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EU4Climate
Better Climate Policies for Eastern Partner Countries

GUIDELINES FOR IMPLEMENTING CLIMATE BUDGET TAGGING IN AZERBAIJAN

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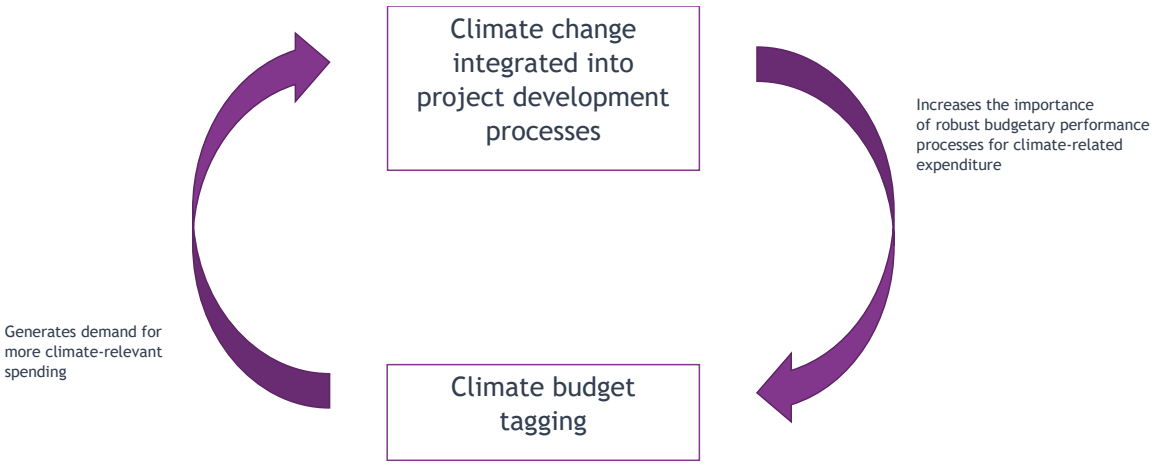
1. Introduction

This document presents draft climate budget tagging (CBT) guidelines for Azerbaijan. It sets out why Azerbaijan might find it beneficial to continue to advance its approach to CBT, and makes recommendations on the coverage, methodology and implementation modalities for its execution. As such, its objective is to provide a clear roadmap for further developing the use of CBT in Azerbaijan.

This report is one of two reports being developed by the EU4Climate project in Azerbaijan. The other report develops a proposal for ways to better integrate climate change considerations into project development processes. As Figure 1 shows, these two reports complement one another: improving the extent to which climate change considerations are reflected in project development processes will increase the importance of being able to track and monitor the budgetary performance of those investments, a process which is made considerably easier by CBT. At the same time, the application of CBT is likely to increase interest in, and pressure for, more budgetary spend on climate change activities, including new public investment projects.

Figure 1 The integration of climate change into project development and climate budget tagging complement each other



The reports form part of a broader portfolio of work implemented by the EU4Climate Project. The EU4Climate Project helps governments in the six EU Eastern Partner countries - Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine - to take action against climate change. The objective of the project is to support the development and implementation of climate-related policies by the Eastern Partnership countries that contribute to their low emission and climate resilient development and their commitments to the Paris Agreement on Climate Change. EU4Climate is funded by the European Union (EU) and implemented by the United Nations Development Program (UNDP).

The report suggests a phased approach to the implementation of CBT. In the short term, building on the work already undertaken in Azerbaijan, it suggests that CBT should be focused on three 'pilot sectors' which prepare regular action plans and for which budgetary information on a program budget classification will be available. It also suggests that the short term focus should be on identifying positive expenditures and that a relatively centralized approach to

implementing CBT should be developed, with a significant role for the Ministry of Finance supported by the Ministry of Ecology and Natural Resources. However, in the long run, it suggests that a wider range of sectors should be covered, negative expenditures might be assessed, and that a more decentralized approach might be adopted for its implementation.

The remainder of the document is structured as follows:

- Section 2 provides a brief rationale for the implementation of CBT;
- Section 3 looks at some of the key questions that need to be addressed when considering the coverage of CBT and makes recommendations on these;
- Section 4 make recommendations on the core design aspects for CBT, including the appropriate object of tagging and approach to scoring;
- Section 5 provides guidance on how to implement the proposes approach for identifying and classifying expenditures and indicative results from this implementation exercise; and
- Section 6 explores the practical implementation options for implementing CBT in Azerbaijan

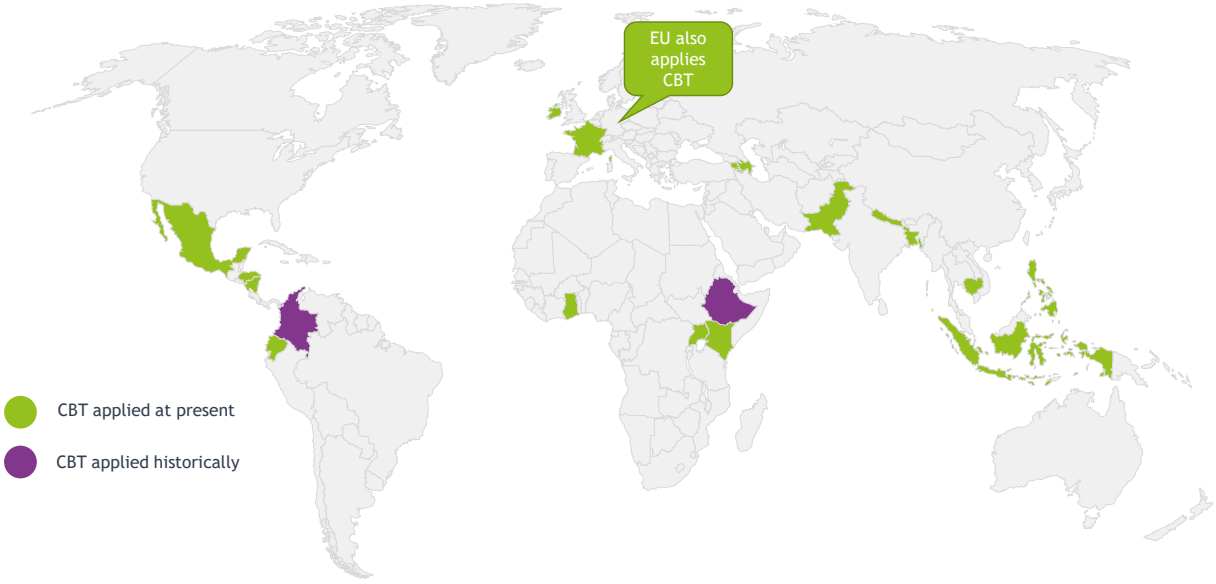
2. Rationale for climate budget tagging

Climate change budget tagging (CBT) is a government-led process of identification, measurement, and monitoring of climate-relevant public expenditures[1]**.** It is a process that allows governments and wider stakeholders to understand how much public expenditure is being allocated towards climate change related activities. This provides additional information that can inform better decision-making and over time motivate both government and other stakeholders to increase the funding provided to activities that deliver significant climate benefits.

Azerbaijan has already begun the process of CBT. "A citizen's budget guide" reports '*in the next year's state budget, funds in the amount of* ***636*** *million manat have been provided for the financing of measures and projects related to climate change mentioned in socio-economic development Strategy 2022-2023. Of this,* ***617.2*** *million manats or 97 percent are investment-oriented expenses, and* ***18.8*** *million manats or 3 percent are current-oriented expenses.'* However, discussions with government stakeholders suggest that it is recognized that there are opportunities to refine and improve Azerbaijan's approach to CBT.

There is growing international experience on the application of CBT. Figure 2 illustrates that CBT is or has been applied across both developed and developing countries in Europe, Asia and Latin America.

