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An introduction to Climate Budget Tagging (CBT)

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What is CBT and who is doing it?

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Why undertake CBT?

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The key steps in CBT

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Critical success factors

Defining climate-budget tagging



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Climate change budget tagging is a government-led process of identification, measurement, and monitoring of climate-relevant public expenditure

Identify

CBT requires an agreement on what expenditure can be considered climate relevant

Measure

CBT typically requires an assessment of 'how' climate relevant different expenditures are e.g. weighting

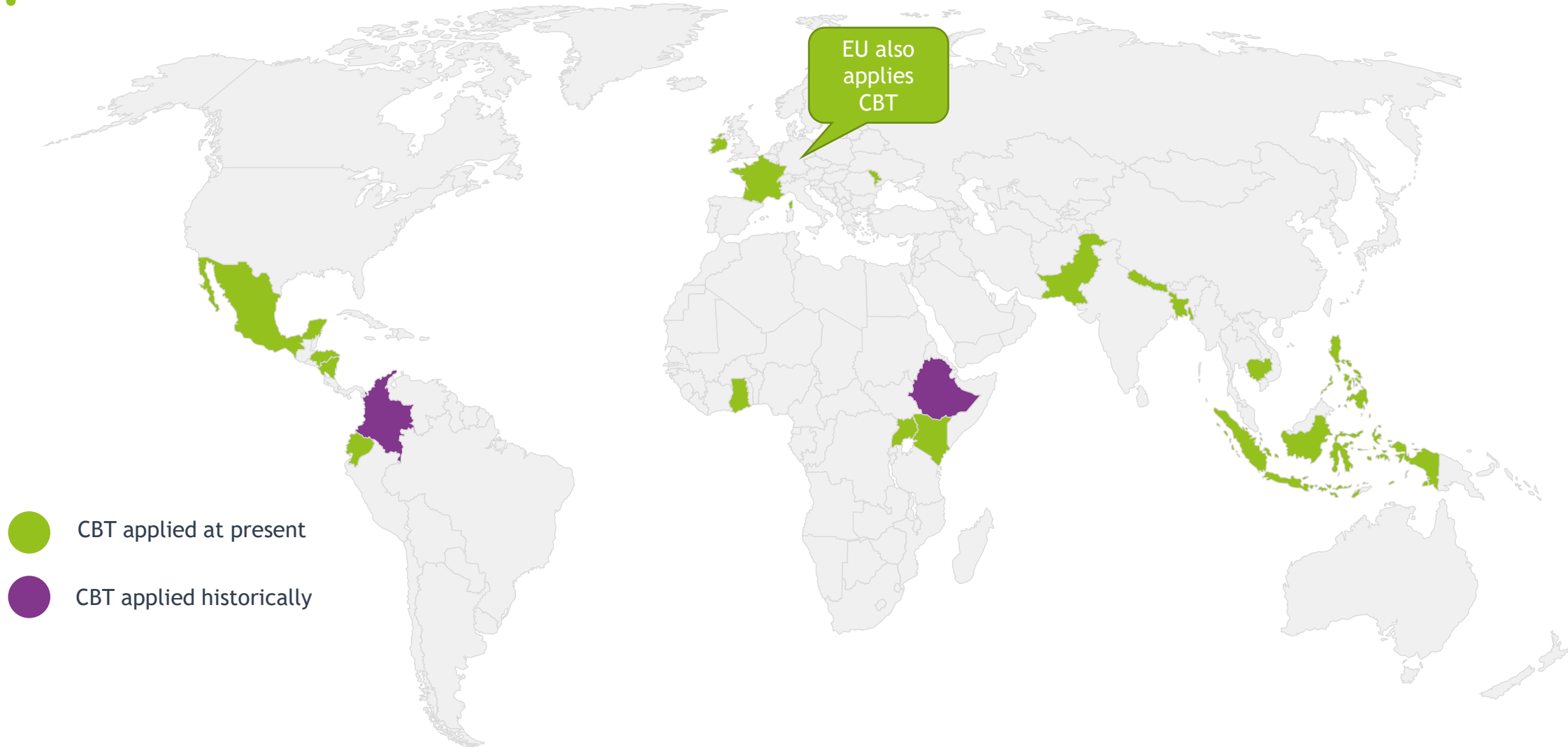
Monitor



CBT involves reporting on the climate-relevant expenditure to a range of stakeholders

Climate budget tagging is used by developed and developed countries around the world



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-  CBT applied at present
-  CBT applied historically

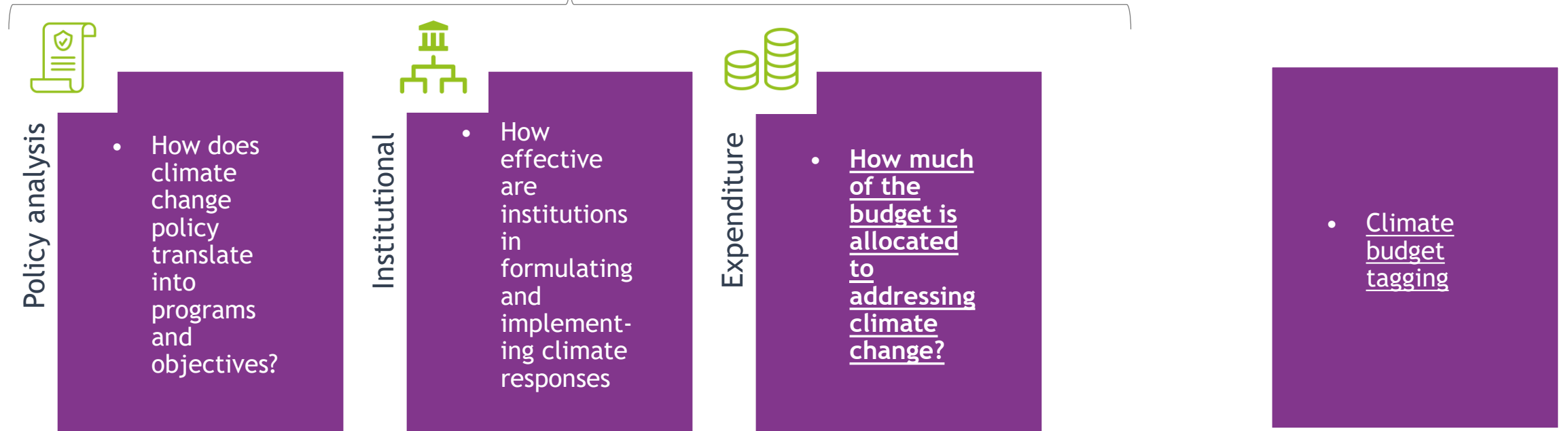
CPEIRs are often the entry point for undertaking CBT



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CPEIR



Historic performance

Today

Future

5 CPEIR reviews current and historic integration of climate into PFM processes

Decision to integrate CBT into the future

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CBT can have a number of benefits



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Raising finance

CBT can be used to identify funding gaps and raise finance accordingly



Improving climate strategy

CBT generates information that can be used to assess whether climate strategy is on track



Awareness/Communication

CBT can increase awareness of climate change related challenges domestically, and communicate action internationally



Improving PFM

CBT can be an entry point for broader improvements in PFM processes (e.g. it creates demand for better indicators) and to enhance accountability



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Critical success factors and key challenges

Three key phases in introducing climate budget tagging



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Define purpose and setting

- Define key objectives from CBT
- Identify stakeholders that need to be involved
- Identify existing PFM parameters that will influence design

Undertake technical design

- Determine coverage
- Assess granularity for analysis
- Define and categorise CC expenditures
- Define weighting methodology

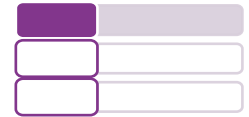
Determine implementation modality

- Allocate organisational responsibilities
- Design tagging procedure
- Determine reporting formats

Defining the purpose and setting of CBT



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Define objectives

- Clarity of objectives helps future design considerations
- Typical objectives might include
 - Improve effectiveness of climate spending by monitoring and managing spending
 - Raising external finance by demonstrating commitment
 - Create momentum within government
 - Raising public awareness



Identify stakeholders

- Key stakeholders to engage will depend on objectives e.g.
 - External finance raising → engage development partners
 - Raising public awareness → parliamentary bodies, local government
 - Ministry of Finance will always play key role



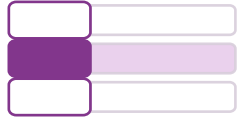
Understand system constraints and settings

- Is budget programmatic?
- Does the Chart of Accounts have a field that allows for x-cutting theme?
- What stage in the budgetary process would it be sensible to undertake tagging?
- Will it be possible to integrate the tag within the Integrated Financial Management System?
- How much information does PFM system collect about SOE and sub-national government spend?

Undertaking technical design (to be covered further in next session)



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Determine coverage

- Some or all Ministries?
- Investment or investment and recurrent budget?
- Tax/subsidy expenditures?
- Negative expenditures?
- Subnational?
- SOEs?



Assess granularity

- Does estimation take place at level of program or program element?



Define and categorise

- Options for determining climate relevance
 - Objective
 - Policy
- Categorisation options
 - None
 - Mitigation vs adaptation
 - Sectors in NDC or policy



Weighting

- Objectives/ impact based approach or benefits based approach?

Determining the implementation modality

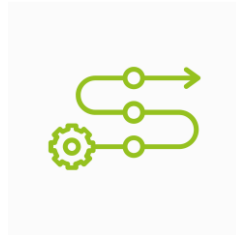


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Allocate organisational responsibilities

- Who will have overall responsibility for CBT?
 - Ministry of Finance
 - Ministry of Planning
- Who will be responsible for determining the tagging?
 - Ministry of Finance or line ministries?
- Who will validate the tagging decision?
 - MoF
 - Climate change body
 - Auditor General
 - Other



Design tagging procedure

- Tagging can be done manually or integrated into FMIS
- When will tagging be undertaken?
 - During planning (by line ministries)?
 - When budget entered into the system?
- Also, possibly, when expenditures is undertaken?



Determine reporting formats

- Options include:
 - Within mainstream financial reporting
 - As a separate document
 - As a 'citizen's budget'
- These options can be combined

01

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Critical success factors and key challenges

A number of critical success factors help determine whether CBT will be effective and sustainable



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1. Strong political leadership - almost certainly from the Ministry of Finance - is needed to drive through a cross-sectoral initiative like CBT.
2. It is crucial to engage and build the support from line ministries to ensure that they understand the value of CBT.
3. It is vital to clarify the objectives of CBT upfront so that it can be designed to deliver these objectives.
4. The closer the links between the CBT and national climate policy objectives (as set out in action plans or NDCs) the greater the likelihood of success.
5. Make sure that CBT is embedded within the broader budgetary accountability mechanisms
6. To ensure relevance and sustainability, ensure that the data generated by CBT is used for subsequent planning

Useful resources



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CLIMATE CHANGE

KNOWING WHAT YOU SPEND

A guidance note for Governments to track climate finance in their budgets

Climate Change Financing Framework
Technical Note Series



Empowered lives.
Resilient nations.





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Armenia's CPEIR - key results

Armenia undertook a Climate Public Expenditure and Institutional Review in 2020



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- The CPEIR was undertaken between May and December 2020 as part of the EU4Climate project
- The analysis provided a diagnostic assessment of Armenia's policy and institutional framework towards climate change and the extent to which the public expenditure is allocated towards climate change
- Also included an assessment against the Climate Change Budget Integration Index (discussed tomorrow)



Policy

- How does climate change policy translate into programs and objectives?



Institutional

- How effective are institutions in formulating and implementing climate responses



Expenditure

- How much of the budget is allocated to addressing climate change?



