


Global Climate Change Alliance  
Support Facility



## Module 8

### Mainstreaming climate change In the budgetary process

Training workshops on  
mainstreaming climate change

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### Implications of climate-related policies and measures for public revenue and expenditure

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### Implications of climate change integration on the revenue side



+	Carbon tax / Taxes on high- emission activities	Taxes on economic activities related to climate adaptation & mitigation measures	Foreign grants & other financial transfers related to adaptation & mitigation	Growth effects from increased competitive- ness	Revenues
-	Reduced taxes on activities that shrink or fail to develop as a result of adaptation or mitigation policies				

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### Implications of climate change integration on the expenditure side



+	Subsidies for adaptation & mitigation-related activities	Current expenditures in relation to adaptation & mitigation activities & specific infrastructure maintenance	Public investment (capital expenditure) in adaptation and/or mitigation-related infrastructure	Expenditures
-	Reduced subsidies for fuel consumption and other high-emission activities	Reduced spending on health care, infrastructure replacement etc. as a result of successful adaptation measures		

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### Linking the budget to policy objectives and expected results



Linking the budget to policy objectives and expected results

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### Linking spending to policy and results, with a medium-term outlook



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    graph TD
      A[National objectives and strategies] --> B[Medium-term sector plans]
      A --> C[Medium-term budget perspective or expenditure framework]
      B <--> C
      B --> D[Annual budget]
      C --> D
      D --> E[Implementation & service delivery]
      E --> F[Performance monitoring]
  
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**The medium-term expenditure framework (MTEF)** 

- A forward-looking budgetary planning tool covering a 3 to 5-year period
  - systematically links strategic objectives (national/sectoral) and related outputs/outcomes with actions required to achieve them, corresponding expenditures and resources
  - supports the prioritisation of expenditures and the predictability of resources
  - facilitates performance monitoring
- Can be established at the national level (inter-sectoral allocations) as well as the sectoral level (intra-sectoral allocations)

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**In practice** 

- MTEFs are rather sophisticated tools, and few countries have full-fledged MTEFs
- The preparation of medium-term projections of national and/or sector expenditures is a good starting point
- The uncertainties associated with projections and forecasts should be recognised

**What is the practice in your respective countries?**

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**Entry points for climate change mainstreaming**

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## Climate change at the resource allocation stage



- The mainstreaming of climate change requires:
  - reallocating funding to more vulnerable and/or priority sectors and regions
  - providing funding for adaptation- and/or mitigation-specific plans or activities
  - adding climate change considerations to the criteria for screening and selecting projects and investments
  - making room for 'cross-sectoral' activities (e.g. DRR)
- This process typically involves a mix of top-down and bottom-up processes

Source: OECD (2009a)

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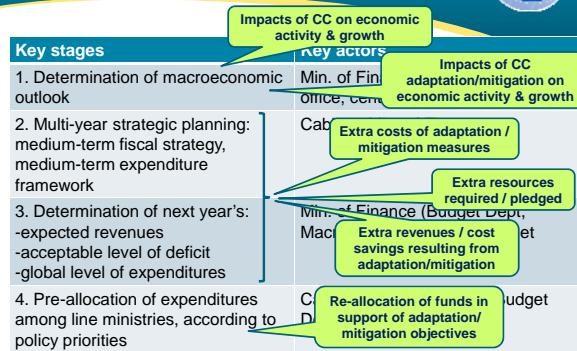
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## Key stages in budget preparation and related entry points (1)



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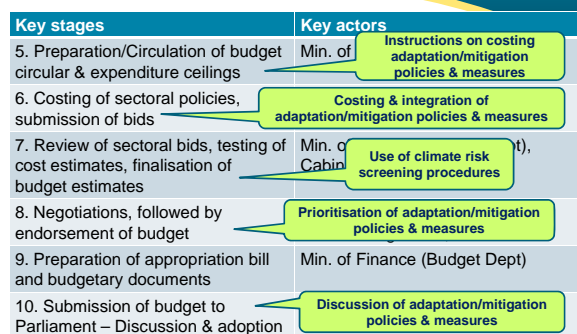
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## Key stages in budget preparation and related entry points (2)



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**Keeping track of climate-related expenditures** 

- During budget preparation, implementation, monitoring and reporting, 'keep track' of main climate-related public expenditures
  - Adapt the budget classification
  - 'Flag' incremental climate-related expenditures embedded in 'non-climate' programmes
- This is important for:
  - monitoring the implementation of climate-related measures in national and sector strategies
  - reporting to the UNFCCC (national communications)
  - securing eligibility for funding from specific climate adaptation/mitigation funds

13

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Public expenditure reviews (PERs)

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**Public expenditure reviews (PERs)** 

- A tool for analysing how budget resources are planned, allocated and actually spent across competing claims, objectives and priorities
- PERs can be used as a tool for supporting the mainstreaming of climate change
  - Track adaptation- and mitigation-related expenditures
  - But also, importantly: focus on public expenditure's overall contribution to climate-resilient, low-emission development outcomes

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## Entry points for mainstreaming climate-related aspects in a PER



Aspect	Issues to consider
Budget planning process	Role of climate-related considerations in allocation decisions
Expenditure trends and categories	Actual spending on vs. allocations to: * adaptation- and mitigation-friendly measures * development programmes with a focus on climate risk management, climate-resilient / low-emission development Availability of recurrent funding vs. capital investment for climate risk monitoring and management
Budget financing	Level of and trends in allocations to climate-relevant sectors and agencies Origin of such allocations (internal vs. external funding) Possibility of increasing resources for climate-resilient development

Sources: UNDP-UNEP (2010), World Bank (n.d.) GN4

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### Discussion and action planning

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## Turning words into action



- Mainstreaming climate change in the budgetary process
- Using Public Expenditure Reviews

What can be done and what are the institutional and capacity needs in your organisation?

