



CLIMATE BUDGET REVIEW GUIDE KHYBER PAKHTUNKHWA ASSEMBLY

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**CLIMATE BUDGET REVIEW GUIDE
KHYBER PAKHTUNKHWA ASSEMBLY**

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Message by the Speaker

Khyber Pakhtunkhwa has been facing the brunt of climate change hazards in the country because of its unique topography, being home to extreme cold and hot weather. Significant losses of life and property have been incurred, linked to climate-related disasters like floods, glacial melting, heat waves, etc.

Recognizing the threats that climate change poses, the Khyber Pakhtunkhwa government has taken some critical steps. It has established a Climate Change Cell, has been working on a provincial-level Climate Change Policy and Action Plan, and has conducted a review of climate-related expenditures for the last five years.

Khyber Pakhtunkhwa has been spending more and more on activities to bolster its climate response. For example, the share of relevant budget increased from 7.2% in FY 2011-12 to 9.7% in FY 2015-16. The Billion Tree Tsunami is another example. This is a flagship project of the Khyber Pakhtunkhwa government on environment and climate change.

While higher climate spending indicates the commitment of the government, in and of itself it does not ensure for the effectiveness of allocations and expenditures. Having a Climate Change integrated planning and accountability system is extremely important. Public representatives play a very critical role in this. Through their input and advice, greater accountability and oversight can be obtained, which can then be translated into better impact and effectiveness.

The KP Assembly has a Committee on Sustainable Development Goals, of which Climate Change is not only a specific goal but also cuts across other goals. With UNDP support a dedicated Focal Group has been constituted in the KP Assembly; this focal group and some other Assembly members have also had sessions for further strengthening their understanding of climate change budgeting. This Climate Change Budget Review Guidebook, which has been prepared by UNDP in consultation with the Assembly Secretariat and the focal group on Climate Change, will prove very effective in bringing clarity on climate change and in helping how the assembly members play a role in oversight of a climate change sensitive budget. I congratulate UNDP and the team working on developing this Guidebook, including: Dina Khan, Asad Maken, Glenn Hodes, Darko Pavlovic, and Doina Ghimici.

In an effort to address this gap, UNDP has initiated long-term technical support to the KP Assembly to enhance the capacity of legislators for overseeing climate relevant finance and public investments, and more specifically to check the provincial budget for climate responsiveness. As such, the Budget Review Guide is designed to assist members and staff of KP's Provincial Assembly with the task of carrying out a climate sensitive review of the budget.

ASAD QAISER
Speaker, Khyber Pakhtunkhwa Assembly

Message by the Country Director

Despite being a relatively new policy issue, strengthening how climate change finance is managed is crucial for combating the challenges that Pakistan, and particularly Khyber Pakhtunkhwa, faces. The evidence is increasingly clear. The economic cost of climate change is mounting. And as climate change affects poor and disadvantaged groups disproportionately inequalities between regions and population groups are widening as result of these impacts.

UNDP has been supporting the province in carrying out a Climate Public Expenditure and Institutional Review and in developing a Climate Change Financing Framework. While the former provides benchmarks to policy makers, the latter establishes a thematic budget code to track Climate Finance allocations at the point of expenditure, as well as longer-term reforms to systems and processes to better integrate climate policy objectives.

Governance and policy reforms are needed to integrate climate considerations into planning, budgeting, and public financial management systems. At the same time, accountability mechanisms and processes also need to be put in place. This would cater for more inclusive resource planning and more effective budget allocations.

Parliamentarians play a crucial role in this regard. They can ensure that climate change planning and budgeting is in line with the provincial priorities and aligned with public needs and service delivery. They can also champion programmes and regulations to make existing spending go further.

With this in mind, UNDP has been actively supporting KP Assembly members to better understand climate change issues and their role in climate budgeting. In 2017, a focal group within the assembly on climate change was formed. It has been taking a lead on advocacy. UNDP also developed a Climate Change Budget Review Guidebook for assembly members. This provides a ready reference for including references to the key planning and budgeting documents, the budget processes and key entry points in the process. Importantly it suggests sample questions on climate change at different stages, i.e., budget planning and formulation, presentation, and monitoring. I hope that the Guidebook will help the province in better planning and utilizing its climate change finance.

IGNACIO ARTAZA ZURIARRAIN,
Country Director, UNDP Pakistan



Acronyms and Abbreviations

ADP	Annual Development Plan
BCC	Budget Call Circular
BSP	Budget Strategy Paper
CCC	Climate Change Cell
CCFF	Climate Change Financing Framework
CPEIR	Climate Public Expenditure and Institutional Review
CRB	Climate Responsive Budgeting
EPA	Environment Protection Agency
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GLOF	Glacial Lake Outburst Flood
KP	Khyber Pakhtunkhwa
MTBF	Medium Term Budgetary Framework
NCCP	National Climate Change Policy
NDC	Nationally Determined Contributions
OBB	Output Based Budgeting
RoP	Rules of Procedure
SDG	Sustainable Development Goal
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

Executive Summary

The Khyber Pakhtunkhwa (KP) Assembly, by virtue of its constitutionally mandated responsibility to monitor the use of public finance, has an important role in overseeing the climate change related expenditures and investments of the government. The annual provincial budget is a key instrument in enabling the oversight function of the provincial Legislature, and this Guide is designed for the specific purpose of assisting members of the KP Assembly in scrutinizing the budget from a climate change responsiveness perspective.

Citizen of KP province, on account of its geography and socio-economic condition, are highly vulnerable to the harmful impacts of climate change. Realizing the significant threat posed by increasing temperatures and changing climatic conditions in the region, the government is taking measures to mobilize finances for locally appropriate climate change adaptation and mitigation action. This includes efforts to reconfigure public finance for driving more climate investment in the province. More specifically, with UNDP Pakistan's support the government of KP advancing climate responsive budgeting by piloting a Climate Change Financing Framework (CCFF) for systematically allocating, tracking and monitoring climate-relevant spending.

In addition to the executive government's role, the KP Assembly has an important role in the effective adoption of climate responsive budgeting. As the approver and overseer of public investment plans and expenditures, the provincial legislature has powers to direct the orientation of budgeting



8.9%
of the total provincial budget of KP went towards climate-related expenditures

financial year 2015/2016

frameworks and to influence the investment criteria of government.

This Guide is intended as a primer for KP legislators interested in understanding and appraising the budget from a climate change perspective. The Guide is designed to provide information and instruction in three main areas:

- 1
- 2
- 3

- The significance of domestic public finance in enabling a provincial climate change response
- The KP Assembly's role in overseeing Climate Finance utilisation in KP and ensuring appropriate and well-designed public-sector investment
- Practical guidance for scrutinising the budget in each stage of the cycle using a climate lens



How to read this guide?

The Guide starts with an **overview of Climate Finance** and the critical role it plays in enabling action to curtail global warming and build the resilience of countries and communities to climate induced impacts. Effective climate response requires linking policy and resources, and the Guide discusses the emergence of **Climate Responsive Budgeting (CRB)** as an approach to aligning public finance with the climate change interests and priorities of government.

Summarizing KP's Climate Finance context, the Guide describes some of the measures taken by the provincial government to address them, as well as local climate change risks and impacts. According to a Climate Public Expenditure and Institutional Review (CPEIR) commissioned by the UNDP, 8.9% of KP's total budgetary reflected climate activities related to mitigation and adaptation in the financial year 2015/2016.

Based on a review of the core parliamentary functions - legislation, financial scrutiny, and oversight of government- the Guide discusses the role of the KP Assembly in overseeing the provincial climate budget and ensuring accountability of public finance. Given its constitutional powers and duties, the provincial legislature has an obligation to ensure adequate funding is appropriately allocated and expended for achieving local climate response, as planned by the government and authorised by the Assembly.

Consideration is given to the central role of the parliamentary committee system in enabling the legislature to oversee budgets and financial performance of the budget and to engage with the executive government on policy and budget related matters.

An overview of KP's budget cycle and reflects on the role of legislators at various stages in the process – from formulation to the final audit. It provides a short **criteria for assessing the effectiveness of legislators' engagement** in the budget process, along with a brief description of KP Assembly's current status against the given criteria. Suggestions are provided for strengthening legislators' engagement at each stage of the budget. A set of indicative questions is listed at the end of each section describing a stage in the budget cycle, to demonstrate the kind of information to seek out as part of a climate sensitive budget review.

Finally, **summary recommendations** for improving legislators' oversight of Climate Finance in KP are given at the end of this Guide. These suggestions touch upon the need for sustained, and dedicated attention to Climate Finance in the Assembly, and strengthening interaction between legislative and executive arms of the government in budget planning and execution. The need for greater public engagement and adequate resourcing of parliamentary committees is also highlighted.

Introduction

Pakistan's high vulnerability to the adverse impacts of climate change is well established¹. This vulnerability is driven by several factors including the country's location in a hot and semi-arid climatic zone, an economy that is heavily reliant on agriculture, and high incidence of poverty and underdevelopment. Increasing temperatures, shifting precipitation patterns, and recurring extreme weather events (heat-waves, droughts, floods, etc.) are already impacting living conditions and economic productivity. A further rise in temperatures will have a higher negative impact on Pakistan's economic growth and security.

