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PROJECT TITLE: 00110592 “Macedonia’s Fourth National Communication and Third Biennial Update Report on Climate Change under the UNFCCC”

**CRITERIA FOR DETERMINATION OF 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**

Skopje, October 2019

TABLE OF CONTENTS

ACRONYMS	3
Introduction	4
PART I: TRACKING CLIMATE FINANCE	5
1. General context of effective climate finance tracking	5
2. Definition and scope of climate finance	5
3. Objectives of tracking public climate finance	7
4. Climate Public Expenditure Analysis	7
4.1 Criteria for determination of climate change related programmes/ projects/ activities ..	8
4.1.1 <i>OECD-DAC Rio Climate Markers</i>	8
4.1.2 <i>Multilateral Development Banks (MDBs) and the International Development Finance club (IDFC) joint approach in tracking climate finance</i>	13
4.2. Classification of climate public expenditure.....	15
4.2.1 <i>Data Collection Guide</i>	16
4.2.2 <i>CPEIR Typology for Data Classification (Standardised UNDP/WB typology)</i>	16
4.2.3 <i>National Policy Objectives Typology</i>	18
4.3 Weighing climate relevance	19
4.3.1 Approach 1 – Climate Relevance Index: CPEIR Indexation or OECD DAC Rio Markers indexation.....	20
4.3.1.1 <i>OECD DAC Rio Markers indexation</i>	20
4.3.1.2 <i>CPEIR Climate Relevance Index</i>	21
4.3.2 Approach 2 – CPEIR Benefit – Costs Ratio.....	22
PART II: MOST ADEQUATE METHODOLOGY FOR REGULAR COLLECTION OF DATA AND INFORMATION ON NATIONAL/LOCAL RESOURCES ALLOCATED FOR CLIMATE CHANGE	24
5. Climate Budget Tagging (CBT) as a Government’s tool to track climate finance in their budgets	24
5.1 The general context of Climate Budget Tagging (CBT).....	24
5.2 Overview of benefits of climate budget tagging.....	25
5.3 CBT as part of mainstreaming climate change in public financial management	26
6. Setting up a national climate budget tagging system	27
6.1 PHASE I: Identify the purpose and setting of CBT	27
STEP 1. Define key objectives and stakeholders of CBT	28
STEP 2. Identify how CBT can contribute to achieving the national climate change policy objectives	28
STEP 3. Identify the parameters set by the existing PFM system.....	28
6.2 PHASE II: Determine the technical design.....	29

STEP 4. Define and classify climate relevant expenditures	29
STEP 5. Define the methodology for weighting the tagged expenditure	29
STEP 6. Determine how climate change expenditure will be identified in the PFM system	30
6.3 PHASE III: Determine the implementation design.....	30
STEP 7. Determine the overall modality of the CBT system	30
STEP 8. Design the tagging procedure.....	30
STEP 9. Determine the format for CBT reporting	31
STEP 10. Assign roles and responsibilities for CBT development and implementation	31
7. Recommendations for further actions.....	31
ANNEX I. CPEIR Climate Relevance Index	35

ACRONYMS

BUR	Biennial Update Report
CCFF	Climate Change Financing Framework
CCPB	Climate Change Policy Body
CBT	Climate Budget Tagging
COA	Chart of Accounts
CPEIR	Climate Public Expenditure and Institutional Review
CPEBR	Climate Public Expenditure and Budget Review
DAC	Development Assistance Committee
GHG	Greenhouse gas
FMIS	Financial Management Information System
IFMIS	Integrated Financial Management Information System
LGU	Local Government Unit
MDB	Multilateral Development Banks
M&E	Monitoring and Evaluation
MOCC/E	Ministry of Climate Change/Environment
MOF	Ministry of Finance
MOP	Ministry of Planning
MRV	Monitoring, Reporting and Verification
NAP	National Adaptation Plan
NAPA	National Adaptation Programmes of Action
NDA	National Designated Authority
NDC	Nationally Determined Contributions
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SDG	Sustainable Development Goals
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

Introduction

Climate change is the single greatest challenge humanity has ever faced, threatening water and food security, health, livelihoods, and the safety of billions of people. Climate change represents an all-of-society challenge and all-of-society opportunity. The latest report from the UN Intergovernmental Panel on Climate Change (IPCC) has stated that the planet will reach the critical threshold of 1.5 degrees Celsius above pre-industrial levels by as early as 2030, triggering the risk of extreme drought, wildfires, floods and food shortages for hundreds of millions of people – posing a threat to the achievement of the entire Agenda 2030. Such impacts will bring negative consequences to the poverty eradication and sustainable development efforts.

Achieving the primary goal of the Paris Agreement - to keep the average global temperature rise well below 2C degrees and as close as possible to 1.5C above pre-industrial levels will increase the ability of governments to achieve the Sustainable Development Goals (SDGs) in the context of the changing climate. Bold actions on climate change deliver USD 26 trillion in economic benefits by 2030¹ and climate change has been called the “greatest investment opportunity in history” valued at about 10 percent of global GDP².

In order to stay within safe planetary boundaries and within 1.5-degree future, countries must raise the ambition of their National Determined Contributions (NDC) and translate them into bold, tangible, implementable actions. Through their NDCs, countries are tailoring and prioritizing strategies to their own most urgent risks, vulnerabilities, and resource needs. Within few years, many are expected to release a new or updated NDC plan, demonstrating an enhanced level of ambition.

Accelerating the implementation of NDCs requires clear financing strategies which work to mobilise resources from both public and private sectors. International climate change finance will have a key role to play in this and will be most effective when aligned with domestic budget frameworks and used catalytically to leverage further private finance behind NDCs. A strong performance oriented domestic budget which integrates climate risk and reduces greenhouse gas emissions will provide the enabling environment to align international and private financial flows. In relation to adaptation most of the climate change efforts will need to be managed by national and subnational governments through their domestic budgeting systems. Strong oversight and public accountability are essential to ensuring that these systems manage climate change-related resources effectively to build sustainable, resilient and equitable societies.

Climate change both now and in the future, is expected to cause substantial environmental, social and economic damage worldwide, and represents a major developmental challenge. **The burden is expected to be borne disproportionately by developing countries that have historically not contributed to the causes of climate change.** Action is required both to mitigate and adapt to the threats posed by climate change. While there are mechanisms such as the Green Climate Fund to provide developing countries with funds for adaptation and mitigation, these mechanisms on their own are unlikely to be sufficient.

In response to the climate change challenge, governments in both developed and developing countries have been increasingly planning and implementing adaptation and mitigation actions. International climate finance has also been available and is expected to significantly increase in the coming years now that the Green Climate Fund (GCF) is operationalized and committed to providing up to US\$100 billion per year by 2020. However, given that climate change is a cross-cutting issue affecting all sectors of the economy, effective responses to climate change

¹ Please see WRI/NCE, 2018

² www.energetics.com.au/insights/thought-leadership/climate-change-a-7-trillion-investment-opportunity

require a whole-of-government approach, involving involvement from both the public and private sectors. Central to this approach is the significant engagement of the planning and finance ministries, together with other line ministries, in fully integrating climate change within an overall national development strategy. Tracking of climate public expenditure is the first step to implementing such an approach is to integrate climate change into the national budgetary and planning process.

Part I: Tracking Climate finance

1. General context of effective climate finance tracking

Climate change represents one of the most significant challenges facing humankind, especially in developing countries and cutting across different sectors of the economy, calling for actions from both public and private sectors. As such, effective responses cannot come from environmental agencies alone. It requires a whole-of-government approach where finance and planning agencies take a central role to ensure economic growth and poverty reduction goals to be achieved in a sustainable manner. Tracking climate public expenditure is a tool providing a starting point to mainstream climate change into the budgeting and planning process.

Climate Budget Tagging (CBT) has been designed to help address these challenges in the broader context of SDG budgeting reform. Embedded in the country's Public Financial Management systems, it is a tool that **identifies, classifies, weights and marks climate-relevant expenditures in a government's budget system, enabling the estimation, monitoring and tracking of those expenditures.** By providing data on government's allocations or existing spending, CBT also contributes to the identification of the funding gap and under-resourced priorities in the national climate change policy and action plan, and in systematically monitoring the implementation of that plan. This helps both in supporting the most effective targeting of existing resources, as well as informing government's efforts to mobilize additional resources. CBT may also facilitate stronger inter-linkage with other cross-cutting themes – for instance in supporting the inclusion of gender and poverty in climate expenditure analysis.

UNDP has played a key role in supporting Climate Budget Tagging in as an element of national Climate Change Financing Frameworks (CCFFs), which present consolidated policy road maps and financing gap analyses for climate action to enhance budgetary and planning processes through a more systematic integration of climate change at all stages. This paper aims at provoking budget and planning officials to better shape their public financial management systems to incorporate for NDCs and climate policy into their budget process.

2. Definition and scope of climate finance

Finance for climate change related activities, or climate finance, is a diverse concept. It is in some instances discussed separately or often times integrated with related and overlapping concepts of green finance, sustainable finance, or low-carbon finance. Climate finance refers to local, national or transnational financing - drawn from public, private and alternative sources of financing - that seeks to support mitigation and adaptation actions that will address climate change.

While there is no single definition of climate finance, the closest one can get is provided by the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance, which defines it as: “**finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.**”³ This definition represents finance for climate change in its broadest form as it relates to the flow of funds to all activities, programmes or projects that support climate change related projects, whether mitigation or adaptation, anywhere in the world.

This broadness has arisen because there are many different elements that need to be considered, these include⁴:

- the type of finance provided (development aid, private equity, loans, or concessional finance);
- the source of the finance (is it from public or private sources);
- the flow mechanism of finance (nationally at a state level, bilaterally from ‘developed’ countries to ‘developing’ countries, or multilaterally through development banks and finance entities);
- whether this finance is over and above what would have been provided anyway (“new and additional”); and
- what is ultimately financed (direct or indirect climate change related actions, or compensation for damages).

Climate finance is needed for mitigation, because large-scale investments are required to significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate.

Definition of mitigation activities: An activity should be considered as climate change mitigation related if it contributes to the objective of stabilisation of GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration (adapted from the operational definition and criteria for eligibility used in the OECD-DAC Policy Markers).

Definition of adaptation activities: An activity should be considered as adaptation related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions (adapted from the operational definition and criteria for eligibility used in the OECD-DAC Policy Markers).

The actual term “**climate finance**” is however most often associated with the international climate change negotiation processes. While sharing all the intentions of the UNFCCC definition, climate finance adds the additional dimensions of the provision of “new and additional financial resources” by developed countries to developing countries so that they can meet the full and incremental costs of climate change.

