

BUDGETING FOR CLIMATE CHANGE

HOW GOVERNMENTS HAVE
USED NATIONAL BUDGETS TO
ARTICULATE A RESPONSE TO
CLIMATE CHANGE



Budgeting for climate change: How governments have used national budgets to articulate a response to climate change

Lessons Learned from over twenty Climate Public Expenditure and Institutional Reviews

The views expressed in this publication are those of the author(s) and do not necessarily represent those of the United Nations, including UNDP, or the UN Member States.

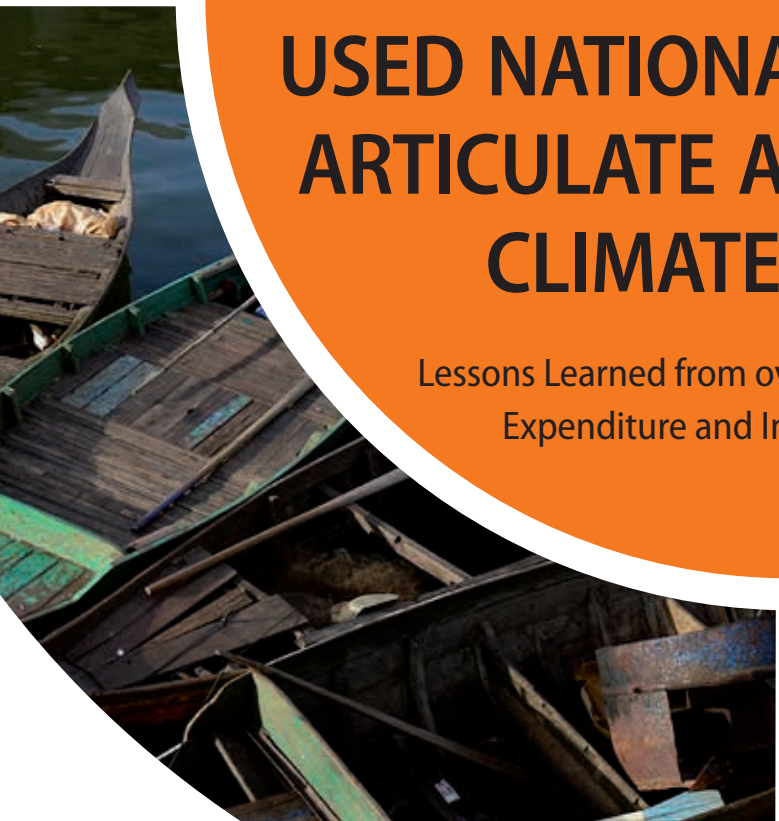
UNDP partners with people at all levels of society to help build nations that can withstand crisis, and drive and sustain the kind of growth that improves the quality of life for everyone. On the ground in more than 170 countries and territories, we offer global perspective and local insight to help empower lives and build resilient nations.



BUDGETING FOR CLIMATE CHANGE

HOW GOVERNMENTS HAVE USED NATIONAL BUDGETS TO ARTICULATE A RESPONSE TO CLIMATE CHANGE

Lessons Learned from over twenty Climate Public
Expenditure and Institutional Reviews



Authors

Governance of Climate Change Finance Team (UNDP Bangkok Regional Hub)

With some sections written by

Adelante  adelante

Acknowledgements

We would like to express our gratitude to the Advisory Group for their inputs and guidance: Annika Olsson (DFID), Daniel Klasander (Government of Sweden), Erika Jorgensen (World Bank), Isaac Shapiro (International Budget Partnership), Pieter Terpstra (WRI), Yolando Velasco (UNFCCC).

This publication would not be possible without insights and contributions from CPEIR experts: Neil Bird, Jeremy Hills and Kit Nicholson.

About the Governance of Climate Change Finance Team (UNDP)

Governance of Climate Change Finance Team of the UNDP Bangkok Regional Hub comprises of experts specialized in Governance, Climate Change, Public Financial Management, Local Governance and Decentralization, Development Effectiveness and Programme Management.

With generous support from:



Disclaimer: The views expressed in this report are those of the authors and do not reflect the official opinions of the sponsoring agencies.

Table of Contents

Acronyms	ii
Executive Summary	1
Introduction	5
A Quick Glance at the CPEIR	8
PILLAR I: Policy analysis.	11
PILLAR II: Institutional analysis	15
PILLAR III: Financial analysis.	20
Next Steps.	30
Annex 1: Lessons Learned Methodology	31
Annex 2: Headlines Statistics of Climate Expenditure	34
Annex 3: Advisory Group	39
Annex 4: List of Interviews and Persons Met.	40
Annex 5: List of CPEIRs/Finance Assessments Reviewed	42
Annex 6: Short Comparative Analysis between Methodological Approaches.	43

LIST OF FIGURES

Figure 1: Average Climate Expenditure as percentage of GDP	2
Figure 2: Map of CPEIRs carried out, and Climate Change Vulnerability Index for 2013	7
Figure 3: Most common arrangements for addressing climate change objectives	12
Figure 4: Climate expenditure by the level of climate relevance	21
Figure 5: Percentage of climate expenditure in top 5 common priority areas (% of total climate expenditure)	22
Figure 6: Percentage of climate expenditure by mitigation, adaptation and co-benefits	23
Figure 7: Top three climate spending ministries by country.	24
Figure 8: Climate expenditure by source of funding: domestic vs. external	25

Acronyms

BRH	Bangkok Regional Hub
CDM	Clean Development Mechanism
CCFF	Climate Change Financing Framework
CFF	Climate Fiscal Framework
CPEIR	Climate Public Expenditure and Institutional Review
DFID	UK Department for International Development
FDI	Foreign Direct Investment
GHG	Greenhouse Gases
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
MFF	Mitigation Fiscal Framework
MTEF	Medium Term Expenditure Framework
NCCAP	National Climate Change Action Plan
NCCC	National Committee for Climate Change
NGO	Non-governmental Organization
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PEIR	Public Expenditure and Institutional Review
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public Private Partnership
SAI	Supreme Audit Institution
SAI PMF	Supreme Audit Institution Performance Management Framework
SIDA	Swedish International Development Agency
SOE	State Owned Enterprise
UNDP	United Nations Development Programme



Kibee Park UN photo

Martine Perez/UNMIT

Executive Summary

UNDP first developed the Climate Public Expenditure and Institutional Review (CPEIR) methodology in 2011, followed by more detailed methodological guidelines in 2012 and an initial review of country experiences. CPEIR analyses were conducted by UNDP in Nepal, Samoa, Thailand, Cambodia and Bangladesh on the basis of these guidelines. Since then, over 20 countries around the world have completed or are implementing CPEIRs, partnering with UNDP as well as other organizations. In addition, many countries continue to expand their foundational CPEIR work by conducting sub-regional and even local-level CPEIRs.

The need to synthesize this growing body of knowledge and to further refine methodological approaches prompted UNDP to commission a second review in 2014, the results of which are summarized in this paper.¹ While based primarily upon UNDP's own experience, they also draw on the experience of similar analyses conducted with the support of the World Bank, the Pacific Island Forum Secretariat, GIZ and the Overseas Development Institute (ODI). Extracting these lessons learnt are a major step toward identifying good practices that can inform global policy debates on climate change finance. The report highlights the importance of domestic resource allocation and having effective in-country public financial management systems toward effectively financing and delivering climate change policies.

CPEIR exercises have served as a key tool for country decision-makers to improve their understanding of *how and how much* they are spending on their national climate change responses. They also help us identify the public programmes with climate change objectives or co-benefits in which governments are investing. Importantly, they have provided more robust data and evidence upon which to base policy recommendations and future spending decisions – whether in the domain of mitigation or adaptation. Specifically, CPEIR and follow-up analyses, such as reviewing fiscal policies or developing national climate change financing frameworks, have been instrumental in helping decision-makers to better:

- understand the resource levels required, as well as the gaps, to finance their national response to climate change;

¹ The initial results of this review were first presented at the UNDP Regional Workshop on Climate Responsive Budgeting, held in Bangkok, Thailand on 5–7 November 2014, in partnership with DFID, SIDA and the International Budget Partnership.

- monitor and track climate finance flows – whether from domestic or foreign sources;
- assess the cost effectiveness and impact of existing and potential expenditures;
- reprioritise or reallocate, as necessary, scarce public resources in order to achieve more climate-compatible national development; and
- increase transparency over resource allocation and management.

UNDP's experience supporting countries on CPEIRs has validated that both the *process* and the *outcomes*, in terms of findings and lessons, deliver a host of benefits.

First, they initiate a process that catalyses new thinking on how to more effectively integrate climate change programming into "routine" planning and budgeting processes.

- In generating recommendations on strengthening institutions and systems for allocating resources and linking them back to the implementation of specific programmes, CPEIRs help to give a practical thrust and focus to mainstreaming climate change into sectoral development agendas.

A second important process function fulfilled by a CPEIR is to reinforce existing national climate change policy development and implementation. In drawing explicit links between climate change-related policies and programmes, how these are translated in the national budget, and the institutional arrangements related to climate change policy-making and coordination, CPEIRs indirectly assess the capacity of government institutions and the quality of climate change policy execution through the budget.

Figure 1: Average Climate Expenditure as percentage of GDP

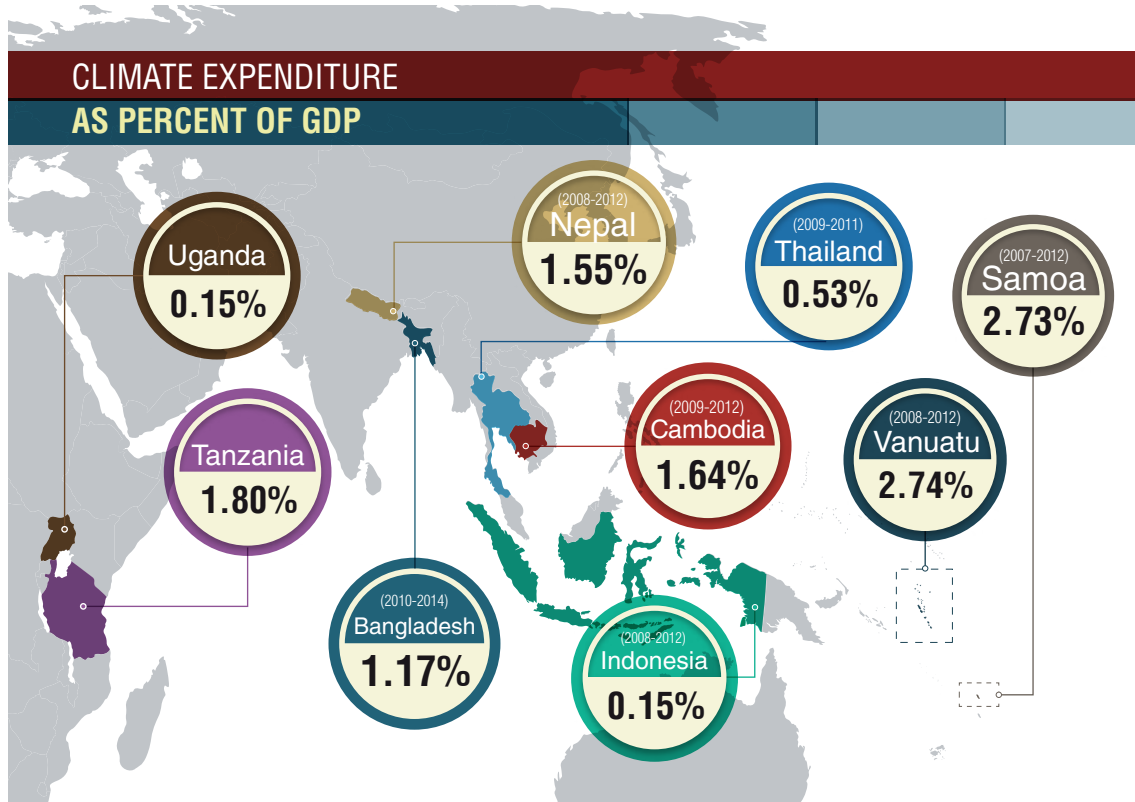


Figure for Indonesia includes climate change mitigation public spending only.

Figure for Thailand does not include climate change related spending through off-budget channels which in the case of Thailand are significant.

- In some cases, CPEIRs have actually served as an anchoring platform or launching point for strengthening climate change policy-making processes within government, and between government and other national stakeholders.
- In many cases, CPEIRs also revealed that linkages between climate change policies and expenditure programmes are rarely clear or coherent, indicating a need for major improvements in frameworks, budgeting processes, and the quality of public finance administration.

Thirdly, CPEIRs have helped countries to better appreciate the role of sub-national actors and mechanisms in climate change finance governance.

- In many countries, CPEIRs highlight the pivotal role of delivering climate change related activities at sub-national levels to an effective climate change response.
- CPEIR findings often point toward a need to strengthen capacity and governance structures at sub-national and/or local levels. This further ensures adequate climate change-related public spending is implemented at sub-national level.

Fourth, CPEIRs can strongly bolster country and institutional ownership over climate change related finance by national authorities.

- In focusing on national institutions and policies, CPEIRs highlight the efforts and progress made to integrate climate change responses into country systems.
- As a dynamic exercise, CPEIR exercises are most fruitfully repeated over time to focus on new needs and trends, and to better support the development of national systems and processes.

Fifth, CPEIRs can serve as a tool to track the achievement of mitigation targets as well as adaptation responses, which enables countries to better attract and utilize global climate change related finance.

- While it is sometimes assumed that CPEIRs are oriented only toward adaptation spending, in fact, they can be used as a tool to measure and track both adaptation and mitigation spending.
- Over time, CPEIRs have exhibited a pattern whereby an initially greater share of expenditure earmarked towards adaptation was surpassed by a trend toward more mitigation expenditures.
- CPEIR and related diagnostics can be used by countries to enhance the credibility of national institutions to manage climate change related finance with a high degree of transparency and accountability.
- The frameworks and systems for improved financial management that generally follow from the findings of a CPEIR are highly applicable to building domestic readiness for channelling output- or results-based climate change financing.

There is strong potential for the global application of CPEIR with further refinement of a common international methodology. For example, enhanced focus on expenditure effectiveness analysis could be a value-added feature of CPEIRs, but one often constrained in practice by challenges in obtaining primary data. Greater harmonization of methodologies needs to be balanced with the demonstrated value of CPEIRs in promoting country-oriented, domestic policy processes and capacity development tailored to unique country needs and priorities.

