

# RAPID INSTITUTIONAL CAPACITY ASSESSMENT FOR CLIMATE BUDGET TAGGING IN THE REPUBLIC OF NORTH MACEDONIA

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## RAPID INSTITUTIONAL CAPACITY ASSESSMENT FOR CLIMATE BUDGET TAGGING

### 1. BACKGROUND

The Republic of North Macedonia, a non-Annex I party to the United Nations Framework Convention on Climate Change, has accorded high priority to the reduction of the impacts of climate change by reducing greenhouse gas emissions by 51% by 2030 compared to 1990 levels as indicated in its enhanced Nationally Determined Contributions (NDCs) under the Paris Agreement. The commitment is in line with the EU's commitment to a reduction of 55% by 2030. In addition, the government has also given utmost importance to environmental protection, green development, and sustainable economic growth in its strategic priorities.

Implementation of enhanced NDCs requires financing strategies that mobilize resources from national and international public and private sectors. Much of the international support received has been used to finance projects predominantly to mitigate the effects of climate change. Yet, the amount of support received is far from sufficient to meet the needs of undertaking other significant mitigation and adaptation activities to achieve green and resilient development. A significant portion of domestic funding is also mobilized to finance climate related activities. Most of the adaptation actions will need to be managed by national and subnational governments through their domestic budget systems. Therefore, a strong performance oriented domestic budget framework which integrates climate risks and reduces GHG emissions is required to provide the enabling environment to align national and international finances.

Despite being a non-Annex 1 country and a candidate member state to the EU, the Republic of North Macedonia has to adhere to EU Climate and Energy policies which assume the obligations of the UNFCCC Annex I countries to cut down emissions. Further, the country is also a Contracting Party of the Energy Community, which is rapidly advancing the implementation of EU regulations for monitoring, reporting and verifying greenhouse gases, and taking steps to tackle the climate crisis.

Against this backdrop, the Republic of North Macedonia is preparing to initiate the process of integration of environmental, energy, and climate change issues into its national plans and budget in order to allocate climate-related budget in a more judicious way and simultaneously generate the information required for monitoring and reporting on the progress made on climate mitigation and adaptation. It has prioritized the continuous upgrading of existing monitoring and reporting systems for climate change as well as the upgrading and integration of policy. For this, the Republic of North Macedonia has committed to develop national climate policies in a transparent, participatory manner.

This brief provides a rapid assessment of institutional capacity in mainstreaming climate change in the plans and budget in general and implementing Climate Budget Tagging (CBT) in particular, in the context of establishing criteria for identifying climate change related programmes / projects / activities and the most adequate methodology for regular collection of data and information on national / local resources allocated for climate change as well as for monitoring and tracking climate-related expenditures in the national budget system.

## 2. OBJECTIVE

The main objective of this exercise is to review the available documents on climate budget tagging as well as those on climate change responses, including the enhanced NDCs and Biennial Update Reports (BURs), of the Republic of North Macedonia in order to carry out a rapid assessment of the institutional capacity to implement climate budget tagging in the Republic of North Macedonia as well as integrate the tagging system in the national planning and budgeting processes across the sectors which are relevant to climate change.

## 3. METHODOLOGY

The rapid assessment of the institutional capacity was carried out by reviewing available documents relevant to climate change, GHG monitoring, expenditure reporting, national responses, plans, and other documents related to institutions, and policies guiding climate change response in the Republic of North Macedonia. The review also included budget tagging initiatives in some of the EU member states including France and Ireland. Other countries' experiences such as those of Indonesia were also reviewed where budget tagging is primarily done for climate mitigation activities and have been successful in using the results for promoting green bonds to raise money to implement climate mitigation programmes.

In addition, the UNDP's publication regarding climate budget tagging was also reviewed to get insights about the institutional requirement for introducing a climate budget tagging system. A list of documents reviewed is given in the annex. Personal communication with UNDP CO personnel and its national consultant also helped draw insights into institutional strengths and gaps for integrating CBT in the national Public Financial Management (PFM) system.

