



NEPAL SHARES THE CLIMATE BUDGET TAGGING EXPERIENCE AND THE WAY FORWARD

# CLIMATE BUDGET TAGGING: EXPERIENCE FROM THE ASIA

IN THIS ISSUE (HIGHLIGHTS)

## Welcome to the RPLN

by Suren Poghosyan

Climate Change is a significant challenge in most of the countries in the Asia-Pacific region and is gradually becoming one of the most important policy areas that needs effective integration into public financial management (budget) systems of the countries in the region. This is a relatively new process for all countries and the knowledge and skills is gradually building while implementing the reforms. In doing so, the governments in the region need to put in place a combination of effective and recurrent skills development backed by regular exchange of knowledge and experience.

The UNDP Bangkok Regional Hub (BRH) has initiated a regional learning and knowledge exchange platform for Climate Change Finance amongst the Asia-Pacific countries. The overall objective is to increase both the level of skills and South-South collaboration on specific aspects of integrating climate change finance in national public financial management systems. The idea is to maintain ongoing services comprising a network of national and regional training institutions together with a Regional Peer Learning Network (RPLN), operating across South and South East Asia. Through the RPLN individuals will have consistent engagement and be able to maintain long term relations, leading to change. Through the network of national and regional training institutions,

training can be scaled up and made more sustainable in the long term.

### Regional Peer Learning Network:

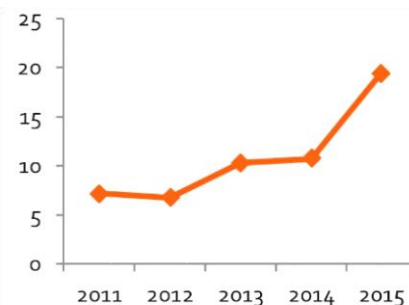
- RPLN is a platform to discuss country reforms, achievements and challenges on integrating climate change finance into national and subnational budgets.
- Provides regular opportunities for key government officials to meet face to face to discuss Climate Finance.
- Is an opportunity for continuous and uninterrupted dialogue between members of the RPLN
- Ownership will be enhanced by revolving approach to hosting peer dialogues by countries.

For further inquiries on RPLN please contact UNDP Bangkok Regional Hub Suren Poghosyan [suren.poghosyan@undp.org](mailto:suren.poghosyan@undp.org) and RPLN Regional Facilitators Asad Maken [asad.maken@undp.org](mailto:asad.maken@undp.org) and Madhukar Upadhyia [madhukaru@gmail.com](mailto:madhukaru@gmail.com)



First workshop with Regional Peer Learning Network members took place in Dhaka

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# First RPLN meeting

by Joan Manda

The first Regional Peer Learning Network meeting took place in Dhaka as part of the regional Climate Finance Short Course jointly delivered by UNITAR, IIED, UNDP and ICCCAD. RPLN members from Bangladesh, Cambodia, Nepal, and Thailand joined other regional practitioners in this inaugural event.

While countries have (in recent years) been developing climate change policies linked to national development plans, the links between this effort and the national budget process remain weak in many countries. For national climate change strategies and policies to have meaning they must lead to a budgetary reflex through the national public finance system.

Countries in Asia are leading global efforts to address this gap. The Climate Finance Short Course provided participants with both the rational and arguments for linking climate policy and public finance as well as the practical tools for doing so – many of which are already being piloted in the Asia Pacific region.

This was not a passive learning event. Through a variety of presentations as well as interactive exercises including group brainstorming sessions, role-play, group feedback, participants were actively involved in the course. In fact, officials from different countries, primarily from ministries of finance, planning, climate change units and departments as well as representatives of National Designated Authorities for the Green Climate Fund came prepared to share their on-the-job experiences in trying to link climate policy with national budget processes. It was an opportunity for sharing and exchanging practical ideas, lessons, challenges and solutions.

Practitioners from Nepal stole the show when they showcased their very advanced system of climate budget tagging. Many countries have expressed interest in learning more about this tool for tracking climate finance.

Practitioners from Bangladesh shared their rich experience in not only managing domestic finance but also in accessing international climate finance such as from the Adaptation Fund and the Green Climate Fund. Other country participants could relate to the challenges and gained a stronger appreciation of the need to strengthen national PFM systems to access climate funds in the long-term.

