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Climate Public Expenditure and Institutional Review (CPEIR) Methodological note



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The Climate Public Expenditure and Institutional Review (CPEIR): a methodology to review climate policy, institutions and expenditure

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Summary

This paper describes a new methodology that aims to inform the development of the national response to climate change: the climate public expenditure and institutional review (CPEIR). The CPEIR examines the linkages between the three spheres of: national climate change policy; the institutional structures through which policy is channelled; and the resource allocation processes whereby public funding is made available for the implementation of relevant projects, programmes and policies.

The paper first outlines the analytical framework of this methodology. It draws on the experience of a substantial body of work that has examined the effectiveness of public expenditure through the use of several analytical tools. This leads to a description of the core elements of the CPEIR: namely the analysis of climate change policy, institutions and public expenditure.

The tasks associated with carrying out a CPEIR are then outlined, from the necessary preparatory work that is required before the CPEIR can be undertaken, through the implementation of the component analysis (highlighting some of the key questions that this analysis aims to address), to how the findings of the review can be followed up to enhance national systems.

Annexes contain complementary information, including sample terms of reference to implement a CPEIR as well as a note on the challenge of ensuring methodological consistency between CPEIRs.

1. Introduction

New and additional finance is becoming available to assist developing country efforts in their response to climate change. How these resources are being taken up by national systems is an important question that warrants attention. The challenge for all countries is to secure a comprehensive, cross-government approach that delivers a coherent response to climate change, involving both the public and private sectors. Such an approach has been termed a Climate Fiscal Framework (CDDE, 2011).

The first step in building a Climate Fiscal Framework is to develop a methodology that allows an analysis to be made of how climate change related expenditure is being integrated into national budgetary processes. This analysis has to be set within the context of the national policy and institutional arrangements that exist to manage the response to climate change. These three key themes of: (i) policy development, (ii) institutional structures and (iii) public financial management need to be investigated in an holistic manner. This is what we call a Climate Public Expenditure and Institutional Review (CPEIR). A CPEIR also has an important process function, acting as a starting point for longer term Government-led stakeholder dialogue and learning involving the public and private sectors, academia, civil society and international development partners.

The CPEIR analysis meets the following objectives:

- It secures a better understanding of the formulation of climate change policy and its linkages to expenditure through national strategies and action plans.
- It improves understanding of the role and responsibilities of institutions involved in managing the response to climate change and their interaction.
- It quantifies climate change related expenditures in the national budget, and through other funding channels, providing a baseline for future analysis.

The CPEIR approach has potential to become a strategic methodological tool that will allow policy makers assess the present status of the national response to climate change. This can then inform preparation for the scaling-up of access and delivery of climate finance.

To-date, five CPEIRs have been completed as pilot studies (Annex 1). This methodological note describes the approach taken in undertaking these reviews.

2. Methodological Framework

2.1 PERs, PEIRs and PEERs

The CPEIR methodology builds on a substantial body of analysis into policy development, institutional performance and public expenditure. Three approaches to such analysis were reviewed to inform the development of the CPEIR methodology: public expenditure reviews, public expenditure and institutional reviews, and public environmental expenditure reviews.

Public Expenditure Reviews

Public expenditure reviews (PERs) involve the analysis of the allocation, management and results of public expenditures and may cover all government expenditure or focus on priority sectors. In the case of climate change actions, there is a conceptual hurdle to overcome as such actions are not limited to one or a few sectors, but represent new and additional incremental spending across the whole of the economy.

A common representation of a PER is that it should present what was planned to be spent (the budget); what was actually spent (in terms of expenditures); what was achieved (outputs) and

whether these achievements met policy objectives (outcomes), together with an assessment of the institutional mechanisms controlling expenditure and managing performance. Evaluation along this 'results chain' provides a robust analytical framework for climate change activities, although an assessment of the long-term impact of such spending cannot yet be determined.

Pradhan, in his 1996 review of PERs, observed there was no systematic framework for public expenditure analysis, and that little guidance was available in the academic literature. He identified six elements as being essential in any PER. Table 1 lists these elements and adds a commentary on their relevance where the focus is on climate change expenditure.

Table 1: Pradhan's elements of a PER and their relevance to climate change expenditure

Pradhan's elements for a PER	Relevance for climate change expenditure
Discussion of the aggregate level of public spending and deficit of the consolidated public sector and its consistency with the country's macroeconomic framework; this requires that all sources of finance are recognised, including central and local government, and extra-budgetary funds.	The recognition of different sources of finance is an important issue for climate change actions, with much present activity supported by international funding and future activity likely to depend, to a varying degree, on private funding. Extra-budgetary funds may be significant.
Analysis of the allocation of aggregate spending across and within sectors, and the extent to which this allocation is consistent with the maximisation of social welfare.	Consideration of allocation to pre-identified 'climate sensitive' sectors (and within these sectors) may be appropriate.
Examination of the role of the public versus the private sector in the financing and provision of social programmes (in particular, whether public expenditures complement or substitute for private sector activities).	Highly relevant for climate change expenditure: a principle of public expenditure is that it should only support those actions that the private sector is unwilling or unable to meet.
Analysis of the effect of key public programmes on the poor, including their incidence and total costs.	Equity concerns feature prominently in PERs, but further metrics are beginning to be developed in the study of climate change actions (e.g. the potential for carbon emission reductions and responses arising from climate change vulnerability).
Examination of the input mix or the allocations for capital and recurrent expenditures within programmes and sectors (and the extent to which such allocations promote internal efficiency).	Highly relevant for climate change, where both new capital expenditure as well as increased recurrent costs are necessary.
Discussion of the budgetary institutions and processes and the extent to which such institutions and processes promote fiscal discipline, allocative efficiency and equity in the composition of spending, and technical efficiency in the use of budgeted resources.	Institutional analysis is important as climate change represents a new theme of public policy and the institutional setting is not yet well established.

Public Expenditure and Institutional Reviews

The World Bank Group has expanded on the PER approach by emphasising the importance that institutions play in the delivery of public policy in a range of studies, termed Public Expenditure and Institutional Reviews (PEIRs). Four country PEIRs were reviewed as part of the CPEIR methodological development. Significantly, they did not follow a standard format, but appeared to focus on country-specific priorities (World Bank, 2001; 2002a; 2002b; 2005). However, common themes included a review of: (i) the macroeconomic context of the country; (ii) budget planning and execution; (iii) the institutional framework; and (iv) the issue of fiscal decentralisation (Table 2). The last element is also recognised as being an important one for climate change, as the structures in

place at the local level will help determine how climate finance reaches the most vulnerable communities.

Table 2: Main analytical themes of four PEIRs

Country	Albania 2001	Ukraine 2002	Bosnia 2002	Tajikistan 2005
Themes	Macroeconomic challenges	The Budget process	Macroeconomic & fiscal framework	Macroeconomic setting
	Allocation & efficiency of public expenditure	Budget preparation	Diagnostic of public sector expenditure	Public expenditure trends
	Expenditure planning	Budget execution	Social service spending, outcomes & reform	Budget management & execution
	Institutional capacity	Legal framework	Institutional dimensions	Policy formulation & human resources
		Fiscal sustainability issues	Fiscal decentralisation	Fiscal decentralisation

Source: World Bank, 2001; 2002a; 2002b; 2005

Public Environmental Expenditure Reviews

In recent years there has been interest in applying PER-style analysis to gain a better understanding of environmental governance in developing countries (Swanson and Lunde, 2003; Lawson and Bird, 2008). This body of work parallels the CPEIR approach, as environmental concerns are cross-cutting in nature rather than being limited to any one sector. Box 1 highlights some of the major issues that have been identified; many of these can be expected to be present when climate change expenditure is the focus of study.

Box 1. Important themes arising from PEER-type analysis

1. General weaknesses in public finance management that affect environmental governance and limit the implementation of policy priorities.
 - Limitations in the budget classification system
 - Variability in budgetary allocation (proposed versus received)
 - Variability in execution rates (agreed allocation versus actual expenditure)
2. Poor accountability of public environment actions
 - Very limited statistical information available below Ministry level
 - Fragmentation of the budget
 - Use of retained funds (Internally Generated Funds)
3. Poor institutional capacity of environmental agencies
 - Major constraint appears to be related to limited recurrent funding
4. Weakly defined institutional roles and remits
 - Environmental public bodies undertaking multiple (and potentially conflicting) roles
 - The absence of high-level coordination mechanisms
 - The financial model of subvented agencies
5. Limited national demand concerning environmental issues
6. Influence of development partners
 - off-budget project funding prevalent (more so than in the social service sectors)
 - potential opportunities for environmental mainstreaming arising from general budget support dialogue
 - The harmonization agenda – positive experience with sector working groups

Source: Authors own summary

A recently completed PEER study in Bhutan (Rinzin and Linddal, 2011) explored environmental spending by re-constructing the national budget at activity level and compiling a new database for analysis. Out of a total of 4,600 expenditure lines identified, the 400 largest budget lines accounted for approximately 80% of environmental public expenditure. The analysis highlighted that capital expenditure predominated (also at 80%) and about one-third of the expenditure occurred at the local government level, reflecting the emerging fiscal decentralisation in Bhutan. Both of these issues – the balance between capital and recurrent spending, and between central government and local expenditure – are issues to be addressed when examining climate change related expenditure.

