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DEFINING COUNTRY SYSTEMS FOR CLIMATE CHANGE ADAPTATION FINANCE

INTRODUCTION

In recent years, the global community has come together to provide increasing levels of international finance to help developing nations adapt to the challenges presented by the threat of climate change. A number of funds to support adaptation initiatives in developing countries have been established, including bilateral mechanisms instituted by the European Union, Germany, the United Kingdom and the Nordic countries; as well multilateral funds, such as the Adaptation Fund, the Global Environment Facility and the Climate Investment Funds. With the Green Climate Fund becoming operational this year, more funds than ever will be dedicated to adaptation.

The acknowledgement that funds are needed and the initial disbursement of those funds to support adaptation efforts in developing countries are massive steps in the right direction. Nevertheless, the mere availability of international funds isn't enough for adaptation projects to translate into sustainable, climate-resilient development now and in the future. To make best use of the finance available, countries need to have the institutional capacity to prioritize their needs, access the funding and efficiently implement related projects.

Furthermore, international adaptation financing simply will not be enough in monetary terms. The current funding available does not meet the projected needs for adaptation in developing countries, which the UNFCCC estimates will cost in the range of USD 28-67 billion per year for such countries by 2030. So countries

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Climate change poses an increasing threat to the progress of developing countries. In some cases it threatens their very existence. In response, the global community has rallied to help these countries adapt to climate change impacts by providing financing through mechanisms like the Adaptation Fund, the Green Climate Fund, and other initiatives. For governments to effectively manage the challenges presented by climate change, they must be able to both access and efficiently utilize the international funds available, while also mobilizing domestic and private resources.

Since 2011, the USAID Adapt Asia-Pacific Project has been working to help Asia-Pacific countries develop bankable climate change adaptation projects and increase their access to related funding. The Project has gained valuable experience developing tools, methods and other resources to strengthen country systems for improved access to, and management of, adaptation finance. These experiences are collected, synthesized and published in this USAID Adapt Asia-Pacific Adaptation Finance Knowledge Series. They reflect the Project's work with government officials, multilateral institutions, regional organizations, consultants and other experts. The Project acknowledges the contribution of all these institutions and individuals.

As the first publication in the Adaptation Finance Knowledge Series, the present paper sets the groundwork for the forthcoming publications in the series by presenting a definition of the country systems that need strengthening for adaptation finance. Subsequent papers in the series will explore USAID Adapt Asia-Pacific's experience in strengthening certain areas or aspects of these systems.

need to develop the institutional capacity not only to independently, efficiently and effectively access and manage international funds, but also to mobilize the additional domestic and, especially, private sector funds that are necessary.

Strong country systems for managing public finance are widely considered to be critical to effective governance. The quality of these systems has a direct relationship to the ability of governments to successfully deliver services, including those related to climate change adaptation.

For countries, meeting the adaptation challenge involves understanding how climate will impact their development; developing strong, climate-resilient policies and related projects; securing the necessary funding – be it from international, domestic or private sources; managing the funds well to meet their objectives; and having the ability to monitor and evaluate their performance in order to inform future policy and the use of future funding. This requires countries to develop strong public financial management systems to undertake the aforementioned tasks in a transparent and participatory manner.

Several key players in the field have undertaken significant work to strengthen country systems; nevertheless, gaps remain to be filled. At the country level, new opportunities need to be discussed on how countries can strengthen their systems and take action to improve climate-responsive planning and budgeting, as well as improve preparedness to access external climate funds. Nonetheless, a clear definition of the term "country systems" is an essential precursor to the discussion on ways to strengthen them. It is often assumed that the term is commonly understood, and while often used, it is rarely defined. "Country systems" has been in common use for over a decade, and the context in which it is used has largely informed the way the term is understood. Nevertheless, understandings can and often do differ, thereby leading to confusion, miscommunication and the need to establish a common, practical definition.

This paper, which is based on the experience of the USAID Adapt Asia-Pacific Project, presents one such practical definition to the term "country systems". The Project functions primarily as a climate change adaptation project preparation facility that focuses on the design of bankable projects for international financing. However, this work influences, and is influenced by, the whole climate financing environment, particularly those systems used by countries to identify, design and implement climate change adaptation projects. Accordingly, we have worked with countries to strengthen parts of these systems that go beyond project preparation.

This paper draws on definitions of public financial management and the related systems laid out following the Paris Declaration on Aid Effectiveness in 2005. The paper was originally developed as a background note for the USAID Adapt Asia-Pacific Third Annual Forum, held in partnership with the United Nations Development Programme on September 15-16, 2014 in Siem Reap, Cambodia. The Forum, entitled Strengthening Country Systems to Access and Manage Climate Change Adaptation Finance in Asia and the Pacific, picked up on themes discussed at the Global Forum on Using Country Systems to Manage Climate Finance, which took place in Incheon, Korea the previous year.