Realising the threat posed by climate change, the Government of Pakistan is taking steps to develop the requisite legal and institutional frameworks to plan, finance and manage domestic climate response. This includes the passage of an important piece of national legislation – the Pakistan Climate Change Act 2016 – that calls for establishing three institutions: a Pakistan Climate Change Council, a Pakistan Climate Change Authority, and a Pakistan Climate Change Fund. It is worth mentioning here that Pakistan was one of the first countries to establish a federal Ministry of Climate Change in 2012, and issued a National Climate Change Policy (NCCP) in 2013.

Provincial governments too are shaping appropriate climate resilience policies and institutional arrangements for their respective regions. The government of Khyber Pakhtunkhwa (KP) province is mobilising finances for local

climate action, including channelling its own resources towards investments meant to increase climate resilience and curb greenhouse gas emissions. Further, in an effort to move towards a climate responsive budgeting approach, the KP government is taking steps to amend provincial planning and budgeting processes to track and reflect climate change related expenditures.

The concept of climate responsive budgeting is gaining traction as governments around the world are increasingly compelled to review their national budgets and understand how climate change is already influencing allocations and expenditures, and where to channel resources for timely and targeted climate response across a range of areas. Climate responsive budgeting², or CRB, is an approach to managing finance from a climate change perspective. The ultimate objective is to align public finance with climate change related interests and commitments of the government. This essentially entails rationalising budgets and strengthening public finance management systems in ways that ensure more effective utilisation, transparency and accountability of resources for enabling necessary climate response.

By virtue of its core responsibility to provide oversight of public finance, the KP Assembly has an important role in promoting CRB and ensuring that public resources are prudently and transparently utilised in meeting priority climate change adaptation and mitigation needs of the province. However, with climate change

1. Pakistan is placed 7th in the global Long-Term Climate Risk Index (1999-2015) published by Germanwatch <http://germanwatch.org/de/download/16411.pdf>
2. See section 1.3 for more detail on CRB

management still a relatively new policy area for the provincial government and legislators, there is limited understanding of the issue at the local level. UNDP led consultations with KP legislators revealed that although Members of the Provincial Assembly (MPAs) are interested in engaging on the issue and taking it up as a parliamentary agenda, they lack the know-how to oversee provincial planning and budgeting from a climate response perspective.

1.1 What is Climate Finance and why is it needed?

Finance lies at the heart of successful global action to tackle climate change; it is central to enabling developing countries to reduce greenhouse gas (GHG) emissions, decarbonise their economies and to cope with or adapt to the harmful impacts of climate change. Governments across the developing world see financial commitments as key to achieving the Paris Agreement's³ target of keeping global warming below the 2°C increase limit.

While there is no globally agreed definition of Climate Finance, an inclusive working definition includes all financial flows that support climate action in the form of climate change mitigation and/or adaptation. The Standing Committee on Finance⁴ under the UN's Framework Convention on Climate Change (UNFCCC) defines Climate Finance as:

By this broad definition, it refers to all forms of financing (whether international or domestic, public or private) targeting programmes and

'Climate Finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts'

activities in support of climate change adaptation and mitigation action anywhere in the world. Such funding could flow from diverse sources, including international climate funds, overseas development assistance (ODA), national and local governments, regional and international institutions, the private sector, and non-government organizations and foundations.

The 2015 Paris Agreement of the UNFCCC sets ambitious targets for climate action based on initial plans – Nationally Determined Contributions (NDCs) – submitted by over 140 countries. The NDCs present actions and targets that respective countries propose to undertake after 2020 to curtail national emissions and limit global warming to a 2°C rise. The NDCs also present an estimation of the scale and pace of Climate Finance needed to achieve the plans, and form a basis for planning funding to developing countries from the Green Climate Fund (GCF) and other international funding channels.



3. The Paris Agreement 2016 http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

4. UNFCCC Standing Committee on Finance, Biennial Assessment and Overview of Climate Finance Flows Report, 2014 https://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf

5. PAK-INDC 2016, <http://www4.unfccc.int/ndcregistry/PublishedDocuments/Pakistan%20First/Pak-INDC.pdf>

This commitment is contingent upon the availability of sufficient international support to help the country meet the cost involved, estimated at around USD 40 billion at current prices. *Additionally, the cost of achieving the country's adaptation needs and goals, as indicated in the NDC, ranges between USD 7 - USD 14 billion per annum.*

1.2 Where does Climate Finance come from?

The large scale of investment (in trillions of dollars⁶) required to address climate change means that finance must be raised from multiple sources, via a combination of public and private sources, national and international actors, and various instruments. Currently, Climate Finance is classified along three main sources – international (public) Climate Finance, domestic Climate Finance from public sources, and private sector finance.

Under the principle of common but differentiated responsibility, international climate policy negotiations are based on the understanding that developed countries need to extend 'new and additional financial support' to developing countries to help them meet their climate change obligations under the UNFCCC. This is the basis for what has come to be known as international Climate Finance, which generally indicates the financial flows from industrialised nations to developing countries. Under the Copenhagen Accord of 2009, industrialised nations have collectively pledged to mobilise USD 100 billion per year by 2020, from a variety of sources, to

KEY INTERNATIONAL CLIMATE FUNDS

- Green Climate Fund (GCF)
- Adaptation Fund (AF)
- Climate Investment Funds (CIF)
- Global Climate Change Alliance+ (GCCA)
- Global Environment Facility Trust Fund (GEF)
- International Climate Fund (ICF), UK
- International Climate Initiative (IKI), Germany
- Least Developed Countries Fund (LDCF)
- Nordic Climate Fund (NCF)
- UN REDD Programme

assist developing country Parties in addressing their pressing national adaptation and mitigation needs. Institutional arrangements for channelling these large-scale resources centre largely on a Green Climate Fund (GCF) that was established in 2010 under the Cancun Agreement. The GCF has raised capital worth USD 10.2 billion in the initial

**GCF has awarded Pakistan a
USD 36.9 million
project for
Glacial Lake Outburst Floods (GLOF II)
The area of implementation for this
project is primarily Khyber Pakhtunkhwa.**

mobilisation period that runs from 2015-2018.

In addition to the GCF, several other climate funds are also in existence and billions of dollars in international Climate Finance is mobilised through multilateral and bilateral channels. For instance, the world's six largest multilateral development

6. According to the World Economic Forum's (WEF) projections, additional and incremental investment of at least \$0.7 trillion per year will be needed to meet climate change mitigation needs across the water, agriculture, telecoms, power, transport, buildings, industrial and forestry sectors. This investment will be necessary to limit the global average temperature increase to 2°C above pre-industrial levels. http://www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf



banks (MDBs) have collectively committed over USD 158 billion in Climate Finance during the past six years in developing countries and emerging economies⁷.

In recent years, there has been increasing attention towards the use of own funds by developing countries to finance domestic climate actions. International Climate Finance flows, although increasing, are only able to meet a fraction of the actual cost of climate action needed in developing countries; much of the remaining investment needs to be raised from local public and private resources.

Domestic Climate Finance, acquired from public assets and revenue streams, is a significant resource in meeting the emergent costs of climate change abatement and management in developing countries. Governments are increasingly focusing on strengthening their public finance management systems to align

public spending with climate change needs and priorities in ways that ensure effective utilisation, transparency and accountability of resources.

While public finance is an essential enabler of climate action, the large scale of funding needed for an economy wide transition lies largely with the private sector. In fact, public finance critically can help create the enabling environment and conditions to mobilise large-scale private sector finance for climate adaptation and mitigation, particularly in key climate relevant sectors such as agriculture, water and energy. In the meantime, given the urgency of major climate funding that is needed in most countries, careful planning and management of public expenditure is crucial.

1.3 Climate Responsive Budgeting (CRB)

Effective climate change response requires linking policy with resources. Although many developing

7. Joint Report of Multilateral Development Banks' Climate Finance, 2016 <https://www.afdb.org/en/documents/document/2016-joint-report-on-multilateral-development-banks-climate-finance-97692/>

countries, including Pakistan, have issued national climate change policies and action plans, linking these commitments with domestic public finance remains a challenge. For national climate change policies and strategies to be realised, their take-up through the budget process is essential.

Climate responsive budgeting (CRB) is basically an approach for translating climate change goals of the government into budgetary commitments. It helps assess the alignment and scale of the mobilisation of climate funds based on national climate policy priorities⁸.

CRB is a relatively new approach for governments to adopt, and the requisite knowledge and skills are still building-up. As a starting step, several countries including Pakistan are reviewing the direction of their existing public spending and investment to check for climate compatibility. The Climate Public Expenditure and Institutional Review (CPEIR) methodology, introduced by the UNDP in 2011, is being applied to national, provincial and district budgets to understand the nature and extent of existing climate related expenditures. The CPEIR also studies current climate policy and institutional arrangements to understand their integration domestic budgeting systems.