These three methodological approaches (PERs, PEIRs and PEERs) offer guidance for how public expenditure on climate change actions can be examined. They all contain elements of policy, institutional and budgetary analysis, which are the three main strands of the CPEIR.

2.2 Analysis of climate change policy

There has been rapid development of climate change policies in many countries. This national policy interest has been strongly driven by the international leadership of the UNFCCC, which has framed much of the policy discourse. The policy environment tends to be a fast moving one, as new themes promoted at the international level are taken up at country level. Some countries have prepared national climate change policy statements and, where these exist, they represent an important starting point for the CPEIR analysis.

Early policy priorities may have been identified (with varying degrees of definition), which can give some indication of likely areas of new public investment. However, it may be that policy positions on climate change have yet to coalesce within one national statement of policy, so an examination of policy within different sectors as well as different levels of government (e.g. national/local/municipal) will often be necessary. This will also allow for an assessment to be made on the coherence of national policy.

In addition to reviewing the content of climate change policy, the CPEIR analysis examines the processes whereby policy is developed. In particular, the role of different stakeholders in influencing policy provides an insight into the likely take-up of policy positions and subsequent funding allocations. In many countries, international development partners invest resources to engage with the policy community and may play a significant role.

The national climate change response is often characterised by several strategy and planning processes. The integration of policy, strategy and planning represents a considerable challenge to ensure coherence of resource allocation. The CPEIR therefore examines how responses to climate change are being taken forward within a range of different planning exercises, be it the development of disaster risk management or clean energy supply, and assesses the coherence of these responses. How climate change is mainstreamed into national development strategies is also a key area of enquiry.

Where policy positions have been enacted into legislation an examination of the legal framework is an important consideration for the CPEIR policy analysis. This may assist in determining how climate change actions are defined in the country concerned.

At present, there is no internationally recognised definition of climate expenditure and therefore no clear boundaries of such spending. This represents a major challenge for any study of climate finance. As a starting point, it is important to recognise that the phenomenon of ‘adaptation deficit’ applies in all countries. This term, perhaps better described as the development deficit, refers to the extent to which societies are adequately adapted to the current climate (Burton, 2004). Normally this deficit is excluded from baseline and future cost estimates of responding to climate change (Smith et al., 2011). In principle, development as usual should be excluded from estimates of climate

change related expenditure, but this is difficult to do in academic costing studies and even more difficult in country policy contexts. Adaptation costs are defined as those due to climate change but additional to development. Reflecting these issues, the concept of climate finance remains contested within the UNFCCC negotiations.

The OECD has set out some initial definitions (Table 3) distinguishing between mitigation and adaptation, with examples of each as a first guide to identifying climate change activities.

Table 3: Defining climate finance

1. Mitigation	
OECD Definition: An activity should be classified as climate change mitigation related if it contributes to the objectives of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration (OECD, 2011)	
Sector	Example activities
Forestry	Protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation
Water and sanitation	Methane emission reductions through waste management or sewage treatment
Energy	GHG emission reductions or stabilisation in the energy, transport, industry and agricultural sectors through application of new and renewable forms of energy, measures to improve the energy efficiency of existing machinery or demand side management (e.g. education and training)
Transport	
Industry	
Agriculture	
2. Adaptation	
OECD Definition: An activity should be classified as adaptation-related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience (OECD, 2011).	
Sector	Example activities
Enabling activities	Supporting the development of climate change adaptation-specific policies, programs and plans
Policy and legislation	Capacity strengthening of national institutions responsible for adaptation
Agriculture	Promoting diversified agricultural production to reduce climate risk
Energy	Strengthening of energy transmission and distribution infrastructure to cope with the expected impacts of climate change
Forestry	Securing local rights and systems for the sustainable and long-term utilisation of the forest in order to increase resilience to climate change
Health	Strengthening food safety regulations; developing or enhancing monitoring systems
Transport	Building protection from climate hazards into existing transport infrastructures (e.g. Disaster Risk Reduction measures)
Water and sanitation	Monitoring and management of hydrological and meteorological data

Source: Handbook on the OECD-DEC climate markers. Preliminary version. OECD, 2011

The CPEIR approach to defining climate change related expenditure builds on these initial OECD guidelines and begins in each country by reviewing existing national policy documents. These provide insights into how climate change actions are being defined within the country concerned. This literature will also give a strong indication of where climate expenditure will be found across the ministries, departments and agencies of government.

2.3 Analysis of climate change institutions

Spending on climate change actions passes through a range of public and private sector organisations and therefore an analysis of these bodies is a central theme of the CPEIR. In the first instance, it is important to map the institutional arrangements within government for addressing climate change actions. In some countries this may involve new organisations whose primary function is the management of a national climate change response; elsewhere it will involve this role being added to an existing government ministry or department.

A core theme of the institutional analysis is to map how the national budget is managed and the role played by Ministries of Finance and their component departments in responding to climate change in the context of greater volumes of finance becoming available, particularly through enhanced international support.

The institutional analysis should explore whether these organisational structures are collectively responding to the policy objectives set by government (Box 2). An important element of this analysis is whether there are resources identified within the national budget to allow these agencies to build the necessary capacity. Some measure of existing institutional effectiveness should lead to an assessment of the need for further capacity development. With regard to government institutions this may necessarily link to broader reforms within the public sector.

Box 2. Institutional collaboration necessary for an effective response to climate change

In Nepal, climate change is an emerging policy theme, with variable interest at the sector level. The discussion based on from the findings of the Nepal CPEIR exercise was instrumental in bringing together the following key ministries of government: Finance, Planning, Environment and Local Government. These ministries subsequently formed a working group to develop a climate change budget indicator code and to follow up on the report's other recommendations. This will ensure that, like already established gender budgeting and pro-poor budget monitoring, climate change is fully embedded in the government's own budget system with greater use of country systems for implementation and monitoring.

Source: Nepal CPEIR Report, 2011

Local government institutions are particularly important in harnessing an effective response to climate change, yet evidence from several countries indicates this is where capacity constraints may be most acute at the present time. Determining the mandates that have been delegated to the sub-national level of the government administration is one element of the institutional analysis that needs to be completed.

In addition to the public sector, an institutional analysis is required of civil society organisations and the private sector. Both the profit and non-profit sectors already play a significant role in climate change activities in many countries and this calls for an understanding to be developed of their structures, capacity and operating incentives.

2.4 Analysis of climate change in public expenditure

A number of important issues need to be addressed by the CPEIR analysis with respect to budgetary issues. The first challenge relates to identifying climate change expenditure within the national budget so that the most important aspects of public spending can be analysed. This requires that information about planned and actual spending on climate change related activities (at a sufficiently disaggregated level) can be identified. The CPEIR team has to work closely with colleagues in ministries of finance to identify and validate this expenditure.

The national budget expenditure codes (in both the developmental and non-development budgets if compiled separately) – as well as in externally funded programmes – need to be identified using expert judgement and all available budget and programme documentation, including MTEF descriptions. The whole of the government Chart of Accounts should be reviewed to ensure that the administrative structure of government does not detract from significant elements of spending in parts of government beyond a prescriptive list of candidate Ministries. It is important that budget line activities are identified, rather than solely the administrative structures.

Identifying expenditure codes across the whole of government from the Chart of Accounts can be a substantial, time consuming task that will require much institutional knowledge. However some points that may be considered to reduce the workload include: (i) identifying key sectors/ministries/administrative responsibilities; (ii) identifying non-budgetary funds from key sectors; (iii) identifying climate related codes from the administrative and/or the functional classification of the budget.

Further assessment of the identified activities should then be made, with an estimate made of the proportion of expenditure considered relevant to climate change on a scale of 0 – 100%. All activities are then grouped into the four categories listed in Table 4, with the subsequent financial analysis based on these groupings.