The highlight of the course was the field day where RPLN member got a chance to see for themselves that with good planning, budgeting and proper execution of budgets, climate finance can end up making a

significant difference in the lives of ordinary citizens. It was inspiring to see how practical innovations such as household biogas plants and solar home systems are changing lifestyles for many in rural Bangladesh through access to clean energy.

In the end this was no ordinary course, all participants returned home with practical work plans for implementation on-the-job. They also left as new members of an alumni that can access information, best practice guidelines, coaching and moral support, through the RPLN.



Workshop participants experimenting the Climate Change Integration Index for their countries and presenting the results

## FAST FACTS

19.4%

of its government budget allocates Nepal for climate relevant expenditures

and only 0.3%

in Indonesia (climate mitigation)

more than 20 countries now have CPEIRs



## FOR MORE INFORMATION

TRACKING CLIMATE CHANGE EXPENDITURES: REGIONAL PRACTICES on page 3

or visit [WWW.CFADE.ORG](http://WWW.CFADE.ORG)

**Looking Ahead** - The RPLN regional facilitators are already planning the next event which will focus on the NEPAL budget tagging experience. If you are interested in attending contact:

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# Tracking Climate Change Expenditures: regional practices

by Hanh Le and Kevork Baboyan

Climate Budget Tagging (CBT) is a budget tool for monitoring and tracking of climate-related expenditures in the national budget system. The paper aims to introduce this concept, its wider benefits in mainstreaming climate change to policy formulation and budgeting process, and presents country experience to date. The paper (available at [www.cfade.org](http://www.cfade.org)) discusses the implications of CBT as a tool in tracking international climate finance at the national level. As such, the paper contributes to the wider global efforts in tracking climate finance (such as on-going initiatives by UNFCCC, WRI, OECD, MDBs, and CPI), highlighting country-driven initiatives in tracking climate expenditure.

## Why is CBT important?

CBT is more than a tracking tool. It provides comprehensive data on climate relevant spending, enabling government to make informed decisions and prioritize climate investments. CBT also encourages planning officers and policy managers to incorporate climate considerations in project design from early stages. Further, with the information on climate related expenditure, this tool enables public scrutiny on government and donor spending towards addressing climate change issues.

This tool is not a stand-alone initiative, however, but has to be considered and implemented in the context of a Climate Fiscal Framework (CFF) and other public financial management (PFM) reforms. CBT is part of the wider efforts contributing to country readiness for new climate finance such as the Green Climate Fund (GCF).

## Key Components of CBT

A climate budget tagging system would generally consist of 4 components, including defining and classifying climate activities, weighing their climate relevance and designing the tagging procedure. Given that these components are also implemented in Climate Public Expenditure & Institutional Review (CPEIR), implementing a climate budget tagging system can significantly benefit from CPEIR experience. UNDP's CPEIR Methodological Guidebook provides more detailed guidance in implementing some of these components.

1. Defining climate activities: OECD-DAC Rio-Markers and Joint MDB Approach provide a good basis for definitions of adaptation and mitigation activities
2. Classification of climate expenditures – 2 complementary approaches:
  - ✓ Adopting the CPEIR Typology which provide three levels of classification over 3 pillars: Policy Governance, Science & Technology and Climate Change Delivery
  - ✓ Developing a national policy-based typology based on national climate policy priorities, for example those outlined in national climate change strategies.
3. Weighing climate relevance – 2 complementary approaches:
  - ✓ Using CPEIR Climate Relevance Index: scoring climate relevance based on declared objectives of the activities/projects/programmes
  - ✓ Adopting CPEIR Benefit Cost Ratio Approach: climate relevance measured based on comparison of cost benefit analyses of the activity in “with” and “without climate change” scenarios. Given that this approach is not always feasible, another less quantitative approach is to rely on expert estimation of benefits of the activity, also assessed in both with” and “without climate change” scenarios.
4. Designing the tagging procedure: considerations such as entry points for the tagging (e.g. budget proposal), level of information to be tagged (e.g. programme vs. activity level; recurrent vs. capital expenditure, etc.), and the existing design and capacity of the budget information system are key in designing the tagging procedure which would influence the data to be generated from climate budget tagging.

## Implications on tracking international climate finance at the national level

One of the key challenges in tracking international climate finance in developing

countries is the lack of climate finance definition as well as criteria and method of tagging. Implementing CBT would address this issue by providing country-led definitions, typology and criteria which could be used to track climate-related Official Development Aid (ODA) in the country. Further, the CBT tool determines climate relevance of each activity, mitigating the risk of over-estimating climate finance for example in cases where 100% of expenditure is counted as climate finance whilst the activity is only slightly relevant to climate change. Using country-led definitions and criteria would ensure consistency in counting domestic and external climate finance.