³ UNFCCC Standing Committee on Finance (2014) Biennial Assessment and Overview of Climate Finance Flows Report. <https://unfccc.int/process/bodies/constituted-bodies/standing-committee-on-finance-scf>

⁴ Grantham Research Institute on Climate Change and the Environment (2018) What is climate finance? <http://www.lse.ac.uk/GranthamInstitute/faqs/what-is-climate-finance-and-where-will-it-come-from/>

Climate change finance is increasingly being seen as a political rather than just a technical issue, requiring governance structures and negotiations between institutions, varying interests, and different ideologies. Climate change is not an extension of Official Development Assistance (ODA), but a process that involves complex issues related to equity and shared responsibility.

3. Objectives of tracking public climate finance

The main objectives of tracking public climate finance are:

- i. Assesses the status of national response to climate change through climate change strategies, action plans and sectoral policies, and its linkages to expenditures.
- ii. Improves the understanding of the roles and responsibilities of institutions, and their coordination, in implementing climate actions.
- iii. Quantifies climate related expenditures through the budgetary system and extra-budgetary channels.
- iv. Provides a tool to track climate finance through national delivery channels.
- v. Identifies opportunities and constraints for integrating climate change within the national and sub-national budget allocation and expenditure process.
- vi. Informs decision makers and development partners in assessing how best to upscale access and delivery of climate finance for the country.
- vii. Serves as a starting point to strengthen cross-government coordination, especially ensuring the engagement of Finance and Planning Ministries, as well as involvement of the private sector, civil society and development partners
- viii. Assesses the transfer mechanism of climate finance from national to sub-national governments and identifies opportunities to strengthen such mechanism.
- ix. Maps the linkages between climate vulnerability areas (by geography, sector, and population groups) and climate responses. Through this, the climate public expenditures will be able to identify the gaps, if any, in climate policies to protect and benefit the vulnerability groups and opportunities to redirect policies and budget allocations accordingly.
- x. Strengthen stakeholders' capacity to formulate more informed policy proposals that respond to climate change while presenting economic, social and gender co-benefits.

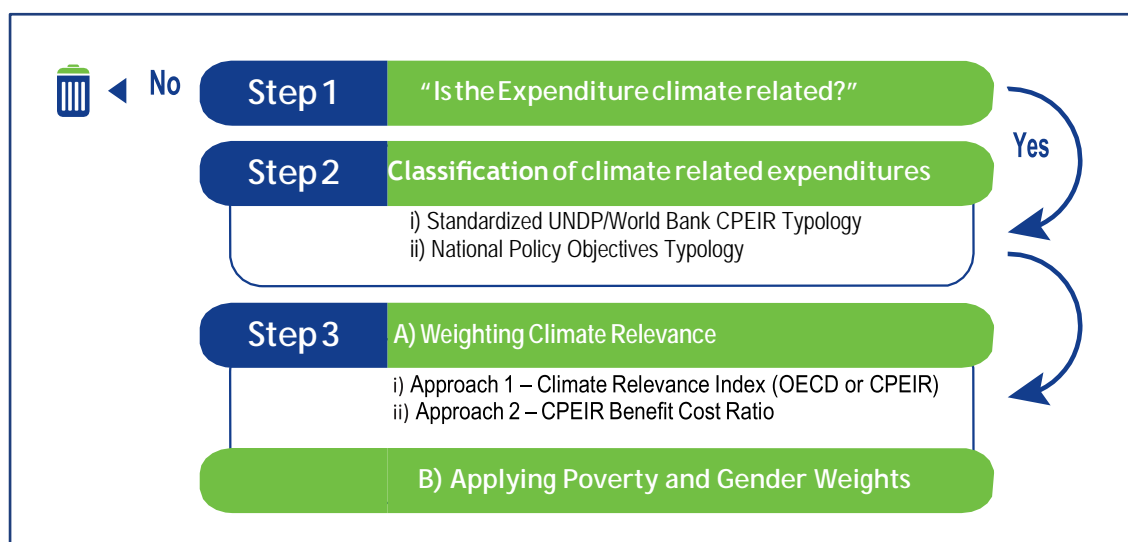
4. Climate Public Expenditure Analysis

This section outlines some of the required steps in order to identify and estimate how much the government is spending on climate change related activities. It starts with the data collection and deciding whether the expenditure items are climate relevant (answering the question "Is the expenditure climate change related?"). After excluding the non-climate change related expenditures from the analysis, the next step is to classify the climate related expenditures. There are two widely used approaches, namely: i) Standardized UNDP/World Bank CPEIR Typology and ii) National Policy Objectives Typology. The data can, in addition, be grouped in accordance with key climate change topics such as mitigation and adaptation. Once climate related expenditures are classified, the proportion of the expenditures that is related to climate change can be assessed by applying the weight of climate relevance to these expenditures.

There are two widely used approaches in applying the weight: i) Approach 1 – Climate Relevance Index (CPEIR Indexation or OECD DAC Rio Markers indexation) and ii) Approach 2 – CPEIR Benefit Cost Ratio. These two approaches are not mutually exclusive and the

decision of which one to use would depend on the level of data available for the analysis. Following the application of climate relevance weighting, a pro-poor and gender sensitive would can also apply the poverty and gender weightings to these expenditures. Figure 1 provides a schematic overview of these steps.

Figure 1: Schematic Overview of Climate Public Expenditure Analysis



4.1 Criteria for determination of climate change related programmes/ projects/ activities

Definition of what constitute as climate-relevant activities is an important first step in the estimation of climate finance. The Organisation for Economic Co-operation and Development (OECD)’s Development Assistance Committee (DAC) has developed definitions for climate change mitigation and adaptation as part of the “Rio Markers” which tracks climate related ODA. The multilateral development banks (MDBs) have also developed a set of criteria for adaptation and mitigation to track their investments.

4.1.1 OECD-DAC Rio Climate Markers

The OECD Development Assistance Committee (DAC) gathers statistics on aid and other resource flows to developing countries from bilateral and multilateral donor agencies every year. The data are publicly available in the Creditor Reporting System (CRS) database.

Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through the CRS using the so-called “Rio markers”. The **Rio marker on climate change mitigation** was established by the DAC in close collaboration with the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC). It tracks aid flows that support the implementation of the Convention.

In December 2009 the DAC approved a new marker to also track aid in support of **climate change adaptation**. This complements the climate change mitigation marker, and thus allows the presentation of a more complete picture of climate-change-related aid.

These climate markers indicate **donors’ policy objectives in relation to each aid activity**. A principal objective (mitigation or adaptation) score is given when promoting the objectives of the UNFCCC is stated in the activity documentation to be one of the principal reasons for undertaking the activity. In other words, the activity would *not* have been funded but for that objective. Activities marked “significant” have other prime objectives, but have been formulated or adjusted to help meet climate concerns.

The markers allow an approximate quantification of aid flows that target climate objectives. In marker data presentations the figures for principal and significant objectives should be shown separately and the sum referred to as the “estimate” or “upper bound” of climate-change-related aid.

There is no internationally agreed methodology for assessing the exact share of aid activity expenditure that contributes to climate change adaptation or mitigation although some donors compile for their internal purposes more detailed data based on project budgets.

When analysing policy marker data, it is necessary to verify the coverage of donors’ reporting. Donors are requested to screen each aid activity reported to the CRS, though data gaps still exist for some donors.

Donors report on the basis of agreed definitions and reporting instructions that are gathered in this document.

Table 1: Definition: CLIMATE CHANGE MITIGATION MARKER

TARGETING THE OBJECTIVES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE	
Climate change mitigation	
DEFINITION An activity should be classified as climate-change- mitigation related (score Principal or Significant) if:	It contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.
CRITERIA FOR ELIGIBILITY	<p>The activity contributes to</p> <ul style="list-style-type: none"> a) the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; or b) the protection and/or enhancement of GHG sinks and reservoirs; or c) the integration of climate change concerns with the recipient countries’ development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or d) developing countries’ efforts to meet their obligations under the Convention. <p>The activity will score “principal objective” if it directly and explicitly aims to achieve one or more of the above four criteria.</p>

<p>EXAMPLES OF TYPICAL ACTIVITIES</p> <p>1. Typical activities take place in the sectors of:</p> <p><i>Water and sanitation</i> <i>Transport</i> <i>Energy</i> <i>Agriculture</i> <i>Forestry</i> <i>Industry</i></p>	<ul style="list-style-type: none"> • GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing generators, machines and equipment, or demand side management. • Methane emission reductions through waste management or sewage treatment. • Development, transfer and promotion of technologies and know-how as well as building of capacities that control, reduce or prevent anthropogenic emissions of GHGs, in particular in waste management, transport, energy, agriculture and industry. • Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation, rehabilitation of areas affected by drought and desertification.
<p>2. Typical non-sector specific activities are:</p> <p><i>Environmental policy and administrative management</i> <i>Biosphere protection</i> <i>Biodiversity</i> <i>Env. education/training</i> <i>Environmental research</i></p>	<ul style="list-style-type: none"> • Protection and enhancement of sinks and reservoirs through sustainable management and conservation of oceans and other marine and coastal ecosystems, wetlands, wilderness areas and other ecosystems. • Preparation of national inventories of greenhouse gases (emissions by sources and removals by sinks); climate change related policy and economic analysis and instruments, including national plans to mitigate climate change; development of climate-change-related legislation; climate technology needs surveys and assessments; institutional capacity building. • Education, training and public awareness related to climate change. • Climate-change-mitigation related research and monitoring. • Oceanographic and atmospheric research and monitoring.

