decision-making? How can the assessment be linked to the PFM system, financing plans and the sector strategies/ actions plans? <p>3. SECTOR ACTION PLANS</p> <p>Sector plans to combat the adverse sectoral impacts will flow from the provincial adaptation and mitigation plans. These plans can provide details of the actions required to be taken by each sector, the priority actions, and the cost of the response of each sector. Prioritization based on sector action plans can be used as a basis for budget allocation. These priorities can assist the FD and P&DD in developing indicative budget ceilings for line departments in the Budget Strategy Paper. The MTBF developed in line with the sector plans and climate change outputs/ targets should be defined, wherever possible, to facilitate performance measurement. Political representatives need to be consulted to ensure their priorities are incorporated and also need to include gender and poverty dimensions, and prioritise actions involving women as both beneficiaries and those who are affected by climate impacts.</p> <p>RESPONSIBILITY</p> <p>Line departments need to revise sector policies in consultation with the climate change cell in the Forest, Environment and Wildlife Department.</p> <p>TIME FRAME</p> <ol style="list-style-type: none"> Medium to Long Term

14. Loss and damage due to climate change European Capacity Building Initiative
 15. www.pdma.gov.pk/content/damages losses#
 16. The Impact of Climate Change on Major Agriculture Crops evidence from Punjab Pakistan

Recommendation	Analysis	CCFF Road Map/Action Plan
3.4 Medium Term Budgetary Framework		
	<p>RATIONALE</p> <p>1. The MTBF is an important tool for ensuring that resources are allocated according to policy choices defined in the sectoral policies and NCP/PCP. Therefore, in order to link climate policies with budget it is critical to introduce the climate change markers in the MTBF.</p> <p>ASSESSMENT OF EXISTING SITUATION</p> <p>2. The FD prepares three-year projections of receipts and expenditure under the MTBF and issues budget ceilings for the forthcoming budget to line departments. FD along with the P&DD prepare budget strategy paper that provides the details about provincial Government's policies and priorities.</p>	<p>1. CLIMATE CHANGE INTEGRATION IN MTBF</p> <p>FD will support inclusion of climate change in the Medium Term Budgetary Framework (MTBF) exercise¹⁹; it could either be included either as an additional chapter or a distinct section in the MTBF of climate change relevant line departments (refer to annex-2). The CCFF will be based on inputs from all climate relevant sectors about their climate resilient activities, and formulate a financial plan consolidating sector-wide resource requirements, and integrating the source of funding.²⁰ This approach can help to correlate demand and supply of the climate finance with transparent allocation of funding to sectors and will enable sector managers to develop MTBF in line with the CCFF.</p> <p>In the first phase, climate change will be integrated in the MTBF and this will require defining climate related outputs for climate responsive budgeting. This can be followed up with detailed financing plans.</p> <p>2. FINANCING PLAN</p> <p>There will be need for a financing plan is required for providing detailed guidelines for smooth implementation of the climate change response. Effective financing finance planning in is important for countries like Pakistan that have many pressing needs and limited where resources are limited while there are many pressing needs. Financing plans include following five elements:</p> <ol style="list-style-type: none"> Estimate of total cost of activities of individual sector department/sector that is required to achieve objectives in the short-, medium- and long-term. Costing, to the extent possible of the strategy, to counter the threats and risks. The total available resources (identified) – this should include funds from both domestic and international sources. The gap between the total funds required and available resources. This will guide prioritisation and allocation of resources. Development and presentation of few financing scenarios can be useful in identifying the budget priorities. Sources to fill the gap between available resources against needs.

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>CONSTRAINING FACTORS</p> <p>3. Budget is prepared on an incremental basis without strategy²¹. Despite the introduction of reforms such as Medium Term Development Framework MTDF and Output-based Budgets (OBBs) in the recent past, and preparation of BSP, much of the allocations continues to be more or less incremental, and lacks clear focus. Resource allocation and use are not regulated by political and operational objectives. In the absence of a strategy, allocations are made on notionally determined limits for increments over the benchmarks (usually the previous years' estimates). There is no connection between medium term planning and the budgeting process. A fully integrated MTBF output based budget has not been implemented as yet because of the lack of capacity of the staff responsible for preparing output-based budget.</p>	<p>Preparation of a costed provincial adaptation and mitigation plan can serve as the first step for preparing financing plans. Sector plans can be developed based on the provincial adaptation and mitigation plan, informed by detailed loss and damage assessments conducted by each department for the specific sector. These plans also need to include detailed sector-wise actions required to combat the challenge posed by climate change in the short-, medium-and long-terms. Such categorization can assist in identifying projects that need to be undertaken immediately, and can assist in identifying capital-intensive projects. The activities should include soft actions, such as the capacity building of the staff on climate change finance, and costs required for carrying out the studies to assess the impact of climate change on the poor and vulnerable. Each sector needs prepare detailed costs of each action plan by using activity based costing methodology or by using zero-based costing methodology. These detailed cost estimates can allow comparison of the total financing needs for the sector expenditures against and the potential loss and damages if that is not done.</p> <p>The departments will be required to send these action plans along with the detailed cost estimates to the Climate Change Finance Unit for vetting. After vetting, the Climate Finance Unit will send these plans to the provincial FD that will determine the possible financing against the total requirements by collating the detailed cost estimates of the action plans of individual departments.</p> <p>After estimating the total provincial need, FD will assess the total resources available to finance the proposed actions in the short, medium and long-term. It will also assess the gap between the total available resources and that required, and identifies the potential sources that could assist in financing 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 funds for adaptation and mitigation projects. The World Bank Group also provides finance for climate change – currently about 20% of total funding is climate related and that could increase to 28% in 2020.²² Other multilateral banks such as the ADB, and bilateral banks such as KfW and AFDB also finance projects on climate change. The KP Government can also engage the private sector in mobilizing resources, particularly for mitigation in the industrial sector.</p> <p>The plans should also consider tapping the capital markets for financing. Recent studies estimate that about 74% of the total climate finance was provided by the private sector²³. The core participants in capital markets are banks, insurance companies, pension funds, fund managers, mutual funds and endowment funds. The finance sector provides a large pool of capital that could be steered towards low carbon, climate resilient activities.</p>

19. Examples from Bangladesh and Indonesia include: (i) Bangladesh Climate Change Fiscal Framework, (ii) Indonesia National Action Plan for Climate Change Adaptation, and (iii) Indonesia Sectoral Roadmap for Climate Change Adaptation

20. Since the Ministry of Planning Development and Reform has a leading role for the development budget, its involvement would be key for the development of CCFF.