In reviewing national policy landscapes, institutional arrangements, and financial resources (both domestic and international) to achieve climate policy objectives at national and sub-national levels, it is also clear that conducting a CPEIR represents the ideal first step for countries in the process of developing a more comprehensive Climate Change Financing Framework (CCFF). These frameworks would ensure existing systems are fit for purpose for better targeting resources in an optimal way, and capable of managing different sources of finance, both domestic and international, private and public, in an accountable and optimal manner.



Introduction

The discourse on climate change has evolved greatly, from being an issue largely viewed principally as an environmental challenge to one with far wider ramifications. Indeed, the link between climate change and human development is increasingly well documented and has come into clearer focus by policy makers. Potential negative climate change impacts raise the spectre of reversing the accumulated human development gains made by developing countries and aggravating social inequality. “[W]hile climate change will affect everybody to some degree, the poor are particularly vulnerable, with the fewest options for adapting or managing risk.”² In sum, as a cross-cutting issue, national responses and policies toward climate change cannot be effective if treated solely as an environmental matter. Many steps are needed in establishing robust policy frameworks, coordination mechanisms and appropriate budgets to address its impacts adequately.

UNDP recognizes climate change as a key challenge to national development. Given the cross-cutting nature of climate change, governments will not be able to address its economic, social and environmental impacts unless they start integrating their response throughout their national and sub-national planning and budgeting processes.

UNDP supports and facilitates a whole of government approach³ to manage the risks of climate change. Close collaboration with all relevant stakeholders across the region is emphasized to achieve better integration of climate change into planning systems and their translation into concrete allocations in central and local government budgets.

2 The 2012 Asia-Pacific Human Development Report for example, is dedicated to this topic, examining the many ways in which climate change threatens peoples’ fundamental choices and opportunities, from risks to livelihoods and economic assets, to the heightened potential for conflicts over environmental resources, to the health risks posed by climate-sensitive diseases. See *One Planet to Share: Sustaining Human Progress in a Changing Climate*, UNDP, 2012.

3 Key stakeholders include but are not limited to (i) central ministries such as finance, planning, environment and home affairs, (ii) line ministries directly impacted by climate change such as agriculture, forestry, fisheries, public works, energy, health and social affairs, (iii) sub-national level of governments such as provinces and districts, (iv) Civil Society Organisations specialized in climate change policy and/or budget transparency, development partners as well as regional and national training and research Institutes.

An effective way to ensure that climate change strategic action plans are implemented through actual budget policies is to develop a climate change financing framework (CCFF)⁴ that would help countries prioritize and allocate their financial resources to activities presenting climate change benefits in addition to their regular economic, social and environmental benefits.

A comprehensive CCFF framework can be seen as, at a minimum, to be including the following elements:

1. Focusing on planning and costing climate change response actions in the medium and longer term⁵;
2. Employing a whole-of-government approach that broadly engages all relevant stakeholders toward the mobilizing, managing, and targeting of domestic climate finance resources;
3. Bringing public sources of climate change finance (domestic and international) into the national planning and budgeting system, to be delivered through country systems, and aligning private sources of climate change finance with the overall fiscal policy framework;
4. Defining what actually constitutes climate change allocations and expenditures in a manner that is consistent, commonly agreed, and nationally-determined; and
5. Ensuring accountability over the use of climate change finance, both domestically vis-à-vis the national public and beneficiaries, particularly the most vulnerable, as well as externally, to international donors and development partners.

Such a CCFF can facilitate more accurate monitoring, tracking, and reporting on related investments which in turn will create an enabling environment conducive for international climate finance to flow, and to be monitored for its effectiveness and impact.

Responding to growing demand and recognition of the value of this approach, UNDP has supported a large number of developing countries across Asia and the Pacific and Africa to progress toward such a CCFF through the implementation of a Climate Public Expenditure and Institutional Review. Acting as a 'first step' for governments to identify the financial implications of climate change that can serve to inform a reprioritisation of resources through the budget process, CPEIRs have highlighted the value in analysing climate-related policies and policy-making processes across a range of institutions as well as in translating related policy objectives into budget allocations and expenditures. CPEIRs or similar exercises have been implemented in at least 20 countries to date (see Figure 2). Many of the country results obtained have been already aggregated and published in the CPEIR database available online⁶.

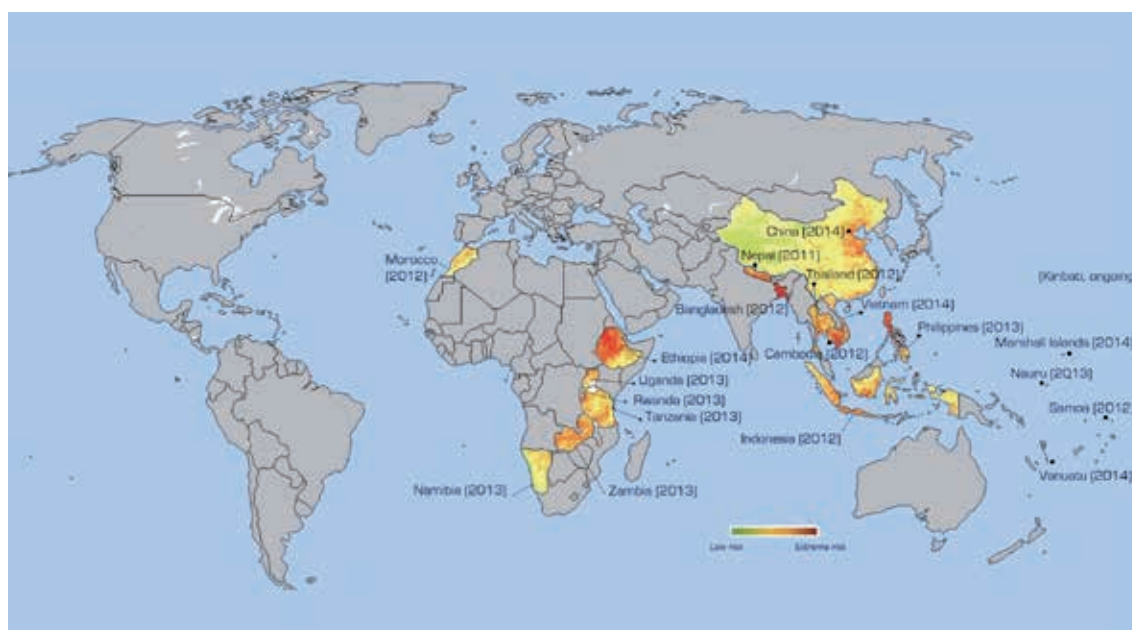
A new set of CPEIRs, not included in figure 2 are currently being developed and/or finalized in Asia (e.g. Pakistan), Latin America (Chile, Colombia, Ecuador and El Salvadore), Africa (Benin, Ghana, Kenya and Mozambique) and the Pacific (Fiji and Tonga).

4 CCFFs are sometimes referred to as climate fiscal frameworks (CFFs).

5 Ideally, a CCFF should also include an assessment of climate change impact on economic growth in the medium and long term.

6 The database can be accessed on the following UNDP website at: <http://www.climatefinance-developmenteffectiveness.org/CPEIR-Database>.

Figure 2: Map of CPEIRs carried out, and Climate Change Vulnerability Index for 2013⁷



Following the official publication and endorsement of their CPEIR analysis, many countries have also gone a step further and have started to work on implementing the recommendations made by the reports:

1. One point of entry chosen by certain countries has been the institutionalization of the expenditure analysis conducted by the CPEIR. Governments have started to track their “on-budget” climate change related finance by introducing tagging systems within their budgeting and/or accounting systems. In Asia-Pacific, Nepal was the first country to adopt climate change tagging, followed by Indonesia and the Philippines⁸.
2. Other Countries such as Bangladesh and Thailand have developed project appraisal guidelines for their planning and environment agencies to help them assess the impact of climate change on public investments.
3. Ministries of Agriculture in Cambodia and Thailand are integrating climate change impact assessment in the preparation of their annual budget submission to the Ministry of Economy and Finance and the Bureau of Budget in each country respectively.
4. Bangladesh have developed a full-fledged Climate Fiscal Framework⁹ to be implemented in 2015 and Cambodia a Climate Change Financing Framework¹⁰.

⁷ Source: Authors, with information from www.maplecroft.com: “Climate Change Vulnerability Map 2014”

⁸ For more information, about climate change tagging, please refer to the following UNDP publication: *Climate Budget Tagging, Country-driven Initiative in Tracking Climate Expenditure*, July 2015.

⁹ For more information about the Bangladesh CFF, please refer to: *Climate Fiscal Framework*, Finance Division, Ministry of Finance, Government of the People’s Republic of Bangladesh, Dhaka, June 2014.

¹⁰ For more information about the Cambodia CCFF, please refer to: *Cambodia Climate Change Financing Framework*, November 2014.



A Quick Glance at the CPEIR

The Main Objective and Added Value of CPEIRs

CPEIRs build from an analysis of existing policy, institutions and data on expenditures to formulate recommendations on how to strengthen the budget process and the regulatory instruments to address climate change more effectively. In practice, this can take many forms. For example, CPEIRs can aid ministries in charge of finance and planning, and institutions tasked with climate policy-making and coordination, to better translate evidence-based policies into the budget and other policy instruments, including innovative finance tools and green fiscal schemes. National/sub-national climate change policies may be integrated into the planning and budgeting process, and, in turn, inform the adaptation and mitigation activities on the ground through line ministries and technical agencies which are sector-focused. Climate change response strategies and activities which prove effective can then inform the next national policy framework iterations.

Taking the budget process as its entry point, CPEIRs promote a 'whole of government' approach under which line ministries, local governments, and central ministries of finance, planning and environment collaborate to better manage public spending and investments. As budgets are the central instrument reflecting a country's policy – whether through expenditure programmes for providing service, or through the passing of regulatory instruments, it is a key tool for assessing whether resources are allocated to policy intent. CPEIRs reinforce the value of national processes in translating climate-related goals and policy priorities into the national budget, and serve as a tool to identify the compatibility of public investments and programmes with existing climate policies. They provide a catalytic role by providing evidence upon which to base a discussion of the management of future sources of climate change related finance. The experience borne out by countries through the CPEIR process has cemented the value of such an approach. Pacific Island countries, for example, are amongst the countries most affected by climate change, but have only received 1.5% of funding worldwide. Thus, improving access to resources as well as their effectiveness is a key step forward.

The CPEIR Methodology

UNDP first formulated the CPEIR methodology in 2011, adapting existing Public Expenditure Review (PER) methodologies elaborated by the World Bank and applying them to the cross-cutting theme of climate change. PERs are used in more traditional sectors to analyse what the government planned to execute (i.e. a policy and its associated cost); what it actually allocated and spent (i.e., through the budget and its execution); and what was achieved (i.e., outputs and outcomes) compared to the objectives. Such analysis was later complemented by institutional assessments, leading to the development of Public Expenditure and Institutional Reviews (PEIRs) as outlined in the revised CPEIR methodology in 2015.

The methodology covers three levels of analysis – policies, institutions and budgeting. The conduct of a CPEIR¹¹ is based on the understanding that integrating climate change-related policies and programmes (Pillar I), the institutional and policy coordination arrangements related to these (Pillar II), and how the national budget translates these into actual spending (Pillar 3) is key to enhance the mobilization, management, and targeting of resources earmarked toward a climate change response. As noted in the CPEIR methodological paper by ODI and UNDP, establishing such linkages is more challenging and policy-makers face a conceptual hurdle to be overcome, because “[climate change] actions are not limited to one or a few sectors, but represent new and additional incremental spending across the whole of the economy.”¹²

The CPEIR methodology was first piloted in Nepal with UNDP support in 2011. Since that time, the methodology has been adapted to needs and circumstances of each country. Thus, while there are key differences, there are also important common elements among all CPEIRs, including:

- A policy and institutional review of government’s ability to coordinate and translate climate change objectives into the budget (at national level and some at sub-national level);
- A review of the relationships between different climate-related institutions, including decentralised entities;
- A definition and/or typology used to identify climate change relevant expenditures for the review;
- An analysis of recent trends on budget allocations and/or public expenditures that appear relevant to climate change;
- An illustration of trends in external funds flow and potential dependency;
- Recommendations on institutional reforms to mainstream climate change policy in the short- and medium-term;
- Recommendations on improving the relevance and impact of public expenditure for both mitigation and adaptation.

Governments are increasingly motivated to understand how responsive their policies are to the challenge of climate change, including how well its institutions can translate policies into programmes that deliver results on the ground. They are also under increased public scrutiny and being held accountable to demonstrate the impact of their budgetary allocations and spending, particularly on poor and vulnerable population groups.

11 More information on CPEIRs is available on the following UNDP website at <http://www.CFADE.org>.

12 *The Climate Public Expenditure and Institutional Review (CPEIR): a methodology to review climate policy, institutions and expenditure*, Neil Bird, Thomas Beloe, Merylyn Hedger, Joyce Lee, Kit Nicholson, Mark O'Donnell, Sudha Gooty, Alex Heikens, Paul Steele and Mark Miller. A joint UNDP / ODI working paper, August 2012.

Through the CPEIR exercise, countries have come to recognise that many activities which directly and indirectly address climate change adaptation and mitigation are already included in national budgets, but which are rarely explicitly referenced or categorized as such.¹³ By linking the three pillars, CPEIRs can provide answers on whether governments are addressing climate change in their national development agenda and creating the right linkages to sector policies. In doing so, CPEIRs focus the policy intent on inclusive growth, tackling poverty and inclusion, while seizing the opportunity of Green Growth. Other opportunities provided by the CPEIR exercise include:

- Identifying not only the technical reforms that might allow for a stronger integration of climate change within the budget process, but also what incentives and drivers there might be within different institutions to take this reform forward;
- Enhancing the quality of a government's responses to climate change, in facilitating a more transparent assessment of which policies are most relevant, how well they are designed, and whether there are sufficient resources to implement them;
- Validating mechanisms to ensure adequate climate-related public spending is implemented at sub-national level as well as promoting decentralized capacity development at both institutional and individual levels;
- Supporting national policy-making and coordination processes, in providing a common base of information for a central group of institutions, notably at the level of the Ministries of Finance, Planning, Budget, Environment, and also including, in some cases, local governments;
- Demonstrating ownership, by supporting countries' leading role in policy dialogue with international actors, and by helping to shape a CCFF that does not call for parallel systems; and
- Assessing the credibility and identifying primary strengths and weaknesses of national institutions that already, or that potentially could, channel climate change finance.