Table 2: Definition: CLIMATE CHANGE ADAPTATION MARKER

<p>TARGETING THE OBJECTIVES OF THE FRAMEWORK CONVENTION ON CLIMATE CHANGE</p> <p>Climate Change Adaptation</p>	
<p>DEFINITION</p> <p>An activity should be classified as adaptation-related (score Principal or Significant) if:</p>	<p>It intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.</p> <p>This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.</p>
<p>CRITERIA FOR ELIGIBILITY</p> <p>An activity is eligible for the climate change adaptation marker if:</p>	<p>a) the climate change adaptation objective is explicitly indicated in the activity documentation; and</p> <p>b) the activity contains specific measures targeting the definition above.</p> <p>Carrying out a climate change adaptation analysis, either separately or as an integral part of agencies' standard procedures, facilitates this approach.</p>

<p>EXAMPLES OF TYPICAL ACTIVITIES</p> <p>1. Examples of typical enabling activities for adaptation Environmental policy and administrative management (sector 41010)</p> <p>Environmental education / training (sector 41081)</p> <p>Environmental research (sector 41082)</p>	<p><i>The list is not exhaustive. The activities may be scored against the objective only if the above criteria for eligibility are fulfilled.</i></p> <ul style="list-style-type: none"> • Supporting the integration of climate change adaptation into national and international policy, plans and programmes. • Improving regulations and legislation to provide incentives to adapt. • Education, training and public awareness raising related to the causes and impacts of climate change and the role of adaptation. • Adaptation-related climate research including meteorological and hydrological observation and forecasting, impact and vulnerability assessments, early warning systems, etc.
<p>2. Examples of typical sectoral activities</p> <p>Health (Sector 120)</p> <p>Water and sanitation (Sector 140)</p> <p>Agriculture (Sector 311)</p> <p>Forestry (Sector 312)</p> <p>Fishing (Sector 313)</p> <p>Flood prevention/control (Sector 41050 under Gen. env. protection)</p> <p>Disaster prevention and preparedness (Sector 740)</p>	<ul style="list-style-type: none"> • Implementing measures to control malaria in areas threatened by increased incidence of diseases due to climate change. • Promoting water conservation in areas where enhanced water stress due to climate change is anticipated. • Promoting heat and drought resistant crops and water saving irrigation methods to withstand climate change. • Promoting a diverse mix of forest management practices and species to provide a buffer against uncertainties of climate change. • Promoting changes in fishing practices to adapt to changes in stocks and target species. Introducing flexibility in the gear that is used, the species that are fished, the fishing areas to be managed, and the allocations that are harvested. • Implementing measures for flood prevention and management such as watershed management, reforestation or wetland restoration. • Developing emergency prevention and preparedness measures including insurance schemes to cope with potential climatic disasters. • Implementing measures to respond to glacial lake outburst flood risk, such as the creation or improvement of early warning systems and widening or deepening of glacial lake outlet channels.

The scoring system for climate markers

Data collection on the climate markers is based on a scoring system with three values:

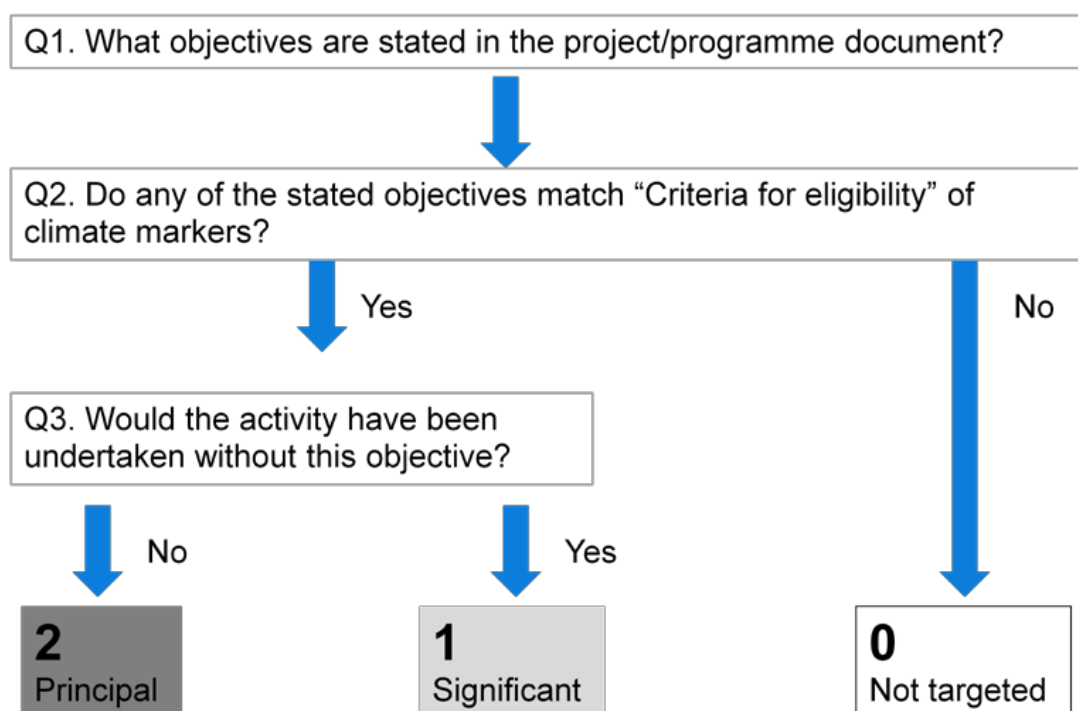
- principal objective (2);
- significant objective (1);
- not targeted to the policy objective (0).

An activity can be marked as “principal” when the objective (climate change mitigation, climate change adaptation, biodiversity, combating desertification) is explicitly stated as fundamental in the design of, or the motivation for, the activity. Promoting the objective will thus be stated in the activity documentation to be one of the principal reasons for undertaking the activity. In other words, the activity would not have been funded (or designed that way) but for that objective.

An activity can be marked as “significant” when the objective (climate change mitigation, climate change adaptation, biodiversity, combating desertification) is explicitly stated but is not the fundamental driver or motivation for undertaking and designing the activity. The activity has other prime objectives but has been formulated or adjusted to help meet the relevant environmental concerns.

The score “not targeted” (“0”) means that the activity was examined but found not to target the objective in any significant way. For activities that have not been assessed with the Rio markers in mind, the “0” value should not be used, but rather the marker field should be left empty. This way, there is no confusion between activities that do not target the objective (score =“0”), and activities for which the answer is not known (score=“null”). This important distinction has implications for statistical presentations of Rio marker data.

Figure 1: The Scoring System of OECD DAC Rio Climate Markers



Purpose-based

Markers identify activities contributing to meeting the objectives of the corresponding Rio Convention(s). Activities are thus to be marked according to their stated objectives and purpose and not primarily in relation to their relevance or outcomes or possible positive side-effects, i.e. the methodology is **purpose-based**.

The emphasis is on the objective pursued in providing support for the activity in question, as described in the **activity documentation** i.e. primarily the written material which forms the basis for the agreement to provide funding. This may be the actual project or programme document, or a proposal for funding an action which is outlined in a partner country document such as national programme, sectoral strategy, climate change strategy or Poverty Reduction Strategy Papers (PRSP).

- Example: if an activity is designed to improve the capacity of a healthcare system to cope with increased incidence of water and vector borne diseases, due to the impacts

of climate change, the adaptation marker can be applied. However, if the objective is to improve the capacity of a healthcare system to treat diseases including water and vector-borne diseases, with no reference to climate change, the marker cannot be applied as climate change is not a factor driving the design of the project.

- Example: a provider contributes to a pooled donor fund that supports a partner country programme in the forestry sector because of its links to climate change adaptation. The specific motivation for contributing to the pooled fund should be made clear in the activity documentation, i.e. in the programme document and in the donor's supporting documentation: the donor, through its contribution to the pooled fund, intends to address climate change adaptation. It is not enough simply to reference a whole PRSP or sector programme which may have an element of climate change adaptation.

4.1.2 Multilateral Development Banks (MDBs) and the International Development Finance club (IDFC) joint approach in tracking climate finance

The tracking of Multilateral Development Banks⁵ (MDBs) climate finance is based on the harmonised principles and jointly agreed methodologies.

Finance for ADAPTATION to climate change

Climate change adaptation aims to reduce the risks or vulnerabilities posed by climate change and to increase resilience. Identification of climate change adaptation finance is a result of a three-step process and thus, for a project to be counted either fully or partially towards MDB adaptation finance, it must:

- a) set out the project's context of vulnerability to climate change
- b) make an explicit statement of intent to address this vulnerability as part of the project, and
- c) articulate a clear and direct link between the vulnerability and the specific project activities.

The MDB methodology for tracking climate change adaptation finance follows a context- and location- specific, conservative and granular approach. It tracks MDB financing only for those components (and/or subcomponents) or elements or proportions of projects that directly contribute to or promote adaptation. It is important to note the following:

- a) The adaptation finance reported might not capture certain activities that might contribute significantly to resilience, but cannot always be tracked in quantitative terms (for example, operational procedures that support adaptation to climate change) or might not be associated with costs (such as siting assets outside flood-prone areas).
- b) Climate adaptation finance, as defined by the methodology, is not intended to capture the value of an entire project or investment that may increase resilience as a result of specific adaptation activities taking place as part of the project.

⁵ Multilateral Development Banks (MDBs) are composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB) and the World Bank Group (WBG).

Finance for the MITIGATION of climate change

Climate change mitigation reduces, limits, or sequesters greenhouse gas (GHG) emissions to mitigate climate change. However, not all activities that reduce GHGs are eligible to be counted towards MDB mitigation finance, which is based on a list of activities that are compatible with low-emission pathways.

The joint methodology for tracking climate change mitigation finance recognizes the importance of long-term structural changes, such as the shift in energy production to renewable energy technologies, and the modal shift to low-carbon modes of transport. Consequently, the methodology includes both greenfield and brownfield renewable energy projects as well as modal-shift projects in transport. For energy efficiency projects the methodology acknowledges that drawing a boundary between increasing production and reducing emissions per unit of output is difficult. Consequently, greenfield energy efficiency investments are included only in a few cases where they help to prevent a long-term lock-in to high-carbon infrastructure. When considering brownfield energy efficiency investments as climate finance, old technologies must be replaced well before the end of their lifetimes with new technologies that are substantially more efficient. Alternatively, new technologies or processes are required to be substantially more efficient than those normally used in greenfield projects.

The methodology has some explicit exclusions in certain sectors. Examples include hydropower plants with high methane emissions from reservoirs that exceed GHG reductions associated with the plant's use of renewable energy; geothermal power plants with high carbon dioxide (CO₂) content in the geothermal fluid that cannot be reinjected; and biofuel projects that deplete carbon pools more than they reduce GHG emissions, due to high emissions during production, processing and transportation.

There are fundamental differences between the tracking methodologies for climate change adaptation activities and those for mitigation activities. For mitigation activities, a one-tonne reduction of CO₂ emissions has the same impact regardless of where the activities are located. It is therefore possible to define lists of typical activities that are deemed to support the path to low-carbon development. However, adaptation activities are project- and location-specific, and they respond to specific climate vulnerabilities. Unlike mitigation activities, it is therefore not possible to produce a standalone "list of adaptation activities" that can be used under all circumstances.

The joint methodology for tracking climate mitigation finance is contained in detailed in Annex B and Annex C of the *"Joint report on multilateral development banks' (MNDBs) on climate finance for 2017"*.

When comparing climate finance data, it is important to understand the differences and similarities. Table 3 summarizes the key points in this regard.

