PEFA

Supplementary Framework for Assessing Climate Responsive Public Financial Management

Supplementary Framework for Assessing Climate-Responsive Financial Management

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[1] Reports that are final as at April 2, 2024

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ABOUT PEFA

PEFA (Public Expenditure and Financial Accountability) is a partnership program of the European Commission, the International Monetary Fund, the World Bank, and the governments of France, Luxembourg, Norway, Slovak Republic, and Switzerland.

The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time.

The PEFA framework provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable PFM outcomes. It provides a foundation for planning reform, discussing strategy and priorities, and monitoring progress.

PEFA is a tool that helps governments to achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important PFM institutions, systems, and processes.

In addition to governments, other users of PEFA include civil society organizations and international development institutions. PEFA scores and reports allow users to gain a quick overview of the strengths and weaknesses of a country's PFM system. Users also see the implications of the overall performance results for the key goals of fiscal discipline, strategic resource allocation, and efficient service delivery. The PEFA analysis thereby contributes to dialogue on the need and priorities for improving PFM.

The PEFA methodology draws on international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners. PEFA incorporates a PFM performance report for the subject government that presents evidence-based indicator scores and analyzes the results based on existing evidence. It emphasizes a country-led approach to improve performance and align stakeholders around common goals.

In addition to guidance for analysis and reporting, the PEFA program provides support, monitoring, and analysis of PEFA assessments.

For more information on PEFA, see the PEFA website, www.pefa.org.

ABOUT THIS DOCUMENT

This document provides PEFA users with guidance on the application of the PEFA supplementary framework for assessing climate-responsive public financial management (PEFA Climate).

Section 1 describes the objectives of the framework and introduces the characteristics of PEFA Climate: Inception questionnaire, indicators, and dimensions, scoring methodology (definition, coverage, and time period), resources required, and quality assurance.

Section 2 provides an overview of the context and key trends in the application of climate-responsive public financial management (PFM).

Section 3 deals with the PEFA Climate assessment.

It provides detailed information on the inception questionnaire to be used to establish the country climate profile. The questionnaire enables to highlight the main aspects of the climate change policies and actions in place and the corresponding fiscal policy instruments to implement the national climate change strategies and the Nationally Determined Contributions (NDCs).

Section 3 provides detailed guidance on how to score a set of key indicators and dimensions used to assess the extent of which PFM systems, processes and institutions are climate responsive. Where relevant, the guidance explains how enabling factors can be described in the narrative part of the assessment when not covered in the scoring requirements (e.g., capacity building).

Section 3 also provides guidance on how to use the findings to improve the climate responsiveness of PFM systems. In that spirit, for each indicator, the guidance includes examples from various countries and regions around the world and links to relevant reference documentation and tools for further improvements of how PFM systems embed climate change.

Section 4 presents the report template that assessment teams will use to present the findings from the assessment of indicators and dimensions. The report will highlight the possible areas of improvements based on the assessment findings and in light of the inputs from the inception questionnaire.

Section 5 presents data required to support the score of each dimension.

Section 6 points to other useful resources not referred to in previous sections.

A glossary of terms is presented in Annex 2.

The guidance will be updated as needed to reflect feedback from users and to incorporate additional references to good practices and useful case studies. Each new edition will include a summary of changes from the previous versions and will be dated at the time of release.

Users are reminded that, before commencing a PEFA assessment, they should refer to the PEFA website (www.pefa.org) to ensure that they are using the most current version of the guidance.

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ABBREVIATIONS AND ACRONYMS

BCG	Budgetary central government
CBT	Climate Budget Tagging
CG	Central government
CPEIR	Climate Public Expenditure and Institutional Review
CRPFM	Climate-responsive public financial management
EU	European Union
GFS	Government Finance Statistics
GHG	Greenhouse gases
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
MDAs	Ministries, departments, and agencies
NDCs	Nationally Determined Contributions
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PPP	public-private partnership
SDG	Sustainable Development Goals
SNGs	Subnational governments
UNDP	United Nations Development Programme
UNFCCC	The United Nations Framework Convention on Climate Change
WB	World Bank

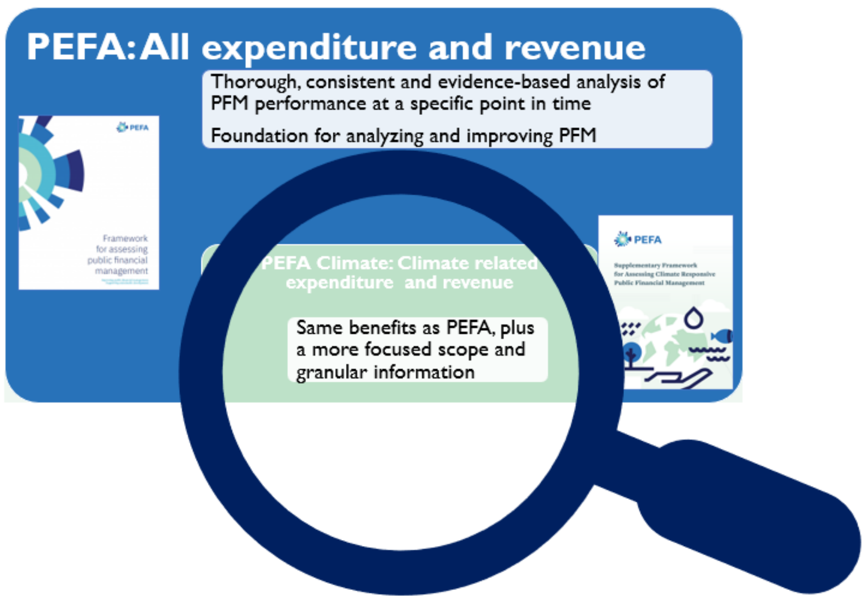
Section 1: About the Supplementary Framework for assessing climate-responsive Public Financial Management (PEFA Climate)

Purpose

The Public Expenditure and Financial Accountability (PEFA) framework for assessing climate-responsive public financial management (PFM)—the *PEFA Climate framework*—is a set of supplementary indicators that builds on the PEFA framework to collect information on the extent to which a country's PFM system is ready to support and foster the implementation of government climate change policies, i.e., is "climate responsive".

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. The PEFA Climate assessment informs on whether laws and regulations, institutions, systems, procedures and processes contribute to the implementation of climate change activities throughout the budget cycle, including the planning and design of budgetary policies considering climate, the budget allocations needed to implement them, the tracking of these allocations to ensure that policies are implemented as intended, and the monitoring and evaluation of the efficiency and effectiveness of these policies and investments.

Figure 1. Focus of PEFA Climate vs. PEFA



The PEFA Climate indicators build upon the existing PEFA framework[2] for assessing PFM performance and the mapping of PFM practices and assessment of PFM institutions, processes, and systems typically carried out during a standard PEFA assessment process. However, as climate-responsive PFM practices remain relatively nascent, not every element of the PEFA framework is included in PEFA Climate. **PEFA**

[2]The PEFA framework assesses the status of a country's public financial management. It measures the extent to which PFM systems, processes, and institutions contribute to the achievement of desirable budget outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. PEFA identifies seven key pillars of PFM performance (1) budget reliability, (2) transparency of public finances, (3) management of assets and liabilities, (4) policy-based fiscal strategy and budgeting; (5) predictability and control in budget execution, (6) accounting and reporting, and (7) external scrutiny and audit spread throughout the budget cycle. It defines 31 specific performance indicators, disaggregated into 94 individual dimensions, that focus on key aspects of the PFM system. Since the launch of the PEFA framework in 2005, PEFA has been used in 152 countries.

Climate recognizes that countries are gradually incorporating climate change considerations into their PFM systems. Some countries may prioritize certain entry points and tools that align with their PFM strategy.

Thus, the PEFA Climate assessment report will provide a benchmark of performance, highlight where progress has been made, and identify the opportunities for countries to make their PFM more climate responsive, as presented in *Box 1* below.

Box 1: PEFA Climate and entry points

PEFA Climate uses 14 questions aiming at highlighting the strengths of the existing systems and identifying the opportunities for countries to make their PFM more climate responsive.

1. Are climate-related sector medium-term strategic plans, medium-term budgets, and annual budget aligned with climate change strategies?
2. Does the government have the capacity to track climate-related expenditure?
3. Does the budget circular take climate change policies into consideration?
4. How are climate change aspects included in legislature's scrutiny of budget and audit reports?
5. Has the government mainstreamed climate change in the arrangements for public investment management?
6. Does the management of assets ensure that public assets contribute to mitigation and that their sensitivity to climate change is addressed?
7. Has the government put in place arrangements to handle climate-related liabilities, and comply with the specific monitoring and reporting requirements?
8. Does the government take climate change impacts into account when planning and executing procurement decisions?
9. Are climate change mitigation and adaptation objectives supported by tax administration systems?
10. Has the government put in place a system to assess the compliance of expenditure with climate-related criteria?
11. How does the PFM system enable the subnational governments to contribute to the climate change mitigation and adaptation strategy?
12. Do the executive's budget proposal or supporting documentation include climate change related information on planned and actual performance of climate-related programs and services?
13. Does the government carry out evaluations of its expenditure and tax climate-related measures?
14. To what extent does the actual outturn of climate-related expenditures deviate from the originally approved budget?

Scores may show that systems are not ready yet. The very first assessment may result in some D scores applied if the performance observed is less than required for any higher score. Based on answers to the questions and findings from the assessment, country specific entry points may be identified. These entry points should be linked to PFM initiatives (e.g., public investment law or regulation in which climate-related provisions are added) or previous climate PFM related activities (e.g., climate-related public expenditure review for which the classification could be updated and used to map current climate expenditure). As for PEFA, the PEFA Climate report does not provide recommendations. Identification of entry points may inform the actions to be taken after a PEFA Climate assessment and form part of the dialogue between relevant stakeholders.

About the assessment

The decision to undertake a PEFA Climate assessment is at the discretion of country authorities. The PEFA Climate assessment is intended to be conducted on a voluntary basis concurrently with a PEFA assessment. This would allow countries to efficiently capitalize on data already collected during the PEFA assessment process and result in cost and resource efficiency gains. In addition, coordination between both assessment teams would ensure consistency in the narrative and possibly scoring between the two reports.

The PEFA Climate assessment can also be carried out as a stand-alone activity. The assessment team could refer to the most recent PEFA 2016 report. The latter may provide useful information on the PFM functions that are assessed in PEFA Climate. However, as shown in *Figure 1*, PEFA 2016 remains at a high level while PEFA Climate is zooming at a more granular level.

Inception questionnaire

While the PEFA Climate framework does not assess the national climate change policies and strategies of a country, the specifics of these policies and strategies need to be captured to contextualize the findings of the assessment. The policies will describe how the government intends to reduce greenhouse gas emissions, decarbonize the economy, and build resilience against the physical impacts of a changing climate. These policies should be aligned with the country's NDCs. In turn, governments should use their PFM systems and adjust rules and processes to capture and generate the information needed to report on the implementation of national climate change policies.

Unless otherwise stated and explained in the Introduction of the PEFA Climate report, PEFA Climate assessment will focus on the implementation of climate change national policies and strategies. Such policies may be designed to address either 'climate change mitigation' OR 'climate change adaptation'[3] only, or BOTH mitigation and adaptation. Different policy approaches will result in differentiated scores.

The identification and specification of climate policies will be captured through an inception questionnaire that will establish the 'country climate change profile'. In particular, the questionnaire asks the country to present what constitutes "climate change expenditure" based on the policies in place. Some countries may have defined "climate change mitigation expenditure", "climate change adaptation expenditure", and "climate change cross-cutting expenditure". These terms will be used throughout the assessment. The results of the questionnaire will be described in the introduction as explained in the PEFA report guidance presented under Section 4.

In this framework, the questionnaire can be found right before the set of indicators.

Definitions gathered from the questionnaire will guide the assessment and highlight the findings of the PEFA Climate assessment.

The list of terms to be contextually defined using the questionnaire comprises:

- National climate change policies in place and if none, NDC targets as submitted in the latest version of the country's NDC, and/or Long-Term Strategy.
- Mitigation as defined and referred to in the national strategies, policies and regulations.
- Adaptation as defined and referred to in the national strategies, policies and regulations.
- What constitutes "climate change expenditure".

[3] Or 'physical impacts' and 'transitional impacts'

- What constitutes "climate change mitigation expenditure" when a country refers to such expenditure.
- What constitutes "climate change adaptation expenditure" when a country refers to such expenditure.

Indicators and dimensions

The PEFA Climate framework is presented in the form of guiding questions and indicators, mapped to relevant PEFA indicators across the budget cycle, that are intended to capture current practices in mainstreaming climate change into PFM. As these practices are still evolving, the PEFA Climate framework does not cover every element of the PEFA methodology.

The PEFA Climate framework is designed to be applied at the national level only at this time[4]. An adapted version of PEFA Climate will be developed later for application by subnational governments (SNGs).

PEFA Climate indicators and related dimensions are presented in *Table i* below. Each of the selected climate-responsive PFM (or CRPFM) indicators is aligned with the relevant performance indicator (PI) of the PEFA 2016 framework (see Annex I). *Figure 2* additionally presents how PEFA Climate indicators are structured around the budget cycle.

Table i. PEFA Climate indicators and dimensions

INDICATORS	DIMENSIONS
CRPFM-1. Budget alignment with climate change strategies	CRPFM-1.1. Budget alignment with climate change strategies
CRPFM-2. Tracking climate-related expenditure	CRPFM-2.1. Tracking climate-related expenditure
CRPFM-3. Climate-responsive budget circular	CRPFM-3.1. Climate-responsive budget circular
CRPFM-4. Legislative scrutiny	CRPFM-4.1. Legislative scrutiny of budget CRPFM-4.2. Legislative scrutiny of audit and evaluation reports
CRPFM-5. Climate-responsive public investment management	CRPFM-5.1. Climate-responsive provisions in regulatory framework for public investment management CRPFM-5.2. Climate-responsive provisions for project appraisal CRPFM-5.3. Climate-responsive provisions for project selection

[4] Chihuahua Municipality in Mexico applied the PEFA Climate framework and published the corresponding report in 2022 https://www.pefa.org/node/5124 and https://www.pefa.org/news/chihuahua-municipality-mexico-recognized-national-award-good-governance-based-first-pefa-sub

INDICATORS	DIMENSIONS
	CRPFM-5.4. Reporting from entities in charge of implementation
CRPFM-6. Climate-responsive non-financial asset management	CRPFM-6.1. Climate-responsive non-financial asset management
CRPFM-7. Climate-related liabilities	CRPFM-7.1. Fiscal risks arising from climate-related contingent liabilities CRPFM-7.2. Climate-related debt and guarantees
CRPFM-8. Climate-responsive public procurement	CRPFM-8.1. Climate-responsive public procurement framework CRPFM-8.2. Climate-responsive public procurement operations CRPFM-8.3. Climate-responsive public procurement monitoring CRPFM-8.4. Climate-responsive public procurement reporting
CRPFM-9. Climate-responsive tax administration	CRPFM-9.1. Climate-related tax management, audit, and investigation CRPFM-9.2. Climate-related tax arrears
CRPFM-10. Compliance of climate-related expenditure	CRPFM-10.1. Effectiveness of the systems of controls CRPFM-10.2. Compliance of transactions
CRPFM-11. Climate-responsive fiscal decentralization	CRPFM-11.1. Climate-responsive fiscal decentralization arrangements CRPFM-11.2. Climate-responsive fiscal transfers CRPFM-11.3. Climate-responsive PFM arrangements applied by subnational governments
CRPFM-12. Climate-related performance information	CRPFM-12.1. Climate-related information in performance plans CRPFM-12.2. Climate-related information in performance reports
CRPFM-13. Climate-related evaluation	CRPFM-13.1. Climate-related evaluation of expenditure CRPFM-13.2. Climate-related evaluation of taxes
CRPFM-14. Expenditure outturn for climate activities	CRPFM-14.1. Aggregate climate-related expenditure outturn CRPFM-14.2. Climate-related expenditure composition outturn

Figure 2. Overview of PEFA Climate indicators

Keys:

- *(i) The color of the indicator reflects the color of the pillar of the corresponding PEFA 2016 indicator or dimension.*
- *(ii) For indicators with more than one color, this indicates that, in addition to (i), some requirements or dimensions are also linked to another pillar (e.g. CRPFM-4. has one dimension linked to Pillar 3 and one dimension linked to Pillar 7).*

The PEFA Climate framework highlights relevant climate-responsive PFM practices in line with the key stages of the budget cycle, as described in the PEFA framework. The stages include policy-based fiscal strategy and budgeting (budget planning, PEFA pillar 4), predictability and control in budget execution (budget execution, pillar 5), accounting and reporting (pillar 6), and external scrutiny and audit (pillar 7), as well as two cross-cutting themes: transparency of public finances (pillar 2) and management of assets and liabilities (pillar 3). Moreover, several PEFA Climate indicators require the publication of documents even if they are not part of pillar 2 (transparency of public finances). This requirement is in line with good international practice on transparency of public finances, as identified in the PEFA framework, which promotes accountability between governments and citizens. In addition, PEFA Climate examines budget reliability (pillar 1), which is an outturn of a PFM system and one of the key areas of PFM, as identified by PEFA.

PEFA Climate starts with an overarching indicator that bridges the climate change policies as described in the inception questionnaire with PFM tools. This indicator aims at examining the alignment between long and medium-term climate change strategies with costed sector medium-term strategic plans and medium-term and annual budgets.

PEFA Climate then examines whether the systems in place allow the country to track climate-related expenditure. This covers the definition of climate-related expenditure and includes having a methodology in place. Such tracking spans from budget proposal to end-of-year execution reports and includes identification of transfers to operators in charge of implementing climate change policies.

For the budget planning phase, PEFA Climate assesses the following climate-responsive PFM practices:

- Preparation of a budget circular that instructs budgetary units to address climate impact in their budget submissions.
- Legislative scrutiny of budget proposals that consider the climate impacts of expenditure and revenue policies and programs. This is the first dimension of the legislative scrutiny indicator.

PEFA Climate also examines the arrangements in place for climate-responsive public investment management; for climate-responsive non-financial asset management; and for climate-related liabilities.

For the budget execution phase, the government implements the policies planned in the budget and monitors and controls their execution. Climate-responsive PFM practices assessed by PEFA Climate include climate-responsive procurement; climate-responsive tax administration; and the compliance of climate-related expenditure.

During the accounting and reporting phase, the government prepares reports on the implementation of budget policies. Reporting practices in PEFA Climate are assessed through several indicators, rather than focused under a single indicator.

For the final stage of the budget cycle—external scrutiny and audit—the public finances are reviewed, and recommendations are issued to inform future activities. Climate-responsive PFM practices examined by PEFA Climate include:

- The legislative scrutiny of audit and evaluation reports, as a second dimension of the legislative scrutiny indicator.
- An assessment of whether audits and fraud investigations are conducted to ensure the compliance of climate-related payments, including monies received by operators.
- Submission to the legislature of climate-related information in performance reports.

In addition, PEFA Climate assesses whether performance plans include climate-related information; and if the government carries out climate-related evaluations. PEFA Climate also examines how the existing PFM system enables subnational governments to contribute to the implementation of the climate change strategy.

For the last indicator, PEFA Climate examines to what extent the actual outturn of climate-related expenditure deviates from the originally approved budget.

About scoring

General guidance

Assessment teams score the questions mapped to selected PEFA indicators on a four-point ordinal scale from D to A, in line with the PEFA framework. To justify a score, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met, the criteria are not satisfied, and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator. A score of D means that the feature being measured is present at less than the basic level of performance or absent altogether or that there is insufficient information to score the indicator.

Assessment teams are required to present the evidence collected to support the score for each of the proposed CRPFM questions.

Table ii below presents the proposed calibration in line with the four-point ordinal scale and adjusted to fit the needs of PEFA Climate assessments and corresponding to existing climate-responsive PFM practices.

Table ii. Levels of CRPFM practice on a four-point ordinal scale

Score	Level of practice
A	Climate change issues and the policy response are mainstreamed in the relevant PFM institutions, processes, or systems
B	Climate change issues and the policy response are partially mainstreamed in the relevant PFM institutions, processes, or systems
C	Initial efforts have taken place to mainstream climate change issues and the policy response in the relevant PFM institutions, processes, or systems
D	Performance is less than required for a C score

Designation of D score for lack of sufficient information

The D score is applied if the performance observed is less than required for any higher score. For this reason, a D score is warranted when sufficient information is not available to establish the actual level of performance. A score of D due to insufficient information is distinguished from D scores for low-level performance by the use of an asterisk—that is, D*. The aggregation of multidimensional indicators containing D* scores is no different from aggregation with other D scores. Aggregate indicator scores will not include an asterisk, and thus the insufficiency of information is only noted at the dimension level.

Scoring where indicators are not applicable or not used

There may be two situations in which no score can be allocated to an indicator or a dimension.

Not applicable (NA). In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases 'NA' is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the 'not applicable' dimensions did not exist.

Not used (NU). In some cases, it may be decided for certain reasons that a particular indicator will not be used. For example, it may be the case that the PEFA Climate assessment is going to be combined with another detailed assessment of the relevant indicator, using a different assessment tool. In all such cases 'NU' is entered instead of a score.

The use of NA and NU must be justified in the PEFA Climate report. Assessments that score less than two-thirds (9) of the PEFA Climate indicators should be referred to as "partial PEFA Climate assessments" to distinguish the assessment from comprehensive applications of the PEFA Climate methodology.