21. Public Expenditure Review 2012 by World Bank

22. <http://www.worldbank.org/en/topic/climatefinance>.

23. Financial instruments and mechanisms for climate change programs in Latin America and the Caribbean

Recommendation	Analysis	CCFF Road Map/Action Plan
		<p>1. BUDGET CALL CIRCULAR</p> <p>The BCC will require classification of the projects as climate relevant and non-climate relevant. The circular will also include formats for preparing climate relevant budget estimates.</p> <p>The KP Finance Department issues a budget circular in November every year with detailed guidelines and budget forms for preparing budget based on the incremental budgets. A separate set of guidelines and budget forms for preparing OBB is also enclosed with this circular. This section of the budget call circular can be amended to reflect the climate sensitive outputs, outcomes and KPIs. A separate set of guidelines for preparing climate sensitive budgets needs to be attached to the BCC. It is standard practice for the FD to issue the DCCBCC with detailed guidelines and therefore inclusion of guidelines for classification of projects will not be a challenge.</p> <p>2. ESTABLISHMENT OF CLIMATE CHANGE NODE IN EACH LINE DEPARTMENT</p> <p>Each Department will need to work with the Finance Department (FD), Climate Finance Unit to incorporate a climate lens in their MTBFs. Each department would need to designate one or two staff members to function as the focal points with these actors and FD, MOCC and the Climate Finance Cell for incorporating the climate budget in the MTBF.</p> <p>3. IDENTIFICATION OF PILOT DEPARTMENT</p> <p>While the systemic and process changes will be applicable for all climate change relevant line departments, a department will be identified for piloting the CCFF and will be provided capacity building support in integrating climate change in the MTBF and for ensuring climate change related outputs. Later this will have to be scaled up to all the climate relevant line departments.</p> <p>RESPONSIBILITY</p> <p>FD for amending BCC for incorporating a climate focus. Line Departments will be responsible ; for establishing and staffing Climate Nodes.</p> <p>TIME FRAME</p> <p>Short term</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>3.5 Project Preparation and Selection</p> <p>RATIONALE</p> <ol style="list-style-type: none"> Climate yardstick should be applied when individual projects are designed and when they are being evaluated. During preparation each relevant department should factor in benefits as well as the negative results that projects will have with respect to climate change. International literature suggests the need to have innate climate risk reduction measures (adaptation and mitigation) within project design to safeguard public investments.²⁴ There is also need for decision makers to use criteria based approach for project screening at different decision points. <p>ASSESSMENT OF EXISTING SITUATION</p> <ol style="list-style-type: none"> P&DD prepares the Annual Development Plan (ADP) that lists all provincial development projects/programmes with allocations made for each in a particular financial year. P&DD also issues guidelines for formulating the ADP that is issued formulation of the annual development plan along with the BCC issued by the FD. To be part of ADP, projects require approval by the sanctioning agency of the Government after due scrutiny of various technical, financial and organizational aspects. Planning Commission-1 (PC-1) is the document used to prepare project conceptual design. No project money can be spent unless the Commission has approved the PC-1. The Planning Commission has issued detail guidelines and formats of PC-1 documents. The key elements of PC-1 include are project objective, spatial scope, description, beneficiaries, and resource requirement, financing plan, sources of funding, implementation schedule and financial and economic analysis.²⁵ There is no specific requirement in relation to climate change in PC-1. 	<p>1. CLASSIFICATION OF PROJECTS</p> <p>All new projects for inclusion in the ADP will need to be either classified as climate relevant or non-climate relevant at the design stage. The percentage of relevance will also be a consideration at this stage. The person responsible for preparing the project documents will also classify projects.</p> <p>Projects will be designed using the PCI/PC II pro forma currently being used. However, some changes will be made in the PC I/ PC II pro forma to reflect the guidance for classifying projects²⁶. This will also require amendments in the Planning Manual of KP.</p> <p>Projects need to be classified as 100% relevant or partially relevant at the design stage. Detailed instructions in the guidelines issued in the BCC will guide classification. Detailed instructions on classification will also be included in the Planning Manual. Projects will be marked as climate relevant by applying climate change relevance score (CC percentage). The formula will provide an assessment of the proportion of the total benefits from programmes associated with adaptation and mitigation²⁷. The CC percentage will measure the performance of programme because of climate change or the proportion of total benefits associated with adaptation and mitigation projects. The CC percentage will vary between 0 to 30% but it can be 100% as well. It will be negative for maladaptation projects.</p> <p>DEDICATED ADAPTATION PROJECTS</p> <p>A project will be classified as an adaptation project if it ²⁸</p> <ul style="list-style-type: none"> Is designed with specific intent to demonstrate that it or its elements reduce the current or future vulnerabilities to climate change Sets out the context of climate vulnerability specific to the location based on the current available data (climate data, exposure and sensitivity) considering the possible impacts of climate change, and Can be linked to the context of climate vulnerability, for example, social economic conditions and geographical locations. <p>Adaptation finance tracking requires activities to be disaggregated from non-adaptation activities as far as reasonably possible. If project activities cannot be separated from non-adaptation activities with available data, a more qualitative or experience-based assessment can be used to identify the project proportion that covers climate change adaptation activities, or its relevance to climate change. In conformity with the prudence principle of finance, climate finance is under reported rather than over reported.</p>

24. ICCAS Briefing Note-How safe is Grenada's budget 2016? The 2nd Climate Change Public Expenditure Review: Results + Methodology

25. Manual for development Projects 2010, Ministry of Planning Development and Reforms

26. The change in PC1 is to be made by the federal government- this change is already under consideration. However, the KP government will need to make changes in the Planning Manual.