Table 3: Comparison of methodologies for tracking adaptation and mitigation finance

Item	Climate change activity	
	Adaptation	Mitigation
General scope of qualifying activity	The activity is typically a component or element of a project, and in certain circumstances an entire project, contributing to resilience (including socio-economic resilience) or adaptation to climate change.	This is typically a project (or component thereof) that avoids, reduces or sequesters GHG emissions, or promotes efforts to achieve these goals.
Basis for tracking	The basis for tracking is incremental or component based; it only takes into account those activities that specifically address vulnerability to climate change. Eligible components are usually parts of a larger project, for example, water-saving equipment that is part of a larger capital expenditure (CAPEX) investment in an area vulnerable to increased risk of drought.	The basis for tracking is project- or component-based. Project-based: The whole project is considered to be a mitigation activity, for example, a typical renewable energy project or a project dedicated to improving the energy efficiency of an existing facility. Component-based: Mitigation activity in a project, such as energy efficiency equipment that is part of a larger CAPEX investment.
Granular approach to finance tracking	The adaptation finance methodology is intended to capture only the value of those activities within the project that are aimed at addressing specific climate vulnerabilities. It is not intended to capture the value of the entire project that is made more climate resilient as a consequence of specific adaptation activities within the project.	A granular approach is used. Climate finance is intended to capture only the value of the project or its components that avoid, reduce, limit, sequester or promote the avoidance, reduction, limitation or sequestration of GHG emissions.
Scale of impact	Project or climate risk specific to local, regional, national or global levels	Global
Single indicator to quantify and compare the physical outcomes of projects	Single indicators are not used for tracking adaptation finance. Different indicators are needed; the intended physical outcomes depend on the nature of the project.	Single indicators are used for tracking mitigation finance. Ultimately, all mitigation projects can be compared on the basis of their GHG impact, either direct or indirect (for example, systems for monitoring GHG that lead to better usage of energy systems).
Qualification for climate finance	Qualification is based on a three-step assessment process, taking into account the climate change vulnerability context and the specific project intent to reduce climate vulnerabilities.	Based on a "positive list" of activities that qualify for mitigation finance and a set of specific qualification and exclusion criteria.
Climate finance tracking	Following the three-step assessment process, finance for those project components that are clearly linked to the climate vulnerability context and contribute to climate change resilience.	Following the positive-list approach, finance for qualifying projects or project components is tracked.

4.2. Classification of climate public expenditure

The first step in analyzing and quantifying climate relevant expenditures is to identify which government policies and programmes are relevant to climate change. Currently there is no agreed international functional classification of climate change related expenditure. This creates significant challenges for data collection and classification for public climate finance analysis. At the country level, there is no marker for climate change in the budget, although some countries have started to develop such mechanisms. However, many developing

countries are currently implementing fundamental public finance management reforms, strengthening the financial administration system. Modifying budget classifications and Chart of Accounts to incorporate climate change can be a risk to these reform efforts. Further, in the absence of a common classification, comparisons across time and/or between countries are limited, which may pose difficulties to assess trends and limit opportunities to learn from other countries' experiences. To address these issues, tools to guide data collection and classifications of expenditure data, enabling trends analysis and cross-country comparisons, using either a standardized UNDP/World Bank CPEIR Typology and/or a National CPEIR Typology.

4.2.1 Data Collection Guide

The first challenge relates to identifying climate change expenditures within the national budget so that the most important aspects of public spending can be analyzed. This requires that information about planned and actual spending on climate change related activities (at a sufficiently disaggregated level) can be identified. This requires information from the Ministry of finance and Ministry of environment to identify and validate these expenditures.

The national budget expenditure codes (in both the developmental and non-development budgets if compiled separately) – as well as externally funded programmes – need to be identified using expert judgement and all available budget and programme documentation, including Medium Term Expenditure Framework descriptions. The whole-of-government Chart of Accounts should be reviewed to ensure that the administrative structure of government does not prevent integrating significant elements of spending in parts of government beyond a prescriptive list of candidate ministries. It is important that budget line activities are identified in addition to administrative structures.

However, if time and resources do not permit such comprehensive reviews, some pointers that may be considered to reduce the workload include: (i) identifying key sectors/ministries/administrative responsibilities; (ii) identifying non-budgetary funds from key sectors; (iii) identifying climate related codes from the administrative and/or the functional classification of the budget.

Following the identification of mitigation- and adaptation-related expenditure to be tagged, **the expenditure should be classified.**

4.2.2 CPEIR Typology for Data Classification (Standardised UNDP/WB typology)

One of the tools for climate expenditure data classification is a standard typology, derived from the jointly UNDP/World Bank supported CPEIR. As described in the table below, the typology has three pillars classifying all policy actions and allocated resources: Policy & Governance (PG); Scientific, Technological and Societal Capacity (ST), and Climate Change Delivery (CCD). It also has three levels of classifications, capable of analysing enabling activities (such as capacity building) as well as delivery of specific sectoral programmes. Also, the typology provides a sufficiently detailed framework for classifying all types of expenditures (recurrent/ capital, taxes/subsidies or mitigation/adaptation) and by sources (domestic and foreign). Through this detailed framework, the typology allows comparability over time and across countries. If a country's policy objectives change overtime, it should be reflected in shifting allocations. If a country's institutional setup changes but not its policies, the impact on the trends of resource allocation can be monitored.

Table 4: Typology as used in the joint UNDP/World Bank supported CPEIR in Viet Nam

Policy and Governance	PG1: A national framework for adaptation and risk reduction	PG1.1 Develop climate change adaptation guidelines and technical regulations
		PG1.2 Develop/adjust policy, planning and mechanism for climate change response and implementation across government, enterprises and communities
		PG1.3 Manage and monitor implementation of adaptation policies
	PG2: A comprehensive consistent national mitigation policy framework	PG2.1 Establish policy, tax and incentive structure for new and clean energy, energy efficiency and low GHG emission
		PG2.2 Develop/ adjust sectoral plan and coordinate implementation among departments, enterprises, and provinces
		PG2.3 Manage and monitor implementation of Mitigation policies
	PG3: Action Plan Impact Assessment at national, provincial, and sector level to translate policy and governance into activity and delivery	PG3.1 Action and Sector Plans
		PG3.2 Climate change Impact assessments
		PG3.3 Climate change Capacity building
	PG4: Legal framework to implement climate change policy (all elements of climate change/green growth policies)	PG4.1 Mitigation instruments
		PG4.2 Adaptation instruments
		PG4.3. Mitigation and Adaptation Instruments
	PG5: International cooperation, integration and diversification and strengthening of climate change investment effectiveness	PG5.1 Strengthen cooperation and partnership with international community on climate change issues
		PG5.2 Effective management and coordination of foreign and domestic investment
	Scientific , Technical and Societal Capacity (ST)	ST1: Develop science & technology as a foundation for formulating policies, assessing impacts and identifying measure on climate change adaptation and mitigation
ST1.2 Hydrometeorology and early warning system and climate change projection		
ST1.3 Biological & genetic resource strengthening		
ST1.4. Survey and assessment on climate change impacts		
ST1.5 Technology for energy efficiency and low GHG emission		
ST2: Improve awareness of climate change		ST2.1 Climate change awareness building in curriculums of primary to higher education establishments
		ST2.2 Awareness of climate change in diverse education and training initiatives for post-school aged earners
ST3: Develop community capacity for responding to climate change		ST3.1 Support livelihood building for communities in the context of climate change
		ST3.2 Capacity across whole community in climate change response
Climate Change Delivery (CCD)		CCD1: Natural resources
	CCD1.2 Saline intrusion	
	CCD1.3 Irrigation	
	CCD1.4 River dyke and embankments	
	CCD1.5 Water quality and supply	
	CCD1.6 Rural development and food security	
	CCD1.7 Forest development	
	CCD1.8 Fisheries & aquaculture	
	CCD1.9 Biodiversity & conservation	

CCD2: Resilient society	CCD2.1 Public health & social service
	CCD2.2 Education and Social Protection
	CCD2.3 Residential and city area resilience
	CCD2.4 Transport
	CCD2.5 Waste management and treatment
	CCD2.6 Disaster specific infrastructure
	CCD2.7 Strengthening disaster risk reduction
CCD3: Enterprise and production	CCD3.1 Energy generation
	CCD3.2 Energy efficiency
	CCD3.3 Infrastructure and construction
	CCD3.4 Industry & trade
	CCD3.5 Tourism

It is important to note that the proposed CPEIR typology is not intended to establish any model for policy and institutional framework but rather is an analytical tool to allow comparisons.

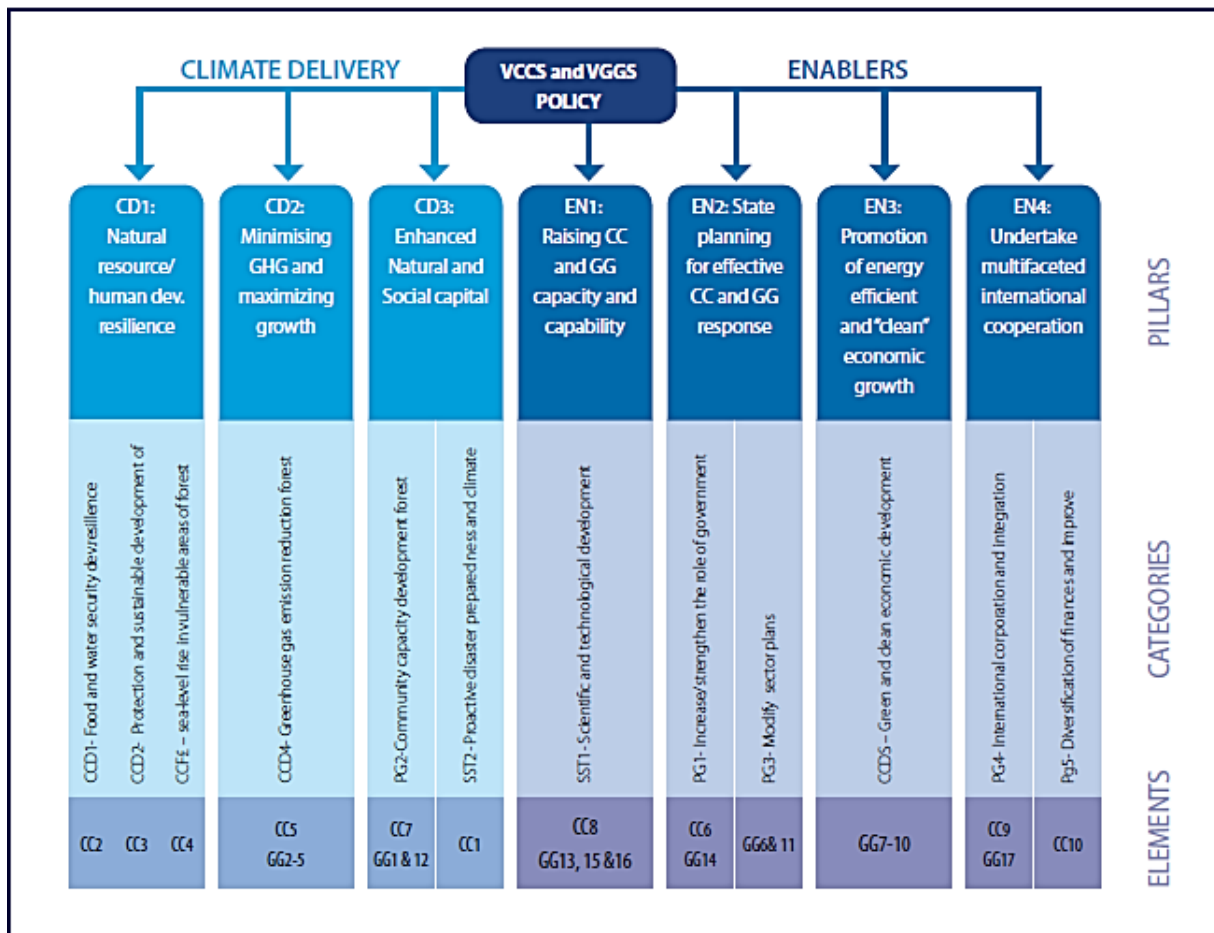
When a new typology is applied, it is standard practice to develop practice notes or field guide notes as done in the case of the PEFA framework. This can encourage a consistent application using feedback from practitioners on how they applied the typology in specific cases. Application notes would cover specific sectors where Climate Change Delivery happens, type of expenditures and programmes, taxes and subsidies, helping build a database for a consistent application. This would ensure comparability overtime and across countries, within reasonable margins of errors; i.e. trends are sufficiently clear to allow for making analysis and taking decisions (for example, how to report water projects implemented by local governments or the construction of an embankment by the ministry of environment).