Main Challenges

UNDP's experience with CPEIRs revealed that countries face **three key challenges** to integrating climate change into national planning and budgeting processes:

1. **Lack of coherence between climate change-related policy-making, policy coordination and policy transmission through the budget.** As climate change is a complex and relatively new area for public policy, strong coordination and linkages with the overall national development agenda, as well as the budget processes, are required;
2. **Demonstrating the economic benefits of investing in a climate change response,** and how related programmes contribute jointly to long term objectives such as inclusive growth, domestic revenue mobilisation, and results accountability; and
3. **Policy coordination** between central, thematic and sub-national levels of government. An effective climate change response must be translated into decentralised systems and actions. The current division of responsibilities between line ministries responsible for climate change (for instance, between the Ministries of Environment, Agriculture and Forestry, Natural Resources, and Economic Development) is sometimes unclear.

¹³ *Climate change and the adaptation deficit*, Burton, I., Environment Canada, Downsview, Ontario, 2004.



PILLAR I: Policy analysis

Summary

CPEIRs provide a framework to effectively integrate climate change policies and targets into programmes and budgets across government. One key pillar of the CPEIR methodology involves evaluating the degree to which existing national policies are being coherently translated into plans, budgets, and monitoring systems. In this way, countries can identify opportunities and challenges to advance and scale-up current efforts.

Findings: What does the CPEIR policy analysis tell us?

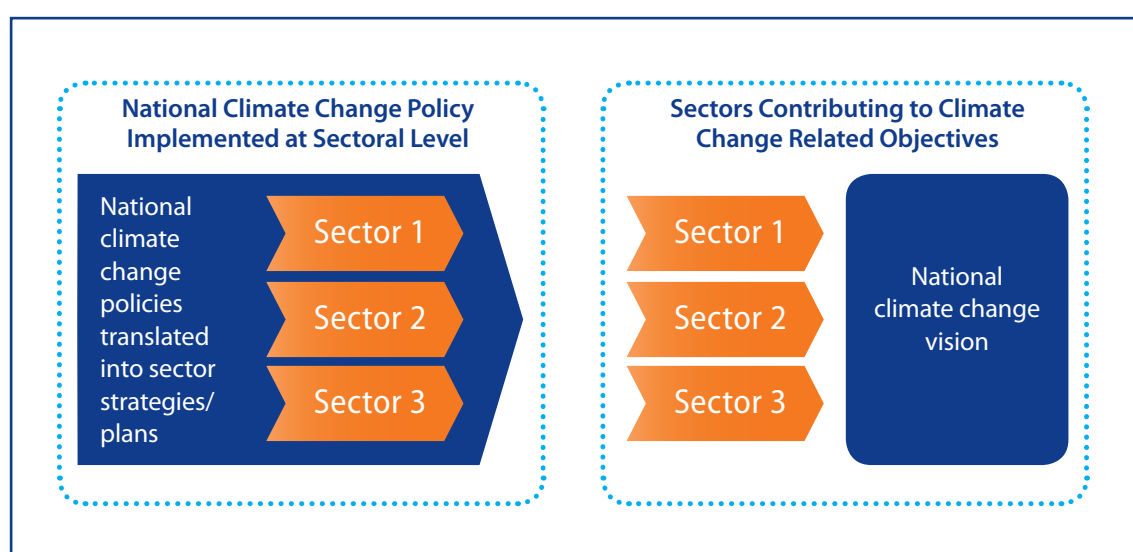
Countries surveyed by the CPEIR in Africa, Asia and the Pacific have made significant progress in establishing national climate policies. Several have consolidated their commitments into an approved national Climate Change Policy (or equivalent), and a few have taken the additional step of translating climate change policy into priority strategies and action plans in key sectors. For example, in Bangladesh the Government developed the Bangladesh Climate Change Strategic Action Plan in 2009 to guide the mainstreaming of climate change into the sectoral plans of line ministries as illustrated in left side of Figure 4. In other countries, such as Cambodia, key sectors have been highlighted as those that contribute (directly or indirectly) to national priorities on climate change and requested by the Council of Ministers to develop climate change action plans which ultimately contributed to the development of the Cambodia Climate Change Strategic Plan 2014–2023 (right side of Figure 4). In some cases, however, the policy analysis reveals a more complicated situation. In Thailand, for example, the Climate Change Master Plan is still in draft form and has not been approved. Meanwhile, a sector such as agriculture is developing its own climate change action plan. The alignment of the two plans will require strengthened coordination between the two agencies.

There has been limited integration of climate change policy within national, sector and sub-national policy and there is an associated lack of coherence in how climate change is addressed. Most CPEIRs analysed found that the links between climate change policies and national development plans were unclear (e.g.: **Cambodia, Nepal or Samoa**). CPEIRs have also repeatedly found that sector and development policies lack coherence in relation to stated climate change policy objectives (e.g.: **Samoa, Philippines, Vietnam**). In other cases, CPEIRs highlight a lack of coherence in specific sector policies. For example in **Cambodia**, where the Economic Land Concessions, which supports the conversion of land for economic purposes, may be pursuing contradictory policy objectives to those associated with climate change and green growth; and in **Bangladesh**, where there may be contradiction between a rapid expansion in energy capacity and a reduction of the reliance on natural gas.

Climate change-compatible development is constrained by the fact that climate change is still predominantly understood uniquely as an environmental issue, especially as policy mandates are often embedded in ministries in charge of environment or natural resources. In order to be deeply integrated and mainstreamed into national development planning, countries need to better understand and appreciate the inter-linkages between climate change and various sectors. This is especially true for building enhanced adaptation capabilities and resilience to natural disasters as the case of **Nepal** highlights.

Relationships between climate change policies and public expenditure programmes are rarely as clear as they should be. The CPEIR in **Vietnam**, for example, concluded that: “the present legal framework itself does not ensure that spending is directed to stated and highest priorities, that spending achieves its objectives, or that spending can be tracked and reported comprehensively over time.”¹⁴ The challenge of tracking climate change policy and expenditure is in large part contiguous to the challenges of establishing effective public financial management systems more broadly. For example, in **Cambodia**, the CPEIR indicated that the link between the national development plan, the medium-term expenditure framework, and the annual budget remains weak and does not serve to assess whether climate change policies are indeed funded. Similarly, but at the local level, the **Nepal** report explained that “the absence of a coherent definition and classification of climate change and climate change-related expenditure has a significant impact on how local government bodies integrate climate change into their local development planning and budgeting and what they perceive as sources of climate finance.”

Figure 3: Most common arrangements for addressing climate change objectives



Since national monitoring systems are frequently overburdened and focused more on inputs than outputs or outcomes, monitoring climate change policy effectiveness presents a significant medium-term challenge. National and local level systems for monitoring development need to address numerous competing demands, including those from development partners. For

¹⁴ The analysis goes on to note three weakness in the policy and institutional framework: 1. Many of the strategy and action plan tasks and objectives overlap; 2. Present project and activity spending are not recorded or reported in a way that allows ready compilation of the total effort of government agencies in responding to the challenge of climate change; and 3. Linkages between policies, climate change outcomes, and line ministry and provincial and community responsibilities, are not clearly defined.

example in **Zambia**, monitoring and evaluation has to date been focused on meeting diverse and diffuse donor requirements, rather than on supporting the implementation of national strategies.¹⁵ In many countries, monitoring systems do not yet focus on results. For example, in **Namibia**, the Climate Finance Readiness Needs report calls for monitoring and evaluation to be results-based, rather than focused on the completion of activities or on spending. This should also build on efforts to strengthen information and databases for climate-related investment.

Although at the time of the CPEIR the effort was still at an early stage, in **Cambodia**, the Ministry of Planning had endorsed integrating climate-related indicators into the national monitoring and evaluation framework and was adopting this practice at project level. Similarly, the Ministry of Environment suggested the inclusion of four indicators related to climate change in the national monitoring and evaluation framework, on climate strategies, financing, vulnerability, and Clean Development Mechanism projects. The CPEIR in the **Philippines** also highlights how community-based monitoring can be used to strengthen national climate policy monitoring.

Despite clear progress made in recent years, countries continue to lack frameworks to assess the performance of climate change spending. UNDP's experience supporting countries to develop CPEIRs has shown that no single country has established the reforms necessary to enable the measurement of climate change financing performance. This suggested the need for countries to go further and start developing full-fledged climate fiscal frameworks that would address these issues within the context of wider public financial management (PFM) reforms. ***CPEIRs have therefore recommended the establishment of full-fledged climate fiscal/financing frameworks to address these gaps.*** Three fiscal/financing frameworks for climate change have already been developed in Asia. For example, in **Indonesia**, the CPEIR initiated a process to measure the cost effectiveness of climate change mitigation expenditures which subsequently led to the adoption of the Mitigation Fiscal Framework by the Ministry of Finance. Similarly, in **Cambodia**, follow up work to the CPEIR to establish a Climate Change Financing Framework included some analysis of the climate change benefits that can be obtained from key public investments. However, whilst CPEIRs and follow up work has initiated this analysis, no system has yet been established that allows for regular review of performance. However the Low Emission Scoring System, developed in **Indonesia**, aims to provide this regular monitoring of cost-effectiveness vis-à-vis mitigation.

Integrating climate change policy within country level monitoring and evaluation systems will require institutional reform and capacity development. In **Bangladesh**, the CPEIR clearly articulates the links between improving the monitoring and evaluation framework and building the necessary capacity, both in terms of climate change, more generally, and performance-based monitoring and evaluation approaches, specifically. It highlights how the Budget Management Centres and Climate Change Cells of line ministries should be equipped with personnel with relevant expertise to enable these processes. In this regard, the Bangladesh CPEIR highlighted how such institutional reform across government will require the leadership of the Public Service Commission/Ministry of Establishment. The assessments in **Zambia** and **Namibia** highlighted the need for developing capacity to produce information for evidence-based policymaking. This covers information collected through monitoring and evaluation, promotion of sharing of lessons in peer-countries, establishment of a centralised climate data repository with agreement on data quality standards and for accountability purposes. Importantly, both the **Zambia** and **Namibia** Readiness Assessments place the role of the National Statistics Office at the fore. This is of interest for many donors seeking to use budget support modalities.

15 Some stakeholders believe that this situation was partly a result of the absence of a clear national climate change policy, and, at the time of the review, the only pending status of adoption of the National Climate Change Strategy.

Lessons learnt: How can we strengthen the policy analysis pillar of CPEIRS?

The CPEIR methodology and related analyses could be strengthened through an increased focus on the following areas of analysis associated with Pillar 1:

Stakeholder participation in the development of climate change policy. This could be built on the analysis in **Samoa**, whose CPEIR highlighted how the local culture favoured both formal and informal village-level consultations in developing the climate policy. CPEIRs might look further at how the interests of private sector stakeholders, such as social entrepreneurs (linked to adaptation and mitigation) and the private sector, PPPs and SOEs are addressed.

The relationship between climate change policy and economic, poverty and gender equity objectives. CPEIRs could look to assess the degree to which climate vulnerability data and impact analysis, alongside poverty/gender data and analysis, is being incorporated into climate change, poverty and gender policy. Given the linkages between climate change impacts and the poor and poor women in particular, CPEIR could assess the degree to which there is policy coherence across these areas.

Measuring the degree to which climate policy has been embedded within the broader national policy framework using a comparable framework. Assessing the degree to which climate change policy has led to adjustments in the broader national policy framework for growth and development requires an assessment of how national plans, sector policy, institutional mandates, laws and acts of parliament, and financing instruments have been adjusted. In **The Philippines**, the CPEIR identified a range of policy and institutional elements to assess where climate change policy could be seen to be delivering change: (i) the existence of stand-alone laws in sectors (clean air, agriculture, biofuel, renewable energy, and waste management); (ii) policies addressing coordination across sectors; (iii) acts of Parliament; (iv) legal provisions for climate-oriented financing instruments such as the People's Survival Fund; and (v) legal provision for new institutions such as the creation of a Secretariat to the Cabinet Cluster on Climate Change.

The impact of climate change policy. While measuring policy impact was out of scope of the CPEIRs studied in this review, the issue was discussed in some reports, such as in **Samoa**, where the report mentions that the National Greenhouse Gas Strategy was implemented but it was too early to measure impacts on reduction of GHG emissions; while **The Philippines** reported that no clear organisational model exists to execute and deliver climate change results across the various departmental structures. Measuring emissions can be considered as an option for measuring the impact of mitigation, although it raises the question of data availability. There are no clear indicators for adaptation, and these are likely to be very country- and sector-specific. These are important issues, as a number of funding mechanisms will seek to establish performance assessment frameworks linking financing to results.

CPEIRs should continue and strengthen their function as a catalyst for policy dialogue. CPEIRs have played an important process function, acting as a starting point for, or strengthening existing, policy-making processes for longer-term engagement on policy development within government, and between government and other national stakeholders. CPEIRs support an informed policy dialogue, and learning through experimentation of what works and what does not. Donors can tap directly into CPEIRs to inform their dialogue with countries in programming and monitoring climate related support.



PILLAR II: Institutional analysis

Summary

The CPEIR reports covered three aspects of capacity: leading the policy-making process, coordinating policy across entities and sectors, and ensuring programmes are funded. The choice of the entities covered was driven by which entities had the mandate for climate change policy-making and coordination.

Findings: What does the CPEIR Institutional Analysis tell us?

The main institutional responsibility for climate change issues continues to fall primarily under the Ministry of Natural Resources/Environment despite the cross cutting nature of the issue that requires an integrated, whole of government approach with strong coordination mechanisms. In most of the CPEIRs that undertook a review of the main institutions involved in policy coordination and mainstreaming policy across sectors, this was the case. The challenge of coordination is highlighted in **Thailand**, where the Office of Natural Resources and Environment Policy and Planning (ONEP) is assigned the role of national focal point to coordinate government agencies, private entities, non-governmental organizations and academia in developing a coherent adaptation strategy, as well as to function as the Secretariat to the National Climate Change Commission, chaired by the Prime Minister. It is estimated there are 137 agencies involved in the delivery of climate activity in Government alone. Only in **The Philippines** (Climate Change Commission attached to the Office of the President), **Nauru** (a Ministry for Climate Change was created in 2012 and allocated to the President) and **Tanzania** (Vice President's Office – Division of Environment) was the institutional set-up different. In a number of countries, the environment ministry performs a secretariat function to a cross-ministerial climate change coordination body. For example, in **Vietnam**, the Ministry of Natural Resources and Environment supports the National Committee for Climate Change (NCCC) through the Standing Office of the NCCC and is the technical focal point for climate change response policy. According to CPEIR, the role of the Standing Office of the NCCC is vital for the channelling of high-quality, verified and succinct information to the NCCC, to enable the NCCC to realize its oversight, prioritization and coordination role.