## 4. CLIMATE BUDGET TAGGING

Before dealing with institutions and their ability to implement climate budget tagging, it is important to briefly dwell upon what is climate budget tagging and why it is important. As we know, the climate crisis is expected to cause substantial environmental, social, and economic damage globally and represents a major development challenge. The burden is expected to be borne disproportionately by developing countries, such as the RNM, requiring actions to both mitigate and adapt in all aspects of the economy that are impacted by climate change. On one hand, it will require strategic planning, while on the other it will require substantial amounts of funding in addition to those available and accessible globally. Therefore, the role of limited domestic resources becomes equally important in implementing climate responses. A judicious allocation of resources to priority areas can only be made when budget decision-making processes are well informed about the vulnerable sectors and possible climate impacts.

It is also important for the government to realize that climate change has already impacted various aspects of the economy, and some of them are already being addressed by allocating resources in relevant sectors as part of regular annual development plans. Likewise, promoting climate-resilient development and reducing Greenhouse Gas (GHG) emissions are national commitments made in the Paris Agreement and expressed through the NDCs. These obligations require reporting on the progress made towards the contribution of GHG reduction.

However, climate change is a cross-cutting issue and public sector activities relevant to climate change adaptation and mitigation are often scattered across a number of ministries such as the ministries of agriculture, forest and water economy, transport and communication, economy, industry, and so on. This dispersion of climate change activities demonstrates a lack of ownership by concerned ministries and poses challenges for the Public Financial Management (PFM) system to facilitate planning, identifying, and reporting on climate change expenditure.

These challenges can be overcome by introducing Climate Budget Tagging (CBT), which helps mainstream climate change in the PFM system in order to mitigate the economic, social, and environmental impacts of climate change by identifying, classifying, weighting, and marking climate-relevant expenditure in the budget system. Tracking climate budget expenditure is important for monitoring and reporting. By marking budget lines, the CBT enables estimating, monitoring, and tracking climate-related proportion of government expenditure allocated and spent to implement climate activities systematically.

Additionally, CBT also provides an entry point to track resources for SDGs, which is closely linked to climate change in achieving most of the SD goals.

Specifically, the CBT helps to:

- track climate expenditure for both mitigation and adaptation across sectors,
- monitor the level of integration of climate change in the system,
- allow the decision making process to be more informed of the problem and also of the progress made in each of the sectors affected by climate change, and
- generate information that helps strengthen institutional cooperation for data exchange which is relevant for the preparation of the inventory needed for producing national reports.

Several options to the CBT have been identified, including tagging based on priorities, functions and themes. Tagging of climate expenditures based on priorities offers the easiest solution; however, this tagging is project-based, not embedded into the system and, hence, unsustainable. A tagging system based on sectoral activity to capture climate expenditure across ministries is a much more robust system. For this, the government should mainstream CBT into the budget system, which allows the system to generate information regularly regardless of the changing of the staff. The role of the Ministry of Finance (MoF) becomes crucial to make it compulsory for line ministries to provide budget information related to climate activities in each of the sectors while making a three-year budget.

#### *Tagging steps*

Broadly, the development of a tagging system has three steps.

- Step 1: The objective and purpose of tagging is determined along with the mapping of climate change related policies and institutional context as well as the requirements and capabilities of the PFM system.
- Step 2: The method and criteria of tagging are finalized. Since the system has to be used by all relevant ministries including, for example, the MoF, where officials might not have any particular background in climate change, the method designed has to be simple for users, yet robust

enough to produce information required by planning and reporting agencies as well as by other users such as civil society organizations and the general public. Therefore, the design stage sometimes takes longer as it has to go through reiterative processes involving all stakeholders.

Two key aspects of the CBT design are:

- i) defining climate activities, and
- ii) identifying the level of relevance of climate expenditure.

It is relatively simple to define climate mitigation activities as they are universal, whereas defining adaptation activities are context-specific and therefore require some deliberation. It is best done by officials in the sector ministries as a group (often formed as a task force), so that the sector specific nuances are also captured by the definition.