At the USAID Adapt Asia-Pacific Forum, government officials from 21 countries across the Asia-Pacific region met to promote regional cooperation, exchange knowledge and identify specific national and regional priorities for strengthening country systems.

Box 1 | WHY STRENGTHEN COUNTRY SYSTEMS?

By strengthening country system, countries can:

- Reduce duplication and transaction costs of delivering projects;
- Increase the ownership of the recipient government over results of financing;
- Ensure future sustainable management of resources;
- Generally increase transparency and domestic accountability over public resources;
- Strengthen ability to measure the effectiveness of government policies and projects;
- Reduce energy and funds directed toward parallel systems (often established by donors to manage the projects they fund and associated resources) that lack sustainability;
- Improve confidence in the use of public funds; and
- Raise the confidence of donors that governments will use funds effectively.

Source: *UNDP 2013, What are country systems and why do they matter? Presented at Global Forum on Using Country Systems to Manage Climate Finance, December 2-3, 2013, Incheon, Republic of Korea.*

WHAT ARE COUNTRY SYSTEMS?

The term "country systems" was best defined in the Paris Declaration on Aid Effectiveness as "procedures [that] typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring".[i] Drawing on this definition, this paper uses "country systems" to refer to the set of tangible systems, processes and tools that support Public Financial Management (PFM).

It is important to note here that this definition of country systems focuses on the public sector. Other actors, such as civil society and the private sector unequivocally have important roles to play in adaptation. The paper, however, defines country systems as they pertain to government-led activities.

While the exact definition differs from donor to donor and from one country to another, PFM is generally understood to include all activities undertaken during a country's budget cycle. Sound PFM supports aggregate control, prioritization, accountability and efficiency in the management of public resources for the delivery of services that are critical to the achievement of public policy objectives such as the Millennium Development Goals[ii] and those related to climate change adaptation. In order to achieve sound PFM, all countries need strong systems that facilitate the process.

A good understanding of the budget cycle is essential to the understanding of country systems. The three basic phases of the budget cycle are as follows:

Preparation – the phase in which the strategic direction and national goals are determined and resource allocation priorities are established for the implementation of associated policies and projects;

Implementation – the phase in which funds are expended and policies and projects are executed to achieve government goals; and

Oversight – the phase in which spending on policies and projects is reviewed and accounted for and progress towards achieving goals is evaluated.

All countries, to varying degrees, have developed a set of systems to support effective PFM according to the phases of the budget cycle, which in turn enables governments to deliver services to the public. This set of systems can be thought of as comprising a number of identifiable components as detailed in table 1. (The systems identified here are based on those identified by Mokoro in the follow-up to the Paris Declaration.[iii])

The individual systems for managing different aspects of public finance do not function in a void, but rather they are organized along – and support the functioning of – the budget cycle. While there is certainly overlap between the systems, each one can be thought of as belonging primarily to one of the phases of the budget cycle. For example, a country's auditing system is primarily active during the oversight phase of the budget cycle.

Table 1 | COUNTRY SYSTEM COMPONENTS

Phase	Component
Preparation	Policy and Planning Resource Allocation Project Preparation Approval
Implementation	Receipts and Disbursement Procurement Accounting
Oversight	Auditing Monitoring and Reporting Evaluation

Underpinning all country systems is a range of transparency and public accountability mechanisms that ensure governments act in line with a legal framework and provide services that respond to the needs of the people in the interest of the public good. These mechanisms are pervasive throughout the systems: some of them are found in an individual system, while others are common across systems, such as a government-wide whistle-blower hotline.

These mechanisms aim to set the right incentives for government officials to act in the best interests of the public they serve. These rules and policies guide public officials, elected and appointed, in the exercise of their authority and enable citizens to monitor government activities. The aim is to prevent misuse of public office for private gain and to give citizens a better understanding of what is happening in government. These mechanisms aim to encourage good governance, leading to better development outcomes.

Figure 1 draws these elements together and represents the interaction of the individual PFM systems and the transparency and accountability mechanisms throughout the budget cycle.

Each system is located in the area of the budget cycle in which it is most relevant, but it may also relate to other phases of the cycle. Within each phase of the budget cycle, the systems are connected; however, they do not necessarily function in a linear fashion, with one system coming before the next, but rather may overlap and loop back around depending on how a particular country's systems are set-up. The systems come together at the center point of the diagram to represent their interrelationship and constant connection.

