This report introduces the concept of climate budget tagging, describes country experience and outlines the enabling conditions for countries who might consider implementing climate budget tagging. The report also discusses the implications of climate tagging for tracking of international climate finance in developing countries.
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The Governance of Climate Change Finance Team (UNDP) would like to thank the following colleagues and climate change finance experts for their helpful reviews and comments

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Julien Chevillard, UNDP Cambodia
Andreas Karlsen, Low Emission Capacity Building Programme, UNDP
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Madhukar Upadhya, UNDP Nepal
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Their comments will be incorporated in the subsequent version of this paper.

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# Acronyms

<table>
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<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCCSAP</td>
<td>Bangladesh Climate Change Strategy and Action Plan</td>
</tr>
<tr>
<td>BCR</td>
<td>Benefits Cost Ratio</td>
</tr>
<tr>
<td>BUR</td>
<td>Biennial Update Reports</td>
</tr>
<tr>
<td>CBT</td>
<td>Climate Budget Tagging</td>
</tr>
<tr>
<td>CCC</td>
<td>Climate Change Commission</td>
</tr>
<tr>
<td>CCET</td>
<td>Climate Change Expenditure Tagging</td>
</tr>
<tr>
<td>CDC</td>
<td>Council for the Development of Cambodia</td>
</tr>
<tr>
<td>CETF</td>
<td>Climate expenditure tracking framework</td>
</tr>
<tr>
<td>CFF</td>
<td>Climate Fiscal Framework</td>
</tr>
<tr>
<td>CPEIR</td>
<td>Climate Public Expenditure &amp; Institutional Review</td>
</tr>
<tr>
<td>CPI</td>
<td>Climate Policy Initiative</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DBM</td>
<td>Department of Budget Management</td>
</tr>
<tr>
<td>DRR</td>
<td>Disaster risk reduction</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse gas</td>
</tr>
<tr>
<td>GoB</td>
<td>Government of Bangladesh</td>
</tr>
<tr>
<td>GoI</td>
<td>Government of Indonesia</td>
</tr>
<tr>
<td>GoN</td>
<td>Government of Nepal</td>
</tr>
<tr>
<td>GoP</td>
<td>Government of Philippines</td>
</tr>
<tr>
<td>LESS</td>
<td>Low Emission Budget Tagging and Scoring System</td>
</tr>
<tr>
<td>LGU</td>
<td>Local Government Units</td>
</tr>
<tr>
<td>MDB</td>
<td>Multilateral Development Bank</td>
</tr>
<tr>
<td>MFF</td>
<td>Mitigation Fiscal Framework</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium term expenditure framework</td>
</tr>
<tr>
<td>NCCAP</td>
<td>National Climate Change Action Plan</td>
</tr>
<tr>
<td>NEDA</td>
<td>National Economic and Development Authority</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Aid</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PAP</td>
<td>Programmes and projects</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
</tr>
<tr>
<td>RAN-GRK</td>
<td>Indonesia’s National Action Plan to Reduce Greenhouse Gas Emissions</td>
</tr>
<tr>
<td>UNFCCC</td>
<td>United Nations Framework Convention on Climate Change</td>
</tr>
<tr>
<td>WRI</td>
<td>World Resource Institute</td>
</tr>
</tbody>
</table>
Executive Summary

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 also 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\(^1\) is to rely on expert estimation of benefits of the activity, also assessed in both with” and “without climate change” scenarios.

\(^1\) This approach is also termed the “Benefits Approach” given its focus on climate benefits of the activity in determining the climate relevance.
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.
Table i: Country Experience Comparison

<table>
<thead>
<tr>
<th>Definition and criteria of Climate-related Expenditure</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>Nepal</th>
<th>Bangladesh²</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Adaptation and mitigation definitions</td>
<td>- Mitigation only: direct and indirect actions</td>
<td>- Not split between mitigation and adaptation</td>
<td>- Adaptation and mitigation based on OECD Rio-Markers definitions</td>
<td></td>
</tr>
<tr>
<td>- Use of policy areas in NCCAP in definitions to guide screening climate related expenditures</td>
<td>- Use of RAN-GRK priority areas as the basis but also recognize non-RAN-GRK areas</td>
<td>- Based on a short-list of climate-related thematic areas, covering all economic sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classification/Climate Change Typology</td>
<td>- Typology based on NCCAP 8 priority areas</td>
<td>There is no explicit typology. Climate-related expenditure is tagged by themes.</td>
<td>There is no typology.</td>
<td>Use of six thematic areas in BCCSAP in tagging.</td>
</tr>
</tbody>
</table>
| - 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. | - 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. |

Weighing Climate Relevance

- 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.

Design of the Tagging Procedure

<table>
<thead>
<tr>
<th>Entry Point</th>
<th>Budget proposal</th>
<th>Budget proposal</th>
<th>Budget proposal</th>
<th>Budget proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of information to be tagged</td>
<td>- Tag at activity level</td>
<td>- Tag at activity level</td>
<td>- Tag at programme level</td>
<td>- Tag at operational unit level and across economic classification</td>
</tr>
</tbody>
</table>
| - Tagging across economic classification also | - 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 |
| Budget Information System | - Fully on-line and computerised  
- Integrated to the existing information system which already incorporates other tags | - Fiscal Policy Agency (MoF) | National Planning Commission | Finance Division, Ministry of Finance |
| Lead institutions | Both Department of Budget Management (DBM) and Climate Change Commission³ (CCC). | Fiscal Policy Agency (MoF) | National Planning Commission | Finance Division, Ministry of Finance |

² The CETF has not yet been implemented. However, the proposal will be discussed and compared with other country cases for experience sharing purpose.
³ CCC also provides technical evaluation of budget submissions as Quality Control for climate tagging.
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 NCCAP.

- **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.
I. Introduction

Climate change represents one of the most significant challenges facing humankind, especially in developing countries and cutting across different sectors of the economy, calling for actions from both public and private sectors. As such, effective responses cannot come from environmental agencies alone. It requires a whole-of-government approach where finance and planning agencies take a central role to ensure economic growth and poverty reduction goals to be achieved in a sustainable manner. UNDP, together with other development partners, has supported over 20 countries in implementing the Climate Public Expenditure and Institutional Review (CPEIR) as a tool providing a starting point to mainstream climate change into the budgeting and planning process. In the recent Lessons Learnt Paper reviewing 20 completed CPEIRS, most of the climate change expenditures were found to be funded by domestic sources (range from 50-80%) and take up around 5-7% of total government budget in most cases (Adelante 2015). It is hence important for the government to obtain a comprehensive picture of climate related expenditure, as well as to encourage as a first step in ensuring transparency and enhancing effectiveness of climate spending. Climate Budget Tagging is one of the tools to identify and measure the climate relevant expenditure in the budget system.

Objectives of this Paper

The primary objective of this paper is to introduce the concept of Climate Budget Tagging (CBT) to countries who are interested in implementing it in the national budget system. The paper outlines the purpose of implementing CBT as well the key components in designing a tagging system. However, it is not the aim of the paper to provide a one-size-fit-all model to designing CBT but rather an introduction to the CBT concept and what to consider in implementing it. CBT has been adopted by developing countries including the Philippines, Nepal, and Indonesia and proposed in Bangladesh. The paper describes these cases and analyses the “enabling conditions” for CBT to be a useful tool.

The paper also seeks to address the question how this tool can contribute to tracking international climate finance at the national level.

This paper aims to address the following questions:

- Why is Climate Budget Tagging (CBT) important?
- What are the key components in designing the tagging of climate expenditure?
- What are other country experience?
- What would be the enabling conditions to implement such tool?
- How can CBT contribute to tracking international climate finance at the national level?

Scope and Context

Whilst there is still no internationally agreed definition of climate finance as of now, there are many sources of finance which can be counted as climate relevant by contributing to climate objectives, directly or indirectly. They include:

- Domestic sources: public sector, private sector, NGOs

More information on CPEIR is available on our website: http://climatefinance-developmenteffectiveness.org/
External sources: Dedicated climate finance funds (e.g. Green Climate Fund, Global Environment Facility, etc.) and Official Development Aid (ODA).

Public sector sources can come in different forms, most notably direct government expenditure from national budget. Other channels include investments of State-Owned Enterprise (SOE) or Public Private Partnership (PPP). This paper focuses on CBT as a tool to track climate-related government expenditure allocated to ministries, agencies and local governments in the national budget process.

External finance can be accessed through different instruments including loans, equity, guarantees, technical assistance and grants. This paper will also discuss how CBT can facilitate tracking and monitoring the external climate finance at the national level.

This paper is one of the first regional knowledge products on this topic. It is intended that the content of this paper will evolve and be revised in the future, reflecting on debates and discussions that this paper hopes to stimulate.

It is also to be noted that there have been other on-going relevant efforts in relation to tracking of climate finance, notably: i) UNFCCC Standing Committee on Finance’s work on methods of financial information reporting for developed countries; ii) monitoring international climate finance in developing countries by World Resources Institute (WRI) (Tirpak, 2014); iii) tracking private sector’s investments in climate change by UNDP Low Emission Capacity Building Programme (Oxford Consulting Partners 2015); iv) OECD-DAC Rio Markers to track climate-related aid (OECD 2011), v) multilateral development banks (MDBs) joint approach in tracking their mitigation and adaptation investments and vi) Climate Policy Initiative’s work on providing a global landscape of climate finance. This paper on Climate Budget Tagging highlights country-drive initiatives in tracking and monitoring climate-related investments, providing much needed evidence on climate finance delivery at national level.