Besides the use of 'NA' for scoring, there are also instances where one requirement of a dimension is NA, which leads to assess the dimension by ignoring such requirement. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no definition of climate-related expenditure (CRPFM-2 Element 1), the score is D for CRPFM-2. All dimensions of CRPFM-14. covering the outturn are NA because there will be nothing to assess for those dimensions in the absence of a definition. *Table iii* below recapitulates all instances where either a dimension or a requirement of a dimension is NA[5].

Table iii. Cases where the feature is not applicable

Indicator or dimension	**Case where the feature is not applicable (NA)**
CRPFM-1.1	**Element 5:** If there is no climate-related tax policy proposal in the period under review, this element is NA (see clarification 1:1.4). **Element 6**: When there is no climate-related tax estimate, this element will only examine whether climate-related annual expenditure aligns with the approved medium-term budget estimates for the first year (see clarification 1:1.5).
CRPFM-4.2	**Element 3**: When there was no audit and/or evaluation reports that were submitted for review, this element is NA (see clarification 4:2.3). **Element 5**: When Element 4 is not met because there are no recommendations, Element 5 is NA (see clarification 4:2.5).
CRPFM-8.2	This dimension covers climate-induced disasters. When a country is not prone to such disasters as explained in the country climate profile, requirements assessing emergency procedures are not applicable (see clarification 8:2.2.).
CRPFM-8.3	This dimension covers climate-induced disasters. When a country is not prone to such disasters as explained in the country climate profile, requirements assessing emergency procedures are not applicable (see clarification 8:3.2.).

[5] As identified as at April 22, 2024

Indicator or dimension	Case where the feature is not applicable (NA)
CRPFM-8.4	In case there has not been any climate-related disaster in the period covered by the assessment, or when a country is not prone to climate-induced disasters as explained in the country climate profile, this part of the requirement is not applicable (see clarification 8:4.2.).
CRPFM-9	Climate-related taxes are part of the environmental taxes, defined as taxes whose tax base is a physical unit (or a proxy of it) that has a proven specific negative impact on the environment. They include carbon tax (see example in Box 30), energy tax, emission tax, border carbon adjustments. Other environmental taxes (on waste, water, non-climate-related chemical pollutants) are not covered by this indicator. When there are no climate-related taxes that meet that definition, this indicator is NA (see clarification 9:5).
CRPFM-11.3	**Element 3**: Procedures and rules for the transfer and disposal of climate change sensitive non-financial assets, as assessed under CRPFM-6.1. Climate-responsive non-financial asset management, apply to SNGs. When there is no specific arrangement for climate change sensitive non-financial assets, the score for CRPFM-6.1. is D and subsequently, Element 3 is NA (see clarification 11:3.3). **Element 4**: The legal or regulatory framework for climate-responsive debt and guarantees, as assessed under CRPFM-7.2. Climate-related debt and guarantees, specifies the arrangements for SNGs. When there is no specific arrangement, the score for CRPFM-7.2. is D and subsequently, Element 4 is NA (see clarification 11:3.4). **Element 5**: The green procurement framework, as assessed under CRPFM-8.1. Climate-responsive public procurement framework covers SNGs. When there is no green procurement framework, the score for CRPFM-8.1. is D and subsequently, Element 5 is NA (see clarification 11:3.5).
CRPFM-14	When there is neither a definition of “climate change expenditure” from the questionnaire nor a methodology developed by the government, CRPFM-14. is considered NA (see clarification 14:3).

Scoring of indicators with multiple dimensions

Most indicators have two or more separate dimensions, each of which must be assessed separately. The overall score for an indicator is based on the scores for the individual dimensions. The scores for multiple dimensions are combined into an overall score for the indicator using a method based on an approximate average of the scores for the individual dimensions of an indicator, as specified in the conversion table. Use of this method is prescribed for multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Although all dimensions of an indicator fall within the same area of the PFM system, progress on some individual dimensions can be independent of the others in certain areas. The steps in determining the aggregate indicator score are as follows:

- Assess each dimension separately and give it a score on the four-point calibration scale
- Refer to the conversion table below for indicator scores with two or more dimensions
- Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter
- Enter the corresponding overall score for the indicator.

Table iv. Conversion table for indicator scores with two or more dimensions

Dimension scores		Overall M2 (AV) score
2-DIMENSIONAL INDICATORS		
D	D	D
D	C	D+
D	B	C
D	A	C+
C	C	C
C	B	C+
C	A	B
B	B	B
B	A	B+
A	A	A

Dimension scores			Overall M2 (AV) score
3-DIMENSIONAL INDICATORS			
D	D	D	D
D	D	C	D+
D	D	B	D+
D	D	A	C
D	C	C	D+
D	C	B	C
D	C	A	C+
D	B	B	C+
D	B	A	B
D	A	A	B
C	C	C	C
C	C	B	C+
C	C	A	B
C	B	B	B
C	B	A	B
C	A	A	B+
B	B	B	B
B	B	A	B+
B	A	A	A
A	A	A	A

NOTE: Dimension scores can be counted in any order. It is only the quantities of each score that are important for aggregation.

Dimension scores				Overall M2 (AV) score
4-DIMENSIONAL INDICATORS				
D	D	D	D	D
D	D	D	C	D
D	D	D	B	D+
D	D	D	A	D+
D	D	C	C	D+
D	D	C	B	D+
D	D	C	A	C
D	D	B	B	C
D	D	B	A	C+
D	D	A	A	C+
D	C	C	C	D+
D	C	C	B	C
D	C	C	A	C+
D	C	B	B	C+
D	C	B	A	C+
D	C	A	A	B
D	B	B	B	C+
D	B	B	A	B
D	B	A	A	B
D	A	A	A	B+
C	C	C	C	C
C	C	C	B	C+
C	C	C	A	C+
C	C	B	B	C+
C	C	B	A	B
C	C	A	A	B
C	B	B	B	B
C	B	B	A	B
C	B	A	A	B+
C	A	A	A	B+
B	B	B	B	B
B	B	B	A	B+
B	B	A	A	B+
B	A	A	A	A
A	A	A	A	A

Coverage

The PEFA Climate assessment introduces the same coverage of assessment as the PEFA framework.

The core PEFA methodology focuses on the central government (CG), which is defined based on the classification structure developed by the International Monetary Fund (IMF) for Government Finance Statistics (GFS).

PEFA Climate methodology refers to the GFS terminology where it is possible to provide a standard basis of reference, but this does not imply that PEFA is only relevant where GFS methodology is used. PEFA Climate is adaptable to situations where other classifications and standards are used.

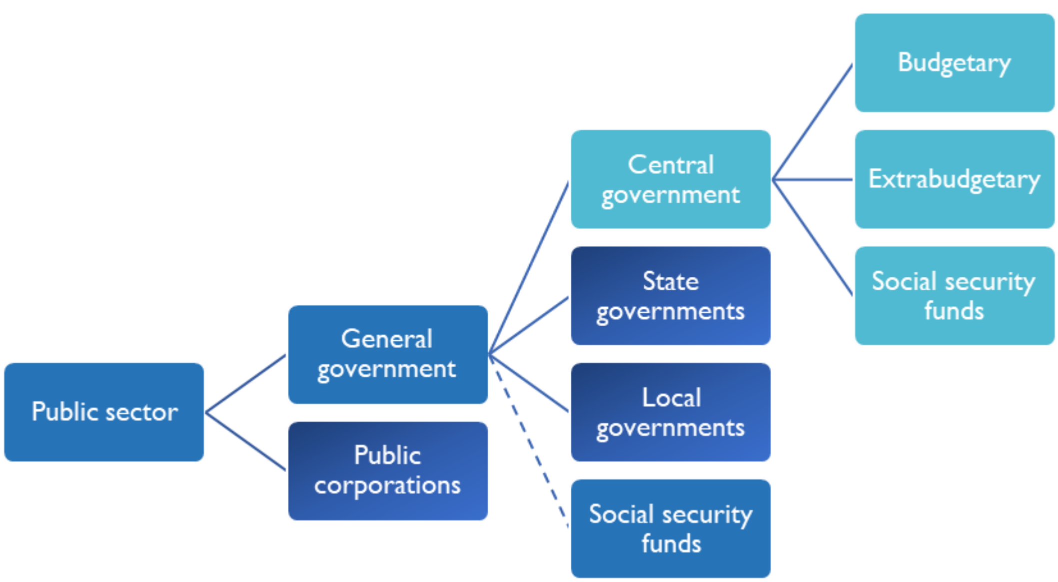
Other parts of government, outside central government, that are identified in GFS include different administrative tiers with separate accountability mechanisms and their own PFM systems, such as budgets and accounting systems. These can include subnational governments such as state, provincial, regional, and local governments, including districts and municipalities. An abbreviated summary of the public sector components, as defined in the GFS 2014 manual, is provided in Figure 3.

The PEFA Climate indicator set is focused on the financial operations of the entire level of government covered by the assessment. For instance:

- Activities of central government implemented outside the budget are included in the coverage of a few indicators and are referred to as expenditure and revenue of extrabudgetary units and expenditure and revenue related to the extrabudgetary activities of budgetary units.
- Activities of public corporations are also covered by a few indicators.
- Activities of subnational governments with a direct relationship to central government are specifically assessed by indicator CRPFM-11. Climate-responsive fiscal decentralization.

The measurement guidance explains how each indicator relates to GFS categories, where relevant. PEFA examines operations outside of the government being assessed only to the extent that they have an impact on the fiscal performance of the central government.

Figure 3. The main components of the public sector, as defined in Government Finance Statistics Manual and referred to in PEFA



Source: IMF: excerpt from IMF (2014), Government Finance Statistics Manual 2014

Box 2: Operators in PEFA Climate

PEFA Climate considers activities from public entities involved in the implementation of the country's climate change strategies and policies. The entities, designated as "operators", include subnational governments, public corporations, and extrabudgetary units.

The inception questionnaire aims at capturing specific information on the number of entities involved, the type of funding such operators benefit from, and the total climate budget they represented during the last fiscal year.

The following indicators/ dimensions provide an assessment of the contribution of operators to specific climate-related PFM aspects.

	Subnational governments	Public corporations	Extrabudgetary units
CRPFM–1.1 Budget alignment with climate change strategies	●	●	●
CRPFM–2.1 Tracking climate-related expenditure	●	●	●
CRPFM–5.1 Climate sensitive provisions in regulatory framework for public investment management		●	●
CRPFM–5.4 Reporting from entities in charge of implementation		●	●
CRPFM-7.2 Climate-related debt and guarantees		●	●
CRPFM–10.2 Compliance of transactions	●	●	●
CRPFM-11. Climate-responsive fiscal decentralization	●		

Time periods

The PEFA Climate assessment introduces the same time periods of assessment as the PEFA framework.

Time periods for assessing each of the questions are set forth in the specifications for each question. As a general rule, the assessment is based on the situation at the time of data collection or, in the case of periodic events, on the basis of the relevant and completed events during the most recent or ongoing budget period. Certain questions require data for more than one fiscal year or budget period. In these cases, the relevant period on which performance should be assessed, and therefore for which evidence should be sought, is specified for the relevant question.

Materiality, size, and significance

The PEFA Climate assessment uses the same standard approach to size and materiality as the PEFA framework. This is used for two dimensions[6] and is explained accordingly in the description of these dimensions.

Use of sampling where complete information on government is impractical to collect

PEFA Climate indicators generally require assessors to measure performance for the entire central government or budgetary central government. This may be impractical in situations where responsibilities are highly decentralized or cases involving large numbers of significant entities. Several indicators provide directions on the selection of specific matters to be assessed-for example, CRPFM-5. In other indicators, sampling techniques are suggested. Where no specific sampling techniques are proposed but a complete set of information is impractical to collect, assessors may use a statistically sound sampling methodology. Assessors should explain the reason for the use of sampling and justify the sampling approach they adopt. It would be preferable that assessors and government agree on the sampling approach.

Resources required to conduct a PEFA Climate assessment

Based on initial estimates, a PEFA Climate assessment conducted **concurrently** with a regular PEFA assessment may require around 30 to 40 additional working days split among two experts to collect and analyze the evidence, triangulate it with different sources of information and stakeholders, and draft an initial version of the report as well as an updated version based on inputs from the peer review process. Consulting the same sources of information for selected indicators is recommended, as in the guidance for a PEFA 2016 assessment (this recommendation is also explained and presented in this guidance). The ideal team to conduct the PEFA Climate assessment would comprise a PFM expert with knowledge in climate change and a climate change expert with knowledge in PFM. PFM experts typically have enough knowledge and expertise to carry out a PEFA assessment by following the guidance presented in the present guidance document but will need the expertise of a climate change specialist to make sure the assessment captures the most relevant information to highlight the practices in place.

A PEFA Climate assessment conducted **concurrently** with a regular PEFA assessment requires to ensure consistency between reports prepared for each assessment (and with the PEFA Gender report as well when all three assessments are undertaken at the same time). Clarifications related to such consistency are provided under specific indicators.

Estimates related to a standalone PEFA Climate assessment are provided further down.

For both types of assessment, estimates cover an assessment undertaken for the first time. Resources required may be less in subsequent assessments.

[6] CRPFM-5.4. Reporting from entities in charge of implementation and CRPFM-10.2. Audit of the compliance of payments.

Figure 4. How to undertake a standalone PEFA Climate assessment

The assessment is undertaken by an Assessment Team.

At least two assessors
With PFM and climate change expertise
Can be government officials, recruited externally, or mixed
Estimates: 40 to 50 person-days

- Meets government officials and key stakeholders
- Collects information and data
- Drafts the PEFA Climate report
- Coordinates the peer review
- Addresses the peer reviewers' comments
- Finalizes the PEFA Climate report

The assessment involves a Government Team.

A focal point
Estimates: Up to 10 person-days

- Facilitates the assessment: meetings coordination, access to information and data, …

A core team
10 person-days
(1 day per stream)

- Meets with the assessment team
- Provides information and data
- Provides comments to the PEFA Climate report

An oversight committee
Estimates: 5 person-days
(1 day per member for 5 members)

- Oversees the PEFA Climate assessment process
- Validates the PEFA Climate report

Quality assurance of the PEFA report requires Peer Reviewers.

Government
(See Core team)

- Checks information accuracy and completeness
- Makes sure that scores and conclusions reflect reality

PEFA
Secretariat

- Verifies that the PEFA methodology is applied correctly

At least two additional independent reviewers

- Checks credibility and reality of data and evidence provided to support scoring

Quality review of the PEFA Climate report

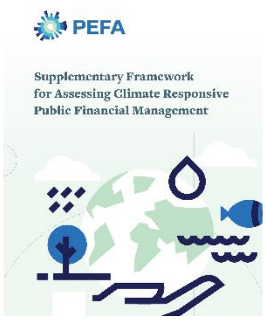
The decision to carry out a PEFA Climate assessment should be requested by the government, as documented in a request letter from the relevant authority and communicated to the PEFA Secretariat. PEFA Climate assessments carried out as part of a regular PEFA assessment will undergo the same review process in place for PEFA assessments necessary to qualify for a PEFA Check (the PEFA Secretariat's quality assurance process). The guidelines are presented on the PEFA website (www.pefa.org).

In order for a standalone PEFA Climate assessment report to qualify for a PEFA CRPFM Check, the assessment report will need to meet the following requirements:

1. The draft concept note covering the PEFA Climate assessment is submitted for peer review before the in-country assessment field work starts.

2. The draft and updated report incorporating peer reviewers' comments needs to be reviewed by at least four independent PFM institutions, including (a) the government assessed, (b) two peer reviewers with knowledge of the country, and (c) the PEFA Secretariat. The assessment team's responses to peer review comments that have not been reflected in the final report need to be documented and shared with the PEFA Secretariat.

3. The report needs to meet an 85 percent compliance threshold regarding (a) report content (in line with the proposed report template) and (b) documentation of scores and compliance with the PEFA methodology.



Section 2: Context and trends of climate-responsive public financial management

Context

Despite widespread awareness and international agreements to combat climate change, current efforts are falling short of targets necessary to prevent severe consequences. As per the Paris Agreement, the world has committed to limit global temperature rise to a target of 1.5°C compared to pre-industrial levels. To achieve this, it is necessary to reduce net greenhouse gas (GHG) emissions to zero by 2050. Over the past thirty years, countries have ramped up efforts to address climate change by introducing more than 4,500 associated policies, according to the Climate Policy Database. Although new climate legislation is associated with annual reductions in carbon dioxide emissions (Eskander et al., 2020), the persistent rise in GHG emissions remains a critical global concern (World Bank, 2023).

Box 3: SDG 13 Fighting Climate Change together

Goal 13 of the Sustainable Development Goals (SDGs) calls for urgent action to tackle climate change and its impact. SDG 13 presents five targets:

- Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries;
- Integrate climate change measures into national policies, strategies and planning;
- Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning;
- Implement the UN Framework Convention on Climate Change; and
- Promote mechanisms to raise capacity for planning and management.

While singled out as a specific goal, SDG 13 spans all other SDGs. Progress made towards limiting global temperature increase would significantly ease the path towards many other SDGs, among others those related to poverty, hunger, access to water, terrestrial and ocean ecosystems, forests, health, gender equality and the empowerment of women and girls. Many of the SDG goals and targets can also be achieved in ways that would enable adaptive responses to climate change, for example those related to resilience and disaster risk reduction in SDGs 1 on poverty eradication, 9 related to infrastructure and 11 on urban settlements.

Box 4: Paris Agreement

The Paris Agreement, adopted in 2015 within the United Nations Framework Convention on Climate Change, has committed countries to keep a global temperature rise this century below 2 degrees Celsius. The agreement also commits countries to pursue efforts to limit the temperature increase to 1.5 degrees Celsius, recognizing that this would substantially reduce the risks and impacts of climate change. Implementation of the Paris Agreement is essential for the achievement of the SDGs, and provides a roadmap for climate actions that will reduce emissions and build climate resilience. In that context, countries agreed to submit commitments on Nationally Determined Contributions (NDCs) for climate change mitigation and adaptation action post-2020, Countries were also invited to formulate and communicate mid-century, long-term low greenhouse gas emissions development strategies (LT-LEDS). As at November 2023, 168 NDCs are available from 195 parties, and 68 LT-LEDS, representing 75 parties to the Paris Agreement.

The Paris Agreement has also acknowledged that to respond to climate change, public spending and decision making in countries need to address the climate change impacts.

The world is still on track for unprecedented climate change. The global mean temperature average is rapidly approaching the 1.5°C target set by the Paris Agreement (United Nations, 2022). Despite a slight reduction due to COVID-19, global energy-related CO2 emissions reached a record high of 36.3 Gt in 2021 (World Bank, 2023). Worse yet, the speed of climate change is accelerating, with the world currently on track to see a 10.6% increase in emissions by 2030, compared with 2010 levels (UNFCCC, 2022a). Scientists predict this trend will worsen climate hazards, including floods, forest fires, extreme heat, droughts, and loss of biodiversity and nature (Intergovernmental Panel on Climate Change, 2023; Coalition of Finance Ministers for Climate Action, 2023).

Against this backdrop, climate-responsive public financial management has become a fiscal necessity and will help shape a sustainable and resilient future. Governments face a crucial convergence of fiscal responsibility and climate action. The challenges posed by climate change are urgent but must be balanced with prudent financial management given the significant indirect effects climate change will have on public finances, which may amplify the broader challenges if delivered poorly (Jones et al., 2012). Striking this balance requires governments to carefully consider and integrate the macro-fiscal implications of climate policies, allocate resources effectively, and manage climate-related risks appropriately, all while maintaining the stability and sustainability of public finances. This is a pivotal point where economic stewardship converges with the imperative to address one of the most pressing global concerns, highlighting the importance and complexity of integrating climate considerations into fiscal policy and budgeting.

Climate change and public financial management

Climate change and public financial management share a two-way relationship. On one hand, climate change can indirectly affect public finances, adding new priorities and challenges. For instance, countries that rely on industries vulnerable to climate impacts like agriculture, fishing, or tourism might experience a substantial decrease in tax revenues. On the other hand, taxes and government spending play a critical role in addressing and adapting to climate change. They can be used to incentivize GHG emission reduction, promote renewable energy generation, and facilitate climate resilient infrastructure development. This dynamic relationship highlights the interconnectedness between fiscal policies and climate action (Jones et al., 2012).

What are the impacts of climate change on public financial management?

"Climate change will have significant macroeconomic implications for most economies, be it through the physical impacts or the transition to a more resilient low-carbon economy" (Feyen et al., 2020, p.4). Consequently, governments will experience profound transformation in how to manage and allocate their nations' finances.

Climate change has significant implications for public financial management. The physical and transition risks associated with climate change can impact the fiscal health of governments, financial institutions, and other sectors of the economy. For example, increased frequency and intensity of natural disasters can lead to higher public expenditure for disaster response and recovery. The costs of climate change adaptation and mitigation measures can also strain public budgets. Furthermore, climate change can affect economic growth, fiscal revenue, debt sustainability, and the valuation of financial assets. These impacts can have implications for government borrowing, debt management, and overall fiscal stability. Climate change also presents uncertainties that can affect private sector investment decisions, further influencing macroeconomic conditions.

What is the role of public financial management in addressing climate change?