27. Key Lessons for developing climate change Financing Frameworks (Oxford Policy Management)

28. Common Principles for Climate Change Finance Tracking AFDB

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>CONSTRAINING FACTORS</p> <p>5. Lack of criteria for classifying projects as climate relevant or non-climate relevant. Another important issue is the lack of adequate capacity in the KP Government for climate screening of projects.</p> <p>6. Political aspirations generally ad the ADP preparation. Absence of evaluation criteria that are climate sensitive has made it difficult for decision makers to prioritize climate relevant projects.</p>	<p>MITIGATION</p> <p>A project will be classified as a mitigation project if it involves efforts to reduce or limit the emission of green house gases (GHG) or enhance GHG sequestration.</p> <p>Determining whether or not a project leads to a net reduction in GHG emissions requires sophisticated analysis (including boundary setting application of emission factors and examination of the project externalities that may lead to an increase in the emission elsewhere). However, a project will be classified as a mitigation project if</p> <ul style="list-style-type: none"> It may not reduce emission or enhance sequestration but have the potential to lead to future mitigation activities e.g. research and development and planning and feasibility studies, and pilot projects as the supporting activities Determination of the relevance of the project to climate change: Mitigation finance tracking requires activities to be disaggregated from the non-mitigation activities as far as reasonably possible. If the project activities cannot be separated from non-adaptation activities from available data, a more qualitative or experience-based assessment can be used to identify the proportion of the project that covers climate change adaptation activities or its relevance to climate change. In consistence with the prudence principle of finance, climate finance is under reported rather than over reported <p>CLIMATE RELEVANT PROJECTS</p> <p>All those projects that cannot be classified as dedicated or mitigation projects but will provide climate benefits will be classified as climate relevant. The project relevance will be determined by conducting cost benefit analysis or using other suitable methods.</p> <p>WHO WILL BE RESPONSIBLE</p> <p>The Drawing and Disbursing Officer who is responsible for preparation of the project document is also responsible for classifying the project as dedicated for adaptation or mitigation activities, and for determining the amount of adaptation and mitigation finance associated with the project.</p> <p>2. P&DD WILL SHARE CLIMATE CHANGE EVALUATION FRAMEWORK WITH ALL THE DEPARTMENTS</p> <p>P&DD will establish and issue a framework for line departments for determining climate relevance of the project being designed and evaluated. The framework will provide basic guidance for identifying climate relevant projects, and include ways of determining the extent of climate relevance, opportunity cost of alternate options and risk of loss or reduction in project outcomes due to climate change.</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
		<p>3. COMPILATION AND APPROVAL OF BUDGET</p> <p>The projects classified as climate-relevant and non-climate relevant will be submitted to the P&DD that will compile the ADP for the next budget period. The ADP will separately identify the climate relevant budget for the next period.</p> <p>The FD will compile the budget classified as climate-relevant and non-climate relevant for the next period. The ADP and budget will be compiled and presented in provincial assembly that will review the budget for approval.</p> <p>RESPONSIBILITY</p> <p>P&DD will be responsible for preparing and issuing the criteria for classification of projects as climate relevant. Amendments in Planning Commission Proforma will be the responsibility of the P&DD²⁹.</p> <p>UNDP will provide technical support in revising planning templates to include climate change.</p> <p>TIME FRAME</p> <p>Short to medium term</p>

3.6 Monitoring and Reporting System

Recommendation	Analysis	CCFF Road Map/Action Plan															
	<p>RATIONALE</p> <p>Monitoring and evaluation of priority programmes under the KP climate policy can ensure that the intended benefits are attained and beneficiaries are reached. An effective monitoring and evaluation system will provide the assurance that³⁰</p> <ul style="list-style-type: none"> The identified climate relevant expenditures are spent as intended, and Administrative gains (lessons) are derived through the review of budgetary performance. <p>This is an area that requires detailed guidelines to assist departments such as P&DD. This framework is an important tool for measuring the value of the climate relevant interventions and can ensure results, cost effectiveness and assist in measuring impact level outcomes.</p> <p>The mechanism of recording and reporting on the climate change budget and expenditure can reveal the types of climate related activities undertaken and provide feedback to policy. For this, a climate change coding system will be required to track spending within the budget to assist policy makers in monitoring progress, matching outputs with cost, identifying financing gaps, and for effectively allocating resources. Thus, a budget and expenditure tracking system anchored in the GFMS is required to institutionalize climate change financial reporting at all levels of government.</p>	<p>1. INTRODUCING A NEW MAPPING STRUCTURE IN THE GOVERNMENT'S IT BUDGETING AND ACCOUNTING SYSTEM³¹</p> <p>Under this system a new mapping structure will be introduced in the FMIS to capture information pertaining to climate finance at each tier of government. The proposed structure will provide information on</p> <ul style="list-style-type: none"> The nature of the activity financed by the Government i.e. mitigation or adaptation activity The source of fund used for the activity i.e. domestic or from the funds from international donors, and The percentage relevance of the activity in terms of high, medium and low. The proposed structure is presented in the table below³². <table border="1"> <thead> <tr> <th>Year</th> <th>Main Element</th> <th>Sub-Main Element</th> <th>Funding Element</th> <th>% age Contribution</th> </tr> </thead> <tbody> <tr> <td></td> <td>Mitigation</td> <td>Emissions</td> <td>Local Funding Foreign Funding</td> <td>Low, Medium and High level</td> </tr> <tr> <td></td> <td>Adaptation</td> <td>Energy Waste Management Agriculture and Livestock Transport Land use changes Industry and manufacturing</td> <td>Local Funding Foreign Funding</td> <td>Low, Medium and High level</td> </tr> </tbody> </table>	Year	Main Element	Sub-Main Element	Funding Element	% age Contribution		Mitigation	Emissions	Local Funding Foreign Funding	Low, Medium and High level		Adaptation	Energy Waste Management Agriculture and Livestock Transport Land use changes Industry and manufacturing	Local Funding Foreign Funding	Low, Medium and High level
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29. Federal government is competent to make a change in the PC1. A similar recommendation has been made in the federal CCFF. KP P&D will be responsible for applying the change and making changes in the Planning Manual.

30. National Monitoring Approaches for Climate Change Public Finance

31. Proposed methodology to Track Climate Change Finance Nohman Ishtiaq

32. This is a tentative structure. The final design shall be finalized by FD and Environment Department in consultation with the CGA office.