Figure 1 | COUNTRY PUBLIC FINANCIAL MANAGEMENT SYSTEMS

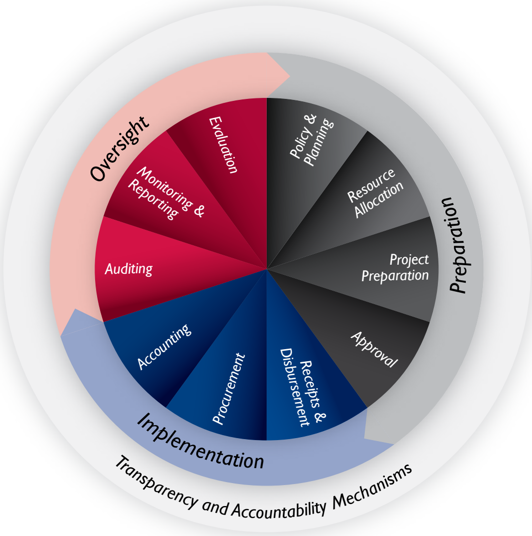


Table 2 | MINIMUM FIDUCIARY STANDARDS FOR DIRECT ACCESS TO THE ADAPTATION FUND

Financial Integrity *(Audit, Financial Management and Control Framework)*
• Accurate and regular record of transactions and balances in a manner that adheres to broadly accepted good practices and is audited periodically by an independent firm or organization [Auditing]
• Efficient management and safeguarded disbursement of funds to recipients on a timely basis [Receipts and Disbursement]
• Production of forward-looking financial plans and budgets [Policy/Planning, Resource Allocation]
• Legal status to contract with the Adaptation Fund and third parties
Institutional Capacity *(Project/Activity Processes and Oversight)*
• Procurement procedures provide for transparent practices, including competition [Procurement]
• Capacity to undertake monitoring and evaluation [Monitoring and Reporting, Evaluation]
• Ability to identify, develop and appraise projects; including for environmental and social risks [Project Preparation]
• Competency to manage or oversee project or program execution, including ability to manage sub-recipients and to support delivery and implementation [Implementation]
Transparency *(Self-Investigations)*
• Competence to deal with financial mismanagement and other forms of malpractice [Transparency and Accountability Mechanisms]

Adapted from: *Frankfurt School - UNEP Collaborating Centre for Climate & Sustainable Energy Finance (2013), Direct access to international climate finance and associated fiduciary standards,* http://www.fs-unep-centre.org/.

The much-coveted direct access to climate finance – which grants countries the ability to implement climate finance through their own systems – requires a minimum level of institutional public financial management capacity. While there is currently no one set of globally agreed upon requirements for direct access accreditation, those administering climate finance generally agree that countries must be able to demonstrate financial integrity, minimum fiduciary standards, and effectiveness and accountability based on transparent rules and procedures.[iv]

Table 2 presents a summary of the minimum fiduciary standards for gaining direct access to the Adaptation Fund, the only international climate change adaptation fund until the advent of the Green Climate Fund to grant implementing entity status directly to countries. To highlight the importance of strong country systems in gaining direct access to adaptation funding, we have matched the Adaptation Fund's minimum fiduciary standards to a broad array of related country systems (as per the definition above).

DEFINING COUNTRY SYSTEMS

The next several pages further elaborate on the functionality of each of these eleven components of country systems, drawing connections to climate change adaptation and related financing.

Figure 2 on pages 6-7 provides a summary snapshot of these systems, identifying some of the common tangible elements within the systems and how adaptation plays out within them.

POLICY / PLANNING

The first stage of the budget cycle entails the preparation of plans and development of policies, during which the government sets the strategic direction for the nation through a macro-planning process as well as a micro-planning process at the sector level and in some cases the sub-national level. Common features of successful policy and planning include:

- Key issues and problems identified and analyzed;
- Objectives designed to resolve or address the issues;
- Key stakeholders at all levels identified and engaged, including local communities, sub-national governments and civil society;
- Key stakeholders at all levels identified and engaged, including local communities, sub-national governments and civil society;
- Financial framework determined, including budget;

- Human capacity framework established.

Ultimately, this stage will involve both the preparation of a national development strategy at the macro level as well as sector strategies (including a national climate change policy). Policy-makers will consider the financial and human capacity constraints in the country to ensure policies and plans are realistic and achievable. Additionally, in order to develop legitimacy, countries should undertake a consultative strategic planning process, involving and integrating sub-national governments, local communities, the private sector and civil society.

For developing countries to meet the expectations of development partners and access international adaptation funding, proposed adaptation activities should be clearly linked to national, sector-specific and climate change policies, plans and strategies. These in turn help the country channel their own domestic funds towards climate-resilient development.

RESOURCE ALLOCATION (BUDGETING)

The policy and planning framework will interact with the resource allocation system to efficiently allocate funding to achieve the government's stated climate change objectives. To this end, it is critical to have an effective link between the government's climate-related policies and the budget, otherwise resources will not be directed to these priorities and objectives will not be met.