CPEIR studies in several countries have revealed that many activities, which directly and/or indirectly enable climate change adaptation and

mitigation, are already part of the development budget of government, although these are rarely categorised or understood as such⁹. Identifying and tracking climate-related expenditures across a range of sectors and activities in national and provincial budgets is challenging and complicates the task of introducing a comprehensive climate responsive budgeting approach within established public finance systems.

CRB classifies public expenditures through a process called climate expenditure tagging. Establishing a climate expenditure tagging system involves defining and classifying climate relevant activities, weighting their relevance and designing the tagging procedure¹⁰. There are several options for defining climate relevant expenditure, including developing a typology of climate relevant activities as identified in government policies, or following OECD-DAC Rio Markers for definition of adaptation and mitigation activities¹¹. The CPEIR experience can also be used for constructing a budget tagging system. Table 1 provides an indicative list of climate-relevant activities that feature in Pakistan's national and provincial budgets. The classification is customised from the example provided in the Pakistan CPEIR (2017), which found that much of the government's climate response sits within business-as-usual activities (e.g. irrigation, clean energy generation, food security, water sanitation) that are normally undertaken for economic or general development interest rather than any explicit climate response objective.

8. National Climate Budgeting, Department of Budget and Management, Republic of the Philippines, http://www.dbm.gov.ph/?page_id=13818

9. Governance of Climate Change Finance, Budgeting for climate change: How governments have used national budgets to articulate a response to climate change, UNDP 2015
https://www.climatefinance-developmenteffectiveness.org/sites/default/files/documents/27_08_15/1%20Budgeting%20for%20Climate%20Change_August%202015.pdf

10. Governance of Climate Change Finance, Climate Budget Tracking: Experiences from Asia, Issue 1, Regional Peer Learning Network Electronic Bulletin Vol. 1, UNDP
<https://www.climatefinance-developmenteffectiveness.org/topic/climate-budget-tagging-cbt>

11. Ibid

Table 1: Climate-relevance classification as per the Pakistan CPEIR study 2017¹²

High Relevance activities	Clear primary objective of delivering specific outcomes that improve climate resilience and/ or contribute to mitigation of greenhouse gases
Climate relevance weight 75% +	<p>Indicative Examples:</p> <ul style="list-style-type: none"> ▪ Clean energy generation (e.g., renewables, hydropower and nuclear) and improving energy efficiency to reduce GHG emissions ▪ Disaster risk reduction and enhancing disaster management capacity, particularly actions targeting flood and drought risk reduction ▪ Forestation and conservation of protected areas for climate change management ▪ Research, management and construction of water resources and infrastructure to combat increasing climate induced variability in droughts and floods ▪ Community/Village planning and relocation to protect from climate stresses (droughts, floods and sea level rise) ▪ Health care and research for managing climate-sensitive diseases and health impacts (e.g. malaria, heat strokes) ▪ Building institutional capacity to plan and manage climate change impacts, including early warning systems and monitoring mechanisms ▪ Climate change awareness raising, research and technical capacity building.
Medium Relevance activities	Either secondary objectives related to building climate resilience and/or contributing to mitigation, or mixed programmes with a range of activities that are not easily separated, but include at least some that promote climate adaptation or mitigation
Climate relevance weight 50–74%	<p>Indicative Examples:</p> <ul style="list-style-type: none"> ▪ Forestry and agro-forestry schemes that are motivated primarily by economic or conservation objectives but have strong climate change mitigation potential ▪ Waterworks rehabilitation, water efficiency, irrigation and canal lining – activities motivated primarily by agricultural or rural and urban supply objectives but which also have potential to address problem of climate induced water shortages ▪ Biodiversity and conservation activities that are not explicitly aimed at increasing resilience of ecosystems to climate change impact but which have good potential to deliver these objectives nonetheless. ▪ Civil defence facilities enhancement that can contribute to disaster risk management ▪ Land-use planning and zoning ▪ Improvement to industrial production and management technologies and efficiency standards ▪ Education and research in agriculture, veterinary and animal sciences and environmental sciences. This can contribute to food security under climatic stresses. ▪ Improvements to energy distribution system

Low Relevance activities Activities that display attributes where indirect adaptation and mitigation benefits may arise

Climate relevance weight 25–49%

Indicative Examples:

- Sanitation and sewerage development schemes that are not explicitly designed for the purpose of reducing climate induced disaster risk
- Marine research
- Roads reconstruction with disaster proofing elements
- Livestock management research
- General public planning capacity enhancement, either at national or local level, unless explicitly linked to climate change, in which case relevance would be high.
- Livelihood and social protection programmes motivated by poverty reduction (zakat, Poverty Alleviation Fund, Benazir Income Support Programme [BISP]), but building household reserves and assets and reducing vulnerability
- Food security research and planning
- Mass transit systems, railways
- Technological advancements; satellite programmes

Marginal Relevance Activities that have only very indirect and theoretical links to climate resilience, or small elements/components of the investment which have a direct effect on CC

Climate relevance weight less than 25%

Indicative Examples:

- Trade diversification
- Education and health programmes that do not have an explicit climate change element but generally improve access to information, health care and resources for people
- Development of roads and communication networks to enhance general mobility and access
- Social uplift and income support schemes and programmes

12. The indicative examples have been slightly modified from the original description in the CPEIR report for better understanding

13. Governance of Climate Change Finance, Budgeting for climate change: How governments have used national budgets to articulate a response to climate change, UNDP 2015



When introducing climate budgeting and monitoring at a national or provincial level, it is useful to develop a broader financing framework that can help government streamline the process of prioritising and allocating financial resources for activities that advance specific climate action, in addition to meeting economic objectives and/or other sustainable development objectives (other than climate action). According to the UNDP¹³, a comprehensive Climate Change Financing Framework (CCFF) should cover the following elements:

1. Defining what constitutes climate change expenditure in a consistent and commonly agreed manner with all relevant national and provincial stakeholders
2. Planning and costing climate change response over the medium to long term scale
3. Employing a holistic approach, that involves all relevant government departments,

sectors and stakeholders, to mobilizing and managing domestic Climate Finance

4. Blending domestic and international sources of public Climate Finance into the national planning and budgeting system
5. Developing mechanisms for ensuring accountability of the use of Climate Finance

The last point is particularly relevant to the role of elected representatives in the climate change financing system. The Provincial Assembly has a core responsibility to ensure accountability of public expenditure, including climate change related funding and investment. Therefore, engaging the Assembly and enhancing its role in monitoring Climate Finance mobilisation and use needs to be a key consideration of the CCFF.

The following section provides a summary of initiatives by the government to move towards climate responsive budgeting in KP.

2. Climate Finance in Khyber Pakhtunkhwa

2.1 Pakistan's Climate Finance context

Pakistan ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 and has since qualified for financial and technological support available to non-Annex I countries (mostly developing nations) under the global climate agreement. Further, Pakistan submitted its Nationally Determined Contribution (NDC) to the UNFCCC in 2016, becoming eligible for a new phase of enhanced financial support from the global community.

Despite the opportunity, Pakistan has attracted relatively limited climate funding from international sources, far short of the estimated USD 6 - 11.28 billion needed annually to cope with climate-induced disasters in Pakistan (NEEDS study)¹⁴, or the USD 40 billion needed by the government to limit the rise of Pakistan's greenhouse gas emissions until 2030 (Pak NDC)¹⁵.

In contrast to external aid, the government has a more significant track record in sanctioning funds from national and provincial budgets for financing 'climate-relevant' projects and investments in the country. The Pakistan CPEIR¹⁶ revealed that at least 6.5% of the federal government's budget (current + development) in financial year

2015/2016 went towards activities that directly or indirectly addressed domestic climate change adaptation and mitigation needs. In other words, 6.5% of Pakistan's budget expenditure at the federal level was climate-relevant, even if most of these allocations were not explicitly marked or intended for a climate-response.

Likewise, 8.9% of the provincial government's expenditure in KP was assessed to be climate responsive in the same financial year. While the federal government's climate-relevant allocations centered largely in mitigation related sectors (primarily energy and transport), at the provincial level in KP, much of the climate relevant expenditure went towards adaptation related activities.

2.2 Provincial (KP) experience with Climate Finance

Heavy economic reliance on climate-sensitive sectors like agriculture and forestry, and increasing water insecurity are among key factors driving this vulnerability, along with weak capacity of the government, systems and communities to cope with the changes.