Recommendation	Analysis	CCFP Road Map/Action Plan
	<p>ASSESSMENT OF EXISTING SITUATION</p> <ol style="list-style-type: none"> The Accountant General (AG), through its associated offices across the province pre-audits and makes payments, records transactions and prepares financial statements. Accounting and financial reports of KP are prepared on a fully automated system called the New Accounting Model. The model 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 spending month. It is used by line and planning departments but lacks the final coding. It also lacks information needed to bring the system in full compliance with GFS 2001. The coverage of FMIS and applicability of New Accounting Model (NAM) chart of account is limited to centralized accounting entities (line departments) and does not include autonomous government institutions³³. Drawing and Disbursing Officers (DDO) execute the budget made available to them through releases in PIFRA SAP R/3 system. Fiscal reports are generated from FMIS every month giving detailed information of budget and actual spending on the same classification commonly known as civil accounts. AG prepares annual Financial Statements of provincial government with IPSAS cash basis prescribed format and a statement of appropriation of grants by object for the year. P&DD is entrusted with the responsibility of monitoring and evaluation of development projects. The department performs physical and financial monitoring of projects but will need technical assistance for measuring the results of the climate change interventions in the province. Currently neither the FMIS nor the P&DD monitoring take into account the climate change angle. 	<p>2. USING PROGRAMME SUB-ELEMENT OF FUNCTION ELEMENT OF THE CHART OF ACCOUNTS.</p> <p>Once the activities are classified as climate relevant and non-climate relevant, the expenditure will be recorded and reported using the programme sub-element of the function element of the Chart of Accounts. Three numeric characters will identify the programme.</p> <p>100 will identify climate relevant mitigation activities 200 will identify climate relevant adaptation activities 300 will identify climate relevant adaptation/mitigation activities 400 will identify non-climate relevant activities.</p> <p>The expenditure will be reported and recorded according to the flow chart presented below. The Budget will be presented as under</p> <p>04 Major Function Economic Affairs 042 Minor Function Agriculture, Food, Irrigation Forestry and Fisheries 0421 Detailed Function Agriculture 042103 Agriculture Research and Extension 042103300 Adaptation/Mitigation Activities 24.84 042103400 Non-climate Relevant 16.56</p> <p>3. ESTABLISH ROLES AND RESPONSIBILITY MATRIX FROM REPORT GENERATION, ANALYSIS TO THE FINAL USER OF REPORT</p> <p>Budget and expenditure tagging will be done in FMIS by CGA. The reports will be generated from FMIS as each line department will have access to it but consolidated climate change expenditure reports will have to be concentrated in the proposed climate change finance unit (CFU). The CFU should also have the ability to analyze this data. The consolidated data will be made available to the FD and Environment Department.</p> <p>4. INFORMATION SHARING PROTOCOL NEEDS TO BE DEVELOPED WITH AUTONOMOUS INSTITUTIONS</p> <p>Government executes development projects through autonomous bodies for which transaction level data is not available in FMIS. To ensure that this information is available, a reporting template will be designed, consistent with the FMIS reporting template, using which autonomous bodies will share climate-relevant budget and expenditure information with the relevant department. Each line department will consolidate the information and submit the consolidated reports to the FD.</p>



33. Examples are KP Oil and Gas Authority, PDMA, etc.

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>CONSTRAINING FACTORS</p> <p>5. The key challenge is to establish a financial reporting framework for tracking budget spending against climate change policy objectives given that a linkage remains to be established between NCCP/ PCP, MTBF and annual budgets.</p> <p>6. The capacity for monitoring and evaluation will have to be simultaneously developed in the finance department, P&DD and M&E wings of other line departments.</p>	<p>5. DESIGN STANDARD REPORTS FOR CLIMATE CHANGE REPORTING</p> <p>The following reports can be generated from the climate change coding and tracking system established in the FMIS:</p> <ul style="list-style-type: none"> 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. (See: Annex for structure) <p>FINANCIAL REPORTING</p> <p>Financial reports are the means of providing accurate, relevant and timely information about the reporting entity. The information in these reports can assist the users in making informed decisions. Financial information can assist the user in resource allocation and also in managing and controlling resources. The users of the financial information provided in these reports include:</p> <ul style="list-style-type: none"> • The Provincial Assembly • The Minister of Forest, Environment and Wildlife Department • Minister of line departments • The Executive arms of the Government <ul style="list-style-type: none"> o Finance Department o Relevant line departments. • General audience, media, think tanks, etc. <p>The provincial assembly needs summary information on the implementation of policy decisions. The information required by it is a summary of actual expenditure against the budget for each function for the financial year concluded. The information should present a picture of the overall climate relevant expenditure across the province compared with the budget allocation for the year. (Annex II)</p> <p>Minister of Forest, Environment and Wildlife Department will require information on the implementation of the climate change policy by sectors and departments. The information provided can assist in gauging the performance of different sectors against the climate change policy and overall climate relevant expenditure incurred on mitigation and adaptation. (Annex III)</p> <p>Ministers of line departments will require information about climate relevant expenditure incurred against the budget. (Annex IV)</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
		<p>The FD will require information about the climate relevant expenditure incurred against the budget allocations for making decisions related to:</p> <ul style="list-style-type: none"> • Identifying resource requirement for climate relevant interventions • Estimating resource availability for financing the interventions • Identifying new resources for financing planned interventions, and • Assessing effective fund use by departments. <p>FD will require detailed information about the climate relevant expenditure by department, under each head of the budget to make the above decisions.</p> <p>Similarly, the proposed Climate Change Finance Unit/ Cell will require detailed information for monitoring progress against the budgetary allocation to ensure that the funds have been used for the intended purposes. The Unit would also require information for monitoring the physical progress of the climate relevant projects being implemented by various departments.</p> <p>The secretaries of the relevant line departments will require detailed information for</p> <ul style="list-style-type: none"> • Monitoring progress of the projects • Comparing actual spending against budget • Ensuring policy objectives have been achieved, and • Planning climate relevant projects. <p>The report presented to the Secretary of each line department will initially be summary report comparing actual expenditure against the budgets. These expenditure reports will provide information on the performance of the department against planned goals by providing explaining the variance between actual and budgeted expenditure. The objective of these reports would be to assess the performance of the relevant line department against what was planned, and identify variances. Any abnormal variance can be investigated and reported. Such investigation can assist in identifying the cause of variance i.e. whether or not there were flaws in implementation and if it was identified and rectified, or the plan of action was faulty and was being rectified. (See Annex VII)</p> <p>All these reports will be prepared using information generated from the GFMS that is capable of producing multiple reports for various stakeholders. The assumptions and cost allocation principles used in the CPEIR for determining the climate relevance budgets can be applied on the generated information to prepare the climate relevant reports according to the need of various users. AG would in addition to the annual financial statements prepare these financial reports. The climate relevant information will form part of the financial statements and be generated by personnel in the Climate Change Cell who will be trained in extracting climate relevant information from the GFMS data.</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
		<p>RESPONSIBILITY</p> <p>Controller General of Accounts (CGA) will be responsible for customizing the Chart of Accounts (COA) according to the requirements of the FD and line departments. The AG will work closely with CGA for customizing the COA.</p> <p>CFU established in P&D/FD will be responsible for generating expenditure reports and analysis.</p> <p>FD will have the key role in developing and implementation of the CCFF. UNDP will provide technical assistance in designing and implementing the climate change financial reporting framework, and in the design of the coding system and its initial implementation.</p> <p>TIME FRAME</p> <p>Short to Medium Term</p>