Overall the process of resource allocation through the formulation of the budget requires:

- A reasonable and logical timetable for budget formulation with a clear set of rules for the process;
- A robust multi-year macroeconomic framework;
- Budget ceilings determined for sector ministries and not subject to substantial reduction;
- Budget ceilings cover both recurrent and capital components of the budget;
- Ceilings are communicated prior to the preparation of the sector submissions;
- A medium-term perspective on decision making so that estimates for the capital budget reflect total costs of projects, not only the costs for a single budget year;
- Earmarking does not play a significant role in the allocations of funds and is not distortionary;
- No arbitrary cuts to the budget, and any budget reductions follow a clear and logical process;
- Budgeted costs reflect realistic operations and maintenance;
- Sector ministries are consulted before budget finalization;
- Sufficient time is devoted to debating funding for existing policies;
- There is a well-defined process for considering new policy proposals; and
- All relevant issues, information and stakeholder perspectives are available to decision makers.[v]

The quality of the process is influenced by its comprehensiveness, transparency and realism. It should cover all government operations, be well classified and have a good program structure linked to a climate policy framework. This will provide for effective monitoring and evaluation of the government's climate activities.

Comprehensiveness also requires inclusion of all capital and external aid project financing. A strong system will have a clear and well-understood process for allocating and prioritizing expenditures with appropriate prominence given to climate activities. Transparency requires that the public can understand and scrutinize the government strategy and the link to the allocation of financial resources. All these actions require effective channels of communication between finance ministries and line ministries, departments and agencies.

PROJECT PREPARATION

Access to development finance (including adaptation finance) is often dependent on the ability to craft informative and effective project proposals. A project proposal is a document that states the justification for a project before detailing its components and expected outcomes. In short, project proposals answer the simple questions of what to do and why, and how to do it.

Project proposal formats vary widely among government and development partners due to a number of factors such as donor requirements, complexity, size and cost. Nevertheless, virtually all project proposals require the following elements:

- Project Background – What problem will the project try to correct?
- Project Justification – Why does this project need to be undertaken and who will it benefit?
- Project Description – How will the project be undertaken and what targets and outputs are anticipated?
- Project Financing Plan – How much will the project cost to implement and which sources of financing will be accessed to undertake the project?

Figure 2 | SPOTLIGHT ON COUNTRY SYSTEMS AND ADAPTATION

Monitoring and Reporting

The system for monitoring performance according to an agreed monitoring and evaluation framework (including benchmarks and performance indicators) prepared during the plan or project's preparation stage. A strong system assesses implementation against well-defined performance indicators, including ones for adaptation. The results feed into the evaluation process.

- Monitoring and evaluation (results) framework, with clearly identified performance indicators (including climate change and adaptation indicators) for outputs and outcomes
- Statistical and data collection agency

Evaluation

The process of undertaking qualitative and quantitative assessment of the achievements of government policies against their stated objectives, including those related to climate change response. Evaluations feed back into the policy and planning process.

- Monitoring and evaluation (results) framework, with clearly identified performance indicators (including climate change and adaptation indicators) for outputs and outcomes
- Reporting timetable and progress reports
- Statistical and data collection agency
- Climate change committees (informed by evaluation reports) to be involved in policy and planning

Policy and Planning

The process of determining the strategic policy direction for a nation. A strong system would incorporate an analysis of climate change impacts and mainstream adaptation priorities through a macro and micro planning process.

- Development vision or long-term plan (with elements on response to climate change impacts)
- Medium-term development plan (featuring clear mainstreaming of climate change issues)
- Policy or strategy for climate change mitigation and/or adaptation (country wide or sector specific)
- National Adaptation Programme of Action (NAPA)/ National Adaptation Plan (NAP)
- Sector policies and/or strategies (reflecting aspects related to climate change)
- Annual sector and sub-national development plans (featuring clear mainstreaming of adaptation activities)