'Central' planning and finance ministries are, however, increasingly engaging in the mainstreaming of climate change into planning by supporting the efforts of ministries of environment/natural resources. This is particularly true regarding the financing aspects of the issue. UNDP's experience supporting countries with undertaking CPEIRs has provided some evidence that an effective policy coordination mechanism is necessary to enable the process of policy transmission across sectors, and at the local government level. Effective national coordination

of a climate change response across a large number of institutions is improved through greater engagement by these entities. In **Bangladesh**, a wide and complex constituency of interests in climate change includes central ministries (both planning and finance) which have focused their efforts on mainstreaming climate change into their project appraisal/planning and budgeting cycle through the Development Pro Format guidelines and climate change fiscal frameworks respectively, the Ministry of Environment, which developed the Bangladesh Climate Change Strategic Plan, line ministries, local government, NGOs, the private sector and development partners (at least 37 ministries and 10 donors have at least one climate-related programme). In **Nepal**, both planning and finance play a key role in the mainstreaming of climate change into the countries' systems as the institutionalization of the climate change code demonstrates.

While capacity is often cited as a cross-cutting challenge at both national and sub-national levels, capacity development programmes have not yet been broadly implemented or are still at an early stage. A finding repeated in almost all countries for which a CPEIR was analysed was that dedicated, on-going effort is needed by countries to build both technical capacity (i.e. expertise on climate change related policies), and functional capacity (i.e. expertise on climate finance and its translation into budget planning, performance and evaluation indicators). In **Thailand** capacity concerns were focused first on establishing a well-resourced Secretariat on climate change in the ONEP, to support the roll out of the climate change Master Plan; in **The Philippines** the CPEIR highlighted the importance of developing a sound climate knowledge base at all levels of government as a means to mainstreaming climate change into policy, budgets, and financing; in **Zambia** there was a focus on investing in multi-stakeholders partnerships with the goal of practical collaboration around implementation of climate change measures; and in **Marshall Islands** the CPEIR recommended developing a long term strategy and resourcing plan to build capacity in central agencies as well as NGOs, local government, and communities.

Climate policies and associated legislation often do not adequately articulate or clarify institutional mandates, roles and responsibilities that can operationally guide ministries and departments. There is some evidence from the CPEIRs studied that this is a recurring problem. In **Uganda**, for example, roles and responsibilities were not fully described in the over-arching climate change policy; this led to uncertainty as to the mandates of ministries, departments and agencies. In some cases, where there is one technical lead ministry such as environment, focus appears first to be on the need to strengthen their knowledge base on climate change. However, in follow up to CPEIRs there is some evidence that these lead technical agencies are working together with line ministries to develop collaborative capacities for mainstreaming climate change in the investment prioritisation process. For example, in **Thailand**, following from the CPEIR, the Ministry of Agriculture and Cooperatives (MOAC) is integrating climate change analysis into its budget formulation process together with ONEP – the lead climate agency. This is particularly strategic as the CPEIR highlighted that MOAC was the largest spending agency on climate change.

In certain contexts where governments have been highly committed to the climate change agenda, cases of institutional competition have been reported. For example in **Samoa**, between the Ministry of Natural Resources and Environment and the Ministry of Finance, weakening effective coordination for addressing climate change; and in **The Philippines**, between the Climate Change Commission, under the Cabinet, and the Division of Budget and Management.

Incentives (such as special funds; formulae for revenue assignment) are not yet systematically in place for integrating climate change in sub-national budgets and plans. Some findings from CPEIRs on decentralized approaches to climate finance show that while such incentives can be instrumental, their application in practice has not yet been robustly applied in many places.

For example, in **Uganda**, there are currently no financial or regulatory incentives for district governments to include climate change relevant projects within planning. In **Pakistan**, where a CPEIR is on-going at the time of this review, significant resources are transferred to states and provinces and as yet there is no consideration of climate change vulnerability in the formula for determining fiscal transfers.

Whilst the CPEIRs suggest that the focus of reforms at the national level should be on significantly strengthening coordination and coherence, at sub-national levels the focus is more on enabling delivery and better targeting of climate change finance. In some countries recommendations for the sub-national level focused on the capacity development of local officials (**Cambodia, Samoa, Vietnam**), and in others on data collection around climate vulnerability (**Cambodia, Thailand, Bangladesh**). The CPEIR for **Bangladesh** also suggests the development of local climate fiscal frameworks, which have subsequently been developed¹⁶. In **Thailand** it was noted that stronger spatial resolution of climate change impact projections would support local authorities in integrating a stronger concern with prioritising climate change related investments.

Some countries have national frameworks to support local level action on climate change. For example in **The Philippines** there are guidelines for local authorities to translate the national climate change action plan into local plans. In **Nepal**, there is a stated policy objective to deliver 80% of all climate change finance at the local level. There are also some national guidelines established by the National Planning Commission that are beginning to give local bodies direction on integrating climate change into local planning and budget processes, in particular as part of the *Environmentally Friendly Local Governance Framework*.

Extra-budgetary funding outside of the regular budget process that by-passes government systems, including donor-funded trust funds, presents challenges for coordinating climate change finance. UNDP's experience supporting countries on CPEIRs has shown some evidence of this across different countries. Examples of such extra-budgetary climate change funds are already common, including the Cambodia Climate Change Alliance, administered by UNDP; and the **Bangladesh** Climate Change Resilience Fund, administered by the World Bank. In **Vanuatu**, for example, it was noted that the by-passing of local government systems means that local officials are unable to monitor progress on programmes affecting their communities, nor are they able to benefit from these programmes in implementing their own priorities. There are also challenges in managing the conflicting priorities of elected officials and those officials appointed to manage the local government structures on a day-to-day basis.

Whilst CPEIRs highlight some progress in engaging non-state actors in developing and implementing climate-related policy and programming, there is limited evidence of engagement on how climate finance is spent, how effective it is and who the beneficiaries are. In **Zambia**, the CPEIR highlights plans to establish a Desk at the Climate Change Secretariat for private sector and civil society actors. In **Nauru**, the government has had some success in engaging civil society on climate related policy and programming. However, there is still limited capacity within community groups and non-government organisations to develop funding proposals and deliver projects. The same limitation is reported for **Samoa**. In **Nepal**, the CPEIR recommended the establishment of a dedicated website, providing information on the work and decisions of the national forum on climate change. It calls for reinforcing the role of civil society in responding to climate change challenges.

16 For more information on local climate change fiscal frameworks in Bangladesh, please see: *Piloting Climate Fiscal Framework at Local Governments at selected climate hotspots in coastal Bangladesh, Capacity Building for the Planning Commission: Poverty, Environment and Climate Mainstreaming (PECM) Project, General Economics Division, Planning Commission, Government of the People's Republic of Bangladesh, November 2012.*

Oversight institutions such as Supreme Audit Institutions (SAI) and relevant Parliamentary Committees have potential to promote accountability over climate change expenditure; however, this function is not yet being carried out by these institutions. CPEIRs have highlighted this gap. Transparency International has produced a number of recommendations focused on improving information on climate change and the role of accountability institutions. For example, in **Bangladesh**, the National Parliamentary Standing Committee on Environment is identified as a key institution for accountability – although it does not yet have capacity to perform climate change finance related functions. In **Cambodia**, there are two committees within the national legislature that address climate change issues. The first is the Committee on Natural Resources, Economic Rights and Revenue Sharing, which has recommended that climate change be included in the forthcoming New Constitution. A second parliamentary committee, the Development Committee, is a thematic committee providing guidance to line ministries (including the Ministry of Environment). In **Uganda**, in addition to the role already played by the Parliamentary Committee on Natural Resources that systematically raises climate change issues, civil society and, to some extent, the private sector, are engaged in the policy development process, as well as in advocating for the effective financing of climate change activities. However, their full engagement and contribution is severely constrained by limited capacity.

Establishing better climate finance tagging systems is commonly viewed as a technical priority. Following the execution of their CPEIR, a number of countries (e.g., **Indonesia**, **Nepal** and **The Philippines**) have instituted budget marker systems to better identify financial flows and to generate better reports on climate-related budget allocations and expenditures. In **Nepal** work is underway to assess progress against the target of delivering 80% of climate finance at the local level, and in **Indonesia** a mitigation budget tagging system is being rolled out to help track progress towards the stated policy objectives on mitigation. In **Cambodia**, the ODA management system is expected to integrate climate finance tagging and weighting capability.

Lessons learnt: How can we strengthen the institutional analysis of CPEIRS

The CPEIR methodology and related analyses could be strengthened through an increased focus on the following aspects associated with Pillar 2:

CPEIRs should put more emphasis on the review and analysis of local governments – both urban, such as municipalities, and rural. Local authorities are usually recognised as an important echelon in the CPEIR reports given their role as essential providers of basic public services. However, their treatment in the CPEIRs varies from a consultative process for policy-making and coordination, to being a capacity ‘gap’ (awareness, understanding, management) for implementing climate change activities or dealing with large projects, to being a full stakeholder whose position, facing the immediate impacts of climate change but generally having low revenues and a large group of vulnerable people, makes them the prime partner for addressing the climate impacts on resilience and poverty.

CPEIRs need to look much more closely at the decentralization process. In order for climate change expenditure to be effective, and effectively monitored, local governments need to be given equal priority in terms of building knowledge, technical capacities and have the appropriate tools to fulfil their climate change-related functions. In practice, however, CPEIR reports generally did not assess whether policy transmission/policy making at the local level emulates good practices in decentralisation, e.g. providing necessary resources and control of their use, accompanying decentralisation with de-concentration, ensuring full information to citizens on funds available and operations funded. This is probably a limitation due to the scope and team composition.

However, a noticeable exception and a good example of recommendations on this issue is **The Philippines** report, which highlighted that CPEIRs, when tackling the local level, need to analyse the funded sources for local authorities and if they provide incentives for integrating climate change in their actions plans (special funds; formulae for revenue assignment).

Assessing donor coordination mechanisms to test if they align to countries' agenda and how climate change finance is provided, so that it does not create new pockets of uncoordinated, extra budgetary spending. Despite some findings of parallel coordination mechanisms created for managing the response and finance to climate change which are not steered by national institutions (see finding on extra-budgetary funding, above), there is a potential role for CPEIRs as a diagnostic tool to assess donor coordination mechanisms in the future given the emphasis on the need for more international financing for climate change under the Sustainable Development Goals.

Analysis of financial accountability could benefit from more systematic use of PEFA assessments and other reports. The CPEIRs do not consistently use PEFA analysis to assess how Parliament and SAs exercise their role for accountability and how they impact the Executive through corrective measures, a key mechanism for improving policy transmission through the budget. In **Indonesia**, the CPEIR referred to the PEFA reports confirming substantial recent progress in terms of increased transparency, with new laws clarifying the role of parliament, Ministry of Finance and spending agencies, and independent oversight, through the external audit institution Badan Pemeriksa Keuangan. The new SAI Performance Management Framework (SAI PMF) should help in assessing capacity gaps for SAs to play an increasing role in providing reports on financial accountability, and on efficiency and effectiveness of programmes, thereby linking up with monitoring frameworks. The SAI PMF¹⁷ should also help assess the value and benefits of SAs for the citizens.

17 The SAI PMF is a summary assessment that provides an assessment of how well a SAI can deliver value and benefits for citizens. Specific indicators relating to performance audit (SAI-3, SAI-15, SAI-16) and communication (SAI-22), with the legislature, the executive and the Judiciary (SAI-23) and with the media and citizens an CSOs (SAI-24) are certainly relevant for donors and CSOs. The summary assessment and these specific indicators can help focusing capacity development for SAs to address climate change, poverty and gender in their performance audit and their reporting.



PILLAR III: Financial analysis

Summary:

The CPEIRs provided a framework to review government public expenditures (mainly budgeted ones but also in some cases extra-budgetary ones) and identify those with a climate change dimension. A second level of analysis helped assess the level of climate change relevance (low, mid, high) by gathering information about the objectives of the expenditures reviewed from official documentation, assessing whether they provide climate change related benefits through consultations with government officers and using climate change expert judgement.

Findings: What does the CPEIR financial analysis tell us?

CPEIRs focused mainly on budget allocations rather than budget execution as this was the only data available. Although CPEIRs tended to cover the most recent three to five years, limits to data availability were a recurrent problem. Obtaining data on both allocations and expenditures, sufficiently disaggregated to allow for a comprehensive review in the identified programmes and ministries, was a real challenge. In the rare cases where such comparisons could be made (e.g. **Uganda, Tanzania**), the results suggest that relying solely on allocations will very likely overestimate climate change spending.

The CPEIR financial analysis was hampered by the lack of an internationally-agreed classification system for climate change and national tags which would have provided an easy, systemic mechanism to extract the required information. This implied that the CPEIR analysts had to rely on various sources (e.g. program appraisal documents, information from civil servant, expert judgments, etc.) to identify programs with a climate change dimension and apportion their shares or components relevant to climate change. This proved especially difficult, as analyses are limited by data access and the capacity to determine this retrospectively. This was a common challenge in all countries studied and has been the case for parallel exercises concerning other cross-cutting issues, such as poverty alleviation and gender.