3.7. Accountability and Monitoring

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>RATIONALE</p> <p>1. Audit is critical to the accountability process. Besides, decision makers also require professional feedback on the achievement of desired results in order to develop new, or revise existing policies. Supreme Audit Institutions (SAI)³⁴ plays a key role in helping governments improve performance and management. Thus, SAIs should carry out audits of the Government's climate change spending and report that to the legislature.</p> <p>ASSESSMENT OF EXISTING SITUATION</p> <p>2. The financial statements of the federation and provinces are subject to audit by the Auditor General of Pakistan in accordance with the 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 such observations considered necessary for audit. Audit is conducted adhering to international standards issued by INTOSAI. The audited financial statements along with audit reports are laid before the Public Accounts Committee (PAC) of the provincial assembly for legislative scrutiny within six months from the end of the financial year. The PAC examines accounts and reports of the AGP and makes observations and recommendations to the provincial assembly.</p>	<p>1. FINANCIAL AUDIT BY AUDITOR GENERAL OF PAKISTAN</p> <p>The financial reports generated through the GFMS will be audited by the Auditor General of Pakistan and presented to the PAC for review and for deciding the handling of outstanding settlements. The focus of the audit at present is the financial audit but with amendments in the COA, climate relevant reports will be generated and the AGP will be in a position to express provide opinions on these reports.</p> <p>2. ROLE OF PARLIAMENT IN ACCOUNTABILITY</p> <p>Oversight of the executive is the main responsibility of the Provincial Assembly. The Assembly is responsible for holding the executive of the province to account. Its participation in the budget making process ensures that public demands are articulated in the allocations. At present the provincial development budget attracts the focus of the assembly members. Similar participation on climate-related budgeting can ensure that the budget allocations are made for implementing the Climate Change Policy.</p> <p>The Provincial Assembly's oversight includes the following functions:</p> <ul style="list-style-type: none"> • Ensuring appropriate implementation of policies approved by the Provincial Assembly • Holding the executive branch of the Government accountable over the use of taxpayer money, and • Improving the transparency of Government operations and thereby enhancing the public trust. <p>The assembly's oversight responsibility is undertaken through the PAC that oversees the use of the public funds and resources by the Government officials.</p> <p>Once the CCFF is implemented, expenditures and revenues of all the climate change related activities will reflect in the financial reports and will be subject to audit and hence will be reviewed by the provincial PAC. Further, the standing committee of the Provincial Assembly on the Environment Department needs to be strengthened to enable it to perform its oversight function effectively.</p>

Recommendation	Analysis	CCFF Road Map/Action Plan
	<p>3. Audit quality assurance and control arrangements have been strengthened by implementing the Quality Management Framework (QMF). A training plan has been prepared and is being implemented to address issues and weaknesses identified during quality reviews.</p> <p>CONSTRAINING FACTORS</p> <p>4. Lack of capacity of the office of Auditor General for conducting audit of climate sensitive financial statements</p>	<p>3. A Provincial Assembly climate caucus will be constituted for monitoring climate change related activities and for ensuring that climate-related projects are planned and included in the budget.</p> <p>4. CIVIL SOCIETY AND CCFF</p> <p>Civil Society Organizations (CSOs) can play various roles throughout the budget cycle. They can provide inputs in the budget formulation process by representing citizen voices and concerns; they also have an important role in holding the Government accountable for the use of public money. CSOs can support and complement the efforts of Government in identifying priorities, and in resource allocation by providing information on public needs and demands.</p> <p>Many CSOs with research mandates have specialised knowledge on certain topics, and can be an important for filling the information gaps, and for supporting increased evidence-based policymaking. For instance, such institutions can undertake research and analysis of climate related investments to assess the extent to which they have benefitted the poor and provide feedback during budget making to facilitate more effective targeting of vulnerable groups.</p> <p>The role of CSOs in the CCFF would be to supplement Government efforts in better resource allocation by providing information on the public needs and priorities. They can represent the needs of citizens and interest groups to facilitate the prioritisation of investment decisions. They can also examine expenditures incurred in adaptation and mitigation activities, and assess them for effectiveness and efficiency. The Government can use this information to improve decision-making. Therefore, capacity building of CSOs will also be addressed as part of CCFF implementation.</p> <p>The media plays an important role in holding government to account and in ensuring transparency. Media can represent the interest of citizens and also serve as a civic platform for debates on climate-sensitive development that is needed for bringing neglected issue to the attention of policy makers.</p>

4. CLIMATE CHANGE FINANCING FRAMEWORK ROADMAP

Implementation of the CCFF requires full ownership by the KP Government and a strategy that takes into account the local context, capacity, and institutional arrangements currently in place. In order to ensure that different agencies are informed, the FD led a workshop for developing the CCFF roadmap. The workshop had two objectives: sharing proposed entry points for CCFF main streaming, and garnering Government wide consensus over actions and role assignments for implementation. The CCFF was presented at the workshop with proposed entry points for its integration in the country PFM system.

