An introduction to Climate Budget Tagging (CBT)

Contents

Defining climate-budget tagging

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
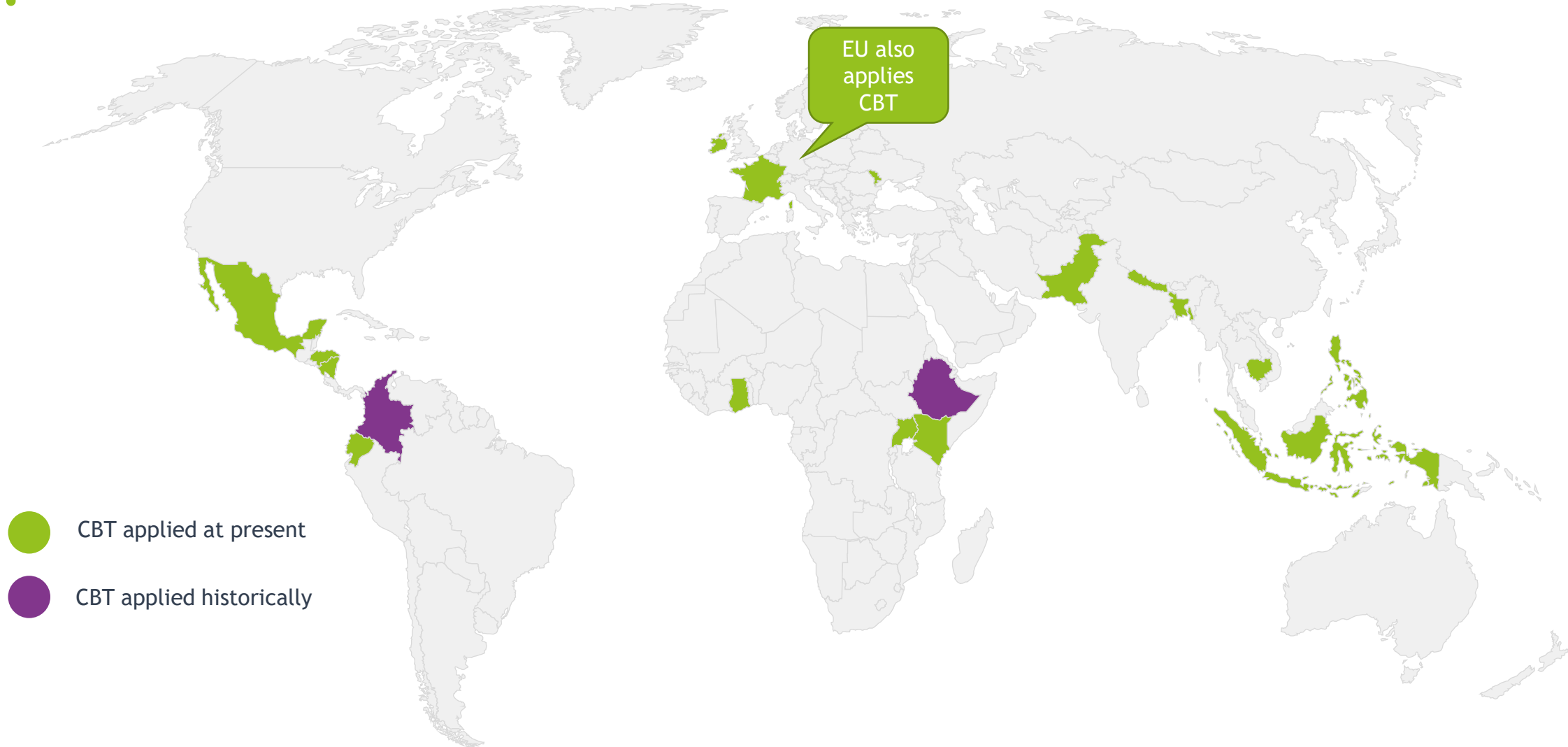
Monitor

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

CPEIRs are often the entry point for undertaking CBT

CPEIR

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

Institutional
- How effective are institutions in formulating and implement-ing climate responses

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

- Climate budget tagging
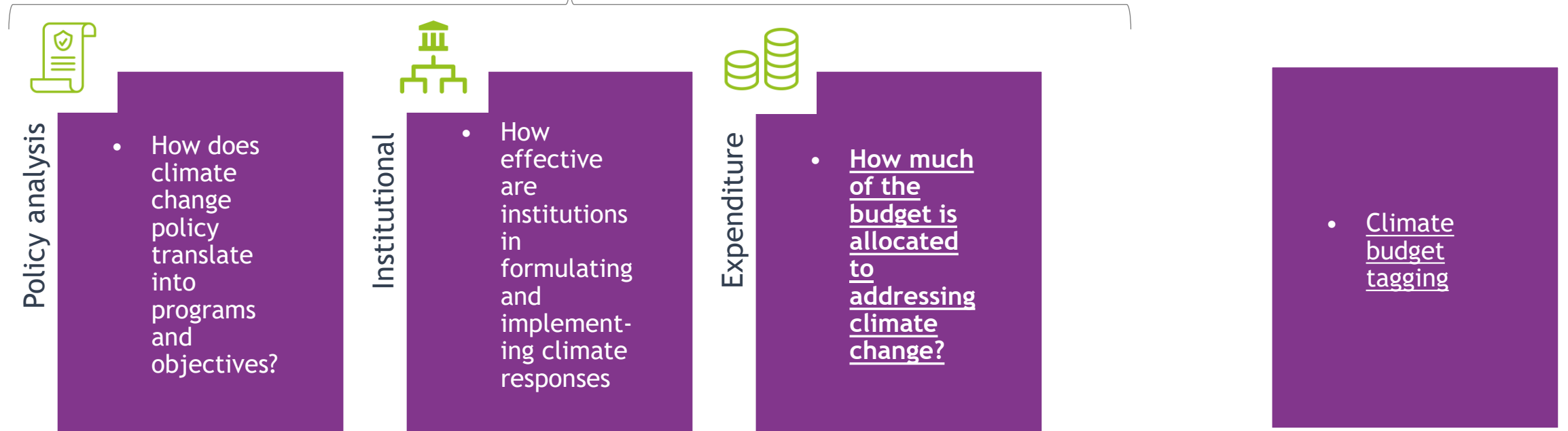
← Historic performance →

Today

← Future →

CPEIR reviews current and historic integration of climate into PFM processes

Decision to integrate CBT into the future

Contents

01 | What is CBT and who is doing it?

02 | Why undertake CBT?

03 | The key steps in CBT

04 | Critical success factors

CBT can have a number of benefits

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

Contents

Three key phases in introducing climate budget tagging

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
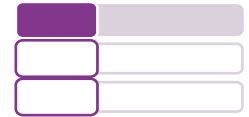- Define weighting methodology

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

Defining the purpose and setting of CBT

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
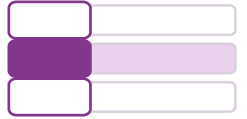
Determine coverage

- 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?
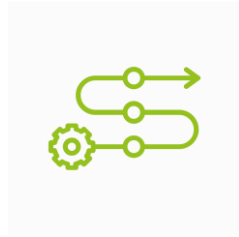
Determining the implementation modality

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

Contents

01 | **What is CBT and who is doing it?**

02 | **Why undertake CBT?**

03 | **The key steps in CBT**

04 | **Critical success factors and key challenges**

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

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