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Enabling Policy Environments for Climate Finance:

Scaling-up national systems to meet the climate finance gap



2013 LTF Workplan, Pillar II: Enabling policy environments for climate finance



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In Bonn, Amal-Lee Amin of E3G proposed the following questions to help define LTF workplan for 2013:

- *What can we learn from existing uses of climate finance?*
- *How to choose the appropriate policies & instruments for each context?*
- *How to identify between challenges in planning, accessing, implementing & monitoring?*
- *How to focus attention on enabling environments for attracting adaptation finance?*
- *Can tracking of climate finance be part of an effective enabling environment for climate finance?*



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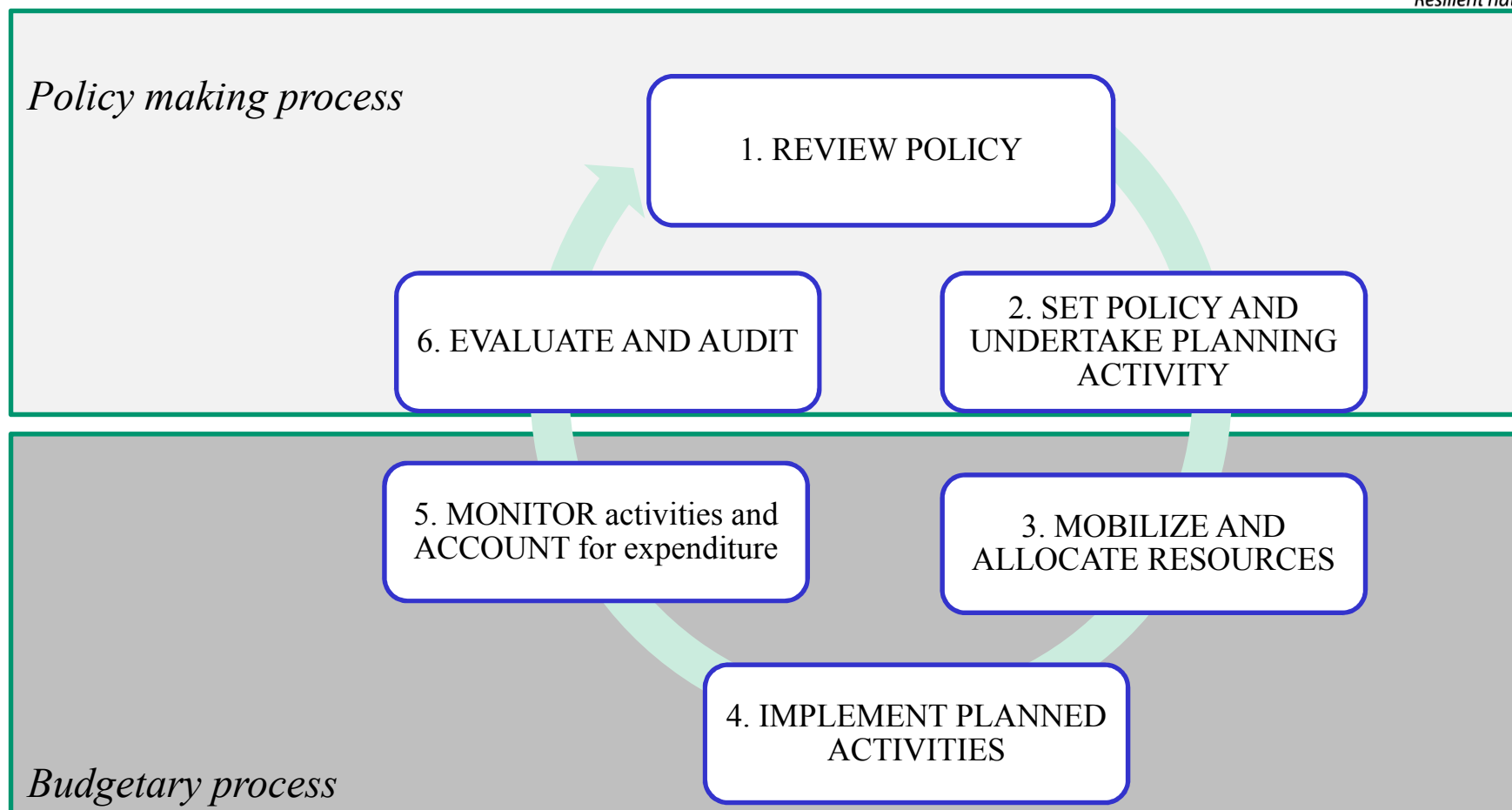
“If you don’t count it, it doesn’t matter.”