Terminologies

Other terminologies such as climate marker, climate budget score or climate budget code are sometimes used to refer to the same tool to track climate expenditure in the budget system. It is worth mentioning that the term “climate budget code” sometimes creates confusion that this tool entails creating a new code or a new budget head in the national budget classification which is not the case. To avoid any confusion and for consistency purposes, the term climate budget tagging (CBT) will be used throughout this paper.

5 Whilst it is agreed by the Parties to the Convention on Climate Change that climate finance from developed countries has to be “new and additional”, distinguishing climate finance from other forms of finance (such as ODA) remains a challenge in climate finance monitoring effort. For the purpose of this paper, ODA-related finance which contributes to climate objectives and brings climate benefits is also counted as a source of climate finance for the developing countries.
6 Link: http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/6878.php
8 Link: http://www.lowemissiondevelopment.org/docs/UNDP_LECB_Methodology_v_2_Tracking_private_finance.pdf
II. Why is CBT important?

More than a Tracking Tool

Climate Budget Tagging aims to enable the government to make informed investment decision, facilitate better integration of climate change into national and sub-national and allow tracking and monitoring of resource allocations that are climate change relevant in the budget system.

Tracking Role
The climate tag acts as a label on the expenditure items, essential to identify and track them, generating data on domestic climate-relevant investments which usual budget classification does not provide. The data enables better monitoring and reporting on domestic climate expenditure. In particular, developing countries are now required to submit Biennial Update Reports (BUR) to the UNFCCC Secretariat, providing information on financial contribution towards the national climate policy goals and targets. The data generated from climate budget tagging exercise would enable developing countries to meet the reporting requirements more efficiently. As an example, Vietnam BUR, one of the first submitted to UNFCCC Secretariat, relies on much of climate-relevant expenditure data provided by their CPEIR (MONRE Vietnam 2014). With the tagging tool, this information can be generated on a more systematic and efficient manner.

In addition, different from other tools in tracking climate finance, the CBT tool described in this paper measures the climate relevance of each activity, either based on the declared objectives of the activity or on evidence of climate benefits. Weighing climate relevance helps mitigate 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 climate relevant.

Enabling Role
CBT generates more comprehensive data on climate spending. Better information on climate-relevant investments would, in turn, enable the government to:

- Develop a budget that is aligned with national climate policy priorities and national targets, e.g. Indonesia’s GHG emission reduction target of 26% by 2020 or Nepal’s target to allocate at least 80% to local level.
- Identify the financing gaps
- Prioritize investments with climate benefits
- Have evidence-based dialogues with development partners

Also, together with other climate change mainstreaming initiatives, CBT enables better integration of climate change into national and sub-national planning through:

- Building capacity and awareness for (national and sub-national) planning officers and programme managers on national climate priorities and how their sectoral policies and projects can contribute.
- Using the screening methods and guidelines in climate budget tagging to promote integration of climate considerations to project designs from early stages

Accountability and Transparency
By generating data on climate investments which usual budget classification would not do, CBT enables public scrutiny on government’s and donors’ spending on tackling climate change issues.
Not a Stand-Alone Initiative

CBT should not be considered as a stand-alone initiative but as part of broader climate change strategy and public financial management reforms.

Most importantly, CBT has to be considered within the context of the development of a climate fiscal framework. Climate Fiscal Framework aims to provide a comprehensive overview of domestic and international climate finance, linking climate change policies with planning and budgeting, prioritizing climate actions, develop appropriate modalities to manage climate financial flows in an effective and transparent manner, providing the “financial backbone” for national efforts in addressing climate change. Other initiatives could also include strengthening institutional coordination, capacity building in mainstreaming climate change to sectoral policies and determining the financial requirements of climate change mitigation and adaptation activities for each sector.

Box 1: Bangladesh Climate Fiscal Framework

<table>
<thead>
<tr>
<th>The Bangladesh CCFF, which was developed in 2014 following the CPEIR, aims to promote a country system whereby:</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Costs and prioritization of climate actions are reflected in the existing national budgetary framework</td>
</tr>
<tr>
<td>ii) Climate-related expenditure are routinely tracked and monitored. Climate expenditure definition is systematically revised in order to reflect the national priorities and circumstances.</td>
</tr>
<tr>
<td>iii) The GoB can more effectively access international climate finance as well as manage national climate funds.</td>
</tr>
<tr>
<td>iv) Institutional weaknesses and skills gaps are identified and addressed, particularly in major climate stakeholders.</td>
</tr>
<tr>
<td>v) The GoB explores opportunities in accessing more domestic finance through reduction of harmful subsidies and other market reforms (e.g. in the electricity market).</td>
</tr>
</tbody>
</table>

Source: Climate Fiscal Framework (Ministry of Finance, Bangladesh 2014)

CBT also supports the implementation of other PFM reforms such as performance-based budgeting and medium term expenditure framework (MTEF). Performance-based budgeting aims to improve the efficiency and effectiveness of public expenditure by linking funding to results. The MTEF is a multi-year approach to budgeting, linking government spending plans to policy objectives. CBT provides information on financial resources allocated towards climate policy priorities which facilitates linking spending and policy objectives as well as measuring results from climate investments.

As such, CBT also contributes towards developing readiness for new climate finance such as GCF and wider sustainable development finance.

III. Key components of CBT

Climate Budget Tagging consists of four key components: definition of climate-relevant activities, classification of climate expenditure, weighing climate relevance and designing the tagging procedure. These components can benefit greatly from the experience of implementing CPEIRs as such reviews essentially identify and measure climate relevant expenditure in the budget system.
UNDP recently prepared the CPEIR Methodological Guidebook\(^\text{11}\) which provides detailed guidance on classification of climate expenditure as well as weighing climate relevance. A list of key considerations in designing a climate budget tagging system is summarised Annex I.

**Component 1 – Definition of Climate Activities**

Definition of what constitute as climate-relevant activities is an important first step in climate budget tagging as it determines whether the expenditure item will be tagged or not. The Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) has developed definitions for climate change mitigation and adaptation as part of the “Rio Markers” which tracks climate related ODA (Annex II for more details). The multilateral development banks\(^\text{12}\) (MDBs) have also developed a set of criteria for adaptation and mitigation to track their investments (Annex III).

<table>
<thead>
<tr>
<th>Mitigation</th>
<th>Adaptation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OECD Definitions</strong></td>
<td>An activity contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.</td>
</tr>
<tr>
<td><strong>MDB Joint Approach</strong></td>
<td>An activity intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.</td>
</tr>
<tr>
<td>Activities are labelled as Mitigation if they promote “efforts to reduce or limit GHG emissions or enhance GHG sequestration”</td>
<td>A project activity must fulfil three design process criteria for finance to be reported:</td>
</tr>
<tr>
<td>• Include a statement of purpose or intent to address or improve climate resilience</td>
<td></td>
</tr>
<tr>
<td>• Set out a context of climate vulnerability (climate data, exposure and sensitivity),</td>
<td></td>
</tr>
<tr>
<td>• Link project activities to the context of climate vulnerability, reflecting at least one of the following categories:</td>
<td></td>
</tr>
<tr>
<td>o Addressing current drivers of climate vulnerability</td>
<td></td>
</tr>
<tr>
<td>o Building resilience to current and future climate risks;</td>
<td></td>
</tr>
<tr>
<td>o Incorporating climate risks into investments especially for infrastructure with a long lifespan;</td>
<td></td>
</tr>
<tr>
<td>o Incorporating management of climate risk into plans, institutions and policies.</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Handbook on OECD-DAC Climate Marker (OECD, 2011); Joint Report on MDB Climate Finance 2013\(^\text{13}\) (EBRD, 2014)*

The “Rio Markers” definition has been adopted in some countries for the climate expenditure analysis of their CPEIRs. Some countries have used the MDB Joint Approach with tweaks to adapt to the

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\(^{11}\) Link: [http://climatefinance-developmenteffectiveness.org/](http://climatefinance-developmenteffectiveness.org/)

\(^{12}\) The MDBs included in this initiative are: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the World Bank, and the International Finance Corporation,

Component 2 – Classification of Climate Relevant Expenditure

Following the identification of mitigation- and adaptation-related expenditure to be tagged, the expenditure should be classified, which essentially determines the climate tags that the expenditure item will have.

Based on CPEIR experience, UNDP’s CPEIR Methodological Guidebook presents a standard typology for classification, derived from the jointly UNDP/World Bank supported CPEIR in Vietnam (Table 2). The typology has three pillars classifying all policy actions: Policy & Governance (PG); Scientific, Technological and Societal Capacity (ST), and Climate Change Delivery (CCD). It also has three levels of classifications: Pillar/Category/Task, capable of analysing enabling activities (such as capacity building) as well as delivery of specific sectoral programmes and still allows the categorisation between mitigation and adaptation. This approach also has other advantages:

- It allows comparability over time and across countries.
- It constitutes a climate change program classification that allows both the government and Development Partner (DP) spending on climate change objectives to be clearly identified.
- The typology is not a fixed system: as new categories emerge, these can be added to the system of classification.