Key features of the expenditure analysis within Armenia's CPEIR



- Reviewed the spend of all Ministries between 2017-19
- Included both investment spend and recurrent expenditures
- Donor expenditure included (all on-budget)
- Did not consider tax expenditures
- Only looked at central government expenditures (Armenia is a unitary state)
- Did not include expenditures or transfers to State Owned Enterprises
- Analysis undertaken at the activity level of Armenia's programmatic budget



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Climate-relevant expenditures were identified on an objective basis and classified using the NDC



- Classification of expenditures as climate-relevant was undertaken on an ‘objectives basis’ drawing on a range of sources including MDB climate finance tracking framework and OECD DAC criteria
- Expenditures were allocated as being either mitigation, adaptation or mixed impact
- And preliminary further breakdown into 8 different mitigation areas and 7 different adaptation areas, based on Armenia’s NDC



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The weighting approach followed the four category approach described previously



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Category 1 Direct relevance (75-100%)	Category 2 High relevance (50-75%)	Category 3 Moderate relevance (25-50%)	Category 4 Low relevance (0-25%)
100%	75%	50%	25%
90%	65%	40%	15%
80%	55%	35%	5%



Upward adjustment when strong adaptation and mitigation co-benefits

Starting point



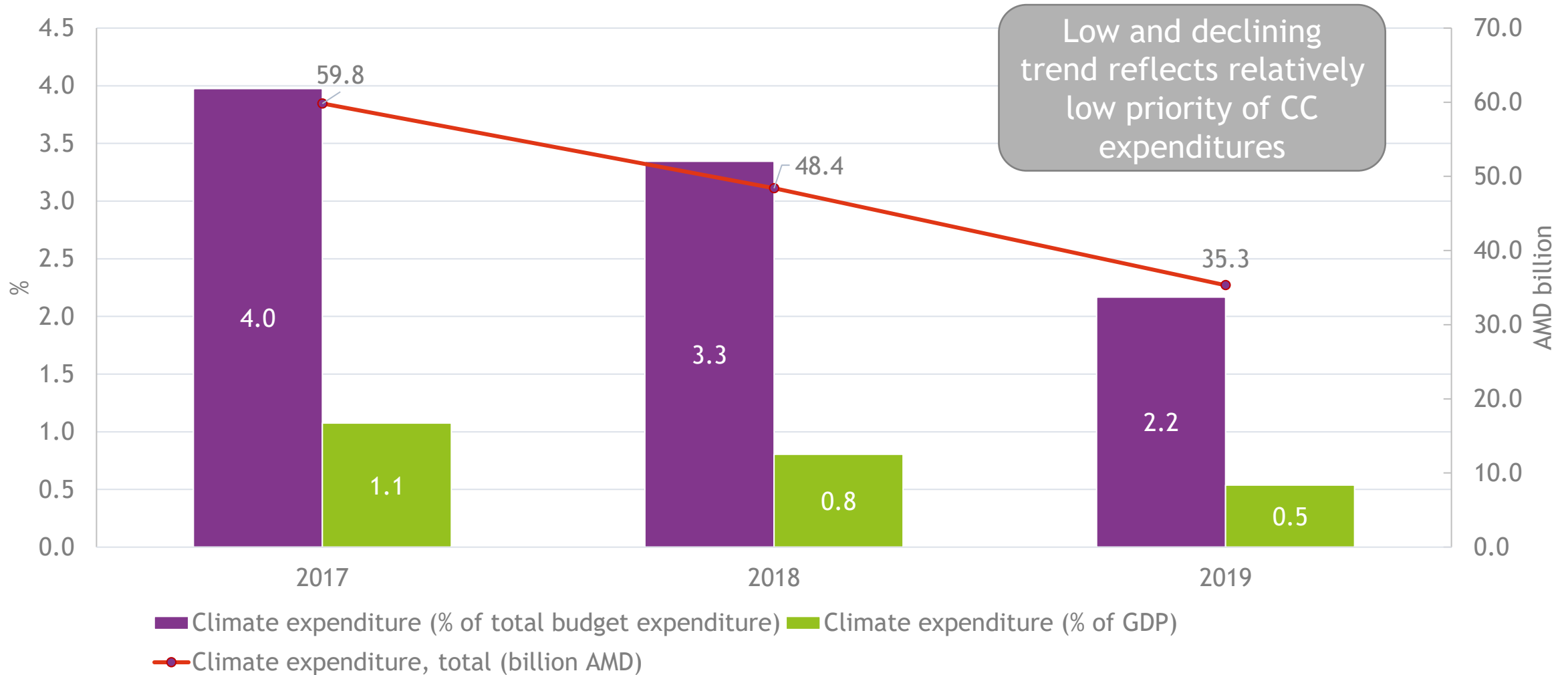
Downward adjustment when adaptation and mitigation create trade-offs



On average, around 3.2% of the state budget was found to be climate-related between 2017 and 2019



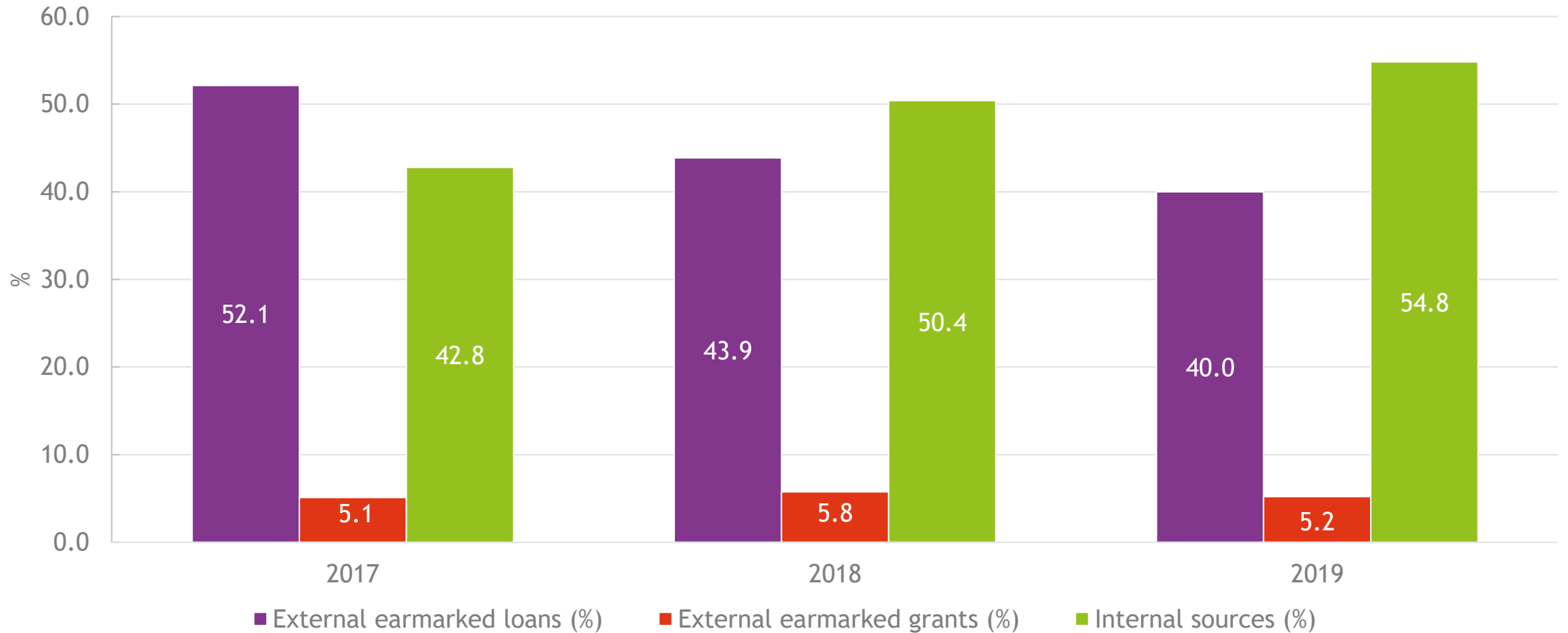
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Armenia is increasingly financing its climate-related expenditures from domestic sources



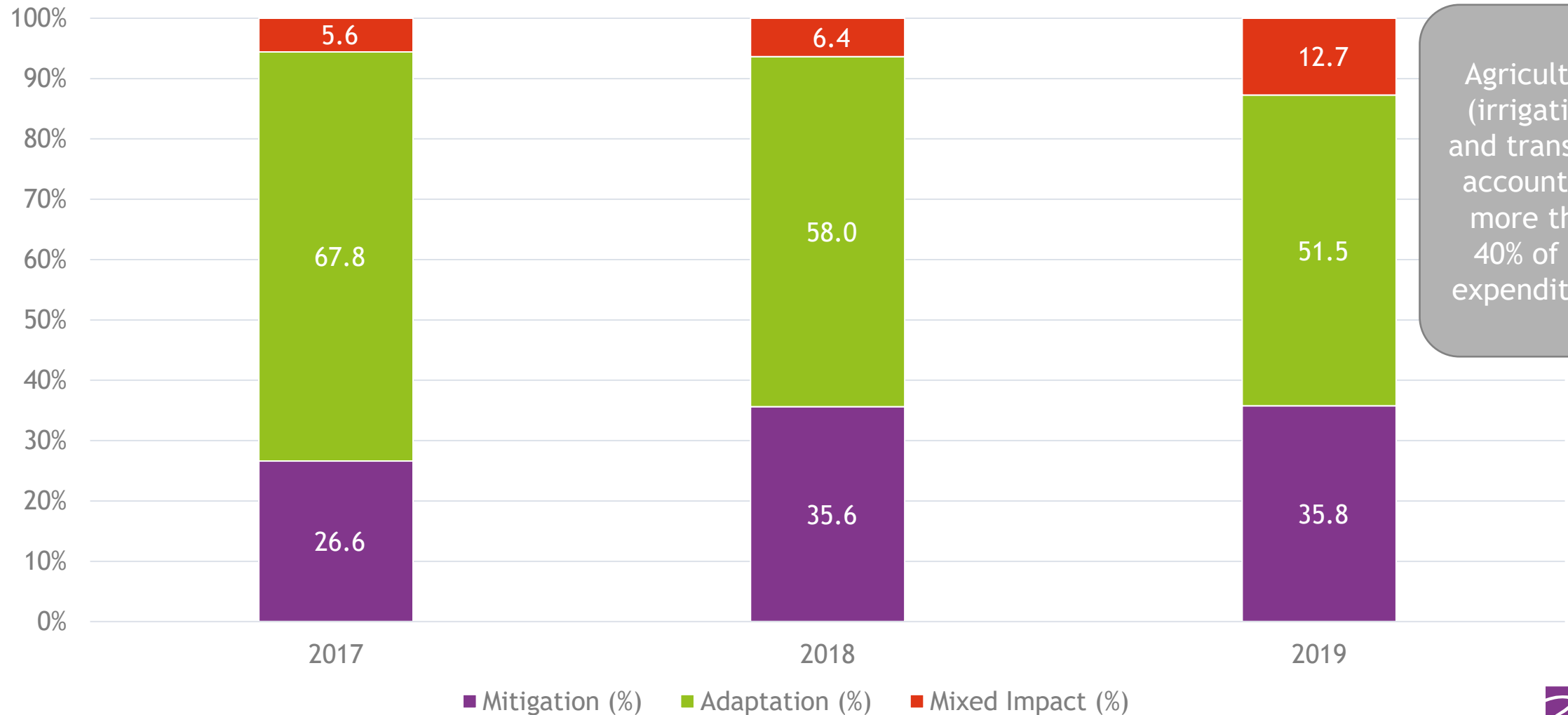
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The bulk of climate-related expenditures focus on adaptation



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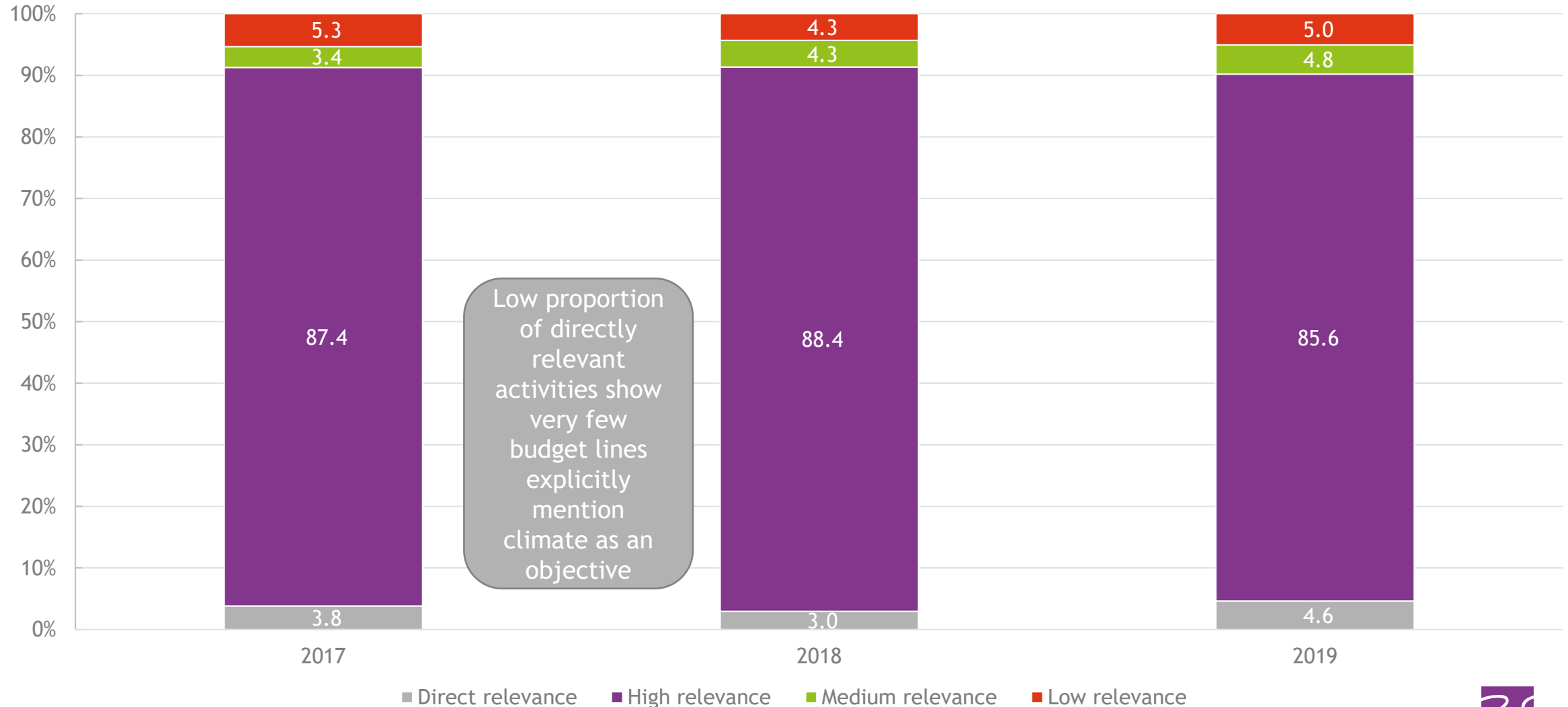
Agriculture (irrigation) and transport account for more than 40% of CC expenditures



After weighting, 'high relevance' (category 2) items account for the bulk of expenditure



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The policy and institutional analysis also reveal challenges/opportunities for Armenia



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They both reinforce the perspective that, until recently, climate change has been a low priority for the government. There are now signs this is changing.