There are, however, some considerations to be taken into account in implementing climate tagging of international climate finance at the country level, which is different from tagging domestic expenditures, including:

- ✓ The existing approach in tracking ODA which might be separate from the national public financial management system and also not yet covering all ODA instruments (e.g. covering loans but not grants etc.)
- ✓ The country's political standpoint on what constitutes as international climate finance. Some developing countries do not accept loans as climate finance whilst some developed countries currently count all instruments (loan, grant, guarantee, technical assistance etc.) towards meeting their climate finance commitments.
- ✓ Using country-led approach in tracking international climate finance might generate data which is useful for domestic purposes but might differ from UNFCCC reporting requirements and might not be suitable for cross-country comparison.

## Country Experience

Philippines: The Philippines mandated CBT in national budget submissions for all government entities in FY2015 and has piloted climate tagging in Annual Investment Plan for local government units



(LGU) before upscaling to all LGUs in FY2016.

Indonesia: Since 2014, Indonesia has introduced mitigation budget tagging (Low Emission Budget Tagging and Scoring System – LESS) in key ministries to track resources spent to achieve the national emission reduction target of 26% by 2020 (RAN-GRK). In 2014, LESS was also implemented in 3 central provinces to pilot mitigation expenditure tagging at the local level.

Nepal: Nepal is one of the first countries to adopt a climate budget tagging. In 2012, Nepal incorporated the climate tag to the budget system, at programme level, classifying expenditures by the level of climate relevance.

Bangladesh: the Government of Bangladesh (GoB) adopted a Climate Fiscal Framework (CFF) in 2014 which proposes a climate expenditure tracking framework (CETF) which would be applied to all line ministries' budget submissions and also tag on-budget ODA. The proposed CETF would weigh climate relevance and tag expenditure based on the six thematic priorities under the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009.

**Enabling Conditions and Readiness**

- ✓ *Climate Fiscal Framework (CFF):* CBT provides the government with information which enables climate-smart investment decision making. However, CBT alone is not sufficient to create a platform for the government to prioritize and make informed investment decisions in a systematic and transparent manner. In order to do so, CBT needs to be implemented in the context of a CFF which, utilizing the data generated by CBT, estimates domestic and external climate finance sources against the financing needs, and guides the prioritization of climate actions.
- ✓ *Joint leadership between finance, planning and environment:* buy-in and leadership from finance and planning ministries with technical support from environment ministry (or climate change focal agency) is essential. For example, climate budget tagging in the Philippines was led by both the Climate Change Commission and Department of Budget Management.
- ✓ *National climate change policy priorities:* CBT should be designed based on definitions, typology and criteria driven by national climate

policy priorities in order for CBT to track climate spending towards these policy priorities. For example, the climate expenditure tagging system in the Philippines adopts a typology based on eight priority areas of the National Climate Change Action Plan.

*Capacity Building:* Clear tools and guidance to line ministries and relevant agencies are essential for CBT implementation. Also, training on climate tagging should be considered in the context of broader capacity building efforts from raising awareness on climate change to integrating climate change into the budget process as well as managing domestic and international climate finance sources. As such, UNDP is launching a regional and national training initiative, jointly with UNITAR, and a peer-to-peer learning network to build the capacity needed.