UNDP’s CPEIR Methodological Guidebook also presents another approach, the national policy objective typology, which is to classify expenditure against national climate change policy priorities. The national policy priorities are based on the strategic areas and themes for actions from national climate change strategies and action plans. This approach, whilst limiting the comparability across countries, enables linking between budget allocation and national policy priorities. New categories can also be added to this typology. For example, the Philippines’s climate budget tagging system uses the typology developed based on the key 8 priorities of the National Climate Change Action Plan (NCCAP) to screen mitigation and adaptation activities. Viet Nam’s CPEIR also adopted this country-led typology by using the government’s key strategic priority programmes included in the National Climate Change Strategy, National Climate Change Action Plan and Viet Nam Green Growth Strategy. Meanwhile, Bangladesh Climate Fiscal Framework uses six thematic priorities of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP 2009) as the national policy objective typology for tracking and monitoring of climate expenditure. It is worth noting that these approaches (CPEIR standard typology and national policy objective typology) are not mutually exclusive but rather complementary to each other, as is the case of Vietnam’s CPEIR.
| Policy and Governance | PG1: A national framework for adaptation and risk reduction | PG1.1 Develop climate change adaptation guidelines and technical regulations  
PG1.2 Develop/adjust policy, planning and mechanism for climate change response and implementation across government, enterprises and communities  
PG1.3 Manage and monitor implementation of adaptation policies |
|-----------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
|                       | PG2: A comprehensive consistent national mitigation policy framework | PG2.1 Establish policy, tax and incentive structure for new and clean energy, energy efficiency and low GHG emission  
PG2.2 Develop/adjust sectoral plan and coordinate implementation among departments, enterprises, and provinces  
PG2.3 Manage and monitor implementation of Mitigation policies |
|                       | PG3: Action Plan Impact Assessment at national, provincial, and sector level to translate policy and governance into activity and delivery | PG3.1 Action and Sector Plans  
PG3.2 Climate change Impact assessments  
PG3.3 Climate change Capacity building |
|                       | PG4: Legal framework to implement climate change policy (all elements of climate change/green growth policies) | PG4.1 Mitigation instruments  
PG4.2 Adaptation instruments  
PG4.3 Mitigation and Adaptation Instruments |
|                       | PG5: International cooperation, integration and diversification and strengthening of climate change investment effectiveness | PG5.1 Strengthen cooperation and partnership with international community on climate change issues  
PG5.2 Effective management and coordination of foreign and domestic investment |
| Scientific, Technical and Societal Capacity (ST) | ST1: Develop science & technology as a foundation for formulating policies, assessing impacts and identifying measure on climate change adaptation and mitigation | ST1.1 Information and database development  
ST1.2 Hydrometeorology and early warning system and climate change projection  
ST1.3 Biological & genetic resource strengthening  
ST1.4 Survey and assessment on climate change impacts  
ST1.5 Technology for energy efficiency and low GHG emission |
|                       | ST2: Improve awareness of climate change | ST2.1 Climate change awareness building in curriculums of primary to higher education establishments  
ST2.2 Awareness of climate change in diverse education and training initiatives for post-school aged earners |
|                       | ST3: Develop community capacity for responding to climate change | ST3.1 Support livelihood building for communities in the context of climate change  
ST3.2 Capacity across whole community in climate change response |
| Climate Change Delivery (CCD) | CCD1: Natural resources | CCD1.1 Coastal protection and coastal dykes  
CCD1.2 Saline intrusion  
CCD1.3 Irrigation  
CCD1.4 River dyke and embankments |
| CCD1.5 Water quality and supply  |
| CCD1.6 Rural development and food security  |
| CCD1.7 Forest development  |
| CCD1.8 Fisheries & aquaculture  |
| CCD1.9 Biodiversity & conservation  |

**CCD2: Resilient society**

| CCD2.1 Public health & social service  |
| CCD2.2 Education and Social Protection  |
| CCD2.3 Residential and city area resilience  |
| CCD2.4 Transport  |
| CCD2.5 Waste management and treatment  |
| CCD2.6 Disaster specific infrastructure  |
| CCD2.7 Strengthening disaster risk reduction  |

**CCD3: Enterprise and production**

| CCD3.1 Energy generation  |
| CCD3.2 Energy efficiency  |
| CCD3.3 Infrastructure and construction  |
| CCD3.4 Industry & trade  |
| CCD3.5 Tourism  |

Source: CPEIR Methodological Guidebook (UNDP, 2015)
Component 3 – Weighing Climate Relevance

The definition and the classification of climate related expenditure only enable the identification of such expenditure in the budget system but does not quantify climate relevant expenditure. In order to do so, the extent to which the expenditure is climate related needs to be assessed. UNDP’s CPEIR Methodological Guidebook provides detailed guidance to weigh climate change relevance of an expenditure item though the following approaches.

Approach 1 - CPEIR Climate Relevance Index

This approach assesses climate relevance using a relevance index, on a scale of 0 – 100% (Table 3 – More details in Annex IV). The declared objective of the activity will be mapped against the index and the weights will be given accordingly. The corresponding weight indicate the proportion of the expenditure that is climate relevant.

<table>
<thead>
<tr>
<th>Level</th>
<th>Weights</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>High relevance</td>
<td>Weighting more than 75%</td>
<td>Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation</td>
</tr>
<tr>
<td>Medium relevance</td>
<td>Weighting between 50% to 74%</td>
<td>Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation</td>
</tr>
<tr>
<td>Low relevance</td>
<td>Weighting between 25% - 49%</td>
<td>Activities that display attributes where indirect adaptation and mitigation benefits may arise</td>
</tr>
<tr>
<td>Marginal relevance</td>
<td>Weighting less than 25%</td>
<td>Activities that have only very indirect and theoretical links to climate resilience</td>
</tr>
</tbody>
</table>

Source: Adopted from UNDP CPEIR Methodological Guidebook (2015)

Approach 2 - CPEIR Benefit Cost Ratio Approach

This approach determines the weight of climate relevance by analysing the benefits when climate change impacts materialise compared to the situation without climate change. As such, it identifies the “additional” climate change component of an activity on more objective grounds (compared to subjective judgement of the declared objectives in the CPEIR Climate Relevance Index method). This can be done as follow:

\[
CC\% = \frac{(B - A)}{B}
\]

where

- \(A\) = the benefit cost ratio of the action, if there was no CC
- \(B\) = the benefit cost ratio of the action, with CC

Figure 1 visualises the analysis of benefits in situations “with” and “without” climate change impacts. The transparent and green areas represent the benefits of investing public resources. Further explanation of the methodology is provided in Annex V.
Three countries (Cambodia, Thailand and Indonesia) have undertaken this methodology in weighing climate relevance of climate activities. Below is an example in which the Ministry of Agriculture in Thailand estimated the climate relevance based on the Benefits Cost Ratio (BCR) approach for five strategic agriculture investments.

<table>
<thead>
<tr>
<th>Activity</th>
<th>2014 Budget (THB m)</th>
<th>BCR</th>
<th>%CC Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation (if proofed)</td>
<td>40,095</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Integrated Pest Management</td>
<td>5,435</td>
<td>4.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Fisheries – Shrimps</td>
<td>3,653</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Livestock - Pig Slurry</td>
<td>5,331</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Land Development - Vetiver</td>
<td>5,193</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59,707</strong></td>
<td><strong>2.8</strong></td>
<td><strong>3.2</strong></td>
</tr>
</tbody>
</table>

Source: Strengthening Thailand’s Capacity to Link Climate Policy and Public Finance, 2014.

This approach might not always be feasible however. Limited availability and reliability of data, the complexity of the analysis and national capacity might constrain a rigorous benefit cost ratio analysis. To address this issue, a less quantitative approach has been experimented. This method relies on experts’ estimation of climate benefits (compared with economic, social and environmental benefits) of activities under “with” and “without climate change” scenarios instead of vigorous cost benefit analyses. Experts can be government officers from central and line ministries and other agencies. Once the climate and other benefits are estimated under these two scenarios, the climate change relevance formula can be similarly applied as above. This approach benefits from the participation and contribution of key stakeholders, is less time consuming and encourages government officers to consider climate impacts and climate risks into policy and activity formulation.
This approach, unlike the BCR approach however, does not entirely eliminate the risks of inflating climate relevance given that the benefits are subjectively estimated. Therefore, clear guidance on how to score relative benefits is required to avoid overestimation of climate change benefits, compared with economic, social and environmental co-benefits. Expert opinions should also be complemented by other national and international technical studies such as the IPCC and other regional/national assessments. The use of climate change relevance yardsticks would also help guide the estimation of climate benefits.

**Component 4 – Designing the Tagging Procedure**

Design of the tagging procedure depends on the type of expenditures that the government would like to tag (e.g. recurrent/capital expenditure; on-budget/off-budget etc.) as well as the budget process of the country. These variables will differ from country to country. From the experience of Indonesia, the Philippines and Nepal in implementing climate budget tagging, below are some key issue to consider in designing the tagging procedure:

**Entry Point**

The entry point to integrate climate budget tagging in the budget process will determine what type of expenditure will be tagged. The country experience so far shows that all three countries (Philippines, Nepal and Indonesia) have chosen budget proposal as the entry point for climate budget tagging. The budget proposal forms are amended to include the climate tag which indicate whether the activity is mitigation or adaptation, the corresponding themes in the classification typology and the proportion of the expenditure that is climate relevant. Using budget proposal has many advantages:

- Covering recurrent and new proposals to the government for funding from national budget
- Providing information on climate expenditure at an early stage in the budget process
- Encouraging line ministries, agencies and local governments to consider climate change impacts and climate risks into the investment from the design stage

However, using budget proposal as an entry point also has its short-coming that other public expenditures that are not subject to budget proposal will not be captured and tagged. These might include investments by state-owned enterprises (if they do not go through the budget proposal process) or off-budget items.

**Level of information to be tagged**

Consideration needs to be given to whether expenditure will also be climate-tagged across different classification such as economic classification (personnel, capital, financial expenses, etc.), programmatic classification (programme/project/activity/sub-activity levels) or administrative classification (ministry/department/unit). The Philippines requires climate tagging across economic and programmatic classification. Meanwhile, for Nepal, climate tagging starts at the programme level.