Policy

Key findings

- No single comprehensive policy document
- Instead, CC largely left for sector development plans where they are insufficiently addressed
- Changes planned for the future

Institutional

Key findings

- Ministry of Environment has responsibility for climate policy but no mandate to engage in climate-relevant programs of other ministries
- Interagency Coordination Council has insufficient status and scope
- Low involvement of civil society



Key recommendations arising from CPEIR (selection)



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Policy framework

Recommendations

- Develop National Adaptation and Low Emissions Development Strategy
- Develop key expected results framework expected from CC policy
- Consider requiring sectoral policies to identify and disclose CC related policy objectives, measures, and outcomes

Institutional framework

Recommendations

- Enhance status of Interagency Coordination Council by requiring chairmanship to be by Deputy PM
- Extend mandate of Council to cover inter-agency coordination and balance between sector priorities
- Continue initiatives to increase participation of civil society in the Council

PFM framework

Recommendations

- Develop CBT mechanism
- Develop CC-related performance indicators
- Increase parliamentary scrutiny of public expenditure on climate
- Consider climate impacts when prioritizing investments and programs
- Enhance capacity of ministries to identify climate-relevant expenditures



GOVERNANCE

GOVERNANCE

EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

Climate Change Budget Tagging: A Review of International Experience

February 2021



Schweizerische Eidgenossenschaft
Confédération suisse
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Confederaziun svizra

Diese Konferenz

Forum Department of Economic Affairs,
Education and Research LERU,
World Economic Forum Research Alliance WEFRA



Climate Change Budget Tagging

Key Considerations

Key considerations in CC fiscal planning

- Risk and vulnerability
- Role of public and private sectors
- Choice of instrument
- Policy alignment
- Accountability and participation

Risk and vulnerability assessment



- Physical risks
 - Extreme events (acute)
 - Changes in ecosystem (chronic)
- Decarbonization transition
- Explicit and contingent liabilities
- Stranded assets
- Path-dependence
- Early mover
- Orderly / disorderly transition

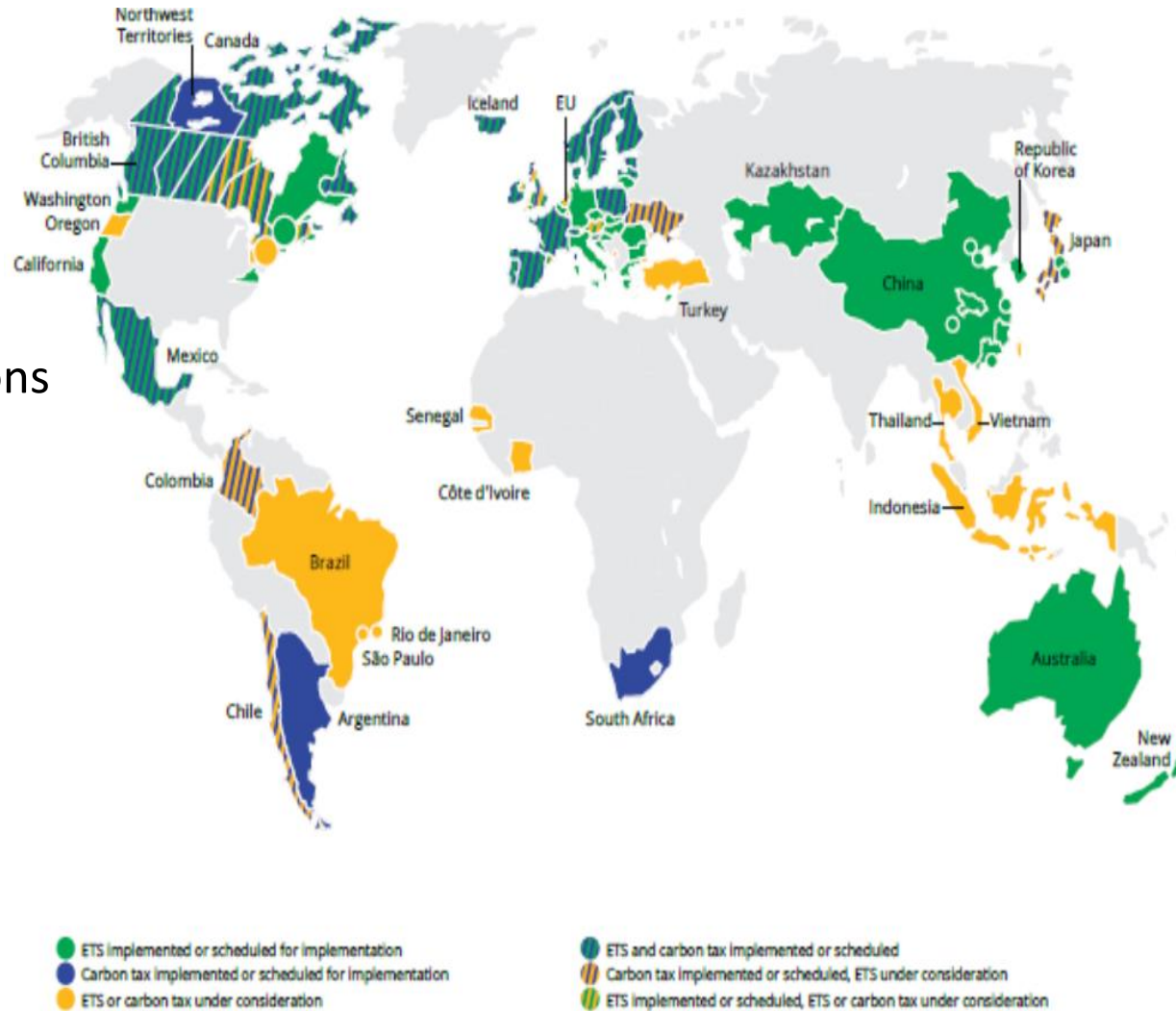
Role of private and public sectors

- Private sector and households will lead investment in de-carbonization and adaptation
- Public sector role is to address market failures
 - Information – hydromet
 - Networks – transport, energy, water
 - Innovation – electric vehicles
- Private sector implementing partner in ALL public provision
 - Traditional procurement
 - PPPs
 - Concessions



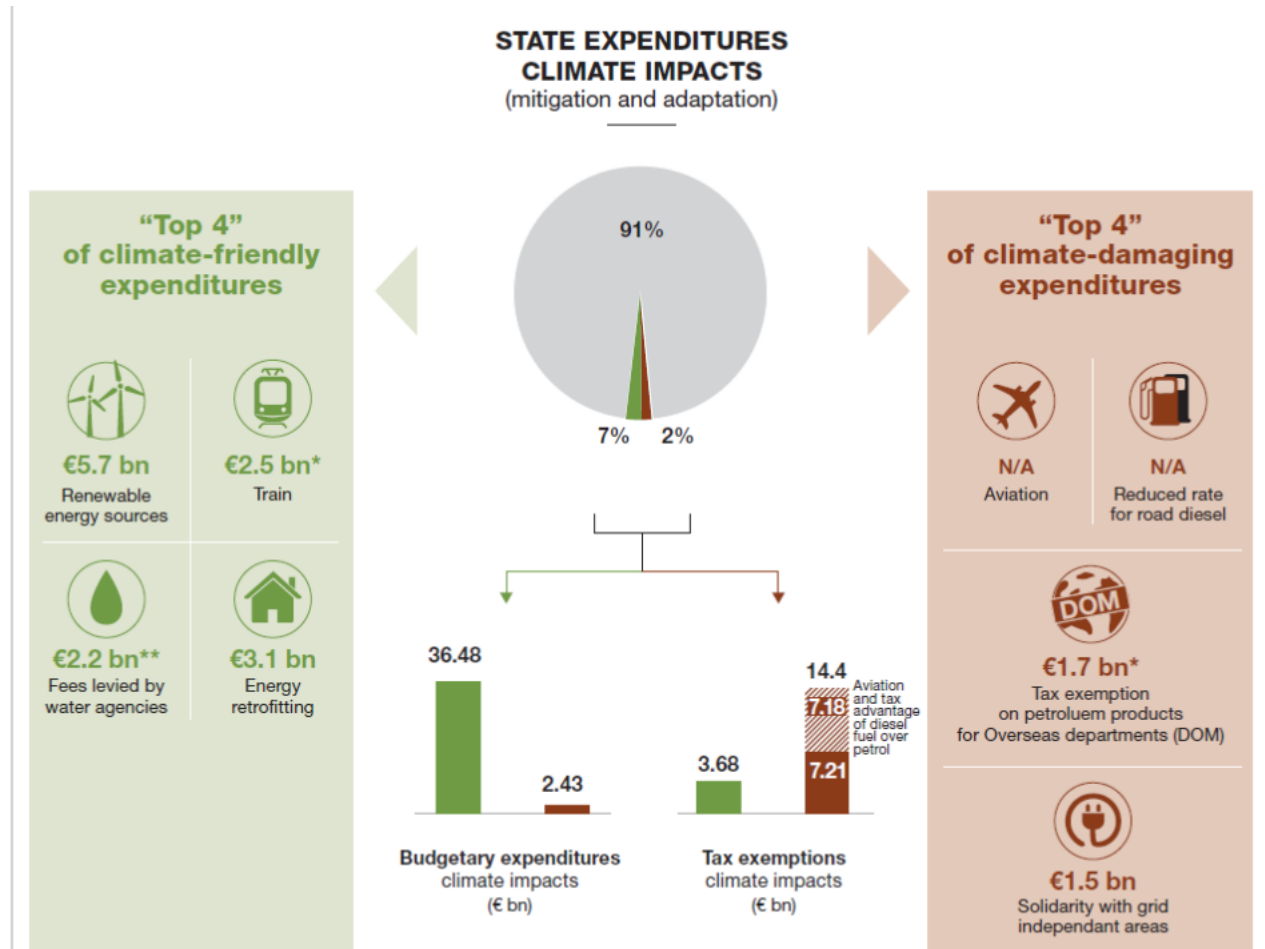
Choice of instrument

- Information
 - Risk assessments
 - Plans
- Regulation
 - Energy and emissions standards
 - Landuse
- Taxation
 - Carbon taxes
- Spend
 - Investment
 - Tax expenditures



Policy alignment

- Adaptation
- Mitigation
- Decarbonization target consistent
- Adverse impacts



@I4CE according to public data -

■ Climate friendly ■ Climate neutral ■ Climate-damaging ■ Climate-damaging (estimated by I4CE)

*Mitigation only **Adaptation only

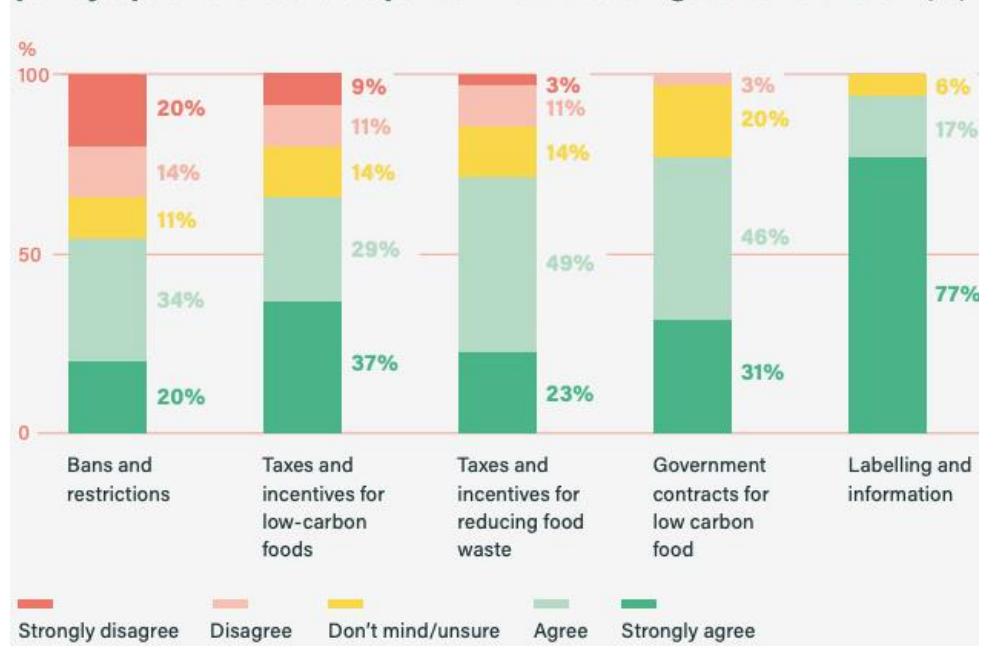
Data source: "Report on environmental impacts of the State budget" and calculations by I4CE.