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## External resources

Main sources: [www.climatefundsupdate.org](http://www.climatefundsupdate.org), UNDP-UNEP (2010)

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## Main sources of external financing (1)

Source of funding	Activities supported
Development cooperation programmes	Adaptation and mitigation with a focus on dvpt
Least Developed Countries Fund	Preparation and implementation of NAPAs)
Special Climate Change Fund	Adaptation (priority objective), technology transfers, mitigation in high-potential sectors
GEF Trust Fund's climate change focal area	Mitigation projects, adaptation demonstration projects and 'enabling activities'
Adaptation Fund	Projects and programmes that reduce the vulnerability of communities and sectors to CC
Green Climate Fund (operations not yet started)	Channel for future multilateral funding for adaptation
Clean Technology Fund	Demonstration, deployment and transfer of low-emission technologies
Strategic Climate Fund (SCF) - Pilot Program for Climate Resilience	Climate risk and resilience <i>mainstreaming</i> in development planning

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## Main sources of external financing (2)

Source of funding	Activities supported
SCF- Forest Investment Program	REDD- related activities, sustainable forest management
SCF - Program for Scaling Up Renewable Energy in Low-Income Countries	Deployment of renewable energy sources
Fast Start Finance	Adaptation and mitigation measures in developing countries
REDD+ (various streams of funding incl. UN-REDD, which promotes the mainstreaming of REDD strategies in national development)	Preparation, pilot implementation and deployment of national strategies for reducing emissions from deforestation/forest degradation
Prototype Carbon Fund	Pioneering approaches to mitigation that contribute to sustainable development
BioCarbon Fund	Carbon sequestration projects in forests and agro-ecosystems

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## Main sources of external financing (3)



Source of funding	Activities supported
Forest Carbon Partnership Facility	Preparation of national REDD strategies, pilot financial transfers based on verified emission reductions from REDD
Carbon Partnership Facility	Long-term, post-2012 mitigation projects
Global Energy Efficiency and Renewable Energy Fund	Energy efficiency and renewable energy projects
Global Climate Change Alliance	<i>Mainstreaming</i> of CC in poverty reduction and national development strategies Adaptation, DRR, participation in REDD/CDM
MDG Achievement Fund, 'environment and climate change' thematic area	<i>Mainstreaming</i> of environmental issues in national and sub-national policies, planning and investment frameworks
Clean Development Mechanism	Mitigation projects in developing countries
Voluntary carbon markets	Mitigation projects

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## Budget support



- The transfer of financial resources of an external financing agency to the National Treasury
- Provides extra resources for the national budget
  - either grants (e.g. EC) or loans (e.g. World Bank)
- National procedures apply to the commitment and disbursement of funds
  - implementation via the national Public Financial Management system => reduced transaction costs, increased ownership

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## Overview of EC budget support modalities (1)



- Budget support is provided in the form of:
  - **sector budget support** -> support for a sector policy/programme
  - **general budget support** -> support for an overall development, poverty reduction or reform strategy
- Joint budget support operations are conducted with other donors where such initiatives exist
- Usually 3-4 year programmes with annual disbursements

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**Overview of EC budget support modalities (2)**



- General eligibility conditions:
  - 1) Existence of a well-articulated national or sectoral policy/strategy to which the budget transfer will contribute
  - 2) Reasonably stable macroeconomic framework
  - 3) Reliable or improving public financial management

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**Overview of EC budget support modalities (3)**



- Annual disbursements include two types of 'tranches'
  - **fixed tranche:** paid in full as long as eligibility conditions are maintained
    - provides an element of predictability
  - **variable tranche:** paid in full or in part based on actual performance against an agreed set of criteria and targets (as long as eligibility conditions are maintained)
    - criteria/targets in principle taken from the PAF associated with the supported policy or strategy
    - provides a results-oriented performance incentive

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**Climate change-related budget support in Africa (GCCA funding)**



- Mauritius:
  - 'Environment aid programme for Mauritius' -> support for improved consistency between economic reform and environmental sustainability, including CC adaptation and mitigation
- Rwanda:
  - 'Land tenure reform programme' -> support for improved land/soil management practices, thus enhancing agriculture and livelihoods resilience to CC
- Seychelles:
  - 'Climate change support programme' -> mainstreaming of CC in national and sector policies/action plans

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**National funding entities** 

- Several countries have now established 'national funding entities' to:
  - channel and manage external funding related to CC
  - leverage existing funds and initiatives (incl. those financed with national resources)
  - support the mainstreaming of climate-related programmes and projects into national development strategies
- Expected benefits:
  - Alignment of external funding with national priorities
  - Building of national capacities and institutions
  - Scaling up of the response to climate change

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Discussion and action planning

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**Turning words into action** 

- Accessing external resources to support climate change mainstreaming
- Using budget support

What can be done and what are the institutional and capacity needs in your organisation?

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