With regards to the level of relevance, it is based on the proportion of climate budget in a programme budget. Usually, not all the budget of a programme identified as climate-related actually constitutes as climate budget. In some cases, a high proportion of the programme budget is climate related, while in many others, only a small portion of the programme budget is climate change relevant. In order to capture this difference and identify even the lower portion of the expenditure, the CBT design uses ways of identifying the 'level of relevance'. The level of relevance is important to capture the lower proportion of the expenditure too.

Rio-marker is used to define and identify level of relevance for donor-funded climate projects, but it has limitations as it covers mitigation and therefore, countries have developed their own methods of defining climate activities and identifying the level of relevance of the budget involved.

Step 3: The third important aspect is to tag the budget lines of climate-related activities according to agreed relevance level. Though climate budget tagging in some countries is done by a team of experts after the budget has been proposed, this is best done by officials in the sector ministries who present the budget proposal to the MoF. For this, the officials need to be given training on identifying the climate activity based on the agreed definition and tag the budget lines using the approved method and criteria. In fact, capacity building is required at all stages but most importantly at the stage of tagging for the officials involved in climate budget tagging. Guidelines need to be developed explaining the process so that the officials can refer to them post- training, while tagging the budget annually.

#### *Climate budget tagging in the Republic of North Macedonia*

The Republic of North Macedonia currently does not have a tagging system; however, it has carried out assessment of climate-related budget expenditures while preparing the Biennial Updated Report for the UNFCCC, by individual activities in the budget for the capital city Skopje, using the Rio Markers approach. International support was estimated on a project-based level, and was considered climate-related when climate change was the main purpose of the project. Accordingly, the City of Skopje implemented 37 climate-related projects in 2018-2019. The total amount of climate finance in 2018 was about 4.65% of total budget expenditure, while it increased to 5.17% of total spending in 2019 indicating a strong commitment by the City of Skopje to address climate change.

#### *Examples of tagging from EU member states*

In order to reduce greenhouse gas emissions and promote climate-resilient development (Paris Agreement), both France and Ireland have started using 'Green budget tagging'. France has used a Green budget tagging system to identify expenditures along six objectives: climate change adaptation, climate change mitigation, biodiversity, circular economy, water, and air quality. These objectives are in line with the EU taxonomy regulation. Tagging is done by a team of experts in the Ministry of Ecological Transition (MoET) with validation carried out by line ministries. They tag activities and expenditure as, i) very favourable, ii) favourable, iii) favourable but controversial, iv) neutral, and v) unfavourable depending upon the environmental impact of the activity. *France has started using the tagging system to identify expenditures that have negative impacts on the environment too.*

In Ireland, a team of experts within the Department for Public Expenditure and Reform (DPER) conducts the initial green budget tagging process, in close coordination with the Departments of Communications, Climate Action and Environment. After the initial tagging, validation checks are conducted in subsequent rounds by line ministries. Unlike in France, the current system in Ireland captures only positive expenditures, although Ireland intends to introduce negative expenditure in the future.

### *Outside EU*

In Indonesia, the climate budget tagging is done for climate mitigation expenditure. The existing government financial management and accounting system was assessed before developing a climate mitigation tagging system. Design options were discussed in several focus-group discussions with the Fiscal Policy Agency, the Directorate General of Budget as well as relevant ministries.

Countries such as Bangladesh, Pakistan, and Nepal have used climate budget tagging to both mitigation and adaptation expenditures and across all sectors.

## 5. POLICY CONTEXT

The strategic framework for climate change at the national level includes strategic documents, national action plans, and programs that contain aspects related to climate change. National communications and biennial reports serve as climate change policy documents. Different aspects of climate change are integrated to varying degrees into sectoral laws at national level.

Currently, the Law of Environment guides the climate change activities including emission regulation and inventory of greenhouse gas emissions. According to the Law on Environment, the Ministry of Environment and Physical Planning (MOEPP) should establish, develop, manage and coordinate a national system for inventory of greenhouse gas emissions. The system would provide necessary information for the preparation of the Greenhouse Gas Inventory, as well as for the monitoring of the implementation of the National Climate Change Plan. However, the Law does not regulate in detail the issue of monitoring, reporting, and verification of policies and measures.