4.1 Action Plan for CCFF Implementation

The CCFF reform agenda requires a thorough understanding of the framework, and the new functions and roles that would 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 recommendations of the consultative workshop. There also are elements in CCFF, which would require piloting to validate methodology and implementation approach. The broad contours of the CCFF implementation roadmap, is are presented below:

4.1.1 Short Term

Activity	Responsible Agency	Timeline	Remarks
Finalize the proposed CCFF	FD, P & DD	30 June 2018	
Share the finalized coding structure with the line departments	FD, Provincial AG	30 July 2018	Once the coding structure has been developed by CGA it will be shared with all the relevant line departments.
Establishment of Climate Change unit in P&DD/ FD	FD, P&DD	30 September 2018	The structure of the unit/ cell will need a tripartite dialogue between FD, P&D and the Environment Department. The establishment of a unit does not necessarily mean hiring of new personnel; existing human resources could be assigned the specific task of overseeing the integration of climate change processes in the PFM. UNDP can facilitate this discussion.
Coding and tracking system with GFMS in place.	Finance Dept., CGA, AG, P&D	31 September 2018	The design for Federal Government has been developed and configured by CSAs. It can be replicated with minor modifications. UNDP can provide assistance in this.
Designate a focal person in each relevant department to steer the climate finance integration process	FD, P& DD and relevant line departments	31 August 2018	The designated persons will be from the planning and budgeting sections in the departments.
Update the budget preparation instructions to prepare climate responsive budgets	FD, P& DD, Environment Department	31 December 2018	UNDP to provide support.
Amendments in the BCC forms to reflect changes in the coding structure.	FD	30 September 2018	It has been done at the federal level with UNDP assistance. Punjab and Sindh have also included climate change in the BCC. This can inform inclusion in the KP BCC.
Establishment of Climate Change Council	FD, Climate Change Cell in the Environment Department	31 December 2019	This will require ownership and decision at the senior political level.
Identification of pilot department for climate change integration	Environment Department and FD	30 July 2018	It should be ensured that the department has substantive climate change component in its functions.
Capacity development of planning and budget officers of the pilot department to comply with the new guidelines in the BCC, as well as on making project development and appraisal climate change sensitive.	FD, P&DD and relevant line departments	31 December 2018	

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4.1.2 Long Term

Activity	Responsible Agency	Timeline	Remarks
Review and/or revise Pro forma (PC-1, PC-II, PC-III & P-IV), Screening Check List and Project Development Manual guidelines to incorporate climate change risk and response measures, and climate finance to align to overall CCFF parameters.	P&DD, EPA	31 December 2018	The Ministry of Climate Change has made a formal proposal to the Ministry of Planning. Since PC1 templates are revised by the Federal Government and adopted by the provinces, the changes will be included at the provincial level after a decision at the federal level.
Outputs, outcomes and performance indicators (PIs) should be amended to reflect climate change responses. The selected pilot departments will use these that will also be used to measure performance. FD to facilitate with other departments.	FD, relevant pilot line department.	28 February 2019	This will require sensitisation sessions and capacity building of the line department. UNDP can provide assistance.
Amend the Rules of Business to ensure that implementation of national and provincial climate change policy objectives become a function of the line departments.	Environment Department, Administration Department and with relevant line departments	31 December 2018	A needs assessment of the changes required can be supported by development partners/ UNDP.
Provincial adaptation and mitigation plans will be developed to incorporate a climate lens in the planning process to ensure that the climate relevant projects are prioritized in line with the objectives of both the NCCP and draft climate change policy.	Relevant line departments	31 December 2019	This is a long-term but important activity. This will, however, require substantive external technical support.
Expenditure reports tracking actual expenditures against policies	FD, line departments, Climate Change Finance Unit/Cell	30 June 2019	Generating these financial reports require capacity building, and will become part of the reporting once the required capacity is built.
Preparation of climate relevant financial statements.	FD, AG	30 June 2019	These reports can be initially developed by the Climate Finance Unit with the support of UNDP.
Performance Audit of the climate relevant budgets	AGP	30 June 2019	
Variance analysis budget vs. actual expenditure climate relevant	FD, Climate Finance Unit/ Cell	30 June 2019	This analysis can be initially done by the Climate Finance Unit with the support of UNDP.
Involvement of CSOs in climate relevant budget	FD, Climate Change Finance Cell/ Unit and the Environment Department	30 July 2018	Collaborative research for two pilot districts looking at the linkages between Multi dimensional poverty and climate change completed. Further scope for studies and engagement of CSOs exists.
Revise sector policies, strategies and action plans to mainstream and align with provincial climate policy and provincial adaptation and mitigation plans.	Line Departments, Environment Department, EPA	30 December 2019	The engagement and dialogue with line departments should start immediately. However, the revision will require a longer timeframe.

ANNEX I: Government and Institutional Set up in Pakistan

The 1973 Constitution (as amended) of Pakistan establishes the state as a federal parliamentary republic comprising of four provinces, Islamabad Capital territory and FATA (Federally Administrative Tribal Areas). The Constitution also provides for establishing administratively and financial autonomous local government in each province. Each unit has its own government and enjoys administrative and financial autonomy. The functions of each tier of government are clearly spelt out in the Constitution. The 18th amendment provided considerable financial autonomy to the provinces that are completely independent in resource mobilization and expenditure management. The amendment also devolved more than 17 social sectors from Federal Government to the provinces. Environmental pollution and ecology are among the functions devolved. However, devolution of climate change was not complete as the Federal Government retained it through a continuance clause in the 18th amendment because it is signatory to various international treaties and agreements, and therefore leads the implementation. Thus, while devolution has transferred much of climate change delivery to provinces, the Federal Government is still responsible for international obligations and national policy.

Public Financial Management in Pakistan

Public Financial management and accountability in Pakistan consists of three tiers:

- Planning and budgeting
- Accounting and reporting, and
- Auditing

Ministry of Finance and Planning Commission are the two agencies responsible for the planning and budgeting. The Controller General of Accounts is responsible for accounting and reporting and the Office of Auditor General is responsible for auditing accounts prepared by the Controller General of Accounts. The FD and P&DD are responsible planning and budgeting at the provincial level. The Accountant General of the province is vested with the responsibility of maintaining accounts and reporting.

Planning and Budgeting

Planning and budgeting functions are performed independently at the federal and provincial level. The procedure of budget preparation at the federal level is provided in the articles 78 to 87 of Constitution of Pakistan. A similar process is prescribed for provincial governments in Articles 118 to 124. The procedures for budget preparation both at the federal and provincial level are similar.