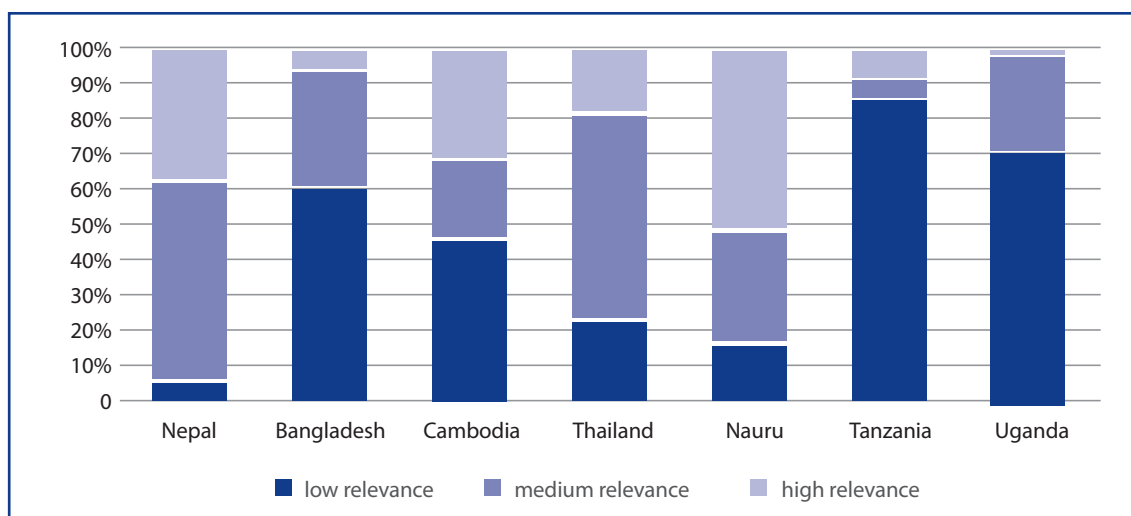
The analysis was also hampered by the lack of coherence across national development programmes, climate policies and strategies, and their translation into sectoral policies, strategies, programmes with budgets, compounded by limited data on expenditure, limited budget data at the sub-national level, and the diversity of funding sources. This problem was clearly reported in the CPEIR from **The Philippines** where, in spite of a significant research effort undertaken, reconciling expenditure programmes with broader policy objectives could only be partially achieved. This has an impact on how effectively the CPEIR can make links between

policies and their programmes, the identified allocations and the institutional mechanism in place. Indeed, as mentioned in the CPEIRs for **Samoa**, **Vietnam** and **The Philippines**, it was not possible to make a direct comparison.

Institutionalized tagging is a useful budget tool for climate change expenditure identification and trend monitoring. Three countries are already working on tagging mechanisms: 1) **The Philippines**, where climate-screening guidelines to tag Programmes, Activities and Projects aimed at climate adaptation and mitigation were developed; 2) **Indonesia**, where the Ministry of Finance developed a budget tagging system that will be used to identify how the budget for climate mitigation has been allocated and spent. A Ministerial Regulation mandates relevant line ministries and agencies to classify climate mitigation budgets; 3) **Nepal**, where the CPEIR recommended the use of specific codes to tag climate budget and expenditure. After a series of consultations, the National Planning Commission introduced the climate code in the state budget for 2013/14, providing an analytical framework for calculating national climate funds and generating information on public finances available for climate change. As such, tagging is only part of the answer for CPEIRs, as it is country-specific and may even change over time. Ideally, developing a new standard within the Classification of Functions of Government would be desirable, although the cross-cutting nature of climate change presents unique technical challenges to this goal.¹⁸

In most countries, the majority of expenditures fall within the categories of “low” and “medium” climate relevance. In more than 50% of the CPEIRs, a typology for ranking the activities, projects and programmes was developed, thus allowing for the computing of a financial sum of the total allocations and of allocations by categories of relevance (defined as the responsiveness of climate change policies and programmes to the impact of climate change on the poor, vulnerable groups and on the economy). In most countries,¹⁹ the majority of expenditures fall within the categories of “low” and “medium” relevance. Only in **Nauru** does the highly relevant category represent the majority of climate expenditure – no doubt due to its particular Small Island Developing State context. “Mid” relevance programmes include agriculture production, as well as the resilience of eco-systems and livelihoods, and given the relevance for poverty alleviation and inclusive growth in a climate-changing context there might be a rationale for reconsidering this classification to “high” relevance.

Figure 4: Climate expenditure by the level of climate relevance



18 For more information on COFOG see <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

19 For which data is available, see Figure 4.

Interestingly, there was commonality in the top climate spending ministries across the countries reviewed, based on climate-relevant expenditures which generally focused on public works and transport; agriculture, water/irrigation; energy; environment; and local government. Expenditures in these top 5 priority areas ranged from 70% in **Bangladesh** and **Cambodia** to over 90% in other countries such as **Thailand, Nepal, Tanzania** and **Uganda**.²⁰ What is evident from the CPEIRs is that ministries of public works stay in the top five climate spending ministries in all of the countries reviewed, reflecting the high costs of infrastructure projects for adaptation and mitigation (see Figure 6 below). This is followed by agriculture and water resource management ministries. It is also notable that energy ministries are not among the top spending ministries for those countries where adaptation is the priority. Meanwhile, in **Tanzania** and **Uganda**, energy ministries represent the most programmes with high and medium relevance to climate change compared to the others, reflecting a strong focus on clean energy (mitigation) programmes in these countries. Ministries of Environment will see small budget allocations as their programmes tend to focus on policy and coordination, whereas the actual works and recurrent budgets are implemented through line ministries.

Figure 5: Percentage of climate expenditure in top 5 common priority areas (% of total climate expenditure)

Ministries/ Countries	Public Works & Transport	Agriculture	Water or Irrigation	Energy	Environment	Local Government
Bangladesh	5%	23%				20%
Cambodia	27%		8%			19%
Kiribati	15%					
Nepal	28%	10%	18%		14%	21%
Samoa	20%			17%	15%	
Tanzania		14%	30%	30%		12%
Thailand**	2%	55%		3%	28%	
Uganda	36%	7%	14%	37%		

All were calculated based on climate relevant expenditures, except for Nepal and Bangladesh the figures of which were not climate weighted.

Source: CPEIRs (Bangladesh, Cambodia, Kiribati, Nepal, Tanzania, Thailand, Uganda); Bangladesh Climate Fiscal Framework; CPEIR in the Asia Pacific Region – What have we learnt?

What is also notable is that CPEIR reports significant shares of climate relevant expenditures implemented through local governments, reflecting more fiscal decentralisation and the importance of local governments in delivering responses to climate change for the most

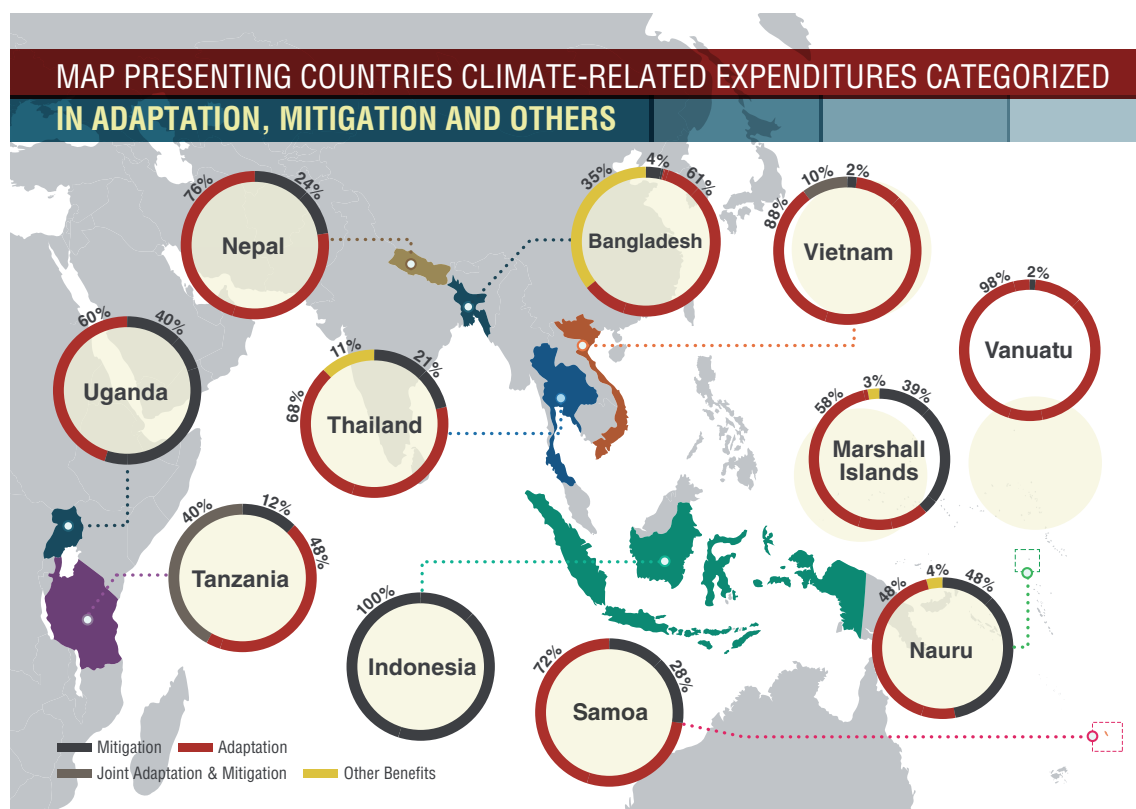
²⁰ Information on other countries: (also applicable to Figure 6 and Annex 2). Vanuatu: the Climate Expenditure breakdown by Ministry/Agency is only available for Operating Fund. Development Fund (mostly donor funded) is targeted at specific projects and not disbursed by administrative functions. The Philippines and Vietnam: data for the CPEIR analysis is collected from 5 Ministries/Departments, not the entire government budget and expenditure allowing capturing the top five ministries. Samoa: only top 3 Ministries data is available from the previous Lesson Learnt paper (please see Figure 6). Namibia/Zambia/Marshall Islands/Morocco: No data available by ministries. Indonesia: not included as the study focused solely on mitigation.

vulnerable areas and people. This is especially the case in **Bangladesh, Nepal, Cambodia** and **Tanzania**. It has important implications for policy coordination and capacity development at both levels of government.

It is worth noting that forestry and disaster management are not strongly featured in the top climate spending ministries in the countries reviewed. One exception is **Bangladesh's** Disaster Management and Relief Division representing the third highest amongst the ministries.

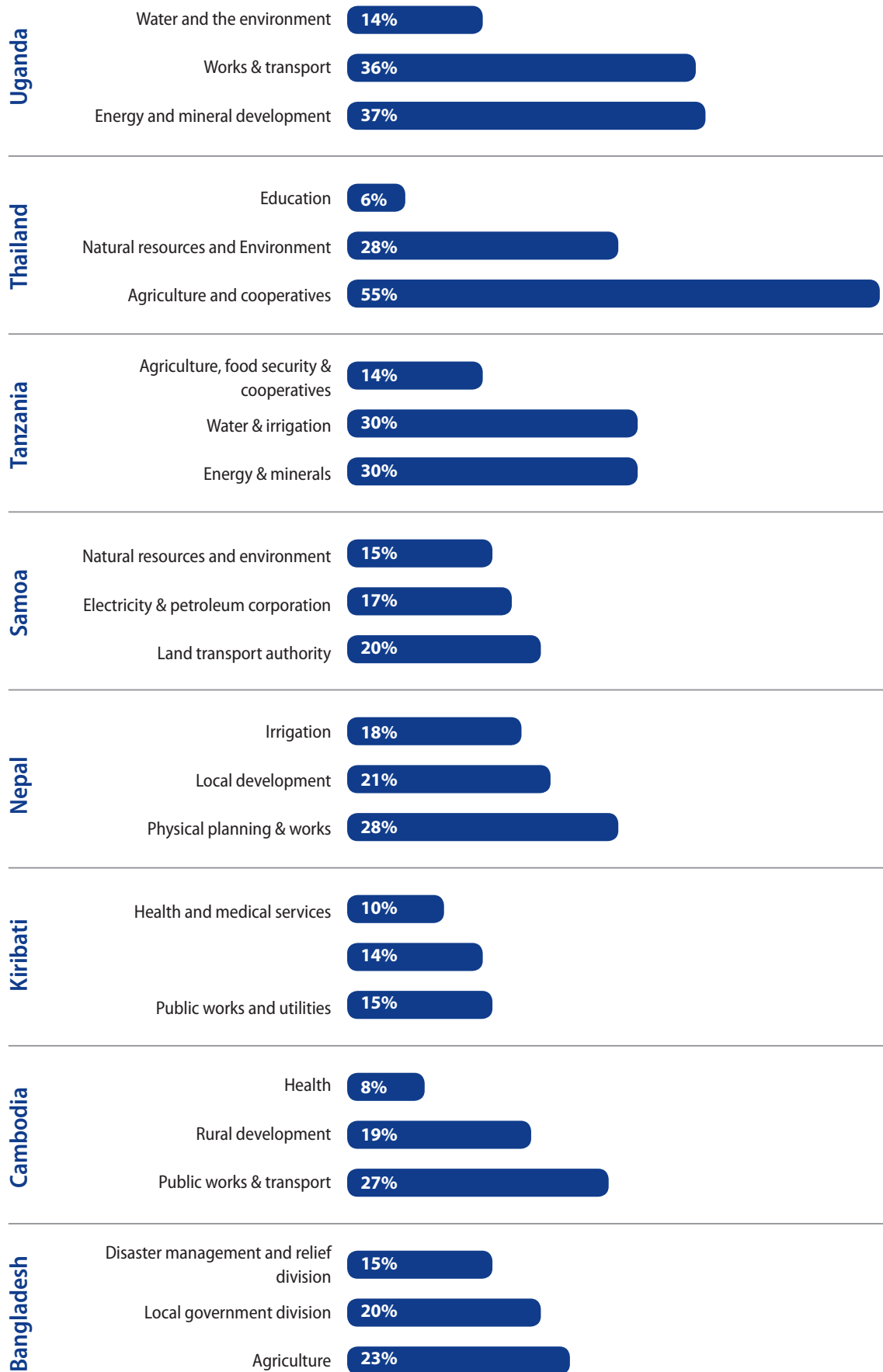
In some countries, the CPEIRs reflect a pattern whereby there was initially a greater share of expenditure on adaptation and a progressive trend towards mitigation expenditures. This could be explained by viewing existing programmes that address development gaps considered as adaptation initiatives. It also takes time to design mitigation programmes that are responsive in the country context, possibly requiring changes to the legal and regulatory framework. Some CPEIRs report on mitigation and adaptation, and also identified public expenditures with co-benefits (i.e. public expenditures that yield both adaptation and mitigation benefits) as in the case of **Vietnam** and in **Tanzania**. Only in **Indonesia** was the focus limited to mitigation.