*read the full article [here \(www.CFADE.ORG\)](http://www.CFADE.ORG)*

	Philippines	Indonesia	Nepal	Bangladesh <sup>2</sup>
<b>Definition and criteria of Climate-related Expenditure</b>	- Adaptation and mitigation definitions - Use of policy areas in NCCAP in definitions to guide screening climate related expenditures	- Mitigation only: direct and indirect actions - Use of RAN-GRK priority areas as the basis but also recognize non-RAN-GRK areas	- Not split between mitigation and adaptation - Based on a short-list of climate-related thematic areas, covering all economic sectors	- Adaptation and mitigation based on OECD Rio-Markers definitions
<b>Classification/Climate Change Typology</b>	- Typology based on NCCAP 8 priority areas - 4 level typology covering: NCCAP priority area, sector, sub-sector to activity level	There is no explicit typology. Climate-related expenditure is tagged by themes.	There is no typology.	Use of six thematic areas in BCCSAP in tagging.
<b>Weighing Climate Relevance</b>	- The proportion of the expenditure that is climate relevant is subjectively estimated by policy managers.	- The scoring system has not yet been developed.	- Adopting a criteria system: o Highly Relevant: above 60% of expenditures allocated to climate activities o Relevant: 20-60% o Neutral: below 20%	- The climate proportion is determined based on CPEIR-relevance index approach but assigning more specific percentages.
<b>Design of the Tagging Procedure</b>				
<b>Entry Point</b>	- Budget proposal	- Budget proposal	- Budget proposal	- Budget proposal
<b>Level of information to be tagged</b>	- Tag at activity level - Tagging across economic classification also	- Tag at activity level	- Tag at programme level	- Tag at operational unit level and across economic classification
<b>Budget Information System</b>	- Fully on-line and computerised - Integrated to the existing information system which already incorporates other tags	- Partly integrated computer-based and partly manually tagged by MoF - Retrofitted to the existing information system (use of the existing field to add climate change themes)	- Initially manually done - Incorporated climate tag to the budget information system - Limited to budget allocations only (no information on actual expenditures)	- A parallel module linked to an integrated budget information system
<b>Lead institutions</b>	Both Department of Budget Management (DBM) and Climate Change Commission <sup>3</sup> (CCC).	Fiscal Policy Agency (MoF)	National Planning Commission	Finance Division, Ministry of Finance

# Climate Budget Tracking in Nepal

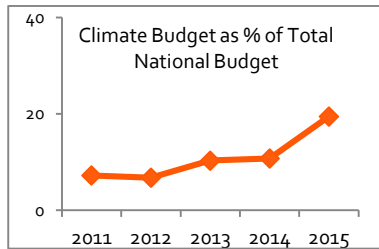
by Madhukar Upadhyaya

Recognizing the risks and vulnerability posed by climate change, the Government of Nepal (GoN) adopted the Climate Change Policy in 2011 and committed of using 80% of available climate resources to support climate activities at the local

level. The same year, the GoN conducted its Climate Public Expenditure and Institutional Review (CPEIR) at the national level to understand the state of climate financing and institutions involved to examine the gaps in making the public financing management system more climate friendly to address the concerns of the vulnerable. Although, National Adaptation Programme of Action (NAPA, 2010) identified areas of immediate concerns and estimated the cost of implementing immediate and urgent projects, the CPEIR observed that at local level it is not only that the capacity to prioritise, manage and deliver climate finance is weak, but understanding of climate change and climate financing is also extremely limited. Hence, the capacity of the local governments to manage the climate budget at local level needed enhancing, and it was proposed to devise methods to continue tracking climate financing.

Following the recommendation of the CPEIR study, GoN adopted using Climate budget code in 2012/13 to track budget allocation to the climate related plans and programmes of the government. The information generated by climate code since 2012 shows a rising trend in budget allocated to climate related plans and programmes at the national level. The code, in fact, helped in several fronts to improve governance of climate finance, which is summarized as following.

- It broadened the general understanding of policy makers about climate responsibility within government agencies. Addressing climate change is the responsibility of all ministries and not just that of the focal ministry.
- It provides an important tool for the decision makers to see the priority set by various ministries and make necessary suggestion to make decisions on climate changes plans and programmes when required.
- It helps to verify policy compliance of 80% target committed by the CC policy.



The information generated by climate budget code helps to examine how climate budget under each development sector is planned, and allocated

as well as sectoral gaps in climate financing.

However, the code captured only allocation and not the expenditure on climate activities. The information about the climate budget comes late in the budget process when decision on climate activities is already made, and hence does not help decision making on climate intervention, which is what effective climate governance should do.

Recognizing the need to move from input oriented tracking to output oriented tracking of climate budget, the GoN has launched a climate finance project with support from UNDP RHB to strengthen the Governance of Climate Change Finance. The climate governance project intends to systematically integrate climate finance into the budgeting process at the national and sub-national level and ensure an accountable use of climate finance at both levels through the engagement of civil society organizations (CSOs) and Parliament.