Under this law, significant progress has been made in mainstreaming climate change into policies in areas of energy, energy efficiency, renewables, transport, waste, and implementation of Agenda 2030. Different aspects of climate change mitigation are integrated to varying degrees into sectoral laws at the national level, but there is nothing about adaptation, though it is mentioned in official documents.

The National Climate Change Committee (NCCC), a coordination body that provides high-level support and guidance for overall climate change policies in the country, is not functional due to frequent changes in governmental positions.

Long-term Strategy on Climate Action and Action Plan, as well as Law on Climate Action and two bylaws are currently being developed.

The Country is currently in the process of implementing the EU acquis enabling a low carbon emissions and climate resilient development. In the process of EU accession, new laws and policies have been adopted and regularly updated for constant harmonisation with the EU acquis.

## 6. INSTITUTIONAL LANDSCAPE

There are about 8 ministries performing activities that are directly or indirectly related to climate change in various ways. In addition, the sector for European affairs and the Cabinet of the deputy vice president for economic affairs also are related to climate change actions. National Hydrometeorological Service and Crisis Management Centre are other agencies related to climate change

The government agencies and their climate-related function are listed in the table below.

	Government agencies	Climate Change related responsibilities
1	Ministry of Environment and Physical Planning	<ul style="list-style-type: none"> <li>● Monitoring the environment</li> <li>● Protection of waters, soil, flora and fauna, air and the ozone layer from pollution</li> <li>● Proposing measures for solid waste treatment</li> </ul>
2	Ministry of Economy	<ul style="list-style-type: none"> <li>● Proposing measures for development and ongoing economic policy in the areas of production, trade, tourism, hospitality services and handicraft</li> </ul>
3	Ministry of Agriculture, Forestry and Water Economy	<ul style="list-style-type: none"> <li>● Agriculture, forestry and water management;</li> <li>● Monitoring and Studying the situation of water bodies, maintenance and improvement of water regimes;</li> <li>● Hydrological and agro-meteorological measurements, as well as anti-hail protection;</li> <li>● Studying and research of meteorological, hydrological and bio-meteorological events and processes</li> </ul>

4	Ministry of Transport and Communications	<ul style="list-style-type: none"> <li>● Promotion of other types of transport (cable cars and ski lifts, etc.)</li> </ul>
5	Ministry of Labour and Social Policy	<ul style="list-style-type: none"> <li>● Advancement of gender equality</li> </ul>
6	Ministry of Education and Science	<ul style="list-style-type: none"> <li>● Education and science of all types and degrees</li> </ul>
7	Ministry of Information Society and Administration	<ul style="list-style-type: none"> <li>● Development and coordination of policies related to human resources management</li> <li>● training and professional development of state and public administrative officers</li> </ul>
8	Ministry of Finance	<ul style="list-style-type: none"> <li>● Preparation and execution of budget</li> <li>● Macro-economic policy and policy for development of national economy</li> <li>● Treasury system</li> <li>● Fiscal decentralization</li> </ul>
9	Cabinet of the Deputy President of the Government of the Republic of North Macedonia, in charge of economic affairs, coordination of economic departments and investments	<ul style="list-style-type: none"> <li>● National designated authority to the Green Climate Fund (GCF);</li> <li>● Coordinate the implementation of the Sustainable Development Goals</li> </ul>
10	Secretariat for European Affairs	<ul style="list-style-type: none"> <li>● Horizontal management and coordination of the EU integration process.</li> <li>● Programming the National Programme for approximation with the EU acquis (NPAA), which also covers the chapters Environment and climate change.</li> </ul>
11	National Hydrometeorological service	<ul style="list-style-type: none"> <li>● Generate hydrometeorological data</li> <li>● Prepare climate change related analyses and scenarios of expected changes in the temperature, precipitation, extreme climate events and similar</li> </ul>
12	Crisis Management Center	<ul style="list-style-type: none"> <li>● National platform for disaster risk reduction</li> </ul>

The MoEPP is the leading institution for climate action, which it carries out through the Unit for Climate Change under the Department for Sustainable Development and Investments, and the National Focal Point to the UNFCCC and the National Authority for the implementation of the Kyoto Protocol. As mentioned earlier, it also has a responsibility to monitor the environment, protect water, soil and biodiversity, and propose measures for solid waste treatment. The Ministry collects data in coordination with other agencies including the State Statistical Office, Ministry of Economy, Ministry of Agriculture, Forestry and Water Economy, Ministry of Interior etc. Strengthening the institutional cooperation for data exchange relevant for the preparation of the inventory is considered a key issue that would facilitate

preparation of the national reports such as the Biennial Update Reports (BUR), National Communication (NC), GHG inventories, and Nationally Determined Contributions (NDCs).