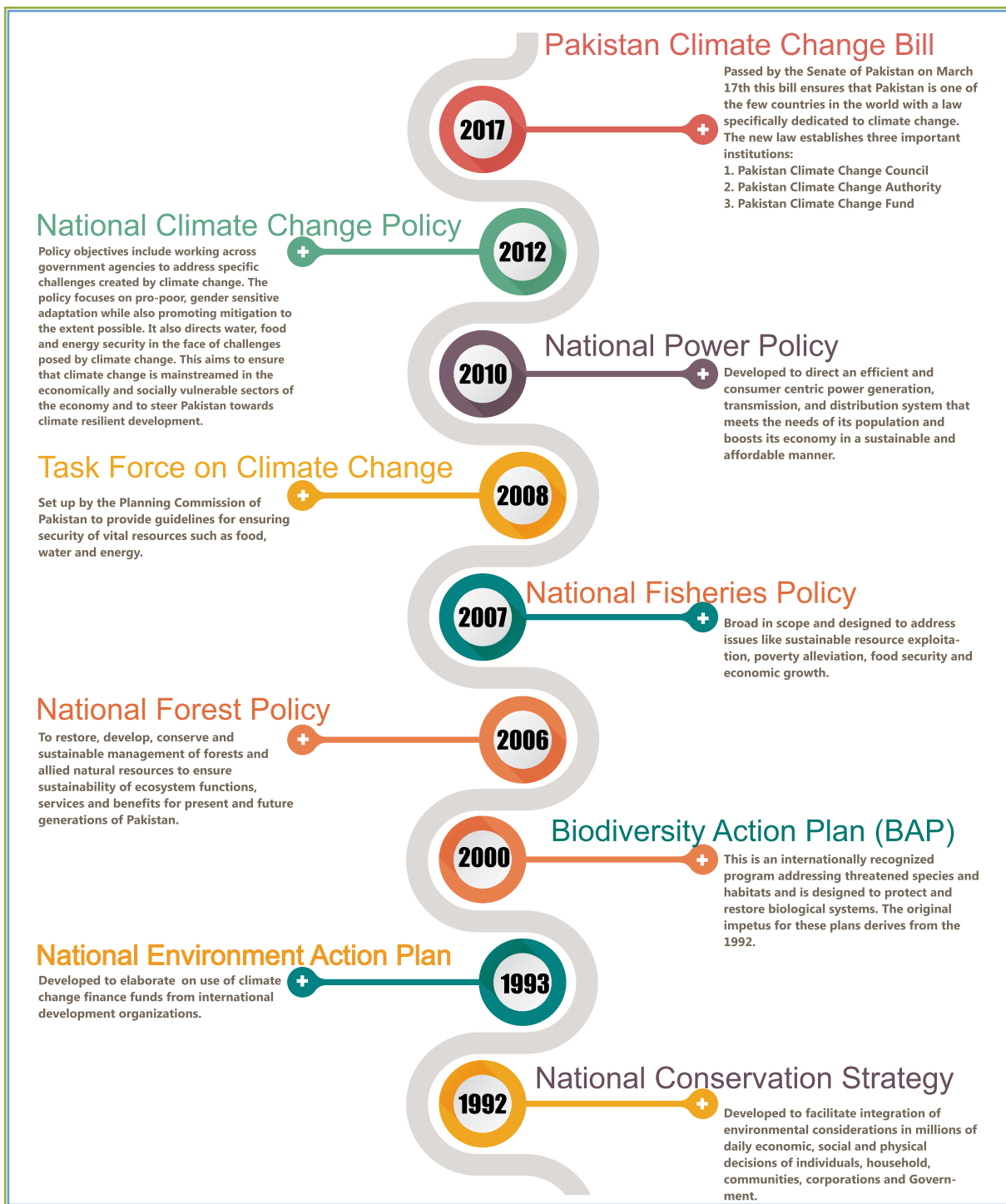
14. National Economic and Environmental Development Study (NEEDS), 2011 <https://unfccc.int/files/adaptation/application/pdf/pakistanneeds.pdf>

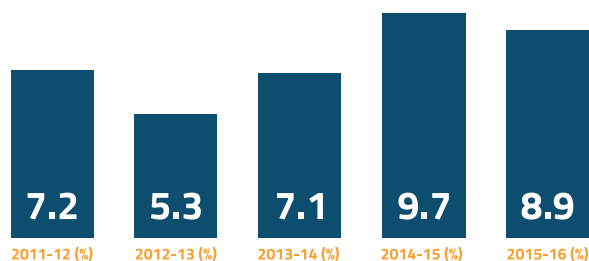
15. PAK-INDC 2016 <http://www4.unfccc.int/ndcregistry/PublishedDocuments/Pakistan%20First/Pak-INDC.pdf>

16. Pakistan Climate Public Expenditure and Institutional Review, 2017, UNDP

The Pakistan CPEIR Report of 2017 followed from an earlier CPEIR Report published in 2015.

PAKISTAN'S NATIONAL COMMITMENTS





Expenditure as % age of total KP Budget

The province's high risk to - climate change impacts is also driven by the significant variability of climatic and ecological conditions across the region, ranging from hot and dry rocky areas in the South to forested and snow-bound mountain ranges in the north, to central valley plains with a relatively moderate climate. Climate risks facing the region are as diverse as the range of agro-ecological zones in the province. Moreover, KP is home to important fresh-water reservoirs, including glaciers and snow packs that feed the Indus River and its tributaries and are critical resources for the country.

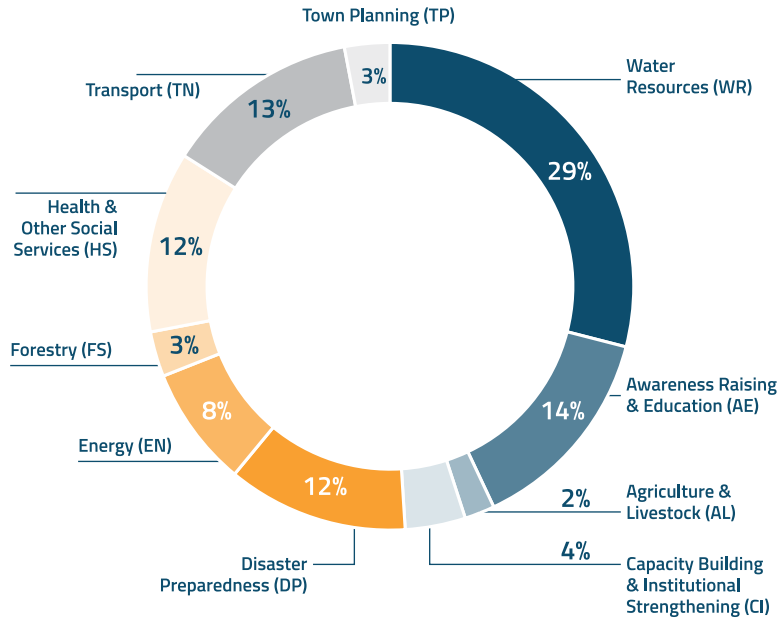
Recognising climate change as a major threat to national security and economic growth, the Government of KP established a Climate Change Cell (CCC) within the Environment Protection Agency (EPA) in 2014, to facilitate provincial policy and planning on climate change. KP was the first province in Pakistan to draft a provincial climate change policy. Further, the provincial government launched a Green Growth Initiative (GGI) in 2014 to promote resilient and sustainable growth, focusing on the forestry and energy sectors.

Promising as these developments are, dedicated and substantial climate funding, whether from international sources or domestic ones, has yet to be mobilised by the provincial government to meet climate change mitigation and preparedness needs.

But even though dedicated funding for climate response is negligible, the Pakistan CPEIR study does suggest that a sizeable proportion of public resources are being channelled into sectors and activities that contribute, directly or indirectly, to meeting provincial climate response needs (e.g. food security, disaster resilience, clean energy, water resource management). The Pakistan CPEIR 2017 study found that 9.7% of KP's total provincial budget (current + development) was climate-related in the fiscal year 2014/2015. Further, water resources (29%), awareness raising & education (14%), transport (13%), health & social services (12%) and disaster preparedness (12%) accounted for 80% of the climate relevant component of the provincial development budget in 2014/2015. Total climate-related spending in KP is estimated to have increased from PKR 13 billion to PKR 24.4 billion between 2010 and 2014.

As discussed earlier in Section 1.3, the CPEIR approach, which builds on the World Bank's Public Expenditure Review (PER), seeks to provide policymakers with a tool to analyse the nature and extent of climate-related allocations across national and provincial budgets. As verified by the CPEIR assessment, the task of responding to climate change does not fall to a single ministry or agency; rather it is spread across sectors, institutions and development portfolios. This indicates the huge scale of effort that is required to plan and coordinate climate action and streamline financing from public resources. Towards this end, the Government of KP developed a Climate Change Financing Framework (CCFF) to systematically allocate, track and monitor climate-relevant spending at the provincial level. The CCFF is an attempt at integrating climate change into mainstream planning and budgeting processes of the government for the purpose of bringing a more structured approach to Climate Finance management.

Figure 3: Climate-relevant allocations by sector in KP's development budget of 2014/2015



Source: Pakistan CPEIR Report, 2017

CCFF starts with the planning phase and ends with a robust monitoring system that can gauge the adequacy and effectiveness of climate related expenditures. It is envisioned as a mechanism for systematically tracking, managing and reporting climate related expenditures of the government in order to ensure that the finances are being used effectively, efficiently and transparently for

their intended purpose. It is expected that with a clearer understanding of the budgetary resources already being spent on activities that are contributing to climate response, the government can make more informed decisions on how to plan future climate expenditure and where to channel additional resources or re-align funds for a more efficient response.

Why Climate Finance matters in KP?