Table 4: CPEIR classification of climate change relevant activities

High relevance	Rationale	Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation
Weighting more than 75%	Examples	<ul style="list-style-type: none"> • Energy mitigation (e.g. renewables, energy efficiency) • Disaster risk reduction and disaster management capacity • The additional costs of changing the design of a programme to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance or rehabilitation) • Anything that responds to recent drought, cyclone or flooding, because it will have added benefits for future extreme events • Relocating villages to give protection against cyclones/sea-level • Healthcare for climate sensitive diseases • Building institutional capacity to plan and manage climate change, including early warning and monitoring • Raising awareness about climate change • Anything meeting the criteria of climate change funds (e.g. GEF,PPCR)
Medium relevance	Rationale	Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation
Weighting between 50% to 74%	Examples	<ul style="list-style-type: none"> • Forestry and agroforestry that is motivated primarily by economic or conservation objectives, because this will have some mitigation effect • Water storage, water efficiency and irrigation that is motivated primarily by improved livelihoods because this will also provide protection against drought • Bio-diversity and conservation, unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation) • Eco-tourism, because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic

		infrastructure, such as roads and railways
Low relevance	Rationale	Activities that display attributes where indirect adaptation and mitigation benefits may arise
Weighting between 25% - 49%	Examples	<ul style="list-style-type: none"> • Water quality, unless the improvements in water quality aim to reduce problems from extreme rainfall events, in which case the relevance would be high • General livelihoods, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability in areas of low climate change vulnerability • General planning capacity, either at national or local level, unless it is explicitly linked to climate change, in which case it would be high • Livelihood and social protection programmes, motivated by poverty reduction, but building household reserves and assets and reducing vulnerability. This will include programmes to promote economic growth, including vocational training, financial services and the maintenance and improvement of economic infrastructure, such as roads and railways
Marginal relevance	Rationale	Activities that have only very indirect and theoretical links to climate resilience
Weighting less than 25%	Examples	<ul style="list-style-type: none"> • Short term programmes (including humanitarian relief) • The replacement element of any reconstruction investment (splitting off the additional climate element as high relevance) • Education and health that do not have an explicit climate change element

A number of general guidelines apply in classifying climate change related activities under the CPEIR methodology:

- Relevance is defined as ‘relevant to (i) improving climate resilience (for adaptation) or (ii) to mitigation of climate change’. However, programmes that address (i) and (ii) are already in national development budgets to address the ‘adaptation’ or ‘development deficit’. This makes the identification of expenditure very difficult in practice, and this is likely to remain an on-going challenge for such reviews. It is widely recognised in the climate change literature that continued development may be one of the best defences against climate change (Narain et al., 2011, Schelling, 1992). Development makes more resources available for abating risk and recovery from climate change. Of course, too, adaptation is also crucial for development.
- For these reasons, the key is to develop a nationally-appropriate approach that has broad buy-in and confidence, and this should be achieved by ensuring consultation with key stakeholders throughout the course of the study. This is particularly needed in countries where there is no formal climate change policy. National experts and funding agencies need to take the lead in this process.
- Programmes that are normally of low or medium relevance may be promoted to medium or high relevance if they are operating in areas that have been mapped as being highly susceptible to climate change. This particularly applies to general programmes that address the development deficit of the country, such as livelihoods and social protection programmes in Table 4.
- If a programme has some high and some lower relevance components, it may be possible to split it into two programmes. But this should only be done if it is a large programme and there is some basis for splitting the programme (e.g. actual costings or informed

opinions). If there is any uncertainty, the CPEIR methodology defaults to the lower relevance category. The assumptions behind such selections should be explicitly recorded, to lay a trail that others can follow.

- National programmes that address current climate variability are assumed to address climate change and are included in the expenditure summaries.

In addition to a review of the central government expenditures, the financial analysis needs to examine local government spending to explore to what extent discretionary powers for spending and revenue collection on activities that relate to climate change have been devolved to local authorities.

Other sources of public expenditure that lie outside the national budget also need to be identified, quantified and analysed. Extra-budgetary funds may provide significant financing for CC-related actions. Such funds refer to government transactions, often with separate banking and institutional arrangements that are not included in the annual state (federal) budget law and the budgets of sub-national levels of government. There is already use of national trust funds to direct the climate change response in some countries, with the Indonesia Climate Change Trust Fund and the Bangladesh Climate Change Trust Fund being two examples.

An important source of climate finance in many countries is that derived from international sources. How this external finance is taken up within a country and, where public money is concerned, if and how it appears 'on budget' is another important issue to be addressed in the CPEIR.

As climate finance increases in scale over the coming years the strength of financial controls will become a critical component of the overall system and hence the working of financial audits and the public finance management system more generally also needs to be reviewed.

To-date, the CPEIR methodology has aimed to identify those expenditures within the national budgetary system that are relevant to improving climate resilience and the mitigation of climate change. However, it would be possible to also identify expenditures that reduce resilience or lead to increased carbon emissions. The level of such expenditure has not yet been estimated in any of the CPEIR studies, but it may be significant and therefore warrants consideration in future CPEIR analysis.

Further, the CPEIR methodology used in the pilot studies has focused on direct expenditures. Countries are however also targeting the mitigation of climate change through the tax expenditures. These are tax credits on specific activities to promote green private sector investments. Further, a number of countries are increasingly using their taxation policies to deter behaviour that may lead to behaviours promoting increased greenhouse gas emissions. A further potential area to explore in a financial analysis is to explore whether tax policy is consistent with stated policy goals for climate change actions.

3. Undertaking a CPEIR

3.1 Preparatory work

The CPEIR methodology takes into account the recent beginning of discussions on climate change related policy, planning and budgeting in most countries. Because of this, implementation of the CPEIR has to recognise different perspectives as to what constitutes climate policy and budget allocations, noting where potential definitions differ and where there is consensus. The implementation of a CPEIR therefore represents a first step in the process rather than producing definitive findings on quantities of climate finance being spent.

Government ownership and oversight of the CPEIR is a prerequisite for success. Initial discussions across key ministries, normally involving Finance, Planning, Environment (which often holds the technical lead on climate change within the government administration) and Local Government is needed to identify the main themes for the CPEIR and the key questions that need to be addressed to inform policy development on climate change. A first task is to draw up terms of reference for the CPEIR that responds to the national context (Annex 3 provides a sample TORs for a CPEIR). Added legitimacy will be secured by introducing the CPEIR and the benefits of its analysis within existing national coordination mechanisms, such as cross-government climate change working groups, and then having such a group oversee the implementation of the CPEIR (Annex 4 provides a sample TORs for such a government oversight committee).

Successful implementation of the CPEIR will depend on securing the right blend of skills to conduct the policy, institutional, and expenditure analysis (sample TORs for these specialist inputs are listed in Annex 5). Ideally, a national centre of policy research should be identified with staff who are already involved in the climate change discourse. National expertise can then be augmented by international specialists to undertake the CPEIR. Experience to-date suggests there are useful synergies to be had by fielding CPEIR teams that combine national and international expertise.

3.2 Implementation

Implementation of the CPEIR may take several months to complete. During that time the study team undertakes its research into each of the main themes for analysis, reporting on progress at regular intervals to the oversight group, and explores within the team any challenges that need to be addressed. An early inception workshop allows for the study to be introduced to relevant stakeholders, who can then be invited to a results workshop towards the latter stages of the CPEIR to learn from, and comment on, the findings of the study team. Throughout the course of the study feedback from government ministries, in particular, should allow the team to retain a strategic focus to the study.

Policy analysis

The CPEIR policy analysis is carried out by a two person team, with expertise in climate change policy development at both the international level and within the study country. Through a review of national development plans, sector plans and other policy-related documentation, and by undertaking a series of semi-structured interviews with key informants, an analysis is built up that addresses the issues that relate to the overall policy environment for climate change expenditure. Box 3 lists some of the key questions that the policy analysis should address.

Box 3. Key questions for the CPEIR climate change policy analysis

- What level of engagement does the country have with the international policy discourse within the UNFCCC?
- How much policy attention does climate change receive within national development planning?
- Are there explicit funding strategies for climate change actions (e.g. in costed action plans)?
- What is the overall coherence of the national response to climate change across a range of sectors?
- Does climate change appear as an emerging policy theme in cross cutting government programmes (e.g. social protection / livelihoods / agriculture / infrastructure etc.)?
- Is climate change a policy theme at the local government level?
- Does climate change policy recognize the role of communities, the private sector, civil society and the media in ensuring multi-stakeholder participation in climate change initiatives?
- Is there a monitoring and evaluation system for climate change actions that goes beyond the measurement of financial inputs?

Institutional analysis

The institutional analysis can also be carried out by the same two person team, assuming they have the appropriate knowledge of capacity development programmes within the public administration. Through a review process similar to that for the assessment of policy, an institutional analysis is developed that provides important context for the level of public expenditure on CC-related actions. Box 4 lists some of the key questions for this analysis.

Box 4. Key questions for the CPEIR institutional analysis

- Is there clarity over the roles and responsibilities for climate change between different government departments within and between ministries?
- Have new organisations been created to address climate change issues and, if so, how do such structures interact with existing government ministries, departments and agencies?
- Are the organisational structures compatible with these policy and strategy objectives as well as their legal mandates? How formalised are these structures?
- Does institutional collaboration and coordination on climate change need to be strengthened? And, if so, how can it be done?
- What is the level of engagement of the national legislature? What role does parliament play (through specialist committees) in overseeing the government's climate change programmes?
- What is the capacity of local government to fulfil any service delivery role?