Figure 2 **A growing number of countries around the world are implememting CBT**



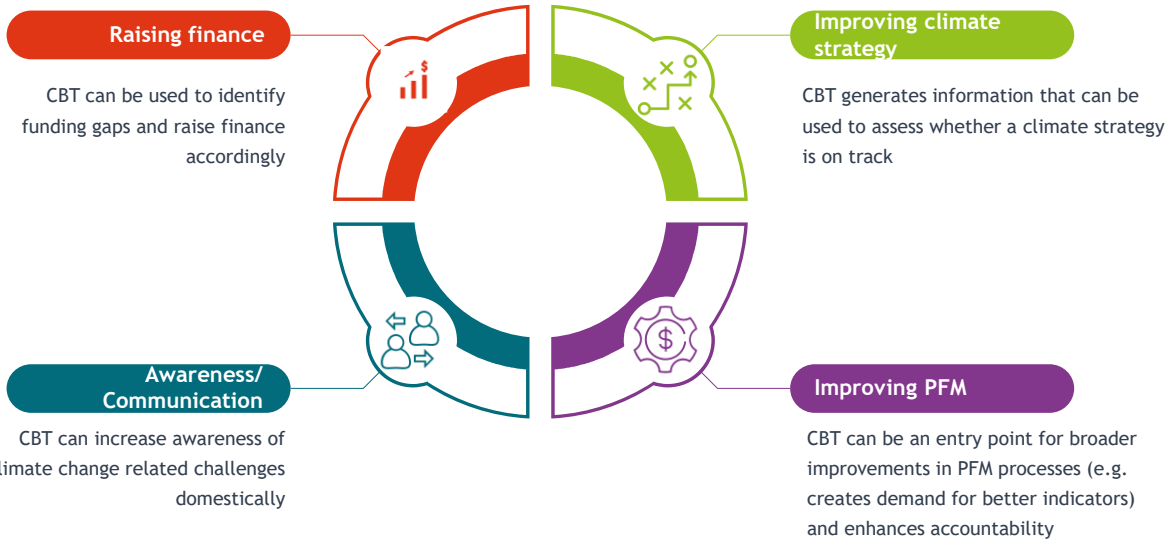
Countries are finding that advancing CBT provides a number of advantages. Four key (overlapping) benefits can be identified:

[1] World Bank (2021) Climate Change Budget Tagging: A Review of International Experience

- CBT can help support increase flows of climate finance. CBT can help to identify the extent to which the government is supporting climate-relevant activities, which, in turn, can motivate other (international) partners to support these efforts. CBT also provides important information about where there are funding gaps that can be used to focus finance-raising efforts. For example, Indonesia has used CBT to help inform its sovereign green bond issuance.
- CBT can help improve the implementation of climate strategies. By providing information about the allocation of funding for climate-related, government and other stakeholders can assess whether spending commitments are commensurate with stated ambitions and/or to identify if particular priorities may be under- (or over-) funded. In addition, understanding how much funding is being allocated to (different) climate change activities is a critical first step to assessing the effectiveness of this spending.
- The implementation of CBT increases domestic awareness of climate action. Within government, those stakeholders directly involved in the implementation of CBT will benefit from an increase in awareness around climate action, why it is important, and what actions will support climate goals. More widely, by publicizing the financial commitments that Azerbaijan is taking towards climate action, the government will raise awareness about its efforts, making it more likely that other stakeholders will support these efforts.
- Finally, by increasing awareness about the public spending allocated to climate activities, CBT can stimulate broader beneficial public financial management reforms. For example, when stakeholders are aware of the funding allocated to climate relevant activities, they are likely to want to increase the accountability/scrutiny regarding the outputs and outcomes being delivered by this spending. In the medium-term, this helps improve climate programming.

Figure 3 summarizes these key benefits.

Figure 3 CBT can deliver a number of benefits



However, there are a wide range of design choices when implementing CBT. These choices will have implications for the robustness and quality of the information provided by CBT, as

well as on the level of effort demanded of those implementing CBT. There is a need to design a CBT approach that aligns closely with existing budgeting and PFM systems in the country in order to increase the benefits and reduce the costs of CBT implementation.

3. CBT coverage in Azerbaijan

The key questions in relation to the appropriate coverage of CBT are:

- Should CBT in Azerbaijan only focus on climate-relevant expenditures or should it adopt a wider 'green' perspective?
- Should Azerbaijan's CBT only focus on some or all spending by central government or should it be extended to local/regional governments and/or state-owned enterprises?
- Should Azerbaijan's CBT include development partner spending?
- Should its CBT only consider investment spending or also operating expenditures?
- Should the CBT approach in Azerbaijan just consider direct spending or should it also include tax expenditures (where taxes are reduced on certain activities in order to support their expansion)?

Each of these are discussed further below.

3.1. Climate or green?

Almost all countries that have adopted tagging in relation to environmental issues focus only on expenditures for climate-change activities. Their focus covers both mitigation and adaptation activities but excludes other environmental issues such as expenditures on activities that may have an impact on biodiversity or pollution. This is the approach taken, for example, in the EU, Ireland, Pakistan, Nepal and Viet Nam.

France provides the main exception to this climate-specific approach. Rather than only looking at climate change mitigation and adaptation, its tagging approach also considers the other environmental goals identified in the European Union's (EU's) taxonomy for sustainable activities: the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

The consideration of multiple goals provides greater opportunity to identify synergies and tensions between environmental objectives, but increases the complexity of implementing CBT and reporting on the information it generates. By taking a more expansive approach to CBT, stakeholders can identify which activities support multiple environmental objectives and which only support one goal while detracting from other goals. This can allow for more informed budgeting into the medium term. However, consideration of multiple goals necessarily increases the complexity of the exercise. Those responsible for its implementation need to make multiple assessments about a particular budget line according to each of the different environmental objectives of interest. The consideration of multiple goals also requires careful reporting about activities that support some goals but detract from others.

It is recommended that Azerbaijan introduces CBT by adopting an approach that focuses on climate change. This will provide for a simpler approach, making it easier for stakeholders to become familiar with how to implement tagging and report on the information it generates. However, it is also recommended that a methodology is adopted that makes it relatively straightforward to expand the approach in the future, if it is considered desirable to tag a wider array of green objectives, as well as wider development objectives such as the SDGs.

3.2. Some or all of central government or wider?

All countries that undertake climate budget tagging start with central government agencies. In some cases, such as Indonesia and Nepal, an incremental approach has been taken where the focus has initially been on the Ministries expected to have the most climate-relevant spend, or where program budgeting has been implemented such that the objectives associated with budget lines is easy to identify. The practice then progressively expands to other agencies over time.

Expansion to local/regional governments and state-owned enterprises is more patchy and has tended to be less successful. Some of the countries that require subnational governments to tag their budgets included Kenya, Philippines and Pakistan. While this can provide important additional information regarding the totality of public spending on climate/green issues within a country, it has also been associated with challenges especially if sub-national governments use different budgetary systems or where capacity levels are weaker. Ecuador, Pakistan and the Philippines tag transfers made by central governments to SOEs, although it has been suggested that this will often be less effective than central government using existing corporate governance mechanisms to set climate goals for such bodies[2].

In Azerbaijan, there is richer budgetary information in relation to the environmental protection, agriculture and education sectors. For these three – so-called pilot – sectors, action plans need to be developed specifying the different programs that will be undertaken and the targets associated with these programs. Budgetary information on each individual program and this is now being formalized into a dedicated program budget classification. By contrast, budgetary information for other sectors is limited to the functional, administrative and economic classifications.

As discussed further below, it is recommended that Azerbaijan's CBT exercise commences using the richer information available from the environmental protection, education and agriculture sectors. As Action Plans and program budget classifications become available for a wider range of sectors, CBT can be progressively applied to these other sectors, followed, potentially, by local/regional governments and/or SOEs. This focus on a select number of sectors and the associated central government spend is consistent with the approach taken in Indonesia and Nepal.