As with rest of the world, average surface temperature has been rising across Pakistan over the last 130 years. Various studies based on scientific modeling exercises suggest that average temperature will continue to increase by 2.8 - 3.4°C in the period leading up to 2100. This will have detrimental consequences for human societies and natural ecosystems, including in KP, and therefore scaled up finances are urgently needed for the government to prepare and respond. Major climate change impacts and risks in KP include:



Diminishing agricultural productivity: Heat stress, frequent flooding and shifting rainfall patterns pose a combined threat to crop productivity in a province where 31% of the population is already food insecure and suffering high rates of malnourishment. Diminishing crop yields have serious economic repercussions as agriculture employs around 40% of the local population and contributes 22% to the provincial GDP. Crop yields declined by 10-12% the last time Pakistan suffered a nation-wide drought from 1999-2002 (WB_GFDRR 2011)



Potentially higher rates of mortality and morbidity: Climate change threatens to be a catastrophic public health challenge; it is contributing to several thousand additional deaths and morbidity cases each year from malnutrition, malaria, dengue, diarrhoea, respiratory diseases and heat stress. Countries like Pakistan which have weak health infrastructure are least able to cope with this challenge without technical and financial assistance.



Drier weather and growing risk of drought: Increasing erraticism of rainfall patterns coupled with rising temperatures are causing prolonged dry spells and putting rivers and water reservoirs under great stress, while increasing per capita demand for water. This is heightening the risk of droughts, particularly in the arid southern region of KP. Rainfall extremes are projected to become more pronounced in future, changing the seasonal distribution. Drier weather conditions and changing rainfall distribution are also contributing to growing levels of air pollution in the province and higher incidence of respiratory diseases.



Recurring floods: In 2010, KP suffered its worst flooding in recent history, affecting over 4.3 million people and causing losses in billions of dollars from damages to infrastructure, households, agriculture and livestock, and other assets. Since then floods have been recurring almost every year due to intense precipitation events, undermining rehabilitation and reconstruction efforts in affected areas. Global warming is set to drive up the frequency and intensity of floods and other natural disasters.



Diminishing glaciers & snow cover: The Hindu Kush, Karakoram and Himalayan glaciers in KP province and Gilgit Baltistan (GB) region feed the Indus River and its tributaries that are a major source of water for the entire population of Pakistan. These account for over 70% of the country's stored-water supply. Longer summers and higher temperatures are causing these glaciers to melt and shrink at rapid rates, posing a very critical threat to water security of the Indus population. Summer snow lines are also retreating and have crept up an average of 3,395 feet since 1981.



Increasing & potentially intensifying GLOFs: Rapid glacial melting has created over 3000 glacial lakes in KP and GB regions, of which at least 52 are at risk of bursting and causing glacial lake outburst floods or GLOFs. Chitral Valley, KP's largest district, has been suffering recurring floods in recent years due to GLOFs and heavy torrential rains. Flash floods in 2015 were particularly devastating, affecting over a quarter million population in Chitral and sweeping away roads, infrastructure and 1200 acres of standing crop.



Record breaking temperatures and heat waves: Incidence and severity of deadly heat waves is increasing with rising temperatures and an extending summer period. More than 1200 people died in Pakistan's deadliest heat wave on record in 2015. In addition to impacting human health, increasing heat stress is detrimental to health of crops and ecological resources.



New cyclonic activity: On April 26, 2015 Peshawar city and its adjoining area were struck by an unprecedented intense cyclonic wind storm with whirling winds at a speed of 110km/hr. Pakistan Meteorological Department (PMD) declared it third of its kind in the history of Pakistan and first ever in Khyber Pakhtunkhwa.

3. Role of Provincial Assembly

The Provincial Assembly is a unicameral legislature of elected representatives of the KP province. The Assembly, in addition to making and unmaking the provincial government, performs the following functions:

- 1. Legislation:** The power to initiate, pass and amend bills of law. It is also constitutionally empowered to introduce and pass money bills, including the annual budget statement of the government.
- 2. Control and Accountability of Public Finance:** Exercises checks over the executive through control over public finance and authorises expenditure from the Provincial Consolidated Fund; It also has the power to approve, refuse or amend any demand in the government's budget. Once the budget is approved, the government does not have the right to deviate from these sanctions. For excess expenditure the government has to seek regularization from the Assembly. The Public Accounts Committee of the Assembly further scrutinizes audit reports of the government.
- 3. Oversight of government:** As representative institution of the general public, and as an oversight body, it keeps checks on policies, practices and performance of the government.

By virtue of its constitutionally mandated role and functions, there is an obligation on the provincial legislature to ensure that the revenue and spending measures it authorises are in line with the needs of the population and are implemented properly and efficiently. This includes responsibility for checking the climate

response measures of government and ensuring that sufficient funding is being mobilised to protect provincial resources and populations from the risks associated with climate change.

Given its constitutional powers, the Assembly is in a strong position to affect the distribution of public funds and resources towards programmes and activities that address the climate change adaptation and mitigation needs of the province. It has the authority to instruct the government to raise and spend public money, and the responsibility to hold the government to account for this spending.

The Annual Provincial Budget is a key instrument in this regard. It is submitted to the Assembly for authorisation by the executive government. The budget is the means to align public resources with local development needs and priorities, and it reflects the government's intent and planning to deliver on stated goals and obligations. The Annual Budget is also the vehicle through which international or national commitments are translated into local level actions through funding allocation and execution.

The Constitution of Pakistan requires that the Annual Budget Statement of the provincial government be submitted to the Provincial Assembly in the form of Demand for Grants each year, and that the Assembly approve or disapprove or amend the Demand for Grant as it deems appropriate. The Constitution also provides that no money be withdrawn from the Provincial Consolidated Fund until it is duly approved by the Provincial Assembly.

Like all other government costs and expenditures, climate change related expenditure must be included in the Annual Budget. Given the crosscutting nature of climate change, funds for adaptation and mitigation related activities are generally dispersed throughout the Budget. This Guide is intended as a primer on how the Assembly can use its authority under the Constitution to maximise its ability to ensure funds for climate-related activities are allocated appropriately, and expended as intended in the budget adopted by the Assembly.

3.1 Effective work through the Committee system

The regular work of the executive is examined through sectoral/thematic committees in the Assembly (referred to as standing committees in the KP Assembly). There is a permanent standing committee in the KP Assembly for each department of the provincial government. The committees are organised to support the Assembly in its function of overseeing decisions and spending of the provincial government and holding the government accountable for its actions. With diverse representation in each committee, these structures enable cross-party input to sectoral policy setting and other decision-making led by the relevant Minister.

Committees are at the centre of an effective Assembly. They link the Assembly, the executive and the general public. It is where, among other things, the detailed, line-by-line, review of a budget occurs. It is where technical expertise, whether from parliamentary staff or elsewhere, can be engaged to provide advice and support as the committee gathers information, knowledge and evidence to inform its decisions.

Therefore, if KP is to have an effectively

functioning Climate Finance system, several actions related to the committee system would need to take place in the Assembly:

- 1 Committee/Working Group on climate change:** To ensure focused and sustained engagement on Climate Finance, the Assembly needs to consider notifying a dedicated Standing Committee on climate change. Alternatively, the Assembly's Rules of Procedure can be amended to specifically assign responsibility for Climate Finance monitoring to an existing committee (i.e. Environment, Planning & Development), and/or add it to the mandate of multiple existing committees. A cross-committee Working Group on Climate Finance, which requires much less procedural change to set-up, can also be considered for coordinating the budget oversight function in the Assembly. Further, adequate resources need to be allocated for the work of committees.

As there is no dedicated government department overseeing climate change planning and administration in KP, likewise a corresponding committee on climate change is not notified in the provincial Assembly. The subject of climate change currently falls (by default) to the Standing Committee on Environment as an additional task to the committee's core sectoral interests (i.e. environmental regulation, biodiversity, forestry). However, cross-sectoral nature of climate change makes it the purview of several thematic committees in the Assembly. Allocations and expenditures for climate change related measures are dispersed across the budget and development plans of various sectors and departments that are outside the purview

of the environment committee. Oversight of Climate Finance should therefore be taken-up through multiple committees, including those focusing on health, agriculture, irrigation and power, industries, etc.

2 Data Gathering: For evidence-based decision making, a thematic committee needs access to timely and reliable information. Amending the Assembly's Rules of Procedure may be required to enhance the committees' power to obtain information for overseeing the government. In addition to engaging the relevant government department for data and feedback, a committee should also have access to independent experts and external sources of information (e.g. from academia, civil society, international organisations, general public) to gather sufficient and reliable information. When reviewing the budget, committee members need to be aware of all relevant sources of information to seek out.

3 Public Input: Modern parliaments are expected to actively reach out to the public and effectively mediate between society and governance. It is after all the citizens of a country or a region that are the ultimate beneficiaries of government policies and investments. Public feedback is also an important input towards informed decision-making. Public engagement can

take many forms – from direct interaction through public consultation and hearings, to soliciting feedback on mobile phones and web-based communication using social media and other online platforms, etc. In the case of budget preparation and review, the KP Assembly (through the relevant standing committee) should consider arranging public hearings/debate on the budget. Pre-budget consultation with the Department of Finance and relevant thematic departments (e.g. Environment or Agriculture) to discuss climate relevant needs and provisions in the budget can be a useful forum for opening up to the public and media.