Figure 6: Percentage of climate expenditure by mitigation, adaptation and co-benefits



1. Indonesia conducted a Mitigation Fiscal Framework and therefore did not measure the share of its adaptation expenditures.
2. Other benefits are research and capacity development in the case of Thailand and Bangladesh. However, they mainly consist of disaster risk reduction for Nauru and Marshall Islands.

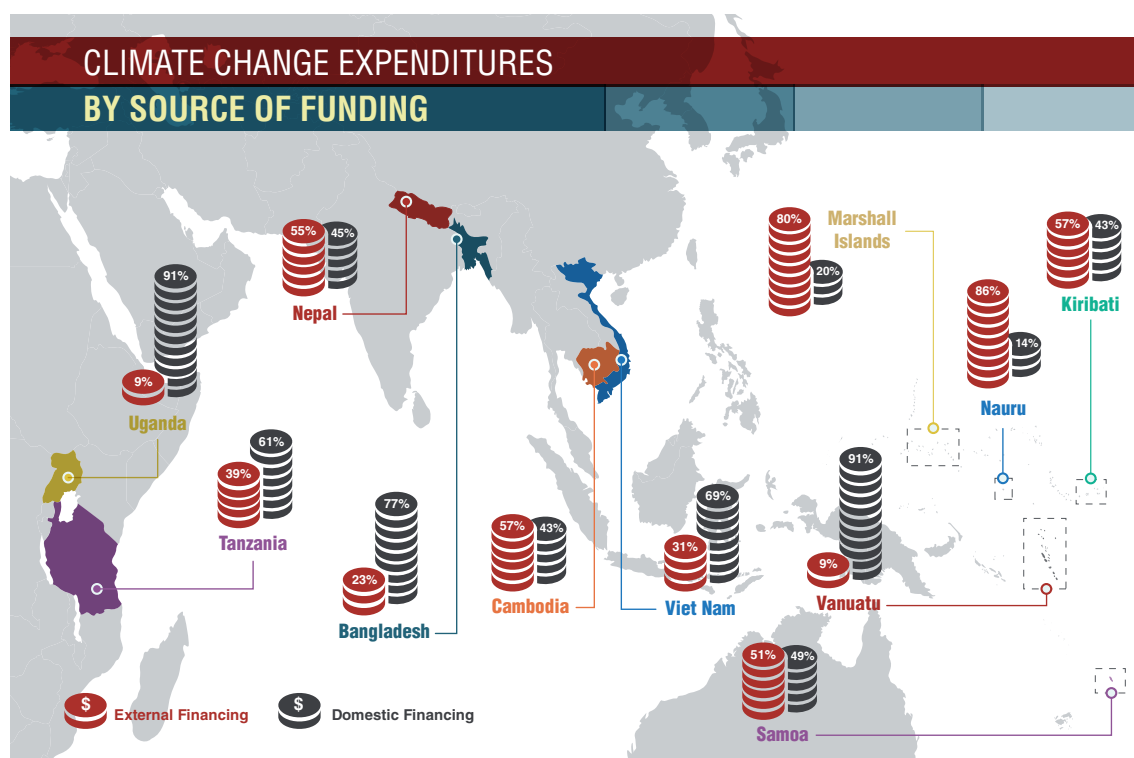
Figure 7: Top three climate spending ministries by country



All CPEIRs analyse both recurrent and capital expenditures. However, recurrent expenditures are usually more difficult to integrate into the analysis as CPEIR teams focused on selecting data based on programmes, which are biased towards capital expenditures. This is a methodological issue as process of identifying climate change-related expenditures relies on interviews with officials and their knowledge of past and on-going projects, de facto biasing records towards investment projects and capital expenditures.²¹ This also responds to an indirect incentive to report such investments (larger volume and more visibility) in National Climate Publications, and may also be attributable to the large capital budgets of some countries, with a large part of that from donors (particularly in less developed countries).

All CPEIRs address both domestic and external funding.²² However, in opposition to many preconceived ideas, in most countries for which data is available, domestic resources are a significant part of climate change expenditure. They have been ranging from 91% in **Uganda** and **Vanuatu** to 14% in **Nauru** where donor funds are more prevalent. For many countries this means that donors provide an impetus to climate change policies, and the countries' readiness for climate change finance, in addition to other programmes such as public financial management reforms.

Figure 8: Climate expenditure by source of funding: domestic vs. external



* Vanuatu and Kiribati: figures are based on Climate Relevant Expenditures from Development Funds.

** Uganda: figure based on the donor-funded component of climate-relevant development expenditure (2008/09).

Source: Cambodia Climate Financing Framework (2014); Samoa, Vanuatu, Kiribati, Uganda, Tanzania CPEIRs. No external funding source data were made available for Thailand, Indonesia, Namibia, Zambia and Morocco. Data for Philippines is not publicly available.

21 One key informant explained "that assessment of recurrent part of budget inherently more obtuse and partly predicated on previous investments not present ones."

22 Although CPEIRs are done to obtain such data, the limitations need to be overcome with a clear methodological approach. This includes a requirement to obtain external funding data on and off budget. It is known that there are limitations in collecting such as demonstrated by the PEFA practice, but it is usually accessible by requesting it for donors via a letter with sufficient lead-time. This can be done as part of the inception phase.

Extra-budgetary mechanisms, such as a dedicated climate fund, were prevalent across most countries where a CPEIR was conducted. Extra-budgetary funds set-up for climate change are mostly focused on specific sectors in the form of trust funds or pooled funds coming from development partners' initiatives. In the case of **Cambodia**, it is interesting that the main programmes dedicated to climate change are managed either as projects or trust funds, with planning and financial procedures that are largely separate from the budget, although informed by national strategies.

It is also worth mentioning the case of **Nepal**, where an indicative figure for 'off-budget' expenditure of around USD 13 million per year (around 3% of the total of climate change expenditure) was identified under "Technical Assistance" initiatives attributable to climate change-related issues.

In some countries, special funds have been created to finance climate-related programmes, similar to Road Maintenance Funds or Local Authorities' Development funds. They seem to respond to pressure for the ring-fencing of climate change resources and providing political visibility for a climate response. For example, in **Thailand**, several extra-budgetary funds provide public resources that support climate change programmes: the Energy Conservation Promotion Fund (sourced from levies on petroleum products); the Environmental Fund (revolving funds, fuel oil fund and Japanese loan) and Thailand Carbon Fund (under preparation). In only one country, **The Philippines**, was a specific fund, the Peoples' Survival Fund, set up for financing climate change-related activities at the sub-national level, in addition to existing fiscal decentralisation. The impact of climate change is likely to significantly affect sub-national revenues and expenditure programmes, worsening the poverty situation in already poorer and less economically attractive areas. Many activities will need to be implemented at the local level to ensure that they are relevant in terms of responsiveness to the identified needs of vulnerable areas and people.

Lessons learnt: How can we strengthen the financial analysis of CPEIRS

Data collection for the CPEIR analysis should not be restricted to the budget formulation stage but also cover the planning and budget cycle comprehensively. Ideally, data should be collected to cover: the full cost of policies and programmes; Medium Term Expenditure Frameworks; annual budget allocations; budget release; and expenditures/outturns. The variation between these stages of the budgeting and expenditure cycle is the basis for analysis of the impact of PFM systems on mainstreaming, the enablers and disablers for translating policy intents and programmes into budgets and expenditures.

Integration of Medium Term Expenditure Framework into the CPEIR analysis. With countries now integrating principles of medium-term fiscal and budget frameworks for programming and financial allocations, CPEIR analysis needs to integrate them. In particular, CPEIRs need to demonstrate how the use of MTEFs enables links between the allocation of expenditures and the monitoring framework and accountability systems. Most of the countries assessed have also demonstrated an improvement in their financial and budgeting systems in recent years. Many of them were the subject of a Public Expenditure and Financial Accountability (PEFA) assessment and PFM systems²³ have consequently been strengthened. In this sense, MTEFs can become a key tool in improving coordination between planning and budgeting at all levels of government, even if they were adopted despite countries' unpreparedness for them. For managers, MTEFs should be the tool that provides accountability of fund allocations, allowing them to commit to programmes, especially those tackling adaptation and mitigation that are typically long term. For example, in the case of the education sector in **Cambodia**, it revealed significant deviations

23 Planning, budgeting, parliament submission, treasury, accounting, reporting and auditing systems

between allocations in medium term budget frameworks, annual budgets and their execution that led to cabinet discussions.²⁴

Investment decision procedures and instructions should be reviewed to verify if there are well-established procedures for cost benefit analysis and prioritisation. Importantly, only some CPEIRs review investment decision procedures and instructions to verify if they are well-established procedures for cost benefit analysis and investment prioritisation. In those countries for which this review was done, the procedures and instructions do not include established forms of investment prioritisation and clear instructions on how to include climate change criteria.

It is important to make the budget process more responsive to climate change and the screening of all projects submitted by government to the Ministry of finance based on clear criteria for climate change impact. CPEIRs and their follow-up Climate Fiscal Frameworks should introduce information, instructions, tools and targets that could help governments do so. For example, the Climate Fiscal Framework in **Bangladesh** is proposing the annual budget circular as an enabler to mainstream climate change into the budget formulation process. Once the new circular is implemented, line ministries will need to provide information on the climate change impacts of proposed programmes (qualitative assessment), their climate change relevance (quantitative assessment) in their budget submissions also known as Ministry Budget Framework (MBF). The budget circular and the MBF are important enablers as they find their way to the budget hearings.

Links between recurrent and capital expenditure should be analysed. It is important to place equal emphasis on climate change allocations in recurrent budgets to correct the natural bias to primarily review capital expenditures (through development budgets and donor supported investment programmes). As a result of this bias, CPEIRs are currently failing to capture the sustainability of the programmes' results in terms of forward recurrent expenditures (future fiscal space). In other words, CPEIRs need to better understand the capacity of a government for sustaining the results of initial capital investments for longer term impact – and more efficient use of available climate financing.

CPEIRs should not be solely concerned with public climate finance: they should reveal the interface between public and private finance and how one can leverage the other through fiscal approaches as well as links between policy instruments and private sector initiatives. For example, CPEIRs could strengthen their review of tax incentive trends assessing private sector reactions and how well they complement government policies. While tax incentives were mostly analysed under a qualitative scope and could not lead to cross-country analyses, the review of tax incentives shows that CPEIRs can be used as a support tool for Green Growth. Country examples include **Thailand**, where the CPEIR identified the topics of taxes and subsidies from the policy instrument angle, in support of private sector engagement on climate change actions: (i) tax policies (e.g. fuel taxes, building material taxes); (ii) subsidies (direct price subsidies, intergovernmental fiscal transfers); and (iii) regulatory instruments, which have fiscal components (e.g. feed-in tariffs); but did not consider them. In **Indonesia**, the Government introduced tax instruments to incentivise activities that will contribute to emission reduction mainly used for cleaner energy production, particularly geothermal power plant development (tax and customs facility for renewable energy utilisation; VAT exemption for import of goods for upstream activity in oil, gas, and geothermal exploration; income tax exemption and a mechanism to calculate non-tax state revenue in geothermal power plant; VAT exemption for domestic Bio Fuel production; and VAT exemption for climate change mitigation and adaptation activities). In **Samoa**, the

24 European Commission, Policy Dialogue course, case study of Cambodia

CPEIR identifies the new energy policy for increasing the share of renewable energy and their tax incentives.

Similarly to tax incentives, the scope of the CPEIRs could consider subsidies specifically in terms of data or trends. Some CPEIRs already underline how public subsidies can have a positive or negative potential on adaptation and mitigation to climate change. In **Cambodia**, a major challenge to realising the objectives of the National Forest Policy is the competing incentives created by Economic Land Concessions, which support the conversion of land for economic purposes. Yet, Cambodia has many laws in place to protect high conservation value areas, and promotes community-protected areas. The Ministry of Environment is mandated to approve both economic land concessions and community-protected areas. In **The Philippines**, the review highlights a number of direct or indirect subsidies increasing vulnerability or reducing sequestration of carbon, such as those that promote the location of infrastructure or people in higher risk areas or those that encourage land conversion from forest and watershed to other uses, as well as those that encourage conversion of prime agricultural land to commercial, residential, and industrial uses. In **Vietnam**, indirect subsidies on the use of fossil fuels for power production and transport and the absence of a substantial price on carbon makes mitigation targets very difficult to achieve and act as disincentives for investments in energy efficiency and low carbon technologies, including non-hydro renewable power generation. In **Thailand**, mitigation policy benefits from measures introduced by the Ministry of Energy (like the structure of the proposed 'feed-in tariffs' and the existing 'adders' placed on top of the selling price per unit of electricity (kWh) if they use energy inputs from biomass, bio-gas, solar and wind). With this alternative energy price, private sector developers can bundle a Clean Development Mechanism (CDM) project with electricity production and sell to the national grid.

Another aspect of the CPEIR financial analysis that should gradually improve is the coverage by CPEIRs of Public Private Partnerships (PPP) and State Owned Enterprises (SOEs). CPEIRs did not directly cover the topics of PPPs or SOEs, as they were either out of scope of the country studies, or not possible to take into account due to insufficient time and resources. However, some CPEIRs did refer to on-going plans or limitations. Specifically, PPPs may be important players in the water and energy sectors and have, at their best, a large potential for innovation that remains to be explored. In **Bangladesh**, the concept of PPP is still in the infancy stage. Meanwhile, some major infrastructure projects are at the building stage. Many mega-projects related to climate change may be financed through this scheme but so far there are no relevant findings. The Indonesian Investment Agency is planning to form the Indonesian Green Investment Fund, a pooling fund with participation from government, multilateral agencies, donors, and private sources, with the purpose of financing environmentally friendly investments through public private partnerships. In **Namibia**, the Climate Change Strategic Action Plan proposes introducing policy and incentive mechanisms to facilitate and leverage private sector investment in climate change, and expects that PPPs will contribute both in monetary and human resource capacity for the implementation of the required actions. In **Zambia**, some stakeholders observed that legislation, which had been enacted to facilitate PPPs, had focussed on attracting foreign direct investment for larger projects. They noted a need for support for smaller "pro-poor" PPPs, which might be established between sub-national government structures and NGOs or domestic private sector companies (mining companies have expressed recent interest). In **Vietnam**, SOEs are very evident at the provincial level while at the national level they represent the largest share of the energy and petroleum sectors, making SOEs key influencers on the progress of a green economy. The CPEIR recommends increased transparency in cost structures and strengthened independent energy market regulation.