3.3. Development partner spend?

Most countries only report donor spending when it is included withing budgetary systems. This reflects the difficulty in gathering information on off-budget donor spending, although Cambodia has developed a method to try and track such spending based on amounts self-reported by donors. Especially as development partner spending in Azerbaijan only has a modest role, it is suggested that the CBT exercise in Azerbaijan should exclude development partner spending except where it is programmed using the country's existing public financial

[2] The challenges of expanding CBT beyond central government ministries is discussed further in World Bank (2021) Climate Change Budget Tagging: A Review of International Experience

management systems.

3.4. Inclusion of capital or also operating costs

Almost all countries include both investment and operating expenditures. A small selection of countries – such as Moldova and Nepal – only focus on investment expenditures. For Azerbaijan, given the relatively small amount of additional work required, and the more comprehensive assessment it provides, it is recommended to include both investment and operating expenditures.

3.5. Inclusion of tax expenditures

Only one country currently includes tax expenditures within its CBT process – France – but the failure to include this information is a significant omission. The failure to include tax expenditures means that an important source of government support for activities may not be captured. In particular, tax expenditures are often a particularly important way in which governments may support activities that do not support climate change/green activities i.e. through the provision of reduced tax rates on fossil fuel consumption.

It is recommended that Azerbaijan starts by excluding tax expenditures, but looks to develop a system that would allow their subsequent inclusion. Focusing on line ministry spending in the first instance will allow the concept of CBT, and its benefits, to become understood among key Azeri stakeholders. Once the role for CBT has been consolidated, it can then look to integrate tax expenditures at a later stage.

Table 1 summarizes the proposed response to key issues relating to the coverage of CBT in Azerbaijan.

Table 1 Key questions for defining the coverage of climate budget tagging exercises

Question	Summary of international experience	Recommended approach in Azerbaijan
Focus on climate or green?	With the exception of France, countries have tended to focus on climate change only	Start with a focus on climate, but design tagging in a way that can incorporate other objectives in the future
Central government agencies or beyond?	All countries include at least some central government ministries and agencies. Some have considered sub-national governments although this has often been less successful	Focus on three central government pilot sectors of environmental protection, agriculture and education
Include development partner spending?	Countries include when on-budget but rarely include off-budget development partner spending	Only that spending provided as budgetary support
Focus on investment spending or also include recurring spending?	Most countries include both investment and recurring spend. A few focus only on investment spending.	Include both investment and recurring spend

Include tax expenditures?	Only France includes tax expenditures	Start without including tax expenditures but look to integrate these once CBT is firmly established

4. Core CBT design aspects

Having made recommendations on the coverage of CBT, this section considers two key issues that critically determine the design of CBT in Azerbaijan:

- the 'object' of tagging, which refers to the specific budget information that is subject to CBT; and
- the proposed approach for assessing the climate relevance (or 'scoring') of the budgetary information

These two issues are intimately linked: the object of tagging determines what information is available about the budget line which, in turn, will have a strong bearing on the appropriate methodology for assessing climate relevance.

4.1. Object of tagging

There is the same basic information available for the entire budget. For all of the budget, information is available across the following classifications:

- functional classification which identifies how the budget is allocated across different high-level purposes or objectives
- administrative classification which identifies how the budget is allocated across different organizations and institutions
- economic classification which identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending

However, in three 'pilot sectors' additional information is available. In the environmental protection, agriculture and education sectors[3], additional performance budgeting information is available. In particular, following the *'Guideline on the preparation of the action plan for the program (measure) of budget organizations for the medium-term period'*, spending plans for the current and subsequent three years need to be presented in the form of an Action Plan. These Action Plans specify the program, sub-program and measures that will be undertaken, the strategic targets that these measures are supporting, and the monitoring indicators that will be used to asses progress against these strategic targets. The Action Plans also specify the budgets allocated towards each program, sub-program and measure. This approach has been further advanced with the development of the '*Draft Program classification of budget expenditures of the Republic of Azerbaijan'* which provides program-budget classification codes. These codes facilitate the systematic identification of how the budget is allocated across different programs within the Financial Management Information System (FMIS). At present, this information is only available in the 3 pilot sectors and there is no specific timeline for rolling out similar requirements to other sectors.

It is recommended that the CBT exercise is focused on the 3 pilot sectors: environmental

[3] As defined in the functional classification

protection, agriculture and education. In these three sectors, the identification of explicit measures, targets and performance indicators provides explicit information about both the intent and likely impact from the budget line. This information makes it relatively straightforward to understand whether the budget line can be expected to be climate relevant, and whether that impact will be positive or negative. For example, one of the current measures within the Environmental Protection Action Plan is 'Establishment and protection of forest areas in the territory of the forest fund' and progress against this measure will be partially monitored by considering 'Increased forest area through natural restoration'. Given the well-established relationship between increases in forested areas and CO2 sequestration, there can be high confidence that, if successfully implemented, this budget line will help Azerbaijan realize its climate objectives[4]. By contrast, for spending outside of these sectors, information on the implications of the spend is more limited, making it very difficult or impossible to assess its climate relevance. For example, within the functional classification, all expenditure on heating is reflected in the same code (822) regardless of whether the heating is derived from steam, gas, coal, lignite or other substances. However, the emissions intensity of these different approaches, and hence the extent to which they support Azerbaijan's climate objectives, will be very different.

It is understood that the initial CBT exercise in Azerbaijan focused on the environmental protection sector. This proposed approach therefore represents an incremental expansion to the existing approach.

4.2. Proposed approach for identifying and scoring climate relevance

For budget allocations within the three pilot sectors, this section considers two issues:

- how Azeri policymakers might identify an expenditure as climate relevant; and
- once an expenditure has been identified as climate-relevant, the approach taken to scoring that expenditure

4.2.1. Objectives or policy based approach

Countries tend to take one of two approaches to identifying expenditures within a CBT exercise:

- An objectives based approach. This tags expenditures if they are associated with an activity that is intended or expected to deliver climate outcomes. This is the approach that is taken, for example, in Kenya, France, Cambodia, Indonesia and Ethiopia.
- A policy-based approach. This tags expenditures if they relate to activities that have been specifically identified in relevant climate change policy documents. This is the approach, for instance, taken in Bangladesh, Ghana, Nepal and Pakistan.

[4] For example, the commitment in its NDC to reduce net GHG emissions by 10% on 1990 levels by 2030.

An objectives-based approach is the more comprehensive. It allows for the identification of activities/expenditure that support relevant policy goals even if they have not been previously identified in policy documents. It is consistent with the concept of 'mainstreaming' climate and/or green activities: that there are many activities that simultaneously support both conventional development objectives and climate/green objectives. However, an objectives-based approach requires more work when establishing the CBT and can require the application of more subjective judgement during its implementation.

A policy based approach is simpler to execute. It also provides a very clear understanding of whether the activities identified in relevant policy documents are receiving adequate funding. However, it is quite restrictive and, in particular, relies on the development of detailed, well-articulated policy documents that cover all of the issues that may want to be covered by the CBT exercise.

On balance, it is considered preferable to move forward with an objectives based approach in Azerbaijan. This is because critical climate change policy documents in Azerbaijan – notably a Low Emissions Development Strategy and a National Adaptation Plan - are still under development. These are expected to become completed within the next two years, but the latest drafts are currently unavailable. This means that the application of a policy-based approach could lead to significant changes in the next few years as the policy landscape evolves. Moreover, within the existing policy landscape there are some differences between the climate change actions identified in the NDC and those identified in the *Socio-economic Development Strategy of the Republic of Azerbaijan in 2022-2026*[5] which could complicate the application of a policy based approach. In this context, an objectives based approach provides a more stable and comprehensive approach to assessing the climate relevance of the Azeri budget.