4 Dialogue with Line Departments: There is a need for regular dialogue and coordination on climate issues and related finance between the key thematic committees (e.g. Finance; Environmental Protection, Agriculture) and relevant line departments. This will help the committees convey their interests and concerns to the executive. Such engagement can provide committees with a better understanding of the practical issues and challenges in implementing agreed decisions; it can also help committees identify the knowledge and capacity gaps in budget assessment, tracking and reporting that may require outsourcing of research and technical expertise.

4. The Budget Cycle

4.1 What is the Budget?

The Annual Budget is a financial plan that sets out how the government seeks to resource its intended objectives, functions and obligations over a 12-month period. It is a statement of estimated receipts and expenditures of the provincial government for a financial year, and is a summary of the budget estimates.

The government's annual expenditure proposals and revenue raising plans are enclosed in a set of documents that constitute the overall Budget. The table below shows the main budget documents that are published by KP Department of Finance each year.

Table 2: Main Budget Documents in KP	
Document	Description
1 Budget Speech	Delivered by the Minister of Finance, this highlights the government's performance over the previous financial year and plans for the coming year
2 Budget White Paper	Budget memorandum that explains the overall financial position of the provincial government and activities of various departments. It contains brief notes on the estimated receipts and expenditures and new policy initiatives of the government. The document also contains detailed growth and development strategy of the government, including the Annual Development Programme
3 Annual Budget Statement	Article 120 of the Constitution of Pakistan requires that an Annual Budget Statement be laid out before the Provincial Assembly for review and approval. The Statement provides estimated receipts and expenditures of the provincial government. The Annual Budget Statement is intended to provide an overview of functional classification and estimation of revenue receipts, revenue expenditures, capital receipts and disbursements. It also includes a summary of the allocations for the Annual Development Programme. Budget Estimates of Public Account are also shown under various items of this account.

4	Estimate of Charged Expenditure and Detailed Demand for Grants	<p>This document lists operational expenditure of all the provincial departments. This is the most voluminous document in the budget portfolio, and shows the following information for each department:</p> <ul style="list-style-type: none"> - Schedule of establishment which shows the total number of posts (filled and vacant) - Details of the budget of each unit of each provincial department for the coming year, along with the Budget Estimates (BEs) and the Revised Estimates (REs) for the closing financial year
5	Annual Development Programme (ADP)	<p>The ADP contains the estimated expenditures for carrying out on-going and proposed development projects/schemes in the given financial year. More specifically, the ADP includes:</p> <ul style="list-style-type: none"> - Sector wise summary of the development programme, including details of the number of projects financed with local funding and foreign funding, total cost of each project, and the percentage share of each sector in the total ADP - Sector wise bifurcation of domestic and foreign funding - Sector and sub-sector wise expenditure details of the programme - Expenditure detail of each development project/scheme along with the cost allocation for the up-coming financial year, cost incurred up to June 30 if the project is an on-going, and the amount that would be carried forward to the subsequent year/s by each department/sector.
6	Estimate of Receipts	Shows all sources of receipts of the provincial government
7	Budget Estimate for Service Delivery under Output Based Budget	Provides the performance targets, key performance indicators and outputs and outcomes of planned activities of the provincial departments. This is an important document that provides details about the budget estimates for the coming year against the expected outputs and outcomes of each provincial department for the same year. Also includes performance targets and KPIs for each department against the demanded funds.

4.2 Medium Term Budgeting Framework

The Government of KP has embarked on a comprehensive reform agenda that includes adopting a Medium Term Budgeting Framework (MTBF). The three-year rolling MTBF seeks to strengthen the alignment of allocations through the budget to the strategies and policies of the government.

Output based budgeting (OBB), embedded in the three-year MTBF, aims to move the focus of public

finance management to a result based budgeting system that links to distinct deliverables and outcomes. The Output Based Budget statement of the government is published alongside the Annual Budget book. The Provincial Assembly has so far limited its role to reviewing and voting on the annual budget of government, without delving into the outputs, outcomes, performance targets and three-year resource planning set out in the MTBF. It is important that the Assembly hold the government accountable for not just the

annual financial performance but also for results and targets set out in the more strategic medium term budget plans. For the purpose of supporting climate responsive budgeting and planning, the Assembly will also need to review outputs, outcomes, performance indicators and medium term plans from a climate change perspective.

4.3 Stages of the Budget Cycle

The Budget Cycle refers to the annual process through which the provincial budget is developed, implemented and reviewed. Preparation of the annual budget forms one part of the wider budget

cycle. Budget preparation is preceded by policy formulation and planning, and is followed by implementation, monitoring and audit.

There are basically five stages to the budget cycle followed by the Government of KP:

1. Preparing the Budgeting Framework
2. Budget Formulation
3. Review and Approval
4. Implementation
5. Audit

Good international practice is for an elected body to play a role in each of these stages.

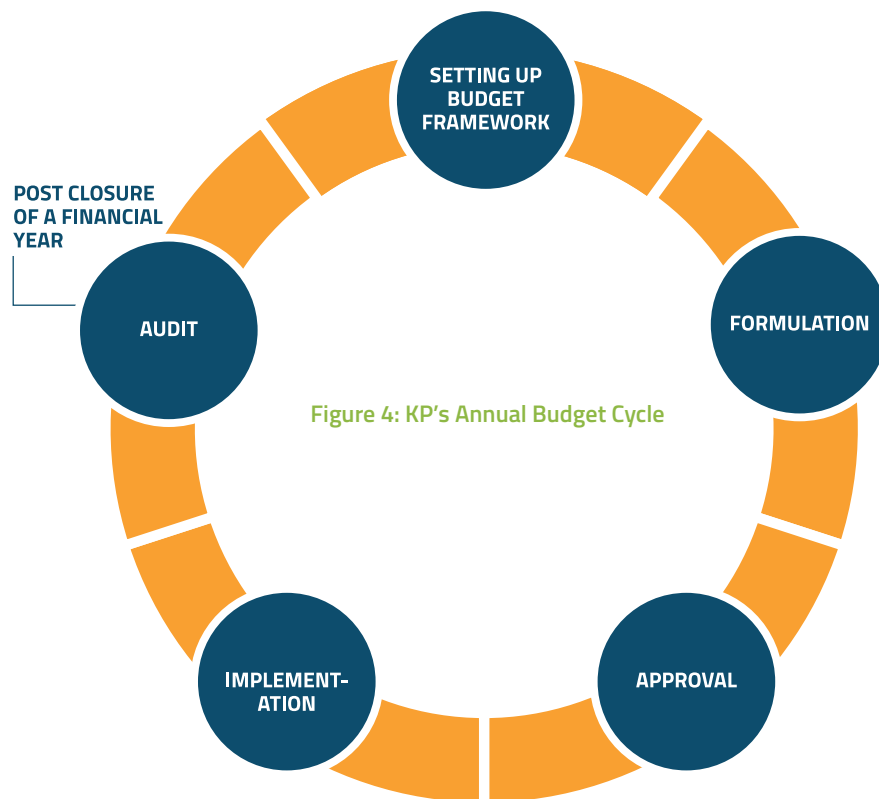


Figure 4: KP's Annual Budget Cycle

A brief description of budget cycle: Indicative role of KP Assembly

STAGE I

Setting up the Budgeting Framework

This is the very initial planning phase; it involves determining priorities for the upcoming budget period, setting expenditure ceilings for individual line departments, and preparing revenue projections. The Finance Department issues a Budget Call Circular (BCC) at this stage, which is prepared in consultation with stakeholders including members of the Provincial Assembly.

Another important document that is prepared by the Finance Department at this stage is the Budget Strategy Paper. (BSP) The BSP describes the government's policy framework for the forthcoming budget. It is presented to the Cabinet for approval and serves as a guiding document for consolidating budget estimates.

Ideally, members of Provincial Assembly should be active participants in this stage of the cycle as this is when investment priorities for the forthcoming fiscal year are determined.

STAGE II

Budget Formulation

The government does much of the work during this stage, and the Finance Department in particular is directly responsible for developing the draft budget. The Finance Department conducts its own set of consultations within government to seek the feedback of various ministers and departments prior to preparing the draft budget.

Provincial line departments prepare estimates of their planned activities and expenditures for the coming financial year, in line with the Budget Call Circular issued by the Finance Department. Departmental heads identify and cost development projects for the budget year in line with their sectoral strategies and the annual development planning guidelines issued by the Planning and Development (P&D) Department. Outputs, KPIs and performance targets are also prepared by the heads of departments in consultation with staff and elected representatives. Each line department's portfolio of development projects is submitted to the P&D Department, which is responsible for leading and consolidating the provincial Annual Development Plan (ADP). Likewise, consolidated budget estimates pertaining to the current expenditure of each department are submitted to the Finance Department for further negotiation and finalisation.

MPAs can play an important role in communicating the people's needs and priorities to the executive while budget estimates are being formulated. Some of the thematic standing committees (but not all) in the KP Assembly conduct pre-budget discussions with their relevant line departments. During the budget preparation phase, some of these committees meet with officials from the respective departments, and provide inputs on their priorities for the new budget. The department, in turn, will take this feedback, with other consultations and internal discussions, to produce a draft budget for the department that is submitted to the provincial P&D Department and the Finance Department for finalisation of the draft annual budget.