Resource Allocation

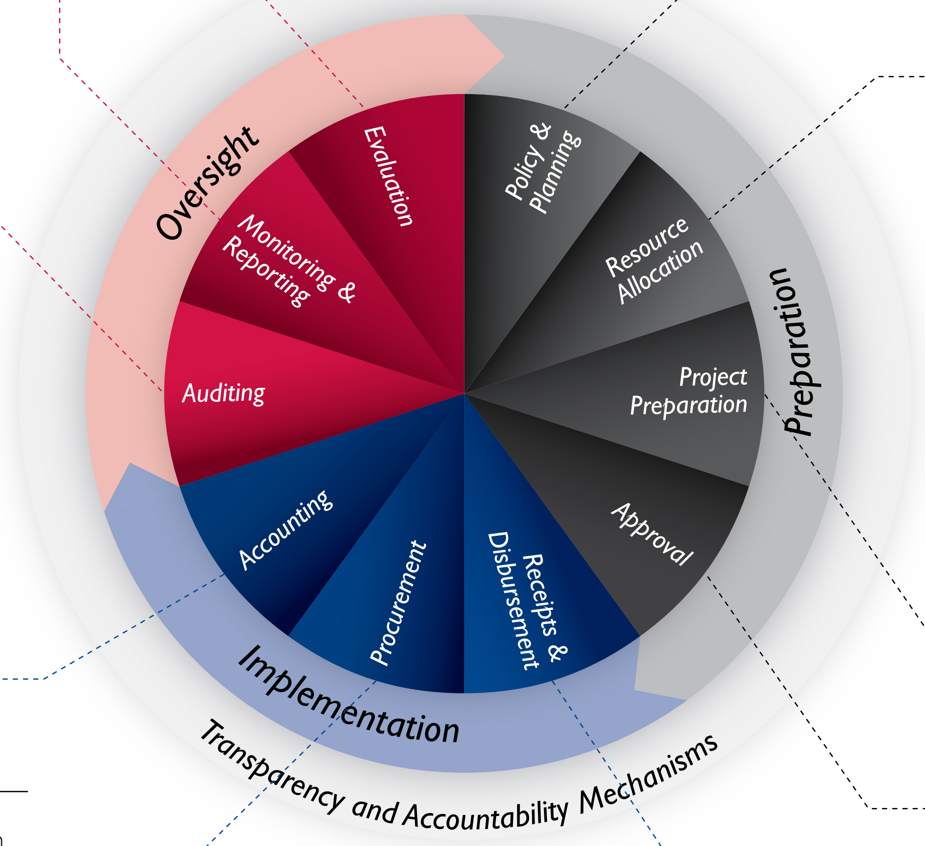
The task of establishing an effective link between overall policy and the country's financial resources (the budget). A strong system makes resources available to ensure that the government's climate change adaptation priorities and objectives are met.

- Budget formulation manual (including how to incorporate climate change issues)
- Multi-year macroeconomic fiscal framework
- Public sector investment program (capital budget) guidelines and ranking criteria
- Budget committee (or a specialized climate change budget committee) to ensure adequate consideration of climate change in the budget
- Annual sector and sub-national budgets (featuring clear allocation for adaptation activities)

Auditing

An independent and objective assessment of the ability of government to deliver services, including climate change responses, in line with agreed standards of good governance.

- Public Audit Act
- Independent Auditor General
- Office of Internal Audit within the government
- Strong legislative committee system



Transparency and Accountability Mechanisms

The rules, policies and institutions that enable countries to enhance the integrity, responsiveness, and efficiency of government actions by ensuring that government is answerable to the public. Principle mechanisms include:

- Ombudsman's office: an independent office or official appointed to investigate against public authorities and agencies
- Freedom of information legislation that protects the right of the public to obtain, upon request, government information and documents

Project Preparation

The system by which a country prepares effective project proposals in line with its strategic direction in order to access development finance (including adaptation finance). Strong proposals reflect the country's adaptation priorities and include a sound analysis of climate impacts and proposed adaptive solutions.

- Project preparation manual incorporating cost-benefit analysis framework (with a climate change assessment methodology)
- Environmental (including climate change and disaster risk), poverty and gender impact assessment procedures
- Monitoring and evaluation guidelines to prepare appropriate monitoring frameworks incorporating climate change indicators

Accounting

The system for maintaining day-to-day recording and reporting of transactions from the budget. A strong accounting system incorporates climate change codes or tags into the financial management systems to track related expenditure.

- Effective Financial Management Information System (FMIS)
- Public Financial Management Act
- Office of Internal Audit within the government
- Public financial management regulations
- Appropriate coding system (with the ability to track direct and indirect climate change expenditure)

Approval

The process by which the Executive and Legislative branches of government authorize financial resources to fund the nation's development direction, including the response to climate change.

- Publication of detailed budget documents including a macro framework, program design and detailed resource allocations
- Public sector investment program
- Appropriation Acts
- Public Financial Management Act

Receipts and Disbursements

The task of channeling and matching funding sources (both internal and external) and revenues with the implementing agencies responsible for delivering projects, including those related to climate change.

- Public Financial Management Act
- Cash management plan – managing receipts and disbursements (including for projects)
- Public financial management regulations
- Project management manuals

Procurement

The process of purchasing goods and services from the private sector in a clear, transparent and accountable manner to ensure value for money of public resources in the delivery of policies and projects.

- Public Financial Management Act or dedicated Procurement Act
- Procurement manual and guidelines
- Public tenders committees or boards

Development partners often require proposals to include specialized information. To access financing through the Adaptation Fund, for example, the following five basic things must be demonstrated:

- Explain how the project is truly an adaptation project, as opposed to a "business as usual" development project;
- Show that climate change is the primary cause of the problem that the project will address;
- Offer adaptation measures that are suitable and adequate for addressing the identified climate threats;
- Meet the Fund's requirements for cost effectiveness; and
- Specify the social, economic and environmental benefits of the project or program.