Expenditure analysis

The expenditure analysis is the most challenging aspect of the CPEIR methodology. The five pilot studies completed to-date have identified CC-related expenditure through a process of selecting activities, projects and programmes that are recognised as being part of the national response to climate change. In terms of practical implementation, this process has involved the following main steps:

1. *Defining the body of 'total expenditure' that is going to be analysed in terms of climate relevance.* Before 'climate relevant expenditure' is defined, the body of 'public expenditure' to be analysed has to be determined. A significant issue is how to include donor financed projects where international support for climate change actions is prominent. There is value in keeping domestic and international sources of funding separate in the subsequent analysis as they are subject to different governance arrangements.
2. *A review of what data is available.* The approach taken in each country depends on the available information. Where possible, electronic expenditure information from the public financial management system at its most disaggregated level is used so that it can be manipulated to generate various reports. Where this is not forthcoming, the CPEIR has to rely on published budget documentation. Information in the Chart of Accounts would typically only capture 'on-budget' information, so relevant spending through any extra-budgetary funds has to be obtained from the respective fund secretariats, often in the form of published Annual Accounts. National budget information systems can be combined with information on disbursements from aid management systems to capture externally funded programmes.
3. *Given the broad parameters set out for climate change relevance outlined earlier, the assembled expenditure information is then filtered by asking (i) which expenditures are relevant to climate change and (ii) the level of relevance of those expenditures.* Expenditures

are assumed to be not relevant unless they are identified and labelled as otherwise. Typically for development budgets, relevance is defined for each individual project, although some general rules may shape decisions (e.g. all rural roads in coastal areas may be defined as mid-relevance, while national roads are deemed to be low-relevance). For recurrent budgets, the process for identifying expenditures depends on the level of disaggregation of the budget information, informed by ministry respondents.

4. *With total expenditure defined and climate relevant expenditure defined, secondary analysis is then undertaken looking at a number of different issues.* In some cases this information will come from information in the Chart of Accounts (e.g. who is spending the money – Ministry of Health, Agriculture, etc.; what inputs are being purchased – assets, wages, subsidies, etc.). In other cases, the climate relevant expenditures may be further broken down into important categories, such as spending supporting adaptation or mitigation activities.

Box 5 lists some of the key questions that the expenditure analysis aims to explore.

Box 5. Key questions for the CPEIR expenditure analysis

- What are the characteristics of the national public finance management system within which spending on CC-related actions occur?
- What is the state of the government's overall financial position: is there 'fiscal space' to support the allocation of resources towards climate change actions?
- What are the trends in public expenditure generally and specifically for climate change actions?
- Where is climate change related expenditure happening across government ministries/ departments/agencies?
- What level of expenditure has as its primary objective the delivery of specific outcomes that improve climate resilience or contribute to mitigation actions?
- What is the level of CC-related expenditure across any economic and functional classifications of the budget?
- What is the level of public expenditure on climate change actions at the local government level?
- What are the main sources of funding for climate change actions? What role do extra-budgetary funds play? What role do international sources of climate finance play?

Local government analysis

The CPEIR analysis of climate change policy, institutions and public expenditure examines both central and local government actions, with the latter being important for many implementation programmes. The CPEIR report therefore includes a chapter, prepared by two local governance specialists, that highlights the implementation challenges for CC-related actions and its associated spending at the sub-national level. Box 6 lists some of the main questions for this sub-national analysis.

Box 6. Questions for the CPEIR sub-national analysis

- What is local government's understanding of, and contribution to, addressing climate change?
- What are the main sources of funding for local level CC-related actions?
- What is local government's capacity to prioritise, manage and deliver climate finance based on national and local climate change priorities and institutional arrangements?
- What other local stakeholders are involved in the delivery of climate finance?
- What accountability framework exists for delivering climate finance at the local level?

3.3 Follow up and next steps

The CPEIR is intended to facilitate the national response to climate change, by identifying those actions that are needed to strengthen that response. As resources are always going to be limiting some form of prioritisation of action is needed to help guide public investment. This is done within the CPEIR reports by providing recommendations grouped into several time horizons, with immediate actions, medium-term and long-term actions listed for review by the oversight committee. It is the membership of the CPEIR oversight committee that can then take forward the lessons learned from this analytical exercise within the appropriate national policy processes.

The CPEIR approach aims to improve understanding of the national response to a new phenomenon – climate change. This necessarily means that it is an evolving area for analysis and new themes can be expected that will warrant further analytical study. The CPEIR, in its present form, is intended to provide the foundation on which such analysis can build.

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Annex 3. Sample terms of reference for a CPEIR

THAILAND CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW

TERMS OF REFERENCE

1. Background

A first step in building a climate fiscal framework is to develop a methodology that reviews how climate change related expenditures are integrated into national budgetary processes – which can be called a Climate Public Expenditure and Institutional Review. This analysis has to be set within the context of the national policy and institutional arrangements that exist to manage the response to climate change in each country. Hence, any analysis needs to take account of the three key spheres of policy development, institutional structures and financial management.

Three core aspects of the national budget cycle that relate to climate change actions need to be explored:

- i. An assessment of current policy priorities and strategies as these relate to climate change;
- ii. A review of institutional arrangements for promoting the integration of climate change policy priorities into budgeting and expenditure management;
- iii. A review of the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

A Climate Public Expenditure and Institutional Review also has an important process function – acting as a starting point for longer term Government-led stakeholder dialogue and learning involving the public and private sectors, academia, civil society and international development partners.

In Thailand, the CPEIR exercise will be conducted under the advice and guidance of the Working Committee on Climate Fiscal Framework, led by the Fiscal Policy Office (FPO), Office of National Economics and Social Development Board (NESDB), Office of Natural Resources and Environmental Policy and Planning (ONEP), and Bureau of Budget (BoB).

This Term of Reference provides the scope of work which will be undertaken in the process of the CPEIR exercise in Thailand.

2. Outputs

The team will conduct a 4-month-long Climate Public Expenditure and Institutional Review (CPEIR) between February and May 2012. This exercise will provide further detailed information on how key agencies utilise their budgets and resources to address climate change issues.

The CPEIR will include a Readiness Plan to access and deliver climate finance. This will help Thailand in accessing emerging international funds, where there is clear focus on including support for readiness plans for the development of climate strategies and national institutional arrangements to manage climate finance.

3. Methodology

Building on the experiences in other countries, including Nepal and Bangladesh, and using the emerging generic CPEIR methodology, the study will look at three core aspects of the budget cycle vis-à-vis climate finance. The methodology will need to assess progress to-date and make recommendations for improvements in the future:

- Assess current policy priorities and strategies as they relate to climate change and the extent to which these strategies and policies are coherent with national development, poverty reduction and economic growth strategies;
- Review institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management including within and across key ministries and stakeholders.
- Review the integration of climate change objectives within the budgeting process including as part of budget planning, implementation, expenditure management and financing.

In terms of international climate finance, the Green Climate Fund Transitional Committee has submitted its proposal for the Green Climate Fund to the UNFCCC in December 2011. Based on the on-going discussions, it is emerging that many developing countries need to strengthen their capacity to manage climate finance in order to be able to tap into international funds effectively. It therefore needs to be clarified what the capacity needs are, and how a country plans to address these. It is proposed that this will be part of the recommendations section of the Thailand CPEIR, to be presented in the form of a so-called Readiness Plan for scaling up access and delivery of climate finance.

4. Issues to be addressed by the CPEIR in Thailand

The CPEIR study will build on similar research undertaken by the international team elsewhere as well as relevant recent national studies. The work will be undertaken at both the national and local government levels.

(i) National policy, institutional and budgetary analysis

The CPEIR will take forward several of the issues identified in the baseline assessment of a climate fiscal framework report:

- **Reviewing the institutional arrangements and coordination mechanisms for climate change:** While there has been significant progress in establishing the necessary institutional arrangements to deal with climate change, limited coordination has constrained strategic resource allocation and efficient climate finance management. This will also include improving the coordination of international flow of climate finance coming for better integration and prioritization as well as donor coordination on climate change action in Thailand. The CPEIR will examine the current institutional arrangements to identify where improvements could be made.
- **Planning for climate change actions:** The CPEIR will compile all climate actions, targets and performance indicators proposed in sectoral and national plans to obtain a clear picture of what has been planned and implemented by sectors. This will enable key agencies to estimate how much financial resources are required to implement climate change actions and how much budgetary resources should be allocated to finance climate expenditures and investments.
- **The need for a national climate fund:** The CPEIR will explore the demand for new legislation on climate change and the establishment of a corresponding national fund. Learning from the Energy Conservation Promotion Act 1992 and the Enhancement and Conservation of National Environmental Quality Act 1992, the CPEIR team will determine whether such a model may have applicability to support climate change actions.
- **Defining climate change expenditures:** The absence of a national definition on climate expenditure constrains stakeholders in tracking resources allocated for financing climate actions. The CPEIR will propose an inclusive methodology to define climate change expenditure that is appropriate in the Thai context.