Also consideration is to be given whether the tagging system would capture both budgeted and actual expenditures. Indonesia chose tagging at activity level as the actual expenditure data is also captured at that level.

**Existing design and capacity of the budget information system**

Existing budget information system makes a significant difference to how the tagging procedure can be designed. Generally the key concern when it comes to introducing climate budget tagging is whether the tag can be integrated into the existing system or a new system has to be created.
Indonesia and the Philippines decided to retrofit and integrate the climate tag to the existing budget system. Meanwhile, Bangladesh, as part of the Climate Fiscal Framework, plans to create a parallel module attached to the budget system to facilitate the tagging and tracking of climate expenditures.

IV. Implications on tracking international climate finance at the national level

How would CBT contribute to tracking of international climate finance in developing country?

International negotiations have agreed climate finance is to be new and additional. However, in reality, ODA sources also target climate objectives. Whilst there is no internationally agreed definition of climate finance, this paper considers both dedicated climate finance (e.g. GCF) and climate-related ODA as international climate finance.

Initiatives to track international climate finance flows have been implemented such as the OECD-DAC Rio Markers and MDB Joint Approach, reporting bilateral climate-related ODA to reach USD 23.1 billion in 2013, and USD 23.8 billion from multilateral development banks globally (OECD-DAC 2015) (European Bank for Reconstruction and Development 2014). There has also been interest in monitoring international climate finance by the developing country themselves. The topic has been discussed for some time, notably in a series of Working Papers by the World Resource Institute (Tirpak, 2012) (Tirpak, 2014).

According to the analyses of the WRI working papers, one of the biggest challenges in tracking international climate finance at the national level is the lack of climate finance definitions and a method for tagging. Implementing CBT, therefore, would address this issue by providing country-led definitions, typology and criteria which could be used to track climate-related ODA in the country. This is significant as it would provide a comprehensive picture of climate spending from both domestic and external sources.

Further, the CBT tool introduced in this paper, different from other climate finance tracking tools, enables weighing of 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 climate relevant. Harmonising the criteria used to track ODA and domestic expenditure would ensure consistency in counting of domestic and external sources of climate spending.

Considerations when applying climate tag to international climate finance

The Working Papers of WRI also presented other challenges to be taken into account when implementing climate tagging to track international climate finance at the national level.

Existing approach in tracking foreign aid

- Some countries currently have a separate tracking system for ODA (e.g. the online aid management platform) rather than integrated into the national public financial management system. In order to apply CBT to ODA sources, consistent with domestic climate expenditure tracking, amendments would need to be made to both systems (domestic budget information system and separate ODA tracking system).

- ODA and foreign assistance can come in different forms: loan, grant, technical assistance, guarantee, equity, etc. Some countries have systems to track loans and grants. Some have
monitoring systems to track loans only. For example, Vietnam’s Ministry of Finance keeps track of loans using a system for debt management (DMFAS) whilst there is no database to track grants systematically, especially those that are “off-budget” (Tirpak 2012) (Government of Vietnam 2015). This poses a challenge to implement tagging for climate-related ODA grants.

Box 2: Country experience in tracking climate-related ODA?

Country experience in tracking climate-related ODA is limited. Most of the assessments at the national level have been done through the CPEIRs rather than a systematic tracking system. Below are experience from Cambodia, the Philippines and proposal from Bangladesh.

**Cambodia**: Council for the Development of Cambodia (CDC) is responsible for coordinating external funding for projects as well as maintaining a database on these projects. The CDC database since 2010 has included a tag indicating whether projects address climate change. The tag is incorporated as a thematic or broad sector marker for the development projects in the database and is to be entered by donors if they consider their development projects also target climate change objectives. The database does not classify projects further into mitigation/adaptation, sector, sub-sector or have criteria to assess the climate relevance of the projects (CDC Database 2014).

**Philippines**: The National Economic and Development Authority (NEDA) is mandated to annually assess ODA-funded projects and submit to Congress the annual ODA portfolio review which covers both grants and loans. Since 2010 the portfolio review also reports on climate related ODA. The climate-relevant programmes and projects (PAPs) are classified as mitigation, adaptation, both mitigation and adaptation, and disaster risk reduction (DRR). The report uses IPCC definitions of mitigation and adaptation and ADB’s definition of DRR and categorises climate change under the broad sector of environment management (National Economic and Development Authority 2013).

- Adaptation – includes practical interventions to protect countries and communities from the likely disruption and damage that will result from effects of climate change;
- Mitigation – anthropogenic interventions taken to reduce the sources or enhance the sinks of greenhouse gases;
- Adaptation and Mitigation – includes interventions that resemble the requirements for both adaptation and mitigation.
- DRR – a “series of interconnected actions to minimize disaster vulnerability by avoiding (prevention) or limiting (mitigation and preparedness) the adverse effects of hazards within the broad context of sustainable development.” DRR is also an integral component of CC adaptation.

Whether NEDA assesses the extent of climate relevance for these PAPs is not clear. It is also recognized that there is a need to harmonize the national climate change expenditure tagging guidelines and method in tracking climate-related ODA by NEDA.

**Bangladesh**: The proposed CETF would be a parallel module, independent but attached to the integrated budget information system. It aims to track climate expenditures through the budget process within the MTEF through identification of climate activities, weighing the climate relevance of the activity as well as the contribution towards the six thematic priorities in the BCCSAP 2009. The proposed CEFT, as a new module to the budget information system, is designed so that it can tag activities by source of funding (i.e. government vs. on-budget ODA). On-budget ODA would then be tracked in the same way as domestic expenditure, including the weight of climate relevance and the relevance to BCCSAP thematic priorities (Ministry of Finance, Bangladesh 2014).

**Political positions on climate finance instruments**

- WRI’s working papers also discuss the challenge relating to the different political standpoints on which financial instruments can be captured as climate finance. Currently there is no international agreement on which financial instruments can be counted as climate finance.
Many developing countries are of the view that climate finance, especially for adaptation, should be delivered as grants\textsuperscript{14}. However, some developed countries have counted grants, loans and other instruments towards their climate finance commitments. The monitoring system needs to recognise and take into account these different political standpoints.

\textit{Purpose of reporting climate-related ODA: UNFCCC requirements vs. domestic purpose}

- Applying country-led tagging system design to track international climate finance in the country might be useful for domestic purposes but might not be the same with UNFCCC reporting requirements.

\section*{V. Country Experience}

\textbf{The Philippines}

Recognising the challenges and opportunities posed by climate change, the Government of Philippines (GoP) has significantly stepped up its leadership and ambition on climate change agenda. The Climate Change Act of 2009, followed by the National Framework Strategy on Climate Change and the National Climate Change Action Plan (NCCAP), set up the institutional arrangement needed for national climate policy coordination and developed the 8 priority areas of climate change response. The Climate Change Act of 2009 also mandated the mainstreaming of climate change into government policy formulations. The Philippines CPEIR launched in 2013 makes a suite of recommendations to mainstream climate change in the budget process, strengthen the planning and financing framework for climate change, enhancing accountability and build capacity. In particular, climate budget tagging was recommended as a tool to better track and monitor climate expenditure in the budget (The World Bank 2013).

Following the CPEIR recommendation, for budget submissions of FY2015, the Department of Budget Management (DBM) and the Climate Change Commission (CCC) have jointly developed a framework for the Climate Change Expenditure Tagging (CCET). The CCET framework provides definitions of climate change based on NCCAP priorities and a common method for tagging, linking budget allocations and national climate policy priorities. For 2015 budget, 53 National Government Agencies have prioritized and tagged their budget proposals for climate change spending using this common framework. About 5\% of the 2015 budget proposals targets climate change, with about 98 \% directed towards adaptation, in line with NCCAP priorities. The largest expenditures are for flood control protection. With a more comprehensive picture of climate expenditures, for the first time, climate change prioritization in budget proposals was explicitly discussed at Technical Budget Hearings. These discussions can initiate the development of performance indicators for better monitoring climate change results and objectives (The World Bank 2014).

The Government has also started the piloting of the CCET at the Local Government Unit (LGU) level adapting from national common CCET typology and guidelines, enabling consistent and comprehensive assessments of climate spending at both national and sub-national levels. 42 Local Government Units have been trained to tag their 2015 Annual Investment Plans, preparing for scaling up CCET to all LGUs in FY2016.

The CCET implementation benefits from as well as supports other PFM reforms. A variety of tools (e.g., budget calls, MTEF) already are available to improve the identification, development and selection of

\textsuperscript{14} Following the principle of adaptation finance as “compensation” rather than “aid”.
climate PAPs in the Departments’ budget planning and managing decisions. Broader PFM reforms (e.g. Zero Based Budgeting, the Program Approach, Bottom up Budgeting, and the Results-based Performance Management System), when applied to climate PAPs, provide additional opportunities to improve effectiveness and efficiency of the Government’s climate policies (The World Bank 2013).

**Indonesia**

The Government of Indonesia (GOI) announced its target to reduce greenhouse gas (GHG) emissions by 26% below business as usual by 2020 with their own resources, increasing to 41% with international finance support. These goals were legislated in Indonesia’s National Action Plan to Reduce Greenhouse Gas Emissions (RAN-GRK). In 2012, Indonesia launched its first Mitigation Fiscal Framework (MFF) to estimate the expenditures required to achieve the emissions reduction target specified in the RAN-GRK. Assessing the expenditure that has been spent to achieve RAN-DRK, the MFF found that the central government expenditure alone on RAN-GRK actions amounted to IDR 7.7 trillion (over USD 640 million) with total expenditures, including local government and off-budget allocations (investment financing, kerosene conversion and tax subsidy), reaching IDR 15.9 trillion (over USD 1.3 billion) in 2012 (Figure 2).