The preparation process also includes robust project identification procedures (see above under Policy and Planning), strong financial analysis to prepare detailed cost benefit assessments and an understanding of funding sources and their accessibility requirements (such as with the Adaptation Fund). This usually requires strong interaction between line ministries, policy and planning departments serving as the project developers, and development partners providing financing. A monitoring and evaluation framework that incorporates appropriate climate change indicators will be included as part of the project design to ensure the project remains on track and lessons learned during the implementation can be appropriately communicated to stakeholders.

APPROVAL

The approval process for the budget, or more correctly the appropriation bill(s), will vary according to the constitutional structure of each country. There are usually two distinct levels of approval, one at the executive level and the second at the legislative level.

Following the budget formulation stage, the approval process begins with a review by the cabinet or the executive. If approved, the appropriation bill will be submitted for legislative approval. The government will ideally submit its draft annual budget to parliament 2–4 months in advance of the beginning of the new fiscal year to allow the legislature time to scrutinize, debate and propose alternative budgetary policies (within limits of cost), before adopting and promulgating the annual budget. [vi]

To ensure proper scrutiny, budget documentation should be made available to the legislature, executive branch and the public to review government spending plans and what they aim to achieve. In addition to the macroeconomic framework, the cabinet or executive should present the legislature with a detailed annual budget policy statement within which it sets out the strategic and policy priorities, including those for climate-related policies and projects.

RECEIPTS AND DISBURSEMENT

Once approval is obtained, estimates are distributed to spending departments in time for the start of the fiscal year and the commencement of the disbursement phase of the budget. Line ministries then manage their budgets and development projects with disbursements allocated, preferably according to a cash plan determined at the beginning of the fiscal year. This allows the Ministry of Finance, through its treasury function, to manage cash and bank accounts at a macro level while ministries have sufficient funds to implement policies and projects at a micro level.

The Treasury will control and monitor government bank accounts to track receipts and disbursements. This includes tracking accounts where a clear accounting of receipts and disbursement for externally funded projects will be required. By using country systems, projects, including climate projects, will avoid establishing accounts external to the Treasury. Project disbursements, if funded by external sources, will follow clear policies and guidelines and instructions detailed in project disbursement manuals. Staff in central finance ministries, line ministries responsible for projects and project executing agencies will use these manuals.

The Ministry of Finance will typically reserve the right to change allocations and associated disbursements during the year if circumstances change. Line ministries also have a process to follow whereby they can request variations to their disbursements. Agencies have a system of commitment controls for planning to ensure expenditure does not exceed the budget. However, where additional funds may be needed, a clear and understood process of obtaining them is available.

PROCUREMENT

Public procurement is the process by which government departments or agencies purchase goods and services from the private sector. Once funds are authorized and committed for use by ministries, funds are then available for procurement.

A robust procurement system will provide for efficient and effective use of public funds to implement policies and projects. The procurement process should be based on clear, consistent rules that promote competition and value for money, within a governance environment with sufficient controls to provide for enforcement and accountability.

These rules will ensure tenderers or potential suppliers receive equal treatment and that the decision-making process is transparent and accountable. This requires well-trained procurement professionals; mechanisms to enforce the rules including a process by which bidders' complaints can be heard and settled; and regular internal and external auditing of purchasing authorities to ensure they abide by the rules.

The procurement powers are derived from legislative authority often through public finance legislation or a dedicated procurement law usually with detailed associated regulations. These regulations detail the rules of the procurement process mentioned above and are usually outlined in procurement guidelines or manuals available to responsible officials. Clear guidelines on how the procurement process operates should be available to the private sector and the general public and should explain the obligations and responsibilities of all parties. Procurement processes are complemented by strong internal and external auditing procedures to reduce the potential for corruption.

ACCOUNTING

Financial monitoring is the process of maintaining day-to-day accounting, recording and reporting of transactions from the budget. In Public Expenditure and Financial Accountability (PEFA) assessments, this covers the components of predictability and control in budget execution and the accounting, recording and reporting of day-to-day transactions of the spending authorized in appropriation acts. [vii]

Fundamental to this system are strong financial management information systems to support this process. To develop strong financial performance and monitoring requires: (i) predictability in the availability of funds for commitment of expenditures; (ii) timely and accurate in-year budget reports produced by the Ministry of Finance for line ministries and agencies reporting against budget estimates and commitments; (iii) regular accounts reconciliation to ensure data accuracy and reliability that are the foundation for high quality information; and (iv) quality and timeliness of annual financial statements based on a recognized government accounting standard.

If these systems are in place they will facilitate monitoring and will supply management information (including financial information) to the service delivery units at the end of the service delivery chain (e.g. primary schools and health clinics). With respect to climate change adaptation, there will need to be an appropriate coding system within the financial management information systems that incorporates the necessary tags and codes to track both direct and indirect expenditure. This system will preferably be incorporated into an existing coding system as opposed to duplicating or overlaying a parallel coding system that might present additional administrative requirements.