In applying an objectives based approach, it is best practice to separately identify items according to whether they support mitigation or adaptation. This recognizes that mitigating emissions and adapting to existing climate change are separate objectives and that there can be synergies and trade-offs between these objectives. These could be masked by an approach that just considers climate relevance as one overall category. Recognizing the difference between mitigation and adaptation is consistent with the approach taken, for instance, in France, Kenya and Indonesia.

This approach represents some evolution from how CBT is currently practiced in Azerbaijan. At present, it is understood that climate relevance is assessed on a policy based approach, referencing the objectives of the Socio-economic Development Strategy of the Republic of Azerbaijan in 2022-2026, and the distinction between mitigation and adaptation is not fully captured and reported. However, the proposed modifications will allow for CBT to be more comprehensive and will provide more refined information that will better support future decision-making.

[5] For instance, the NDC references various actions in the agriculture sector which do not appear to be captured in the Socio-economic Development Strategy of the Republic of Azerbaijan in 2022-2026

4.2.2. Scoring climate relevance

It is recommended that Azerbaijan CBT approach distinguishes between expenditures that are intended to and do support climate objectives from expenditures that are primarily intended to support other objectives, but nonetheless generate climate (either adaptation or mitigation) benefits. This distinction provides a way of recognizing that there are lots of expenditures that are pursued with other objectives in mind but which nonetheless generate climate benefits (for example, the development of public transport schemes) but also that, as mitigation and adaptation goals become increasingly ambitious, there will be a need to increase the amount of spending that is undertaken primarily because it delivers these benefits. This is the approach taken in CBT approaches in other countries and similar activities. For example, in the French CBT approach, the highest score is reserved for '**expenses having a primary environmental objective** [emphasis added] or directly producing an environmental good or service'. Similar, the OECD DAC classification for tagging overseas development assistance as relevant for CC mitigation or adaptation distinguishes between:

- 'Principal' expenditures – in cases where the objective (CC mitigation or adaptation) 'is explicitly stated as fundamental in the design of, or the motivation for, the activity'
- 'Significant' expenditures – related to an activity where CC mitigation or adaptation benefits are noted but are 'not the fundamental driver or motivation for undertaking it'

The sophistication of Azerbaijan's performance budgeting system within the pilot sectors can facilitate this approach. It will be possible to identify whether an allocation/expenditure is explicitly targeting climate goals by looking at a description of the program or by considering the performance metrics that will be used to assess its performance in the relevant action plans and/or program budget classification. This is discussed further in section 5.2 below. At the same time, it will be possible to use international precedent and technical expertise within Azerbaijan to identify those expenditures that are not undertaken because they support climate goals but nonetheless provide these benefits.

There are some CBT examples that identify when expenditures are likely to detract from climate goals (so-called negative expenditures). Tracking these expenditures helps to provide a more comprehensive understanding of the extent to which the budget is supporting climate goals. It allows stakeholders to understand the 'net' position of the budget i.e. the sum of positive expenditures less the sum of negative expenditures. France's CBT system includes negative expenditures in this way.

It is recommended that Azerbaijan does not include negative expenditures in the first case, but continues to monitor international experience. In contrast to positive expenditures, there is much less international experience that Azerbaijan can draw upon in order to identify what might constitute a negative expenditure. This reflects some important conceptual challenges. The nature of the global economy means that almost all activities are associated with some GHG emissions. Marking all of these expenditures as climate negative would undermine the utility of the CBT exercise, but trying to identify which expenditures associated with GHG emissions should be considered as negative expenditures would be a highly subjective process. Un the early stages of implementing CBT it is recommended that Azerbaijan does not attempt to assess negative expenditures. However, in the longer-term, as international precedents develop, Azerbaijan may wish to adjust its practice.

In summary, it is recommended that Azerbaijan's CBT approach should give expenditures one of three scores in the short term, possibly extending this to one of four scores in the longer term:

- 2: for those allocations/expenditures which are explicitly intended to support climate goals
- 1: for those allocations/expenditures that may not be intended to support climate goals but where there is good evidence to suggest that they will nonetheless have this effect
- -1: for those allocations/expenditures that are judged to have a negative effect on realizing Azerbaijan' climate goals (possibly in the longer term)
- 0: for all other expenditures/allocations

For each program, this assessment would be undertaken separately for both adaptation and mitigation. This implies that, in the short term, each program could receive any one of the 9 combinations of scores for mitigation and adaptation, as shown in Table 2.

Table 2 A program could receive any one of 9 combination of scores for mitigation and adaptation

Program	Score for mitigation	Score for adaptation
Program A	2	2
Program B	2	1
Program C	2	0
Program D	1	2
Program E	1	1
Program F	1	0
Program G	0	2
Program H	0	1
Program I	0	0

The implication of this approach is that the total climate relevant expenditure reported might be less than the sum of the expenditure allocated to mitigation and adaptation. This is because some programs might be recorded as supporting both mitigation and adaptation[6]. This is a common challenge that often arises when developing CBT approaches and requires careful communication when publicizing the CBT results (see section 6.4).

[6] In the example in Table 2, the sum of climate relevant expenditures would be the sum of spending allocated to program A-I. However, the sum of expenditures that are relevant to climate mitigation plus the sum of expenditures that are relevant to climate adaptation would lead to programs A,B, D and E being counted twice.

This approach represents a modest extension from Azerbaijan's current approach to CBT. The current approach already separately identifies mitigation and adaptation relevant expenditures. However, it does not score expenditures differently according to whether there is an explicit climate objective associated with the expenditures. The proposed extension would provide for a more detailed analysis and allow Azerbaijan to better demonstrate its commitment towards addressing climate change.

4.3. Summary

To summarize, the recommendations arising from this section are that:

- In the short term, Azerbaijan should implement its CBT approach on the three pilot sectors where performance budgeting information is available: environmental protection, agriculture and education. As more sectors adopt performance budgeting they can be brought within the ambit of the CBT approach
- In light of the still evolving nature of Azerbaijan's climate policy, it should adopt an objectives based approach to CBT, tagging those allocations/expenditures that are associated with an activity that is intended or expected to deliver climate or green outcomes regardless of whether it is included in policy documents.
- The application of CBT should involve assessing each program in terms of its relevance in relation to climate mitigation and climate adaptation (separately).
- In the short term, the tagging should identify those expenditures which are explicitly intended to support climate goals (mitigation and adaptation) from those that may not be intended to support these goals but where there is good evidence to suggest that they will nonetheless have this effect. In the longer term, it may be appropriate to also tag those expenditures which are expected to have a negative impact on the country's ability to realize its mitigation and adaptation goals.

5. Identifying climate expenditures

5.1. Introduction

This section describes – and provides a preliminary application – an approach that Azerbaijan could apply to identify climate expenditures. Section 4 set out a proposed refinement to the core design features of CBT in Azerbaijan. However, the application of this approach requires the identification of climate-relevant expenditures according to the proposed scoring methodology. This section describes how this might be undertaken.

5.2. Classifying climate allocations

5.2.1. Identifying expenditures undertaken for their climate benefits

The identification of expenditures undertaken for their climate benefits should be relatively straightforward. The description of the program and the articulation of its objectives should allow easy identification of whether the program is intended to deliver mitigation and/or adaptation benefits. For example, if the intent of the program is to reduce GHG emissions this will be stated. If the intent is to support adaptation then the program might set out the context of risks, vulnerabilities and impacts related to climate variability and climate change and demonstrate a clear and direct link between these and the program. The program descriptions may also include a discussion of how the program links to Azerbaijan's NDC and/or, in the future, its LTS and/or NAP. Similarly, the performance metrics used to measure whether the program is proceeding as planned will include metrics that are climate relevant – for example, they will include metrics relating to CO_2e reductions or measures of increased climate resilience or reduced climate vulnerability.