- **Establishing a monitoring and evaluation mechanism as well as a tracking system:** A comprehensive monitoring and evaluation system linking the budget spent and the results achieved on the ground will be explored by the CPEIR team.
- **Identifying how to mainstream climate change into the budgetary process:** The existing policy-based budgeting system in Thailand offers an opportunity to mainstream climate change into the budgetary process. The CPEIR will examine the opportunities to mainstream climate change into the 4 year Government Administrative Plan (GAP) and the Medium Term Expenditure Framework (MTEF) to support the implementation of climate actions and targets.
- **Budgetary allocation and actual expenditure:** The CPEIR will review the financial management systems for allocating and spending climate related expenditures. This will involve the integration of climate change objectives within the budgeting process including as part of budget planning and implementation. The CPEIR team will attempt to undertake trend analysis on both budgeted and actual expenditure.
- **Budget prioritization.** The absence of a comprehensive list of sectoral climate actions and targets has prevented key agencies dealing with budget preparation to prioritize resource allocation on climate change. The CPEIR should prepare a first such list for review by the respective government agencies.
- **The role of the private sector as a source of climate finance:** The private sector requires an enabling regulatory environment to be established and maintained by government. The CPEIR will examine the role played by the private sector in financing climate change actions and review how taxation and subsidy policies are defined vis-à-vis climate related objectives.

(ii) *Local government analysis*

For local governance, given the limited timeframe for the CPEIR exercise, a sensible way to go about collecting such information and presenting it will be to have a case study component in the final report covering a few provinces/districts/sub-districts. This will offer a good complementarity with more generic discussions of the existing institutional framework, budgeting and planning processes presented in the main body of the CPEIR report. The CPEIR will build on the Local government analysis for a climate fiscal framework in Thailand report. In particular, it will consider the following issues identified in the former report:

- **Defining climate expenditure:** There is need to create a space for local actors to help central government define 'climate change' and 'climate expenditure', based on local experiences and capacities. Such a definition should be used to inform future national climate policy and plans', ensuring it is aligned with local planning and budgeting processes.
- **Conducting area-based case studies:** these should be conducted as part of the CPEIR to map the different funding mechanisms, including donor funding to local government and NGOs, government fund transfer or grants to local government and locally generated sources of revenue. This should include the collection and analysis of climate-related budget/expenditure data at the village, tambon, municipal and provincial level.
- **Describing funding modalities:** To improve local administrations' access to climate investment, there is a need to streamline international or national climate investments currently available to local administrations using an efficient and transparent channel of central-to-local funding modality. The CPEIR will explore modalities such as the on-budget formula based general grant, donor funding to NGOs, and existing national funds available to local government, such as the Environment Fund.
- **Exploring policy incentives and capacity building for local governments to allocate budget for climate-related actions:** in addition to increasing access to funding for LGOs, there is also a need to establish policy incentives to ensure that climate-related actions will be prioritized in the local development plan. Accordingly, LGOs' capacities will need to be strengthened to understand the issues and translate policy direction into actions on the ground.

- ***Piloting the tracking of climate-related investments:*** There is a need to capture the totality of climate investments available in each local area to strengthen central government's ability to prioritize and channel climate investments funds to priority areas. Such a compilation could be piloted in the area-based case studies as part of the CPEIR.
- ***Clarifying local roles and responsibilities:*** As part of the local governance analysis of the CPEIR an attempt should be made to further unravel the complex relationship between elected local government bodies and the Government's provincial administrative offices for the delivery of climate-related expenditures. This comparison is necessary to highlight any overlaps in roles and responsibilities, gaps in capacity and responsiveness to community needs.

5. Approach

To ensure that the CPEIR exercise directly contributes to existing needs, addresses real concerns and responds to current challenges in the country, the CPEIR team will report to the Working Committee on Climate Fiscal Framework, which will be provide technical and policy related advice and guidance. This Committee will comprise representatives from 1) the Fiscal Policy Office; 2) the Office of National Economic and Social Development Board; 3) the Bureau of the Budget; and 4) the Office of Natural Resources and Environmental Policy and Planning. Additional representation can be identified by the above agencies upon further discussion. The Working Committee on the Climate Fiscal Framework will need to:

- Provide technical guidance to the CPEIR process;
- Share relevant findings and recommendations emerging from this review with existing high level forums (such as Climate Change Committee in the Prime Minister's Office) to influence policy and decision making;
- Review the draft CPEIR report and provide comments;
- Agree the final CPEIR report recommendations; and
- Provide advice on how the recommendations can be followed up

The CPEIR consultancy team approach will be:

- Inclusive, multi-stakeholder, gender balanced
- Building the capacity of national stakeholders

6. Team composition

The consultants will work as a team including:

- International specialist on climate change and team leader – 20 days (including 2 missions of 6 days each)
- International specialist on public financial management (PFM) – 20 days (including 2 missions of 6 days each)
- International specialist on local governance – 18 days (including 2 missions of 6 days each)
- National consultant on PFM – 50 days
- National consultant on climate change – 50 days
- National consultant on local governance – 25 days

The national consultants will be identified in consultation with the Government of Thailand and UNDP.

7. Time frame

The assignment will take place within a 5-month time frame, starting in January 2012:

January:

- Working Group on Climate Fiscal Framework to review CPEIR ToRs

February:

- First mission by international consultants (PFM, climate and local governance)
- National consultants contracted by ODI
- Inception workshop with Government of Thailand in Bangkok
- Orientation of national consultants

February/March:

- Data collection and analysis by national consultants
- Back-stopping by international consultants
- Second mission by local governance international consultant
- Write draft report (and case studies on local governance)

April:

- Second mission by international consultants (PFM, climate)
- Results workshop with Government of Thailand in Bangkok
- Working Group on Climate Fiscal Framework to provide comments on draft report

May:

- Submission of final report
- Working Group on Climate Fiscal Framework to make arrangements for implementation and follow-up

Annex 4. Sample terms of reference for government oversight committee

TERMS OF REFERENCE

WORKING COMMITTEE ON CLIMATE FISCAL FRAMEWORK IN THAILAND

1. Summary

Thailand is in a position to mobilise significant domestic and international public and private finance to tackle climate change. However to maximize these resources and use them most effectively will require a comprehensive, cross-government approach that involves both the public and private sectors. Such an approach has been termed a climate fiscal framework.

A first step in building a climate fiscal framework is to review how public and private climate change related expenditures are integrated into national budgetary processes, which can be called a Climate Public Expenditure and Institutional Review (CPEIR). This analysis has to be set within the context of the national policy and institutional arrangements that exist to manage the response to climate change.

A Working Committee on Climate Fiscal Framework is proposed to be set-up to provide advice and guidance on the process of establishing Climate Fiscal Framework in Thailand. The committee will be led by the Fiscal Policy Office (FPO) together with the other 3 key agencies, namely, the Office of National Economic and Social Development Board (NESDB), the Office of Natural Resources and the Environmental Policy and Planning (ONEP), and the Bureau of Budget (BoB), and will be facilitated by the United Nations Development Programme (UNDP)

These TORs outline the roles and responsibilities of the Working Committee.

2. Background

To respond to climate change, countries need to identify the domestic demand for, and domestic and international supply of, climate finance and establish an institutional and policy framework for managing this finance effectively. This comprehensive, cross-government approach can take the form of a climate fiscal framework – which will link climate change priorities with expenditure and taxation decisions through the budget process. This will ensure that any external finances are used most effectively alongside domestic resources, and provide a framework to incentivize private investments.

The importance of these issues has been recognized by both governments and international agencies. In 2007, Indonesia hosted the first meeting of Finance and Development Ministers on climate change which recognized the benefits of “understanding of how to integrate climate change issues into country development plans, fiscal policy frameworks and how to benefit and learn from available experience with national climate change strategies and assessments of low carbon growth opportunities.” The need for integrating climate into the budget process has been supported by governments in Asia in the Bangkok Call for Action in 2010 and at the Pacific Stakeholders Meeting on Climate Finance in Palau in April 2011.

United Nations Development Programme (UNDP) has been working since 2009 to support countries including Nepal, Bangladesh, and the Philippines, in establishing the climate fiscal framework in accordance to each country’s needs and context. In Thailand, various consultations were facilitated in August - December 2011 by UNDP with key government agencies, including the Office of Natural Resources and Environmental Policy and planning (ONEP), National Economic and Social Development Board (NESDB), Fiscal Policy Office (FPO) and Bureau of Budget (BoB). A baseline assessment was also conducted to collate initial data on climate related expenditure. The findings were shared at a round table meeting, including facilitated discussion on next steps.

The Government of Thailand led by the Fiscal Policy Office (FPO) has now decided to lead the process of developing a Climate Fiscal Framework for Thailand to address both the short term challenge of disaster management and the longer term challenge of responding to climate change.

3. Objectives

In practice, the CFF will assist Thailand to:

- Identify and mobilize financial resources required to finance climate actions effectively;
- Improve the budgetary process to ensure a strategic resource allocation to finance government's expenditure and investments;
- Manage and scale-up climate finance (both domestic and international resources) to ensure sufficient allocation for both national and local government; and
- Allow for a monitoring and evaluation system to track how well the government and stakeholders spend financial resources on climate actions.