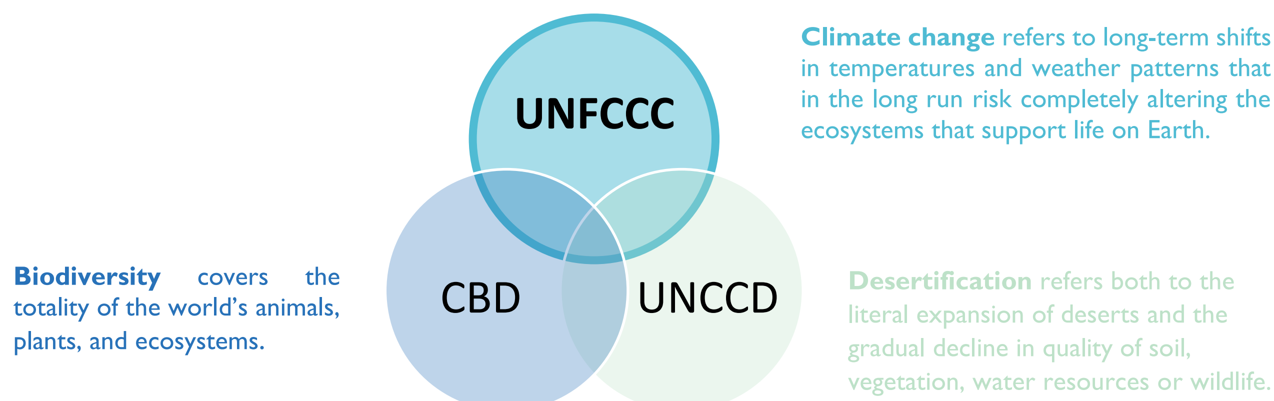
Climate-responsive fiscal policies and budget management are essential to facilitate and drive climate commitments and targets. To efficiently implement their NDCs resulting from the Paris Agreement, governments need to translate their commitments into specific and detailed policies. To turn these policies into action, most governments prioritize them and incorporate them into medium-term plans and annual budget allocation decisions. In many countries, climate commitments have already influenced domestic expenditure and tax policies through various measures that support decarbonization or adaptation (Gonguet et al., 2021).

In the context of climate change, PFM plays the crucial role of ensuring that climate-related fiscal policies are administered efficiently and that funds are used appropriately and sustainably to achieve climate-related goals. This makes sound PFM the "linchpin that ties together available resources, delivery of services, and achievement of government policy objectives" for climate change policy implementation (PEFA Secretariat, 2023). A well-functioning PFM system enables governments to track climate finance flows, ensure transparency and accountability in using funds, and evaluate the impact of climate change policies and programs.

What is climate-responsive PFM?

PEFA Climate uses the terminology "climate responsive" as it focuses on the scope defined by the United Nations Framework Convention on Climate Change, one of the three Rio Conventions[7]. The conventions are the result of shared concerns over similar environmental and development issues. They all contribute to the goals of Agenda 21 towards achieving global sustainable development[8] in the 21st century.

Figure 5. Rio Conventions and focus of PEFA Climate



[7] The Rio Conventions include the United Nations Framework Convention on Climate Change (UNFCCC, also known as UN Climate Change); the Convention on Biological Diversity (CBD, also known as UN Biodiversity); and the United Nations Convention to Combat Desertification (UNCCD).

[8] With sustainability defined by the 1987 United Nations Brundtland Commission as "*fulfilling the needs of current generations without compromising the needs of future generations, while ensuring a balance between economic growth, environmental care and social well-being*".

Countries having a broader green agenda encompassing the environmental objectives of two or all three conventions can apply PEFA Climate, as long as climate mitigation and adaptation are part of such agenda.

The focus on climate change mitigation and adaptation differentiates PEFA Climate from other approaches covering additional environmental objectives. The Organisation for Economic Co-operation and Development (OECD, 2023) refers to "green budgeting" defined as using "tools of budgetary policy-making to help achieve environmental goals". This includes "evaluating environmental impacts of budgetary and fiscal policies and assessing their coherence towards the delivery of national and international commitments". The IMF (Gonguet et al. (2021)) refer to "green PFM" as "the integration of an environment- and/or climate friendly perspective into PFM practices, systems, and frameworks—especially the budget process—with the objective to promote fiscal policies that are responsive to environmental and/or climate concerns".

Climate-responsive PFM as covered in PEFA Climate is concerned with the integration of climate change adaptation and mitigation considerations into the financial management policies, systems, and practices.

It involves the strategic allocation, tracking, and management of financial resources to support climate change mitigation and adaptation efforts. The PFM coverage is consistent with the standpoint of the IMF (Gonguet et al., (2021)). It has a broader focus than OECD "green budgeting" as it takes into account other PFM functions that extend beyond the budget's scope.

Current trends and practices

Climate-responsive PFM practices are still nascent. The first concrete examples of countries taking steps to mainstream climate change considerations into their PFM practices took place in the late 2000s-most notably in developing economies in Asia that were facing strong climate challenges.

In the past few years, climate-responsive PFM has gained significant exposure. Recognizing the key role of central finance agencies in addressing climate change impacts and building upon pilot/incipient activities led during the past ten years, finance ministers launched a coalition in April 2019 aimed at driving stronger collective action on climate change and its impacts. The Coalition of Finance Ministers for Climate Action endorsed the 'Helsinki Principles' (see *Box 7*) that promote national climate action, especially through fiscal policy and the use of PFM systems. 92 Ministries of Finance[9] have committed themselves to playing an active role in formulating, mobilizing support for, and implementing policies and plans that tackle the trajectory and impact of climate change. The Coalition recognizes that national budget processes, budget planning, public investment management, procurement practices, and intergovernmental fiscal relations have a critical role to play in meeting the challenge of climate change.

Recent trends in global efforts to mainstream climate change into PFM suggest that countries have taken various routes in evolving their PFM systems to accommodate the objectives imposed in their climate change and fiscal policy, with different entry points to accommodate factors such as local policy priorities, political economy and technical capacity (See *Box 5*).

[9] As atMarch 2024.

Box 5: Identifying Entry Points within the Budget Cycle, illustrating with country experiences

In 2022, IMF (Sakrak et. al.) identified and systematically organized examples from developing and developed countries that are working on mainstreaming climate considerations in their PFM systems and processes. Country experiences illustrate that different approaches at different stages in the PFM cycle can accommodate climate change considerations.

Within the budget cycle, the Note highlights the following different points of entry for greening PFM.

- Strategic Planning and Fiscal Framework, including examples of country's attempts to seek alignment between long-term climate commitments and strategic planning, integrate climate considerations in macro-fiscal frameworks, incorporate climate targets into forecasting and budgeting, fiscal rules, fiscal risks, and long-term fiscal sustainability analysis, including access to climate finance.
- Budget Preparation, including examples of greening of the budget circular, work to assess climate (and wider environmental) implications of new budget measures, ex-ante evaluation of contribution to climate goals, appraisal and selection of investment projects as well as in the risk management of projects, tagging climate-related expenditure in the budget preparation phase, and integrating climate in program-based budgeting frameworks and medium-term budgetary frameworks.[10]
- Budget Execution, Accounting, and Reporting, including examples of tracking green expenditure during the budget execution phase (through charts of accounts or otherwise), reporting[11] on green spending that allows direct comparison between budget and actuals (with features of outputs and outcomes, where applicable), strengthening the responsiveness of PFM systems to disasters while preserving financial integrity, and green public procurement (GPP).
- Control and Audit, including examples of internal control and internal audit arrangements, climate-specific efforts made by external audit institutions, institutionalization of independent climate change bodies, as well as parliamentary scrutiny.
- Legal Framework, including examples of a range of constitutional, legal and regulatory instruments that countries have used to mainstream environmental and climate change concerns in PFM and planning legislation.[12]

Across and beyond the budget cycle, the Note identifies Fiscal Transparency, Fiscal Risk Management, and Coordination with Other Public Sector Entities (including SNGs and state-owned enterprises) as areas of further interest to consider for mainstreaming climate change into PFM.

The breadth of different examples demonstrates a wide variety of technical entry points into making PFM systems responsive to climate change underpinned by strong legal basis. As the Note points out "Integration [of green approach in all stages of the budget cycle and for PFM functions beyond the budget cycle] would not require developing a parallel legal framework but rather adjusting the PFM laws and secondary legislation to provide a legal basis for green PFM tools and supplementing existing procedures."

Sources: IMF Staff Climate Note No 2021/002 https://www.imf.org/-/media/Files/Publications/Staff-Climate-Notes/2021/English/CLNEA2021002.ashx

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[10] On the last point, the Note underlines that efforts to date have prioritized the annual budget.

[11] Importantly, the Note clarifies on "environmental financial accounting" that the measurement—and recognition—of climate-related financial impact is still rare.

[12] Notably, the Note calls for strong legal basis (biding legislation) for green PFM practices.

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Section 3: Questionnaire and Guidance on scoring

QUESTIONNAIRE

Questionnaire: Preparing the PEFA Climate assessment in [insert country name] - Climate Change Policy Context

This questionnaire is part of the data collection conducted before the PEFA Climate assessment field work starts.

It aims at providing the policy context for the PEFA Climate assessment of [insert country name].

This questionnaire must be filled in by the government. This questionnaire may be filled in by the designated agency overseeing and coordinating the implementation of the climate change activities (if applicable) or the Ministry of Finance with the support of the main line ministries in charge of implementing climate change policies.

Section 1: International Commitments for Climate Change Mitigation and Adaptation

1. **Has the country ratified the United Nations Framework Convention on Climate Change?**
   ☐ Yes, when:__________________ ☐ No

2. **Has the country ratified the Paris Agreement?**
   ☐ Yes, when:___________________ ☐ No

3. **Has the country submitted Nationally Determined Contributions (NDCs)?**
   a. First NDCs ☐ Yes, when: ☐ No

   b. Revised NDCs[13] ☐ yes, when: ☐ No

4. **If "Yes" to Question 3:**
   a. What aspects of climate change do the submitted NDCs address?
   ☐ Climate change mitigation ☐ Climate change adaptation ☐ Both

   b. **How does the country plan to meet its greenhouse gas (GHG) emission reduction targets as described in the NDCs?**
   ☐ Financial support *(Specify)*____ _
   ☐ Regulation *(Specify)*____ _____ _
   ☐ Taxation *(Specify)*____
   ☐ Subsidies *(Specify)*____
   ☐ Transfers *(Specify)*____
   ☐ Capacity building *(Specify)*____
   ☐ Technology transfers *(Specify)*____
   ☐ Others *(Specify)*____

   c. Specify the proportion in % of total of
   - conditional contributions____

[13] If revised NDCs have not been submitted yet, first NDCs will be used for the PEFA Climate assessment

- unconditional contributions____

d. **How does the country plan to meet its adaptation objectives as described in the NDCs?**

*(Specify)*____

5. **Has the country formulated and communicated a mid-century, long-term, low greenhouse gas emission development strategy (LT-LEDS)?**

☐ Yes, when:___________________ ☐ No

6. **If "Yes" to Question 5:**

a. What aspects of climate change do LT-LEDS address?

☐ Climate change mitigation ☐ Climate change adaptation ☐ Both

e. **How does the country plan to meet its GHG emission reduction targets as described in the LT-LEDS?**

*(Specify)*____

f. **How does the country plan to meet its adaptation objectives as described in the LT-LEDS?**

*(Specify)*____

Section 2: National Level Strategies

7. **Is climate change identified as a key issue in the national development plan or strategy for economic growth (or equivalent)?**

☐ Yes ☐ No

8. **What is the climate change national framework?**

a. **What laws and regulations exist to support implementation of climate change related mitigation and adaptation actions?**

b. **Has the government developed a detailed action/implementation plan for achieving the country's climate change goals (e.g., National Action Plan)?**

☐ Yes ☐ No

c. **Is there a national climate change strategic plan or a low carbon strategy (which may include carbon budgets)?**

☐ Yes, specify ___________________ ☐ No

d. **Is there a strategic document that establishes the country's adaptation objectives (e.g. National Adaptation Plan in developing countries)?**

☐ Yes, specify ___________________ ☐ No

e. **How does regulation define what constitutes "climate change expenditure"? Does it provide further refinement of the definition**[14]**?** *(Specify)*

f. **Does regulation instruct how the budget should integrate climate change considerations?** *(Specify)*

9. **What are the institutional arrangements for executing climate change related policies and actions?** *(Specify)*

   a. **Which sectors and institutions are involved in the implementation of the national climate change strategies and policies?**

<table>
<tr><td rowspan="3">Sector</td><td rowspan="3">Institutions (line ministries and agencies)</td><td rowspan="3" colspan="2">Sectoral strategic plan that covers climate change</td><td colspan="2">Climate-related Budget for the last FY</td><td colspan="3">Type of funding</td></tr>
<tr><td rowspan="2">Submitted to MoF</td><td rowspan="2">Adopted by the legislature</td><td>From own resource</td><td colspan="2">From other sources</td></tr>
<tr><td>Amount</td><td>Source</td><td>Amount</td></tr>
<tr><td></td><td></td><td>☐ Yes</td><td>☐ No</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>☐ Yes</td><td>☐ No</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>☐ Yes</td><td>☐ No</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

   b. **Is there a designated agency overseeing and coordinating the implementation of the climate change activities?**

   ☐ Yes, specify ____________________ ☐ No

   c. **Does the ministry of Finance have a specific mandate in the implementation of climate change activities?**

   ☐ Yes, specify ____________________ ☐ No

Section 3: Implementation of climate change policies by the government

10. **What are the top five most important measures currently being implemented by the government to reduce the country's generation of GHG emissions?** *(Specify)*

[14] Climate change mitigation expenditure, climate change adaptation expenditure, climate change cross cutting expenditure

11. **What are the top five most important measures currently being implemented by the government to adapt to climate change impacts?** (*Specify*)

12. **Does the country have an operational monitoring and evaluation framework to track the implementation of its NDCs and climate actions?**
    ☐ Yes ☐ No

13. **In the last five years, were there any independent assessments[15] of the country's achievements in terms of climate change objectives and targets?**
    ☐ Yes, specify ___________________ ☐ No

14. **Has the country conducted an assessment of the macroeconomic impacts of climate change?**
    ☐ Yes ☐ No

15. **If "Yes" to Question 14**
    a. Which sectors were considered? (Specify)
    b. What methodology was used? (Specify)

16. **Has the country assessed the macro-fiscal implications of implementing its climate change plans or NDCs?**
    ☐ Yes ☐ No

17. **Has the country conducted activities to mainstream its climate change plans or NDCs into its PFM systems?**
    ☐ Yes ☐ No

18. **Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?**

Type of operator	Number of entities	Type of funding				Total Climate-related Budget for the last FY
		From own	From BCG[16]	From other sources		
		Amount	Amount	Source	Amount	
Extrabudgetary units						
Public corporations						
Subnational governments						

[15] Independent would refer to an assessment undertaken by a body that is separate from and not subordinate to the government. This could involve an NGO.
[16] Budgetary Central Government

CRPFM-1. BUDGET ALIGNMENT WITH CLIMATE CHANGE STRATEGIES

WHY IT MATTERS

While governments affirm their commitments to combat climate change effects in their strategies and NDCs, the mobilization of corresponding resources requires to integrate the implications of such commitments on the macro-fiscal and fiscal frameworks to identify opportunities and close gaps. This indicator provides an overview of instruments in place to mainstream climate change strategies in the budget and highlights possible points of entry for such mainstreaming.

GUIDING QUESTIONS

Are climate-related sector medium-term strategic plans, medium-term budgets, and annual budget aligned with climate change strategies?

DESCRIPTION

This indicator measures the extent to which long and medium-term climate change strategies are reflected in costed sector medium-term strategic plans and medium-term and annual budgets. It contains one dimension.

INDICATOR MEASUREMENT GUIDANCE

1:1. The present indicator measures the extent to which the annual budget allocated to climate change actions is resulting from an alignment of all strategic and operational planning instruments starting from the national climate change policy and strategy - and in their absence, from NDCs targets. Information on (i) mainstreaming climate change into PFM, (ii) main elements and features of climate-responsive practices, and (iii) the role of ministries of finance in driving climate actions is presented in selected reference documents introduced in *Box 6* and *Box 7* below.

1:2. Alignment between strategic plans and budget estimates will occur when they cover the same or similar policy objectives, initiatives, activities, or programs.

1:3. This indicator is assessed based on the number of elements actually in place that show the extent to which sector strategies and budgets are aligned with climate change strategies. The full specification of the information benchmark must be met to be counted towards the score. The assessment includes six basic elements of fiscal information that are considered the most important to show alignment. Six additional elements are considered to be beyond basic good practice.

1:4. Countries that have introduced multiannual program or performance-based budgeting may use different terminology and methods for developing, costing, and implementing medium-term plans. Therefore, assessors should substitute references to medium-term programs, or other performance-based budget categories, in place of strategic and sectors plans in this indicator, where appropriate.

1:5. In this indicator, climate change strategies are the ones referred to in the responses to the Inception Questionnaire-Section 1 or Section 2. Sectors are the ones defined under Element 1. The starting point for identification of sectors should be linked to responses to the Inception Questionnaire – Section 2.

CRPFM-1.1. BUDGET ALIGNMENT WITH CLIMATE CHANGE STRATEGIES

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The system in place fulfills 8 elements, including at least 4 basic elements (1-6).
B	The system in place fulfills 6 elements, including at least 3 basic elements (1-6).
C	The system in place fulfills at least 3 basic elements (1-6).
D	Performance is less than required for a C score.

Basic elements

1. Sectoral medium-term strategic plans are prepared. They reflect priorities from national climate change policy and strategy - and in their absence, NDC targets.
2. Climate-related projects and initiatives are costed in sector medium-term strategic plans.
3. Climate-related projects are accounted for in public investment plans.
4. Climate-related expenditure policy proposals in the approved medium-term budget estimates align with sector medium-term strategic plans.
5. Climate-related tax policy proposals in the approved medium-term budget estimates align with the national climate change strategy.
6. Budgeted annual climate-related expenditure and tax estimates align with the approved medium-term budget estimates for the first year.

Additional elements

7. Climate change policy and strategies cover subnational governments, public corporations and other operators in charge of implementation.
8. Climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources.
9. Medium-term fiscal strategy refers to climate targets.
10. Medium-term fiscal strategy refers to climate-related fiscal risks.
11. If there is a gap between climate-related annual expenditure and tax estimates and the approved medium-term budget estimates for the first year, the annual budget documentation provides the underlying explanation.
12. There is an operational body, unit, or team in charge of fostering coordination on climate change activities in line with climate change policies.

COVERAGE	Budgetary central government (BCG)
TIME PERIOD	Last budget and budget documentation submitted to the legislature
DATA REQUIREMENTS	• National climate change strategies • NDCs • Medium term budget estimates • Medium term fiscal strategies and report on their implementation • Report of the legislature or the legislative committee • Strategic plans or sector strategies • Budget proposals • In-year and end-of year reports
DATA SOURCES	• Ministry of Finance • Ministries in charge of implementing climate change policies • Corroboration by climate advocacy groups or CSOs

RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-16.3. Alignment of strategic plans and medium-term budgets

DIMENSION MEASUREMENT GUIDANCE

1:1.1. **Element 1**. Element 1 is considered met when priorities from national climate change policy and strategy are reflected in medium-term strategic plans of the relevant sectors.

- This includes priorities pertaining to the level of energy produced from polluting sources maintained during the transition period.
- The assessment does not consider the nature or quality of the priorities.
- This requires identifying the priorities in the national climate change strategy; determining what are the relevant sectors (often identified under the priorities); and checking the main elements of the medium-term strategic plans of identified sectors. The narrative of the report will comment on which identified relevant sectors are covered by such medium-term strategic plans. Element 1 is met when the main identified sectors are covered by medium-term strategic plans that consider GHG emissions or sensitivity to climate change.
- While not assessed, the narrative of the report may briefly refer to the coordination in place[17] and describe how this role ensures synergies between sectoral strategies.

1:1.2. **Element 2**. Element 2 is considered met when climate-related strategic plans identify estimates of resources required to achieve medium- to long-term objectives and planned outputs and outcomes. While sector plans tend to be aspirational, cost implications should be realistic. They should take into account the government's fiscal policy objectives and the fiscal constraints these objectives impose on expenditure decision making.

- Cost information should cover recurring expenditures, capital costs, and future recurrent cost implications of investment commitments.
- Estimated costs should cover all sources of funding.

1:1.3. **Element 3**. Element 3 is considered met when climate-related projects are accounted for in public investment plans.

- Such projects may be identified as climate related in the PIP.
- When not specified as climate related in the PIP, they may be identified by cross-checking medium-term sectoral strategic plans or other strategic documents.
- When not specified as climate related in the PIP, the medium-term sectoral strategic plans or other strategic documents, the assessment team may refer to the methodology referred to and assessed in CRPFM-2. Tracking climate-related expenditure- Element 1 to identify such projects in the PIP.

1:1.4. **Element 4**. Element 4 is considered met when climate-related expenditure policy proposals in the approved medium-term budget estimates align with sector medium-term strategic plans.

- Plans should identify the cost implications of current policy commitments and prioritize new expenditure policy proposals consistent with government policy objectives. The report may provide further information on the content.
- Alignment between sector medium-term strategic plans and medium-term budget estimates occur when they cover the same or similar policy objectives, initiatives, activities, or programs.

[17] Introduced by #7 in the inception questionnaire and further described in the country climate profile established in the Introduction of the report

1:1.5. **Element 5** is considered met when climate-related tax policy proposals in the approved medium-term budget estimates align with the national climate change strategy.

- Climate-related tax policy includes tax expenditure. The report may provide further information on such tax expenditure when available.
- If there is no climate-related tax policy proposal in the period under review, this element is NA.

1:1.6. **Element 6**. Element 6 is considered met when climate-related annual expenditure and tax estimates align with the approved medium-term budget estimates for the first year.

- The narrative of the report will explain how climate-related annual expenditure have been identified by cross referencing CRPFM-2. Tracking climate-related expenditure.
- The narrative of the report will explain how climate-related tax have been identified by cross referencing CRPFM-9. Climate-responsive tax administration.
- When there is no climate-related tax estimate, this element will only examine whether climate-related annual expenditure aligns with the approved medium-term budget estimates for the first year.
- To be consistent with the scope of Element 1 which considers the transition period, Element 6 includes negative climate expenditure, such as fossil fuel subsidies. The report may provide further information on such negative climate expenditure when available.