5.2.2. Identifying expenditures with mitigation benefits

The methodology described in section 4 requires Azeri policymakers to be able to identify those expenditures that will support GHG mitigation even though this is not the reason for undertaking this expenditure. To implement this, it is recommended that Azerbaijan makes use of the list of mitigation activities identified by the Multilateral Development Banks (MDBs) for the purposes of tracking their climate finance commitments. This has the benefit of being one of the most comprehensive classifications. It is also one that has been tried and tested in low and middle-income country contexts.

The approach recognizes that mitigation expenditures can consist of three types of activities:

- those that have negative or near zero emissions;
- transitional activities, where the activity takes place within a GHG emissions intensive system but which helps to reduce emissions towards climate neutrality;
- enabling activities, which are instrumental in allowing other activities to reduce their emissions.

The MDBs identify a range of activities across 11 sectors[7], with many of those activities having certain criteria that need to be satisfied. The Annex illustrates the core elements of this classification.

This proposed approach for identifying activities and expenditures is envisaged to apply both in the short-term and the long-term. However, as experience is gained in implementing CBT in Azerbaijan, adjustments may need to be made to account for the specifics of the national context as well as future developments in the country and overseas.

5.2.3. Identification of adaptation activities

There is a wide range of different ways in which adaptation can be enhanced (or reduced). One potentially helpful way of thinking about the different ways in which adaptation is to recognize that climate risk is a function of three elements:

- Hazard: physical events that arise or are made more likely because of climate change;
- Exposure: the people and assets located in places where hazard events occur;
- Vulnerability: the extent to which human beings, their livelihoods and assets suffer adverse effects when impacted by a hazard.

The implication is that there are also three main ways in which adaptation can reduce climate impacts:

- The likelihood or severity of hazard events can be reduced – for example, flood barriers might be constructed
- The exposure of people and assets can be altered – for example, land use planning can be directed away from flood plains or areas which are expected to suffer increased risk of droughts
- The vulnerability of people and assets to climate hazards can be reduced, most notably through enhancing their adaptive capacity to cope with the hazard event. Sometimes the reduction in vulnerability will be to a specific hazard i.e. roads will be made more resilient (less vulnerable) to drought conditions. Often, however, generic factors such as income and the presence of social support networks are key drivers of vulnerability.

A key challenge in identifying adaptation expenditures is that much general development is also likely to support a reduction in vulnerability and hence can be argued to be an adaptation measure. For example, one academic study suggests that universal education should be seen as the top priority for enhancing societies' adaptive capacity to future climate change[8]. However, this is an activity that governments will support for many

[7] Energy; mining and metal production; manufacturing; agriculture, forestry, land use and fisheries; water supply and waste water; solid waste management; transport; buildings, public institutions and end use energy efficiency; information and communication technologies; research, development and innovation; cross-sectoral.

[8] Lutz, W., Muttarak, R, and Striessnig, E. (2014) Universal education is key to enhanced climate adaptation, DOI: 10.1126/science.125797

reasons; it is highly unlikely that expenditure on this activity reflects its climate adaptation benefits.

The optimal way to identify adaptation activities is through the approach described in section 5.2.1. In particular, articulating the identified risks, vulnerabilities and impacts and describing the specific activities that respond to these challenges will helps to reduce the possibility that activities may help to reduce vulnerability to current climate risks but leave people and assets ill-prepared for future changes. This implies that increasing the budgetary allocations towards activities that warrant a score of '2' in relation to adaptation is likely to be a high priority for Azerbaijan.

Nonetheless, it is still possible to identify an indicative list of 'typical' adaptation measures that are expected to reduce the intensity of hazards, reduce the extent to which people or assets are exposed to climate hazards, as well as activities that reduce vulnerability to specific climate hazards. This is shown in Table 3**.** To accommodate the challenge that a lot of measures that generically reduce vulnerability are indistinguishable from good economic development, it is recommended to recognize them as adaptation measures only in those cases where they are largely or exclusively targeted at groups that are known to be especially vulnerable to climate impacts, such as the rural poor or women.

Table 3 Indicative list of adaptation activities

Program	Indicative list of adaptation activities
Agriculture	• Distribution and use of heat and drought resistant crops/seeds • Disease and pest control against diseases/pests that will be more prevalent with climate change • Improving climate/weather information for agriculturalists • Water efficient irrigation • Supporting sustainable agriculture and regional development in areas with climate vulnerable populations
Forestry	• Afforestation (to reduce flood risks) • Restoration/protection of forest areas to reduce soil erosion • Sustainable forest management to reduce soil erosion • Conservation forestry (forestry intended to protect habitat or species)
Other biodiversity	• Protection or restoration of wetlands and other landscapes • Preservation, protection or enhancement of water resources • Measure to reduce/prevent soil erosion
Energy	• Climate proofing energy infrastructure • Improving the performance/resource efficiency of hydro electric power plants • Improving energy service provision for climate vulnerable households
Water and	• Activities to enhance water conservation and water storage

wastewater	• Activities to improve the quality and quantity of drinking water that are particularly targeted at those expected to be climate vulnerable • Activities associated with water and sanitation services and infrastructure that reduce the likelihood or severity of flooding • Wastewater management schemes that improve ground or surface water protection • Wastewater recycling schemes
Transport	• Climate proofing transport infrastructure • Improved road (and other transport) access to climate vulnerable populations
Industry	• Retrofitting industrial facilities to reduce vulnerability to climate risks • Switching to less water consuming production technologies
Education	• Measures that increase climate and environmental awareness in curricula
Health	• Measures that help to respond to health risks that will become more prevalent as a result of climate change, such as heat stress • Strengthening food safety regulations linked to microbiological quality
Other social infrastructure	• Basic service provision and actions to enhance food security of climate vulnerable populations
Finance	• Insurance activities linked to climate risks
Tourism	• Ecotourism (to help maintain resilience of natural ecosystems and diversify rural livelihoods)
Flood protection	• Flood protection measures e.g. dikes, restoring flood plains
Monitoring and disaster prevention, preparedness and response	• Meteorological and hydrological observation and forecasting, impact and vulnerability assessments • Developing emergency prevention and preparedness measures and risk reduction strategies • Early recovery and reconstruction following climate-related disasters • Social protection measures linked to climate disasters
Policy & public awareness	• Development of adaptation strategies, plans and policies • Public awareness related to climate change, the causes and impacts of climate change and the role of adaptation

5.3. Application of the classification methodology

An indicative application of this methodology has been applied to available information in the three pilot sectors. Specifically, the methodology has been applied to:

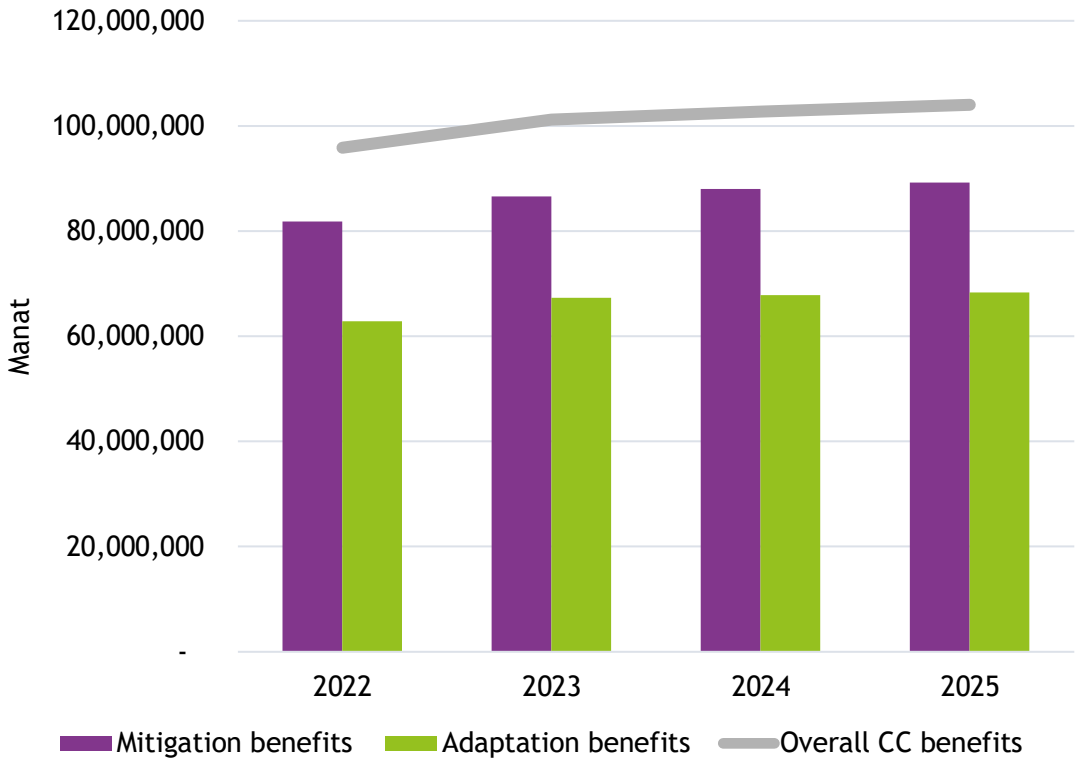
- The Environmental Protection sector's Action Plan for the period 2022 to 2025, which includes information on the approved (2022) and expected (2023-2025) budget for each activity. The Action Plan also provides information on the monitoring indicators that will be used to assess budget performance that can inform the scoring process
- The program budget classification for each of the three pilot sectors. From this source, no budgetary information or indicators are available, and the scoring has been undertaken based only on the names of the measures within the classification.

This assessment should be treated as indicative only. Azeri stakeholders with more information and better understanding on these measures identified in these two documents will be able to make a more informed assessment. The main purpose of this exercise is to demonstrate that the methodology is operationalizable and some of the types of information that it can provide. The spreadsheets associated with this analysis have been provided alongside this report.

5.3.1. Environmental Protection sector's Action Plan

Figure 4 provides the key results of the application of the CBT methodology to the measures in the action plan for environmental protection. Overall it shows that the estimated approved budget amount relevant to climate change (either mitigation or adaptation) is around 96m manat in 2022, and this is expect to increase to be in excess of 100m manat in 2023 onwards. This is equivalent to around 35% of the total budget in action plan. The percentage of measures in the action plan that are climate relevant is much higher, at 78% indicating that a large number of measures with relatively small budgetary allocations are climate relevant. A greater amount of the budget is expected to deliver mitigation benefit, in excess of 80m manat in each year), while the amount of the budget that is adaptation relevant exceeds 60m manat each year, although the relative importance of adaptation and mitigation switches when assessed according to the number of measures. Based on the information available, no measures appear to be undertaken primarily for their mitigation or adaptation benefits, although a more detailed understanding may lead to a revision to this assessment.

Figure 4 More than 100m manat within the Action Plan for the Environmental Protection sector is assessed to be delivering climate benefits



5.3.2. Program budget classification of the pilot sectors

Table 4 provides the results of the assessment of the analysis of the measures in the program classification across the three pilot sectors. In total, it is estimated that 30 measures, accounting for 18% of all of the measures across these three sectors, are expected to generate adaptation or mitigation benefits (or both). 21 out of these 30 measures are in the environmental protection sector, with all of the measures that are expected to generate mitigation benefits being found in the sector. There is a somewhat greater number of measures that are expected to generate adaptation benefits rather than mitigation benefits (27 compared to 13), which partly reflects that some measures supporting adaptation are found in the education and, especially, the agriculture sector.

Table 4 Most of the measures that are expected to generate adaptation and mitigation benefits are in the environmental protection sector

Climate relevance	Measures in all pilot sectors	Measures in education sector	Measures in agriculture sector	Measures in environmental protection sector
Undertaken for adaptation benefits	0	0	0	0

Expected to generate adaptation benefits	27 (16%)	1 (1%)	8 (5%)	18 (11%)
Undertaken for mitigation benefits	0	0	0	0
Expected to generate mitigation benefits	13 (8%)	0	0	13 (8%)
Undertaken for either mitigation or adaptation benefits	0	0	0	0
Expected to generate mitigation or adaptation benefits	30 (18%)	1 (1%)	8 (5%)	21 (13%)

6. Implementation approach

This section considers four issues related to how CBT can be integrated into existing Azeri budgetary processes, both in the short and long term. It considers:

- the authority who should be responsible for implementing CBT;
- the processes for undertaking quality assurance of the tagging assessment;
- the extent of automation of CBT; and
- the approach for publicizing the CBT results

6.1. Authority responsible for CBT

There are two broad approaches regarding which body should be responsible for the implementation of CBT:

- either a decentralized approach can be taken, in which line ministries undertake tagging as part of the process of designing and managing their budget programs and results; or
- a centralized model can be adopted, whereby the Ministry of Finance implements CBT as part of their role in scrutinizing the submissions made by line ministries.

The 'philosophy' of performance budgeting would suggest that line ministries should undertake CBT. Performance budgeting encourages line ministries to take ownership of budget planning and performance management; the consideration of the climate change implications of their budgetary plans would be one element of this. Moreover, the implementation of CBT by line ministries would allow them to take climate change issues into perspective at the point that they design programs. This is likely to make CBT particularly influential, as it provides the greatest opportunity for program design to be tweaked in order to better consider climate change issues.

However, the current expertise on CBT resides in the Ministry of Finance. This is the organization which has undertaken the CBT exercises to date, and which has shown the greatest interest in further developing CBT within Azerbaijan. As such, implementation of CBT by the Ministry of Finance, supported by the Ministry of Ecology and Natural Resources as discussed below, is likely to support robust implementation of CBT in the short-term.

It is recommended that CBT is implemented by the Ministry of Finance in the short term, but that it should be transitioned to line ministries in the medium-long run. This transition process would need to be supported by a training program for both the Ministry of Finance and line ministries to grow expertise and technical capacity for CBT across the Azeri public sector.

6.2. Quality assurance of CBT

The purpose of CBT quality assurance is to ensure the validity and compliance of the CBT process and information with the established methodology for CBT, including the identification and classification of climate expenditures. It aims to ensure the transparency of the tagging process and the quality of information on climate expenditures. The role of quality assurance is likely to be particularly important given that neither the Ministry of Finance nor most line ministries have technical expertise on climate change issues. In the short

term, while the Ministry of Finance is responsible for CBT, there is a risk that budget tagging could be systematically over or under-applied. In the long run, there is a risk that different line ministries could inconsistently apply CBT.

It is recommended that quality assurance is undertaken by a combination of experts from the Ministry of Ecology and Natural Resources, supported by independent technical experts. In the short-run, this specially convened group would be responsible for assessing the proposed application of CBT by the Ministry of Finance, and making suggestions as to how scoring might be changed to ensure a more robust application. It is recommended that final responsibility for CBT resides with the Ministry of Finance, to ensure clear ownership. However, the recommendations of this expert group can be published in order to promote accountability. In the longer-term, the same process would be followed but rather than making recommendations to the Ministry of Finance, this group would scrutinize and make recommendations to the CBT exercise undertaken by line ministries. This group could also make recommendations on how to extend and improve the CBT methodology over time.