According to the Law on Environment, the MoEPP is obligated to cooperate with several bodies of the state administration such as the State Statistical Office, Ministry of Economy, Ministry of Agriculture, Forestry and Water Economy, Ministry of Interior and so on to collect data. The ministry also has the mandate to oversee climate change reporting on national and international commitments. Currently, the Macedonian Environmental Information Centre (MEIC), which forms part of the MoEPP, plays an important role in monitoring and reporting especially regarding air quality, which it does through its Air Quality Monitoring Unit. Yet, the MEIC does not have a specific department or unit for climate action and the responsibilities are covered by the existing departments.

Therefore, it was indicated by previous assessments that the MoEPP should establish, develop, manage, and coordinate a national system for the inventory of greenhouse gas emissions including providing necessary data for the preparation of the Greenhouse Gas Inventory, as well as for the monitoring of the implementation of the National Climate Change Plan.

The National Climate Change Committee (NCCC) provides high-level support and guidance for the overall climate change policies in the country, while the Office of the Deputy Prime Minister for Economic Affairs is responsible for the achievement of the Sustainable Development Goals (SDGs) closely linked with climate change.

The Ministry of Economy (MoE) is responsible for policies in the production and tourism sectors, which are often impacted by climate change. The MoE and the MoEPP have the responsibility for implementing the National Energy and Climate Plan (NECP).

The Ministry of Agriculture, Forestry and Water Economy (MoAFWE) is responsible for management of agriculture, forest, and water resources. It is also responsible for collecting hydro-meteorological information and anti-hail protection. The Ministry of Transport and Communication (MoTC) deals with promotion of other types of transport such as cable cars, which are vital in promoting low carbon transport. Similarly, the Ministry of Labour and Social Policy (MoLSP) has a key role to promote gender equality, which is central to climate investments. Even though the Ministry of Education and Science (MoES) has no direct role in climate change, it is responsible for developing a curriculum which has the potential to incorporate climate change in the education programme.

Likewise, the Ministry of Information, Society and Administration has a role to play in developing the human resource required to promote climate responses in climate action delivery, which is one of the key areas of climate change mainstreaming in the national development plans.

The MoF is the key ministry to formulate macro-economic policy, prepare and execute the national budget, operate the treasury system and ensure fiscal decentralization, which are primary to climate finances.

The Research Centre for Energy and Sustainable Development, which is a part of the Macedonian Academy of Sciences and Arts, often prepares the assessments required for the national reporting to the UNFCCC. The university sector is involved in the assessment of sink and source of emissions focusing on agriculture, forestry and land use changes (AFOLU) sectors. However, the engagement is project-based, generally with support from GEF and UNDP.

In most of the ministries mentioned above as being climate-related, there are no units/departments dedicated to climate change within and therefore some of the key works are carried out by agencies outside of ministries. For example, a network of climate change national practitioners from various relevant institutions, i.e. the Macedonian Climate Transparency network of national practitioners, has been established within the Capacity-Building Initiative for Transparency (CBIT) project to undertake sustainable transparency activities and facilitate reporting requirements to the UNFCCC.

The Macedonian Climate Transparency network of national practitioners has been established within the CBIT project. This network comprises 64 representatives from 27 governmental institutions and organizations, such as the NGO sector, academia, universities, and international organizations that implement complementary projects.

With regards to the Sustainable Development Goals (SDGs) - another national commitment linked with climate change - the National Council for Sustainable Development had identified five priority goals for the period 2018-2020, which included, among others, SDG 13, climate actions. A 2019 Rapid Integrated Assessment of the alignment of the national policy framework with the SDGs indicated that the existing policy framework addresses key aspects of sustainable development; however, it is crucial to establish the linkages of climate change with other goals by aligning them with the SDGs' programmes.