None of the CPEIRs reviewed private investment flows. They were limited by two main factors: first, the treatment of such flows does not yet benefit from a clear methodological framework. UNDP is currently carrying out a study to identify and measure private sector flows, both foreign direct investment (FDI) and national flows that integrate principles of mitigation and/or adaptation. Second, the cost associated with making such an analysis needs to be added to the current CPEIRs resourcing, and the skills are different.

Finally, a further question is raised with respect to national development banks, highlighted in the climate finance readiness assessments: should CPEIRs be interested in addressing how national development banks support civil society organisations and the private sector in furthering the climate change and green growth agendas?²⁵ More discussion and feedback from stakeholders is needed.

25 Notably, the Central Bank's initiatives were reviewed in Climate Fiscal Framework of Bangladesh.



Anna Fancs/Nord Eist

Siriruck Chienkong/UNDP

Next Steps

CPEIRs have demonstrated their significant added value to the process of developing more robust climate change finance and policy frameworks. There appears to be high potential for global application, which would be facilitated by further refinement and standardization of the methodology. At the same time, efforts to harmonize definitions and parameters need to be balanced with the recognition that country-determined approaches promote greater ownership and accountability systems which reinforce existing domestic processes and capacity building initiatives.

UNDP's experience in implementing CPEIRs has revealed a number of areas where the methodology could be improved or refined. For instance, CPEIRs have not assessed private sector responses to tax incentives and to subsidies, the impact of those on the budget, or the transmission of policy intent through state-owned enterprises and public-private partnerships. Also, the link between the policy formulation and the technical and scientific dimensions of climate change, as sources of evidence for decision-making, could be improved.

Another issue for future improvement is the gradual enhancement of the expenditure effectiveness analysis in the CPEIR reports. This aspect is an integral part of public expenditure reviews in other sectors, but is a significant challenge as it requires more intensive analyses and critique of the value for money dimension. The latter requires the use of a more advanced analytic toolkit, including benefit incidence, cost effectiveness and cost-benefit analyses, as well as reliance on quality secondary data which, typically, is not easily available in developing countries. Obtaining primary data on expenditure effectiveness is a resource-intensive process, which is not always manageable during the CPEIR process. Nevertheless, the next generation of CPEIRs will need to host the value for money analysis as part of the overall public expenditure review, especially in the environments with MTEF and results-based budgeting principles introduced in the budget systems.

These questions, among others, are included in the important area of methodological development that is already being investigated by UNDP.

It is clear that, from the initial CPEIRs to the more recent ones, recommendations are increasingly seeking to make the link between the three pillars to provide a complete analysis of policy and its implementation.

Annex 1: Lessons Learned Methodology

The methodology adopted for developing this Lessons Learned Paper is based on the analytical framework **derived from the three pillars of CPEIR**. The literature review helped to establish what could be considered as the added value of CPEIRs. This informed the approach to mapping lessons learnt from CPEIR related studies, as per the three pillars, as well as helping to inform the selection of stakeholders for interview. It was also assumed that CPEIRs review how policies are translated into allocations and expenditures, and also review the institutional set-up for effective climate policy-making and transmission. As a result, the analytical framework developed based on the three pillars, with each pillar further disaggregated in a set of topics that can be considered for a public expenditure review, policy analysis and institutional assessment. They detail the content and scope of potential reviews by CPEIRs in a broad manner. This was intended to cater for all different approaches to performing CPEIRs.

The objective of this analytical framework was to guide the review of the CPEIRs and organise the findings according to the areas covered in CPEIRs, and a list of potential topics. The data collected showed notably what could be learnt from existing CPEIRs on: (i) the financing of climate change related policies and programmes; (ii) the various institutional frameworks for climate financing used at country level; and (iii) the recommendations made to countries in terms of their policy design, institutional set-up and public finance management.

The methodology also intended to capture the differences and similarities in CPEIRs' methodologies and their coverage in order to draw lessons for the preparation of revised CPEIR Methodological guidelines. The review was completed by interviews with key informants during the Climate Responsive Budgeting Workshop²⁶, teams that carried out the CPEIRs, members of the Advisory Group and UNDP Governance of Climate Change Finance cross-practice team.

Specifically, the Lessons Learned process asked the following questions:

Pillar 1: Policy Analysis

- Relevance: What was defined as relevant? Responsiveness to identified problems/needs, (highlight differences in coverage of sectors and programmes)
- Credibility: determination of policy options, participation of stakeholders, setting of targets, costing and reconciliation with fiscal framework
- Monitoring: was the monitoring framework reviewed?
- Measuring Policy change: policy outputs (instruments-diversity, targets, institutional change induced), intensity and density (choice of instruments, targets, stringency).
- Measuring policy impact: 1. Results (public sector): use of indicators to test the effectiveness of the policies and their implementation (pb: how long before testing, treatment of external factors, Climate Change issues without policy. May make CPEIRs into policy evaluation); 2. Regulatory stringency (private sector) (measured through pollution abatement capital expenditure incurred by private sector –evolution analysed compared to new regulation, pollution abatement expenditure per capita both public and private, other composite measures as regulation-based index)

26 Climate Responsive Budgeting –CRB-Workshop, Bangkok 5–7 November 2014

Pillar 2: Institutional Analysis

- Capacity: Is there a dedicated unit/entity for ensuring climate change-related translation into the budget measured (who)? Was its capacity measured/assessed? Which framework?
- Accountability: was accountability somehow measured? What was the methodology used?
- Accountability institutions: 1 – Are the institutions responsible for making the government accountable fulfilling their mandate with regards climate change-related government programmes?: SAI report, Parliamentary committee addressing climate change (could be a gender and vulnerable group committee), 2 – Are there advocacy campaigns around climate change in the budget, 3 – Media, 4 – Are existing dialogue forum around government accountability and transparency for budget implementation (CSOs/private sector) including climate change in their scrutiny? Mandate and track record of effective use/impact
- Coordination of/with decentralised entities: 1 – Articulation of policy between with central and decentralised level (conditional grants? Legal? Recommendations?), 2 – Existence of coordination forum for policy making and implementation (e.g. the 10*10 of South Africa),

Pillar 3: Financing Climate Change Related Programmes

- Allocations and expenditure? (just one, why?; both comparatively and differences discussed)
- Tax incentives/expenditures: in volume, both positive and negative ones, to determine impact on private sector, or only in policy review. Negative
- Subsidies: in volume, both positive and negative ones, to determine impact on private sector, or only in policy review. Negative
- Classifier: Which method was used in existing CPEIRs? Was it adapted to the country context? Was the impact of the choice commented?
- Did it include positive and negative expenditures?
- Review period: relevance for testing policy in action, most recent 3 years completed (data availability), most recent 3 + current (reflecting current policy), current +2, Current +x?)
- Private Sector/ investment: can this be done?
- Reference to green investment flows (which definition, data availability – usually focused on OECD and some emerging economies)
- PPPs: based on critical sectors?
- SOEs: where to capture the data and what type of data? Threshold for applying the SOEs indicators (% of budget, specific sectors only?)

In a second step, the report was completed through discussions with countries key informants. A set of questions was developed to focus more on the process of CPEIR, stakeholders as contributors and users; and to test if the use of CPEIR can be linked to observed changes. Interviews were conducted at the CRB workshop in Bangkok in November 2014.²⁷ These exchanges highlighted the added value of CPEIRs as a process playing a catalytic role in favour of policy dialogue between planning, finance and technical ministries, and with civil society. The validation workshops, interviews and discussion groups allowed the involvement of all the relevant bodies and stakeholders, raising awareness of the cross-cutting nature of climate relevant issues, and laying the basis for further advancement of climate change policies and programmes.

However, it must be noted that given the different methodologies adopted by the teams performing the reviews and the different data sets on allocations and expenditures, CPEIR analyses are clearly specific to country context. Whilst some comparisons across countries are possible, all comparisons need to be treated with caution.

²⁷ With key informants from Samoa, Fiji, Cambodia, Nepal and China

Annex 2: Headlines Statistics of Climate Expenditure

The table below summarizes key data parameters in order to provide a quick entry point. However, given the different methodologies adopted by the teams performing the reviews and the different data sets, making a robust analysis is difficult, needing caution when reviewing some results, particularly if they are quantitative.

Country	Framework Used	Total Climate Expenditures (as % of budget)	Total Climate Expenditures (as % of GDP)	Parameters Captured/Caveats
Nepal	CPEIR	6.7 %	1.8%	Limited to 10 Ministries 'likely to undertake activities relevant to climate change on a functional basis Does not include 'off-budget' donor support
Bangladesh	CPEIR	5.5 – 7.2 % (2010/11)	0.9% (2010/11)	- Analysis identified 37 out of 57 ministries or divisions that had climate relevant expenditure - Does not include 'off-budget' donor support
Thailand	CPEIR	2.7 %	0.5%	14 Ministries 'had a climate programme in the period reviewed' - Does not include 'off-budget' donor support
Cambodia	CPEIR	14.9 – 16.9 %	3.1 – 6.9%	- Analysis of budgeted expenditure covered all - Government programmes and projects - Includes 'off-budget' donor support
Samoa	CPEIR	15 %	6 %	- Analysis of budgeted expenditure covered all - Government programmes and projects - Includes 'off-budget' donor support

Country	Framework Used	Total Climate Expenditures (as % of budget)	Total Climate Expenditures (as % of GDP)	Parameters Captured/Caveats
Indonesia	Mitigation Fiscal Framework	From 0.3% in 2009 to 0.9% in 2012	Less than 1%	• First Mitigation Fiscal Framework prepared by the MoF to assess the public expenditure and other policies needed to achieve the objective of reducing GHG emissions by 26% by 2020, compared with business as usual, using domestic resources • Identified 50 mitigation actions across 5 broad sectors • Does not include 'off-budget' donor support • Some CC-response programs off-budget were identified in services through state or provincial SOEs in place of, or in combination with, direct government spending (mainly mitigation activities) delivery
Nauru	Climate Change Finance Assessment	NA	NA	• The GoN identified CC related activities using relatively narrow interpretations of the term. • Six sectors were identified as CC relevant • Expenditure analysis focused on donor funding, modality, objective and sector
The Philippines	'Getting a Grip on Climate Change'	1.40 % 2008–2013	0.3%	• Focused on budget and institutional practices of five government Departments and their attached Agencies as well as two local government units

Country	Framework Used	Total Climate Expenditures (as % of budget)	Total Climate Expenditures (as % of GDP)	Parameters Captured/Caveats
Tanzania	National Climate Change Finance Analysis	5.48% 2009–2012 From budgeted expenditure	1.8 %	• 15 Ministries were identified based on their policy engagement and spending over the four year period and a total of 87 expenditure lines from the development budget were classified as climate change relevant • Government of Tanzania budget and official macroeconomic data were combined with reports by external observers such as the IMF • Does not include 'off-budget' donor support
Uganda	National Climate Change Finance Analysis	0.93% 2008–2011	0.15%	• Climate change-relevant expenditure is heavily concentrated in relatively few Ministries (6) • Does not include "off-budget" donor support (spending by other actors is more difficult to track)
Namibia	Climate Finance Readiness Needs	NA	NA	• There was no expenditure analysis as such but a different analytical framework focused on responding to three axis of analysis: planning, aptitude and access • To date, there is no budget allocation associated with the National Climate Change Policy, and there is no funding set aside for climate change related programming • Does not include "off-budget" donor support

Country	Framework Used	Total Climate Expenditures (as % of budget)	Total Climate Expenditures (as % of GDP)	Parameters Captured/Caveats
Zambia	Climate Finance Readiness Needs	NA	NA	• There is not expenditure analysis as such but a different analytical framework focused on responding to three axis of analysis: planning, aptitude and access • Does not include "off-budget" donor support. There are large inconsistencies in the gathering and reporting of private climate finance which should, in theory, be recorded by the Zambia Development Authority under the Ministry of Commerce
Vietnam	CPEIR	18%* of the budgets of the line ministries	0.1%	• Five line ministries and three provinces where analysed from 2010 to 2013 but an estimated 70% of total investment spending is done at provincial level
Vanuatu	CPEIR	13% CC and/or DRR activities accounted	2.9% CC and/or DRR activities accounted	• Analysis focused on all activities funded through the Operating Fund and the Development Fund • A first-pass assessment of the following policies was also done: • Negative expenditures (climate incompatible) • Revenue policies • Public-private partnerships

Country	Framework Used	Total Climate Expenditures (as % of budget)	Total Climate Expenditures (as % of GDP)	Parameters Captured/Caveats
Marshall Islands	Climate Change Finance Assessment	4% (without external grants) 4–9% (including external grants)	NA	- The Assessment identified about 40 climate change related projects with clear funding allocations - Responsibility for implementing climate change-related response measures is widely spread across ministries and sectors. Cabinet should assign and clarify climate change roles and responsibilities to key actors
Kiribati	Preliminary Climate Change and Disaster Risk Management Assessment	16%	NA	- A total of 467 activities were analysed from the GoK budget - A full CPEIR will be carried out in the future
Morocco*	* Analysis limited to an executive summary (2 pages)	13%* * of national investment budget between 2005 and 2010	NA	- Five sectors were selected based on their mitigation potential and their climate vulnerability: Agriculture, Energy, Water and Forestry, Solid waste and Sanitation. - The mainstreaming of climate change aspects in strategic decision-making and budget processes remains limited until now.

Annex 3: Advisory Group

Function

In producing these knowledge products, the Governance of Climate Change Finance cross-practice team, UNDP Asia-Pacific Regional Centre decided to establish an informal advisory group to seek the expert advice and inputs from colleagues who have been substantively engaged in this area of work in recent years.

The role of the advisory group was defined as:

- Introductory discussion with the review team: preliminary discussion to seek inputs on the scope/analytical framework/key areas of inquiry for this work.
- Review and feedback on the first draft of the CPEIR Lessons Learned paper.
- Review and feedback on the first draft of the CPEIR Methodological guidelines. The review period was approximately early/mid- November coinciding with the Climate Responsive Budgeting Workshop that was held in Bangkok 5–7 November.