4.2.3 National Policy Objectives Typology

UNDP's CPEIR Methodological Guidebook also presents another approach, the national policy objective typology, which is to classify expenditure against national climate change policy priorities. The national policy priorities are based on the strategic areas and themes for actions from national climate change strategies and action plans. This approach, whilst limiting the comparability across countries, enables linking between budget allocation and national policy priorities. New categories can also be added to this typology. For example, the Philippines's climate budget tagging system uses the typology developed based on the key 8 priorities of the National Climate Change Action Plan (NCCAP) to screen mitigation and adaptation activities. Viet Nam's CPEIR also adopted this country-led typology by using the government's key strategic priority programmes included in the National Climate Change Strategy, National Climate Change Action Plan and Viet Nam Green Growth Strategy. Meanwhile, Bangladesh Climate Fiscal Framework uses six thematic priorities of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP 2009) as the national policy objective typology for tracking and monitoring of climate expenditure. It is worth noting that these approaches (CPEIR standard typology and national policy objective typology) are not mutually exclusive but rather complementary to each other, as is the case of Vietnam's CPEIR.

Linking climate change related expenditures to national climate change policy objectives under country's strategies and action plans can be a powerful tool to move countries towards climate responsive budgeting and an effective M&E system. Linking spending and policy objectives provides the insights into the distribution of resources across these policy objectives, at national and sub-national levels and helps identify gaps between resource allocations and policy objectives if any.

Figure 2: Examples of Viet Nam’s Policy Linked Climate Change Typology



4.3 Weighing climate relevance

Following data classification, in order to **quantify** climate relevant expenditures, the next step of climate relevant expenditure analysis is to identify and applying the weighting of relevance to climate change of these policies and programmes. The relevance to climate change of policies and programmes depends on the responsiveness to the estimated current and potential impacts of climate change on different population groups (the poor, vulnerable and disadvantaged groups, women and children), different geographic areas and different institutional capabilities to deliver services.

Some programmes are wholly relevant, such as those developing climate change adaptation and mitigation policies or researching the impact of climate change. However, some programmes that address the development gap and already existing climate challenges may only provide additional benefit under climate change circumstances. To appreciate how resources are dedicated to policies and programmes responsive to the impact of climate change, it is thus useful to weight the allocation and expenditure data collected.

Here, it is highlighted the need to define relevance in terms of responsiveness of policies and their programmes to the vulnerability of people and areas to climate change. This is however a challenging task that requires a significant analysis of vulnerability that may not always exist.

Vulnerability should be defined in the national context. To do so, it should be based on existing vulnerability assessments developed. Those may include the national reports on climate change impacts, vulnerability and adaptation submitted to the UNFCCC; the information on the impact of vulnerability and adaptation to climate change synthesized by the Intergovernmental Panel on Climate Change⁶; country-level climate profile by international organisations such as UNDP or the World Bank; or more focused assessments prepared on an ad-hoc basis, on specific communities, thematic sectors (e.g. agriculture, water, health, infrastructure) or focusing on specific locations (e.g. coastlines, cities, regions), using set methodologies and tools⁷. In defining vulnerability, particular attention should be given to the poor, and vulnerable groups, women and children. It is suggested to review available information on vulnerability to climate change and where possible use information or undertake an analysis of poverty and gender of climate change⁸.

For the purpose of providing a weighting for allocations and expenditures, a clear decision needs to be made with regard to such questions as: Can addressing the development gap be distinguished from climate change impact adaptation? What is the additional benefit of the expenditure should climate change impact realise itself? Is the additional benefit of providing adaptation for vulnerable areas and groups the same in all regions and over time? Answering those questions requires detailed information and analysis that may not always be possible.

There are two widely used weighting tools that reflect the different levels of data availability namely: i) Approach 1 – **Climate Relevance Index**: CPEIR Indexation or OECD DAC Rio Markers indexation (if data is limited – Tier 1) and ii) **Benefit Costs Ratio** (if necessary data is available – Tier 2). These tools are not mutually exclusive but rather should be seen as a complementary: option 1 allows for a first rapid assessment, while option 2 requires more information and provides an economic assessment of the benefits associated with a specific programme. In both cases, as the climate public expenditure is a process that supports national stakeholders' capacity to formulate their needs and design their policy response, it is important to engage with the beneficiaries and stakeholders to validate the analysis.

4.3.1 Approach 1 – Climate Relevance Index: CPEIR Indexation or OECD DAC Rio Markers indexation

4.3.1.1 OECD DAC Rio Markers indexation

The majority of OECD DAC members draw on the Rio markers when reporting internationally on environment-related development finance. However, the figures that can be derived from the Rio markers are not always identical to those reported to the Conventions. This reflects the fact that the Rio markers were originally intended to track the mainstreaming of environmental considerations into development co-operation rather than quantify finance flows. For example, when reporting

⁶ "Contribution of the Working Group II to the Fourth Assessment Report (AR4) of the IPCC" (updated 2013, IPCC). Also: "*Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation*" Special Report of the Intergovernmental Panel on Climate Change, 2012" provides maps with estimates of increase return period of climate extreme events (dry days, temperatures, 24h precipitations)

⁷ There is a rapidly growing body of literature addressing terms such as vulnerability, resilience, and adaptive capacity, particularly for natural systems. Methodologies include: 1- UNDP Adaptation Policy Framework (APF); 2- UNEP "Vulnerability and Climate Change Impact Assessments for Adaptation", with a specific version for cities; 3- UNFPA and WEDO: "Climate Change Connections: Gender, Population and Climate Change"; 4- WHO "Protecting health from climate change, vulnerability and adaptation assessments; and for assessments at grassroots level; 5- "Understanding Vulnerability to Climate Change, Insights from Application of CARE's Climate Vulnerability and Capacity Analysis" (CVCA) Methodology"; 6- ELDIS: "Community-based adaptation tools and practices on Community-based adaptation Exchange" (CBA-x).

⁸ "Incorporating Gender and Poverty Analysis in the Climate Public Expenditure and Institutional Review: A Methodological Note" Anit N. Mukherjee, Consultant, Climate Change, Gender and Poverty, UNDP Asia Pacific Regional Centre, Bangkok, October 21, 2014

to the UNFCCC on finance provided in National Communications, National Reports or Biennial Reports, some members use the Rio marker data as a basis to which they apply additional quantitative methodologies, for example in the form of coefficients. Whilst the majority of DAC members report 100% of finance marked principal, many only account for a certain share of finance targeting climate change as a significant objective. These shares vary (from 0-100%), and there is currently no common reporting standard. In some cases there is also limited transparency on the evidence base supporting the approach chosen. Other differences in reporting to the Rio conventions may also arise. For example, whether the commitment or disbursement data is reported, or differences in geographical scope.

The EU has adopted the following approach to using the Rio markers: if an activity is marked as principal for mitigation or adaptation, 100% of the support is considered and reported as climate finance. If an aid activity is marked as significant for mitigation or adaptation, then only 40% of the support is considered and reported as climate finance. To avoid double counting, any activity can only count as 100%, 40% or 0%. If an activity is marked for both mitigation and adaptation, it will count towards total mitigation and total adaptation finance. However, only the highest marking will count when calculating the total climate relevant financial contributing of the activity (EU 2016). As a result, total mitigation support plus total adaptation support is greater than total support. There is no separate category to mark projects which are relevant to both mitigation and adaptation as “cross-cutting”.

Several methodological differences in the approaches used by Member States to produce their climate finance figures became obvious during the analysis of MMR data. Different coefficients for Rio Markers (counting of 100%, 20%, 40% or 50% of funding if a project is marked as “significant”; which coefficient) are used if a project is marked as principal/significant for more than one category);

How to deal when activity is marked for both mitigation and adaptation:

- Option 1: If significant = 40%, the activity counts with 20% for adaptation and with 20% for mitigation
- Option 2: If significant = 50%, the activity counts with 25% for adaptation and with 25% for mitigation

To avoid double counting, in the case when activity is marked for both mitigation and adaptation, the sum of coefficients for each marker should never exceed 100%. Any activity can only count as 100%, 40% (option 1), 50% (option 2) or 0%.

In case of option 1 (40%): If an activity is marked for both mitigation and adaptation, only the highest marking will count when calculating the total climate relevant financial contributing of the activity.

4.3.1.2 CPEIR Climate Relevance Index

The weighting method has been implemented in a number of previous CPEIRs, taking the form of a relevance index, from low to very high⁹. In such cases, the CPEIR team, working with national counterparts in the administration and other stakeholders, mapped the declared objectives of the programmes and expenditures against the Rio Markers Methodology developed by the OECD and assessed the relevance on a scale of 0 – 100%. All activities were then grouped into the four categories listed in the Table 3, with the corresponding weights

⁹ Some had three or four categories, and others broke down the index by intervals of 5%

then applied to the programme/policy expenditures in order to quantify the climate-relevant expenditures. Annex I gives more detailed examples of CPEIR Climate Relevance Index.