Box 2 | IMPLEMENTING A CLIMATE BUDGET CODE IN NEPAL

In 2011, studies on climate finance in Nepal revealed coordination challenges associated with the various channels of climate financing were only likely to intensify in the absence of an overall coordination mechanism. To solve these issues, the studies suggested that climate finance should be incorporated into the country's national budget and administered by its public financial system, rather than relying upon a dispersed set of delivery mechanisms.

Further feasibility assessments determined that the implementation of a climate budget code was a crucial step towards strengthening the public finance system for direct management of all climate finance. The purpose of this code is to track climate budget allocation for review and policy analysis.

Nepal's National Planning Commission (NPC) took charge developing the criteria for the climate code through a series of consultations with the relevant stakeholders. The Ministry of Finance first officially applied the code in Fiscal Year 2013/14. A review revealed that about 10% of the overall national budget was dedicated for climate change related activities in eleven relevant ministries during FY13/14. Of those eleven, only five ministries received nearly 85% of the total climate budget: Urban Development (21.53%), Agriculture (20.85%), Irrigation (18.07%), Finance (14.07%) and Science, Technology and Environment (9%).

The first iteration of the climate code presented a number of challenges that are being addressed by NPC. Further guidelines and training on the coding for line ministry planners is a necessity. Quantifying the climate related budget that reaches local levels presented a particular challenge, which is significant since Nepal's climate change policy states that over 80% of the climate change budget needs to be allocated to the local level, where it is needed the most. As such, review determined that there is a need to develop separate manual and coding criteria for local government.

Source: *Climate Change Budget Code: Application Review – National Planning Commission of Nepal November 2013.*

AUDITING

The ability to learn and improve the delivery of government services is fundamental to strong country systems. Oversight in the budget cycle is supported by a range of systems that ensure the feedback mechanism works well and delivers improved policy outcomes over time.

Auditing in the public sphere is the process of providing an independent and objective assessment of the ability of government to deliver services and perform in line with agreed standards. Audit institutions then report back in a transparent manner to governing bodies and the public. Auditing provides a disciplined and systematic approach to improving financial management and government performance.

This process involves both an internal and external perspective. Internal audits aim for self-improvement through close inspection of processes and systems and seek ways to improve them. External audits shine a light on gaps between government operations and its rules and regulations, and provide impartial scrutiny and transparency.

Auditors analyze and inspect government operations to evaluate whether policies are achieving their stated purpose, governments abide by the law, funds are used as intended and management has the necessary procedures to manage risks. Audits can reduce the risk of mismanagement and corruption in public institutions. To be effective the auditing process requires:

- Organizational independence – usually answerable directly only to the legislature and with constitutional recognition;
- Adherence to agreed audit standards;
- Offer adaptation measures that are suitable and adequate for addressing the identified climate threats;
- A formal mandate – through the constitution and legislation;
- Adequate financial and human resource capacity to undertake its mandate;
- Strong leadership to present and speak out on findings and recommendations; and
- Stakeholder support including from elected and appointed officials and committee support such as from public accounts committees. [viii]

Strong institutions need to support the auditing effort – from internal audit offices to independent external audit offices and legislative committees to review and follow up on the findings of audit institutions. Finally the Ministry of Finance and other related institutions must have the maturity and support to take up recommendations and adjust policies and procedures to ensure improvement in service delivery and governance in general.

MONITORING AND REPORTING

Performance monitoring is based on the existence of an initial monitoring and evaluation framework prepared during the plan or project preparation stage. Monitoring is required at both the macro and micro levels. As such, national development plans and projects will incorporate monitoring frameworks, including performance indicators against which implementation is assessed. Monitoring is an integral part of the plan or project rather than an addition to it. It involves the collection of data on identified performance indicators, analysis of this data and reporting of the results to stakeholders.

The monitoring and reporting processes are undertaken in both the implementation and oversight phases of the budget cycle, and monitoring reports feed into the overall evaluation of the project. These reports will be assessed against implementation and working plans, enabling the adjustment of interventions during implementation.

EVALUATION

The goal of evaluation is to qualitatively and quantitatively assess the effectiveness of government policies and projects in achieving their stated objectives. Evaluation tools are based on evidence and are guided by the monitoring and evaluation framework (including benchmarks and performance indicators) established during the preparation stage of the budget cycle. The information from an evaluation report should ideally feedback into the decision making process and determine whether to continue with the assessed intervention.

The most effective evaluations are of policies, projects and programs important to governments and of which governments have stated their commitment to implement the evaluation findings. The impact of evaluations will vary depending on the timing, with the greatest effect arising from evaluations that feed into decision-making cycles and budget deadlines. The most effective evaluations are targeted for specific audiences such as policy and planning committees (including climate change committees) who use the evaluation report to inform their policy and planning roles.