KP Budget Making Process

The Government of KP implemented a reform program in the budgeting and has moved from increment-based budgeting to a medium term output based framework. It has been preparing the budget using a mixture of both methods. The budget ceilings for individual departments are conveyed to them by the FD through the BSP. The line departments use the ceiling to prepare estimates for the new year's budget based on the increment-based budgeting. The estimates for next three years are also prepared along with the outputs, outcomes and the key performance indicators for each department for inclusion in the MTBF and for output based budgets. The documents are printed but are not used for controlling expenditure or to measure actual performance against budgeted targets. A fully integrated medium term output based budgeting framework is yet to be implemented as there are many issues hindering its full implementation.

In order to make provincial budget a strategic document, the KP Government had begun consultations with members of the provincial assembly, civil society representatives and the donors. However, this practiced has been discontinued.

Strengths of the Budgeting Practices in KP

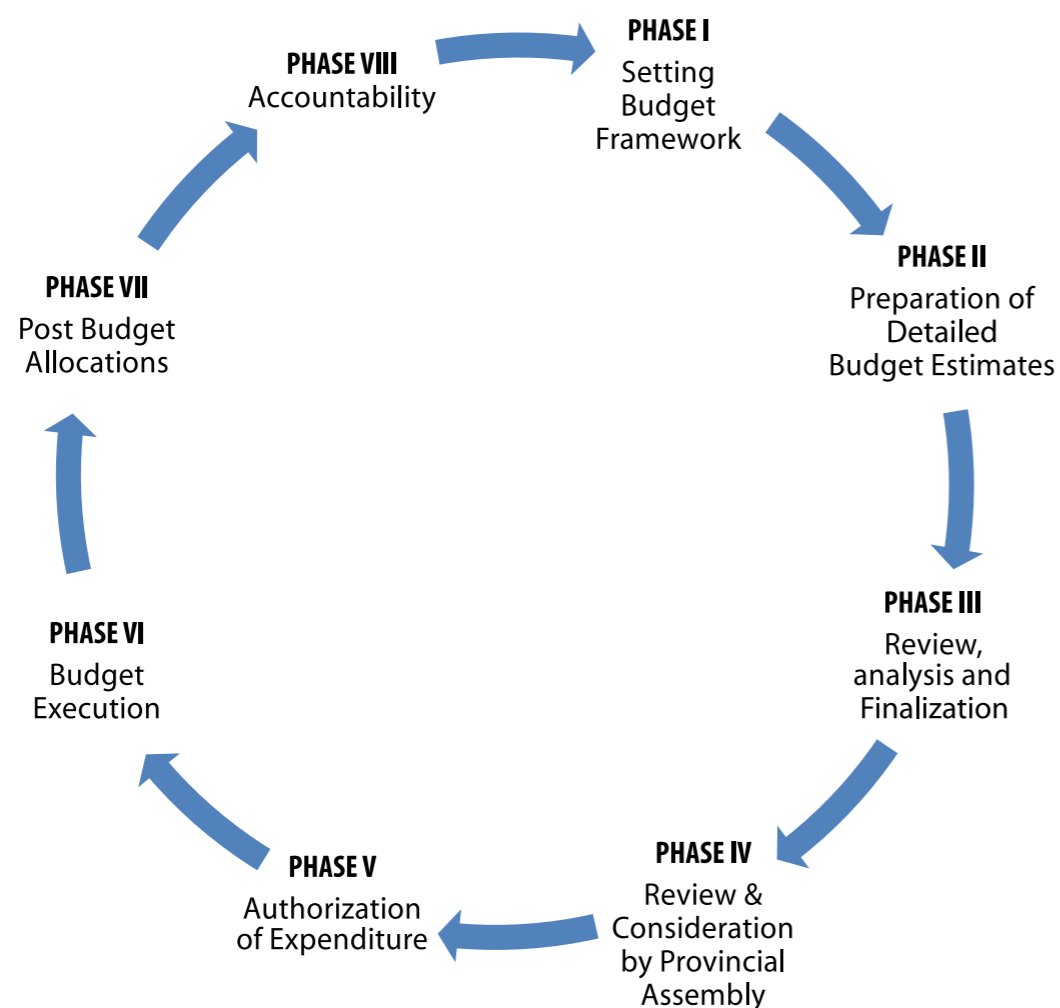
- Increment-based budgeting has been practiced with accuracy for many years.
- Strong coordination exists between FD and the line departments.
- BCC is prepared and issued with guidelines for line departments for preparing the budget.
- The budget is developed to maintain the current operating activities and expenditures and to finance the future needs of the individual spending units.
- Vision, mission and policies for individual line departments are prepared, and
- Outputs and outcomes of each line department are determined.

Limitations of the Budgeting Practices in KP

- A fully integrated MTBF output-based budget has not yet been implemented.
- MTBF is not used to plan and control the expenditure, and
- Output, outcomes and key performance indicators are developed using a top down approach resulting in a lack of ownership by field staff.

KP Current Budget Cycle

The cycle consists of phases depicted below.



PHASE I: Setting the Budgeting Framework

This phase covers planning. Activities undertaken in this period include selection of priorities for the new budget period, determination of current and development budget ceilings of individual line departments and projection of resources. The BSP is developed jointly by the finance and planning departments and presented to the Cabinet. The BSP provides indicative ceilings within which each department has to prepare its budget. Stakeholders are consulted while developing the BSP. The FD issues a budget circular containing detailed guidelines for preparing estimates for the budget along with the guidelines to prepare estimates for MTBF, and for preparing the budget under output based budgeting methods. The P&DD issues indicative development budget ceilings for line departments separately.

PHASE II: Preparation of Detailed Budget Estimates

In this phase, line departments prepare detailed budget estimates for both expenditure and receipts and prepare projections of expenditure and revenue for the next three years. The detailed estimates are prepared for individual offices by the drawing and disbursing officers. These estimates are then consolidated at the secretariat level. The projection of expenditure for the next three years is done at the secretariat level. Similarly, the outputs, outcomes and performance indicators are also developed at the secretariat level. After consolidation of the estimates, they are submitted to the FD for finalization and inclusion in the provincial budget.

Phase III: Review, Analysis and Finalization

The FD analyses and reviews the detailed budget estimates submitted by line departments before submitting it to the Cabinet for approval, after which it is presented in the Provincial Assembly. In this phase, the FD assesses the estimates submitted by line departments against the projected resources.

