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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



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PREFACE

Climate change is the single greatest challenge humanity has ever faced, threatening water and food security, health, livelihoods, and the safety of billions of people. Climate change represents an all-of-society challenge and all-of-society opportunity. The latest report from the UN Intergovernmental Panel on Climate Change (IPCC)¹ has stated that the planet will reach the critical threshold of 1.5 degrees Celsius above pre-industrial levels by as early as 2030, triggering the risk of extreme drought, wildfires, floods and food shortages for hundreds of millions of people – posing a threat to the achievement of the entire Agenda 2030.

Achieving the primary goal of the Paris Agreement – to keep the average global temperature rise well below 2C degrees and as close as possible to 1.5C above pre-industrial levels will increase the ability of governments to achieve the Sustainable Development Goals (SDGs) in the context of the changing climate. Bold actions on climate change deliver USD 26 trillion in economic benefits by 2030² and climate change has been called the “greatest investment opportunity in history” valued at about 10 percent of global GDP³.

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

Accelerating the implementation of NDCs requires clear financing strategies which work to mobilise resources from both public and private sectors. International climate change finance will have a key role to play in this and will be most effective when aligned with domestic budget frameworks and used catalytically to leverage further private finance behind NDCs. A strong performance oriented domestic budget which integrates climate risk and reduces greenhouse gas emissions will provide the enabling environment to align international and private financial flows. In relation to adaptation most of the climate change efforts will need to be managed by national and

subnational governments through their domestic budgeting systems. Strong oversight and public accountability are essential to ensuring that these systems manage climate change-related resources effectively to build sustainable, resilient and equitable societies.

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

UNDP has played a key role in supporting Climate Budget Tagging in as an element of national Climate Change Financing Frameworks (CCFFs), which present consolidated policy road maps and financing gap analyses for climate action to enhance budgetary and planning processes through a more systematic integration of climate change at all stages. This Guidance Note is based on that experience. While not aiming to be a comprehensive instruction manual, it is hoped that this note will support budget and planning officials to better shape their public financial management systems to incorporate for NDCs and climate policy into their budget process.



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1 www.ipcc.ch/sr15/

2 Please see WRI/NCE, 2018

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

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ABOUT THE GOVERNANCE OF CLIMATE CHANGE FINANCE TEAM (UNDP)

The Governance of Climate Change Finance Team of the UNDP Bangkok Regional Hub comprises of experts specialised in Governance, Climate Change, Public Financial Management, Local Governance and Decentralisation, Development Effectiveness and programme management.

ABOUT THIS GUIDANCE NOTE

This guidance note is intended for government agencies responsible for climate finance within Ministries of Finance, Ministries of Planning, or climate change policy making bodies (e.g. Climate Change Commissions, Ministry of Climate Change, Ministry of Environment and Forests etc.) that wish to set up a Climate Budget Tagging (CBT) system or strengthen an existing one. The note focuses on the design of a CBT system that is grounded in government financial management and, as such, covers public sector expenditure – while acknowledging that a significant portion of climate relevant spending occurs in the private sector and non-governmental organisations.



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