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# CLIMATE FINANCE

## BRIEFING PAPER





## GENERAL OVERVIEW

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

International climate finance is expected to increase significantly in the coming years. However, effective responses to climate change require a whole-government approach, including the involvement of 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 climate-related public expenditure is the first step to integrating climate change into the national budgetary and planning process and paving the way for a comprehensive response to the challenge of climate change.*<sup>1</sup>

## MONITORING CLIMATE FINANCING UNDER THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)

The UNFCCC, the Kyoto Protocol and the Paris Agreement call for financial assistance from parties with more financial resources to those that are less endowed and more vulnerable. Climate finance is needed for mitigation, because large-scale investments are required to significantly reduce or sequester 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.<sup>2</sup>

<sup>1</sup> 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 (2019)

<sup>2</sup> <https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance>

## WHY TRACK AND MONITOR CLIMATE FINANCE IN NORTH MACEDONIA?

As a non-Annex I Party to the UNFCCC and a developing country Party to the Paris Agreement, North Macedonia receives financial assistance to support reporting. Tracking and monitoring climate finance in the country refers to local, national or transnational financing, drawn from public, private and alternative sources of financing, that seeks to support mitigation and adaptation actions addressing climate change, gives information on how much climate finance has the country received and how much has the it invested in climate actions.<sup>3</sup>

There are multiple benefits of tracking public climate finance:<sup>4</sup>

- Improves the understanding of the roles and responsibilities of institutions, and their coordination in implementing climate actions.
- Strengthens stakeholders' capacity to formulate more informed policy proposals that respond to climate change while presenting economic, social and gender co-benefits.
- Assesses the status of national response to climate change through climate change strategies, action plans and sectoral policies, and its linkages to expenditures.
- Provides a tool to plan and monitor required investments to achieve national priorities and objectives (including NDC) more effectively.
- Ensures transparency and accountability of public spending for climate action.
- 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



## WHAT ARE NORTH MACEDONIA'S REPORTING REQUIREMENTS REGARDING CLIMATE FINANCE?

The Republic of North Macedonia is a non-Annex I party to the UNFCCC, with no quantified commitments for reducing the GHG emissions. As a candidate country for European Union (EU) membership, it must adhere to EU Climate and Energy Policy, which includes the quantified commitments of Annex I parties. North Macedonia integrates its UNFCCC and EU requirements on a voluntary basis in its national climate change reporting.

As a non-Annex I country, North Macedonia is obliged to report on the following over two-year periods:

- International support for climate activities obtained from bilateral and multilateral sources.
- Domestic resources spent on climate activities.

For more information regarding the country's legal, strategic and institutional framework for climate change at the national level, international agreements that the country has adopted, as well as the integration of climate change in sectoral policies and national reporting, please refer to the General Booklet and/ or visit the link.

<sup>3</sup> Procedures for CC finance monitoring - draft report

<sup>4</sup> 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 (2019)

## CLIMATE FINANCE IN THE REPUBLIC OF NORTH MACEDONIA IN THE PERIOD 2018 - 2019 <sup>5</sup>

Climate finance sources for North Macedonia can be classified into four different categories: <sup>6</sup>

### BILATERAL FINANCE

which comes from one donor country in different forms: through individual donors, through donor agencies, directly in the form of Official Development Assistance (ODA) and through bilateral finance institutions

### MULTILATERAL FINANCE

which refers to the support provided by more than one country/entity and is channeled through a single donor agency

### DOMESTIC PUBLIC FINANCE

### PRIVATE SECTOR FINANCE

The Third Biennial Update Report on Climate Change provides an overview of the support received in 2018 and 2019. The "Finance, technology and capacity building needs and support received" (2019) report gives an overview of the support received in many respects, the channels through which it has been received (bilateral, multilateral or other), the type of funding (grant, credit, capital, etc.), the sectoral structure in which the assistance is targeted, the purpose of funding (mitigation, adaptation or mixing), and how much is climate-specific (CS) or climate-relevant (CR). CS refers to projects that exist specifically to address climate change. CR refers to projects that are not labeled as climate projects, but which result in significant climate benefits either for mitigation or adaptation.

## INTERNATIONAL

Overall, most support that has been received has been used to finance mitigation projects, and the total amount of support received is far from sufficient to meet the needs of undertaking the mitigation and adaptation activities necessary to address climate change. An analysis on financial, technological, technical and capacity building support obtained from international sources shows that in the period 2018 and 2019 there were a total of **38 climate related projects funded with international support**. Support to the North Macedonia committed / received in the two-year period 2018 - 2019 is estimated at **US \$25.14 million**. From these, 21 are climate-specific (CS) projects and account for as much as US \$15.6 million, which is 62% of the total. The remaining 17 projects totaling US \$ 9.5 million or 38% are climate change relevant (CR). The country has also received non-monetary support in the form of technical support, technological support and capacity building support. There are 14 projects registered in this category.