1:1.7. **Element 7**. Element 7 examines whether climate change policy and strategies cover subnational governments, public corporations, and other operators in charge of implementation.

- For this element, "operators" refer to subnational governments, public corporations, and where relevant, extrabudgetary units as described in the responses to the Inception Questionnaire – Question 18.[18]
- The report should comment on whether such policy and strategies include information on the estimated costs (as assessed in Element 2) and funding from BCG and any other source (as assessed in Element 8).

1:1.8. **Element 8**. Element 8 examines whether climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources. Both funding gaps and funding sources should be identified for the element to be considered met.

1:1.9. **Element 9**. Element 9 is met when medium-term fiscal strategy refers to climate targets.

- For this element, climate targets may be set out in any document supporting the country's climate change strategy or in the NDCs.

1:1.10. **Element 10**. Element 10 focuses on the integration of climate-related fiscal risks in the medium-term fiscal strategy. Climate change represents significant risks to public finances and should be taken into account when determining fiscal policies.

- This element will consider the same categories of climate-related fiscal risks as the ones defined in CRPFM-7.1. Climate-related fiscal risks.
- A fiscal strategy may be presented as a formal statement or plan, specified as targets within the annual budget documentation, or as fiscal rules established through legislation.
- Where a fiscal strategy is not produced, the element is not met.

[18] 18. Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?

1:1.11. **Element 11**. Element 11 is considered met when the annual budget documentation provides an underlying explanation behind any gap between the medium-term budget estimates for the first year and the annual budget, for both climate-related expenditure and tax.

1:1.12: **Element 12**. Element 12 examines how institutional collaboration across ministries in the implementation of climate change policies is set up.

- While regulation may provide for the role of each individual structure, this specific element focuses on the existence and role of a specific structure in charge of coordinating climate action.
- The body, unit or team should be operational, which means that the element is not considered met if the structure does not perform the tasks defined in its mandate.

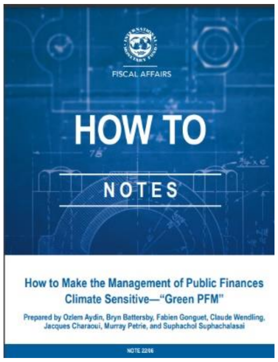
1:1.13: For this indicator, it is suggested that the report should present the assessment findings using the following format:

Table 1.1: Budget alignment with climate strategies (Last completed fiscal year)

Element/ Requirements	Criteria met (Y/N)	Explanation and source of evidence
Basic elements		
1. Sectoral medium-term strategic plans are prepared. They reflect priorities from national climate change policy and strategy - and in their absence, NDC targets.		
2. Climate-related projects and initiatives are costed in sector medium-term strategic plans.		
3. Climate-related projects are accounted for in public investment plans.		
4. Climate-related expenditure policy proposals in the approved medium-term budget estimates align with sector medium-term strategic plans.		
5. Climate-related tax policy proposals in the approved medium-term budget estimates align with the national climate change strategy.		
6. Climate-related annual expenditure and tax estimates align with the approved medium-term budget estimates for the first year.		
Additional elements		
7. Climate change policy and strategies cover subnational governments, public corporations and other operators in charge of implementation		
8. Climate change strategies or climate-related medium-term budget estimates identify funding gaps and funding sources.		

Element/ Requirements	Criteria met (Y/N)	Explanation and source of evidence
9. Medium-term fiscal strategy refers to climate targets.		
10. Medium-term fiscal strategy refers to climate-related fiscal risks.		
11. If there is a gap between climate-related annual expenditure and tax estimates and the approved medium-term budget estimates for the first year, the annual budget document provides the underlying explanation.		
12. There is an operational body, unit, or team in charge of fostering coordination on climate change activities in line with climate change policies.		

Box 6: Mainstreaming Climate Change into PFM

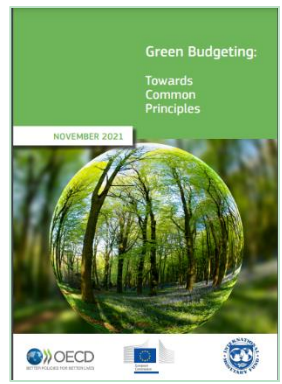


How to Make the Management of Public Finances Climate Sensitive

This note illustrates how climate change and environmental concerns can be mainstreamed into government's institutional arrangements in place to facilitate the implementation of fiscal policies. It provides numerous country examples covering possible entry points for green PFM – phases in the budget cycle (strategic planning and fiscal framework, budget preparation, budget execution and accounting, control, and audit), legal framework or issues that cut across the budget cycle, such as fiscal transparency or coordination with State Owned Enterprises or with subnational governments. This How to Note also summarizes practical guidance for implementation of a green PFM strategy, underscoring the need for a tailored approach adapted to country specificities and for a strong stewardship role of the Ministry of Finance.

Source: How To Note No 2022/006 https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/12/08/How-to-Make-the-Management-of-Public-Finances-Climate-SensitiveGreen-PFM-525169

Green Budgeting: Towards Common Principles

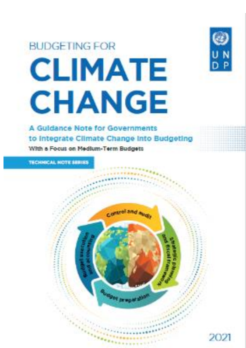


To support European governments in their development of green budgeting practices, the European Commission, the International Monetary Fund and the Organization for Economic Co-operation and Development worked jointly to define main elements and features of these practices, on the basis of existing green budgeting frameworks. This work is presented in this paper.

The paper also describes various tools that are being used to bring climate and environmental considerations into budgetary policy-making.

Finally, elements of a sound institutional set-up are described, with particular attention to independent oversight. When feasible, the paper provides specific examples from the European Union (EU) and OECD countries, as an illustration of what can be done and how.

Source: https://www.oecd.org/gov/budgeting/green-budgeting-towards-common-principles.pdf

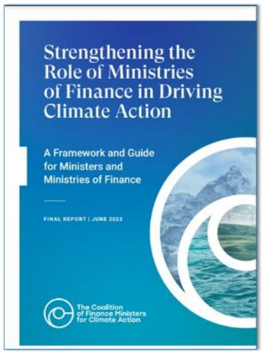


Budgeting for Climate Change – A Guidance Note for Governments to Integrate Climate Change into Budgeting

This Guidance Note, which is part of a series of United Nations Development Programme (UNDP) guidance notes on climate finance, draws on the experiences in climate budgeting that emerge from Asia-Pacific countries and captures emerging global trends with adopted principles and steps involved. It builds on the work of UNDP as a technical partner in the Coalition of Finance Ministers for Climate Action. This Guidance Note specifically supports Principle 4 of the 6 Principles that the Coalition of Finance Ministers for Climate Action, launched in 2019, has espoused. The Guidance Note provides a step-by-step approach to integrating climate change into the budget preparation and approval stage, in line with PFM principles.

Source: https://www.undp.org/sites/g/files/zskgke326/files/2021-10/UNDP-RBAP-Budgeting-for-Climate-Change-Guidance-Note-2021.pdf

Box 7: Strengthening the Role of Ministries of Finance in Driving Climate Actions



This guide covers the case for climate leadership by Ministries of Finance, a framework for mainstreaming climate into their core functions and capabilities, and priorities for action. It is aimed primarily at Ministries of Finance but is designed to be useful to anyone seeking to better understand the role of these ministries in driving climate action.

The guide has been shaped by nearly 30 Ministries of Finance, more than 30 experts and partners of the Coalition of Finance Ministers for Climate Action, and 40 submissions from the private and non-governmental sectors to a global public consultation on an early draft. All Members of the Coalition had the opportunity to review the guide.

It is a Helsinki 2 product, led by Finland and Rwanda.

The guide aims to raise awareness among Finance Ministers about the actions and opportunities available for mainstreaming climate action. Rather than being prescriptive, the guide provides a framework of options to help countries enhance their core functions and capabilities to act according to their national circumstances. Aligned with the Helsinki Principles, it is designed to provide the basis for concrete action. It can inform training, technical assistance, knowledge partnerships and research efforts with relevant actors to ensure high-quality analysis, research and support are accessible to Ministries of Finance. It is a living document which will be updated over time to stay relevant.

Source: https://www.financeministersforclimate.org/sites/cape/files/inline-files/Strengthening%20the%20role%20of%20Ministries%20of%20Finance%20in%20driving%20action%20FULL%20REPORT.pdf

The Coalition of Finance Ministers for Climate Action brings together fiscal and economic policymakers from more than 80 countries in leading the global climate response and in securing a just transition toward low-carbon, resilient development. All members of the Coalition have signed up to the six Helsinki Principles that promote national climate action, especially through fiscal policy and the use of public finance:

https://www.financeministersforclimate.org/

Principle 1
Align our policies and practices with the Paris Agreement commitments.

Principle 2
Share our experience and expertise with each other in order to provide mutual encouragement and promote collective understanding of policies and practices for climate action.

Principle 3
Work toward measures that result in effective carbon pricing.

Principle 4
Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.

Principle 5
Mobilize private sources of climate finance by facilitating investments and the development of a financial sector which supports climate mitigation and adaptation.

Principle 6
Engage actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement.

CRPFM-2.-TRACKING CLIMATE-RELATED EXPENDITURE

WHY IT MATTERS

The implementation of climate change policies and strategies requires to determine what to spend and know what is spent. Such implementation results in activities carried out by different line ministries and agencies from various sectors due to the cross-cutting nature of climate change. Thus, the use of a common definition and methodology across all governmental entities is essential to capture climate-related expenditure. This, in turn, will result in the creation of a data set that will inform on the implementation of the policy and provide evidence to decision makers.

GUIDING QUESTION

Does the government have the capacity to track climate-related expenditure?

DESCRIPTION

This indicator measures the extent to which the government is able to track climate-related expenditure. It contains one dimension.

INDICATOR MEASUREMENT GUIDANCE

2:1. Assessment of this indicator is based on the number of elements in place that enable the government to track climate-related expenditure. The full specification of the information benchmark must be met to be counted towards the score. The assessment includes five basic elements of fiscal information that are considered the most important to track climate-related expenditure. Four additional elements are considered to be beyond basic good practice.

2:2. For the purpose of this indicator, the **definition** of what constitutes "*climate change expenditure*" is provided by the government in the Inception Questionnaire and applied throughout the assessment. The questionnaire refers to a definition set in regulation[19]. The narrative of the report will indicate the proportion of the budget represented by climate change expenditure for the last completed fiscal year.

2:3. Assessors will use the list of climate change expenditure as defined under Element 1 and check whether requirements for Elements 3 to 9 are met against this list. Elements are considered met when at least 75% of the amount represented by climate expenditure are covered. The narrative of the PEFA Climate report will indicate when the country uses a more detailed approach and defines "*climate change mitigation expenditure*" and "*climate change adaptation expenditure*".

2:4. When the list of climate change expenditure is too long, assessors may consider using a sampling approach. If sampling is used, they should then explain the reason and justify the sampling approach adopted. It would be preferable that assessors and government agree on the sampling approach.

2:5. For the purpose of this indicator, **tracking** refers to the ability to identify, classify, and monitor climate-related expenditure. Assessors will describe the methodology applied by the country in the narrative of the PEFA report. This methodology may be applied at any stage of the budget cycle; use manual or/ and automated systems; be partially or fully developed. Methodologies for tracking climate expenditure vary and are not comparable across countries.

[19] Inception Questionnaire-Section2-8e: "*How does regulation define what constitutes "climate change expenditure"? Does it provide further refinement of the definition?*"

2:6. The PEFA Climate methodology recognizes that countries use different methodologies to track their climate-related expenditure. There is no need to have a tagging system in place to meet the requirements for CRPFM-2., except for Element 6 focusing specifically on the tag. The PEFA Climate assessment can be performed on the basis of a list of climate-related expenditure established by a country after a review even without the use of a tag - as long as the same list is used throughout the PFM cycle. Such a list of climate-related expenditure could be, for example, a group of programs or projects assessed ex ante to have high climate change impact and to be monitored and reviewed ex post on such impact.

CRPFM-2.1. TRACKING CLIMATE-RELATED EXPENDITURE

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The system in place to track climate-related expenditure fulfills 7 elements, including Element 1 and at least 3 other basic elements (2-5).
B	The system in place to track climate-related expenditure fulfills 5 elements, including Element 1 and at least 3 other basic elements (2-5).
C	The system in place to track climate-related expenditure fulfills at least 3 basic elements, including Element 1 (2-5).
D	Performance is less than required for a C score.

Basic elements

1. The government uses a methodology that defines what constitutes "*climate change expenditure*".
2. The government applies the same methodology across all BCG entities to identify climate-related expenditure.
3. Climate-related expenditure is disclosed by the Ministry of Finance or the budgetary units in budget documents.
4. Climate-related expenditure is disclosed by the Ministry of Finance or the budgetary units in end-of-year budget execution reports.
5. The methodology applied by the government to identify climate-related expenditure is reviewed by an entity other than the preparing entity.

Additional elements

6. Climate-related expenditure is identified using specific budget expenditure line items, program codes, elements in the government's chart of accounts or markers such as Rio markers.
7. Expenditure related to activities that are counter to climate policy objectives is disclosed in budget documents or in end-of-year budget execution reports.
8. Climate-related expenditure is disclosed in in-year budget reports, including in-year budget adjustments.
9. Budgeted climate-related transfers to subnational governments and outturn are identified.
10. Budgeted climate-related transfers to extrabudgetary units and public corporations in charge of implementing climate change actions, and outturn, are identified.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Definition and methodology for identifying climate change expenditure • Structure of budget classification and chart of accounts

	• Evidence that classification(s) are actually used in the budget documents and the chart of accounts • Data on budgeted and actual climate-related transfers to SNGs, EBUs and PCs
DATA SOURCES	• Relevant legislation and regulations identifying the application of the classification • Annual budget document, in-year execution reports, and end-of-year budget execution report provided by the MoF for the last completed fiscal year • Copy of the chart of accounts used for the last completed fiscal year
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-4. Budget classification

DIMENSION MEASUREMENT GUIDANCE

2:1.1. **Element 1**. Element 1 examines whether the government uses a methodology that defines what constitutes "climate change expenditure".

- When there is a definition provided in the regulation as specified in clarification 2:2 above, the report will confirm that the regulation and the methodology refer to the same definition.
- When there is no definition set in the regulation, the assessment will refer to the definition provided in the methodology applied by the government.
- When there is no definition at all, the score of the indicator is D as Element 1 is not met. In such case, CRPFM-14. Expenditure outturn is considered NA.
- While the score is D, the lack of definition does not prevent assessors from checking the practices in place as assessed by other elements of this indicator. The report will then explain which proxy was used in lieu of a definition. Even though the score remains D as there is no definition at this time, assessment of whether other elements are met will help for further reference and comparison purpose in the next PEFA Climate assessment.

2:1.2. **Element 2**. Element 2 examines whether the methodology used to identify climate-related expenditure is consistent across all BCG units: ministries, departments, and agencies (MDAs). This means that the same methodology is used for all MDAs.

- When a country is still piloting its methodology, the element is considered met when the methodology used to identify climate-related expenditure is consistent across all pilots. Piloting may cover selected BCG units or/ and selected expenditure (e.g., capital expenditure only).

2:1.3. **Element 3**. Element 3 is considered met when climate-related expenditure is disclosed in budget documents.

- Information may be disclosed by the Ministry of Finance or by any budgetary unit.
- Budget documents are the same documents as the ones mentioned in Element 7.

2:1.4. **Element 4**. Element 4 is considered met when climate-related expenditure is disclosed in end-of-year budget execution reports.

- Information may be disclosed by the Ministry of Finance or by any budgetary unit.
- End-of-year budget execution reports are the same documents as the ones mentioned in Element 7.

2:1.5. **Element 5**. Element 5 is considered to be met when the methodology applied by the government to identify climate-related expenditure is reviewed by an entity other than the preparing entity to ensure objectivity and robustness.

- The criterion is also considered met if (i) substantive consultation of relevant stakeholders takes place; or (ii) the methodology is prepared by a committee of separate institutions with a process involving substantive review. This may be difficult for the assessor to determine, but it is important to seek information on how the process is conducted and what happens when there are differences of view between the participating bodies.

2:1:6. **Element 6**. Element 6 is considered met when climate-related expenditure is identified using specific budget expenditure line items, program codes, elements in the government's chart of accounts or markers such as Rio markers (see *Box 8: OECD Rio Markers*).

- Identification and classification of climate expenditure require an expenditure review and analysis (see *Box 9: Climate Public Expenditure and Institutional Review (CPEIR)*). The typology used for expenditure classification will depend on the country's needs (e.g., mitigation only; adaptation only; and both mitigation and adaptation).
- In addition, the climate relevance weight may be considered. This may be based on an assessment of the primary objective of the specific expenditure (e.g., 100% for fully relevant to climate change; 50% for partially relevant; and 0% for neutral). Alternatively, it may be based on an estimation of the costs of activities that support climate change objectives including costs of activities that may not have climate change as their primary objective (climate co-benefits).
- For monitoring purposes, some countries apply a tag (see *Box 10*, *Box 11*, *Box 12*, *and Box 13* on Climate Budget Tagging) to climate expenditure using budget classifications, elements of the chart of accounts or statistical markers. The tag may be implemented by using already existing items (e.g., thematic such as "other cross-cutting expenditures") or be incorporated by adding a new segment in the chart of accounts. The tag may be implemented in the Integrated Financial Management Information System (allowing real time information) or used offline.
- Other countries establish a list of climate expenditure (a positive list, and sometimes a positive list and a negative list) against which they monitor budget implementation and/or budget execution - without tagging.
- The PEFA Climate report should discuss how the tracking system has impacted policy design, resource allocation and policy results.

2:1:7. **Element 7**. A comprehensive approach to climate-responsive PFM requires to identify and track budget measures potentially harmful to climate. Element 7 assesses whether such expenditure related to activities that are counter to climate policy objectives is disclosed. Examples are investment projects and tax expenditures for coal-based electricity and the fossil fuel industry in general, and expenditures for fossil fuel subsidy schemes. While not assessed by Element 7, the narrative of the report may comment on consideration given to activities or technologies that reduce emissions in the near-term that may result in a prolonged use of high-emitting infrastructure and an increase in net emissions in the long term.

- This element covers spending explicitly or implicitly linked to climate change[20].
- Such expenditure should be disclosed in budget documents or in end-of-year budget execution reports.
- Budget documents and end-of-year budget execution reports are the same documents as the ones mentioned in Element 3 and Element 4.

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[20] While some activities can be identified as climate action based on their explicit objectives (i.e., they articulate climate change objectives, or are linked to the national climate change policy) there are many other activities across all government sectors that may not have an explicit climate-related objective but their implementation nevertheless has significant impact on climate change (e.g. construction projects that incorporate climate change adaptation solutions). https://www.undp.org/publications/knowing-what-you-spend-guidance-note-governments-track-climate-change-finance-their-budgets.

2:1:8. **Element 8**. Element 8 is considered met when climate-related expenditure is disclosed in in-year budget reports.

- Information should include in-year budget adjustments. If in-year budget adjustments are not covered, the requirement is not met.

2:1:9. **Element 9**. Element 9 is considered met when budgeted climate-related transfers to subnational governments and outturn are identified.

- Transfers are defined and assessed in CRPFM-11.2. Climate-responsive fiscal transfers.
- Assessors will cross check amounts with those assessed in CRPFM-14. Expenditure outturn for climate actions, and comment on any deviation.

2:1.10 **Element 10**. Element 10 is considered met when budgeted climate-related transfers to extrabudgetary units and public corporations in charge of implementing climate change actions, and outturn, are identified.

- As for Element 9, assessors will cross check amounts with those assessed in CRPFM-14. Expenditure outturn for climate actions, and comment on any deviation.

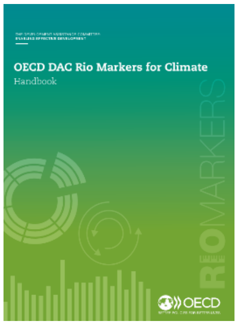
2:1.11: For this indicator, it is suggested that the report should present the assessment findings using the following format:

Table 2.1: Tracking climate-related expenditure (Last completed fiscal year)

Element/ Requirements	**Criteria met (Y/N)**	**Explanation and source of evidence**
Basic elements		
1. The government uses a methodology that defines what constitutes "climate change expenditure".		
2. The government applies the same methodology across all BCG entities to identify climate-related expenditure.		
3. Climate-related expenditure is disclosed by the Ministry of Finance or the budgetary units in budget documents.		
4. Climate-related expenditure is disclosed by the Ministry of Finance or the budgetary units in end-of-year budget execution reports.		
5. The methodology applied by the government to identify climate-related expenditure is reviewed by an entity other than the preparing entity.		
Additional elements		
6. Expenditure related to activities that are counter to climate policy objectives is disclosed in budget documents and in end-of-year budget execution reports.		
7. Climate-related expenditure is identified using specific budget expenditure line items,		

Element/ Requirements	Criteria met (Y/N)	Explanation and source of evidence
program codes, elements in the government's chart of accounts or markers such as Rio markers.		
8. Climate-related expenditure is disclosed in in-year budget reports, including in-year budget adjustments.		
9. Budgeted climate-related transfers to subnational governments and outturn are identified.		
10. Budgeted climate-related transfers to extrabudgetary units and public corporations in charge of implementing climate change actions, and outturn, are identified.		