– Ancient Budget Professors’ Proverb

Climate Public Expenditure & Institutional Review (CPEIR)



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➤ Add “climate-relevance” dimensions to analysis

CPEIRs: Towards a climate fiscal framework



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1. Policy development: How is CC policy formulated & linked to expenditure through

- ✓ **Link CC priorities with expenditure & taxation decisions through the national budget process**

2. Institutional structures: What are roles & responsibilities of institutions involved

- ✓ **Ensure external finances are used effectively alongside domestic resources**

3. Public financial management: How to quantify &

- ✓ **Provide a framework to incentivize private investments**

Policy, institutional & expenditure recommendations from CPEIRs



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- Link national budget & climate policy
- Coordination by finance & planning ministries critical
- Local government a key channel for climate finance

- Harmonised definition of a “climate expenditure”
- The national budget is key to address climate change
- Relevance of sectors is country specific but local government, transport & water significant
- Too much int’l focus on extra-budgetary climate funds
- “Dirty expenditures” should also be identified & reviewed

Expenditures & sources



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Climate relevant expenditures as a proportion of total expenditure & GDP

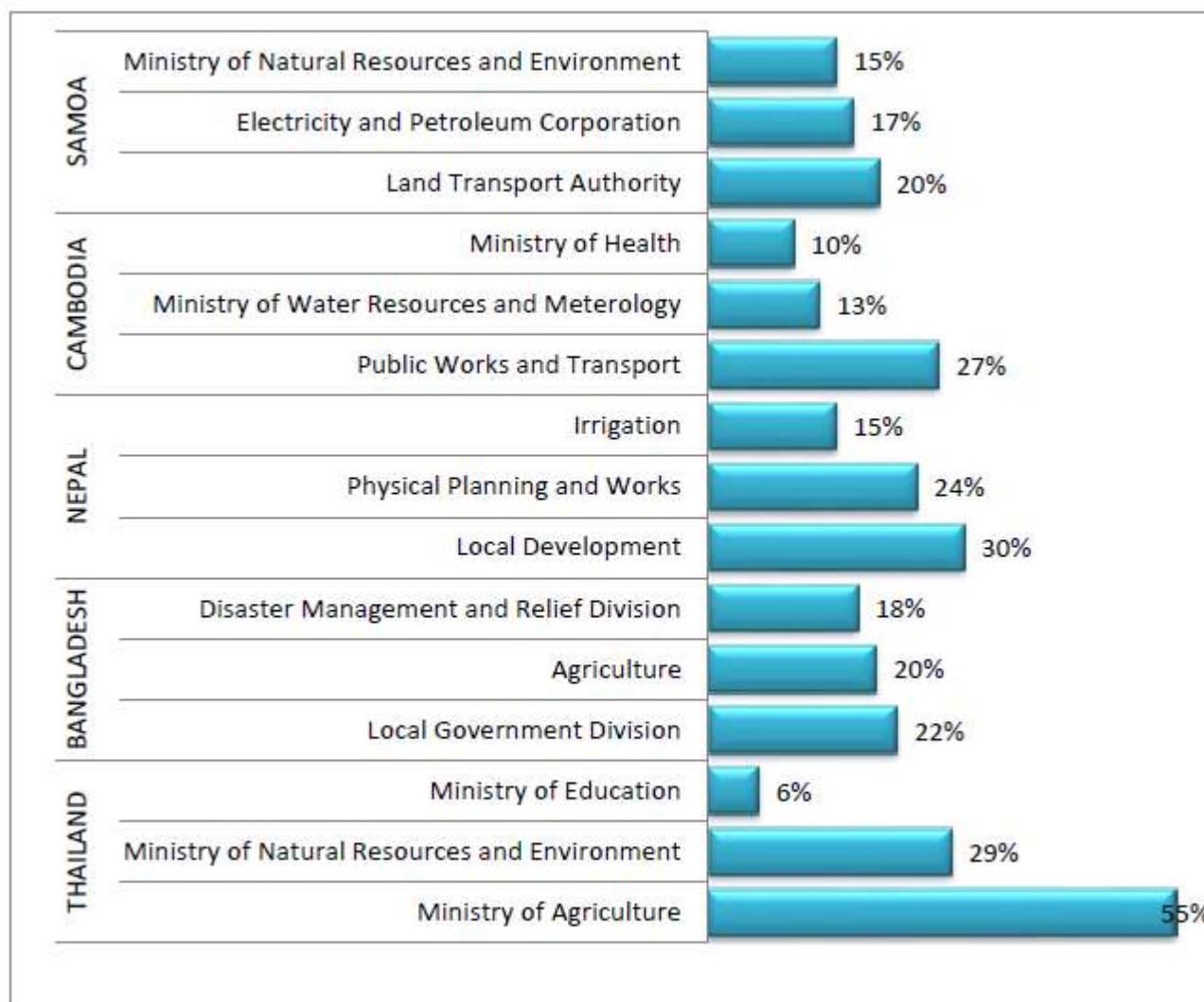
Country	Headline statistic (as % of budget)	Headline statistic (as % of GDP)	Comments on how data captured
Nepal	6.7 %	1.8%	<ul style="list-style-type: none"> Limited to 10 Ministries 'likely to undertake activities relevant to climate change on a functional basis' Does not include 'off-budget' donor support
Bangladesh	5.5 – 7.2 % (2010/11)	0.9% (2010/11)	<ul style="list-style-type: none"> Analysis identified 37 out of 57 ministries or divisions that had climate relevant expenditure Does not include 'off-budget' donor support
Thailand	2.7 %	0.5%	<ul style="list-style-type: none"> 14 Ministries 'had a climate programme in the period reviewed' Does not include 'off-budget' donor support
Cambodia	14.9 – 16.9 %	3.1 – 6.9%	<ul style="list-style-type: none"> Analysis of budgeted expenditure covered all Government programmes and projects Includes 'off-budget' donor support
Samoa	15 %	6 %	<ul style="list-style-type: none"> Analysis of budgeted expenditure covered all Government programmes and projects Includes 'off-budget' donor support