The Framework will provide a well thought-out investment plan and accountability framework in response to climate change impacts. In this regard, the Framework serves Thailand's vision for a Resilient Development Pathway and Low Carbon Economy. This will support the next five year plan of NSEDB and the on-going discussions over the Climate Change Master Plan led by ONEP.

It is also a good opportunity for Thailand to use the Framework to provide inputs into the work of two newly-established Strategic Committee for Reconstruction and Future Development (SCRF), headed and Strategic Committee for Water Resources Management (SCWRM).

4. Expected Outcomes

The main outcomes expected from such an exercise are:

- a) Demand for climate change finance is assessed and sources of international and domestic climate finance is identified
- b) An effective institutional mechanism for facilitating delivery of climate change finance in Thailand is established

Several activities for establishing such a framework will be undertaken. One of them will be to undertake a ***Climate Public Expenditure and Institutional Review (CPEIR)*** that will analyze how climate change related expenditures are integrated within budget planning, implementation, expenditure management and financing will provide a sound basis for establishing such a framework.

The above framework will help in dealing with important sector dimensions. For example, this will look at the linkages between climate change and natural disasters. This is very timely given the recent floods in Thailand which has been attributed to a result of a rare climate extreme based on historical records. Climate change is expected to increase the frequency of such extreme events and there is a need to rethink disaster risk reduction within the climate change policy frameworks. 3

5. Roles and Responsibilities of the Working Committee

As a result of the consultation process with various stakeholders and to take forward the recommendations for establishing such a climate fiscal framework, it was proposed to form a working committee that will act as a focal point for the framework. This will serve as a forum with representation of key stakeholders to provide advice and guidance on this initiative.

This committee will comprise representatives from 1) the Fiscal Policy Office; 2) the Office of National Economic and Social Development Board; 3) the Bureau of the Budget; and 4) the Office of

Natural Resources and Environmental Policy and Planning. Experts on key related areas will be appointed to provide advisory role in the committee. Additional representation can be identified by the above agencies upon further discussion.

6. Key tasks

1. Review the TOR for this working committee and ensure all relevant stakeholders are represented and aware of its scope and mandate.
2. Discuss and provide advice on next steps based on the findings of the baseline assessment for climate fiscal framework that has been undertaken.
3. Provide technical guidance to the climate expenditure and institutional review process including advice for taking forward the recommendations of the review.
4. Share relevant findings and recommendations emerging from these reviews with existing high level forums (such as Climate change Committee in the Prime Minister's Office) to influence policy and decision making.
5. Provide opportunities for dialogue amongst government (national and local), civil society and international organizations for establishing a robust climate fiscal framework in Thailand including supporting exchange of local, national and regional best practices and lessons.

7. Proposed Timeframe

The working committee will be operational for two years to ensure effective management of climate change finance in Thailand. The first task will be to advice and steer the CPEIR exercise (February – May 2012). After that, the Committee will decide, based on the recommendations from the CPEIR exercise, which tasks will be carried forward under the Working Committee aegis, which could be done by other line agencies. It is also envisaged that in the long-run, the Committee can become a sub-committee on Climate Finance under the National Climate Change Committee and/ or a Monitoring and Evaluation body for Climate Finance.

Annex 5. Sample terms of reference for technical assistance

In each CPEIR study TORs are prepared for both national and international specialists. The following sample TORs are those for the national experts in the Cambodia CPEIR. The TORs take a common format in all countries, with country specific issues being identified from previous engagement and prior knowledge in the Scope of Work section.

1. TERMS OF REFERENCE: CAMBODIA CPEIR – NATIONAL CLIMATE CHANGE EXPERT

Context/Background

A multi-disciplinary team will conduct a Climate Public Expenditure and Institutional Review (CPEIR) between February and May 2012. This exercise will provide information on how key agencies utilise their budgets and resources to address climate change issues. The CPEIR will include a Readiness Plan to facilitate the improved access and delivery of climate finance. This plan will help Cambodia in accessing emerging international climate funds.

Building on the experiences in other countries, including Nepal, Bangladesh and Thailand, and using the emerging generic CPEIR methodology, the study will look at three core aspects of the budget cycle vis-à-vis climate finance. The methodology will need to assess progress to-date and make recommendations for improvements in the future:

- Assess current policy priorities and strategies as they relate to climate change and the extent to which these strategies and policies are coherent with national development, poverty reduction and economic growth strategies;
- Review institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management including within and across key ministries and stakeholders.
- Review the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

This work will be carried out at both the national and local levels of government.

Scope of Work

The climate change policy expert will report directly to the Study Team Leader. He/she will work with the international climate change policy specialist, both whilst the latter is in-country and also remotely by means of email/Skype etc.

The climate change policy expert, with the support of the international climate change policy specialist, will:

- Develop a work plan to undertake the policy and institutional analysis of the CPEIR study;
- Undertake key informant interviews and review the relevant literature using the CPEIR methodology;
- Write the first draft text of the policy and institutional sections of the country CPEIR report.

The climate change policy expert will, in particular, focus the analysis on the following sets of issues:

- **Defining climate change expenditures:** The absence of a national definition on climate expenditure constrains stakeholders in tracking resources allocated for financing climate actions. The CPEIR team will propose an inclusive methodology to define climate change expenditure that is appropriate in the Cambodian context.

- **Reviewing the institutional arrangements and coordination mechanisms for climate change:** The CPEIR team will examine the institutional arrangements that are being put in place to deal with climate change, and will identify where strengthening of inter-institutional coordination may be made.
- **Planning for climate change actions:** The CPEIR team will compile all climate actions, targets and performance indicators proposed in sectoral and national plans to obtain a clear picture of what has been planned and implemented by sectors. This will enable key agencies to estimate how much financial resources are required to implement climate change actions and how much budgetary resources should be allocated to finance climate expenditures and investments.
- **The need for a national climate fund:** The CPEIR team will explore the demand for a dedicated national climate fund. Learning from the experience of other national funds, the CPEIR team will determine whether such models may have applicability to support climate change actions.
- **The role of the private sector as a source of climate finance:** The private sector requires an enabling regulatory environment to be established and maintained by government. The CPEIR team will examine the role played by the private sector in financing climate change actions and review how taxation and subsidy policies are defined vis-à-vis climate related objectives.

Schedule of Deliverables	
Output	Due Date
Agreed work schedule	
Monthly progress report (to include progress to date, outputs in next month, difficulties faced etc.)	
Draft text for the climate change policy and institutions sections of the CPEIR report	
Contribute to final CPEIR report	

2. TERMS OF REFERENCE: CAMBODIA CPEIR – PUBLIC FINANCE MANAGEMENT EXPERT

Context/Background

A multi-disciplinary team will conduct a Climate Public Expenditure and Institutional Review (CPEIR) between February and May 2012. This exercise will provide information on how key agencies utilise their budgets and resources to address climate change issues. The CPEIR will include a Readiness Plan to facilitate the improved access and delivery of climate finance. This plan will help Cambodia in accessing emerging international climate funds.

Building on the experiences in other countries, including Nepal, Bangladesh and Thailand, and using the emerging generic CPEIR methodology, the study will look at three core aspects of the budget cycle vis-à-vis climate finance. The methodology will need to assess progress to-date and make recommendations for improvements in the future:

- Assess current policy priorities and strategies as they relate to climate change and the extent to which these strategies and policies are coherent with national development, poverty reduction and economic growth strategies;

- Review institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management including within and across key ministries and stakeholders.
- Review the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

This work will be carried out at both the national and local levels of government.

Scope of Work

The Public Finance Management (PFM) expert will report directly to the Study Team Leader. He/she will work with the international PFM specialist, both whilst the latter is in-country and also remotely by means of email/Skype etc.

The PFM expert, with the support of the international PFM policy specialist, will:

- Develop a work plan to undertake the climate expenditure and PFM analysis of the CPEIR study;
- Undertake key informant interviews and review the relevant literature using the CPEIR methodology;
- Write the first draft text of the climate expenditure and PFM sections of the country CPEIR report.

The PFM expert will, in particular, focus the analysis on the following sets of issues:

- **Defining climate change expenditures:** The absence of a national definition on climate expenditure constrains stakeholders in tracking resources allocated for financing climate actions. The CPEIR team will propose an inclusive methodology to define climate change expenditure that is appropriate in the Cambodian context.
- **Identifying how to mainstream climate change into the budgetary process:** The existing policy-based budgeting system in Cambodia offers an opportunity to mainstream climate change into the budgetary process. The CPEIR team will examine the opportunities to mainstream climate change into the national planning process and the Medium Term Expenditure Framework (MTEF) to support the implementation of climate actions and targets.
- **Budgetary allocation and actual expenditure:** The CPEIR team will review the financial management systems for allocating and spending climate related expenditures. This will involve the integration of climate change objectives within the budgetary process, including as part of budget planning and implementation. The CPEIR team will undertake trend analysis on both budgeted and actual expenditure as well as examining the balance between current versus the capital budget. The relationship between domestic funding and ODA, as well as other sources of external climate finance, will also be reviewed.
- **Budget prioritization:** The absence of a comprehensive list of sectoral climate actions and targets has prevented key agencies dealing with budget preparation to prioritize resource allocation on climate change. The CPEIR team should prepare a first such list for review by the respective government agencies.
- **The need for a national climate fund:** The CPEIR team will explore the demand for a dedicated national climate fund. Learning from the experience of other national funds, the CPEIR team will determine whether such models may have applicability to support climate change actions.