<sup>5</sup> Finance, technology and capacity building needs and support received (2019) Report

<sup>6</sup> International financial, technological, technical and capacity-building support received and domestic financial flows for climate change response actions in the Republic of North Macedonia in the period 2018 – 2019

**MOST SUPPORT HAS BEEN RECEIVED FROM THE EUROPEAN UNION.**

The largest share (54%) comes from the EU Instrument for Pre-Accession Assistance (IPA) cross-border cooperation funds. This funding has enabled many municipalities, NGOs and ministries to implement projects, especially in the field of energy efficiency, and thus contribute to the global fight to reduce greenhouse gas emissions and mitigate the adverse effects of climate change on people's lives. The second largest support provider is the Global Environment Facility (19%).

**NEARLY ALL SUPPORT (98.8%) IS GRANT SUPPORT,** with only 1.2% (US \$ 0.3 million) in the form of loans.

Loan-based support will increase in the near future, as JSC Power Plants of North Macedonia has obtained two large loans with the German KfW Bank to finance two major energy projects with mitigation benefits: district heating investments in Bitola, Mogila and Novaci (EUR 39 million from KfW and EUR 7.3 million in-house financing); and an expansion of the Bogdanci Wind Park (EUR 18 million from KfW and EUR 3 million in-house financing).

**DOMESTIC**

At the national level, *adequate data are still missing*, which makes it difficult to carry out a precise and relevant climate finance assessment. However, it is evident that the Ministry of Environment and Physical Planning (MOEPP) is one of the largest implementers of climate change projects at the national level funded by international bilateral and multilateral support.

On local level, City of Skopje is the only example of municipality that allocates climate finance in its budget, indicating strong commitment of the City of Skopje in dealing with climate change. Their budget allocations related to climate change increase every year, reaching US \$ 3,305,869 in 2019, which represents 5.17% of total spending of their budget.

**KEY CHALLENGES FOR MONITORING NATIONAL CLIMATE FINANCE**

Despite the clear need and benefits for countries to develop a procedure at the national level to track and monitor climate finance, this task is not straightforward:

- There is definitional ambiguity as to what constitutes a relevant climate change action.
- Public sector climate change funds do not always pass through the national budget system, and therefore lie outside its reporting systems (e.g. investments by public utilities)
- Records of climate change finance frequently lack sufficient detail to allow the climate-relevant component to be identified. As a result, the identification of climate finance in public expenditures has not been institutionalized.
- Actual expenditures in public budgets (as opposed to the budget allocations) are often not readily available.
- International sources (grants; loans; equities; guarantees etc.) of climate change finance are not coordinated / monitored by a single entity or system, which makes it complicated to monitor them.
- Private finances are difficult to monitor in the absence of a mandate to report such expenditures.
- Governments and other international actors are usually reluctant to report on negative or "brown" finance.



## RECOMMENDATIONS



**Require legally binding engagement and collaboration** of the planning and finance ministries, together with other line ministries integrating climate change into the overall national development strategy. Tracking climate public expenditure is the first step to integrating climate change into the national budgetary and planning process.

**Carry out a climate finance assessment** in North Macedonia using the OECD DAC methodology of Rio Markers that are accepted and applied by EU Member States. With the entry of North Macedonia into the EU, the country will automatically assume obligations to provide climate action support to under-developed countries and to apply stricter reporting criteria.<sup>7</sup>

**Establish 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. Specifically, North Macedonia should establish the process of **Public Climate Budgeting** as follows:

01

PREPARATION OF AN ACTION PLAN, STRATEGY AND SYSTEM FOR CLIMATE BUDGETING

02

DESIGNING OF CLIMATE CHANGE FINANCING FRAMEWORK

03

DESIGNING OF CLIMATE BUDGETING MANUAL

04

TRAININGS FOR CLIMATE FINANCE AND CLIMATE BUDGETING

05

CLIMATE POLICY ANALYSIS IN THE CONTEXT OF THE REPUBLIC OF NORTH MACEDONIA

06

ANALYSIS OF THE CAPACITIES OF INSTITUTIONS FOR UNDERTAKING AND IMPLEMENTING CLIMATE CHANGE RESPONSES IN THE REPUBLIC OF NORTH MACEDONIA

<sup>7</sup> International financial, technological, technical and capacity-building support received and domestic financial flows for climate change response actions in the Republic of North Macedonia in the period 2018 – 2019.

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