Accountability and participation

- Targets
 - Decarbonization
 - Resilience
 - Resource share
- Consultation
 - Priorities
 - Choice of instrument
- Ownership
- Partnership



Figure 6: Changing retail and individuals' behaviour
How much do you agree or disagree that each of the following policy options should be part of how the UK gets to net zero? (%)





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Complementary tools and initiatives

This session explores 4 further climate themes and/or tools of importance to Ministries of Finance and other government ministries



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Climate Change Budget Integration Index

Diagnosing the extent of integration of CC into PFM systems

02

Planning and budgeting for climate risks

Helping to ensure financial resilience

03

Integrating climate resilience into public investment management

Using tools to build infrastructure resilience

04

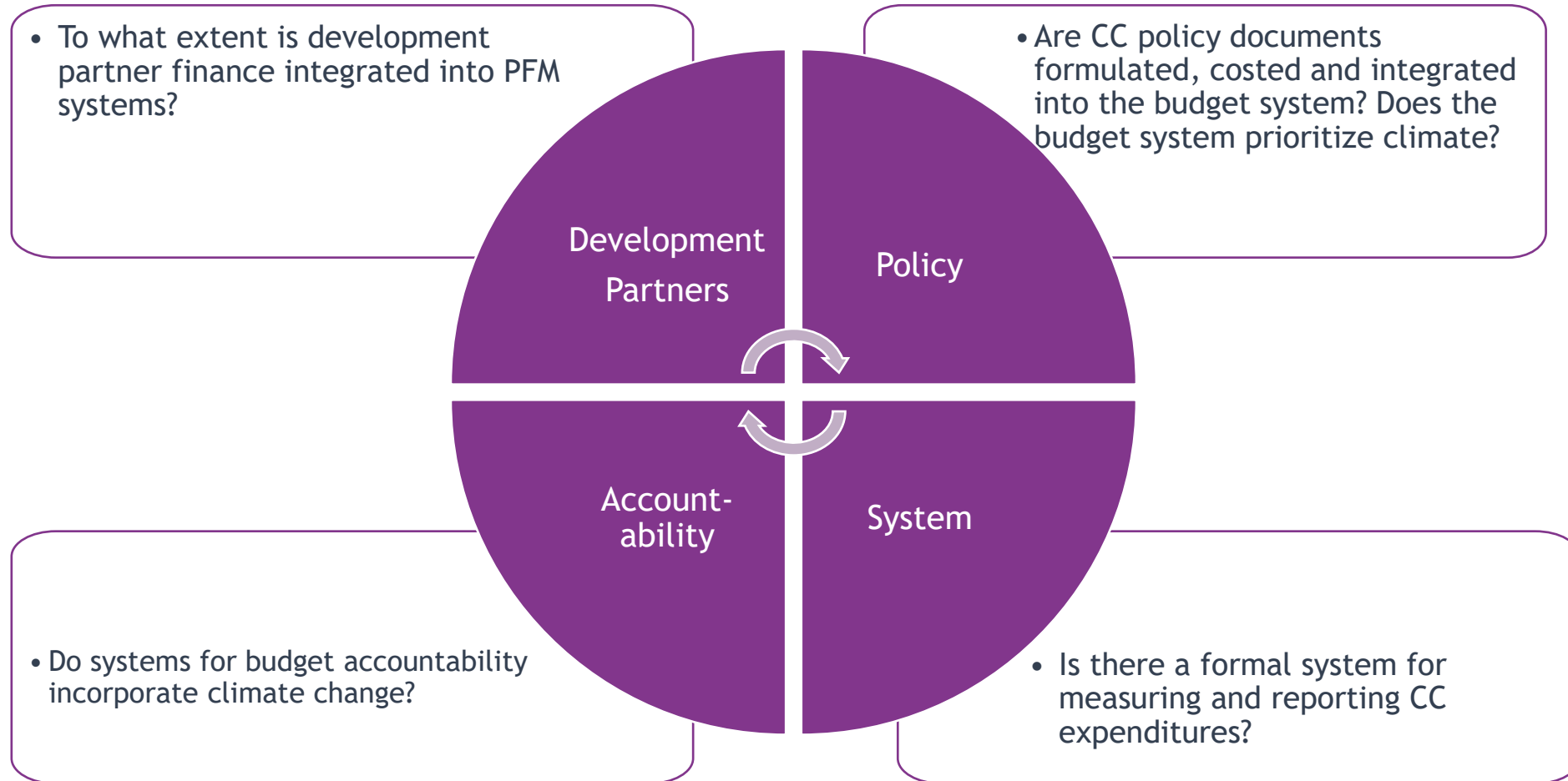
Shadow carbon pricing

Helping reduce transition risk and preparing for a low-carbon future

The CCBII helps countries understand whether the PFM system is enabling climate change policy outcomes



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Source: UNDP (undated) [Measuring the integration of climate change in PFM systems](#)

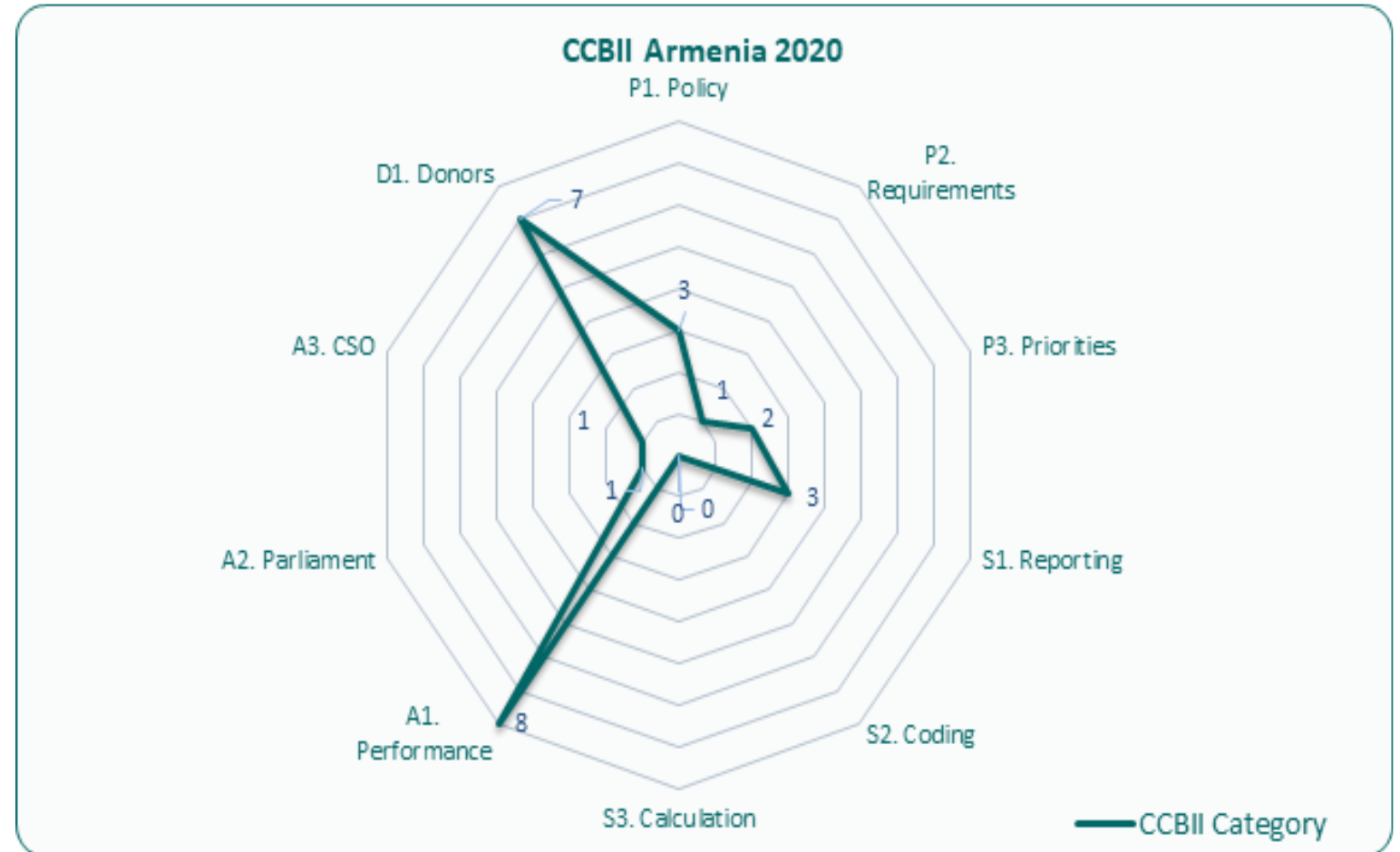
The application of the CCBII tool in Armenia identified important opportunities for development



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- Generally low level of integration with budget system not well suited for cross sectoral objectives
- No current methodology for identifying, coding or calculating CC expenditures, or use of performance indicators
- Legislative requirements for reporting on CC budget expenditures did not exist



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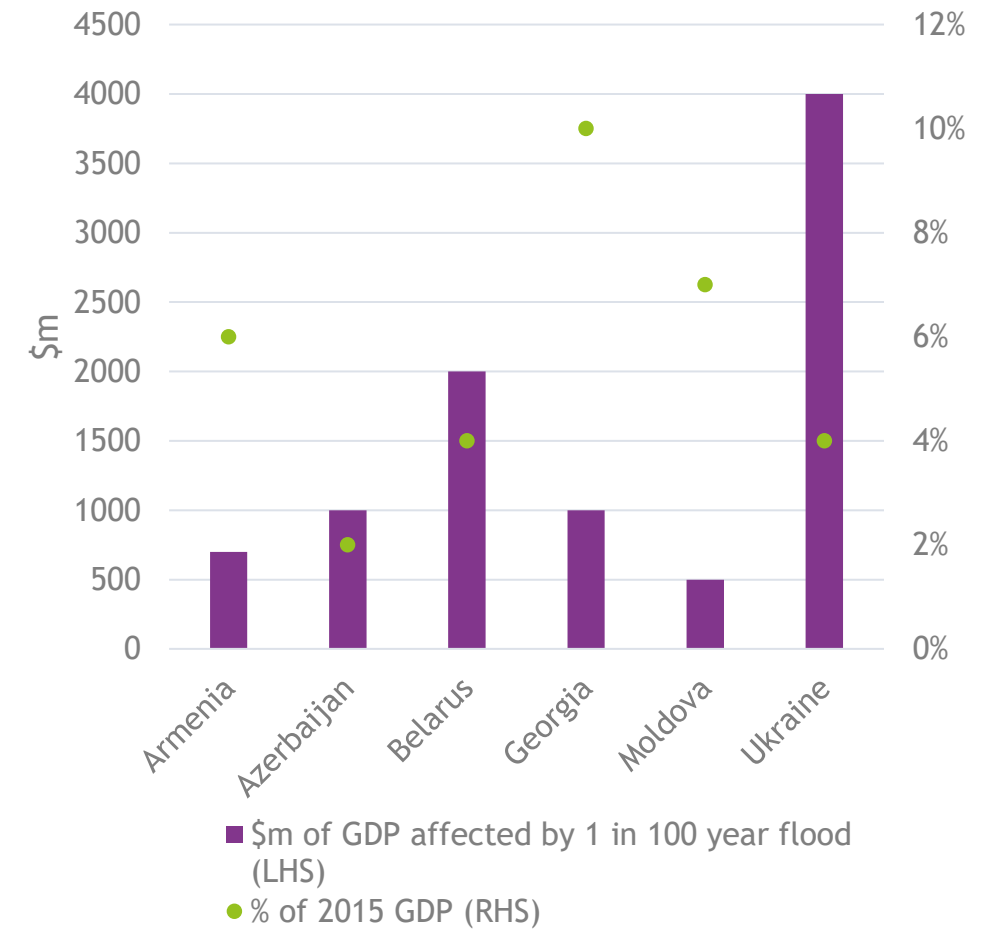
All EU4Climate countries are affected by climate-related disasters which will create contingent liabilities



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- Climate related disasters can have a significant impact on the economic performance of all EU4Climate countries
- This creates explicit and implicit contingent liabilities on governments
 - Immediate response and longer term reconstruction efforts of publicly owned assets
 - Expectations regarding extra support for social protection
 - Reductions in tax revenues as economic activity declines
- The magnitude of these impacts can be estimated from existing databases or through bespoke modelling