Schedule of Deliverables	
Output	Due Date
Agreed work schedule	
Monthly progress report (to include progress to date, outputs in next month, difficulties faced etc.)	
Draft text for the public expenditure and public finance management sections of the CPEIR report	
Contribute to final CPEIR report	

3. TERMS OF REFERENCE: CAMBODIA CPEIR – NATIONAL LOCAL GOVERNANCE EXPERT

Context/Background

A multi-disciplinary team will conduct a Climate Public Expenditure and Institutional Review (CPEIR) between February and May 2012. This exercise will provide information on how key agencies utilise their budgets and resources to address climate change issues. The CPEIR will include a Readiness Plan to facilitate the improved access and delivery of climate finance. This plan will help Cambodia in accessing emerging international climate funds.

Building on the experiences in other countries, including Nepal, Bangladesh and Thailand, and using the emerging generic CPEIR methodology, the study will look at three core aspects of the budget cycle vis-à-vis climate finance. The methodology will need to assess progress to-date and make recommendations for improvements in the future:

- Assess current policy priorities and strategies as they relate to climate change and the extent to which these strategies and policies are coherent with national development, poverty reduction and economic growth strategies;
- Review institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management including within and across key ministries and stakeholders.
- Review the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

This work will be carried out at both the national and local levels of government. For the local governance analysis, a two person team will carry out an agreed work plan.

Scope of Work

The local governance expert will report directly to the Study Team Leader. He/she will work with the international local governance specialist, both whilst the latter is in-country and also remotely by means of email/Skype etc.

The local governance expert, with the support of the international local governance specialist, will:

- Develop a work plan to undertake the CPEIR study at the local government level;
- Undertake field work in at least two local government areas using the CPEIR methodology;

- Write the first draft text of the local governance section of the country CPEIR report .

For the local governance analysis, given the limited timeframe for the CPEIR exercise, information will be collected from a few provinces/districts/sub-districts and will be presented as case study components in the final report. This will complement the more generic discussion on the existing institutional framework, budgeting and planning processes presented in the main body of the report. Specifically, the national expert will work with the international local governance specialist to analyse the following issues:

- **Defining climate expenditure:** How do local actors define ‘climate change’ and ‘climate expenditure’, based on local experiences and capacities? Such a definition should be used to inform future national climate policy and plans, ensuring it is aligned with local planning and budgeting processes.
- **Conducting area-based case studies:** At least two area-based case studies should be conducted as part of the CPEIR to map the different funding mechanisms, including donor funding to local government and NGOs, government fund transfers or grants to local government and locally generated sources of revenue.
- **Describing funding modalities:** All the funding streams that are currently available to local administrations should be mapped. The CPEIR team should explore existing modalities such as government grants and contributions, locally generated revenue, and donor and private sector funding. The scope of funding from existing national funds available to local government will also be assessed.
- **Piloting the tracking of climate-related investments:** There is a need to capture the totality of climate investments available in each local area to strengthen central government’s ability to prioritize and channel climate investments funds to priority areas. Such a compilation could be piloted in the area-based case studies as part of the CPEIR.
- **Clarifying local roles and responsibilities:** The complex relationship between elected local government bodies and the Government’s provincial administrative offices for the delivery of climate-related expenditures should be examined. This comparison is necessary to highlight any overlaps in roles and responsibilities, gaps in capacity and responsiveness to community needs.

Schedule of Deliverables	
Output	Due Date
Agreed work schedule	
Monthly progress report (to include progress to date, outputs in next month, difficulties faced etc.)	
Draft text for the local governance section of the CPEIR report	
Contribute to final CPEIR report	

Annex 6. Note on methodological consistency between CPEIRs

Introduction

As yet, there is no international definition of climate change-related expenditure, which makes comparisons between countries difficult. The CPEIR methodology paper provides general guidelines on how to approach the definition of such expenditure. Within the five CPEIR pilot studies¹ these guidelines have been developed by each country team in line with the team's understanding of climate-related expenditure and the financial reporting standards within each country. This approach has resulted in differences in what has been recorded as relevant expenditure in the five pilot countries. This note assesses whether the main reasons for the differences in the results arises from:

- differences in methodology;
- differences in the available data; or
- differences in the real situation in each country, including the climate challenge and government's response.

Headline figures from the CPEIR studies

Table 1 provides a comparison of two 'headline' statistics from across the five pilot countries, which shows a relatively low contribution of climate relevant expenditure in Thailand, a medium level in Nepal and Bangladesh and seemingly higher levels in Samoa and Cambodia.

Table 3. Headline statistics on climate relevant expenditures

Country	Measure	Headline statistic	Measure	Headline statistic	Comments
Nepal	Climate-related Government budgeted expenditure	6.7 %	Highly relevant climate-related Government budgeted expenditure	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	Climate-related Government budgeted expenditure	5.5 – 7.2 % (2010/11)	Highly relevant climate-related Government budgeted expenditure	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	Climate-related Government budgeted expenditure	2.7 %	Highly relevant climate-related Government budgeted expenditure	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	Climate-related Public budgeted expenditure	14.9 – 16.9 %	Highly relevant climate-related public budgeted	3.1 – 6.9%	<ul style="list-style-type: none"> • Analysis of budgeted expenditure covered all Government programmes

¹ Nepal, Bangladesh, Thailand, Cambodia and Samoa

			expenditure		and projects <ul style="list-style-type: none"> Includes 'off-budget' donor support
Samoa	Climate-related Public budgeted expenditure	15 %	Highly relevant climate-related public budgeted expenditure	6 %	<ul style="list-style-type: none"> Analysis of budgeted expenditure covered all Government programmes and projects Includes 'off-budget' donor support

Methodology

The methodology for the CPEIRs has evolved during the pilot studies. The CPEIR methodology paper defines mitigation and adaptation and gives guidance on how to classify the level of relevance. The guidance on relevance is in two parts: first, some broad principles are defined; and, second, a list of examples of programme types is provided.

Table 4 summarises the way in which different programme types were classified in the methodology note and the different CPEIRs. Some of the differences in classification reflect an evolving methodology as it was applied in each country. In addition, the approach to the coordination of the CPEIRs was to allow the broad classification principles to be applied flexibly in each country, to reflect the circumstances in the country and to explore different approaches.

Table 4. CPEIR classification of programme type

Programme Type	Method Note	Nepal	Bangladesh	Samoa	Cambodia	Thailand
Renewable energy	Hi	Hi	Hi	Hi	Hi	Hi-Mid
Electricity efficiency					Mid	Hi
Energy (general)					Lo	
Industry mitigation					Mid	Mid
Forestry	Mid		Hi	Mid	Hi	Hi-Mid
Disaster management	Hi			Hi	Hi	Hi
Disaster rehabilitation			Hi		Hi	
Disaster relief	Marg				Hi	Marg
Relocation	Hi			Hi		Hi
Water supply/quality	Mid-Lo	Hi	Lo	Hi-Mid-Lo	Mid-Lo	Hi-Mid-Lo
Irrigation	Mid		Mid		Mid	
Biodiversity/conservation	Mid	Hi	Hi	Mid	Mid	Mid
Eco-tourism	Mid			Mid	Mid	Mid
Agriculture	Hi-Mid-Lo		Hi-Mid-Lo			Hi
Pest control			Hi			
Livelihoods/rural development	Mid-Lo		Mid-Lo	Lo	Mid-Lo	Lo
Social protection	Mid-Lo		Mid-Marg			
Railway			Marg			
Climate proofing infrastructure.	Hi-Mid		Hi	Hi	Hi	Hi
Roads and infrastructure	Lo-Marg		Lo-Marg		Mid-Lo	Marg

Health (climate sensitive)	Hi		Mid	Hi	Hi	Hi
Health (general)	Marg		Lo			Marg
Education (general)	Marg					Marg
Climate planning	Hi		Hi-Lo	Hi	Hi	Hi
General planning	Lo		Lo	Lo	Lo	Lo

Table 4 shows that there is broad agreement in the way in which programme types have been classified across all the five pilot studies. The main challenge arises in programme types that are possible to put in several groups. In some cases, this simply reflects the fact that they are borderline cases. However, there are some programme types where more fundamental issues are involved.

The possible range of classification is summarised in Table 5. This table includes reference to percentage scores indicating the percentage relevance of each programme. These scores complement the Hi-Mid-Lo(-Marginal) classification groups. They are intended to indicate the percentage of expenditure that is related to climate change, so that the expenditure can be added from each group to produce an overall total for the country. The percentage scores in Table 5 are taken partly from actual classifications in the pilot CPEIRs and partly to illustrate possible interpretations.