PHASE IV: Approval of Budget

After finalization of the budget estimates by the FD and development budget estimates by the P&DD, the budget is compiled and sent to the Cabinet for approval before presentation at the Provincial Assembly. The Provincial Assembly debates and estimates and approves the budget.

KP Development Budget Cycle

Preparation of provincial development budget involves many steps that are described below.

FIRST STEP: Estimation of Resources and Determination of Inter-sector Priorities

Two activities are carried out at this stage. First, the P&DD prepares estimates of available resources for the new year with assistance of the FD. The inter-sector priorities are determined next and this is based on the latest government policies regarding various sectors, number of on-going programmes expected to be completed and new ones to be initiated in the new budget period. After completing these two activities, the P&DD communicates the tentative size of the ADP to line departments along with the indicative sector wise allocation for each department. The P&DD issues separate guidelines for the preparation of ADP.

SECOND STEP: Preparation of Portfolio of Schemes

Provincial line departments prepare a portfolio of schemes for their respective sectors using the prescribed format called PC I. The schemes are prepared based on the Medium Term Development Framework (MTDF) and the sector policies and priorities.

THIRD STEP: Preparation of Preliminary Draft ADP

A series of meetings are held after the departments submit their portfolio of schemes and first draft of ADP is prepared.

FOURTH STEP: Meetings with Stakeholders

Several meetings between the line departments, FD and P&DD are held to finalise the ADP. The ADP is then finalized based on the financial resources available. The line departments complete the formalities such as adjustments in the PC I in the light of the revisions suggested at these meetings and after obtaining approval for projects from the competent authorities before publication of ADP.

FIFTH STEP: Finalization of ADP

Meetings of different committees such as Priorities Committee, Annual Plan Coordination Committee, Executive Committee of National Economic Council and National Economic Council are held at Federal Level to finalize the provincial ADP. The finalized document is presented before the provincial Cabinet for approval before submitting it to the Provincial Assembly for formal approval. After approval by the Cabinet, both the ADP and provincial budget are presented at the assembly. The budget is ready for implementation after approval by the Provincial Assembly.

Accounting and Financial Reporting

The budget is distributed to the concerned line departments by the FD after both the ADP and budget are approved by the Provincial Assembly. The officer responsible for expenditure is the Drawing and Disbursing Officer (DDO). Actual expenditure authorized in the approved budget is monitored and controlled by the respective department. The DDO is responsible for preparing the original document (called bill) to record transactions, The DDO prepares the bills and submits it to the District Accounts Officer (DAO)/ Provincial Accountant General (AG) for further processing.

The responsibility to maintain and report on the expenditure is entrusted to the provincial Office of Accountant General (AG) who is required to produce the following financial statements in forms and formats as prescribed by the AG of Pakistan. The AG produces financial statements for the province each year. The reports include:

- Appropriation accounts -- prepared annually, comparing budgeted and actual expenditure, and
- Finance Accounts -- provides a complete financial picture of the province.

The AG prepares accounts based on the New Accounting Model (NAM) based on a modernized Chart of Account and a framework for progressively introducing commitment accounting, and eventually accruals. However, at the moment, reporting is based on cash basis of accounting.

Accountability and Audit

Auditor General of Pakistan (AGP) is the supreme audit institution of Pakistan and it audits the annual financial statements of the provinces that are prepared by the AG. The AGP performs two types of audits (a) Compliance audit, and (b) Certification of the financial statements prepared annually.

The audit report along with the financial statements is presented before the PAC of the Provincial Assembly for review.

ANNEX II: Function-wise Climate Relevant Budget and Expenditure

Financial Year _____

Functions	Budget		Actual Expenditure	
	Climate Relevant	Non Climate Relevant	Climate Relevant	Non Climate Relevant
01 General Public Services				
02 Civil Defence				
03 Public Order and Safety Affairs				
04 Economic Affairs				
05 Environment Protection				
06 Housing and Community Amenities				
07 Health				
08 Recreation, Culture and Religion				
09 Educaiton Affairs and Services				
10 Social Protection				

The report will be generated from the financial information generated by the GFMIS. Assumptions and cost allocations principles for determining climate relevance are the same as used in CPEIR to determine climate relevance.

Note: The form is to be prepared and submitted by the FD to the Provincial Assembly each year.

ANNEX III: Sector-wise Budget Vs. Actual Expenditure

Minor Function		Budgeted		Actual Expenditure	
		Mitigation	Adaptation	Mitigation	Adaptation
042 Agriculture, Food, Irrigation, Forestry and Fishing	0421 Agriculture				
	0422 Irrigation				
	0424 Forestry				
	0425 Fishing				
	0426 Food				
043 Fuel & Energy	0437 Administration				
	0438 others				
044 Mining & Manufacturing	0442 Mining				
045 Construction	0452 Road Transport				
047 Other Industries	0472 Tourism				

The report will be generated from financial information generated by the GFMS. Assumptions and cost allocations principles for determining climate relevance are the same as are used in CPEIR to determine climate relevance.

ANNEX IV: Comparative Climate Change Expenditure in Adaptation and Mitigation

Major Function: _____

Minor Function: _____

Description	Financial Year		FY		FY	
	Budget	Actual expenditure	Budget	Actual expenditure	Budget	Actual expenditure
Adaptation						
Mitigation						
Adaptation and Mitigation mixed						
Supportive						
Total						

The report will be generated from financial information generated by the GFMS. Assumptions and cost allocations principles for determining climate relevance are the same as are used in CPEIR to determine climate relevance.

ANNEX VII: Variance Analysis and Performance Report

Major Function _____ Major Function Description _____

Minor Function _____ Minor Function Description _____

Detailed Function _____ Detailed Function Description _____

Financial Year.

Line Item	Budget	Actual Expenditure	Variance	Brief Reason for Variance
Salaries				
Allowances				
Purchases				

OBJECTIVES OF THE PROGRAM

- 1. A
- 2. B
- 3. C
- 4. D

DETAILED REPORT ON PERFORMANCE AND REASONS FOR VARIANCES

The report will be generated from financial information generated by the GFMIS. Assumptions and cost allocations principles for determining climate relevance are the same as are used in CPEIR to determine climate relevance.

The report will be prepared by each line department



Empowered lives.
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