Source: From Bird et al. 2012

Few major players with local channels key



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Highest climate relevant spending agencies as proportion of total 'climate budget'

Domestic vs. external resources



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Average proportion of expenditures financed by domestic & external resources over last three years

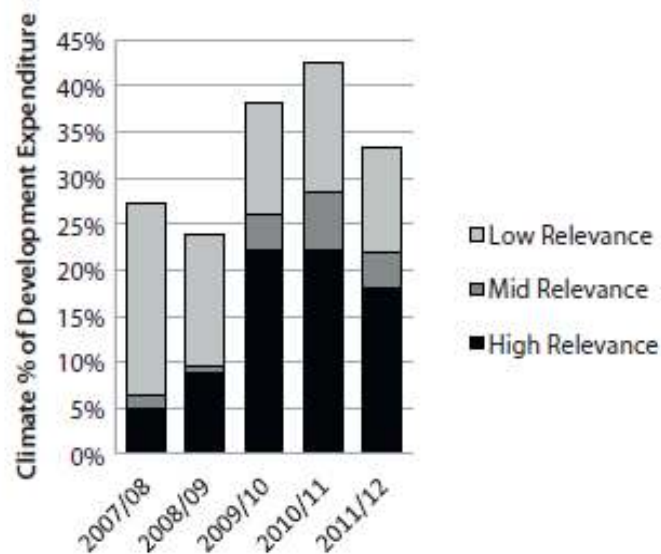
	Proportion of total expenditure defined in CPEIR analysis		Proportion of 'climate relevant' expenditure	
	Financed by domestic revenues	Financed by external grants or loans	Financed by domestic revenues	Financed by external grants or loans
Bangladesh	86%	14%	77%	23%
Cambodia	33%	67%	13%	87%
Nepal	73%	27%	44%	56%
Samoa	68%	32%	41%	59%

Development vs. recurrent expenditures

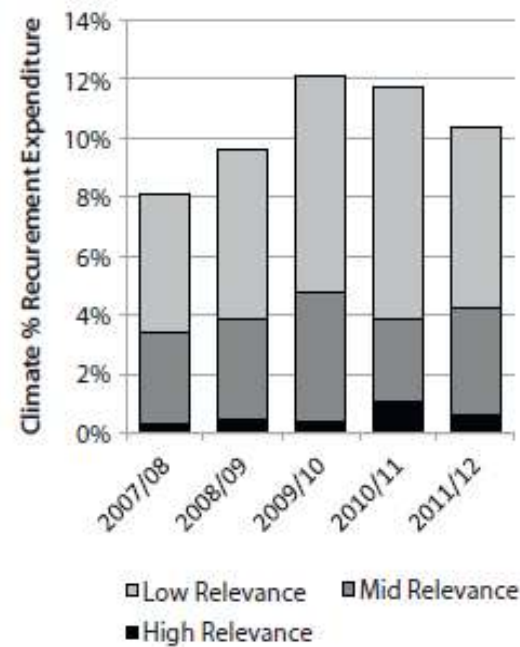


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Climate Relevance of Development Expenditure