Table 5. Ranges of relevance by programme type

Programme Type	Bottom Range	Top Range
Renewable energy	75%, if motivated mainly by economics	100%
Electricity (non-RE)	Negative, if seen as increasing emissions	25%+ if used for reducing losses or stopping use of fuelwood or generators
Forestry	50%, if motivated mainly by incomes or biodiversity	100%, if motivated by mitigation
Disaster management	25%, reflecting the increased frequency of extreme climate events	100%, if seen as fully relevant to climate change
Disaster relief	0%, if seen as related only to current extreme climate, not changes	100%, if seen as part of a deliberate adaptation strategy
Water supply and water quality	25%, reflecting increase in extreme climate events and/or rainfall/ET trends	100%, if seen as fully relevant to climate change, or if all used for climate proofing
Irrigation	25% (?) if considering only the increased frequency	100%, if all for climate proofing
Biodiversity /conservation	0%, if unrelated to climate	50% (?) if partly affected by climate change
Eco-tourism	0% if not contributing to household resilience or climate-related biodiversity	50% (?) if giving incomes for climate vulnerable, or helping climate-related biodiversity
Livelihoods and rural development	0%, if not helping the climate vulnerable	50% (?) if highly focused on increasing the incomes for climate vulnerable
Social protection	(<) 25%, if designed primarily for current risks	100%, if specifically designed to respond to increased climate risks
Railway	(<) 25%, if impact on emission is small	50%, if impact on emissions is large
Roads and infrastructure	(<) 25%, if some proofing undertaken, or if there are secondary benefits to welfare of climate vulnerable households	100%, if all spent on climate proofing
Health (climate)	25% (?) if considering only the increased frequency	100%, if all for climate proofing

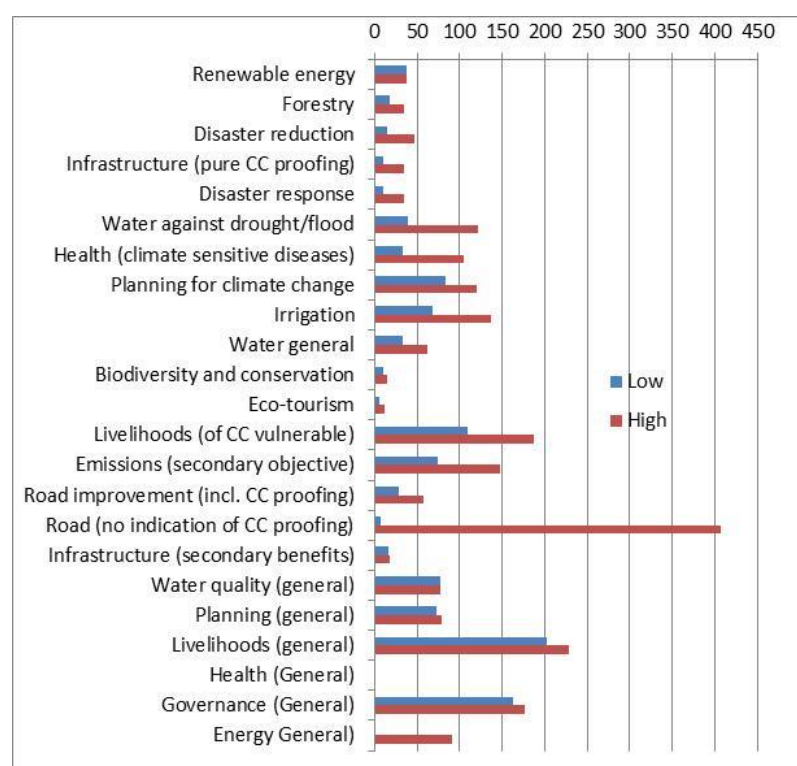
sensitive diseases)		
Health (general)	<10%, if no focus on climate diseases	(<?) 25%, if climate diseases important
Governance, planning	0%, if unrelated to climate change	(<?) 25%, if supporting systems that could help climate planning 100% if focused on climate change

Some of the ranges in the above table are to be expected and reflect the differences within each programme type. However, there are some issues that need further resolution.

- The 'Cyclone Shelter Issue'. For programmes that address extreme climate events (e.g. floods, droughts and storms) it is important to establish whether all the expenditure is climate relevant, or whether it is only the part that addresses the increased frequency and severity of extreme events. The latest evidence from the 2011 SREX report suggests that frequency of flooding may increase by about 25%, and this is remarkably consistent across the world. This would suggest that programmes that protect against extreme events, without specific upgrading for climate proofing, should not be given a score of more than 25%.
- Most reviews of vulnerability to climate change conclude that an important strategy for adaptation is to improve incomes and wealth, so that households can survive an extreme climate event. The CPEIR methodology note includes livelihoods enhancement and poverty reduction as mid to low relevance (i.e. 25% to 75% score), depending on whether they target climate vulnerable households. Most rural development programmes aim to improve the livelihoods of the rural poor, but most have been given relatively low classifications and some have been excluded from the classification.
- Classifying disaster programmes also poses challenges. Most of the CPEIRs classified disaster management and rehabilitation as high relevance. But disaster management and response are normal features of public expenditure, regardless of climate change. Following the same principles as for climate proofing infrastructure, one option is to classify 25% of disaster management as being relevant to climate change, as this is the expected increase in frequency and severity of extreme events. The situation with disaster relief might appear easier and most CPEIRs excluded this from the analysis. However, in Cambodia it was included because the intermittent provision of relief was considered part of a rational long term strategy for managing disasters.

Table 6 illustrates the range of possible classifications for each main programme type in Cambodia. This is prepared by assigning the highest and lowest reasonable classification of each programme, bearing in mind the uncertainties outlined above. The table shows the range of possible results for many programmes is moderate (and in most cases will be influenced by expert judgement to a narrower range), however there are some types of expenditure for which the range is particularly large. The challenges in classifying rural roads in Cambodia are particularly dramatic. This implies that the present CPEIR methodology is inherently imprecise for some programmatic activity and the results from each study need to be interpreted in this light.

Table 6. Range for climate development expenditure in Cambodia (in CR bn)



Data availability

In all the CPEIRs, the objective was to capture all public expenditure, including recurrent and development and including all domestic and external funding. The CPEIRs succeeded in capturing most public expenditure, although it was difficult to be sure about the level of off-budget donor support. This led to one difference between the composition of the 'headline figures' in Table 1, in that in Cambodia and Samoa off-budget donor expenditure was included in the headline statistic of public expenditure, whereas in the other studies it was not part of the climate-related government expenditure statistic.

All CPEIRs aimed to work with actual data, rather than budget. However, in Samoa, Cambodia and Thailand it proved difficult to get figures on actual expenditure (both for recurrent and development expenditure) and it was necessary to rely on budget data only and, in some case, on commitment data for donors. These differences in data availability may have had some impact on the overall results.

National Approaches

It is possible that there was a difference in approach to classification in each of the CPEIR countries. In all the countries, the classification was done according to a system that attempted to respect the same principles and aimed to be as objective as possible. There was no apparent interest in obtaining either a high or low result. In Samoa, the government is compact and there is very wide understanding of the importance of climate change. This may have meant that the national experts and government officials involved in classifying expenditure were more likely to see and stress the climate relevance of activities. In Cambodia and Nepal, there is less appreciation across government of the potential impact of climate change. In Bangladesh there is good understanding of climate change amongst some officials, but government is a large and complex institution in which it is less easy to introduce new priorities and then to ensure that funds follow priorities.

Real Differences in National Circumstances

The final possible explanation of differences between countries in the level of climate relevant expenditure is that it reflects real differences in the physical characteristics of the country and in the levels of expenditure that are used for mitigation and adaptation. Cambodia has a high level of total climate relevance, but it also has a very large proportion of development expenditure that is devoted to irrigation and the flood-proofing of rural roads. In Samoa, the country has recently recovered from a Tsunami and this has led to an increase in priority for spending that builds resilience against extreme events. Thailand, as a more developed and urbanised country, has a more complex range of demands on public expenditure. Bangladesh could be expected to have similar levels of spending to Cambodia, but the total level of development spending is smaller and the overall balance may be affected by higher spending on health and education. Whilst Nepal may have similar levels of donor dependency, the natural environment is less obviously vulnerable to floods and droughts that dominate concerns in Cambodia.

Conclusion

There are important steps to be taken in improving guidance on the classification of climate expenditure. The pilot CPEIRs provide the foundation from which to take these steps. The choices on classification need to be informed by the purpose of the analysis. If the purpose is to facilitate the management of climate finance in a more mainstreamed fashion, then the classification should be guided by options that can be made operational, for example as indicators for conditions associated with programmatic support. If the purpose is to provide a broader perspective for policy development, including the best balance and linkages between climate resilience and economic growth, then the classification needs to be comprehensive and can afford to be more indicative and illustrative.



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