Box 8: OECD Rio Markers



The OECD Development Assistance Committee (DAC) established the Rio Markers to track aid that supports the implementation of Rio Conventions on biodiversity, desertification, and climate change. There are four markers: biodiversity, desertification, climate change mitigation, climate change adaptation.

The Handbook explains how to classify activities and provides specific criteria for eligibility. It also includes an indicative table for guidance on Rio marking by sector/subsector and examples of qualifying activities.

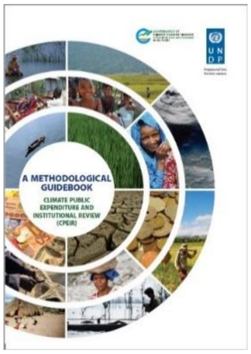
An activity should be classified as climate-change-mitigation related (score Principal or Significant) if:	*It contributes to the objective of stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.*
An activity should be classified as adaptation-related (score Principal or Significant) if:	*It intends to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, through increased ability to adapt to, or absorb, climate change stresses, shocks and variability and/or by helping reduce exposure to them.* *This encompasses a range of activities from information and knowledge generation to capacity development, planning and the implementation of climate change adaptation actions.*

A scoring system of three values is used, by examining whether the policy objective of the activity is

(i) targeting the United Nations Framework Convention on Climate Change (UNFCCC) as a principal objective (score “2”); or
(ii) targeting as a significant objective (score “1”); or
(iii) not targeting the Convention (score “0”).

Source : https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf

Box 9: Climate Public Expenditure and Institutional Review (CPEIR)



CPEIR aims to help countries review how their national climate change policy aims are reflected in public expenditures. CPEIR also reviews how institutions may be adjusted to ensure the financing of climate change initiatives is delivered in a coherent way across the government.

The specific objectives of the CPEIR tool vary between countries and stakeholders, but generally consist of (1) assessing the status of a national response to climate change, (2) improving the understanding of roles and responsibilities of the institutions involved, (3) quantifying climate-related expenditures, (4) strengthening cross governmental coordination, and (5) identifying opportunities and constraints to integrating climate change within the national budget.

Source : https://www.pefa.org/sites/pefa/files/2019-07/PEFA%202022%20Stocktaking%20-%20D06.pdf

*"**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 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 extracted 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 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 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 classification of the identified activities should then be made, with **an estimate made of the proportion of expenditure in each programme that is considered relevant to climate change**. All climate change activities should be grouped into the four categories of 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	• 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 secondary objectives related to building climate resilience or contributing to mitigation, or 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 and 75%	Examples	• 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	• 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	• 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

Source: https://www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir

Box 10: Climate Budget Tagging

Green Budget Tagging - Introductory Guidance & Principles

Green budget tagging can be a useful tool in an overall approach to green budgeting. This introductory guidance was developed by the OECD under the Paris Collaborative on Green Budgeting in collaboration with institutional partners working under Helsinki Principle 4 of the Coalition of Finance Ministers for Climate Action (Inter-American Development Bank (IADB), IMF, UNDP, World Bank) and draws lessons from existing country practices. It was informed by a series of round-table events with countries implementing green budget tagging. The document aims to provide high-level guidance in relation to designing, implementing and improving green budget tagging.

Source: OECD (2021), Green Budget Tagging: Introductory Guidance & Principles, OECD Publishing, Paris, https://doi.org/10.1787/fe7bfcc4-en.

Knowing what you spend

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

Source : https://www.undp.org/sites/g/files/zskgke326/files/publications/RBAP-DG-2019-Climate-Budget-Tagging-Guidance-Note.pdf

Box 11: Climate Change Budget Tagging: A Review of International Experience

The purpose of this report is to provide development practitioners and government officials with an understanding of the context and key design features of climate budget tagging initiatives. It is based on a review of 18 climate budgeting tagging methodologies as well as key informant interviews with practitioners during 2020.

The report defines tagging as "***The practice of identification, measurement, and monitoring of climate-relevant expenditure***. […] *Climate budget tagging builds on prior experience in tagging for other whole-of-government policy objectives, notably poverty, gender, and the international development goals outlined by the United Nations. Several countries already apply climate budget tagging alongside tags for these policy objectives.*".

The report highlights that most countries use an objective-based definition of climate-relevance rather than a policy-based definition.

A **policy-based definition** places the focus on activities referenced in national climate change policy documents to ensure alignment.

An **objective-based definition** aims at measuring the intended impact of the activity on climate change. It relies on standardized definitions.

Objective-Based Definition	Policy-Based Definition
Cambodia (OECD Rio markers) Colombia (OECD Rio markers and GFLAC definition) Ethiopia (OECD Rio markers and reference to national strategies and sectoral plans) France (own definitions consistent with EU taxonomy) Honduras (own definition, aligned with OECD Rio markers) Indonesia (aligned with OECD Rio markers, indicative list) Ireland (aligned with ICMA GBP) Nicaragua (own definition, based on IPCC/UNFCCC focus on loss and damage, and disaster risk management) Kenya (OECD Rio markers, indicative list)	Bangladesh (44+6, based on policy) Ecuador (15 categories, 3–6 specified activities for each) Ghana (list of policy objectives and operations) Nepal (11 climate change–related categories defined by working group) Pakistan (11 tasks/sectors from policy, indicative activities)
Mixed Approach	
Moldova (intent, type of activity, or part of policy; classification according to activity category) Philippines (objective; classification according to policy) Uganda (objective; classification according to type of policy responses and specific strategy)	

Source: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/744081613708537156/main-report

Box 12: Climate Budget Tagging in Indonesia

Since 2016, the Ministry of Finance (MoF) has been **implementing climate budget tagging (CBT) in the national planning and budgeting system to track climate spending in the state budget**. The Fiscal Policy Agency of MoF issued guidelines on CBT in 2018 to assist line ministries and agencies to (i) take stock of the output activities and (ii) track the amount of public funding that contributes to reducing GHG emissions and increasing resilience to climate change impacts.

CBT is carried out at the output level which provides **the most suitable information related to performance and corresponding spending in the country**. The detailed output (RO) is defined as the output that is specifically produced by a spending unit of the line ministry/agency in a particular location or/and the issue that is directly linked with the tasks and duties of that spending unit in supporting the achievement of the predetermined activity's targets. An example of CBT is shown below.

Line Ministry: (029) Ministry of Forestry and Environments
Unit Organization: (11) Directorate General of Climate Change Management
Program: (029.11.FB) Disaster Resilience and Climate Change Program
Activity: (5450) Forest and Land Fires Control
KRO: (5450.QHC): Disaster Management Operations
Detailed Outputs (RO) – **Tagging is done at this level**
RO 1: QHC.001: Forest and Land Fires overcome through ground extinguisher
358 operations for IDR 5,657,500,000
RO 2: QHC.002: Forest and Land Fires overcome through air extinguisher
170 operations for IDR 16,588,200,000

In the Climate Change Mitigation and Adaptation Budget Report 2018–2020, the Fiscal Policy Agency of MoF identified that around 200 outputs were tagged as climate change-related in budgets for FY 2020. These activities were implemented by 17 line ministries with total budget allocations of IDR 77.71 trillion (USD5.5 billion), split between IDR 41.65 trillion (53.5 percent) for mitigation, IDR 33.30 trillion (42.8 percent) for adaptation, and IDR 2.86 trillion (3.7 percent) for co-benefit.

The current CBT does not use a weighting system.

Source: PEFA CRPFM assessment report for Indonesia (2022)

Box 13: Tracking climate expenditure in Kenya

The government of Kenya uses a methodology that defines what constitutes "climate change expenditure" and applies the same methodology across all ministries, departments, and agencies (MDAs) to identify climate-related expenditure (CRE). This methodology is contained in the climate finance: budget coding, tracking, and reporting handbook which was developed by a Multi-Stakeholder Technical Working Group (TWG) coordinated by the National Treasury and the Ministry of Environment and Forestry, with members drawn from counties MDAs, Private sector, civil society, and development partners. **The handbook was independently reviewed and validated by a multi-stakeholder forum** comprising of representatives from State departments and agencies of the national government, county governments, civil society, the private sector, and academia.

The handbook identifies climate relevant expenditure to denote costs invested (capital, labour and related) in programmes and subprogrammes where actual and specific climate change activities may or may not be budgeted exclusively as climate related. The handbook provides the methodology for tracking climate relevant expenditures using climate budget codes embedded in the Integrated Financial Management Information System (IFMIS)and other financial management systems. **The handbook indicates that sector technical and finance officers must agree on the criteria for defining CRE and provide guidelines on how to calculate CRE.**

For an activity to fall into the CRE category, funds incurred or invested must:

I. address one or all of the climate change risk mitigation or climate proofing categories, e.g., adaptation, mitigation or enabling environment (climate awareness, training, policy, and capacity building) as per the OECD definition.
II. allocate more than 25 percent of funding to one or all the above climate risk mitigation or climate-proofing categories.
III. demonstrate that incremental or additional financing has been used for (i) above; and,
IV. show that the outcome/output increased resilience, reduced emissions, or increased awareness of climate change.

The handbook is part of the Government of Kenya's strategic intervention **to build climate finance capacity to better coordinate resource mobilisation and track expenditures on climate change at both the national and county levels** and promote robust transparency in accordance with the Paris Agreement of the UNFCCC. The handbook also identifies the climate finance risks that the country may face including sovereign risk, regulatory, monetary and fiscal, political, corruption, project risk, technological risk, and social cultural risk.

Most financial data needed on climate change such as budgeted climate-related transfers and expenditure to counties and MDAs **is adequately captured on IFMIS** and can be drawn out in form of a report and outturn identified.

Expenditure related to climate and to activities that are counter to climate policy is not disclosed regularly in the budget execution reports. However, the ministry in charge of environment produces and publishes national climate change action plan implementation status reports. The recent report for the FY2019/2020 was published in December 2021. Additionally, **the government has on two occasions produced and published reports on climate-finance expenditure**, in 2016 and 2021. In 2021, the country undertook a landscape of climate finance in Kenya, the first attempt to track the climate finance flows in the country since the Paris Agreement. **The study applied OECD-DAC Rio Markers methodology** (OECD, 2016) to screen, identify and tag climate-related expenditure for the financial year 2018.

Source: PEFA CRPFM assessment report for Kenya (2023) https://www.pefa.org/node/5187

CRPFM-3.- CLIMATE-RESPONSIVE BUDGET CIRCULAR

WHY IT MATTERS

Budget circulars play a crucial role in signaling priorities and requirements for budget preparation. They are the primary guidance from MoFs to budgetary units on how to prepare budget submissions, promoting alignment and consistency across units and sectors. By adjusting their existing processes and practices to factor for climate change, MoFs can use the budget circular to help budgetary units in preparing budget submissions that take the climate perspective into account.

GUIDING QUESTIONS

Does the budget circular take climate change policies into consideration?

DESCRIPTION

This indicator measures the extent to which budget circular takes climate change into consideration by referring to the national climate change strategy, providing guidance on how budgetary units should propose climate change mitigation and adaptation measures, referring to a methodology for identifying climate change related expenditure. It contains one dimension.

CRPFM-3.1. CLIMATE-RESPONSIVE BUDGET CIRCULAR

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The budget circular contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals, and on how to limit expenditures that are counter to climate. The guidance refers to a methodology to identify climate-related expenditure. It also refers to the national climate change strategies.
B	The budget circular contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals. The guidance refers to a methodology to identify climate-related expenditure. It also refers to the national climate change strategies.
C	The budget circular contains guidance on how to factor climate change mitigation or adaptation planned expenditure into budget proposals.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Budget circular
DATA SOURCES	• MoF (budget department), corroborated by the cabinet (e.g., memoranda) • Budgetary units implementing climate change activities
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-17.2. Guidance on budget preparation

DIMENSION MEASUREMENT GUIDANCE

3.1:1. The budget circular is the primary guidance from the Ministry of Finance for budgetary units on how to prepare budget submissions. The guidance provided in the circular or circulars should cover the budget for the entire year (and relevant subsequent years for medium-term budget systems).

3.1:2. When PEFA Climate assessment is undertaken at the same time as PEFA 2016 assessment, the budget circular(s) to be used is (are) the same as the one(s) assessed in PI-17.2. Guidance on budget preparation.

3.1:3. When PEFA Climate assessment is undertaken as a standalone assessment, the report should briefly comment on the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions, as outlined in PI-17.2.

3.1:4. The budget circular will usually provide instructions for budgetary units on how to set out detailed estimates in accordance with their approved ceilings as well as on how to submit proposals for new spending or potential savings in accordance with government policy priorities.

3.1:5. It will normally set out the requirements for budgetary units to provide supporting justification and, if the government is operating a program or a performance- or results-based budgeting system, planned results for both existing and proposed changes in budget allocations (see example in *Box 14: Rwanda's approach to mainstreaming climate change and gender in the budget circular*). Assessors should describe the different elements of climate-related guidance provided in the circular and comment on their relevance in the national context.[21]

3.1:6. The climate-responsive budget circular includes guidance on how to factor climate change adaptation and mitigation policies into budget proposals (see examples in *Box 15: Institutional arrangements supporting the implementation of the climate- responsive budget circular in Kenya* and *Box 16: Climate-responsive budget circular in Bhutan*). Thus, it is better that the budget circular refers to the national climate change strategy. In particular, assessors should make sure that the budget circular encourages the budgetary units in charge of enforcement of climate-related regulations to plan for the corresponding expenditure.

3.1:7. In addition, for scores higher than C, budget circulars or their annexes should refer to a methodology that supports the identification of climate change related expenditure, by defining precisely what should be considered as climate change related expenditure and what should not.

3.1:8. Such methodology for identifying climate change is assessed in CRPFM-2. Element 1.[22] It should be compliant with the definition provided by the government in the inception questionnaire[23] when regulation defines what constitutes "climate change expenditure".

3.1:9. The PEFA Climate report may include a description of the capacity of the budgetary units to address the requirements of the budget circular: the existence of climate change specialist in each budgetary unit, the support by the agency in charge of climate change, etc.

[21] Based on, among other things, findings from CRPFM-2. Tracking climate-related expenditure, CRPFM-5. Climate-responsive public investment management, and CRPFM-8. Climate-responsive public procurement

[22] The government uses a methodology that defines what constitutes "climate change expenditure".

[23] See question 8e: How does regulation define what constitutes "climate change expenditure"?

Box 14: Rwanda's approach to mainstreaming climate change and gender in the budget circular

The first Budget Call Circular for FY 2021/2022, issued on 30/10/2020, requested ministries, departments and agencies (MDAs) for the first time to provide information on:

- how they intend to mainstream overarching priorities of sustainable management of environment and natural resources; and
- how they plan to implement the NDCs to achieve environment and climate change SDG targets in 2030.

The same circular provided a list of selected indicators in Annex 9: Environment and climate change checklist, for sectors and districts to mainstream environment and climate change priorities into their action plans. Gender inclusivity is a prominent feature of the annual checklist, which also plays a crucial role in the process of integrating gender Climate Change adaptation into actions.

Sources:
PEFA CRPFM assessment report for Rwanda (2022) https://www.pefa.org/node/5061
Rwanda's Adaptation Communication to the United Nations Framework Convention on Climate Change (2021) https://unfccc.int/sites/default/files/resource/Rwanda%20AdCom.pdf

Box 15: Institutional arrangements supporting the implementation of the climate-responsive budget circular in Kenya

The Climate Change Act (section 2) defines mainstreaming as “the integration of climate change actions into decision making and implementation of functions by the sector ministries, state corporations and county governments.” Ideally, mainstreaming considers sectoral/development and climate issues as one approach, rather than two separate policy trajectories. This means that climate change considerations are taken up and integrated in sector plans, rather than developed separately in climate change plans for the sector. Mainstreaming means that climate change priorities identified in the National Climate Change Action Plan, and National Adaptation Plan are integrated into Medium Term Plan III sector plans and priorities.

The budget circular for FY2020/2021 is not specific as to climate change-related expenditure although it offers guidelines on prioritization within the sector working groups. At the start of every financial year, the National Treasury issues budget circulars that provide guidelines for preparing and submitting annual budgets. The circulars provide instructions on costing of adaptation, mitigation and other climate-related actions. **In setting expenditure limits in the Budget Review and Outlook Paper (BROP), the National Treasury considers any additional financing required to climate proof projects in vulnerable sectors.** The budget Sector Working Groups (SWGs) submit sector reports to the National Treasury, based on the budget sector ceilings in the BROP, which include printed estimates for the current and forthcoming financial year. Climate change issues are tackled under the Environmental Protection, Water and Natural Resources SWG. Departments and agencies within each sector negotiate over priorities in the SWGs. **The SWGs provide an opportunity to integrate climate change activities in the budgets, as entities have an opportunity to negotiate which activities to include as financing priorities.** This process is as follows:

- The sectors submit budget requests that integrate climate change across their programs. Overall budget formulation explicitly includes climate change investment;
- Line ministries at both levels of government establish climate-related key performance indicators that allow them to account for the performance of climate expenditure;
- Treasuries at national and sub-national levels use IFMIS public finance so that climate expenditures can be tracked; and,
- Budget expenditure reports address climate expenditures and impacts; these are presented to Parliament, fed into planning, and budgeting processes.

The Budget Policy Statement, that contains the expenditure policy, including expenditure priorities; aggregate expenditure intentions for counties and national government budgets; expenditure ceilings; and other targets or limits required by the fiscal responsibility principles. In developing expenditure priorities and ceilings, financing take into account the additional cost of climate-proofing projects that are vulnerable to effects of climate change.

Source: PEFA CRPFM assessment report for Kenya (2023) https://www.pefa.org/node/5187

Box 16: Climate-responsive budget circular in Bhutan

The Budget Call Notification is the primary guidance from the MoF to the budgetary bodies on the formulation of the budget. The Budget Call Notification 2022/23, through the introduction of the Capital Budget Proposal Framework (CBPF), **captured information or guidance on incorporating climate change aspects into capital budget proposals.**

Furthermore, as part of reform activities, and recognizing the importance of monitoring and reviewing spending on climate adaptation and mitigation activities, the Climate Budget Tagging approach was introduced in the National Budget report for 2022/23 for four pilot entities viz. the NEC, Ministry of Agriculture and Forest, Ministry of Economic Affairs, and Ministry of Work and Human Settlement. This initiative is expected to enhance reporting on climate-related expenditure going forward.

Source: PEFA CRPFM assessment report for Bhutan (2023) https://www.pefa.org/node/5251

CRPFM-4. LEGISLATIVE SCRUTINY

WHY IT MATTERS

Legislative scrutiny is an enabling factor for holding the government accountable for its fiscal and expenditure policies and their implementation. Parliaments provide a unique forum for comprehensive scrutiny of government's response to climate change and its wider socio-economic impacts. Through the oversight, law-making and representation roles, parliaments can shape climate-related ambitions and policy choices as reflected in the budget proposal. Parliaments can likewise influence government action through recommendations from the scrutiny on climate-related financial and performance information reports.

Even where there is limited disclosure of climate-related information in the budget and reports, effective scrutiny from parliaments can still be exercised through climate-related work of the SAI and/or other specialized bodies and groups. When done through a transparent and inclusive process, legislative oversight can be one of the key entry points for climate-related consultations with broader public, including academia, CSOs and the private sector.

GUIDING QUESTIONS

How are climate change aspects included in legislature's scrutiny of budget and audit reports?

DESCRIPTION

This indicator measures how climate change aspects are included in legislature's scrutiny of budgets and audit reports. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

CRPFM-4.1. LEGISLATIVE SCRUTINY OF BUDGETS

The legislature's scrutiny of the budget proposal includes:

(1) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others. A report on the work and conclusions of the committees or groups is published.

(2) A performance or impact assessment review of (i) climate change tax and (ii) climate change programs, including expected results in the future.

(3) A review of the positive, neutral, or negative contribution to climate change of (i) tax and (ii) programs or actions that are not directly related to climate change.

(4) A review of climate-related fiscal risks.

(5) A public consultation that includes a specific focus on climate. A report on the feedback received during public consultation is published.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The legislature's scrutiny of the proposed budget meets four criteria.
B	The legislature's scrutiny of the proposed budget meets three criteria.
C	The legislature's scrutiny of the proposed budget meets two criteria.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last budget and budget documentation submitted to the legislature

DATA REQUIREMENTS	• Budget and budget documents reviewed by legislature, including report on fiscal risks • Details of matters covered by the legislature's review, such as records of meetings, findings and committee reports • Records of legislative sessions and decisions • Report on climate-related risks • Public consultation and corresponding report
DATA SOURCES	• Legislature committees, corroborated by advocacy, civil society, and interest groups • Budget director, secretary or chair of budget committee(s) of legislature, corroborated by advocacy, civil society, and interest groups
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-18. Legislative scrutiny of budgets

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-4.1. assesses the scrutiny of the budget proposal by the legislature. In most countries, the government's authority to spend is awarded by the legislature, through its passage of the annual budget law. If the legislature does not rigorously examine and debate the law, its power is not being effectively exercised, and the government's accountability to the electorate for its fiscal strategy and strategic budget allocation decisions is undermined.

4:1.1. **Element 1**. Element 1 is considered met when (i) support mechanisms are in place to help the legislature scrutinize the extent of which climate change aspects have been included in the budget proposal and (ii) a report on the work and conclusions of such support committees or groups is published (see example in *Box 17: Inclusive scrutiny of climate-related budget documentation and audit reports in Uganda*).

4:1.2. **Element 2**. Element 2 is considered met when the legislature's scrutiny covers the assessment of the expected impacts or planned performance of climate expenditure and climate tax included in the budget proposal.