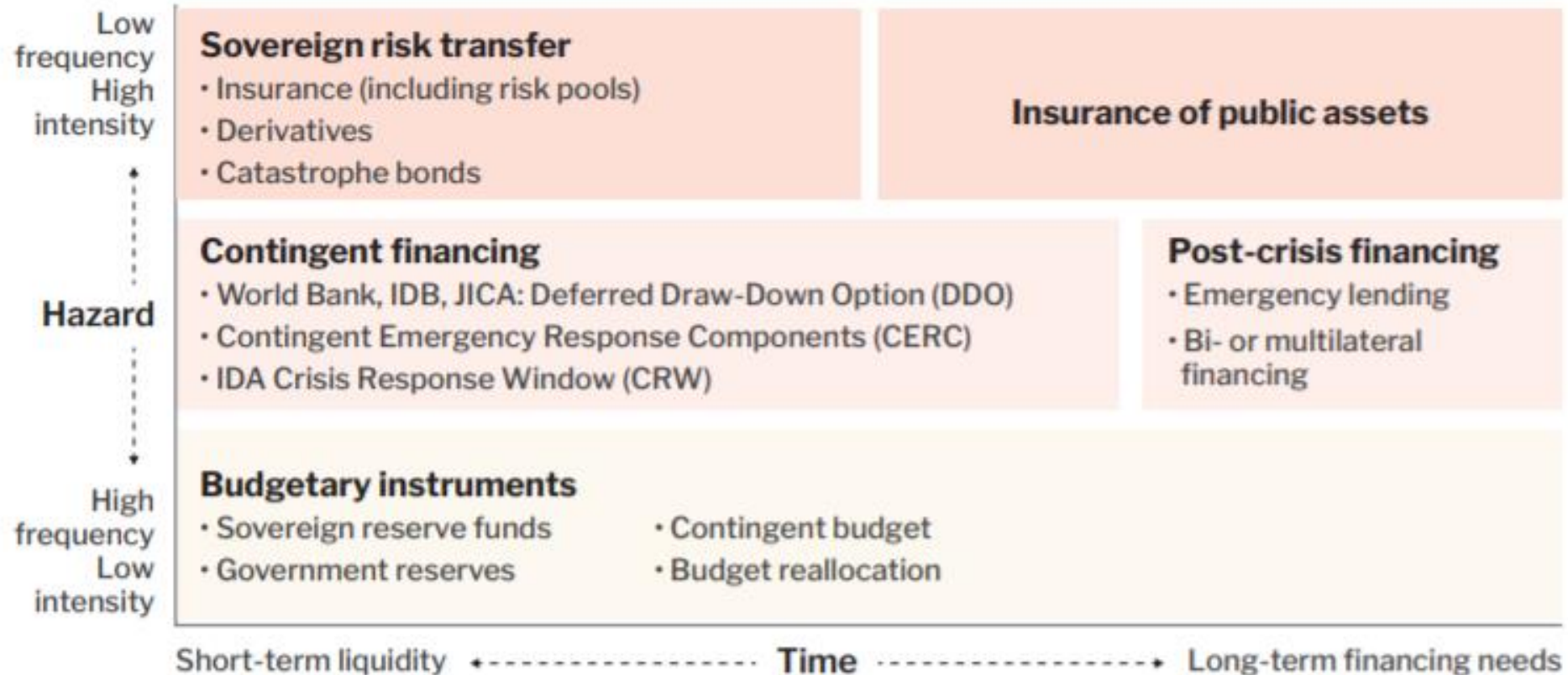


Source: GFDRR (2017) Various Disaster Risk Profiles

Governments can use a variety of tools and instruments to budget for these contingent liabilities



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Source: World Bank 2017.

Note: IDB = Inter-American Development Bank; JICA = Japan International Development Cooperation Agency; IDA = International Development Association.

Source: Hallegatte et al (2020) [Adaptation Principles: A Guide for Designing Strategies for Climate Change Adaptation and Resilience](#)

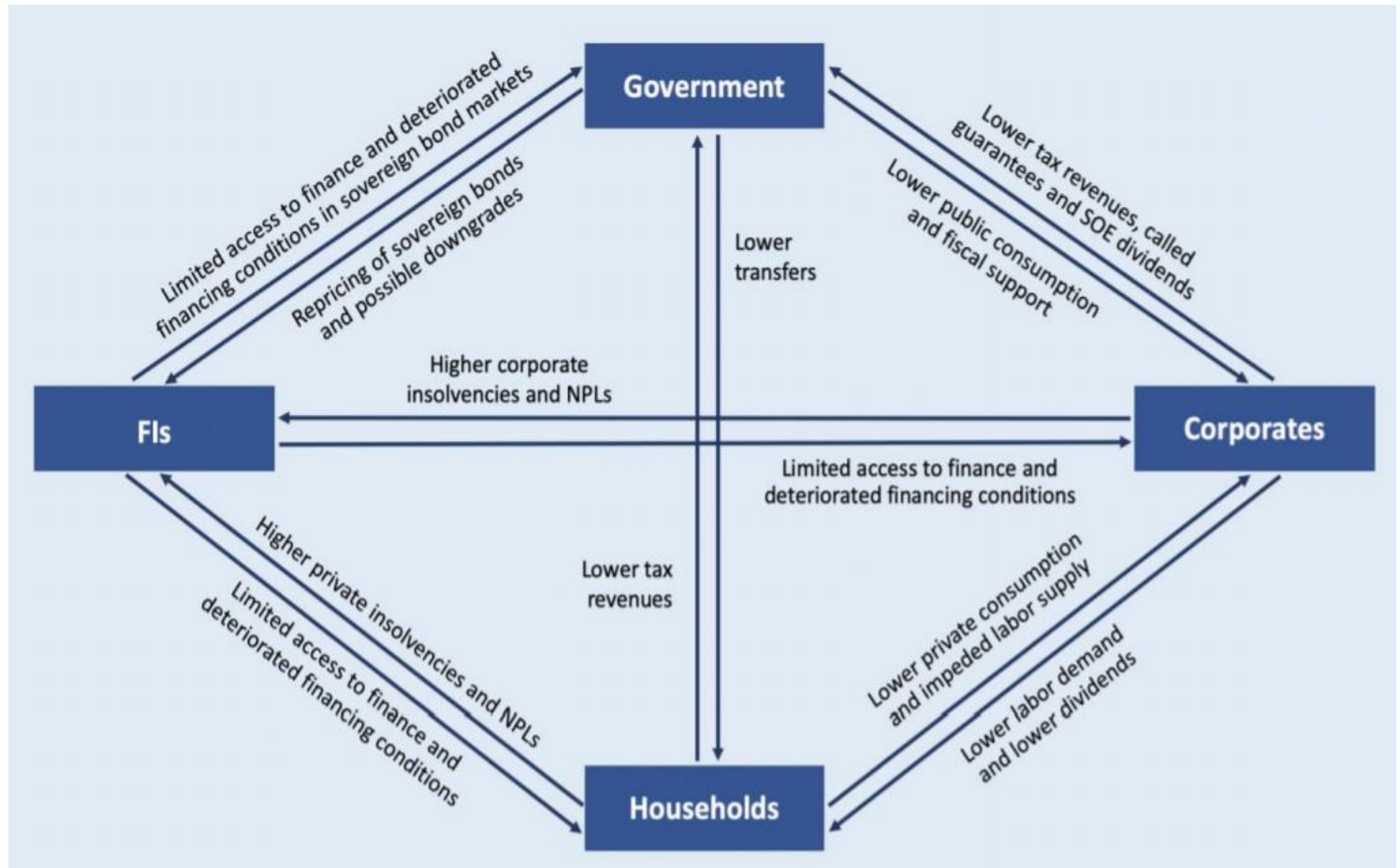
Governments also need to take account of the longer-term macro-economic implications of climate change



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- Climate change might result in, for example, loss of income, property damage, supply chain disruptions, risk repricing and redirection of trade flows
- Potential for feedback effects, leading to negative systemic macroeconomic implications
- Governments need to incorporate climate change impacts into macroeconomic models and work with Central Banks to understand vulnerability of macro-financial system to climate change impacts (stress testing)



Source: Dunz and Power (2021) [Climate-Related Risks for Ministries of Finance: An Overview](#)

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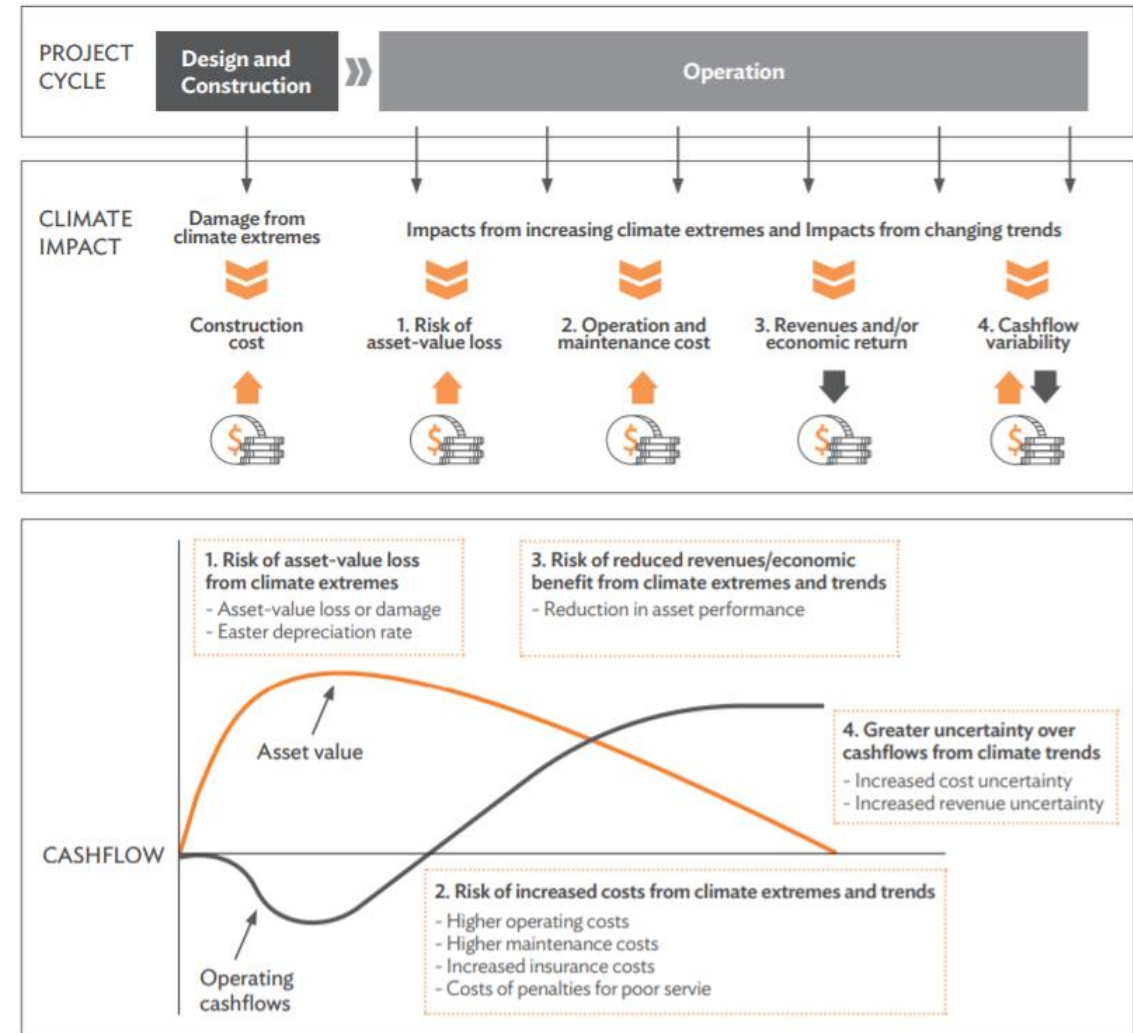
Public infrastructure investments will become increasingly subject to climate risks



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- Climate change can affect the financial performance of infrastructure assets through
 - Asset value losses
 - Higher operation and maintenance costs
 - Reduced returns
 - Increased cashflow variability
- Infrastructure investments could also have an important impact on future climate vulnerability
 - Support urban development in flood plains, for instance



Source: Ward and Watkiss (2021) [A System-wide Approach for Infrastructure Resilience](#)

In response, there are at least three actions that governments can consider



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The risks posed by climate change require changes across the entire infrastructure value chain, and for all financing models