Climate Relevance of Recurrent Expenditure



Comparison of climate relevance of development vs. recurrent expenditures in Samoa

Foundation of a climate fiscal framework



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Rec	Actions	2012				2013				2014				2015				2016				Lead Institution	Milestones	Cost (SAT '000)
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4			
	Policy																							
R1	Integrate climate into the SDS																				EPPU	Cost tables in next SDS	150	
	Complete Sector Adaptation Plans																				MNRE	SAPs	200	
R2	Develop CCPP to supersede NCP																				CRICU	Approval of CCP&P	100	
	Tag CC spending in CCPP and sector costings																				MOF	CC spending table in plans		
R3	Integrate CC into sector plans																				MOF	Sector plans		
R4	Convergence of disaster and climate policy																				Joint	Policy documents		
R6	Occasional sectoral climate functional reviews																				NCCCT	Functional Review Report	200	
R7	Building a library of impact studies																				CRICU	Studies	200	
R8	Integrate climate and development policy																				MOF	New SDS		
	Institutions																							
R9	Mandate NCCCT for all climate, not just NAPA																				Cabinet	Cabinet directive		
R10	Production of CCAMR for CCP&P																				CRICU	CCAMR	50	
R11	DMO and NECC produce chapters in CCAMR																				DMO/NECC	Chapters in CCAMR	50	
R12	Cooperation between MNRE and MOF																				CRICU/CCU	Quarterly meetings		
R13	Climate Legislation or regulations																				MNRE/MOF			
R14	Parliamentary committees to discuss CCAMR																				Parliament	Validation of CCAMR		
	Public Finance Management																							
	MOF study to define details of NCF																				CRICU	NCF study		
R15	Capacity building in CRICU and CCU																				CRICU/CCU	Training and recruitment	50	
R16	Finalisation of climate finance framework																				CRICU			
R18	Revisions to CDC form and guidelines																				EPPD	Revised guidelines and form	0	
R19	Reactivation of the PSIP																				EPPD	TA/CAP for CC table in PSIP	0	
R20	Present NCF to High Level Donor Forum																				MOF	HLF presentation	0	
R20	Rolling of donor funding for NCF																				CRICU	NCF accounts		

CPEIRs: Early lessons learned



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- CPEIRs help to set a baseline against which future expenditures can be measured – **NAMAs/NAPs**
- Economics need to be much better understood– **Cost-benefit of adaptation; cost-effectiveness**
- Medium-term budget outlook allows for quantitative shift in expenditures over time – **Taxes & subsidies**
- Quality of expenditures to be improved & monitored while maximising synergies – **Mainstream CC in Dev & DRR plans**
- International finance should build on domestic finance, catalyse private finance – **Country leadership**

Linking CPEIRs to NAMAs, LEDS, sectoral plans

Provided that there is alignment of...

- *Boundaries*
- *Disbursement period*
- *GHG inventory period*

...**CPEIRs** can be THE instrument to measure country effectiveness to implement a specific climate acti