![Figure 2: Mitigation Expenditure](image)

Source: Mitigation Fiscal Framework (Indonesia, 2012), figures excl. roads and irrigation.

At this level of expenditure (IDR 16 trillion pa), Indonesia faces a gap of 11% out of 26% that might not be achieved. The MFF also recognises integration of RAN-GRK in the budgeting process by applying mitigation budget tag and costed prioritisation of mitigation activities as some of the next steps to better manage mitigation financing (Government of Indonesia 2012).

Following the MFF recommendation, the Ministry of Finance prepared the Low Emission Budget Tagging and Scoring System study (LESS) for climate mitigation expenditures in Indonesia. The Ministerial Decree No.136/2014 approved in 2014 mandates mitigation expenditure tagging for seven key line ministries15 under the RAN-GRK. An online application and thematic budget tagging system have also been developed, supported with trainings to relevant staff of MoF and line ministries. Following the national study, LESS pilots have been conducted in three provinces16 since April 2014.


16 Central Java, Jambi and Yogyakarta
The results of the provincial LESS study will be used as feedback to the RAD-GRK\textsuperscript{17}/RAN-GRK\textsuperscript{18} monitoring system at BAPPENAS\textsuperscript{19} and for developing fiscal policy to support implementation of climate mitigation at provincial level based on the cost-effectiveness principle (Le, et al. 2014).

**Nepal**

The Government of Nepal (GoN) is committed to address the emerging issues of climate change through increasing the understanding and capacity of climate finance management. To date, the Government has made significant efforts to explore appropriate funding mechanisms, develop institutional capacity to manage climate finance and integrate climate change into development planning and budgeting. The GoN established the Climate Change Council in 2009 chaired by the Prime Minister responsible for providing high-level policy and strategic oversight. The Multi-Sectoral Climate Change Initiatives Coordination Committee\textsuperscript{19} was also created in 2009 as a national coordinating body.

In 2011, the Government undertook a CPEIR which found that the annual expenditure on climate related activities constitutes approximately 6% of total government expenditure, with approximately 75% targeting adaptation. The trend is increasing over time (Government of Nepal 2011).

The concept of tagging climate expenditure was a key recommendation of the CPEIR, which suggested developing a feasible method for tracking climate expenditure in the public finance system. In response to this, the climate finance working group comprised of key ministries\textsuperscript{20} developed tagging criteria and procedures through a series of consultations. Using the criteria and procedures developed, National Planning Commission (NPC) developed a climate budget tagging procedure, done at the programme level, and introduced it into the programme budget of the Fiscal Year 2012/13. The Ministry of Finance since has incorporated the climate tag in its budget system (Karanjit, et al. 2014) (Government of Nepal 2012).

Nepal’s climate budget tagging took effect on 12 April 2012 and has now been implemented in the National Budget of the fiscal year 2012/2013 and 2013/2014 to facilitate tracking of climate expenditure. For FY 2012/13, climate related expenditures amounted to NRs. 27,28,26,29,000 (approximately USD260 million), taking up 6.74 % of the total budget (Karanjit, et al. 2014).

**Bangladesh**

The Government of Bangladesh (GoB) has set high priority for addressing short-, medium-, and long-term climate change issues. Following the development of its National Adaptation Programme of Action (NAPA) in 2005, the GoB launched the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) in 2008 which was subsequently updated in 2009. The BCCSAP 2009 identified climate hazards and their impacts in Bangladesh and set out a plan of programmes to address these issues. The programmes prioritized the needs of the poor and vulnerable, including woman and children, and were grouped into six themes, namely:

17 Provincial Action Plan for Emission Reduction
18 National Development Planning Agency
19 The Climate Change Management Division of the Ministry of Science, Technology and Environment (MoSTE) acts as the secretariat to the MCCICC.
20 National Planning Commission (NPC), Ministry of Finance (MoF), Ministry of Science Technology and Environment (MoSTE); Ministry of Forest and Soil Conservation (MoFSC); and Ministry of Federal Affairs and Local Development (MoFALD)
The GoB also recognises that if Bangladesh is to deal successfully with the cross-cutting impacts of climate change, it must establish an appropriate funding framework. In 2012, Bangladesh CPEIR was conducted. It found that Bangladesh was spending up to USD 1 billion per year on climate related activities 75% of which comes from domestic resources. With that finding, in 2014 Bangladesh developed a Climate Fiscal Framework (CFF) to improve the management of such resources and better link them to the national budget process. The CFF provides guidelines for estimating long-term financing needs to combat climate change and elaborate the role of GoB towards managing climate finance. Also, the CFF proposes a climate expenditures tracking framework (CETF) for better monitoring and prioritization of climate related investments.

The CETF is proposed as a module attached to the Computerized Budget Database at the Ministry of Finance (MoF) and the Computerized Accounts Consolidation System at Controller General of Accounts (CGA). As such, the CETF is a separate module, independent yet closely linked with the budget database and the CGA accounts module (Figure 3).

**Comparison of Country Experience**
Table 5 presents a quick comparison of country experience in implementing climate budget tagging. Annexes VI-VIII provides more information on the method, criteria and design of the tagging procedure of each country.
<table>
<thead>
<tr>
<th>Definition and criteria of Climate-related Expenditure</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>Nepal</th>
<th>Bangladesh²¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Adaptation and mitigation definitions</td>
<td>Adaptation and mitigation definitions</td>
<td>Mitigation only: direct and indirect actions</td>
<td>Not split between mitigation and adaptation</td>
<td>Adaptation and mitigation based on OECD Rio- Markers definitions</td>
</tr>
<tr>
<td>- Use of policy areas in NCCAP in definitions to guide screening climate related expenditures</td>
<td>Use of RAN-GRK priority areas as the basis but also recognize non-RAN-GRK areas</td>
<td>Based on a short-list of climate-related thematic areas, covering all economic sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classification/Climate Change Typology</td>
<td>Typology based on NCCAP 8 priority areas</td>
<td>There is no explicit typology. Climate-related expenditure is tagged by themes.</td>
<td>There is no typology.</td>
<td>Use of six thematic areas in BCCSAP in tagging.</td>
</tr>
<tr>
<td>- 4 level typology covering: NCCAP priority area, sector, sub-sector to activity level</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Weighing Climate Relevance</td>
<td>The proportion of the expenditure that is climate relevant is subjectively estimated by policy managers.</td>
<td>The scoring system has not yet been developed.</td>
<td>Adopting a criteria system:</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>o Highly Relevant: above 60% of expenditures allocated to climate activities</td>
<td></td>
</tr>
<tr>
<td>Design of the Tagging Procedure</td>
<td>Design of the Tagging Procedure</td>
<td>Design of the Tagging Procedure</td>
<td>Design of the Tagging Procedure</td>
<td>Design of the Tagging Procedure</td>
</tr>
<tr>
<td>Entry Point</td>
<td>- Budget proposal</td>
<td>- Budget proposal</td>
<td>- Budget proposal</td>
<td>- Budget proposal</td>
</tr>
<tr>
<td>Level of information to be tagged</td>
<td>- Tag at activity level</td>
<td>- Tag at activity level</td>
<td>- Tag at programme level</td>
<td>- Tag at operational unit level and across economic classification</td>
</tr>
<tr>
<td>- Tagging across economic classification also</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Budget Information System Capability</td>
<td>- Fully on-line and computerised</td>
<td>Partly integrated computer-based and partly manually tagged by MoF</td>
<td>Initially manually done</td>
<td>A parallel module linked to an integrated budget information system</td>
</tr>
<tr>
<td>- Integrated to the existing information system which already incorporates other tags</td>
<td>- Retrofitted to the existing information system (use of the existing field to add climate change themes)</td>
<td>- Incorporated climate tag to the budget information system</td>
<td>- Limited to budget allocations only (no information on actual expenditures)</td>
<td></td>
</tr>
<tr>
<td>Lead institutions</td>
<td>Both Department of Budget Management (DBM) and Climate Change Commission²² (CCC).</td>
<td>Fiscal Policy Agency (MoF)</td>
<td>National Planning Commission</td>
<td>Finance Division, Ministry of Finance</td>
</tr>
</tbody>
</table>

²¹ The CETF has not yet been implemented. However, the proposal will be discussed and compared with other country cases for experience sharing purpose.
²² CCC also provides technical evaluation of budget submissions as Quality Control for climate tagging.
VI. Enabling Conditions and Success Factors

Climate Fiscal Framework (CFF): As mentioned above, CBT is more than a tracking tool. It provides the government with information to make climate-smart investments. However, CBT alone is not sufficient to create a platform for the government to prioritize and make informed climate 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: In order for CBT to be successfully implemented and instrumental to integrating climate change into the budget system, 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: National climate policy priorities are normally set out in national climate change strategies and action plans, providing guidance to link sectoral policies to climate policy priorities. It is important that CBT can provide the evidence to assess the linkages between sectoral spending and national climate policy priorities. In order to do that, the CBT should be designed based on definitions, typology and criteria driven by these national policy priorities. For example, the climate expenditure tagging in the Philippines adopts a typology based on eight priority areas of the NCCAP.