Table 5: CPEIR Climate Relevance Index

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

4.3.2 Approach 2 – CPEIR Benefit – Costs Ratio

This methodology allows allocating a weighting defined by how sensitive a programme is to climate change, linking intrinsically to the expected benefit of the action to the impact of climate change. It reconciles the climate impact analysis and the climate relevance analysis by analysing the benefit when climate change impacts materialise compared to the situation without climate change. It provides a rational approach that will help to avoid “green washing” programmes whose objectives are climate related without delivering climate benefit. In that sense, it is capable of identifying the “additional” climate change component of a programme on more objective grounds (compared to subjective judgement by CPEIR analysts in the CPEIR Climate Relevance Index method).

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

$$CC\% = \frac{B - A}{B}$$

where, A = the benefits that would be generated by the action, if there was no CC

B = the benefits that would be generated with CC

Figure 3 visualises the analysis of benefits in situations “with” and “without” climate change impacts. The transparent and blue areas represent the benefit of investing¹⁰ public resources.

This approach might not always be feasible however. Limited availability and reliability of data, the complexity of the analysis and national capacity might constrain a rigorous benefit cost ratio analysis. To address this issue, a less quantitative approach has been experimented. This method relies on experts’ estimation of climate benefit (compared with economic, social and environmental benefit of activities under “with” and “without climate change” scenarios

¹⁰ Investing public resources can be done in any type of programme or tax incentives and subsidies, it is not tied to capital expenditures.

instead of vigorous cost benefit analyses. Experts can be government officers from central and line ministries and other agencies. Once the climate and other benefits are estimated under these two scenarios, the climate change relevance formula can be similarly applied as above. This approach benefit from the participation and contribution of key stakeholders, is less time consuming and encourages government officers to consider climate impacts and climate risks into policy and activity formulation. This approach, unlike the BCR approach however, does not entirely eliminate the risks of inflating climate relevance given that the benefits are subjectively estimated. Therefore, clear guidance on how to score relative benefit is required to avoid overestimation of climate change benefits, compared with economic, social and environmental co-benefit. Expert opinions should also be complemented by other international and technical studies such as the IPCC and other regional/national assessments. The use of climate change relevance yardsticks would also help guide the estimation of climate benefits. More information on the recommended yardsticks and default values is available in Annexes IV and V of the **“Methodological Guidebook: Climate Public Expenditure and Institutional Review (CPEIR)”**.

Poverty and Gender Weightings on Climate Relevant Expenditures

A pro-poor and gender-sensitive climate public expenditure would also apply poverty and gender weightings to the climate relevant expenditures. The triple weightings (poverty, gender and climate) will be a powerful tool in identifying the type of spending which targets the poor and vulnerable in tackling climate change impacts. In some cases, the governments might have already applied poverty and gender weightings to their expenditures. In some other cases where government’s gender and poverty weightings are not yet available.

Figure 3: Benefit Cost Ratio Approach

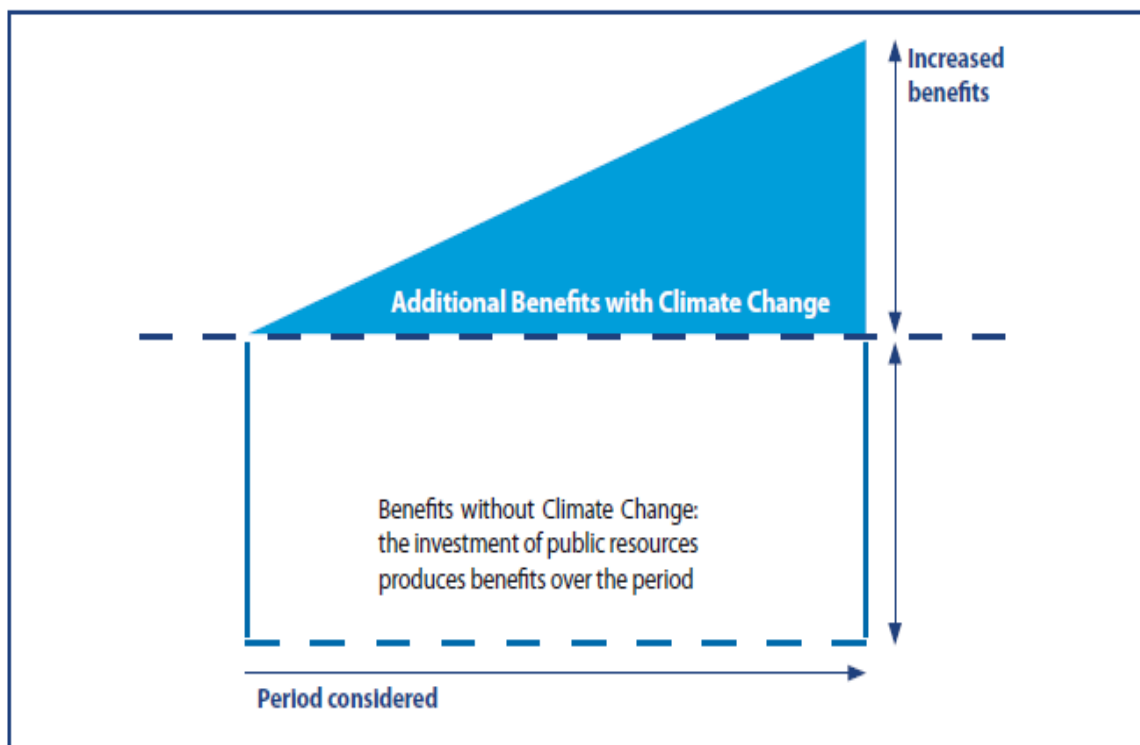


Table 6: Comparisons of two weighting methods

Weighting Method	Link to Vulnerability	Robustness to change	Comparability over time	Strength
CPEIR Relevant Climate Index	Indirect	Integrate change in perception by the teams and the national administration	No, team and resource person specific	Simplicity / Contextualised
Benefit Cost Ratio	The assessment of climate impacts and vulnerability to these impacts that was made during the design of the intervention are accounted for. For instance 'irrigation' is probably a good development but only if its sustainability and specific technical specifications have been designed to take into account future rainfall patterns.	Based on analytical tools and available data, ensuring possibility to update, can be applied to any new programme.	Ensured	1. Identify a "rational" proportion of climate change expenditure in a programme 2. Will be increasingly documented with new CPEIRs

Part II: Most adequate methodology for regular collection of data and information on national/local resources allocated for climate change

5. Climate Budget Tagging (CBT) as a Government's tool to track climate finance in their budgets

5.1 The general context of Climate Budget Tagging (CBT)

The adverse impact of climate change on human lives, environments, societies and economies, has made clear the need for concerted action at global and national level. This is reflected in the Sustainable Development Goals (SDGs), which emphasise that social and economic development must be achieved in ways that are sustainable for the planet. This requires mobilizing financial resources from a wide range of sources - public and private, bilateral and multilateral.

Governments, and Ministries of Finance in particular, need to consider the role of domestic resources, and understand both the impact of climate change on their economies, as well as the value for money and effectiveness provided by current and potential resource allocations in relevant sectors.

Climate change is a cross-cutting theme, and is rarely if ever a separate sector or complete programme in government financial management and reporting. Public sector activities relevant to climate change adaptation and mitigation are typically scattered across a number of ministries – including for example ministries of environment, agriculture, energy and transportation. This dispersion creates the risk of a lack of ownership and awareness, and poses specific challenges for Public Financial Management (PFM) relating to the difficulty of planning, identifying and reporting climate related expenditures.

Climate Budget Tagging (CBT) is designed to help address these challenges. It is a tool for identifying, classifying, weighting and marking climate-relevant expenditures in a government’s budget system, enabling the estimation, monitoring and tracking of those expenditures. It includes the process of attaching a climate budget marker, such as a tag or account code, to budget lines or groups of budget lines.

“Climate Budget Tagging” (CBT) is one of a set of climate related finance tools designed to help countries mainstream climate change in public financial management in order to mitigate the economic, social and environmental impacts of climate change.

The tracking of cross-cutting goals such as climate change adaptation and mitigation present challenges to traditional budget management, which is typically structured around organisational, economic and programmatic classifications. Traditional budget management does not normally allow for capturing spending on cross-cutting issues like climate change. CBT has been designed to overcome this constraint, building on the experience from other thematic budget measurement tools, such as for gender, poverty reduction, or children – and also itself providing a platform and body of experience for developing other cross-cutting budget tools.

In particular, CBT may provide an entry point to support governments’ efforts towards tracking resources for SDGs, bearing in mind that the cross-cutting goals of climate adaptation are linked to a number of SDGs. Firstly, CBT can help monitor the progress towards SDG 13 in particular (“Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy”), as well as the climate change aspect that cuts across other SDGs such as SDG 7 (affordable and clean energy)¹¹. Secondly, beyond its climate focus, CBT can serve as one component of a conceptual model for countries that consider introducing SDG budgeting or budget tracking.

5.2 Overview of benefits of climate budget tagging

More than an expenditure tracking tool, CBT has demonstrated a range of benefits. Benefits include:

- Raising awareness and understanding of climate change: i) Helping to strengthen planning and budgeting in line ministries; ii) Giving visibility to government climate change action both within the government, towards state accountability and oversight institutions, and among citizens.
- Mobilising resources for climate change: Providing evidence on government’s existing spending as the basis for estimating the funding gap to inform government engagement with development partners and broader efforts to mobilise additional resources.
- Improved monitoring and reporting of climate change policy and progress: Facilitating government reporting on international commitments, such as Biennial Update Reports (BURs) on UNFCCC’s Nationally Determined Contributions (NDCs), and progress towards the SDGs. For BURs, CBT provides expenditure data routinely collected by the existing financial management system to quantify both the existing spending and the need for additional financing for implementing NDCs.

¹¹ For a systematic analysis of the alignment between climate change objectives under National Determined Contributions and the SDGs please refer to climate watch analysis: [analysis https://www.climatewatchdata.org/ndcs-sdg](https://www.climatewatchdata.org/ndcs-sdg).

5.3 CBT as part of mainstreaming climate change in public financial management

CBT is not a standalone initiative but part of a broader package of reforms that governments may use to help operationalize national climate change policies and action plans, incorporating consideration of climate change into public financial management (PFM).

A number of countries have undertaken a Climate Expenditure and Institutional Review (CPEIR) to take stock of their existing climate change structures and resources, and as a baseline for designing further reforms – see Box 1. CBT reforms, which can be adapted to the particular context of the national PFM system and climate change policy, seek to institutionalize, and make routine, expenditure analysis that draws on the CPEIR findings and recommendations.