- This requires that the budget proposal, as reviewed in the legislature, contains information from impact assessments or information on planned performance of budget items that are explicitly designated as climate-related.
- For this element, information on planned performance is included in the plans assessed in CRPFM-12.1. Climate-related information in performance plans.
- If there is no budget item that is explicitly designated as climate-related, the element cannot be met.
- If there is no climate tax, this should be noted in the report. Element 2 is then assessed based on climate expenditure only.

4:1.3. **Element 3**. Element 3 is considered met if the legislature's scrutiny covers the assessment of the positive, negative, or neutral contribution of budget items that are not explicitly designated as climate-related. This aims at ensuring that no harm is done through the tax and expenditure programs.

- For this element, the scrutiny of a report covering the impact of the budget proposal on climate change will qualify as long as the assessment includes all categories of expenditure and revenue, i.e., also those that are not explicitly designated as climate related.

4:1.4. **Element 4.** Element 4 focuses on whether the legislature reviews information on climate-related fiscal risks.

- This element will consider the same categories of climate-related fiscal risks as the ones defined in CRPFM-7.1. Fiscal risks arising from climate-related contingent liabilities.
- Information may be included in the summary information on fiscal risks or fiscal risk report provided with the annual budget documentation, or in another report.
- If information on climate-related risks is not included in the budget documentation but has been made available to the legislature through another official report earlier in the year, this would fulfill the requirement.

4:1.5. **Element 5.** Element 5 is considered fulfilled when a public consultation covering annual budget documents submitted to the legislature includes a specific focus on climate-related issues.
- This specific focus is facilitated by the availability of information on the climate change related multiannual investment plan, summary of medium-term and/or annual climate change related budget proposals.
- Public consultation refers to the variety of ways in which citizens and the general public, including civil society organizations and other non-state actors, interact directly with public authorities by means of face-to-face communication, including using electronic methods of communication, deliberation, or decision making or by written forms of communication using electronic or paper media. Consultation ranges from one-off consultations to ongoing and institutionalized relationships that leave records which are available to the public[24].

CRPFM-4.2. LEGISLATIVE SCRUTINY OF AUDIT AND EVALUATION REPORTS

The legislature's scrutiny of audit reports includes:

(1) Involvement of support mechanisms such as specialized legislature committees, technical and scientific support, expert advice from climate advocacy groups, independent climate councils, or others.

(2) A review of climate-related executed expenditure and tax at a level comparable with the approved budget.

(3) A review of audit reports and/or evaluation reports of climate change impacts of the executed budget.

(4) Recommendations for actions issued by the legislature to be implemented by the executive.

(5) Follow up on their implementation.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The legislature's scrutiny of audit and evaluation reports meets four criteria.
B	The legislature's scrutiny of audit and evaluation reports meets three criteria.
C	The legislature's scrutiny of audit and evaluation reports meets two criteria.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last audit reports or evaluation reports submitted to the legislature. For Element 2: audit report on end-of-year financial report.
DATA REQUIREMENTS	• Records of hearings and audit reports for the last three completed fiscal years

[24] GIFT, "Principles of Public Participation in Fiscal Policy," December 2015

	• Records of attendance at hearings, particularly concerning the audited entities and Supreme audit institution
DATA SOURCES	• Legislature committees, corroborated by advocacy, civil society, and interest groups • Internal and/or external audit reports
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-31. Legislative scrutiny of audit reports

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-4.2. assesses the scrutiny of audit and evaluation reports by the legislature. The legislature also plays a key role in exercising scrutiny over the execution of the budget that it approved. The oversight will cover financial compliance (i.e., the budget is executed as authorized by the legislature) and measurement of results (i.e. targets for key performance indicators are reached or the actions implemented through the budget had the intended impact).

4:2.1. **Element 1**. Element 1 is considered met when support mechanisms are in place to help the legislature scrutinize the extent of which climate change planned activities have been implemented, by examining the external audit reports and evaluation reports.

4:2.2. **Element 2.** Element 2 is considered met when the legislature reviews the climate-related executed tax and expenditure at a level comparable with the approved budget.

- Element 2 covers audit report pertaining to end-of-year financial reports.
- This review may include hearings or written exchanges where questions are asked to the responsible parties about the findings of the audit report on the end-of-year financial reports.

4:2.3. **Element 3.** Element 3 is met when the legislature reviews audit and/or evaluation reports on the climate change impacts of the executed budget.

- This includes audit and/or evaluation reports on the performance of climate change programs or activities in line with planned outputs and outcomes as defined in CRPFM-12.2. Climate-related information in performance reports (see example in *Box 18: Effective parliamentary oversight informed by performance audit in Ethiopia*).
- Evaluations are the ones assessed in CRPFM-13. Climate-related evaluation.
- This review may include hearings or written exchanges where questions are asked to the responsible parties about the findings of the audit and/ or evaluation reports.
- When there was no audit and/or evaluation reports that were submitted for review, this element is NA.

4:2.4. **Element 4.** Element 4 is met when the legislature issues recommendations for actions to be implemented by the executive.

- Recommendations are formulated based on work related to Elements 2 and 3.
- Recommendations are climate related.
- Recommendations may be done by the responsible committee within the legislature.
- Recommendations may also result from the adoption of the recommendations made by the external auditors/evaluators.

4:2.5. **Element 5.** Element 5 is met when the legislature follows up on the implementation of their recommendations.

- Following up implementation refers to a system for tracking recommendations that is used to record recommendations and action, or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature is notified during subsequent hearings whether recommendations have or have not been implemented.

- When Element 4 is not met because there are no recommendations, Element 5 is NA.

4:2.6. Scoring of this dimension will be adjusted depending on the number of elements that are applicable:

SCORE	If 4 applicable elements	If 3 applicable elements	If 2 applicable elements
A	4 criteria met	3 criteria met	2 criteria met
B	2 criteria met	2 criteria met	1 criterion met
C	1 criterion met	1 criterion met	-
D	Performance is less than required for a C score (B score when 2 elements are applicable).		

Box 17: Inclusive scrutiny of climate-related budget documentation and audit reports in Uganda

The proposed budget is scrutinised by the Sectoral Committee on Environment and Natural Resources and the Standing Committee on the Budget, the Parliamentary Forum on Climate Change, a climate advocacy group with experts who support the Parliament. The Standing Committee on Climate Change (introduced in FY 2020/21) participated in the national budget consultations alongside the Budget Committee and the sectoral committees of parliament.

The budget is also reviewed by the National Climate Change Advisory Committee (NCCAC), composed of independent experts (science and other technical experts), which advises the Minister. The National budget consultations also drew on the Civil Society Budget Advocacy Group (CSBAG) participation and all Government Ministries, Departments and Agencies (MDAs), local governments, development partners, and private sector organizations.

The Public Accounts Committees for Central Government, Local Governments, and Commissions, Statutory Authorities and State Enterprises considered the review of climate-related projects provided by the Office of Auditor General. The Parliamentary Forum on Climate Change, a climate advocacy group, and CSBAG provide specific support on the audit and evaluation of climate change projects. The recommendations from the OAG's report were adopted.

Source: PEFA CRPFM assessment report for Uganda (2023)

Box 18: Effective parliamentary oversight informed by performance audit in Ethiopia

Parliament's oversight covers both the Office of the Federal Auditor General (OFAG)'s reports on the annual financial statements and the performance reports. Annual reports are reviewed through by the legislature, but they do not present climate-related executed expenditure. In July 2021, OFAG conducted a performance audit on **Environment, Forest and Climate Change** (EFCCC) on the utilisation of resources allocated for climate adaptation and mitigation and to audit the performance of the EFCCC in provision of support for climate-related projects implementing entities.

The audit report reviewed by the Public Account Committee (PAC) contains information about the project expenditures and the effectiveness of the expenditures considering the Climate Resilient Green Economy strategy. It assessed the budget execution of climate-related activities, such as those financed by the Green Climate Fund. The PAC made recommendation related to climate change and the auditee presented an action plan based on those recommendations. The auditee was also required to submit a copy of the action plan to the OFAG with follows-up actions at the time of the subsequent audit.

Source: PEFA CRPFM assessment report for Ethiopia (2022) https://www.pefa.org/node/5208

CRPFM-5. CLIMATE-RESPONSIVE PUBLIC INVESTMENT MANAGEMENT

WHY IT MATTERS

Governments can leverage the existing public investment regulations and processes to develop a system where projects are screened and rejected when they are not aligned with the national climate objectives. Integration of climate-relevant considerations in decisions on investment appraisal and prioritization can help ensure alignment of individual projects and the investment portfolio with the country's mitigation and adaptation objectives as articulated in the strategic framework and NDC targets.

GUIDING QUESTION

Has the government mainstreamed climate change in the arrangements for public investment management?

DESCRIPTION

This indicator measures the extent to which public investment management is climate responsive. It contains four dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

5:1. For the purpose of this indicator, assessors may wish to consider the use of sampling. If sampling is used, the basis for the sample should be clearly explained and agreed with government prior to the commencement of the fieldwork. The same sample should be applied for dimensions 5.2. and 5.3.

5:2. When PEFA Climate is undertaken at the same time as PEFA 2016 assessment, the sample should be consistent with the major investment projects as defined in PI-11. Public investment management. Major investment projects are defined as projects meeting both of the following criteria:

- The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- The project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure.

5:3. The report may comment on the differences in requirements and practices between domestically and externally financed projects.

5:4. The coverage of the present indicator includes investments implemented through structured financing instruments such as public-private partnerships.

5:5. Additional information may be found in a country C-PIMA report, when available (see *Box 19: C-PIMA*).

5:6. An example of climate-responsive PIM is presented in *Box 20: Climate-responsive public investment management in Kenya*.

CRPFM-5.1. CLIMATE-RESPONSIVE PROVISIONS IN REGULATORY FRAMEWORK FOR PUBLIC INVESTMENT MANAGEMENT

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation **and** adaptation. Requirements include the mandatory assessment of new significant investment projects with an impact on national mitigation targets and climate vulnerabilities. There is a high level of compliance of investment project proposals with the climate-related objectives and requirements. The scope of climate-related objectives and requirements covers central government and public corporations.
B	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation **or** adaptation. There is a high level of compliance of investment project proposals with climate-related objectives or requirements. The scope of climate-related objectives and requirements covers central government.
C	The legal or regulatory framework describes the objectives and requirements for investment programs or projects in relation to climate change mitigation **or** adaptation. The scope of climate-related objectives and requirements covers central government.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Regulatory framework for public investment management
DATA SOURCES	• Ministry of finance/planning • Agency in charge of public investments, if any • Audit reports
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-11. Public investment management

DIMENSION MEASUREMENT GUIDANCE

5:1.1. Dimension CRPFM-5.1. assesses whether the government put in place a climate-related legal or regulatory framework for public investment.

5:1.2. The framework should describe the objectives and requirements for programs or projects in relation to climate change mitigation and/or adaptation to ensure that public infrastructure is appropriate for environmental conditions and aligned with transition policies. This means setting the minimum design standards for resilience to future extreme weather events; for energy and GHG emissions over for the lifecycle of building materials; establishing GHG emissions, energy efficiency, recycling and reuse standards for equipment and appliances.

5:1.3. The report will comment on whether these standards are reflected in procurement policies, as assessed in CRPFM- 8.2. Climate-responsive public procurement operations.

5:1.4. For an A score, requirements of the legal or regulatory framework should include the mandatory assessment of new major projects with an impact on national mitigation targets and climate vulnerabilities.

5:1.5. The high level of compliance of project proposals with the climate-related objectives and requirements may be identified by a third party such as internal auditors, SAI, experts as referred to under both dimensions of CRPFM-4. Legislative scrutiny (Element 1), etc.

CRPFM-5.2. CLIMATE-RESPONSIVE PROVISIONS FOR PROJECT APPRAISAL

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	National guidelines for projects appraisal require the evaluation of climate change impacts of new investment projects and provide a methodology. They also require adaptation measures in the project design to address climate risks. Climate change impacts are reviewed by an entity other than the sponsoring entity. The appraisal results are published.
B	National guidelines for projects appraisal require the evaluation of climate change impacts of new investment projects. They also require adaptation measures in the project design to address climate risks.
C	Guidelines for projects appraisal recommend the evaluation of climate change impacts of new investment projects or adaptation measures in the project design to address climate risks.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• List of approved/ongoing investment projects with relevant data to identify them as 'major' • National guidelines to conduct economic analysis • Economic analysis documentation of approved/ongoing major investment projects • Documentation of the economic analyses review process by an agency other than the sponsoring agency • Documented publication of economic analyses results
DATA SOURCES	• Ministry of finance/planning • Line ministries and agencies • Agency in charge of public investments, if any • National guidelines to conduct economic analysis • Economic analysis of investment projects
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-11. Public investment management

DIMENSION MEASUREMENT GUIDANCE

5:2.1. Dimension CRPFM-5.2. assesses the extent to which appraisal methods of major investment projects require the evaluation of climate change impacts of such projects and their exposure to climate risks in order to identify opportunities for designing climate-smart infrastructure.

5:2.2. Identification of risks may be accomplished through screening, a process for identifying short and long-term climate risks to build resilience in projects. Screening results can feed into subsequent follow-up locational studies/risk/technical assessments and inform follow-up assessments as part of the overall appraisal process.

5:2.3. Mitigation impacts can be quantified with ex-ante estimations of net-GHG emissions relative to a baseline scenario. Appraising projects for their resilience against physical impacts involves risk scenarios, which requires extensive data and complex analytical tools. The narrative may refer to climate change adaptation platforms created at the national level when they provide data that can be used to inform impact assessment.

5:2.4. The assessment should demonstrate that the project has included design considerations so that it will deliver an acceptable performance and public benefits under the best- and worst-case scenarios of physical impacts. Metrics to measure adaptation capability and resilience to extreme weather events, such as those being developed by Multilateral Development Banks (MDBs), could serve as appraisal indicators.

5:2.5. For an A score, the results of the appraisal should be published and refer to the estimations of net-GHG emissions and resilience building/ adaptation profile of the project.

CRPFM-5.3. CLIMATE-RESPONSIVE PROVISIONS FOR PROJECT SELECTION

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Projects are selected using published criteria that include climate-related aspects. Such criteria align with national climate change policy or NDC targets.
B	Projects are selected using criteria that include climate-related aspects. Such criteria align with national climate change policy or NDC targets.
C	Projects are selected using criteria that include climate-related aspects.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• List of approved/ongoing investment projects with relevant data to identify them as 'major' • Documentation of government's central review of major investment projects before inclusion of projects in the budget • Documentation on publication and adherence to standard criteria for project selection • Details of standard criteria for project selection
DATA SOURCES	• Ministry of finance/planning • Line ministries and agencies • Agency in charge of public investments, if any
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-11. Public investment management

DIMENSION MEASUREMENT GUIDANCE

5:3.1. Dimension CRPFM-5.3. assesses the extent to which the project selection process prioritizes investment projects against climate-related criteria to ensure that selected projects are aligned with government priorities.

5:3.2. Projects are prioritized against criteria aligned with national climate change policy or NDC targets. The narrative of the report should describe such criteria and their relative importance for selection compared to other criteria.

5:3.3. This is also valid for projects that are counter to national climate change policy or NDC targets. For example, if the latter foresees an exit strategy for coal-based energy production, coal-related projects should not be approved even if they have a low exposure to climate change risks.

CRPFM-5.4. REPORTING FROM ENTITIES IN CHARGE OF IMPLEMENTATION

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. **All** entities report back within **six months** of the end of the fiscal year. Reporting covers the use of climate-related funding they received from the government to implement investment projects and results against objectives, targets, and indicators
B	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. **Most** entities report back within **six months** of the end of the fiscal year. Reporting covers climate-related funding they received from the government to implement investment projects and results against these objectives, targets, and indicators.
C	The government requires extra budgetary units and public corporations in charge of implementing public investment projects to incorporate specific climate objectives, targets and indicators in their performance contracts or statement of corporate intent. **Most** entities report back within **nine months** of the end of the fiscal year. Reporting covers climate-related funding they received from the government to implement investment projects and results against these objectives, targets, and indicators
D	Performance is less than required for a C score.

COVERAGE	Extra budgetary units and controlled public corporations
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Rules and procedures that regulate reporting by EBUs and PCs • Performance contracts/statements of corporate intent • End-of year reports
DATA SOURCES	• Department in charge of monitoring reporting from EBUs • Department in charge of monitoring reporting from PCs
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-11. Public investment management

DIMENSION MEASUREMENT GUIDANCE

5:4.1. Dimension CRPFM-5.4. assesses whether a reporting system is in place within entities in charge of implementing public investment projects.

5:4.2. This dimension covers extra budgetary units and public corporations. Reporting on public investment management from SNGs is assessed under CRPFM-11. Climate-responsive fiscal decentralization.

5:4.3. Assessors will need to determine the list of extra budgetary units and public corporations in charge of implementing public investment projects and receiving climate-related funding from the government, as described in the responses to the Inception Questionnaire – Question 18[25]. Based on this list:

- "All" refers to 90 percent or more (by value, compared to the total amount of corresponding climate-related funds transferred to such entities)
- "Most" refers to 75 percent or more (by value, compared to the total amount of corresponding climate-related funds transferred to such entities).

[25] 18. Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?

Box 19: C-PIMA

The "Climate-PIMA" (C-PIMA) adds a climate-responsive dimension into the PIMA framework and assesses countries' capacity to manage climate-related infrastructure. The C-PIMA helps governments identify potential improvements in public investment institutions and processes to build low-carbon and climate resilient infrastructure.

The C-PIMA involves an assessment of the five institutions of public investment management that are key for climate-aware infrastructure: C1. Climate-aware planning. C2. Coordination between entities. C3. Project appraisal and selection. C4. Budgeting and portfolio management. C5. Risk management. Each institution is further analyzed along three dimensions that reflect the institution's key features.

The C-PIMA also assesses the three cross-cutting issues equally important to managing climate-relevant public investment management institutions: 1. The legal and regulatory framework, 2. Information systems and 3. Government staff capacity.

C-PIMA allows drilling down into specifics of public investment management while PEFA CRPFM provides an overview. The illustration below presents common points of entry.

Sources:

- https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/C-PIMA.html
- PEFA Secretariat

Box 20: Climate-responsive public investment management in Kenya

Regulatory framework
The regulation[26] describes the objectives and requirements for programmes and projects in relation to both climate change mitigation or adaptation e.g., ecological and social considerations.
A proponent of any project specified in the regulation (all new major projects in land use, urban development, transport, agriculture, mining, forestry, manufacturing etc.) is required to (i) undertake a full environmental impact assessment (EIA) study and (ii) submit an environmental impact assessment study report prepared by a registered and licensed EIA and audit expert. The EIA study report must be submitted to the National Environment Management Authority (NEMA[27]) prior to being issued with any licence.
A proponent must not implement a project likely to have a negative environmental impact or for which an EIA is required under the Act or Regulations unless an EIA has been concluded and approved by NEMA.
Project investment is only approved, environmental license issued once NEMA, and lead agencies ascertain that a project report has disclosed adequate mitigation for identified impacts. **The EIAs are mandatory and align with Kenya's climate change strategy and action plan, adaptation plan, and updated NDC commitments.** There is high level of compliance of investment project proposals in line with the EMCA requirements. NEMA checks for GHG emissions targets for new investments in the EIAs. Where new investment project proposals fail to meet the set criteria in terms of climate change strategic objectives and targets, NEMA suspends and in other cases disqualifies the proposed investors, in line with its legal mandate.

Appraisal and selection
The national Treasury and Planning issues circulars in line with its mandate under the Public Finance Management Act to guide Ministries, Departments and Agencies (MDAs) on effective management and accountability in public finance management. **The Circular** on public investment management[28] **provides guidelines for national government and its entities on efficient and effective management of public investments** that includes project identification and conceptual planning, pre-feasibility, and feasibility, selection for budgeting, implementation, monitoring, evaluation and reporting, closure, **sustainability**, and ex-post valuation to ensure value for money and optimal use of public resources in accordance with PFM Act.
National guidelines for projects appraisal require the evaluation of climate change impacts of new investment projects. For FY2020/2021, new projects were subjected to EIA. **An EIA identifies both negative and positive impacts of any development activity or project, how it affects people, their property, and the environment. EIA also identifies measures to mitigate the negative impacts** and reduce risks**, while maximizing on the positive ones.** This ensures that environmental risks are managed at all stages of a project, i.e., from planning, design, implementation, and monitoring and evaluation. **The EIA is required to include a vulnerability assessment.** In cases where the environmental impact of the projects cannot be mitigated for instance a road passing through a forest, the EIA reports suggest a change in design.

The NAP 2015-2030 has provided guidelines on mainstreaming climate change adaptation in all the sectors of the economy. The NAP short-term environment actions include a review and update of existing EIA regulations (which was done within the FY2020/2021) with climate change adaptation considerations. **The guidelines require adaptation measures in the project design to address climate risks.**

Prioritization of climate-related projects involves different entities each with defined roles and responsibilities. NEMA ensures that projects comply with climate requirements through EIAs. The SWG considers projects in the project pipeline based on the set criteria such as sector ceilings and fiscal strategy, in resource bidding and budget allocation. The **SWG submit budget requests to National Treasury after ascertaining that projects in**

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[26] Environmental Management and Co-ordination Act (EMCA), 2015, section 58, Second Schedule

[27] NEMA is key government agency mandated by the Environmental Management and Coordination Act no 8 of 1999 to administer the EIAs. NEMA is also responsible for monitoring and enforcing compliance of climate change interventions on behalf of the National Climate Council established by the Climate Change Act, 2016.