Capacity Building: Clear tools and guidance to line ministries and relevant agencies with “help-desk” support to planning officers and policy managers during the first year of implementation are essential. More importantly, however, for effective climate responsive budgeting, training on climate tagging should be considered in the context of broader capacity building efforts. These broader efforts include capacity building from basics of climate change to the bigger picture of integrating climate change into the budget process as well as management of different sources of climate finance, both domestic and international. 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 for relevant staff at ministry of finance and line ministries to mainstream climate into their budget processes.
References

Adelante. 2015. CPEIR Lessons Learnt. UNDP.


Dendura, Jerome and Le, Hanh. 2015. CPEIR Methodological Guidebook. Bangkok : UNDP.


The World Bank. 2013. “Getting a Grip...on Climate Change in the Philippines.” Washington D.C.


## Annex I – List of Key Considerations for CBT

<table>
<thead>
<tr>
<th>Component</th>
<th>Key Considerations</th>
</tr>
</thead>
</table>
| **Component 1 – Defining climate activities** | ✓ What are the definitions of climate activities?  
 ✓ What kind of climate activities is CBT to capture: adaptation, mitigation or both? |
| **Component 2 – Classifying climate activities** | ✓ Tagging typology should be developed and adopted. Examples: CPEIR Standard Typology, National policy-based typology, etc. |
| **Component 3 – Weighing Climate Relevance**   | ✓ Once the activity is identified as climate activity, how to determine the proportion of the expenditure that is climate relevant? Examples: CPEIR Climate Relevance Index, CPEIR Benefit Cost Ratio Approach, etc. |
| **Component 4 – Designing tagging procedure**   | ✓ What should be the entry point for tagging in the budget system? (For example, at budget submission stage for all of the countries that have implemented CBT)  
 ✓ Tagging to be applied to budgeted and/or actual expenditure?  
 ✓ What kind of expenditure to be tagged: Development vs. Recurrent?  
 ✓ What level of detail in the administrative that should be tagged: ministry/department/division/operating unit?  
 ✓ What level of detail in the programmatic classification that should be tagged: programme/project/activity/sub-activity?  
 ✓ Tagging government expenditure only or ODA sources also?  
 ✓ How to implement climate tag in the existing budget information system: integrated tag in the existing information system or a new/parallel module? |
Annex II – OECD-DAC Rio Markers

Definition of Climate Activities

<table>
<thead>
<tr>
<th>Sector</th>
<th>Example activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigation</td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>Methane emission reductions through waste management or sewage treatment</td>
</tr>
<tr>
<td>Energy</td>
<td>GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing machinery or demand side management (e.g., education and training)</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
<th>Example activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigation</td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>Supporting the development of climate change adaptation-specific policies, programs and plans</td>
</tr>
<tr>
<td>Policy and legislation</td>
<td>Capacity strengthening of national institutions responsible for adaptation</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Promoting diversified agricultural production to reduce climate risk</td>
</tr>
<tr>
<td>Energy</td>
<td>Strengthening of energy transmission and distribution infrastructure to cope with the expected impacts of climate change</td>
</tr>
<tr>
<td>Forestry</td>
<td>Securing local rights and systems for the sustainable and long-term utilisation of the forest in order to increase resilience to climate change</td>
</tr>
<tr>
<td>Health</td>
<td>Strengthening food safety regulations; developing or enhancing monitoring systems</td>
</tr>
<tr>
<td>Transport</td>
<td>Building protection from climate hazards into existing transport infrastructures (e.g., Disaster Risk Reduction measures)</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>Monitoring and management of hydrological and meteorological data</td>
</tr>
</tbody>
</table>

The Scoring System of Climate Markers

1. Mitigation
2. Adaptation

Q1. What objectives are stated in the project/programme document?

Q2. Do any of the stated objectives match “Criteria for eligibility” of climate markers?

Q3. Would the activity have been undertaken without this objective?

<table>
<thead>
<tr>
<th></th>
<th>2 Principal</th>
<th>1 Significant</th>
<th>0 Not targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2: Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3: Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3: No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Principal (primary) policy objectives are those which can be identified as being fundamental in the design of the activity and which are an explicit objective of the activity. They may be selected by answering the question “would the activity have been undertaken (or designed that way) without this objective?”

Significant (secondary) policy objectives are those which, although important, are not one of the principal reasons for undertaking the activity.

The score not targeted means that the activity has been screened against, but was found not be targeted to, the policy objective.

An activity can have more than one principal or significant policy objective. To qualify for a score “principal” or “significant”, the objective has to be explicitly promoted in project documentation. Avoiding negative impact is not a sufficient criterion.

Source: Handbook on OECD-DAC Climate Markers (OECD, 2011)
Annex III – MDB Joint Approach in Tracking Climate Finance

ADAPTATION FINANCE TRACKING METHODOLOGY

1) Background and guiding principles

The MDB climate adaptation finance tracking methodology uses a context- and location-specific, conservative and granular approach that is intended to reflect the specific focus of adaptation activities, and reduce the scope for over-reporting of adaptation finance against projects. The approach drills down into the ‘sub-project’ or ‘project element’ level as appropriate, in line with the overall MDB climate finance tracking methodology. It also employs a clear process in order to ensure that project activities address specific climate vulnerabilities identified as being relevant to the project and its context/location.

2) Overview of the adaptation finance tracking methodology:

The methodology comprises the following key steps:

- Setting out the context of climate vulnerability of the project
- Making an explicit statement of intent to address climate vulnerability as part of the project
- Articulating a clear and direct link between the climate vulnerability context and the specific project activities

Furthermore, when applying the methodology, the reporting of adaptation finance is limited solely to those project activities (i.e. projects, project components, or proportions of projects) that are clearly linked to the climate vulnerability context.

a. Context of vulnerability to climate variability and change

For a project to be considered as contributing to adaptation, the context of climate vulnerability needs to be set out clearly using a robust evidence base. This could take a variety of forms, including the use of material from existing analyses and reports, or original, bespoke climate vulnerability assessment analysis carried out as part of the preparation of a project.

Examples of good practice in the use of existing analyses or reports include using sources that are authoritative and preferably peer-reviewed, such as academic journals, National Communications to the UNFCCC, IPCC reports, Strategic Programmes for Climate Resilience, etc.

Examples of good practice in conducting original, bespoke analysis include using records from trusted sources showing vulnerable communities or ecosystems particularly vulnerable to climate change as well as recent climate trends including any departures from historic means. These may be combined with climate change projections drawn from a wide range of climate change models, with high and low GHG emissions scenarios, in order to explore the full envelope of projected outcomes and uncertainties. Climate projection uncertainties should be presented and interpreted in a transparent way. The timescale of the projected climate change impacts should match the intended lifespan of the assets, systems or institutions being financed through the project (e.g. time horizon of 2030, 2050, 2080, etc.).

b. Statement of purpose or intent
The project should set out how it intends to address the context- and location-specific climate change vulnerabilities, as set out in existing analyses, reports or in the project’s climate vulnerability assessment. This is important for making the distinction between a project contributing to climate change adaptation and a standard ‘good development’ project. The methodology is flexible about exactly where/how the statement of intent/purpose is documented. As long as the MDB concerned is able to record and track the rationale for each adaptation project or adaptation component of a project linked to the context of climate vulnerability established above, this could be documented in the final technical document, Board document, or an internal memo, or other associated project document.

c. Clear and direct link between climate vulnerability and project activities

In line with the principles of the overall MDB climate finance tracking methodology, only the specific project activities that explicitly address climate vulnerabilities identified in the project documentation are reported as climate finance. Where climate change adaptation is incorporated into project activities that also have other objectives, the estimated incremental or proportional cost of adaptation is counted. This approach may also be applied to project preparation activities if appropriate, depending on the standard practices of the specific MDB in question.

3) Reporting of project activities with dual benefits

Where the same project, sub-project or project element contributes to climate mitigation and adaptation, then the MDB’s individual processes will determine what proportion is counted as mitigation or as adaptation, so that the actual financing will not be recorded more than once. Some MDBs are reporting projects where the same components or elements contribute to both mitigation and adaptation as a separate category. The MDBs are continuing to work on the best reporting method for projects where the same components or elements contribute to both mitigation and adaptation.

MITIGATION FINANCE REPORTING

1) Principles of the Joint MDB Mitigation Finance Reporting:

The joint MDB approach for mitigation finance reporting is based on the following principles or attributes:

a) It is **activity-based**, namely, it focuses on the type of activity to be executed, and not on its purpose, the origin of the financial resources, or its actual results.

b) The classification is **ex-ante** project implementation.

c) An activity can be a project or a project component: the joint approach aims to report on mitigation activities disaggregated from non-mitigation activities through a reasonable level of data **granularity** by dissecting projects into main components. For example, a project with a total cost of USD 100 million may have a USD 10 million component for energy efficiency improvements – only the USD 10 million would be reported.

d) The joint approach measures **financial flows**, rather than greenhouse gas (GHG) emissions reduced by the investment.

e) An activity can be labelled as contributing to climate change mitigation if it promotes “efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration.”20
In the absence of a commonly agreed method for GHG analysis among MDBs, mitigation activities considered in this joint approach are assumed to lead to emission reductions, based on past experience and/or technical analysis. Ongoing efforts to harmonise GHG analysis among MDBs should bring more consistency regarding the identification of many mitigation activities in the long term.

f) The purpose of this joint approach is to establish practical, harmonised climate finance classification categories without having to resort to long, complex studies or highly specialised experts.

g) The qualification of a project under this methodology does not imply specific evidence of its climate change effects. Inclusion is not a substitute for project-specific theoretical and/or quantitative evidence of GHG emissions mitigation, and projects seeking to demonstrate such effects must do so through project-specific data.

h) Where the same project, sub-project or project element contributes to climate mitigation and adaptation, then the MDB’s individual processes will determine what proportion is counted as mitigation or as adaptation, so that the actual financing will not be recorded more than once. Some MDBs are reporting projects where the same components or elements contribute to both mitigation and adaptation as a separate category.