Membership

- Annika Olsson, Economic Adviser, Climate and Environment Department, Policy Division, Department For International Development
- Daniel Klasander, Swedish International Development Agency, Regional Office, Bangkok
- Erika Jorgensen, Economic Adviser, Macroeconomic and Fiscal Management World Bank
- Isaac Shapiro, International Budget Partnership Pieter Terpstra, Senior Associate, Vulnerability and Adaptation Initiative, World Resources Institute
- Yolando Velasco, Manager, Climate Finance Sub-Programme, Finance, Technology and Capacity Building Programme UNFCCC Secretariat

Annex 4: List of Interviews and Persons Met

Governance of Climate Change Finance cross-practice team, UNDP Asia-Pacific Regional Centre

Thomas Beloe, Governance, Climate Change Finance and Development Effectiveness Advisor, Asia-Pacific Regional Centre United Nations Development Programme

Kevoork Baboyan, Governance and Public Finance Specialist Asia-Pacific Regional Centre United Nations Development Programme

Paul Steele, Environment Advisor, Asia-Pacific Regional Centre United Nations Development Programme

Joan Manda, Climate Change Finance Specialist, Asia-Pacific Regional Centre United Nations Development Programme

Sujala Pant, Programme Specialist-Local Governance, Asia-Pacific Regional Centre United Nations Development Programme

Ashley Palmer, Governance of Climate Change Finance Specialist, Asia-Pacific Regional Centre United Nations Development Programme

Joyce Lee, Environment Analyst, Asia-Pacific Regional Centre United Nations Environment Programme

Yusuke Taishi, Governance and Public Finance Analyst, Asia-Pacific Regional Centre United Nations Development Programme

Siriluck (Oum) Chiengwong (Ms.), Regional Communications and Programme Analyst, Asia-Pacific Regional Centre United Nations Development Programme

Sunisa Soodrak, Assistant, Asia-Pacific Regional Centre United Nations Development Programme

Hanh Le, Climate Change and Public Expenditures Analyst Asia-Pacific Regional Centre United Nations Development Programme, UNDP

Advisory Group

Erika Jorgensen, World Bank (online interview)

Isaac Shapiro, International Budget Partnership (online interview)

Pieter Terpstra, Senior Associate, Vulnerability and Adaptation Initiative, World Resources Institute (online interview)

Mr. Yolando Velasco, Manager, Climate Finance Sub-Programme, Finance, Technology and Capacity Building Programme, UNFCCC Secretariat (online interview)

Annika Olsson, Economic Adviser, Climate and Environment Department, Policy Division, Department For International Development (online interview)

Daniel Klasander, Swedish International Development Agency, Regional Office, Bangkok (online interview)

Key informants

Jeremy Hills, CPEIR Team Leader (Vietnam, Pakistan), (online interview)

Neil Bird, CPEIR Team Leader, Overseas Development Institute, UK (online interview)

Kit Nicholson, CPEIR Team Leader (electronic mail)

Rebecca Carman, UNDP NY (online interview)

Nepal

Baikuntha Aryal, Ministry of Finance;

Gopi Nath Mainali, National Planning Commission

Kedar Prasad Paneru, Ministry of Finance

Cambodia

Boony Tep: Cambodia Climate Change Network

Chan Sethea Ma, Department of Climate Change, Ministry of Environment

Pacific Regional Advisors

Kevin Petrini, Regional Climate Change Policy Advisor, Boots on the Ground, Strategic Initiative to Address Climate Change in Least Developed Countries, UNDP Pacific Centre (online interview)

Lynelle Popot, Environment Programme Analyst

Scott Hook, Economic Infrastructure Adviser, Pacific Islands Forum Secretariat

Samoa

Mila Posini, Budget Division, MoF

Fiji

Mosese Ravasukala, Senior Economist, Ministry of Finance

Kashmil Swamy, Economic Planning Officer, Ministry of Finance

China

Guijuan Wang, Deputy Director, Research Institute for Fiscal Science, Ministry of Finance

Annex 5: List of CPEIRs/ Finance Assessments Reviewed*

Country	Title	Date of publication
Nepal	Climate Public Expenditure and Institutional Review	December 2011
Bangladesh	Climate Public Expenditure and Institutional Review	May 2012
Cambodia	Climate Public Expenditure and Institutional Review	July 2012
Samoa	Climate Public Expenditure and Institutional Review	July 2012
Thailand	Climate Public Expenditure and Institutional Review	July 2012
Indonesia	Mitigation Fiscal Framework	December 2012
Nauru	Climate Change Finance Assessment	May 2013
Philippines	Getting a Grip on Climate Change	June 2013
Tanzania	National Climate Change Finance Analysis	September 2013
Uganda	National Climate Change Finance Analysis	September 2013
Namibia	Climate Finance Readiness Needs	October 2013
Zambia	Climate Finance Readiness Needs	October 2013
Vanuatu	Climate Public Expenditure and Institutional Review	April 2014
Vietnam	Climate Public Expenditure and Institutional Review	June 2014
Marshall Islands	Climate Change Finance Assessment	August 2014
Kiribati	Preliminary Climate Change and Disaster Risk Management Assessment	Under approval process
Morocco*	Public Expenditure and Institutional Review *Analysis limited to an executive summary (2 pages)	September 2012

* The review excluded the CPEIRs of China, Ethiopia and Rwanda.

Annex 6: Short Comparative Analysis between Methodological Approaches

The following table establish a general comparative analysis of methodological frameworks: CPEIR (UNDP), CPEIR (World Bank), Climate Finance Readiness Assessment (GIZ), PCCFAF.

While it is recognised that the PCCFAF is very much inspired by CPEIR (and other existing frameworks which were taken as the starting point) it is also argued that *“CPEIR was not designed to comprehensively assess the sources of financing available or the necessary in-country capacity to effectively access and manage these resources. **Detailed analysis of these two issues is critical in the Pacific context**, where limited capacity, particularly human capacity, requires countries and their development partners to focus their efforts and explore innovative ways of dealing with funding arrangements”*.

Indeed, PCCFAF can be seen as a very specific tool which links the analytical framework of CPEIRs with concrete funding possibilities, showing also pros and cons in future implementation. The fact of having a specific area of analysis devoted to human capacity allows for better integrated action plan taking into account possible capacity gaps and looking for modalities which can foster capacity development.

Samoa CPEIR was one of five pilot countries that tested the CPEIR methodology in 2012 while Nauru served as a basis for testing the PCCFAF in early 2013, followed by the Marshall Islands (under approval process). Kiribati and Vanuatu adopted a wider scope than previous CPEIRs by including an analysis of Disaster Risk Reduction projects and expenditure.

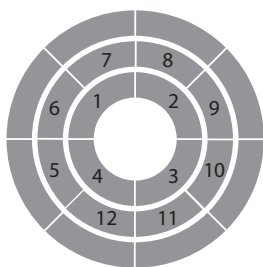
	CPEIR	PCCFAF	Climate Finance Analysis/ Readiness Needs Assessment	Climate Public Expenditure and Institutional Review (WB)
What is it?	A methodology that allows an analysis to be made of how climate change related expenditure is being integrated into national budgetary processes	A methodology to approach climate change financing with the specific circumstances and challenges of Forum Island Countries (FICs), blending Pacific relevant aspects into existing assessment approaches. It also contributes to building development partner appreciation of the challenges faced by FICs. It was developed upon a request of the Pacific Forum Leaders to the Pacific Islands Forum Secretariat (PIFS).	An approach to measuring the effectiveness of the national systems that underpin public climate finance delivery	A systematic examination of the factors that determine the ability of public institutions, policies, financing, and related processes in a country to translate its climate agenda into desired climate results efficiently and effectively
Objectives	- To secure a better understanding of the formulation of climate change policy and its linkages to expenditure through national strategies and action plans. - To improve understanding of the role and responsibilities of institutions involved in managing the response to climate change and their interaction. - To quantify climate change related expenditures in the national budget, and through other funding channels, providing a baseline for future analysis.	- To focus on the situation of small island developing states - To provide recommendations that enable the development of a CCFF and Action Plan - To assess countries' ability to access and manage climate finance and resources	To review public spending on activities that are related to CC and to assess the extent to which this expenditure responds to existing policy and institutional demands	To identify innovations in policy, institutions, and financing of climate action, along with achievements, limitations, and disconnects in the current approaches to addressing climate issues and policy
Led by	UNDP and/or ODI	PIFS	GIZ	WB

	CPEIR	PCCFAF	Climate Finance Analysis/ Readiness Needs Assessment	Climate Public Expenditure and Institutional Review (WB)
Countries assessed	Nepal, Bangladesh, Thailand, Cambodia, Samoa, Indonesia, Vietnam (with the World Bank), Vanuatu, Tanzania, Uganda	Nauru, Republic of the Marshall Islands, Kiribati (Climate Financing and Risk Governance Assessment (CFRGA) in process)	Namibia, Zambia	Philippines, Morocco
Definition of climate change related expenditure	Builds on the initial OECD guidelines (mitigation and adaptation) and begins in each country by reviewing existing national policy documents	- Builds on OECD definitions. - Acknowledges that “more specific, country-focused definitions should be developed following consultations.” - Recognises that definitional issues have implications on both the supply and demand of climate finance	- Builds on that used in CPEIRs. - Focuses on public funds allocated to finance climate change actions through the national budget, as such spending is most closely aligned with national policy setting and domestic institutional arrangements	
Analytical framework	- Policy development - Institutional structures - Budget data (and public finance management) Tanzania and Uganda - Policy context: ease of implementation, legitimacy, coherence and transparency - Institutional architecture: coordination, innovation and local anchorage - Public expenditures: execution of the budget cycle in terms of planning, execution, reporting and external audit	The framework assess six inter-related dimensions: - Funding Sources (looking at sources and instruments) - Policies and Plans - Institutions - Public Financial Management and Expenditure - Human Capacity - Development Effectiveness (based on the <i>Pacific Principles to Promote More Effective Coordination and Implementation of Climate Change Actions</i>)	Namibia and Zambia Planning: strategic purpose, information and process (including to revise policies, regulations, and incentives that affect climate change relevant investment); Aptitude: the expertise available and the capabilities of institutions Access and spending: sourcing, receiving, and spending funds wisely.	- Innovations in policy, institutions, and financing of climate action; - Achievements, limitations, and disconnects in the current approaches to addressing climate issues; and - Policy and process reforms to more effectively deliver desired climate results and enhance quality of the decision-making process.

	CPEIR	PCCFAF	Climate Finance Analysis/ Readiness Needs Assessment	Climate Public Expenditure and Institutional Review (WB)
Process	• Inception workshop • Policy analysis • Institutions analysis • Expenditure analysis • Classification of expenditures • Local government analysis • Recommendations grouped into several time horizons (immediate/medium-term/long-term actions) • Final workshop	• Desk review of background information • Tailoring of PCCFAF methodology (initial country-specific definition of “climate change finance” and identification of key issues, assessment plan) • Review of new information (undertaking in-country consultations) • Assessment of overall performance against each dimension of climate change financing • Assessment of potential financing modalities • Development of the CCF Action Plan (assessment of possible options and presentation of a proposed action plan)	Namibia and Zambia • Inception technical meeting to explore conceptualisation of readiness and develop a diagnostic framework for understanding needs • Extensive research into CC response in country + A series of semi-structured interviews in country + Roundtable technical discussion held in Doha, Qatar • Early findings reviewed by stakeholders • Second country visit to undertake follow up and additional stakeholder interviews • Roundtable discussion to build consensus among stakeholders • Final draft reviewed by stakeholders	• Similar to other CPEIRs • Extensive consultations with the Office of the Presidential Assistant on Climate Change, the DA, the DENR, the DOE, the DOF, the DOST (PAGASA, PCIEERD, PCAARRD, PCHRD), the DPWH, the NEDA, the HLURB, the Cabinet Cluster on Climate Change, the NDRRMC and the City of Makati and the Province of Albay; 2-CCC is chaired by the President (of the country).
Duration	3–6 months	Not indicated	Not indicated	13 months (Philippines)

	CPEIR	PCCFAF	Climate Finance Analysis/ Readiness Needs Assessment	Climate Public Expenditure and Institutional Review (WB)
Sustainability Elements or Principles	- Important process function, acting as a starting point for longer term Government-led stakeholder dialogue - Government ownership and oversight is key: initial discussions across key ministries and local government to identify the main issues - Importance of drafting the right ToR (introducing CPEIRs existing national coordination mechanisms, securing the right skills, national expertise combined with international expertise)	- Sustainability of policies, institutions and/or programmes is dependent on in-country technical expertise. The fact of addressing human capacity is a key asset - The resulting CCF Action Plans provide specific guidance to national governments and development partners to improve a country's access to climate change resources	Driving principles stated: - Relative to a country's characteristics, with due recognition of incentives and barriers to action - Responsive to the needs, priorities and challenges of all stakeholders, including government, business and civil society - Reasonable in terms of identification of the key challenges, and proposing practical steps - Including a wide group of stakeholders key to fully incorporate political economy dimensions critical. - Time must be allowed for stakeholders to learn and self-reflect on process	Momentum: the review in The Philippines was carried out at the mid-term of the administration, which coincided with the mid-term of the first six-year phase of the National Climate Change Action Plan (NCCAP). It has occurred early enough to provide recommendations for finalizing the first phase of the NCCAP, and created a firm baseline of results for the second phase of the NCCAP

Cover Photos:



1. iStock
2. Gerhard Joren/ADB
3. Siriluck Chiengwong/UNDP
4. WorldFish
5. UNDP Bangladesh
6. Eskinder Debebe/UN Photo

7. Andrew Aitchison/Ashden.
8. Eskinder Debebe/ UN Photo
9. Sterling College
10. Marco Dormino/ UN Photo/UNICEF
11. ADB
12. Ariel Javellana

Published by the UNDP Bangkok Regional Hub (BRH)
United Nations Development Programme
Bangkok, Thailand
Design by Inís Communication – www.iniscommunication.com

Copyright:

© UNDP 2015

All rights reserved

Manufactured in Thailand



The Governance of Climate Change Finance Team for Asia-Pacific is supported by:



*Empowered lives.
Resilient nations.*

United Nations Development Programme

Bangkok Regional Hub
3rd Floor United Nations Service Building
Rajdamnern Nok Avenue Bangkok 10200
Tel: +66 (0) 2 304-9100
Fax: +66 (0)2 280-2700
Email: registry.th@undp.org
<http://asia-pacific.undp.org> | www.ClimateFinance-DevelopmentEffectiveness.org