In order to establish the linkages, tools have been developed to generate both qualitative and quantitative information on the synergies and tradeoffs between the national enhanced NDCs and the SDGs for three key sectors (electricity and heat, buildings, and transport) individually and the overall impacts of three sectors of the enhanced NDCs on the realization of each of the SDG. The tools are simple enough to enable a broader engagement of various stakeholders.

Since the country has begun the process of EU pre-accession, it must now also adhere to the EU 2030 climate and energy framework, which includes EU-wide targets and policy objectives for the period from 2021 to 2030. The Republic of North Macedonia is also a Contracting Party of the Energy Community (EnC), which is rapidly implementing many policies that are directly related to the issue of MRV. The introduction of CBT will implement these policies by providing a tool for information generation.

## 7. CLIMATE RESPONSES

As per the third BUR, Republic of North Macedonia has received both bilateral and multilateral funding support for climate change mitigation and adaptation projects. During the period 2018-2019, the country received international support of about 25.14 million USD to implement 38 climate related projects, of which 21 projects (15.6 million USD) were climate specific, while climate relevant projects received 9.5 million USD. The funds were in the form of grants, credit, and capital support. The country also received non-monetized support in the form of capacity building, technical support, and technology transfer. Rio marker was used for tracking the expenditure including the domestic financial flow.

At the sub-national level, the City of Skopje implemented 37 climate projects. Most of the climate finance in Skopje is implemented through two programs—parks and greenery (capital expenditure) and the environmental protection program. Skopje, in cooperation with the UNDP, has also developed a Climate Change Strategy to promote Climate Resilient Skopje.

### *Budget process*

In line with the Law on Budgets, the government sets the budget priorities for the next year before the 15<sup>th</sup> of April. The MoF develops a Fiscal strategy for a mid-term period of three years based on the three-year plan of the budget-users of the central government, taking into account the budgetary sustainability for the mid-term period. The budget forecasts for the next 3 years have to be adopted by the 31<sup>st</sup> of May.

Once the budget forecast has been completed, the MoF sends the budget circular to the budget users of the central government by the 15<sup>th</sup> of June. The central level budget users are required to submit their proposed plan of programs by the 15<sup>th</sup> of July, so that the government can approve them no later than by the 15<sup>th</sup> of August. The budget circular to the municipalities is sent by the 30<sup>th</sup> of September, which allows the MoF to submit the proposed national and local budgets to the government no later than the 1<sup>st</sup> of November. The Government submits the budget to the national assembly in the middle of November for approval.

The Law on Local Self-Government and the Law on Budgets regulates the strategic planning at the local level. Accordingly, the budget users need to prepare a three-year strategic plan with programs and activities to meet the strategic priorities of the Government of the Republic of North Macedonia as well as the goals and priorities of the budget users.

The Republic of the North Macedonia has 80 municipalities, each of which work as a separate unit of local self-government. The City of Skopje, the capital of the country, has an additional 10 municipalities. These municipalities have full autonomy in planning for future development by defining their own development goals that must be compatible and in line with the strategic priorities and goals mentioned in the Government Program while using funds from the State Budget.

It's worth noting that as the municipalities are independent in using their resources to synthesize development plans that best reflect local aspirations, municipal strategic plans are usually different because of the municipal differences. As a result, despite their competencies in urban and rural planning, a comprehensive system for local development planning does not exist. Also, the Law on Urban and Spatial Planning defines spatial planning as well as different types of local and municipal spatial and urban plans that are of importance for the municipalities during the process of strategic planning of their own overall development. This can become a problem in mainstreaming climate change in the local plans. Therefore, a CBT method using a standard methodology can help bring consistency in local level climate change planning.

### *Government Expenditure Classification*

The government expenditure classification provides favorable conditions to mainstream climate finance and tracks its expenditure at the activity level.