Upstream planning

Upstream planning

Develop risk-informed infrastructure needs assessments

Climate risk assessments

Climate risk assessments

Mandate climate risk assessments alongside other infrastructure due diligence

Build climate risk into PPPs

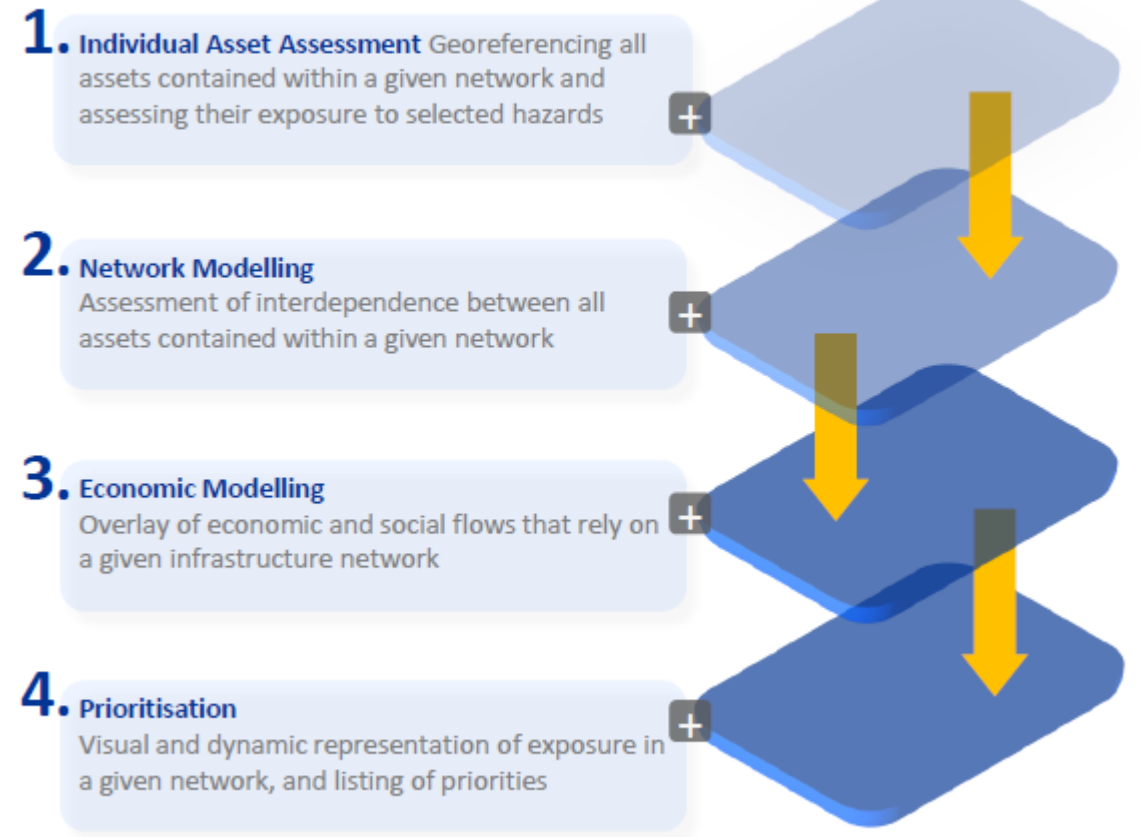
Build climate risks into PPPs

Ensure risk allocation in PPPs includes climate risks

Risk-informed infrastructure development plans can help build resilience

- Climate change will alter **what type of infrastructure assets** is needed and **where it should be situated**
- Medium-long term infrastructure plans need to be developed to take this into account
- Systems analysis can explore inter-dependency between infrastructure systems and identify critical vulnerability points
 - Either ensure that development avoids these areas or identify the additional protection that these ‘hot spots’ demand
- Examples in Jamaica, Ghana, Fiji

Technical Stages for Tool Development*

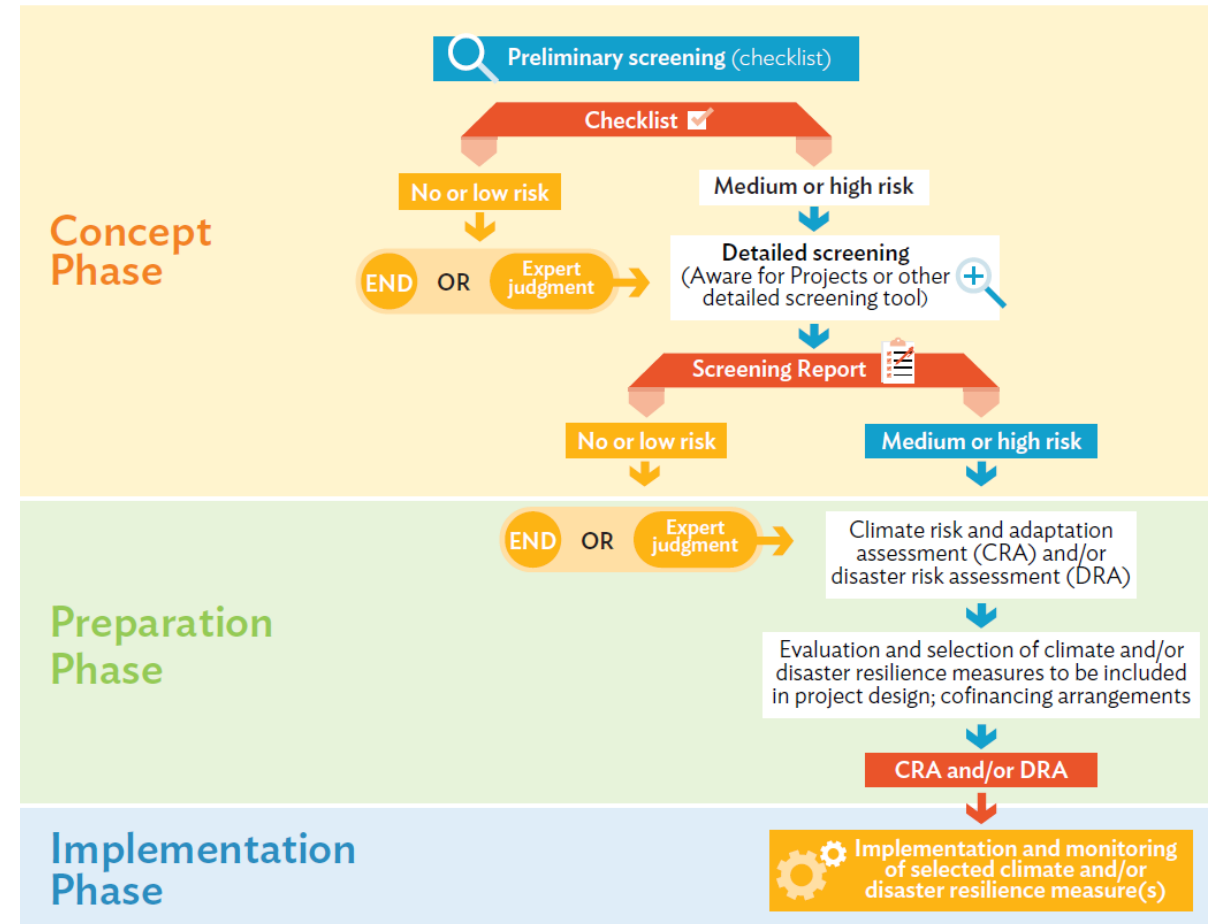


*Stages followed for a given infrastructure network in a given country

Source: CCRI (2021) Road to Glasgow 2021

Climate risk management can enhance the resilience of individual infrastructure assets

- Climate risk assurance normally proceeds in two stages
 - Screening at the concept phase
 - Detailed analysis for sensitive projects at the preparation stage
- Importantly, all considerations involve assessments of **expected future** climate, not the current climate
- Adaptation options should include both technical and non-technical options e.g. changes in way asset is used
- Adaptation options should be subject to an economic assessment of costs and benefits
 - Not necessarily cost benefit analysis, if uncertainties are high



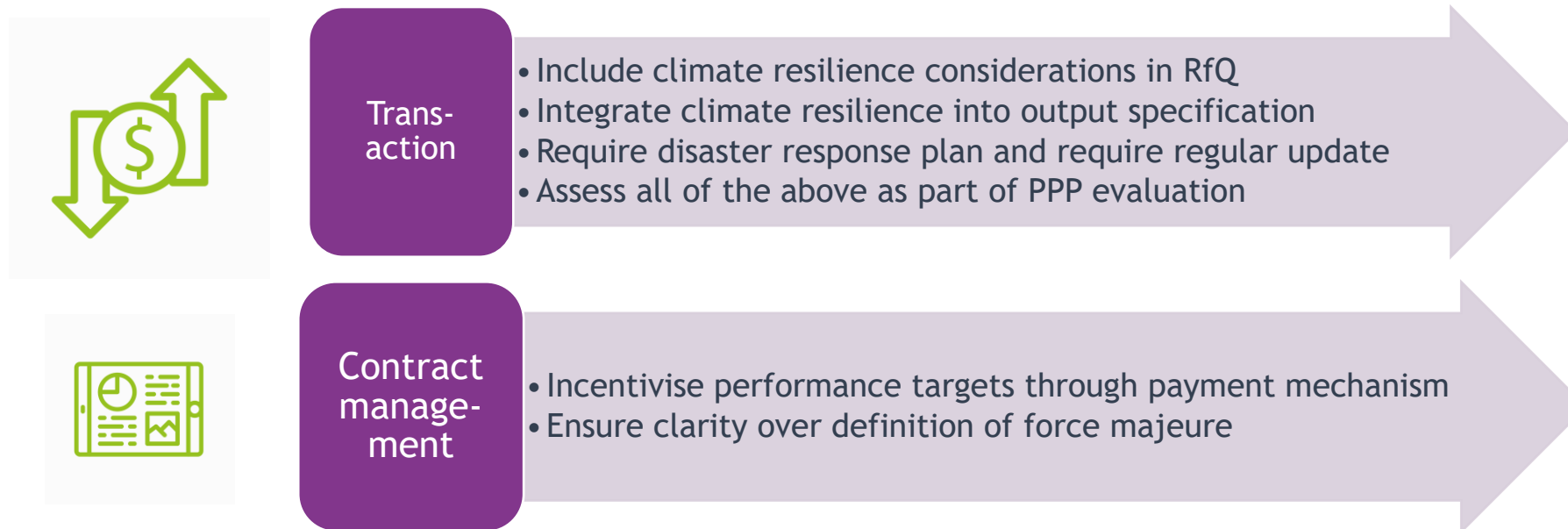
Source: ADB (2014) [Climate risk management in ADB projects](#)

There is also a need to embed climate resilience in PPP contracts

PPPs account for around \$10bn of infrastructure transactions per year in Europe (outside EU) and Central Asia

Climate risks are typically not explicitly considered, which could lead to problems when climate change causes infrastructure failure

Responses are needed at both the transaction and project management stage



Source: IDB (2020) [Climate resilient public private partnerships: a toolkit for decision makers](#)

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Helping reduce transition risk and
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Shadow carbon pricing can be used by to prepare for a low-carbon future



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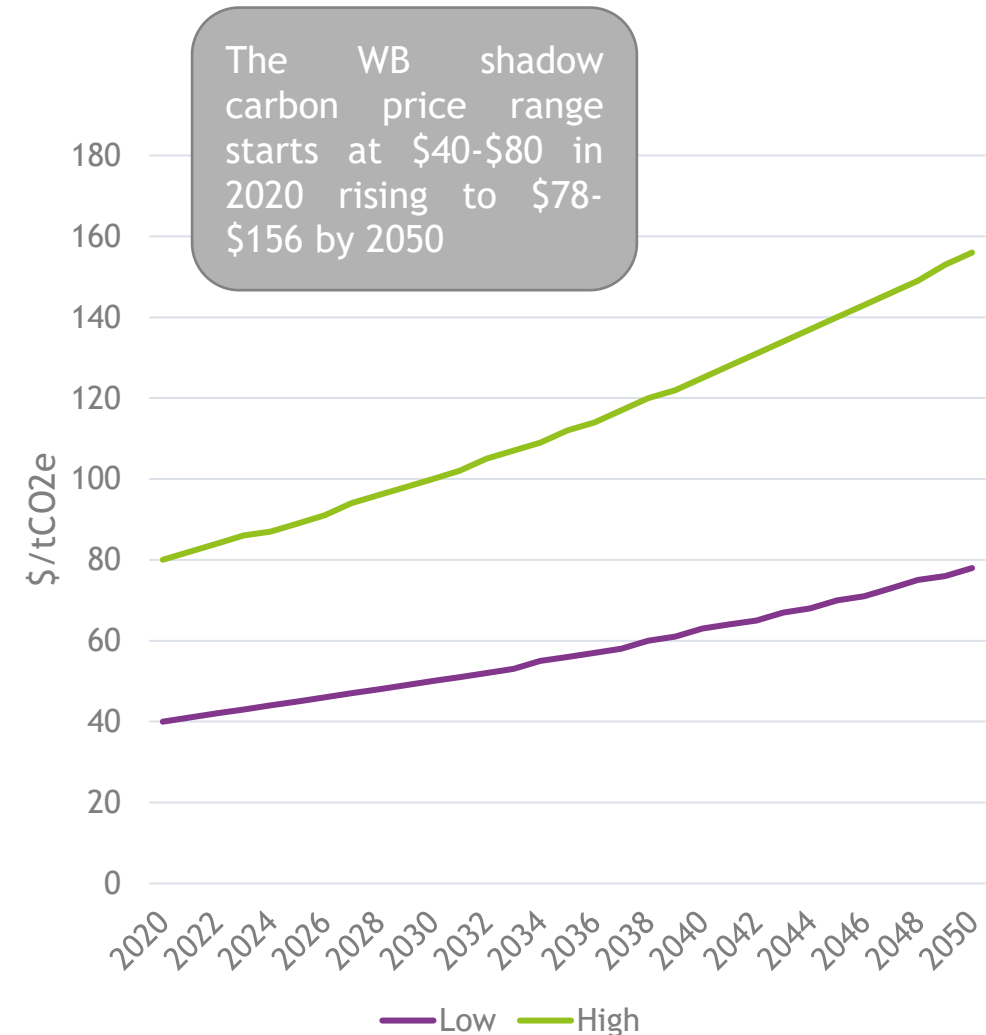
Shadow carbon pricing is a hypothetical charge applied to emissions associated with public (investment) projects