The climate finance project works at three levels: i) at national level the project will develop and implement a Climate Change Financial Framework (CCFF) with the Ministry of Finance (MoF) and relevant ministries and intervene at the budget process; ii) at sub-national level it aims to strengthen capacities at local level by enabling local bodies in developing and implementing integrated, climate resilient, pro-poor programmes and projects, which



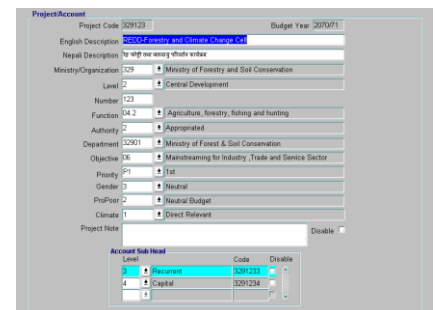
the project attempts to achieve through the rolling out of 5 district level CPEIRs; and iii) to enhance the overall accountability, the project will develop strategy to engage

CSOs to report on climate finances. The project will also explore ways to engage parliament committees in ensuring an accountable use of climate finance at national and sub-national level.

National executing agencies: Led by the MoF, the project works through the National Planning Commission (NPC) and Ministry of Federal Affairs and Local Development (MoFALD) as well as with selected CSOs that are already engaged in reporting on climate financing.

Overall advantage of the introduction of climate code in the national budget was also echoed by the Joint Secretary of the NPC, Mr Gopinath Mainali, who said '*subject of climate budget code has helped us recognize the gap in funding to climate related activities across development sectors. It has reoriented our thinking to make our development activities more climate resilient*'. He further hopes to work on developing a mechanism to analyse the climate expenditure and suggests that information generated by climate code must be used to develop comprehensive climate finance plan.

Joint secretary at the MoF, Mr. Baikuntha Aryal also reflected that the discussion on climate change issues were normally limited



among climate specialists and experts, and seldom with bureaucrats. Use of climate code brought together officials representing different organisations including MoF and NPC officials, who had not had discussed climate change issues to the extent it was done in the process of developing code. Coding exercise helped all involved to think how climate change is connected to various sectors and why tracking the budget allocated to climate change activities would be necessary for these sectors. Within a short span of two years, climate budget coding exercise helped connect the actions in ground with the state of the climate vulnerability of the state. This was an unplanned but perhaps very valuable outcome of the climate coding exercise.

# Tracking Climate Change Expenditures in Pakistan

by Asad Maken

Pakistan has a developed public financial management system. The New Accounting Model (NAM) was put in place in 2000 that included the Chart of Accounts. The Chart of Accounts provides information on entities, programs, projects and geographical distribution of resources. The CoA provides a uniform basis for classification. The national Chart of Accounts has five elements, which are programmed in the IFMIS. These contain:

1. *Entity (organisational setup) element*
2. *Function (COFOG) element*
3. *Object (economic) element*
4. *Fund (votes) element, and*
5. *Program (projects).*

Out of the five elements, only first four are currently in use in the IFMIS-program is currently not being populated.

Pakistan completed CPEIR for the federal government and KP in 2015. Under the regional project being implemented by UNDP with DFID support it is now planned that the climate change expenditures should be classified, tracked and reported upon. The Ministry of Finance has clearly expressed its willingness to track climate change expenditures. Pakistan already has the experience of tracking poverty expenditures. Two factors are being considered while developing options for coding:

- Unlike some of the other countries that have embarked on coding where the budget allocations are being tracked it is planned that in Pakistan the expenditures shall be tracked rather than allocations;
- The coding system should not be an outlier- it should be an improvisation in the existing system so that it is acceptable to the Controller General of Accounts and understandable to the accounting entities.

The option being considered is as follows:

A new element can be created in the IFMIS to be called 'climate change element'. The element can be structured as follows:

- 01 *Climate Change*
  - 011 *Mitigation*
    - 0111 *Local Funding*
    - 0112 *Foreign Funding*
  - 012 *Adaptation*
    - 0121 *Local Funding*
    - 0122 *Foreign Funding*

Once this structure is created, every line-item (entity element) will be mapped with this new structure. This means that a user with right authorisations in IFMIS will have to map the following elements at the time of opening of a new cost-centre.

**Cost Centre → Function → Fund → Climate Change**

This option is likely to create less challenges, as it would not impact the standard Chart of Accounts of the Government. However;

- This option needs analysis of whether this can be done in the current version of SAP (the current version installed is ECC6.0). The implementation of SAP does not use the new GL feature at the moment which allows cross groupings and multi-dimensional reporting.
- Analysis needs to be undertaken to check if this option can allow percentage allocations.

It may add some complexity for the end user at the time of opening up a new cost-centre.

## REGIONAL PEER LEARNING NETWORK

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