The government expenditure is classified on the basis of organization, function, economic, and program classifications. There are eleven functions of government expenditure which include land management, economy, and environment management. The economic classification groups government expenditure based on the type of expenditure such as personnel, goods, capital, and social assistance.

In each of the government organizations and ministries, government expenditure is further classified based on program, activities, output, and component. A program is based on a vision, mission, task, and

function of a ministry. It is normally set at the director-general level within a ministry and consists of several activities. Each program has one or many performance indicator(s) at the outcome level. An activity, a breakdown of programme, is carried out to produce outputs/sub outputs. Government expenditures, classified as components/subcomponents, provide detailed expenditure items to achieve outputs and sub-outputs. During the budget planning processes, all information needs to be provided to the Ministry of Finance, however, the actual realization of government spending within a given year is only reported at the activity or sub-activity levels.

The existing expenditure classification is favourable to introducing CBT as each of the programme is broken down into several activities in the budget system where tagging is done.

### *Defining climate expenditure*

Various types of expenditures such as climate change expenditure, climate related expenditure, climate resilience expenditure, climate driven expenditure, climate induced expenditure, and climate sensitive expenditure make the task of defining climate expenditure difficult. Though there is no single definition of climate change expenditure, it is generally understood any expenditure incurred in addressing climate change related activity comes under climate change expenditure.

The Republic of North Macedonia allocates a considerable amount of its own budget funds for financing climate activities, which is still below the required level.

## 8. CAPACITY ASSESSMENT

### *Institutional strengths that will help implementing climate budget tagging*

- a. The government has accorded high priority to climate change and the MoEPP has been made a lead ministry to organize and drive the necessary measures for climate actions including cooperating with other ministries and institutions. The ministry also coordinates donor-funded programmes at the national level.
- b. At least eight ministries have some works and responsibilities that are, directly or indirectly, related to climate change. CBT will enable the ministries to track their climate change activities along with the budget allocation and expenditure.
- c. The climate expenditure information for the year 2018-2019 indicates that a significant amount has been mobilized to address climate mitigation and adaptation projects.
- d. The rapid growth in climate change expenditure has demonstrated an increased capacity in climate change management and monitoring activities to fulfill the UNFCCC's requirements.
- e. Institutions such as the Research Centre for Energy and Sustainable Development have the capability to prepare the assessments required for the national reporting to UNFCCC.
- f. The climate mitigation budget is reported as part of BUP reporting; its strength is that a system, though in a limited way, has already been developed for budget tagging for reporting.

- g. The municipalities (the local governments) have the autonomy in planning their development programmes including climate responses. They prepare a three-year fiscal strategy which is compatible with national goals and programmes.
- h. The city of Skopje has implemented 37 climate projects during 2018-2019 and also has prepared the Climate Change Strategy, which indicates the capacity to plan at the local level.

#### *Gaps that need to be overcome for climate change mainstreaming*

- a. Crucial gaps exist within the legal framework related to climate change. Currently, there is a partial climate policy to provide strategic direction and therefore, reporting is limited to obligation arising from the UNFCCC i.e. National Communications and Biennial Update Reports on Climate Change. The absence of a climate policy also makes it difficult to strategize the responses particularly in prioritizing mitigation and adaptation responses, and in identifying priorities for the ministries to allocate funds to address climate change.
- b. An institutional mandate to deal with CC is on MoEPP but it does not have a sufficient and qualified staff and therefore the government has to depend on a project-based approach to carry out assessment required for national reporting to UNFCCC.
- c. The municipalities are responsible for formulating development programs independently at the local level. In the absence of the statement regarding the responsibility of addressing climate change by municipalities and by the ministries, it is likely that the emphasis will only be on project-based mitigation activities and very few or none on adaptation.
- d. Some of the works of the Ministries of Economy, Agriculture, Forestry, and Water Economy, Transport and Communications, and Health are climate related, which is also reflected in the adaptation expenditure; these ministries need to be included in the planning and reporting on the expenditure. In the absence of that, a national level budget could not be provided due to incomplete information.
- e. Besides the MoEPP, which leads climate responses and coordinates donor funded programs at the national level, there are a considerable number of climate change-related programs carried out by other agencies that do not get reflected in actual climate activities. A striking gap exists in the existing institutional structure that does not provide information about climate finances other than mitigation.
- f. The current way of project-based tracking climate expenditure needs to be upgraded to consider all sectors including the domestic funding because adaptation is a big chunk of the domestic budget and needs to be tracked as it is quite important.
- g. There is a need to develop reporting mechanisms at the national level by enhancing staff capacity with necessary training, which can be achieved in the course of time by mainstreaming climate change in the system. The mainstreaming exercise would include several elements to enhance

staff capacity from training to development of manuals and guidelines to help the staff generate information for reporting.