Credible and objective parties, usually with expertise in the relevant area, will conduct the evaluations. This can lead to a potential trade-off between the evaluator's knowledge of the specific intervention and his or her independence. An effective evaluation will bring an objective and fresh perspective to the intervention to provide the greatest insight for the adjustment of policies or the formulation of new policy interventions.

TRANSPARENCY AND PUBLIC ACCOUNTABILITY MECHANISMS

Transparency and public accountability mechanisms are the rules, policies and institutions that enable countries to enhance the integrity, responsiveness, effectiveness and efficiency of government actions.

The need for transparency and accountability reflects the principle that governments should be answerable for the way they use public resources and exercise authority. Transparency and accountability are separate but related terms. The principle of transparency is based on the idea that government decisions and actions must be open to public scrutiny. It is a fundamental requirement to ensure that decision makers respond to the wishes of the public. Accountability requires that elected and appointed government officials are responsible to the public for their decisions and actions and that they must adhere to a legal framework in undertaking their roles.

Increasingly, transparency and accountability are being supported by legislated whistle-blower protection and civics education. By strengthening transparency and accountability, these mechanisms provide support for all country systems and thus the budget cycle.[ix]

Transparency and accountability mechanisms are intricately connected with country systems. In fact one of the country systems – auditing – is also a key transparency and accountability mechanism. These mechanisms have the goal of encouraging the development of good governance, whereby governance is thought of as the exercise of authority in the economic, social and political institutions of the country. It refers to the rules by which a country operates – how those rules are made, what those rules are and how they are enforced. They permeate country systems and can apply to them.

For example an Ombudsman's Office (depending on its specific remit) can investigate complaints regarding procurement processes, accounting procedures or project approvals. Similarly, freedom of information requirements provide access to otherwise confidential information that helps to keep elected and appointed public officials honest. Legislative committees such as public accounts committees and appropriations committees have a similar role to delve more deeply into government operations and apply greater scrutiny to decision making undertaken in all of the country systems listed above. Other accountability mechanisms such as freedom of speech and the press may be enshrined in law or operate as a set of unwritten conventions.

Box 3 | EXAMPLES OF TRANSPARENCY AND ACCOUNTABILITY MECHANISMS

- Audit institutions (internal and external);
- Ombudsman's offices – an independent office or official appointed to investigate against public authorities and agencies;
- Freedom of information legislation – legislation that protects the right of the public to obtain, upon request, government information and documents;
- Freedom of speech and the press;
- Requirements for financial disclosure;
- Legislative committees; and
- Immunity protections – where public officials are legally protected from prosecution for duties performed in the capacity of the State.

Box 4 | NEW FRONTIERS IN CLIMATE CHANGE TRANSPARENCY AND ACCOUNTABILITY

- Creating NGO initiatives focused on robust engagement in a measurement, reporting and verification (MRV) regime to enhance transparency and accountability of climate actions;
- Building models of resilient, low-carbon national development and planning responses;
- Enhancing transparency (and accountability) of public/private policies and investment flows; and
- Strengthening the accountability of existing carbon disclosure initiatives.

Source: E3G Research Team. Transparency and Accountability Initiative - Open Society Foundation, http://www.transparency-initiative.org/wp-content/uploads/2011/05/climate_change_final1.pdf, accessed June 16, 2015.

CONCLUSION

Good public financial management is a necessary ingredient for a strong country response to the impacts of climate change over the medium- to long-term.

That response will require that governments adopt a development approach that favors climate change adaptation, drawing upon an array of international, domestic and private sector financing sources and investing in climate-smart infrastructure, social services and sector strategies. For this response to be undertaken efficiently and transparently, countries need strong systems that help governments use available resources effectively.

Strengthening country systems will help countries access international financing for adaptation. Access to adaptation funds will in turn ensure investments in building adaptive capacity, including institutional capacity, thereby further strengthening country systems. It is a mutually reinforcing process.

To go about practically strengthening their systems for adaptation finance, it helps for countries to have a grounded and realistic understanding of how those systems are composed. This paper presents one such definition. It is presented to assist countries in understanding and identifying which parts of their own systems need strengthening.

This paper lays the foundation for the USAID Adapt Asia Pacific Project's ongoing Adaptation Finance Knowledge Series. Forthcoming in the series are tools and other resources that are based on the Project's experience and designed to provide insights for improving access to climate change adaptation finance.

Resources like the one presented here can only provide a guiding hand along the path to sustainable, climate-resilient development. Ultimately, the power to strengthen country systems is in the hands of the countries themselves.

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CLIMATE CHANGE ADAPTATION PROJECT PREPARATION FACILITY FOR ASIA AND THE PACIFIC

The USAID funded Adapt Asia-Pacific project (2011-2016) helps countries in Asia and the Pacific obtain financing to address climate change impacts, through a combination of technical support in project preparation, and capacity building at the regional, national, and local levels for accessing climate change adaptation finance. For more information, please see www.adaptasiapacific.org

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