6.3. Automation of CBT

There are two broad approaches available with regard to the automation of CBT:

- the CBT exercise can be undertaken manually using spreadsheets; or
- it can be integrated within the FMIS

Automating the tagging process brings a number of advantages. It can reduce the labor burden associated with running CBT year-on-year. It can also make it easy for countries to assess the extent to which budgets reflect climate considerations and if there are any systematic patterns in relation to the execution of budgets. It may also make it easier to undertake CBT during the budget preparation process which, as discussed above, can make CBT more powerful.

However, the integration of the CBT into the FMIS may require a significant investment to adjust the software and train users on how to exploit the additional functionality. Many countries have decided that it only makes sense to integrate CBT into the FMIS once piloting is complete and a consensus has emerged over the appropriate methodology.

It is recommended that Azerbaijan continues to use a manual process for implementing CBT. This will provide flexibility, making it easy to adjust the methodology as, for example, new sectors adopt performance budgeting or if a decision is taken to integrate negative expenditures. Once a CBT process is well established and stakeholders are comfortable with the methodology and how it integrates within the budget cycle then it would be appropriate to move to a more automated system.

6.4. Publicizing CBT results

The results of the application of the CBT should be placed in the public domain. They should be available to the Parliament to make budgetary decisions, as well as to civil society. The information should be published regularly (at least annually). This is the most effective way in which the information generated from CBT can help promote accountability.

The appropriate approach to this issue in Azerbaijan is likely to involve publishing CBT

information as annexes within existing budgetary documentation. This can be complemented with summary information being published in the citizens' climate budget report as already takes place.

Over time, additional information can be published alongside the aggregation of climate-relevant expenditures. This would include trends over time, distribution by adaptation and mitigation, and distribution across different sectors. It could also include information on the expected climate results/benefits for those expenditures such that the cost effectiveness of climate-related expenditures could be understood.

7. Conclusions

This report has set out a recommended approach for Azerbaijan to advance its approach to CBT. In addition to setting out the benefits that the country can generate from the systematic application of CBT, it has made recommendations regarding a series of key design features. On occasion, it recommends different approaches in the short- and long- term. Table 5 summarizes these recommendations.

Table 5 Summary of proposed approach

Thematic issue	Specific issue	Recommended approach in short term (if different(	Recommended approach in long-term (if different(
Scope	Climate or green?	Focus on climate but develop approach that can be extended to other environmental objectives	Consider expansion to other environmental objectives
	Some or all central government or wider?	Focus on pilot sectors implementing performance budgeting	Extend to other sectors and entities as they implement performance budgeting
	Inclusion of development partner spending?	Include only if on budget	
	Investment or operating expenditures or both	Both	
	Inclusion of tax expenditures?	Exclude	Look to include
Core design features	Object of tagging	Specific programs within each Action Plan and associated program budget classifier	
	Objectives or policy based approach?	Objectives with separate assessment for mitigation and adaptation	
	Scoring methodology	Distinguish between spending that is explicitly intended to support either mitigation or adaptation from spending that is expected to have these effects even though intent of spend is different	Continue to monitor international developments in relation to assessing negative climate expenditures
Identification of climate-relevant expenditure	N/A	For that spending that is not intended to deliver mitigation or adaptation benefits, make use of international experience	Integrate Azeri specific learnings on those activities that support mitigation

			and adaptation
Implementation modalities	Responsible authority	Ministry of Finance	Line Ministries
	Quality assurance	Ministry of Ecology and Natural Resources and independent experts	
	Automation	Manual approach	Automated
	Publication of results	Publish alongside existing budgetary information as annexes and summary information in citizen's budget	Also publish information about the benefits derived from the expenditure

Annex

Table 6 Abridged list of mitigation activities as identified by the MDBs

Sector	Activity	LOREM IPSUM
Energy	Generation of renewable energy for electricity, heating, mechanical energy or cooling	GHG emissions should be substantially lower than GHG emissions from fossil fuel generation. Excluding first generation liquid biofuels
	Joint use of renewable energy and fossil fuel energy for electricity, heating, mechanical energy or cooling	GHG emissions should be substantially lower than GHG emissions from fossil fuel generation Only that spending on renewable energy should be included
	Production, storage or use of low-carbon hydrogen	Hydrogen manufactured by electrolysis of water using very-low-carbon electricity or by steam reforming of natural gas with carbon capture and storage or utilization of captured CO2. Should result in substantial reduction in net GHGs
	Displacement of carbon intensive fuel with lower-carbon fuel e.g. coal to gas switching	Not relevant in relation to electricity generation If switching to a fossil fuel, then should not extent lifetime of plant
	Use of waste gas as fuel or feedstock	Should substantially reduce GHG emissions. Coalbed methane, associated gas from greenfield oil production and coal mine methane from greenfield gas production should be excluded
	Conversion from production of one source of energy generation to joint generation of electricity, heating, mechanical energy or cooling e.g. conversion to combined heat and power plants	Conversion should deliver substantial improvement in efficiency

	Energy efficiency improvements in energy production	Should deliver substantial improvement in efficiency
	Carbon capture and storage	CO2 storage must be permanent
	Energy storage and measures to improve network stability that allow more low-carbon energy	Does not apply to storage of fossil fuels
	New transmission or distribution infrastructure of electricity that increases the share of low carbon electricity delivered	Should be able to demonstrate infrastructure will lead to an increase in the share of low carbon electricity used
	New transmission or distribution infrastructure of heat or cooling energy	Heat or cooling energy should not be derived from fossil fuels
	Improvements in efficiency or reduction in technical losses from existing transmission and distribution of electricity, heat or gas	Should deliver substantial improvement in energy efficiency or net GHGs
	Commercial and collection loss reduction in distribution of electricity, heat or gas; or measures aimed at demand-side management	Should increase effective prices paid by consumers
	Reduction in fugitive GHG emissions in transportation and storage infrastructure	
Mining and mineral production	Mining of minerals and metal ores prevalently used in, or critical for, renewable energy, technologies that increase energy efficiency, etc.	If end-use known, should demonstrate that the end us is related to climate change mitigation. If end use is not known, should show that a global level, a substantial share of global use is for climate change mitigation
	Production of metals or alloys prevalently used in, or critical for, renewable energy, technologies that increase energy efficiency etc.	If end-use known, should demonstrate that the end us is related to climate change mitigation. If end use is not known, should show that a global level, a substantial share of global use is used for climate change mitigation
Manufacturing	Brownfield industrial energy efficiency improvements	Should substantially reduce net GHG emissions, carbon intensity (e.g., tCO2e/unit of outcome), or energy intensity (e.g. gigajoules/unit of outcome)
	Conversion from production of one source of energy generation to joint generation of electricity, heating, mechanical energy or cooling e.g. conversion to combined heat and power plants	Conversion should deliver substantial improvement in efficiency

	Highly efficient or low-carbon greenfield manufacturing facilities or greenfield supplementary equipment or production lines at an existing manufacturing facility	Should demonstrate a significantly lower carbon or energy intensity than a nationally-appropriate benchmark
	Replacing equipment or processes based on fossil fuels with equipment or processes that use electricity	
	Carbon capture and storage	CO2 storage must be permanent
	Retrofit of industrial infrastructure to avoid or reduce GHG emissions	Should deliver substantial reduction in net GHGs
	Improvements to, or new/advanced, industrial processes that reduce consumption or reduce waste	Should deliver substantial reduction in net GHGs
	Energy storage or other solutions that allow integration of low-carbon energy or previously waste energy	Storage does not apply to storage of fossil fuels
	Production of components, equipment or infrastructure dedicated exclusively to utilization in the renewable energy, energy efficiency improvement, or other low-carbon technologies	
	Production of low-carbon hydrogen	Hydrogen manufactured by electrolysis of water using very-low-carbon electricity or by steam reforming of natural gas with carbon capture and storage or utilization of captured CO2. Should result in substantial reduction in net GHGs
	Use of waste gas as fuel of feedstock	Should substantially reduce GHG emissions. Coalbed methane, associated gas from greenfield oil production and coal mine methane from greenfield gas production should be excluded
Agriculture, forestry , land use and fisheries	Reduction in energy consumption in agricultural operations	Should deliver substantial reduction in net GHGs
	Increasing carbon stocks in soil or avoid loss of soil carbon through erosion control, including rangeland management	Should deliver substantial increase on above or below ground carbon stock
	Reduction in non-CO2 GHG emissions in agricultural practices or operations	Should deliver substantial reduction in net GHGs
	Reduction in methane or other GHG emissions from livestock	Should deliver substantial reduction in net GHG emissions or emissions intensity