In many countries, a Climate Public Expenditure and Budget Review (CPEBR) was undertaken, broadly similar to the CPEIR approach. Through the CPEBR process, the role and place of the Ministry of Finance in supporting climate change mainstreaming has grown significantly. The National Treasury now has become an important player in the climate change discourse, having been embedded in the Climate Change Acts, with a new National Climate Finance Policy having been adopted by Parliament, augmenting this position.

CBT is one component of a Climate Change Financing Framework (CCFF), which has the broader scope of bringing together the multi-sectoral climate relevant finance flows by: providing a comprehensive overview of domestic and international climate finance; linking climate change policies with planning and budgeting; prioritising climate actions; and developing appropriate modalities to manage climate financial flows in an effective and transparent manner. To maximize the utility of CBT, the tool should link with other CCFF processes to incorporate climate change in planning and budgeting, and be integrated in the existing PFM system.

BOX 1. CLIMATE EXPENDITURE AND INSTITUTIONAL REVIEWS (CBEIR)

A CPEIR is a diagnostic tool that has been developed to assess opportunities and constraints for integrating climate change concerns within the national and sub-national budget allocation and expenditure process. A CPEIR provides a qualitative and quantitative analysis of a country's public expenditures and how they relate to climate change, its climate change plans and policies, institutional framework and public finance architecture. The definition of climate change related expenditures is tailored for each country based on a consultative process that takes into account its national priorities.

The CPEIR methodology has been developed from the public expenditure review methodology and has been elaborated by UNDP in its 2015 CPEIR Methodological Guide. As set out in that guide, the CPEIR analytical framework has three key pillars: Policy Analysis, Institutional Analysis and Climate Public Expenditure Analysis.

- ✓ **Policy Analysis:** A review of the climate change policy framework and its monitoring framework as well as how the policy objectives translate into programmes and instruments.
- ✓ **Institutional Analysis:** An analysis of the roles and responsibilities of institutions and their capacities in formulating, implementing and coordinating climate responses. This pillar also includes the review of the budgetary and planning process and its linkages to financing climate change policies and programmes (adaptation and mitigation).
- ✓ **Climate Public Expenditure Analysis:** This pillar quantifies the climate relevant expenditure out of the total national budget and measures fiscal policies, such as tax incentives and subsidies, as part of climate financing instruments.

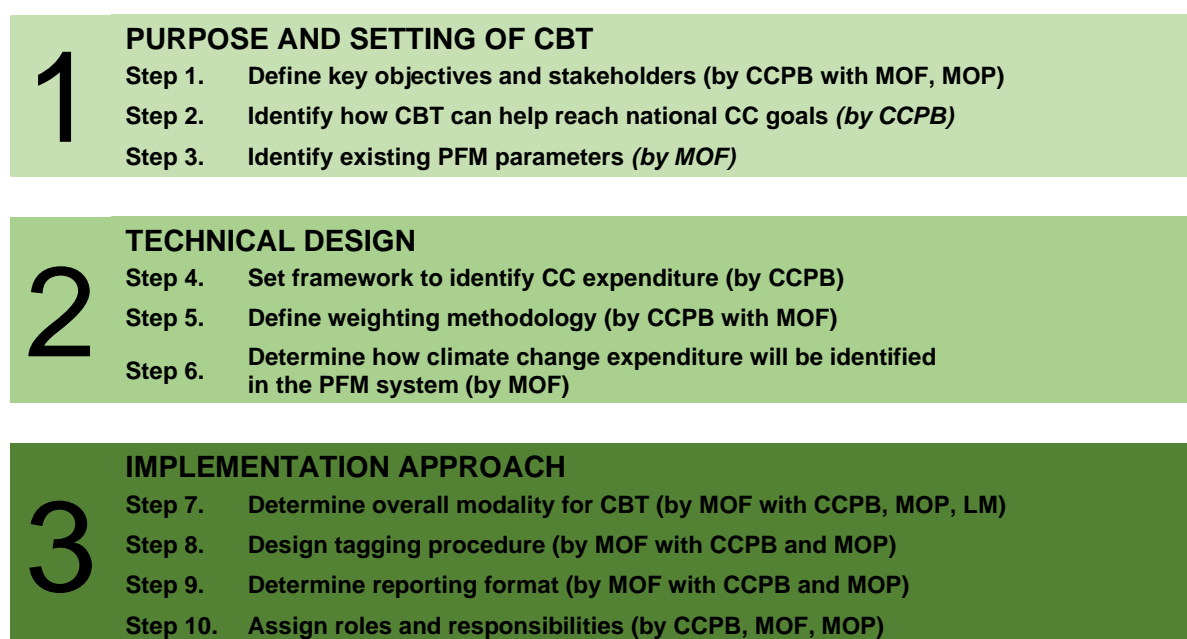
Further resource: UNDP 2015 CPEIR Methodological Guidebook.

6. Setting up a national climate budget tagging system

Based on discussions with officials and review of documents for the case study countries, ten steps have been identified in the process of considering, developing and implementing Climate Budget Tagging. These steps should not be viewed as a prescriptive methodology – rather, they capture options around key decisions as they emerge across differing contexts.

Figure 4 gives an overview of the ten steps grouped under three phases, and showing for each step the government agency or agencies that typically take the lead role. (Specific institutional arrangements will, of course, vary depending on a country's context)

Figure 4: Overview of key decisions in cbt development process



6.1 Phase I: Identify the purpose and setting of CBT

The cross-cutting nature of climate change can complicate the task of defining a clear scope for CBT. Even where addressing the impacts of climate change forms one of the core strategic goals of a government, the cross-cutting nature of CC makes it highly unlikely that all CC activities can be grouped and managed as a single policy programme by one line ministry.

While some activities can be identified as climate action based on their explicit objectives (i.e. they articulate climate change objectives, or are linked to the national climate change policy) there are many other activities across all government sectors that may not have an explicit climate-related objective but their implementation nevertheless has significant impact on climate change (e.g. construction projects that incorporate climate change adaptation solutions). With such activities there is also the question of “additionality”. For example where a project that was already planned to be done, received additional funding to make it more climate sensitive. E.g. a road already budgeted for, being financed to make the road more resilient to floods induced damage etc. The climate related expenditure in this case, is the additional funds, that were added strictly as a response to climate change considerations. The element of additionality becomes more complex where – as should be preferred - climate change resilience is designed into the project from the outset.

There are two key parameters that define the contour of the CBT:

1. Breadth of coverage - The scope of CBT can cover the national climate change policy, which defines a number of priority sectors (e.g. in the Philippines), or encompass a wider range of (central) government activity (e.g. in Nepal and Pakistan). While the latter option will generate more comprehensive information, it requires significant capacity to generate vulnerability information and undertake consistent assessment of a programme/project's climate change relevance across all sectors, which leads to point (2)
2. Depth of coverage – The level of comprehensiveness of the climate relevance analysis ranges from a rapid assessment based on project documents and consultation with government experts to an in-depth climate screening appraisal of whether the implementation brings mitigation and/or adaptation benefits. A comprehensive approach would be one modeled after environmental impact assessments of programmes.

Step 1. Define key objectives and stakeholders of CBT

The purpose of this step is for the key stakeholders to agree on government's priority objectives for CBT, which can then serve as the basis for guiding the decisions on its final design. Example, of objectives for its use of CBT:

- Support better project design;
- Enable tracking and reporting climate finance flows internally and externally;
- Facilitate the assessment of results from climate investments;
- Facilitate the mobilization of resources from capital markets.

Suggested technical lead agencies: the bodies who share responsibility for climate planning and finance such as the Ministry of Finance, and the Climate Change Policy Body.

Step 2. Identify how CBT can contribute to achieving the national climate change policy objectives

The purpose of this step is for the key stakeholders to articulate the linkage between CBT and the achievement of the objectives defined by the national climate change policy framework.

Suggested technical lead agency: Climate Change Policy Body

Step 3. Identify the parameters set by the existing PFM system

The purpose of this step is to ensure that the CBT development process, its technical design and implementation procedure are grounded in the national PFM system.

Suggested technical lead agency: Ministry of Finance Given the objective of CBT to institutionalize tracking of climate related expenditure, its design and implementation needs to be grounded in the existing PFM system.

6.2 Phase II: Determine the technical design

Given the broad scope of what can be defined as climate change action across different sectors, CBT should be designed to enable the government to analyse climate spending by relevance and, where practical, by types of interventions. While less complex designs, perhaps driven by existing capacity, will facilitate initial implementation, it is important for the system to be able to evolve over time (to capture for example the implications of climate science and policy evolutions for what qualifies as climate relevant in the budget) and provide information for a robust analysis.

The technical design of CBT comprises the following three steps, which together determine the underlying complexity of a CBT system.

- First, defining and classifying climate expenditures by types of interventions;
- Second, assessing and “weighting”¹² the climate relevance of those expenditures; and
- Third, determining how those expenditures will be identified, or “tagged”, in the PFM system.

Step 4. Define and classify climate relevant expenditures

The purpose of this step is to set a framework for identifying public sector expenditures that are climate change relevant. This will typically be a list of sector-specific activities or activity categories grouped by types of interventions that can be applied across different line ministries.

Suggested technical lead agency: Climate Change Policy Body

Definition of what constitute as climate-relevant activities is an important first step in the estimation of climate finance. The Organisation for Economic Co-operation and Development (OECD)’s Development Assistance Committee (DAC) has developed definitions for climate change mitigation and adaptation as part of the “Rio Markers” which tracks climate related ODA. The multilateral development banks (MDBs) have also developed a set of criteria for adaptation and mitigation to track their investments. Criteria for determining the climate change activities is explained above under the point 4.1, and the classification of climate public expenditure is explained under 4.2.

Step 5. Define the methodology for weighting the tagged expenditure

The purpose of assigning a weight to each identified expenditure is to reflect its degree of relevance (i.e. what portion of the activity’s budget serves directly the climate change objective) and avoid inflating the scale of climate spending.

Suggested technical lead agency: Climate Change Policy Body in collaboration with the Ministry of Finance

There are two widely used weighting tools that reflect the different levels of data availability namely:
i) Approach 1 – Climate Relevance Index: CPEIR Indexation or OECD DAC Rio Markers indexation

¹² Weighting involves assessing the climate relevance of expenditure and is further detailed and explained under the subsection on Step 5.

(if data is limited – Tier 1) and ii) Benefi Costs Ratio (if necessary data is available – Tier 2). This is much explained under the point 4.3.

Step 6. Determine how climate change expenditure will be identified in the PFM system

The purpose of this step is to determine how climate change expenditure will be identified in the PFM system by deciding the most relevant and feasible dimension of the chart of accounts for tagging or coding climate change budget/ expenditure, and the desired level of detail.