The MDBs are working on the best reporting method for projects where the same components or elements contribute to both mitigation and adaptation.

2) Key Mitigation sectors included in the Joint MDB Mitigation Finance Reporting:

- End-use energy efficiency (brownfield and greenfield)
- Supply-side energy efficiency
- Renewable energy
- Transport
- Agriculture, forestry and land use
- Waste and waste water
- Non-energy related emissions reductions (e.g. industry)
- Cross-sector (e.g. policy, finance, R&D, monitoring)

Source: Joint Report on MDB Climate Finance 2013 (European Bank for Reconstruction and Development 2014)
## Annex IV – CPEIR Climate Relevance Index

<table>
<thead>
<tr>
<th>High relevance</th>
<th>Rationale</th>
<th>Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation</th>
</tr>
</thead>
</table>
| **Weighting more than 75%** | Examples | • Energy mitigation (e.g. renewables, energy efficiency)  
• Disaster risk reduction and disaster management capacity  
• The additional costs of changing the design of a programme to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance or rehabilitation)  
• Anything that responds to recent drought, cyclone or flooding, because it will have added benefits for future extreme events  
• Relocating villages to give protection against cyclones/sea-level  
• Healthcare for climate sensitive diseases  
• Building institutional capacity to plan and manage climate change, including early warning and monitoring  
• Raising awareness about climate change  
• Anything meeting the criteria of climate change funds (e.g. GEF, PPCR) |
| **Medium relevance** | Rationale | Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation |
| **Weighting between 50% to 74%** | Examples | • Forestry and agroforestry that is motivated primarily by economic or conservation objectives, because this will have some mitigation effect  
• Water storage, water efficiency and irrigation that is motivated primarily by improved livelihoods because this will also provide protection against drought  
• Bio-diversity and conservation, unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation)  
• Eco-tourism, because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change  
• Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railways |
| **Low relevance** | Rationale | Activities that display attributes where indirect adaptation and mitigation benefits may arise |
| **Weighting between 25% - 49%** | Examples | • Water quality, unless the improvements in water quality aim to reduce problems from extreme rainfall events, in which case the relevance would be high  
• General livelihoods, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability in areas of low climate change vulnerability  
• General planning capacity, either at national or local level, unless it is explicitly linked to climate change, in which case it would be high |
Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railway.

<table>
<thead>
<tr>
<th>Marginal relevance</th>
<th>Rationale</th>
<th>Activities that have only very indirect and theoretical links to climate resilience</th>
</tr>
</thead>
</table>
| Weighting less than 25% | Examples | • Short term programmes (including humanitarian relief)  
• The replacement element of any reconstruction investment (splitting off the additional climate element as high relevance)  
• Education and health that do not have an explicit climate change element |

Source: UNDP CPEIR Methodological Guidebook (Le and Dendura, 2015)
Annex V – CPEIR Benefit Cost Ratio Approach

Basing climate change weights on cost benefit analyses has the advantage to be more robust and rationale. The climate financing framework in Cambodia and Indonesia, and the work in Thailand, have based the definition of climate change percentage (CC%) on the extent to which the benefits from the action are affected by climate change. This is done by estimating the benefits of an action both with and without climate change and comparing these benefits, as follows:

\[
CC\% = \frac{B - A}{B}
\]

Where \( A \) = the benefits/BCR that would be generated by the action, if there was no CC

\( B \) = the benefits/BCR that would be generated with CC

The benefits from an action are those conventionally recognised in national planning and include: economic benefits (e.g. incomes, assets ...), social benefits (e.g. education, health, welfare, gender ...) and environmental benefits (e.g. biodiversity, reduced pollution ...). For major investments, the benefits may be estimated as part of an economic analysis (e.g. rates of return for irrigation, roads, new crop varieties, energy investments ...). For other actions, they may be defined as outcomes in logical frameworks, with associated indicators (e.g. people protected from floods, hectares of forest planted, number of households...).

For mitigation, the benefits without climate change should exclude the value of carbon emissions, since there is no value in reducing emission if they do not lead to climate change. For adaptation, the most common way in which climate change affects benefits is to increase the value of any protection from extreme events and variable rainfall. There are also other important impacts, notably of temperature on agriculture and health. But the evidence on trends in total rainfall is less clear and is not easy to use for adaptation planning.

Where possible, the benefits with and without climate change should be estimated quantitatively. In some cases, reliable evidence on the absolute value of \( A \) will not be available. However, it may still be possible to estimate the proportional increase from \( A \) to \( B \). For example, if climate change has an impact on biodiversity, it may be impossible to give an estimate of the market value of this change, but case studies may provide evidence on proportional changes in indices of species diversity.

Yardsticks and Default Values. At first sight, assessing climate change impact may seem like a highly technical and complex subject that is complicated by the fact that, for many countries, the evidence on the magnitude, and even the direction, of climate change may not be clear. However, there are some general yardsticks that can be used to simplify the process. These include the following.

---

23 It would equally be possible to define CC% as \((B-A)/A\), in which case it would give the % increase in benefits. This is intuitively simpler in some cases, but will give a value of infinity for those actions that are dedicated to climate change and for which \( A=0 \).

24 In logframe terminology, outcomes refer to the results that provide benefits and are clearly affected by the action. They are a level above outputs (which are largely within the control of the activity but which do not have any value unless they lead to outcomes) and a level below impact (which refer to the wider benefits and which are influenced by a wide range of factors).

25 The indicators of benefit used in the CCFFs was the BCR, which allows benefits associated with reduced costs to be included, without making special provision. However, if it is difficult to measure the value of benefits, it may be more appropriate to use indicators for physical benefits.
- **SREX** Rule. Benefits from avoiding or reducing the impact of dry spells, droughts or floods will become twice as valuable by 2050.
- **Temperature.** This has variable impact for agriculture and health.
- **Rainfall trend.** Rainfall trends are often difficult to project and it may not be possible to define any yardsticks in many countries.

The analysis of benefits should lead to a more robust table of default CC% for different types of expenditure. These should be subject to revision wherever more detailed evidence is available and, especially, for larger investment spending. The tables used in the Cambodia CCFF is presented below.

**Table 6: Default Values for CC Percentage**

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Default Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture (mixed)</td>
<td>Mostly affected by rainfall variability. Support for drought/flood resistant varieties has CC% of 50%, because of SREX rule. Rural finance might have modest additional benefits, as drought/flood coping strategy. No clear default value.</td>
<td></td>
</tr>
<tr>
<td>Irrigation (25%)</td>
<td>Assume 2/3 of benefits are dry season and not affected by CC. Dry spells in the wet season will double, based on SREX, so CC% = (1.33-1.00)/1.33.</td>
<td></td>
</tr>
<tr>
<td>Forestry (10%)</td>
<td>Projects that improve the management of forestry resources will generate economic benefits and mitigation benefits will increase these by 10%.</td>
<td></td>
</tr>
<tr>
<td>Fisheries</td>
<td>Depends on ecological processes. Difficult to generalise.</td>
<td></td>
</tr>
<tr>
<td>Livestock</td>
<td>Depends on farming systems, but will be linked with rainfall variability.</td>
<td></td>
</tr>
<tr>
<td>Energy saving (10% power) (2% fuel)</td>
<td>10% of the benefits from electricity efficiency come from mitigation, based on the carbon content of coal fired power, using the social cost of carbon. 2% of the benefits from fuel efficiency come from mitigation, based on the carbon content of fuel, using the social cost of carbon.</td>
<td></td>
</tr>
<tr>
<td>Renewables (10%)</td>
<td>Similar to electricity saving, with mitigation adding 10% to the economic benefits.</td>
<td></td>
</tr>
<tr>
<td>Public transport (&lt;2%)</td>
<td>Fuel savings are a small part of the benefits of public transport (most are related to time and pollution) and mitigation increases the fuel saving benefits by 2%, based on carbon content of fuel and social cost of carbon.</td>
<td></td>
</tr>
<tr>
<td>Roads (2-5%)</td>
<td>Rehabilitation uses 2-5% of investment per year and is linked to floods, so will double. The CC% of the flood proofing element alone is 50%. Some benefits from improved fuel efficiency, which have a CC% of 2%.</td>
<td></td>
</tr>
<tr>
<td>Coastal works (100%)</td>
<td>Assuming the action is focused on added protection for sea level rise, above existing levels of protection.</td>
<td></td>
</tr>
<tr>
<td>WASH (mixed)</td>
<td>Securing water supply during droughts will have a CC% of 50%, from the SREX rule. For other elements of water projects, the CC% will be less. Time savings related to SREX. Health to SREX and temperature.</td>
<td></td>
</tr>
<tr>
<td>Health (10%)</td>
<td>Support for climate sensitive diseases. Based on WHO international studies suggesting climate sensitive disease threat will increase by 10% by 2050.</td>
<td></td>
</tr>
</tbody>
</table>

---

26 The IPCC Special Report on Extreme Events (2012) projected that rainfall variability would roughly double in most parts of the world by 2050.
<table>
<thead>
<tr>
<th>Targeted livelihoods (50%)</th>
<th>• There are ignored unless they are exclusively targeted on improving resilience of climate vulnerable groups, in which case the CC% is 50%, because they will also have benefits without CC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRM (50%)</td>
<td>• Disaster response, reduction and management. Based on the SREX conclusion that extreme events will become twice as likely by 2050.</td>
</tr>
<tr>
<td>Planning</td>
<td>• In general, if more than 40% of total CC spending is devoted to planning, then this is too much, and this maximum level should decline as programmes mature</td>
</tr>
</tbody>
</table>

Notes: The default values above use the social cost of carbon (e.g. 50$/tCO2e), but a sensitivity analysis is needed, to look at the implications of using current prices (if any) and past carbon market prices (e.g. 30 $/tCO2e). The relative values of timber, electricity and fuel use unsubsidized values.