[28] No. 16/2019 from 24th January 2020

need of funding have integrated climate-related key performance indicators. MDAs and corporations within each sector negotiate over priorities in the SWGs. The SWGs submit budget requests that integrate climate change across their programs. The line ministries at national and county levels formulate the KPIs that allow them to account for the performance of climate expenditure and the treasuries at national and county government use public finance management systems, such as IFMIS, to track climate expenditures.

Source: PEFA CRPFM assessment report for Kenya (2023) https://www.pefa.org/node/5187

CRPFM-6. CLIMATE-RESPONSIVE NON-FINANCIAL ASSET MANAGEMENT

WHY THIS MATTERS

Climate-related increasing risks require governments to adjust the management of their non-financial assets. For existing assets, reduction of GHG emission or/and preparedness for climate-induced disaster imply to take stock of (i) contribution or capture of GHG emissions and (ii) exposure and sensitivity to climate variability, extreme weather events and transition risks to assess how such risks impact the asset values. Governments also need to plan their investment and make decisions in such way that new assets are sustainable to avoid spending more later on the reconstruction of infrastructure, disaster relief, or write-downs of stranded assets.

GUIDING QUESTION

Does the management of assets ensure that public assets contribute to mitigation and that their sensitivity to climate change is addressed?

DESCRIPTION

This indicator measures the extent to which non-financial assets, in particular lands, buildings and infrastructures, are covered by climate change adaptation and mitigation approaches regarding the identification of the risks and potential contribution, their inclusion in the government's strategies, and the regulation of their use, disposal and transfer. It contains one dimension.

DIMENSIONS AND SCORING

CRPFM-6.1. CLIMATE-RESPONSIVE NON-FINANCIAL ASSET MANAGEMENT

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Exposure and sensitivity of public lands, buildings, and infrastructures to climate variability, extreme weather events and transition risks are identified for the relevant assets. Information is included in the register. Contribution to emission and capture of GHG of relevant non-financial assets is identified. Procedures and rules for the disposal, transfer, and use of lands and subsoils include climate-related requirements.
B	Exposure and sensitivity of public lands, buildings, and infrastructures to climate variability, extreme weather events and transition risks are identified for the relevant assets. Information is included in the register.
C	Exposure and sensitivity of relevant fixed assets to climate variability, extreme weather events and transition risks are identified.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Register(s) of fixed assets, possibly with information on their usage and age • Register(s) of land, possibly with information on their usage • Register of subsoil assets where relevant, possibly with information on their usage

	• Published document(s) related to one or more nonfinancial asset categories above mentioned • Rules and regulations related to transfer or disposal of nonfinancial assets • Document(s) submitted to the legislature for information or approval • Reports containing details of transfers and disposal of assets • DRM Strategy and contingency plans covering relevant assets
DATA SOURCES	• Asset management agency, if any • Agency in charge of land management; agency in charge of subsoils • Budget and extrabudgetary units holding nonfinancial assets • MoF • Treasury • Internal audit • SAI
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-12.2. Non-financial asset monitoring PI-12.3. Transparency of asset disposal

DIMENSION MEASUREMENT GUIDANCE

6:1.1. Non-financial assets may arise as outputs of a production process, may occur naturally, or may be constructs of society. Non-financial assets usually provide benefits either through their use in the production of goods and services or in the form of property income. Management of public non-financial assets, such as lands, buildings, subsoils, production units, infrastructures, transportation systems,_and other network infrastructure systems should consider the risks to assets related to climate change:

- Physical risks arising from changes in environmental conditions and extreme weather events such as: increased risk of fire for public forests, increased risk of destruction of public buildings due to cyclones, increased risk of odor and pests in waste management plants during warmer summers and winters, erosion of public coastal lands. Physical risks may lead to the damage or loss of assets, loss of asset value, and adversely affect delivery of public services and economic activities on public lands.
- Transition risks that arise as a result of changes in technology, regulation, and market conditions as economies decarbonize. Transition risks may lead to "stranded" assets that can no longer operate economically, such as coal-fired plants that may no longer be viable when carbon taxes are applied.

6:1.2. For the purpose of this indicator, relevant non-financial assets are identified based on the importance of potential GHG emission/capture. Identification of assets may be individual (particular dam, administrative building or forest) or by category of non-financial assets (school buildings, coastal areas, vehicle fleet). Scores A and B cover relevant non-financial assets, while C only covers relevant fixed assets.

6:1.3. Risks arising from exposure and sensitivity of public lands, buildings, and infrastructures to climate variability, extreme weather events and transition are identified for the relevant assets.

6:1.4. In order to be able to develop adaptation and mitigation strategies[29] focusing on existing assets, management of public non-financial assets should also consider the impact of these assets on climate change, both positive and negative. This requires an understanding of GHG emissions from buildings, equipment and land use and the capture of GHG in carbon sinks such as forests and wetlands. The way public lands and subsoils are managed can have an impact on GHG emissions.

6:1.4. When registers of non-financial assets exist and provide for information on usage and, when relevant, age of the non-financial assets (as assessed by PI-12.2-Non-financial asset monitoring of the PEFA 2016 framework), information on climate-related risk may be included as well.

6:1.5. Transfer, disposal, and use of land are usually governed by rules and procedures. In order to avoid that such transfer, disposal, and use lead to a negative impact on GHG emission (increase of oil and gas extraction, deforestation, draining of wetlands), procedures and rules should include climate change related requirements. The report may comment on whether such requirements are implemented.

6:1.6. An example of climate-responsive non-financial asset management is provided in *Box 21: Climate-responsive non-financial asset management in Uganda*.

6:1.7. While PEFA Climate does not include yet an assessment of climate-responsive financial asset management, the PEFA Climate report could briefly describe arrangements in place in countries that already identified the exposure to climate risks for their relevant financial assets.

[29] Strategies of climate sensitive management of non-financial assets are not assessed by this indicator but may be used as source of information.

Box 21: Climate-responsive non-financial asset management in Uganda

The Asset Management Department under the Ministry of Finance, Planning and Economic Development (MoFPED) provides an overall framework for asset management, including providing guidelines, circulars, and support to Ministries, Departments, and Agencies (MDAs).

The Asset Management Framework and Guidelines (AMFG) 2020 provides comprehensive guidance on operational activities involved in the **planning, acquisition, safeguarding, utilization, replacement, disposal, and reporting of public assets**. The AMFG scope of assets is comprehensive and includes moveable and immovable assets, plus specialized military assets, heritage assets, infrastructures, biological assets, public-private partnerships (PPPs) and minerals, natural gases, and other resources. The AMFG applies to all Government of Uganda Votes.

The AMFG guides **how the risk to assets that are posed by environmental factors like climate change and soil degradation should be addressed in the asset life cycle management (from procurement to disposal)**. The manual requires the Accounting Officers at MDAs to consider the climate change risks in planning for the acquisition, maintenance, replacement, and disposal of assets. The manual specifies the relevant laws and regulations for assets such as motor vehicles, land (the National Land Use Policy, Land Acquisition Act), buildings (The Building Control Act), roads (the Road Act), and petroleum (Petroleum Act).

In addition, the environmental and social safeguard policy of the Uganda National Road Authority (UNRA) states that the UNRA shall incorporate measures to address climate-related risks in designing and implementing road and other projects. UNRA developed an **Emergency Response Plan** to address weather incidents resulting from extreme weather events to restore the safety of roads and users[30]. For example, UNRA conducted a hydrological study to address the fluctuating water levels affecting ferries' ability to dock. UNRA conducts regular assessments of roads, bridges, and culverts to inform timely maintenance, minimizing extreme weather's impact. Other routines are proactive measures like cleaning and maintaining drainage systems for roads, bridges, and waterways to discharge running storm water efficiently. To respond to damages to bridges due to unexpected climate change effects, UNRA purchased a 40m long emergency bridge.

UNRA launched the Green Right of Way (GROW) Program to plant trees along the roads as part of an adaptation strategy to climate change[31]. The GROW report issued in June 2022 implied that UNRA identified some transitional risks related to the implementation of the GROW program.

Source: PEFA CRPFM assessment report for Uganda (2023)

[30] Emergency Response Guidelines (UNRA)

[31] As of June 2022, a total of 1,519km was planted with trees with an average 72% survival rate.

CRPFM-7. CLIMATE-RELATED LIABILITIES

WHY THIS MATTERS

Countries are vulnerable to the impacts of climate change, both short-term physical risks arising from extreme weather events, long-term risks of environmental change and transition risks arising from changes in technology, markets and government policy. Thus, climate change represents significant risks to public finances as they may trigger contingent liabilities and should be taken into account when determining fiscal policies. Beyond covering for risks arising from operators from the public sector, central government may be obliged, for political reasons, to assume responsibility for a financial default of public sector other entities, such as the banking sector, even when no formal oversight role or legal obligation exists. Such risks can undermine fiscal discipline.

In addition, it is crucial that the government is able to mobilize funds needed to implement their climate change policies, and that such mobilization is supported by arrangements in place to issue climate-related debt and guarantees.

GUIDING QUESTION

Has the government put in place arrangements to handle climate-related liabilities and comply with the specific monitoring and reporting requirements?

DESCRIPTION

This indicator measures the extent to which the government is able to manage climate-related liabilities. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

CRPFM-7.1. FISCAL RISKS ARISING FROM CLIMATE-RELATED CONTINGENT LIABILITIES

A	The government publishes a report consolidating fiscal risks arising from climate-related contingent liabilities. The report includes a quantitative and qualitative assessment of such fiscal risks. It covers impacts of such fiscal risks on expenditure and revenue.
B	The government produces a report consolidating fiscal risks arising from climate-related contingent liabilities. The report includes a qualitative assessment of such fiscal risks. It covers impacts of such fiscal risks on expenditure and revenue.
C	The government produces a report consolidating climate-related fiscal risks.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Reports on contingent liabilities by CG and by individual CG entities. • Consolidated report on contingent liabilities and information on the frequency of publication.
DATA SOURCES	• Annual financial statements • Financial or other reports of budgetary units • MoF
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-10. Fiscal risks reporting

DIMENSION MEASUREMENT GUIDANCE

7:1.1. Dimension CRPFM-7.1. focuses on reporting fiscal risks arising from climate-related contingent liabilities.

7:1.2. For this dimension, contingent liabilities are obligations that do not arise unless particular discrete event(s) occur in the future. They are explicit when (i) there are legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value and (ii) the requirements become effective if one or more stipulated conditions arise. Contingent liabilities are implicit when they do not arise from a legal or contractual source but are recognized after a condition or event is realized[32].

7:1.3. Examples of climate-related contingent liabilities that may create fiscal risks include state guarantee for agriculture loans, state insurance schemes such as crop insurance, insurance for increased public assets maintenance costs. The Coalition of the Ministers of finance provides additional examples (see *Box 22* below).

7:1.4. Information on fiscal risks arising from contingent liabilities may be included in the summary information on fiscal risks or fiscal risk report provided with the annual budget documentation, financial report, or any other report. The report should cover government's own programs and projects including those of extrabudgetary units. The narrative of the PEFA Climate report may comment on how often fiscal risks are assessed. An example is provided in *Box 24*.

Box 22: Sources of contingent liabilities from climate change

Contingent liabilities can be explicit or implicit, known or unknown, and constitute substantial fiscal costs for the government if they materialize. They include physical climate risk but also transition risks. Examples include, inter alia:

- Legal claims and judicial awards from companies and households after climate-related events or related to the transition
- Financial sector claims: a banking crisis can lead to the need for bailouts and financial sector guarantees, causing sovereign debt distress
- Disaster-related contingent liabilities related to replacement of infrastructure
- Default on loans from on-lending activities to companies and households
- The need to abruptly shut down or rescue failing fossil fuel extractive sectors
- The need to alter guarantees to state-owned enterprises or minimum revenue guarantees to PPPs
- The need for relief expenditures and to develop structural development funding to support impacted regions
- The need for additional social security spending to protect impacted workers.

Source: Strengthening the Role of Ministries of Finance in Driving Climate Action: Framework and Guide, 2023

[32] IMF, GFS Manual 2014

CRPFM-7.2. CLIMATE-RELATED DEBT AND GUARANTEES

A	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate-related liabilities. The legal or regulatory framework specifies arrangements for central government and public corporations. It also refers to a methodology to identify projects eligible to climate finance. Mandatory climate-related reporting is produced in a timely way.
B	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate-related liabilities. The legal or regulatory framework specifies arrangements for central government and public corporations. Mandatory climate-related reporting is produced.
C	The purposes for which the government can borrow, as specified in the legal framework, allow to cover climate-related liabilities. The legal or regulatory framework specifies arrangements for central government and public corporations.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Primary and secondary legislation for government debt management, including provisions for approving loans; issuing loan guarantees and undertaking debt related transactions and documented policies; operational procedures and guidelines for approval, management, monitoring and reporting of these transactions and annual borrowing provisions. • Documented procedures for undertaking debt management transactions. • Evidence of approval by government or the legislature
DATA SOURCES	• MoF • Debt Management office • Debt Management entities • Central Bank.
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-13. Debt management

DIMENSION MEASUREMENT GUIDANCE

7:2.1. Dimension CRPFM-7.2. assesses the arrangements in place to issue climate-related debt and guarantees, and manage and report against specific related requirements, regardless of the instruments that are used.

7:2.2. For the purpose of this dimension, debt includes sources originating from public sector (national, bilateral and multilateral development finance institutions and climate funds) and private sector. Instruments range from loans (concessional and non-concessional) to debt securities. This dimension also covers climate-related guaranteed debt.

7:2.3. Grants and proceeds from carbon markets are excluded. Assessors may refer to any readily available data about funding from these sources to provide further context.

7:2.4. This dimension assesses whether climate-related liabilities are covered by the purposes for which the government can borrow, as described in the legal framework. This includes specifying the purposes for which the government can borrow[33]. The purpose may be general (such as "*finance honoring of triggered guarantees*" or specific (such as "*eliminate the effects caused by natural or environmental disasters*"). The objective is to ensure that, when the law is specific on borrowing purposes, a government is not unduly constrained, especially if some unforeseen climate-related financing need emerges. An example is provided in *Box 23*.

7:2.5. This dimension also examines if the debt legal or regulatory framework mentions that public corporations are covered by the same arrangements as the central government. When they are not covered by those arrangements, the framework should clearly state whether public corporations are allowed to use the instrument, and when they are, point to the corresponding arrangements[34]. The objective is to check that operators designated by the central government to implement climate change policies may use the same instruments as central government.

7:2.6. UNFCCC defines climate finance as "*local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change. […] Climate finance is needed for mitigation, because large-scale investments are required to significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate*[35]".

7:2.7. Climate finance may generate specific reporting needs. Thus, assessors need to identify whether systems in place can capture the information needed for all types of instruments used in the country. This will help assessors determine the comprehensiveness of the reports produced. Systems in place include those used to monitor the costs and physical progress of projects benefitting from the proceeds, in addition to those used to manage debt data (e.g., specialized software; software used for recording both foreign and domestic debt and the government guarantees).

7:2.8. Assessors should mention in the narrative whether such reports are publicly available.

[33] "*The main reason to include borrowing purposes […] is to safeguard against borrowing for speculative investments or to finance expenditures that have neither been included in the annual budget nor approved by the parliament or congress in some other fashion*[33] (The Debt Management Performance Assessment Tool (DeMPA, page 10), World Bank, 2015).

[34] The specific arrangements may be described under a specific regulation.

[35] https://unfccc.int/topics/introduction-to-climate-finance

Box 23: Mobilization of climate finance through government securities in Indonesia

The legal frameworks that allow the Government to borrow for climate-related activities have been put in place. In January 2018, the Government published the Green Bond and Green Sukuk Framework, which served as a basis for the issuance of sovereign green sukuk (shariah-compliant bonds)[1] between 2018 and 2021. The framework received a second opinion from the Centre for International Climate Research (CICERO). In September 2021, this framework was replaced by the SDG Government Securities Framework. The latter framework is more comprehensive, as it also guides the issuance of securities for financing the blue economy (marine economic development) and social projects to achieve the SDGs by 2030. The cumulative green sukuk issuance reached USD3.58 billion as of December 2021, comprising USD2.75 billion from global issuance and USD830 million (IDR 11.86 trillion) from retail issuance. In addition to Green Bond and Green Sukuk, Indonesia also receives international support through multilateral channels (e.g., Global Environment Facility, Green Climate Fund, REDD+, Adaptation Fund, multilateral development banks), and bilateral channels (e.g., UK, Norway, Japan, and others).

Table: List of green sukuk issued by the Government of Indonesia

	1st Global Green Sukuk	2nd Global Green Sukuk	1st Retail Green Sukuk	3rd Global Green Sukuk	2nd Retail Green Sukuk	3rd Retail Green Sukuk
Time of issuance	Mar 2018	Feb 2019	Nov 2019	Jun 2020	Nov 2020	Nov 2021
Amount issued	USD1.25 billion	USD750 million	IDR 1.5 trillion	USD750 million	IDR 5.4 trillion	IDR 5 trillion
Tenor	5 years	5 years	2 years	5 years	2 years	2 years
Use of proceeds	Energy, buildings, transport, waste, Land use, adaptation and resilience		Resilience	Transport, waste and resilience	Transport and water	Transport and resilience

Source: Ministry of Finance.

These frameworks lay down key rules governing: (i) the use of the proceeds; (ii) the project evaluation and selection process; (iii) the management of the proceeds; and (iv) reporting requirements. First, the current framework stipulates that the proceeds of green securities will be used to finance and/or refinance 10 eligible sectors.[2] Second, under the project evaluation and selection process, the framework sets out eligible expenditure items that are in accordance with the existing CBT mechanism, as discussed in CRPFM-2. Third, the proceeds will be credited to a designated account of the relevant ministries for funding exclusive projects as previously defined. The allocation of proceeds is managed by MOF. Finally, MOF will prepare and publish an annual report that covers both allocation and impact reporting. The annual reports between 2019 and 2021 have been made available to the public[3] and they specify: (i) the list of projects; (ii) amounts of the proceeds allocated to such projects; and (iii) an estimation of the environmental impacts. The Government also engages an independent third party to provide assurance on its annual reporting and the compliance of green securities issued with the legal framework.

Source: PEFA CRPFM assessment report for Indonesia (2022)

Box 24: Quantifying fiscal risks from climate change in Georgia

Georgia is setting new and high standards for climate change fiscal risk analysis, and fiscal reporting as the government prepares quantitative estimates of the long-term economic effects and fiscal risks of climate change. In a 2022 report "Updating the Balance Sheet and Quantifying Fiscal Risks from Climate Change", supported by technical assistance from the IMF, the Georgian Ministry of Finance analyzed the fiscal impacts of climate change from three complementary perspectives:

1. The impact of increasing average temperatures on the economy through lower productivity.
2. The fiscal costs of more frequent and severe natural disasters.
3. The cost of specific climate-related fiscal risks such as state-owned enterprises or public infrastructure.

Indicative analysis shows that climate change could reduce Georgia's GDP per capita by 13 percent and increase public debt by 18 percent of GDP by 2070. Public debt could plausibly reach 111 percent of GDP if the fiscal costs of more frequent and intense natural disasters are included. In contrast, a strong climate change mitigation scenario, in line with the Paris Agreement, presents a relatively benign fiscal outlook, with debt largely matching the baseline projections.

By identifying, analyzing, and reporting fiscal risks related to climate change, the Ministry of Finance in Georgia can estimate the potential economic and fiscal costs of climate change under various scenarios. Through this analysis, the Ministry is increasing the relevance of its fiscal framework and supporting well-informed policy decisions on national climate change adaptation.

Source: IMF blog Quantifying Climate Change Fiscal Risks – Georgia (imf.org)

CRPFM-8. CLIMATE-RESPONSIVE PUBLIC PROCUREMENT

WHY IT MATTERS

Public procurement management is an essential entry point for governments to make an important contribution to reducing greenhouse gas emissions and enhancing resilience. By using the public sector's purchasing power to reduce the environmental impact of their procurement, governments can generate substantive savings, create strong incentives for the private sector, drive innovation and gradually expand the scope of climate-friendly products and services available to the society at large. Mainstreaming of climate-related considerations and tools at different stages of procurement operations provides an opportunity to factor social, environmental, operating, and maintenance aspects of public procurement, creating stronger foundations for resilient public investment and asset management practices. Robust reporting can ensure the visibility of the impact of climate-related public procurement reforms.

GUIDING QUESTION

Does the government take climate change impacts into account when planning and executing procurement decisions?

DESCRIPTION

This indicator examines the extent to which climate change mitigation and adaptation measures are embedded into key aspects of procurement management. It measures the extent to which the government is prepared to purchase goods, services and works that cause minimal adverse impacts on climate change. It also evaluates resilience and responsiveness of the procurement system to climate induced risks, and responsiveness of the system to climate induced disasters. It contains four dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

8:1. Significant public spending takes place through the public procurement system. Governments can make an important contribution towards GHG emission reduction targets by using their purchasing power to choose goods, services and works with a reduced environmental impact. Climate change adaptation can also be incorporated into public procurement processes to maximize value in long-term public investments and reduce future climate-related losses to create a more resilient state. Procurement staff need proper direction and tools to ensure their acquisitions contribute to a more sustainable use of natural resources. A well-functioning climate-friendly procurement system provides this necessary guidance. It ensures that procurement decisions are based on the importance of the circular economy and climate-responsive procurement to reduce GHG emissions and improve resilience. An overview of green reforms in country procurement systems is provided in *Box 26*.

8:2. Although the indicator does not assess the significance of climate-responsive procurement in the government's total procurement, assessors may provide some quantitative figures to the extent possible.

8:3. Additional information may be found in a report using MAPS Module Sustainable Public Procurement, when available (see *Box 25*).