No actual financial transaction

Instead, analytical tool applied at appraisal stage, so as to make high-carbon projects look less financially attractive

Helps governments deliver on NDC commitments, and ensure country is prepared for a future where emissions are more constrained

Already applied by MDBs and most other IFIs



Source: World Bank (2017) [Guidance note on shadow price of carbon in economic analysis](#)

The Coalition of Finance Ministers for Climate Action convenes 62 countries to identify how finance ministries can support climate action



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ALIGN

Align

- Supporting finance ministries fiscal, economic, and planning instruments to facilitate a smooth trajectory of transition



MAINSTREAM

Mainstream

- Developing tools to address knowledge gaps in macroeconomic forecasting and fiscal planning for climate change impacts,
- Preparing guides to integrate climate into policy and budget processes



SHARE

Share

- Reviewing the design, organization and exercise of climate policy (mitigation and adaptation/resilience), and the role of the Ministry of Finance
- Sharing national approaches and bridging gaps



MOBILIZE

Mobilize

- Develop tools for mobilizing private sector financing, share experience, support international standard setting, and share best practice among Members



PROMOTE

Promote

- Working towards carbon pricing measures including reviewing state of play, increasing technical knowledge and developing toolkits.
- Better understanding of the benefits and challenges



ENGAGE

Engage

- Improve finance ministry ability to evaluate the macro-fiscal impacts of NDCs and long-term climate strategies, and provide effective guidance to the NDC development process.

Summary



1. CBT is just one way in which governments can engage finance for climate action.
2. The CCBII tool can be used to help identify opportunities for deeper integration between the PFM system and climate action including, but not limited to, climate budget tagging.
3. Ministries of Finance, working with other ministries, need to develop strategies to budget for extreme weather events (that will be worsened by climate change) as well as other disasters.
4. Medium- to long- term macroeconomic planning by Finance Ministries and other ministries should seek to understand how climate impacts might pose risks for macro-fiscal stability.
5. The public investment management process should consider how infrastructure might be affected by climate change and seek to adapt to these impacts through upstream planning, climate risk assessments and consideration of climate risks in PPPs.
6. Shadow carbon pricing can be used in investment and policy appraisal to support climate action and reduce transition risk.
7. The Coalition of Finance Ministers for Climate Action provides a forum for discussion on how Ministries of Finance can engage on the climate change agenda.



Key methodological issues in Climate Budget Tagging

Undertaking technical design



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Determine coverage

- Some or all Ministries?
- Investment or investment and recurrent budget?
- Tax/subsidy expenditures?
- Subnational?
- SOEs?



Assess granularity

- Does estimation take place at level of program or program element?



Define and categorise

- Options for determining climate relevance
 - Objective
 - Policy
- Categorisation options
 - None
 - Mitigation vs adaptation
 - Sectors in NDC or policy



Weighting

- Objectives/ impact based approach or benefits based approach?

There are a wider range of issues to consider when assessing the appropriate coverage



- **Central government ministries:** most countries include all central government ministries in order to ensure comprehensive picture
 - But countries may consider phased implementation if more practical
- **Capex/opex:** most countries include both capital and recurrent expenditures
- **Donor:** if donor spending is large and off-budget then additional mechanisms may be needed to capture this spending
- **Taxes/subsidies:** only France currently covers tax expenditures and subsidies as well as budgetary spend. Area for potential improvement.
- **Sub-national governments**
 - accurate inclusion of transfers to sub-national governments depends on how well specified the intended purpose of the transfer is
 - inclusion of spending by sub-national governments depends on capacity level
- **SOEs:** some countries (Ecuador, Pakistan, the Philippines) include, but need to consider effectiveness

Undertaking technical design



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Weighting

- Objectives/ impact based approach or benefits based approach?

Most countries undertake tagging at the activity/measure level



“

[The approach] ... does not distinguish sufficiently between the climate contribution made by different activities, leading to an overestimation of contribution made to climate action

”

Activity/measure level is the lowest level of detail that is easily available in (programmatic) budgets

This is the preferred approach for CBT in most countries, providing sufficiently robust results while still allowing relatively rapid assessment

When countries have adopted a higher level of aggregation, the results have sometimes been found to be inaccurate e.g. European Court of Auditors judgement on EC's approach to climate budget tagging in period to 2020

Source: European Court of Auditors (2016)

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Determine coverage

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- Does estimation take place at level of program or program element?



Define and categorise

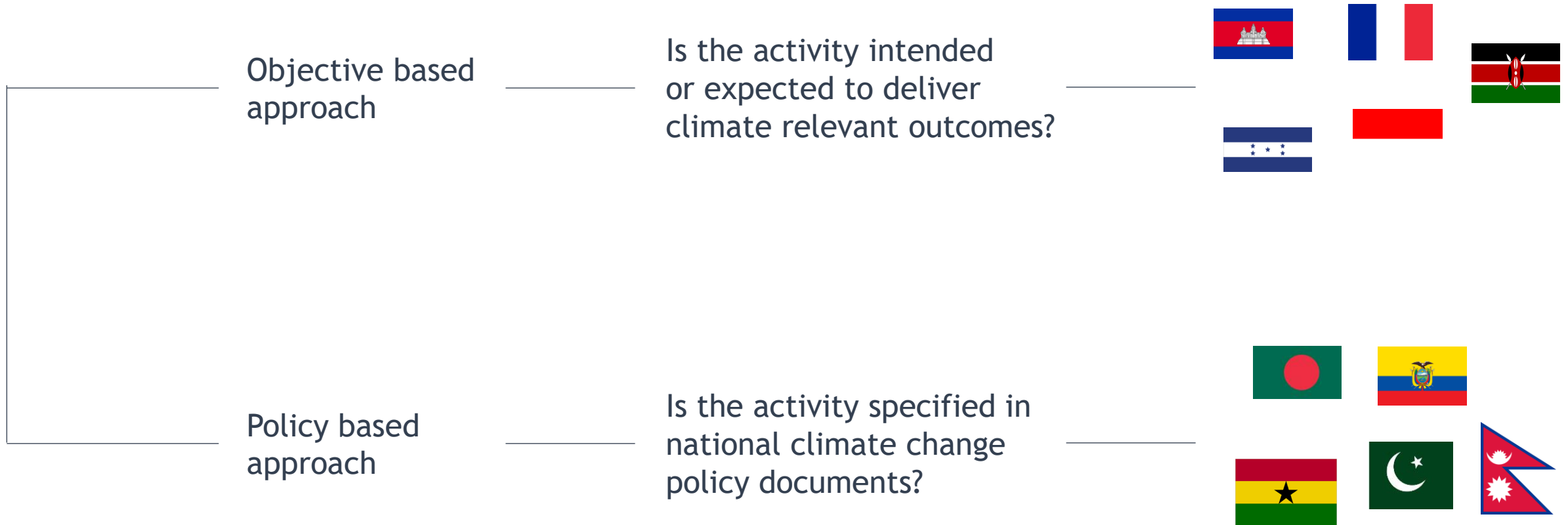
- Options for determining climate relevance
 - Objective
 - Policy
- Categorisation options
 - None
 - Mitigation vs adaptation
 - Sectors in NDC or policy



Weighting

- Objectives/ impact based approach or benefits based approach?

Defining: There are two main ways to approach defining climate-relevant spend



Defining: To support the objectives based approach, a number of sources can help identify climate relevant activities



OECD Rio Markers

Criteria used for defining whether development partner spending supports climate

- Mitigation: if spending limits emissions, protects sinks and reservoirs, integrates climate change concerns into development objectives or helps meet reporting obligations. Indicative list of activities provided.
- Adaptation: if spending documentation identifies risks, vulnerabilities and impacts, outlines how these will be addressed, and demonstrates clear link to activities
- DPs identify whether addressing climate change was the **principal reason** for providing the spending, or a **significant** one

MDB Joint methodology

Criteria used by MDBs for reporting climate finance spend

- Mitigation: prescriptive list of activities including renewable energy; low-carbon and energy efficient generation; energy efficiency; agriculture, aquaculture, forestry and land-use; non-energy GHG reductions; waste and wastewater; transport; low-carbon technologies; cross-cutting issues
- Adaptation: process based approach similar to OECD Rio Markers

National taxonomies

National and international lists of climate-relevant activities

- National examples include: EC, Bangladesh, Mongolia
- International examples typically relate to green bond development e.g Climate Bond Initiative taxonomy, ICMA Green Bonds list of activities

Defining: a decision needs to be taken regarding the treatment of climate negative expenditures



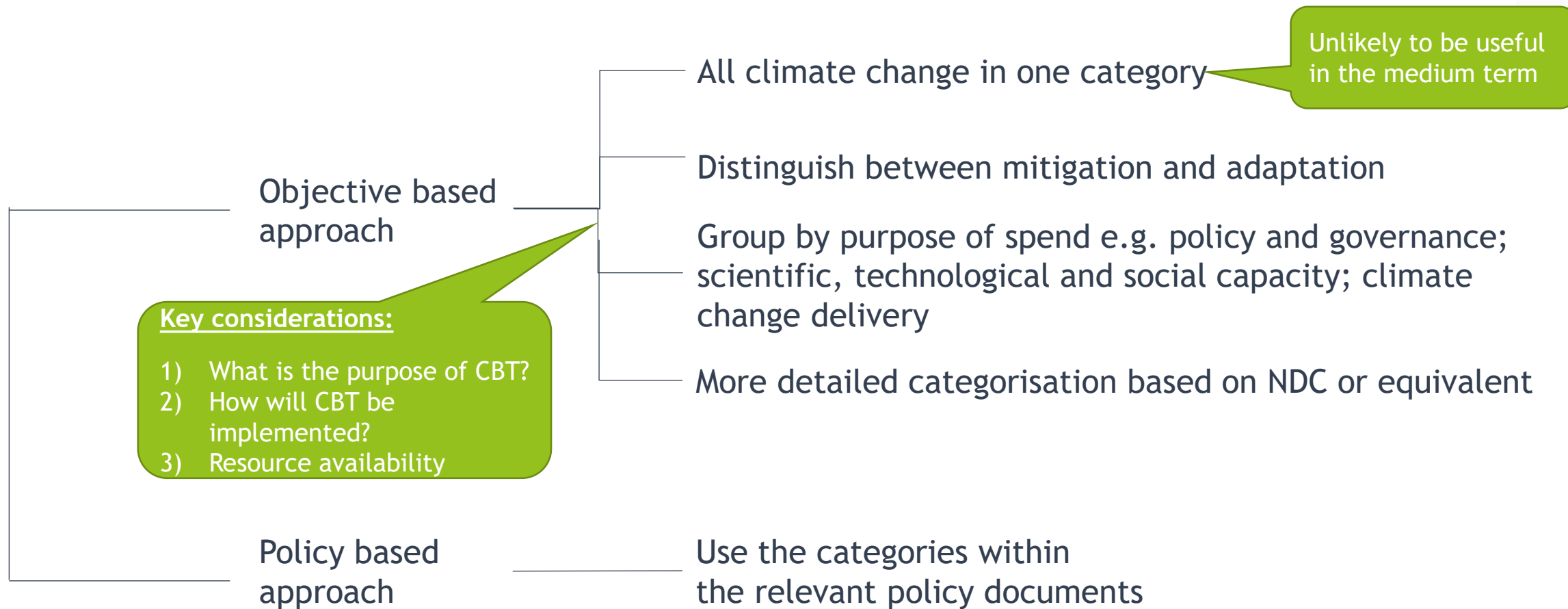
As well as defining the activities that support climate goals, a decision should also be taken on whether to include climate negative expenditures e.g. subsidies provided to fossil fuel producers

To date, only France has included such spending

The inclusion of these activities will largely depend on the objectives of the CBT:

- ✓ Gives a more accurate account of extent to which budget is supporting climate strategies, will help ensure greater domestic awareness regarding climate change
- ✗ May not support finance raising objectives

Categorising: The approach to categorising climate spend depends in part on the approach to its definition



Undertaking technical design



Funded by the European Union



Determine coverage

- Some or all Ministries?
- Investment or investment and recurrent budget?
- Tax/subsidy expenditures?
- Subnational?
- SOEs?



Assess granularity

- Does estimation take place at level of program or program element?



Define and categorise

- Options for determining climate relevance
 - Objective
 - Policy
- Categorisation options
 - None
 - Mitigation vs adaptation
 - Sectors in NDC or policy



Weighting

- Objectives/ impact based approach or benefits based approach?