Source: UNDP CPEIR Methodological Guidebook (Le and Dendura, 2015)
Annex VI – Philippines Climate Change Expenditure Tagging

In December 27, 2013, DBM and CCC released a Joint Memorandum Circular (JMC) mandating agencies to track their climate change expenditures in the respective budget submission, guided by the Climate Change Expenditure Tagging Guidelines (CCETG).

Purpose

- To identify, tag and prioritize climate change-related activities for all government agencies;
- To take stock of relevant climate change programs, projects and activities to enable oversight and line department managers to track and report climate change-related expenditures

Expenditures can be tagged as climate change adaptation, if:

An expenditure (PAP) will be tagged as climate change adaptation it satisfy any of the three criteria:

- Intent: PAP’s objectives/ goals are explicitly directed at or designed to address climate change (use of climate projections, scenarios in the program design, vulnerability, potential impacts and opportunities)
- Activity: PAPs that directly address vulnerabilities, impacts of climate change and variability, and increases adaptive capacity
- Context: PAP is included in priority list of the National Climate Change Action Plan (NCCAP)

Expenditures can be tagged as climate change mitigation, if:

An expenditure (PAP) will be tagged as climate change mitigation it satisfy any of the three criteria:

- Intent: PAP’s objectives/ goals are explicitly directed at or designed to mitigate climate change (Use of GHG inventory and speaks of quantifiable emissions reduction)
- Activity: Range of activities/ projects in renewable energy generation, energy efficiency, agriculture, forestry and land use, waste management, transport, which will may to reduction of GHG emissions, and/or improve and protection of sinks
- Context: PAP is included in priority list of the National Climate Change Action Plan (NCCAP)

Source: Joint Memorandum Circular - Guidelines on Tagging/Tracking Government Expenditures for Climate Change in the Budget Process (Department of Budget Management and Climate Change Commission 2013)
Figure 4: CCET Guidelines (Philippines)

- Is the Program a climate change expenditure?
  - Refer to the program technical document
- INTENT: Is the objective/goal EXPLICITLY articulate adaptation or mitigation?
  - NO
  - ACTIVITIES: Are there any activities that directly address CC?
  - CONTEXT: Is this activity included in the NCCAP?
    - YES
      - Tag the proportion of the expenditure that is CC-related
      - Tag the entire PAP budget as CC Expenditure
    - YES
      - Look for appropriate code (JMC Annex A – CC Typology)

Figure 5: Example of NCCAP Typology (Philippines)

### 7. KNOWLEDGE AND CAPACITY DEVELOPMENT

#### NCCAP Strategic Priority

**Sector**

**Sub-Sector**

**Climate Change Typology (Activity Level)**

#### 1 - Education

- **Adaptation**
  - A711-01: Capacity building to address vulnerability to CC & CV
  - Review of curricula to take account of climate aspects in basic education, vocational training and other forms of follow-up training and education.
  - A714-01: Development of Climate-adaptation focused curricula or programs.
  - A715-01: Train for new business opportunities created by CC & CV
    - Train managers or workers to improve water or energy efficiency in business operations.
  - A720-01: Development of emergency response systems for use during extreme weather events.

- **Mitigation**
  - M713-01: Development of curricula or programs focused on reducing GHG emissions, energy consumption or water consumption.
  - M714-01: Development of curricula or programs focused on reducing GHG emissions, energy consumption or water consumption.

#### 2 - Information Technology

- A731-01: Development of telecommunications infrastructure for use as part of an emergency response system during extreme weather events.

#### 3 - Telecommunications

- A731-01: Improvement of energy efficiency in telecommunications information technologies.
Annex VII – Indonesia Low Emission Budget Tagging and Scoring System

Criteria of Budget Tagging for Climate Mitigation Expenditure
For the purpose of climate mitigation budget tagging, this report defines climate mitigation expenditures as government expenditure items that contribute to the achievement of:

- GHG emission reduction
- GHG emissions absorption
- Carbon stock stabilization/conservation

Referring to the Presidential Decree 61/2011, climate mitigation expenditures can be classified as:
1. Expenditures that finance activities with direct impacts on GHG emission reductions, carbon stock stabilization/conservation and increase the capacity to absorb GHG emissions.
2. Expenditures that finance activities with indirect impacts on GHG emission reductions, carbon stock stabilization/conservation and increase the capacity to absorb GHG emissions, however, are important for the implementation of activities that have direct impacts on climate mitigation

Classification of Climate Mitigation Activities based on the Proposed Definition and Criteria

<table>
<thead>
<tr>
<th>Impact</th>
<th>Energy</th>
<th>Forestry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Included in RAN-GRK</td>
<td>Included in RAN-GRK</td>
</tr>
<tr>
<td></td>
<td>1. Energy management actions</td>
<td>1. Restoration ecosystem licenses and non-timber forest product/environmental services improvement</td>
</tr>
<tr>
<td></td>
<td>2. Energy conservation partnerships</td>
<td>2. REDD+ demonstration activities</td>
</tr>
<tr>
<td></td>
<td>3. Household energy saving</td>
<td>3. Watershed and forest rehabilitation city, mangrove</td>
</tr>
<tr>
<td></td>
<td>4. Renewable energy (hydro, solar, wind, biomass)</td>
<td>4. Community forestry and partnership with private forest (hutan rakyat)</td>
</tr>
<tr>
<td></td>
<td>5. Biogas development</td>
<td>5. Forest fire control 20% reduction with 67% success</td>
</tr>
<tr>
<td></td>
<td>6. Natural gas and liquid gas vehicle for public transport</td>
<td>6. Improved prosecution of illegal forest acts</td>
</tr>
<tr>
<td></td>
<td>7. Natural gas to households</td>
<td>7. Ecosystem management and forest protection</td>
</tr>
<tr>
<td></td>
<td>8. LPG mini plants</td>
<td>8. Timber plantations</td>
</tr>
<tr>
<td></td>
<td>9. Post mining tree planting</td>
<td>Not included in RAN-GRK</td>
</tr>
<tr>
<td></td>
<td>Not included in RAN-GRK</td>
<td>1. Sustainable Forest Management (including intensive silviculture)</td>
</tr>
<tr>
<td></td>
<td>1. Converting from kerosene to LPG</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Electricity generation with 60% from geothermal source</td>
<td></td>
</tr>
</tbody>
</table>

Indirect Included in RAN-GRK

1. Management of renewable energy and energy conservation

Indirect Included in RAN-GRK

1. Forest Area Boundaries defined
2. Forest Management Units

Source: Low Emission Budget Tagging and Scoring System (LESS) for Climate Change Mitigation Expenditures in Indonesia (Ministry of Finance of Indonesia 2014)
Annex VIII – Nepal Climate Change Tagging

Climate Activity Definition

Climate Change Related Activities

Development activities related to any of the following subjects have been considered as climate change related activities.

1. Sustainable management of natural resource and greenery promotion.
2. Land use planning and climate resilient infrastructures.
3. Prevention and control of climate change-induced health hazards.
4. Prevention and control of climate change-induced hazards to endangered species and biodiversity.
5. Management of landfill sites and sewage treatment for GHG emissions reduction.
6. Sustainable use of water resource for energy, fishery, irrigation and safe drinking water.
7. Plan/programmes supporting food safety and security.
8. Promotion of renewable and alternative energy, technology development for emission reduction and low carbon energy use.
10. Information generation, education, communication, research and development, and creation of database.
11. Preparation of policy, legislation and plan of action related to climate change.

Climate Budget Code

To apply the climate budget code, a programme was assigned codes 1, 2, or 3 depending on whether the budget allocated for that programme is on ‘highly relevant’, ‘relevant’, and ‘neutral’ climate activities respectively. According to the agreed criteria, if more than 60 percent of the allocated budget of the programme is going to be spent on climate change related activities the programme will be considered ‘highly relevant’ to climate change, and coded as ‘1’. Similarly, if 20 to 60 percent of the allocated budget of the programme is going to be spent on climate change related activities, the programme will be considered ‘relevant’ to climate change and coded as ‘2’. And if less than 20 percent of the total allocated budget is going to be spent on climate change related activities or if the programme is not related to climate change, the programme would fall under the category of ‘neutral’ to climate change, and will be coded as ‘3’, see table below.

<table>
<thead>
<tr>
<th>Programme Budget Allocated to Climate Change Related Activities</th>
<th>Relevance of the Programme to Climate Change</th>
<th>Code to be used in the Budget Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>If more than 60 percent of the programme budget is allocated to climate change activities.</td>
<td>Highly relevant</td>
<td>1</td>
</tr>
<tr>
<td>If 20 to 60 percent of the programme budget is allocated to climate change activities.</td>
<td>Relevant</td>
<td>2</td>
</tr>
<tr>
<td>If less than 20 percent of the programme budget is allocated to climate change activities, or if the programme is not related to climate change activities.</td>
<td>Neutral</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Climate Change Budget Code - Documenting the national process of arriving at multi-sectoral consensus - Criteria and Method (Government of Nepal 2012)
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