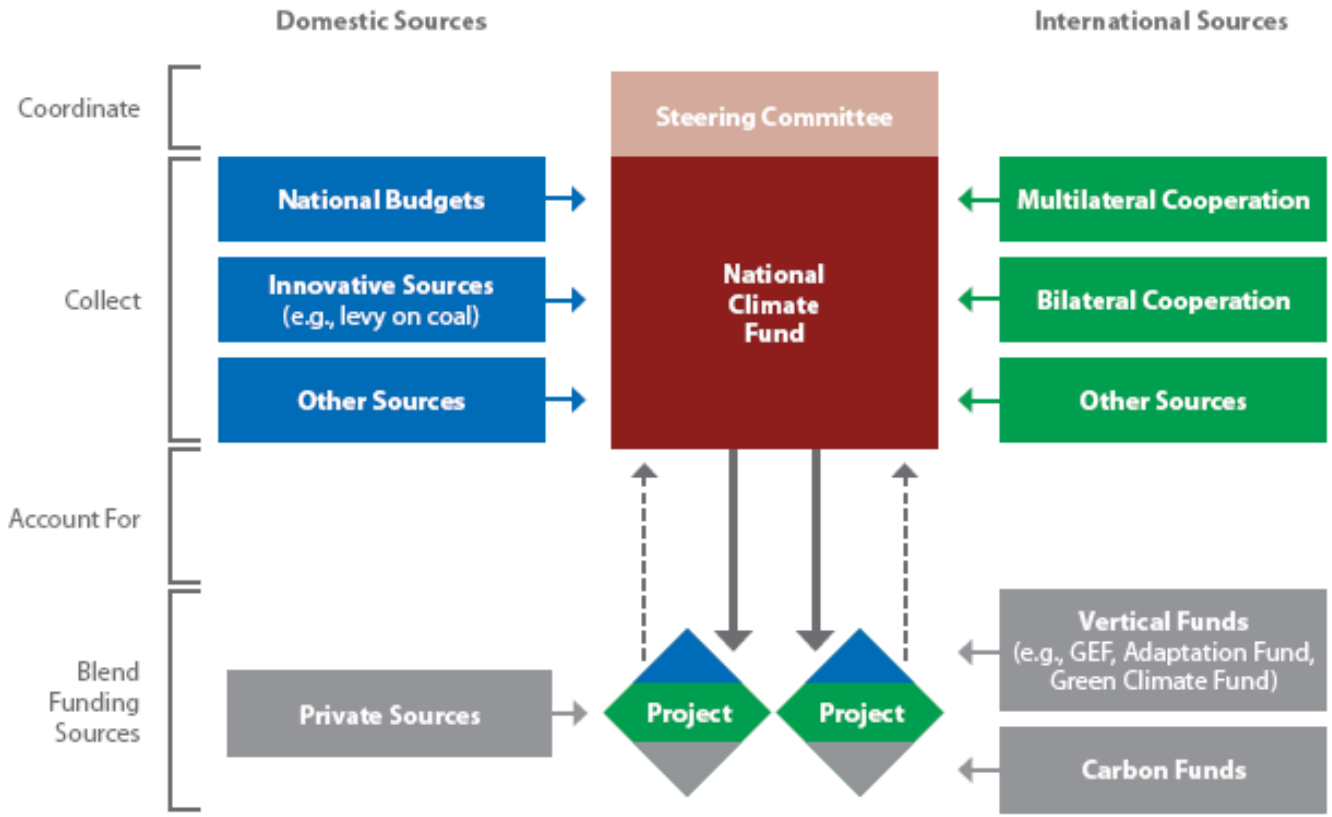
Example – Indonesia Mitigation Fiscal Framework:

- Framework for appraising, monitoring cost-effective actions
- Inter-ministerial cooperation to ensure necessary budget, policies & practices in place
- Prioritization of policies & funding for climate mitigation
- Alignment of budgets & fiscal incentives for leveraging private & CSO investments

National Climate Funds: One way to implement CPEIR findings



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Source: Flynn (2011).

Examples of NCF Goals

- **Collect** sources of funds & direct them toward climate change activities that promote national priorities
- **Blend finance** from public, private, multilateral & bilateral sources to maximize a country's ability to advance national climate priorities
- **Coordinate** country-wide climate change activities to ensure that climate change priorities are effectively implemented
- **Strengthen capacities** for national ownership & management of climate finance, including for “direct access” to funds



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Policy & other functions of a NCF



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- Support goal setting and the development of programmatic/sectoral strategies
- Fundraise from multiple sources
- Manage domestic, bilateral & multilateral partnerships
- Provide project approval, QA/QC & support implementation
- Supply policy assurance through safeguards
- Provide financial controls to ensure effective MRV
- Manage performance measurement, including reporting on activities & resources
- Disbursement of funds to subnational & municipal level
- Support knowledge exchange & management

Lessons learned from existing NCFs



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- Clearly **define the functions** of the fund
 - Ensure that the **objectives are well-defined & practical**
 - Have **realistic expectations** of capitalization
 - Design a **streamlined project cycle**
 - Undertake **stakeholder engagement** to identify needs and requirements
 - Ensure **unambiguous appraisal & performance criteria**, including **fiduciary standards**
 - Incorporate **design elements that are stable but flexible** to adjust over time
 - Establish **capacity development** as a key element of the fund
- *NCFs are **not** a panacea but can help build key capacities*

Conclusions



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- Both CPEIRs & NCFs perform significant policy functions for guidance on climate finance
- Encourage a holistic & comprehensive view of climate expenditures
- CPEIRs link climate to budget so climate is part of budget framework & performance measures...
- ...and link budget to climate so climate strategies are prioritised & costed
- Introduce CC tagging to budget & performance-based budgeting
- Align country-specific spending on climate action at all levels of governance



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Thank you

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For more information



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CPEIRs:

- Methodological note & Asia-Pacific case studies:
www.aideffectiveness/climatechangefinance

NCFs:

- *Blending Climate Finance Through National Climate Funds: A Guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities*
- NCFs in Asia Lessons Learned with case studies:
www.enp-undp.org/library/Publication_copy?id=702