- h. The lack of specific departments/units for climate action in the ministries is a challenge to an effective cooperation in climate responses. It can also be an obstacle for the MoEPP—the main institution responsible for climate action—to organize and drive the necessary measures, which requires cooperation within the government. Without adequately mandated, staffed, and equipped partners, it is difficult to achieve climate goals.
- i. At the government level, there is a lack of a permanent technical team for the development of the reports. Additionally, there is low capacity in the systematization of quality information and timely delivery for the reports. A lack of adequate specific structures and resources in terms of sufficient and qualified staff illustrates the constrained capacities of the Ministries on climate change. This will likely pose an obstacle to an effective cooperation in climate action among the ministries.

## 9. CONCLUSIONS AND RECOMMENDATIONS

- a. As climate action is cross-sectoral, responsibilities need to be shared and effectively coordinated between ministries. The success of climate responses depends considerably on inter-sectoral coordination and cooperation, which can be achieved by integrating climate change in all aspects of public finance, led by the Ministry of Finance and coordinated by MoEPP, as the latter is a lead institution mandated by law to organize and drive necessary climate actions.
  - The climate change policy, which is under preparation, should include CBT as a policy to integrate climate change in overall planning and budgeting processes.
- b. The fact that the NCCC is being revised within the Law on Climate Action to act as an advisory body provides an excellent opportunity to begin introducing climate budget tracking; the committee will provide high-level support and guidance for the overall climate action in the country as well as to contribute to the integration of climate action in sectoral policies and plans.
  - Provision for CBT should be included in the new Law on Climate Action Act to make it mandatory for all climate related sectors to use CBT for (MRV) monitor, report, and verify climate change related expenditure.
- c. Since climate change is a long-term issue, each line ministry has to mainstream climate change in their sectoral policy and reflect in the national budget. It will require a more concerted approach within sectors to address it in a coordinated way; the government should consider

bringing climate change identities for administrative units within Ministries that deal with climate change issues.

- It is recommended to formulate task-force of officials responsible for planning and budgeting in line ministries to identify activities within their ministries that are climate-related. This will help to consider sectoral nuances of climate activities while developing tagging method.
  - Instead of recruiting separate staff to implement CBT in the budget system, it is recommended to train existing budget and planning officials in CBT implementation in each of the identified ministries and agencies including municipalities. This will help strengthen the system in the long run.
- d. The key area that needs our attention in improving the effectiveness of climate response and institutionalizing a reporting system is mainstreaming climate change in the national and sub-national planning and budgeting processes, which require enhancing the capacities of existing planning and budget staff to manage climate change issues.
- Encourage the municipalities to include CBT in their planning. One way to do it is for municipalities to realign their strategic plans to the Law on Climate Action once the Law includes CBT as mandatory for budget users.
- e. The tagging system for climate mitigation expenditures should be developed based on the existing public financial management and accounting system in order to facilitate building a system for regular and periodic data collection required for decision-making on climate issues and responses. This applies to practically all relevant ministries that have climate related work streams in their portfolio.
- For this, the budget management information system, (BMIS) in particular, should make provisions for introducing CBT for climate-related programmes and activities. The IT personnel responsible for managing the BMIS should be provided with a short orientation on what changes or modifications are required in the BMIS so that the budget users can tag climate activities accordingly.
  - It is also recommended that MoF staff who coordinate the budget planning as well as those involved in managing the financial management information system (FMIS) that produce expenditure reports should be trained in CBT for the implementation of the CBT system to generate information on climate budget allocation and expenditure reporting as per the design of the system.

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