As a matter of good practice, relevant committees can usefully conduct their own public consultations, parallel to those that may be held by the executive branch. This would allow the MPAs on the committee to identify the priorities of citizens as to where they want the government to allocate funds (See section 3.1 for further discussion on the committee system).

The Annual Development Budget is a crucial component of the overall budget, as it constitutes allocations for all development schemes in the government's Annual Development Plan (ADP) for the new financial year. The Planning and Development (P&D) Department leads the preparation of the ADP in accordance with policies and priorities set out by the provincial Chief Minister. Preparation of KP's development budget is a five stepped process:

- 1. Determining inter-sector priorities and estimating available resources: At this initial stage both the P&D Department and the Finance Department are involved in estimating available resources for development expenditure in the coming year, and identifying investment priorities of the government across all sectors. The latter is determined based on the latest sector policies and the number of ongoing and new programmes to be initiated in the new budget period. Detailed guidelines for preparing the annual development budget are issued by the P&D Department to all line departments. Relevant committees of the Provincial Assembly can play an important role at this stage by communicating the needs of the public, which would assist the P&D Department in allocating funds to the priority areas.*
- 2. Preparation of Portfolio of Schemes: Provincial line departments prepare a portfolio of schemes for their respective sector on the prescribed government format called the PC I. The schemes are prepared based on the Medium Term Development Framework (MTDF) and the sector policies and priorities.*

This is the stage where the MPAs can actively engage in the process either through the thematic standing committees or by engaging directly with the relevant Minister and department for inclusion of the schemes according to the needs of their constituencies and/or wider public interest.
- 3. Preparation of Preliminary (Draft) ADP: Once departments submit their portfolio of schemes, a series of meetings are held and a first draft of the ADP is developed. The executive generally dominates this process.*
- 4. Final Consultation and Consensus: In order to finalise the proposed ADP, the P&D Department*

arranges consultative meetings with concerned stakeholders, including the line departments and the Finance Department. As per the outcome of these discussions, line departments may be required to make adjustments to their PC I drafts. The proposed ADP is finalised in view of the available financial resources and priorities determined by the government.

- 5. Finalization of the ADP: In this phase, various committees including the Priorities Committee, Annual Plan Coordination Committee, Executive Committee of National Economic Council and National Economic Council meet at the federal level to finalise the provincial ADP. Subsequently, the agreed ADP is presented to the provincial cabinet for review, following which it is submitted to the Provincial Assembly for final approval. This is the stage where members of the Provincial Assembly have a key opportunity to scrutinise the budget and question its appropriateness with regards to local climate response needs and priorities (see below in Stage III for more detail). After approval from the Provincial Assembly, the ADP is ready for implementation.*

Potential questions for Standing Committee members to ask during the Budget Formulation stage:

General climate change priorities of the government:

- How is the provincial government planning to fulfil its responsibilities with respect to implementing the National Climate Change Policy (NCCP) recommendations at the provincial level? What specific allocations are made in the budget for this purpose?
- What level of funding is allocated for the development and implementation of KP's Climate Change Policy? Are there provisions for preparing and implementing a provincial Climate Change Action Plan? If yes, what is the responsible body?
- How much funding is being allocated for programmes related to climate adaptation and mitigation? Is this funding adequate and sustainable?
- Which areas and ecological zones in KP are at highest risk of climate change impact such as water scarcity and drought, flash floods, landslides, crop failure, heat stress etc.? Are there special provisions in the budget for these hotspot areas?
- What are the priorities of the government for the forthcoming budget year with regards to climate adaptation and resilience building in the province? What are the relevant adaptation schemes proposed under the sectoral ADPs (particularly for Agriculture and Food Security, Water and Power, Housing and Resettlement, Health etc.)?
- What are the priorities of the government for the forthcoming budget year with regards to climate change mitigation? What are the relevant mitigation schemes proposed under sectoral ADPs (particularly for Agriculture, Energy, Transport, Forestry)?

- ✔ What have been the Government's efforts to enhance the disaster resilience and adaptive capacity of the communities? Is this reflected in the budget?
- ✔ How are sectoral budgets being managed and synergised for a coordinated and integrated climate response?
- ✔ Is the government marking budget allocations against the Sustainable Development Goals (SDGs)? If yes, are allocations to SDGs (other than Goal 13 which is specifically related to climate change) also explicitly marked as allocations to climate change related targets?
- ✔ How is knowledge being generated to inform climate change policy and planning in KP? What kind of allocation for climate change research and knowledge management is reflected in the budget?
- ✔ Which areas and ecological zones in KP are most affected or at risk from increasing climate change impacts such as clean water shortages, drought, flash floods, landslides, crop failure, heat stress etc.? Are there correspondingly increased budgetary allocations to the most affected/at risk areas (compared to the less affected/at risk areas)?

Institutional mechanisms:

- ✔ What kind of institutional arrangements have been made by the government to manage the development, implementation and coordination of climate change policies and plans in the province?
- ✔ How much funding is being allocated for these institutional mechanisms? Is the level of funding increasing or reducing compared to previous years?
- ✔ Are the institutional and staffing arrangements at the provincial level adequate for translating all climate change commitments and intentions (objectives, targets, expected results) into realistic plans, actions and concrete activities, and to monitor, evaluate and report performance?
- ✔ How much funding is allocated for institutional strengthening and human resource development (HRD) activities at public agencies managing climate change? Are there allocations for climate change related training and capacity building programmes?
- ✔ Has the CCFF been fully implemented throughout government? If not, what barriers or bottlenecks are preventing the full rollout of the system?
- ✔ Which agency is responsible for providing climate change information to planners to inform programming and budgeting? Is climate change information being provided in a timely and efficient manner (e.g. is the flow of information clear and effective)?

Consultative processes for inclusion:

- ✔ To what extent have marginalised groups been consulted during budget formulation process by the government?
- ✔ Are the employed consultation modalities sufficient and effective in enabling a truly inclusive process?
- ✔ What are the prevailing priorities and needs of citizens and civil society for the coming fiscal year with regards to climate change mitigation and adaptation?
- ✔ To what extent and how have thematic standing committees been consulted in formulating a climate responsive budget? How is the climate budget integrated with various sectoral plans and budgets?
- ✔ How have budget planners been using this type of information to inform planning? What kind of reforms might be required to see that climate relevant investment decisions are evidence based and made according to actual needs?

STAGE III

Budget Approval

The legislative arm of government dominates this stage of the cycle. The Annual Budget is presented before the provincial Assembly for review and approval. The provincial Assembly can accept, amend or reject the budget. After approval by the provincial Assembly, the Chief Minister of the province authenticates the Budget.

Supplementary or amended budget allocations for the previous year are also placed before the Provincial Assembly for approval at this stage. According to the Rules of Procedures of the KP Assembly, the Budget is to be reviewed and approved by the Assembly in the following stages:

- General discussion on the Budget as a whole
- Discussion on appropriations (with respect to estimated expenditure)
- Discussion and voting on demand for grants including voting on motions for reduction

Speaker of the Assembly, in consultation with the Minister of Finance, determines the time allocation for different stages of the review. According to Rule 141 of the KP Assembly's Rules of Procedure (RoP), no less than four days shall be allocated for the general discussion on the Budget. A maximum duration for any of the stages is not prescribed in the RoP. Additional time allocation for a committee (sectoral) level review of the budget is also not mentioned in the

RoP. As a good practice, the thematic committees should have properly scrutinised respective sectoral budgets prior to their submission in the Assembly. At the same time, there should be sufficient time allocated for a final committee level review of the budget when it is tabled.

Potential questions to ask during Budget Approval stage

Several of the questions listed under the Budget Formulation section are pertinent during the Budget Approval stage as well. Additional questions that might be pertinent during this stage include:

- ✔ How much funding is being allocated for programmes related to climate adaptation and mitigation, supporting activities, or mixed-purpose adaptation/mitigation ones? Are the costs allocated for such programmes realistic in relation to stated objectives and outputs?
- ✔ Which, if any, department and/or agency is receiving increased climate related funding from the previous fiscal year? What is the rationale for this increased allocation?
- ✔ Is there any department or agency where climate related funding has decreased from previous year? What is the basis for this decreased allocation?
- ✔ How is Climate Finance from international or national sources being blended in the annual budget? (What is the proportion of Climate Finance from international and national sources in the budget?)
- ✔ How much funding is being allocated for programmes and projects related to climate change adaptation and mitigation? Are the allocations realistic with respect to the scope and ambition of associated projects and programmes?
- ✔ Are the costs allocated adequate to ensure projects and programmes will be implemented in a cost-effective manner?
- ✔ Are the budgeted projects and programmes in line with the needs and priorities of intended beneficiaries/communities at risk of climate impact?
- ✔ How much funding has been allocated for monitoring and evaluation of budgeted initiatives? Is there a mechanism in place to evaluate the effectiveness of budgeted adaptation and mitigation interventions, and to provide feedback to concerned department/agency for future planning?