It is often difficult to disentangle climate spend from spending on other priorities



Even when spending has been identified as ‘climate-relevant’, the **extent to which** it is climate-relevant can be difficult to disentangle

This is because many climate-related activities have development co-benefits, and many development activities support climate resilience e.g.

- Energy efficiency - reduces emissions but also helps reduce costs, improve energy security (for energy importers) etc.
- Improvements in agricultural irrigation - helps to boost agricultural production but also helps to make farmers more resilient to expected reductions in rainfall/increase likelihood of drought

Adaptation often described as ‘development in a hostile climate’

Countries have three main options to respond to this challenge



Focus only on activities where climate change is primary objective



- ✓ Clear and simple approach
- ✗ Understates financial commitments to climate

Recognise different categories of spend but do not apply weighting



- ✓ Avoids potentially arbitrary weights
- ✗ Maybe difficult to communicate

Recognise different categories of spend and weight each type of spending



- ✓ Provides simplicity of a single number
- ✗ Weighting approach requires judgement

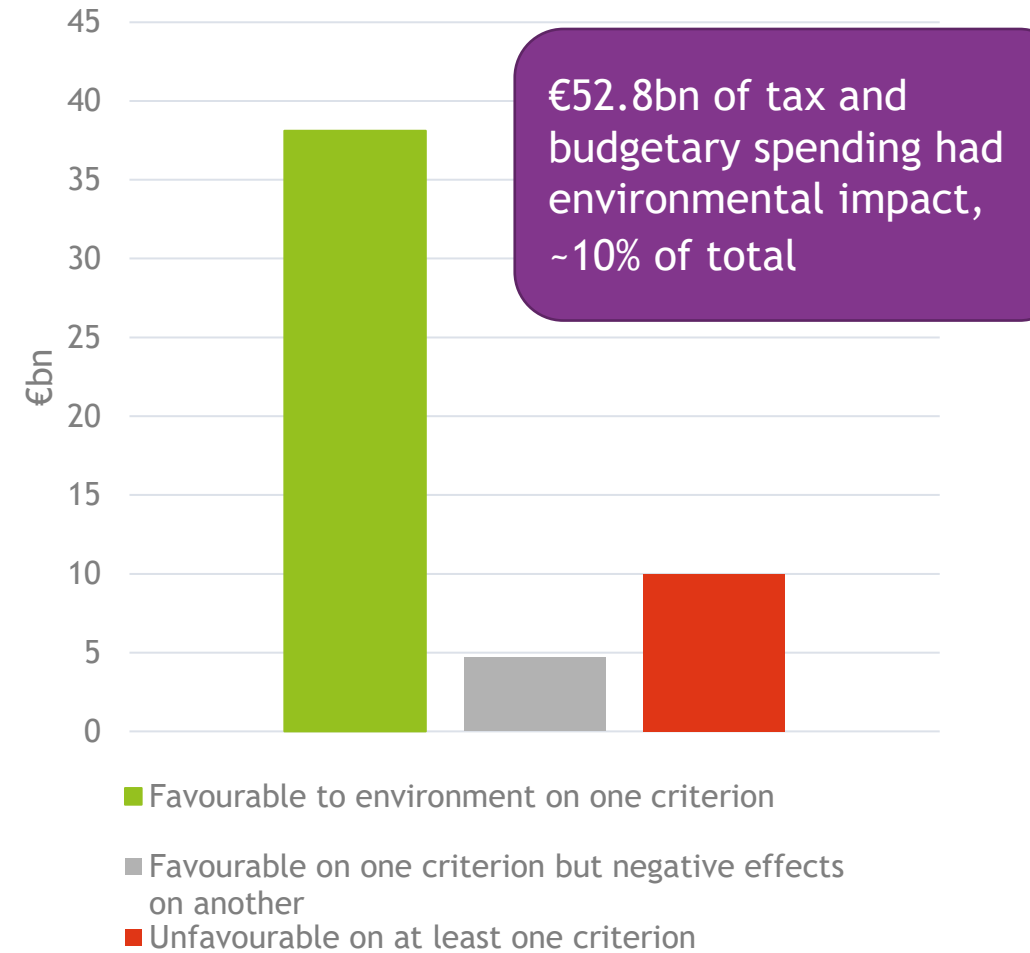
The French case provides an example of classifying without weighting



Activities are grouped into five categories

- **3 - very favourable** - principal objective is environmental or contributes to environmental service
- **2 - favourable** - does not have an environmental objective but with an environmental impact
- **1 favourable but controversial** - favourable impact in short term but may entail long term risks
- **0 neutral** - no significant impact
- **-1 unfavourable** - expenditure adversely effects at least one environmental objectives

Assessment undertaken for six different environmental criteria: climate change mitigation, climate change adaptation, water resource management, circular economic, pollution, biodiversity



Most countries adopt a weighting approach



- Three main factors can be used to help identify the appropriate weight that might be applied:
 - **Purpose/objective:** was the activity/spending undertaken primarily because of its climate change benefits (mitigation and/or adaptation) - this is at the core of the OECD DAC approach
 - **Impacts:** does international experience suggest that this type of activity has a significant impact on reducing emissions/enhancing climate resilience
 - **Proportion of benefits:** what proportion of the benefits from an activity are thought to be associated with climate change related benefits
- Although some people argue that the ‘proportion of benefits’ approach may give more robust weights, it has typically proven too complex in the context of budget tagging
- This leaves a combination of **purpose/objective** and **impacts** as the typical factors used for determining weights

Countries use different approaches to setting weights

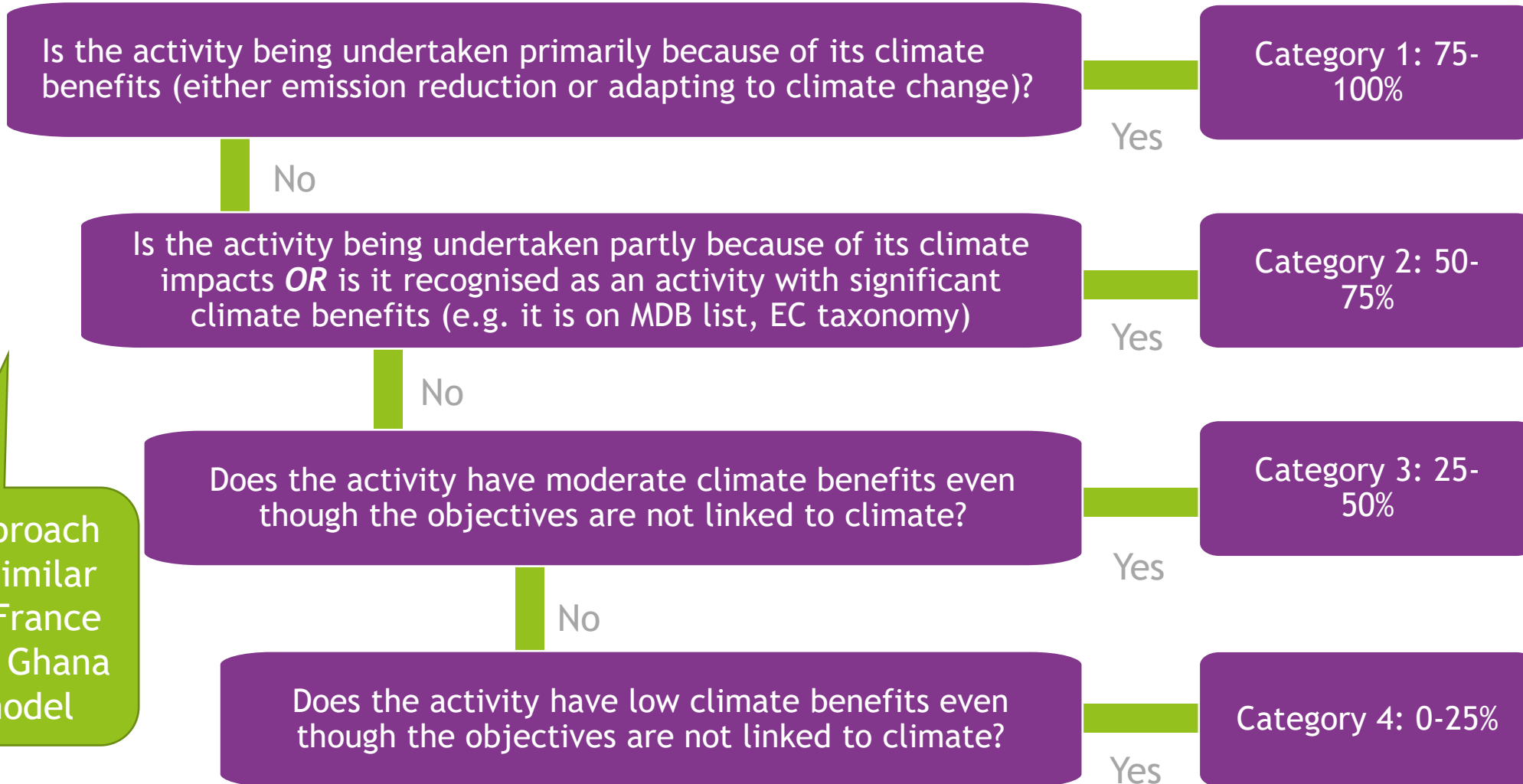


	Weight 1	Weight 2	Weight 3	Weight 4	Notes
EU	100% - if budget makes a significant contribution to climate objectives	40% - if spending makes a moderate contribution to climate objectives	N/A	N/A	Only focuses on impacts, not purpose/objectives (cf. OECD DAC approach)
Ghana	100% (high) - if stated primary objectives is climate change related	50% (medium) - if can be linked to focus areas of climate action plan and policy objective refers to climate	20% (low) - as for medium, but no reference to climate change objective in description		Combination of purpose and impacts
Pakistan	>75% if climate change is primary objective	50-74% if climate change is a secondary objective	25-49% if spending makes an indirect contribution to climate objectives	<25% if spending makes a marginal contribution to climate objectives	Combination of purpose and impacts

Earlier work within this project identified a 4-way weighting system (1 of 3)



Approach is similar to France and Ghana model



Earlier work within this project identified a 4-way weighting system (2 of 3)



Category 1 (75-100%)	Reserved for activities where there is an explicit statement that the activity is primarily intended to reduce emissions or enhance climate resilience/adapt to climate change.
Category 2 (50-75%)	<p>Climate benefit is only a secondary reason for undertaking the activity or where there was no intention for the activity to enhance climate adaptation or reduce emissions, but there is demonstrable (international) evidence that the activity will have this effect</p> <ul style="list-style-type: none">• Mitigation: largely identified from the list of mitigation activities developed by the MDBs, with a few exceptions as discussed in category 3 below. For example, energy efficiency activities undertaken for energy security reasons.• Adaptation: expected to reduce exposure to, or hazard intensity of, climate impacts; or directly reduce climate vulnerability. For example, afforestation activities directly reduce the hazard intensity of floods and landslides, or more efficient irrigation systems makes farming communities less vulnerable to water shortages
Category 3 (25-50%)	<p>Where there is no intention to deliver climate outcomes but where there are nonetheless expected to be some moderate climate benefits from the expenditure:</p> <ul style="list-style-type: none">• Mitigation: activities that reduce emissions but which may not be consistent with 1.5°C temperature goal e.g. gas• Adaptation: activities targeted at sectors, people, communities or assets that are climate sensitive which increase ability to cope with a range of impacts, including climate change e.g. improving food security, improving water quality
Category 4 (<25%)	Activities that reduce general vulnerability or enhance coping or adaptive capacity but which are not targeted at those people, communities or assets that are particular exposed or vulnerable to climate change e.g. health spending

Earlier work within this project identified a 4-way weighting system (3 of 3)



Further adjustments could then be made within each category to take account of additional factors:

- **Co-benefits:** activities that have both mitigation and adaptation co-benefits e.g. afforestation, reforestation, can be given a higher weighting than activities that just have adaptation or mitigation benefits
- **Diluted spend:** activities that have adaptation and/or mitigation benefits but where there are significant spend items within the same budget line that have no climate benefits can be given a lower weighting

While such adjustments are relatively easy to apply in a CPEIR exercise, it may be more challenging to apply them in a CBT exercise, depending on the implementation modality

Summary



1. CBT exercises in most countries include both operating and capital budgets by all central government ministries. Sub-national government and SOE inclusion is more patchy.
2. To date, most countries have excluded taxes and subsidies from CBT exercises but it would be desirable to alter this. The inclusion of negative expenditures depends on the objectives of CBT.
3. CBT analysis will typically be undertaken at the activity/measure level of any budget.
4. Countries can define the climate-relevance of spending by reference to the objectives/impact of the expenditure or by reference to key policy directions. It is generally useful to categorise climate relevant spending, with the approach to categorisation depending on country circumstances.
5. When undertaking CBT, countries take a variety of approaches to account for the entanglement of climate with broader development plans.
6. The most typical approach is to adopt 'weights' for various categories of spend. The weights are likely to account for both the objectives/purpose of the spend, and the expected impact that the spend will have.