Suggested technical lead agency: Ministry of Finance

6.3 Phase III: Determine the implementation design

The choice of the implementation modality is important for determining how centralized (i.e. involving primarily MOF and CCPB) or broad-based or decentralized (i.e. requiring active involvement of line ministries) the CBT process is. While the latter approach will require significant capacity development for line ministries, it can help raise their awareness of climate change action as a government priority. An alternative approach is to implement CBT in a phased manner, starting with a more centralised approach to tagging and gradually delegating it to line ministries, and eventually expanding beyond tagging and towards greater integration of climate change in the budget cycle. An important consideration in the design will be the government’s administrative structure, and whether for instance there is a federal or unitary form of government and the extent to which budgets and decisions are devolved to the sub-national level.

Step 7. Determine the overall modality of the CBT system

The purpose of this step is to outline the main features of the CBT architecture, based on (a) whether tagging should be centralised (i.e. done by MOF or a Climate Change Policy Body¹³) or decentralised (i.e. done by line ministries); (b) how automated and integrated into FMIS the tagging should be.

Suggested technical lead agency: Ministry of Finance in consultation with the Climate Change Policy Body, the national planning body, and line ministries

Step 8. Design the tagging procedure

The purpose of this step is to define the procedure for assigning climate tags that is in line with the existing budget process and institutional mandates.

Suggested technical lead agency: Ministry of Finance in consultation with the Climate Change Policy Body.

¹³ Climate Change Policy Body can be the Ministry of Climate Change, the Ministry of Environment, or a Climate Change Commission, or another agency responsible for climate change policy/finance.

Step 9. Determine the format for CBT reporting

The purpose of this step is to identify the reporting format for climate change expenditures that reflects the objectives of introducing CBT.

Suggested technical lead agency: Ministry of Finance in consultation with the Climate Change Policy Body and the national planning body

Step 10. Assign roles and responsibilities for CBT development and implementation

The purpose of this step is to - based on the tasks outlined in the previous steps - assign clear roles and responsibilities among the key stakeholders, while ensuring their active collaboration.

Suggested technical lead agency: Jointly decided between Ministry of Finance, Climate Change Policy Body.

7. Recommendations for further actions

Creating a system of regular collection of data on national / local resources allocated for climate change implies Implementation of automatic monitoring and monitoring of climate activities based on reformed national budget structure. It involves taking major steps towards introducing a climate budgeting process within which to establish Climate Budget Tagging (CBT).

Due to time and budget limitation, as well as due to the primary goal of the development of the procedure for tracking, monitoring and streamlining climate public finances, the procedure as described in this document refers the long-term recommended approach and goal for public climate finances tracking and monitoring to be undertaken through subsequent readiness grants or other support.

On a long-term, the process of tracking climate public finances could become fully automated and reliable. In order for this to happen, the national budget has to implement activity level coding, as well as climate related marks on activity level. The long-term goal would be: National Climate Change budget. This will result in Climate Change Automatic Tracking and monitoring tool that shall offer users (NDA and other relevant users within the domain of the Public Sector) possibility to track finance on climate change related activities in real-time, direct to their PCs, mobile phone or handheld device.

This long-term goal requires reform in the full public budget system. It is the next phase in the process of climate public finance monitoring. From this perspective and considering the timeframe, since the reform in the national budget is a long-term project, the design and implementation of automated public climate finance tracking and monitoring tool is needs many necessary follow-up activities. Moreover, the implementation of climate national budget is depended and relies on the national regulation and policies on climate change, so the timing of the designing and implementation of the CC finance tracking tools should be aligned with the National Climate Change Strategy and Law on Climate Action that is in the final phase of preparation. The Strategic directions and measures in the National Climate Change Strategy

should be fully implemented in the national budget and should be base for the Climate Change national budget.

The necessary follow-up activities that should be undertaken in order to establish the process of Climate Public Budgeting are as follows:

1. Preparation of an Action Plan, Strategy and System for Climate Budgeting.

Goal: Creating a Climate Budgeting Methodology and establishing a comprehensive climate budgeting system. The climate budgeting methodology should be an official document to be adopted by the Government of the Republic of Northern Macedonia, on the proposal of the Ministry of Finance. The climate budgeting methodology should elaborate on the three phases described briefly above in point 6. It should contain separate elaborations on the ten steps described in point 6. For each of the ten steps outlined above, it should be prepared. a specific detailed analysis and to assess which methodology is most appropriate for the case of the Republic of North Macedonia.

Formal application of climate budgeting requires major steps towards amending the legislation (Budgets Law, Law on Financing Local Government Units, Guidelines for Treasury Operations, Rulebook on Budgetary Accounts and Budgetary Benefits for Budget Users). expenditure etc.) and implementation of the concept of climate budgeting in budget circulars at national and local level. These activities require, inter alia, the introduction of changes in state accounting / accounting and business book keeping with budgets and budget users and the presentation of climate change data / expenditure in their annual / financial reports.

Suggested technical lead agency: National Climate Budgeting Consultant, International Climate Budgeting Consultant, Ministry of Finance and Ministry of Environment and Physical Planning.

- Output:** 1) Methodology for Climate Budgeting.
- 2) Procedure for Climate Budgeting
 - 3) National Climate Budget Tagging System

2. Designing of Climate Change Financing Framework

Goal: Climate Change Financing Framework

Suggested technical lead agency: National / International consultant for climate finance, Climate change policy body, Planning and investment body, Line ministry and Investment Agency, Finance Ministry, other PFM body

Output: Climate Change Financing Framework

3. Designing of Climate Budgeting Manual

Goal: In order to be able to implement the process of climate budgeting ie. CBT, it is necessary to prepare a framework for CBT that will cover in detail all aspects of climate budgeting. As such, it is a successive step after the establishment of the CBT system. It will always be available to and assisted by all stakeholders, above all the staff of the finance and budget

sector in the sectoral ministries and municipalities. The Climate Budgeting Guidelines need to be in direct line with the Treasury Operations Manual, which describes inter alia the way the accounts are communicated within and outside the Treasury but at the same time defines the forms / requirements for making the payment. turnover. Only by modifying the payment operations templates, coding them appropriately (subject to the requirements of international organizations and domestic ministries) and providing the appropriate software application for automatic processing and selection of said data and generating the necessary information will we provide:

- system that is simple and functional;
- system that provides accurate and timely information;
- system that is economical, efficient and effective;
- system that provides comprehensive and quality information.

Suggested technical lead agency: National / International consultant for climate finance and Ministry of Finance

Output: Climate Budgeting Manual / Treasury Operations Manual

4. Trainings for Climate Finance and Climate Budgeting

Goal: A good understanding and recognition of climate activities is crucial to enable climate budgeting. In this regard, it is necessary to design and implement a climate finance training program whose ultimate goal is **building of capacities for identifying, classifying, weighting and marking climate-relevant expenditures in a government's budget system, enabling the estimation, monitoring and tracking of those expenditures.** To this end, it is necessary to conduct several-day training on climate finance. In the first round, two employees from the finance and budget department of all sectoral ministries, municipalities, state agencies, public enterprises and all those who budget and spend state money would be involved. The ultimate goal of the trainings would be to build strong capacity of the state administration in terms of:

- Good understanding of climate change
- Recognition of climate activities, programs and projects
- Recognizing and distinguishing climate change mitigation and adaptation activities, programs and projects
- Classification of climatic activities by degree of impact
- Weighing climate relevance.

Suggested technical lead agency: Training expert of climate change, Training climate finance expert, Ministry of Finance

Output: String capacities for identifies, classifies, weights and marks climate-relevant expenditures in a government's budget system, enabling the estimation, monitoring and tracking of those expenditures

5. Climate policy analysis in the context of the Republic of North Macedonia

Goal: A review of the climate change policy framework and its monitoring framework as well as how the policy objectives translate into programmes and instruments. The policy analysis starts with a review of the country's climate vulnerability assessments as well as existing gender and poverty related impact analyses. It will also look at national climate change policies in the context of national development plans and other sectoral policies. The review facilitates analyses of the overall policy environment for effective climate change expenditure such as policy coherence, effectiveness of monitoring framework, and ability to measure policy changes and impacts.

Suggested technical lead agency: National Consultant on Climate Change, Ministry of Environment and Physical Planning

Output: Climate policy report

6. Analysis of the Capacities of institutions for undertaking and implementing climate change responses in the Republic of North Macedonia

Goal: An analysis of the roles and responsibilities of institutions and their capacities in formulating, implementing and coordinating climate responses. This pillar also includes the review of the budgetary and planning process and its linkages to financing climate change policies and programmes (adaptation and mitigation), involving funds from government coffers and development partners. The institutions can include ministries, departments, State-owned enterprises (SOEs) and Public Private Partnerships (PPPs). The coordination extends to other stakeholders including civil society and Parliaments.

Suggested technical lead agency: National Climate Change Consultant, National Climate Finance Consultant, Ministry of Environment and Physical Planning

Output: Institutional Report

ANNEX I. CPEIR Climate Relevance Index

High relevance	Rationale	Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation
Weighting more than 75%	Examples	<ul style="list-style-type: none"> • Energy mitigation (e.g. renewables, energy efficiency) • Disaster risk reduction and disaster management capacity • The additional costs of changing the design of a programme to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance or rehabilitation) • Anything that responds to recent drought, cyclone or flooding, because it will have added benefits for future extreme events • Relocating villages to give protection against cyclones/sea-level • Healthcare for climate sensitive diseases • Building institutional capacity to plan and manage climate change, including early warning and monitoring • Raising awareness about climate change • Anything meeting the criteria of climate change funds (e.g. GEF,PPCR)
Medium relevance	Rationale	Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation
Weighting between 50% - 74%	Examples	<ul style="list-style-type: none"> • Forestry and agroforestry that is motivated primarily by economic or conservation objectives, because this will have some mitigation effect • Water storage, water efficiency and irrigation that is motivated primarily by improved livelihoods because this will also provide protection against drought • Bio-diversity and conservation, unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation) • Eco-tourism, because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railways
Low relevance	Rationale	Activities that display attributes where indirect adaptation and mitigation benefits may arise
Weighting between 25% - 49%	Examples	<ul style="list-style-type: none"> • Water quality, unless the improvements in water quality aim to reduce problems from extreme rainfall events, in which case the relevance would be high • General livelihoods, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability in areas of low climate change vulnerability • General planning capacity, either at national or local level, unless it is explicitly linked to climate change, in which case it would be high • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railway

Marginal relevance	Rationale	Activities that have only very indirect and theoretical links to climate resilience
Weighting less than 25%	Examples	<ul style="list-style-type: none"> • Short term programmes (including humanitarian relief) • The replacement element of any reconstruction investment (splitting off the additional climate element as high relevance) • Education and health that do not have an explicit climate change element