- ✔ Are climate relevant expenditure and revenue projections included in the provincial MTBF? To what extent are climate-related provisions in the Annual Budget aligned with the MTBF?
- ✔ How does the proposed Annual Budget support delivery of provincial climate change policies, strategies and guidelines including meeting Pakistan's international commitments?
- ✔ Is the provincial government exploring other options for financing climate response, such as public-private partnerships?

STAGES IV AND V BUDGET IMPLEMENTATION, MONITORING AND AUDIT

The fourth and fifth stages of the Budget Cycle – implementation and monitoring – are where the Assembly focuses on oversight of the implementation of the Annual Provincial Budget. Following closure of a financial year, the provincial Accountant General releases its annual audit reports. These include annual appropriation accounts that compare actual expenditure incurred by the provincial government against the annual budget. Likewise annual finance accounts provide a picture of the provincial government's state of affairs.

The audit reports are submitted to the provincial Assembly where the Public Accounts Committee (PAC) reviews them. The PAC is a significant parliamentary committee entrusted with monitoring the government's expenditures through the audit reports submitted by the Accountant General. An audit is normally performed six to eight months after the closure of a financial year.

Other thematic committees, in addition to the PAC, can be usefully engaged to review certain aspects of the audit reports. Audit reports can be utilized by sectoral committees to oversee the executive government and its individual departments.

Ideally, each thematic committee should be allocating time to review progress on budget implementation and the resulting impact. Details of expenditure from the previous fiscal year should be reported as part of the Annual Budget tabled in the Assembly each year. The Provincial Assembly should empower its thematic committees to check specific aspects of the work being implemented by their relevant executive departments in order to ensure availability of systems, legislation and funding that are needed to accomplish the objectives envisioned in the Annual Budget, or to advocate for change where necessary.

Potential questions to ask during the Budget Implementation and Monitoring stages

- ✔ Is the concerned department/agency able to spend as intended the funding allocated for climate change projects and programmes? If not, what is the reason for some or all of the funding not being expended? What is being done with unspent funds?
- ✔ How are the bottlenecks to budget implementation being addressed?
- ✔ Was the allocated amount of funding sufficient to meet the annual climate response goals/needs of the government? If not, what is being done to ensure appropriate funding allocation in the subsequent budget cycle? Is the public finance management system generating timely and useful reports on provincial climate budget and expenditure to support informed decision-making?
- ✔ Are the systems in place within the Finance Department to effectively monitor spending? If not, what changes are required to achieve an effective system of monitoring?

Legislators' Involvement in the Budget Process: Effectiveness Criteria

Five key factors help to determine the effectiveness of legislators' engagement in the budget process. These are listed below along with a brief description of KP Assembly's current status against each indicator

Effectiveness Factor	KP Assembly's Context
1. Level of Assembly's engagement in budget formulation	In practice, the KP Assembly has been playing little practical role in budget formulation (as opposed to budget approval). Some of the committees do, however, provide input to their respective line departments prior to finalisation of the budget document. The Rules of Procedure and Budget Manual of the KP Government are generally vague on the role and functions of the KP Assembly in the 'budget formulation' phase, and fail to provide comprehensive instruction
2. Adequacy of time allowed to the Assembly to scrutinise the budget, once it is submitted for review	According to the KP Assembly's Rules of Procedure, a minimum of four days are to be allocated for general discussion on the Budget once it is tabled in the Assembly. The Speaker, in consultation with the Minister of Finance, is authorised to determine the timeframe for budget discussion, which in practice is normally a week or so.
3. Resources and capacity of the Assembly to be able to provide substantive inputs into the budget process	The KP Assembly is supported by a Secretariat that is often overstretched and faces technical and resource challenges. The Assembly Secretariat has a limited Library and Research section; however resources for comprehensive and consistent research and analytical support to inform budget related discussion are not evident
4. The level of budget expertise within the Assembly	There is no formal budget office in the Assembly or specialist research staff for the purpose. Senior secretariat staffs are, however, informed and updated on the general rules and provisions governing the provincial budget. Significant numbers of elected members are new to their role and have limited understanding of parliamentary practices, budget procedures, and other technical issues.
5. The ability of committees to coordinate their efforts to review and monitor the Annual State Budget	No significant coordination or information exchange across the sectoral committees reported during different stages of the budget cycle

5. Summary Recommendations

Drawing on the discussion in Chapters 2 and 4, the following recommendations are summarized for improving legislators' oversight of Climate Finance in KP:

Dedicated attention to Climate Finance:

For focused and sustained parliamentary engagement on Climate Finance, there needs to be a dedicated group within the KP Assembly that oversees the climate budget of the province. This can be arranged by notifying a lead thematic committee on climate change, or by formally assigning the responsibility to an existing committee in the Assembly (e.g. Environment or Planning). Alternatively, or in addition to a lead committee on climate change, a cross-committee Working Group can also be notified to facilitate inter-committee coordination that is required in the financial scrutiny of a cross-sectoral budget. The provincial climate budget is dispersed across various departments (e.g. health, agriculture, energy, industries) and is therefore the purview of multiple thematic parliamentary committees. All relevant committees have a role in overseeing the provincial climate budget and this role needs to be formally acknowledged and notified through appropriate amendments to the Assembly's Rules of Procedure.

Sufficient resources for the work of committees:

Parliamentary committees need to be sufficiently resourced to carry out their envisioned functions, which includes the responsibility to scrutinise sectoral budgets and financial performance. In addition to funds, committees need access to

appropriate technical expertise and research information to carry out their work. Technical and financial resources needed by a committee and/or a working group reviewing Climate Finance should be identified at the outset of the budget cycle so that the required support is available in time for the budget review and authorisation exercise.

Access to timely, authoritative and synthesised information is especially important for legislators reviewing proposed climate budgets given the complexity of public Climate Finance. One option is to provide legislators a non-partisan climate budget research service, arranged through the parliamentary budget office or the parliamentary library. Considerable institutional support will be required, however, to build the capacity of an existing office in the KP Assembly to deliver such service in a consistent manner.

Committees should also be able to engage independent expertise in budget analysis and impact review. This can supplement existing budget information that is available to a committee, and help to overcome the gap in parliamentary budget research capacity. A parliamentary committee can issue calls (e.g. through newspaper or online forum) asking for public feedback and evidence on the provincial climate budget, and also convene expert groups for consultation in the budget review process.

Increased Public Engagement: Public feedback is an important input in informed and democratic parliamentary decision making. Public

engagement can take several forms, ranging from direct interaction through public hearings to web-based communication using social media and other online tools. As a good practice, the KP Assembly (through the relevant thematic committee or working group) should arrange pre-budget public hearings and consultations, parallel to those that may be held by the executive branch, to bring in perspectives from concerned stakeholders and independent experts. Evidence generated through such interactions can be useful in assessing the appropriateness of climate related allocations and investment strategies of the government, as climate response planning and financing is largely uncharted territory for provincial planners. Such consultations would also allow legislators to identify priorities of citizens as to where and how they want the government to allocate funds for climate mitigation and adaptation.

The committee or working group leading a climate budget review can find it beneficial to conceive a public engagement plan well in advance of the budget approval stage of the cycle. Role and involvement of media should also be considered in such planning.

Stronger interface with the Executive:

Parliamentary decision-making relies on comprehensive and timely information supplied by the executive institution, which is why the legislature and the executive need to collaborate and cooperate. The budget document contains little narrative on the policies and considerations underlying the tax and expenditure proposals. To truly understand the government's climate response strategies and financial planning, legislators need to communicate with the executive well in advance of budget submission. While some of the thematic committees consult their respective line departments on

the budget proposal prior to its introduction in the Assembly, this is not a consistent practice in KP. A committee or working group overseeing climate responsive budgeting must be proactive in initiating communication with the relevant executive institution/s. Communication can take shape in several forms, from pre-budget consultation between the committee and concerned line departments, to ministerial level discussions on climate funding needs and plans. A parliamentary committee or working group can also request monthly or quarterly written updates from the concerned executive office on the status of budget implementation and climate change-related activities of the government. Executive offices can ensure that they have adequate time and capacity for maintaining regular communication with legislators and for generating the information that is requested.

Further, legislators can also consider amending the Assembly's Rules of Procedure to ensure a reasonable timeframe for reviewing the budget both before and after its presentation in the Assembly. Revisions to the procedural rules of the Assembly may also be considered for enhancing the committees' power to obtain information for overseeing the government.

Taking a broader view of the budget process:

The annual provincial budget is based on the government's medium term budgetary framework (MTBF), and is linked to development goals and priorities that extend beyond the yearly budget cycle. It is important, therefore, that the Assembly holds the government accountable not just for the annual budget but also for the targets and outputs set out in medium term budget plans. A committee interested in scrutinising the annual climate budget will benefit from understanding the longer term financing perspective of the

government, and the rationale for the proposed annual expenditures within that context. For comprehensive oversight of Climate Finance, a parliamentary committee or working group will need to look beyond the annual budget statement to the medium term financing plans of the

government, and review these for compatibility with the short- and long-term climate response needs of the province. The KP Assembly should therefore also scrutinise the alignment of the annual budget with the medium term strategic priorities of the government.

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