	Forestry or agroforestry activities associated with sustainable forest management, avoided deforestation or avoided land degradation	Should deliver substantial increase on above or below ground carbon stock or substantial reduction in net GHG emissions or emissions intensity
	Reducing CO2 intensity in fisheries or aquaculture	Should deliver substantial reduction in net GHGs and not contribute to degeneration of native ecosystem
	Reducing food losses or waste or promoting lower carbon diets	Should deliver substantial reduction in net GHGs or emissions intensity
	Biomaterial production	Should deliver substantial reduction in net GHGs or emissions intensity and biomass should be derived from sustainable and socially accepted sources that don't compete with food supply
Water supply and wastewater	Improving energy efficiency of water supply systems including lower energy consumption, reduction of losses	Should deliver substantial improvement in energy efficiency or reduction in net GHGs
	Replacing tanker or other high emissions supply of water with piped supply system	Should deliver substantial reduction in net GHGs
	New water supply projects with high energy efficiency	Should make use of best available technology within the country or be zero-emissions (i.e. gravity supply)
	Improved operation and maintenance to reduce water losses, promote energy savings or meet or exceed wastewater treatment targets etc.	
	Reducing GHG emission through wastewater, fecal sludge or septage collection and treatment	Should deliver substantial reduction in net GHGs and remove BOD
	Improved energy efficiency or performance in existing wastewater treatment and management facilities	Should deliver substantial reduction in net GHGs
	Enhanced collection of wastewater, fecal sludge or septage	Should deliver substantial reduction in net GHGs
	Wastewater reuse	Should deliver substantial reduction in net GHGs
Solid waste management	Separate collection and transport of segregated waste	Should support recovery of materials for reuse or recycling
	Storage, bulking or transfer of segregated waste	Should support recovery of materials for reuse or recycling
	Repair and reconditioning of products to enable reuse	Should demonstrate that product would otherwise be discarded, will be put back to original use and will not compromise future recovery or recycling

	Material recovery from waste using mechanical processes or non-mechanical processes	Should be aimed at recovering secondary materials from waste in preparation for reuse or recycling and should deliver substantial reduction in net GHGs
	Anaerobic digestion of waste	Biowaste should be segregated at source and collected separately and biogas should be used productively. Digestate should not be incinerated. Measures should be taken to control methane leakages.
	Composting	compost produced shall be used as a natural fertilizer or soil conditioner where possible, and should not be incinerated
	Other types of recovery and valorization of bio-waste	Biowaste should be segregated at source and collected separately and processes should deliver substantial reduction in emissions
	Mechanical or biological treatment of mixed residual waste	Materials recovered should be suitable for recycling and should deliver substantial reduction in net GHGs. Biowaste to be landfilled should be subject to biological treatment to stabilize organic components
	Waste incineration	Should demonstrate a substantial reduction in net GHG emissions and use best available technologies (especially combined heat and power)
	Landfill gas capture as part of closure of old landfills or landfill cells	Captured landfill gas should be used productively or, if this is not economically viable, flared. Measures should be taken to control methane emissions from landfill.
	Landfill gas capture in new sanitary landfills or landfill cells	Should deliver substantial reduction in net GHGs. Captured landfill gas should be used productively or, if this is not economically viable, flared. Measures should be taken to control methane emissions from landfill.
	Improved energy efficiency in waste management facilities	Should deliver substantial reduction in net GHGs.
Transport	Urban and rural public transport	Should deliver modal shift from higher carbon modes
	Non-motorized transport and bike-sharing schemes	
	Inter-urban rail travel for freight or passengers	Should deliver modal shift from higher carbon modes, activities dedicated to transport of fossil fuels excluded

	Bus or coach public transport	Should deliver modal shift from higher carbon modes
	Water transport for freight or passengers	Should deliver modal shift from higher carbon modes, activities dedicated to transport of fossil fuels excluded
	Passenger or freight fleets, or associated infrastructure, with zero or low-direct emissions	Excludes transportation of fossil fuels
	Transport operations using biofuels or synthetic fuels	Should deliver reduction in life cycle GHGs. Activities involving use of 1st generation biofuels excluded.
	Transport demand management policy and intelligent transport systems	Should be associated with decrease in overall travel demand to switch to more efficient modes
	Use of waste gas as transport fuel	Should deliver substantial reduction in net GHGs
	Efficient air traffic management	Should deliver substantial reduction in net GHGs
	Efficient airport system operations or onsite renewable energy generation	Should deliver substantial reduction in net GHGs
Buildings, public installations and end use energy efficiency	Measures to reduce energy consumption, resource consumption or CO2 emissions, or increase carbon sinks, in new and/or existing buildings and grounds	Should deliver substantial reduction in energy consumption, resource consumption or CO2 emissions. Where relevant, should meet green building certification requirements
	Measures to reduce energy consumption, resource consumption or CO2 emissions, or increase carbon sinks, in public areas or installations	Should deliver substantial reduction in energy consumption, resource consumption or CO2 emissions.
	Improvements in energy efficiency or reduction in emissions from existing appliances and equipment	Should deliver substantial reduction in energy consumption, resource consumption or CO2 emissions
	Replacement of appliances and equipment (e,g. lighting) that leads to a reduction in emissions	Should deliver substantial reduction in energy consumption, resource consumption or CO2 emissions. Should use best available technology.
ICT technologies	Energy efficiency improvement or renewable energy deployment in existing data centers	Should deliver substantial reductions in net GHGs or emissions intensity
	New data centers that meet international standards for energy efficiency and largely supplied by on-site renewable energy	
	Telecom networks with high energy efficiency	Should demonstrate a substantial reduction in net GHG or that energy efficiency performance is significantly better than

		market standards
Research, development and innovation	Research on or development of renewable energy, energy efficiency improvement, low-carbon technologies, or other technologies instrumental to achieving full decarbonization	Activities that support low-carbon technologies but also directly support exploration, extraction, processing or transportation of fossil fuels, or fossil fuel power generation (with the exception of technologies for carbon capture and storage), shall not be eligible
Cross-sectoral	Activities focused on reducing energy or material use across a supply chain or implement circular economy systems	Should deliver substantial reduction in net GHGs
	Demand-side management	Should demonstrate how activity will result in reduction in demand for energy or resources
	Electronic service delivery	Either achieves a large-scale transformation of service delivery or operations, leading to a substantial reduction in net GHG emissions or is a first of a kind activity
	Financing to support closure of fossil fuel extraction, processing and transport including support for affected workers	Should be focused on closure well before end of economic life and support for affected workers should be explicitly linked to early closure
	Transport, use or storage of CO2	Should deliver or facilitate substantial reduction in net GHGs, utilization should exclude support for production of fossil fuels
	Cross-sectoral policy action for emission reduction and/or energy or resource use efficiency standards, fiscal incentives for low-carbon technologies, carbon pricing, urban densification.	Policy action should be towards activities that ll lead to an increase in carbon sinks or a substantial reduction in net GHG emissions
	GHG monitoring	Should lead to an improvement in gathering data and information on GHG emissions
	Energy audits	Should be specific focus on reducing energy consumption or GHG emissions
	Education, training, capacity building or awareness-raising focused on climate change mitigation	N/A
	Communication of climate action or decarbonization plans	N/A