CRPFM-8. I. CLIMATE-RESPONSIVE PUBLIC PROCUREMENT FRAMEWORK

Key features of a climate-responsive public procurement framework include the following elements:

(1) The framework establishes clear criteria to determine what products or services count as climate responsive.
(2) It establishes the scope of procurement operations subject to climate-responsive procurement principles.
(3) It sets quantitative targets, priorities, and timeframes.
(4) There is an operational body, unit or team in charge of the development of the framework, and support to the users.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Every key element is met.
B	Elements (1), (2) and (3) are met.
C	Element (1) or Element (2) is met.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Legal and regulatory framework for procurement • Climate-related procurement framework (or green procurement framework) • Information on government procurement plans, bidding opportunities, contract awards, resolution of procurement complaints, and annual procurement statistics
DATA SOURCES	• MoF, procurement agency, or entities where the procurement monitoring has been centralized.
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-24. Procurement

DIMENSION MEASUREMENT GUIDANCE

8:1.1. Dimension CRPFM-8.1. assesses the features of the climate-responsive procurement framework. A clear transparent framework with understandable definitions, targets and priorities for climate-sensitive procurement is instrumental in helping public entities achieve environmental goals. The products, services and works prioritized for climate-responsive and green procurement should be clearly identified. An example of green public procurement legal framework is provided in *Box 27*, and an example of green public procurement institutional framework, in *Box 28*.

8:1.2. A specific body, such as a national agency, or other unit or team should be established to maintain and develop the framework, in particular by facilitating innovative procurement, and ensure that green procurement is a strategic tool shared by all budgetary units. Adoption of the framework by all staff in charge of procurement also depends on promotion, capacity-building of staff in charge of procurement, which could be implemented by a specific body responsible for climate-responsive procurement.

8:1.3. Assessors may provide information on the nature and content of the climate-responsive framework: type of procurement operations, goods, works, and services covered, sectors concerned, nature of targets and priorities, etc.

CRPFM-8.2. CLIMATE-RESPONSIVE PUBLIC PROCUREMENT OPERATIONS

Key features of climate-responsive public procurement operations include the following elements:

(1) Climate-responsive standards are used to help determine tender requirements and specifications, or award criteria.
(2) Climate-responsive criteria are included in contract performance clauses.
(3) Climate-responsive procurement examples or templates are included into framework agreements for commonly procured goods.
(4) Life-cycle costing is included as a cost element at the award stage of a procurement procedure.
(5) There are simplified procedures and templates to expedite procurement in response to climate induced disasters.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Every key element is met.
B	Every key element is met, except (4).
C	Element (1) or Element (5) is met.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Annual report on procurement • Procurement framework agreements for commonly procured goods or services (oil and gas, office cleaning, etc.) • Simplified procedures and templates
DATA SOURCES	• MoF, procurement agency, or entities where the procurement monitoring has been centralized. • Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-24. Procurement

DIMENSION MEASUREMENT GUIDANCE

8:2.1. Dimension CRPFM-8.2. assesses the extent to which the government's operating procedures, tools and instruments support green and climate-responsive procurement elements to achieve optimal value for money in the context of life-cycle analysis. If not carefully implemented, a climate sensitive procurement framework can falter on practical issues such as which procedure to use, what criteria to apply, and how to properly assess and verify environmental claims. Hence, this dimension focuses on inclusion of climate impact factors, to the maximum extent practicable for all applicable procurements, in the planning, award, and execution phases of the acquisition process. It also assesses the existence of emergency procedures which can be used in case of climate-induced disasters.

8:2.2. This dimension covers climate-induced disasters. When a country is not prone to such disasters as explained in the country climate profile, requirements assessing emergency procedures are not applicable.

8:2.3. A description of the climate-related criteria included in the tenders, or the contract, would be welcome.

8:2.4. In decentralized procurement systems this indicator can be assessed using the five central government units with the highest value of procurement commenced in the last completed fiscal year. If data to identify the central government units with the highest value of procurement are not easily obtained by the assessors, then assessors should choose the central government units with the largest annual gross expenditure that perform a substantial value of procurements. Assessors may be guided by the government in identifying the most relevant central government units but will make the final decision on which central government units to include in the assessment. The basis of choosing the central government units included in the assessment should be noted in the narrative discussion of this indicator. In other words, the data collection approach should be decided at the country level; assessors should consider issues such as sampling size, qualitative versus quantitative data, and cost-effectiveness. Details of the approach should be disclosed in the assessment report.

CRPFM-8.3. CLIMATE-RESPONSIVE PUBLIC PROCUREMENT MONITORING

Key features of climate-responsive public procurement monitoring include the following elements:

(1) The compliance of contract awards and implementation with climate-responsive specifications of tenders and contracts is verified.
(2) An operational system is in place for ensuring the compliance of emergency procedures used in case of climate-induced disasters.
(3) Procurement operations related to climate-induced disasters were compliant with emergency procedures.
(4) Procurement databases or records capture specific information on climate-responsive procurement and include emergency procurement.
(5) Procurement databases or records are complete and accurate.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Every key element is met. For (1), it is required that contract awards and implementation are compliant with climate-responsive specifications of tenders and contracts.
B	Every key element is met, except (3). For (5) it suffices that the completeness and accuracy of procurement databases or records are verified.
C	Elements (1), (2) and (4) are met.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Procurement databases or records • External or internal audit reports on procurement • Post emergency compliance reports • Climate-responsive criteria are included.
DATA SOURCES	• MoF, procurement agency, or entities where the procurement monitoring has been centralized. In decentralized systems, see the five CG units with the highest value of procurement

	• Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-24. Procurement

DIMENSION MEASUREMENT GUIDANCE

8:3.1. Dimension CRPFM-8.3. measures the extent to which climate-responsive operations are monitored. The dimension assesses both the existence of a system ensuring that climate-sensitive requirements are fulfilled by suppliers and that delivered goods and services meet the contract criteria is assessed, and the level of compliance. Similarly, emergency procedures have to comply with their own set of rules. System of monitoring, through databases or records, must provide specific information related to the climate-related specificities of the contracts.

8:3.2. This dimension covers climate-induced disasters. An example focusing on emergency procurement arising from climate-induces disaster is presented in *Box 29*. When a country is not prone to such disasters as explained in the country climate profile, requirements assessing emergency procedures are not applicable.

8:3.3. The same sample as defined in CRPFM-8.2. may be used.

CRPFM-8.4. CLIMATE-RESPONSIVE PUBLIC PROCUREMENT REPORTING

Key features of climate-responsive public procurement reporting include the following elements:

(1) A report on climate-responsive procurement, which includes statistics and refers to the targets and priorities set in the national framework, is published, and submitted to the legislature.
(2) Benefits and outcomes of climate-responsive procurement have been assessed at least once during the last three completed fiscal years.
(3) Indicators of performance for public procurement include indicators on climate-responsive procurement.
(4) A report is published on the compliance with procedures and rules requiring emergency procurement operations.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Every key element is met. For Element (4), in addition to the above requirements, the report includes an analysis of the implementation of emergency procurement operations.
B	Elements (1) and (4) are met as specified in the requirements above.
C	Elements (1) and (4) are met. For Element (1), it suffices that a statistical report on climate-responsive procurement is produced for the requirements to be met. Element (4) is met when the report is produced.
D	Performance is less than required for a C score.

COVERAGE	Central government
TIME PERIOD	Last completed fiscal year (covering the last three completed fiscal years for the assessment of the climate-responsive procurement)

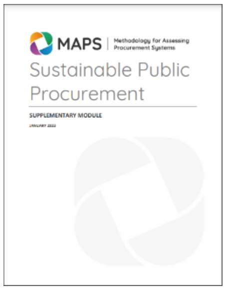
DATA REQUIREMENTS	• Report on public procurement, and/or on green public procurement • Dates of submission of the green procurement report to the legislature • Report on emergency procedures • Evaluation report on green procurement
DATA SOURCES	• MoF, procurement agency, or entities where the procurement monitoring has been centralized. In decentralized systems, see the five CG units with the highest value of procurement • SAI, internal audit units, procurement agency, agency in charge of disaster management for report on emergency procedures • SAI, internal audit units, procurement agency, agency in charge of climate change for evaluation of green procurement • Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-24. Procurement

DIMENSION MEASUREMENT GUIDANCE

8:4.1. Dimension CRPFM-8.4. assesses the reporting on climate-responsive procurement. Reports include statistical information and compare the actual results of procurement to the targets and priorities set in the framework assessed by CRPFM-8.1. At least once during the last three completed fiscal years, benefits and outcomes of the climate-responsive procurement framework are assessed. This assessment takes into account other policies of the government which might hinder the procurement framework, such as tax, customs or investment policies.

8:4.2. Statistics about emergency procurement operations should also be reported during the post-disaster phase. They should highlight the extent of compliance with procedures and rules requiring emergency procurement operations and include an analysis of the implementation of the emergency procedure. Functional analysis and feedback are key for the improvement of the system in order to better prepare for new crises in the country or elsewhere. In case there has not been any climate-related disaster in the period covered by the assessment, or when a country is not prone to climate-induced disasters as explained in the country climate profile, this part of the requirement is not applicable. For higher scores, these reports should be made available to the public.

Box 25: MAPS Module Sustainable Public Procurement (SPP)



The SPP module of the Methodology for Assessing Procurement Systems (MAPS) is intended to provide a harmonised tool for use in the assessment of SPP.

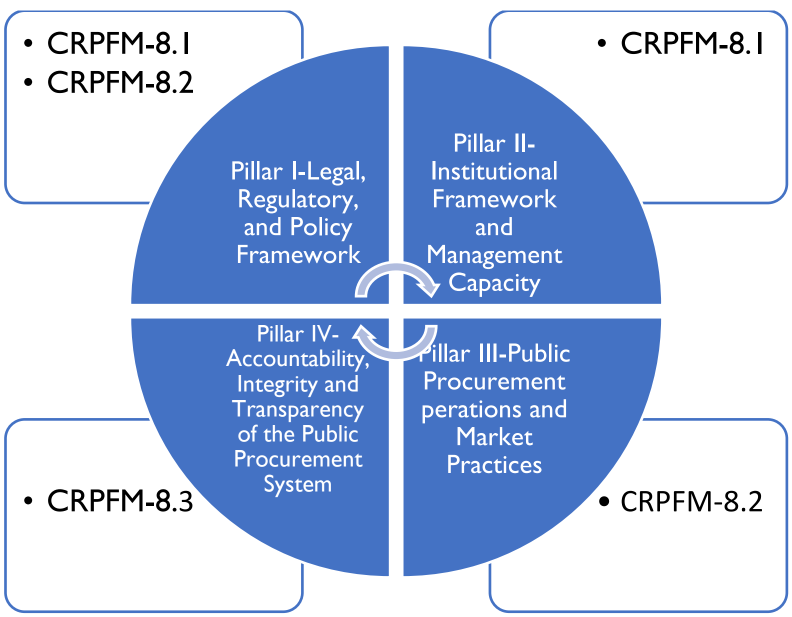
SPP is a strategic approach that promotes the integration of the three pillars of sustainable development[36], i.e., economic development, social development and environmental protection.

While it was previously a requirement for using the SPP module that it was done in conjunction with or after a core assessment, a new version of the module has been developed that can be used independent of a MAPS core assessment. Starting as a pilot phase in November 2023, this new version is now freely available to any jurisdiction for use as an independent tool or in conjunction with/after a core assessment, as appropriate.

Source: https://www.mapsinitiative.org/methodology/EN-MAPS-supplementary-module-SPP.pdf

MAPS SPP and PEFA Climate

CRPFM-8. Climate-responsive public procurement in PEFA Climate examines the extent to which climate change mitigation and adaptation measures are embedded into key aspects of procurement management: procurement framework (8.1); operations (8.2); monitoring (8.3); and reporting (8.4). While PEFA Climate provides an overview, MAPS SPP allows drilling down into specific aspects. Areas of overlaps are illustrated below.



Source: PEFA Secretariat

[36] Process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy whilst minimizing damage to the environment (Department for Environment, Food and Rural Affairs (2006): Procuring the Future: Sustainable Action Plan: Recommendations from the Sustainable Procurement Task Force. London, in: http://collections.europarchive.org/tna/20080530153425/http:/www.sustainabledevelopment.gov.uk/publications/procurement-action-plan/documents/full-document.pdf)

Box 26: Green Public Procurement – An overview of Green Reforms in Country Procurement Systems

This report provides an overview of international experience in the implementation of Green Public Procurement (GPP). It focuses on the institutional framework that is needed to support the mainstreaming of GPP practices across government. The intention is to equip practitioners with a broad understanding of the issues they need to consider in the design and implementation of GPP reforms. The report draws on a wide range of country examples. It provides links to handbooks and tools for practitioners.

Source: https://openknowledge.worldbank.org/bitstreams/5ee88e6e-a161-58b6-8126-e8a885e3acef/download

Box 27: Green Public Procurement (GPP) Framework in Japan

Success factors:

- Institutionalized legal framework for Green Procurement – "Basic Environment Act" to promote use of goods and services that help reduce environmental impacts; "Action Plan for Greening of Government Operations" that included GPP commitments and reporting requirements; and "Act on Green Purchasing" to promote Green Purchasing that required the government to establish a Basic Policy and List of designated goods.
- Availability of information about ecolabeled products.

Ministries and Agencies (Mandatory)

ARTICLE 6

The Government adopted the Basic policy for the **Promotion of Procurement of Eco-Friendly Goods and Services** (Cabinet Decision).

~ Environmental requirements on designated procurement goods etc. (e.g., Recycled paper, low emission vehicles).
~ Setting procurement targets.

ARTICLE 7

Each Organization:

~ Adopts a **Green Procurement Policy**.
~ Procures goods and services based on the Green Procurement Policy.
~ **Announces the results** of green procurement **and reports** it to the **Ministry of Environment** at the end of every fiscal year.

Local Governments and Agencies (Optional)

ARTICLE 10

Commit to adopting a green procurement policy every fiscal year and procure goods and services based on that policy.

Private Companies and Citizens

ARTICLE 5

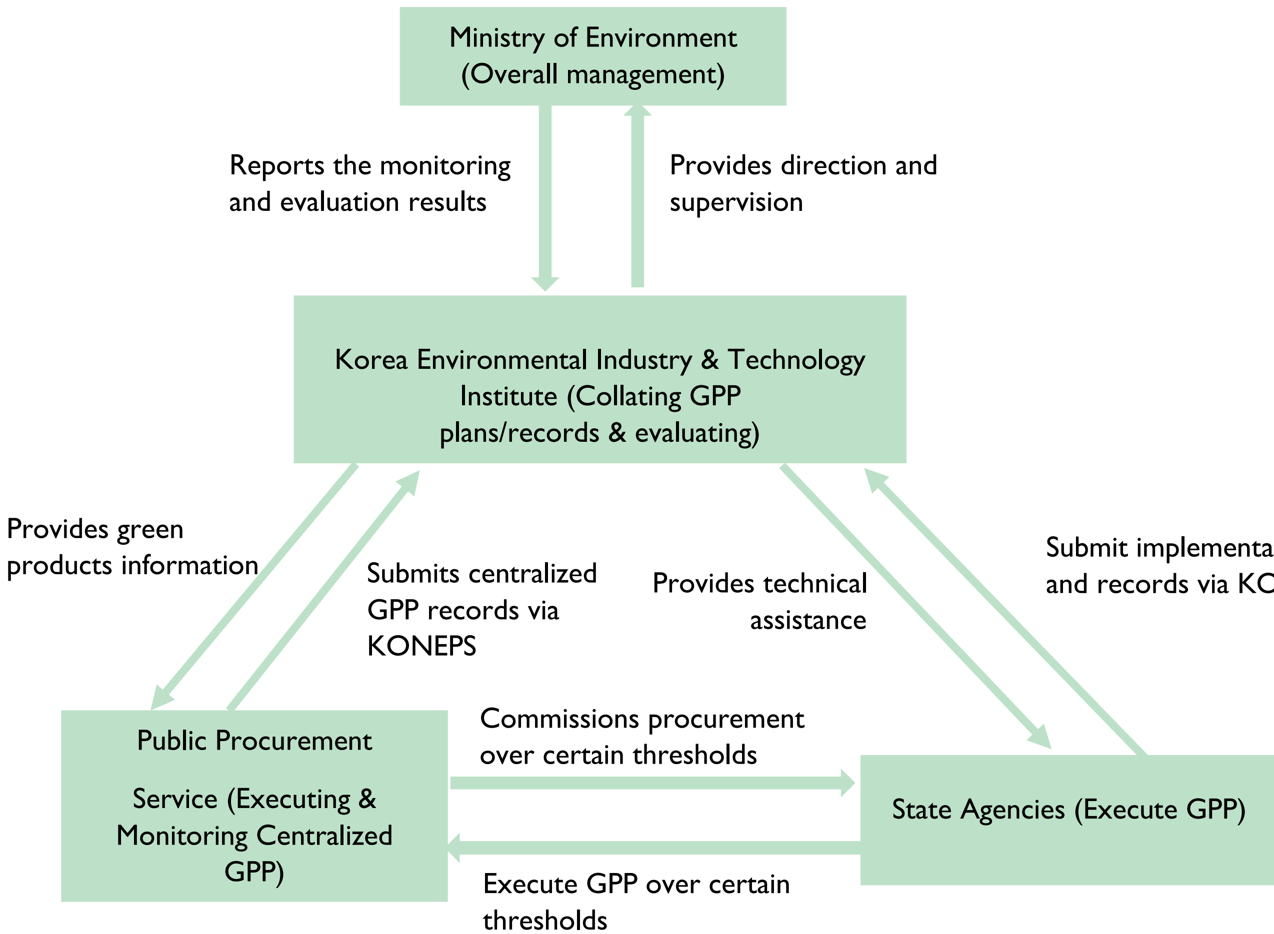
Select as many eco-friendly goods and services

Key challenges

- Implementation of GPP is not mandatory at the local level in Japan.
- There are no direct regulations for green procurement outside of the government.

Source : https://www.greenpolicyplatform.org/case-studies/sampling-successes-green-public-procurement-case-studies-green-public-procurement
Further reading: https://www.env.go.jp/en/laws/policy/green/2.pdf

Box 28: Monitoring Green Public Procurement (GPP) in Korea: Institutional Arrangements



KONEPS: Korean online e-procurement system

Source: United Nations Environment Programme (2019). Green Public Procurement in the Republic of Korea: A Decade of Progress and Lessons Learned https://wedocs.unep.org/20.500.11822/32535

Box 29: Emergency-responsive public procurement in Samoa

The legal framework for all public sector procurement in Samoa is through the: i) Public Financial Management Act (PFMA)[1] providing the overarching legislative authority for establishing the Central Tender Board; ii) Treasury Instructions[2] setting out the principles for planning and preparing procurement processes; and procurement operating manual[3] providing practical guidance to government practitioners so they comply with the PFMA and Treasury Instructions.
Neither the PFMA, the Treasury Instructions, or the operating manual establish criteria on what products or services count as being climate responsive.

However, in the case of a natural disaster, such as a cyclone, there are **provisions to enable rapid response and recovery efforts** including single source selection of suppliers. Section 105 of the Constitution authorizes the Prime Minister to proclaim a state of emergency when a threat to Samoa's economy or security emerges, which includes climate induced natural disasters. When a proclamation is made, procedures are simplified: procurement can be undertaken directly (single source), through a limited bidding method, or a framework arrangement method, to expedite procurement. The establishment of these framework/panel contracts in advance of climate-related events allows the Government to address its anticipated needs in a planned and more orderly manner.

All procurement undertaken when a state of emergency has been proclaimed is required to be initiated and completed within the period of the state of emergency. **A report on all critical procurement undertaken during such a period** must be submitted to the Central Tender Board no later than three months after the emergency. Once approved, the Procurement Division receives and enters information related to the closing date, evaluation criteria, selection panel, etc. into the procurement database. The requirement for the database is included within the Treasury Instructions.

Source: PEFA CRPFM report for Samoa (2021) https://www.pefa.org/node/5015

CRPFM-9. CLIMATE-RESPONSIVE TAX ADMINISTRATION

WHY IT MATTERS

Increasing cost of climate change efforts has led governments to look for means to mobilize additional tax revenue – including climate-related taxes - that can offset the additional costs of climate policy implementation, incentivize action in the private sector, and safeguard limited fiscal space. Where countries opted to tax on the basis of emissions, in addition to the legal framework and regulatory capacity, countries need to consider traditional tax administration measures in terms of registration, compliance, and enforcement.

GUIDING QUESTION

Are climate change mitigation and adaptation objectives supported by tax administration systems?

DESCRIPTION

This indicator measures the government's capacity to implement tax policies aimed at reducing GHG emissions and increase resilience. It also evaluates the extent to which climate tax collection generates arrears. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

9:1. This indicator measures both the management, control and audit and the arrears of climate-related tax. Additional analysis on climate responsiveness of revenue mobilization is provided in other indicators.

- The alignment of the tax policy with climate change strategies is covered by CRPFM-1. Budget alignment with climate change strategies.
- The evaluation of the impact of the whole fiscal policy on climate change is assessed by CRPFM-13. Climate-related evaluation
- CRPFM-4. Legislative scrutiny assesses the extent to which the legislature takes this impact into consideration when scrutinizing the budget.

9:2. Climate-related taxes are part of the environmental taxes, defined as taxes whose tax base is a physical unit (or a proxy of it) that has a proven specific negative impact on the environment. They include carbon tax (see example in *Box 30*), energy tax, emission tax, border carbon adjustments. Other environmental taxes (on waste, water, non-climate-related chemical pollutants) are not covered by this indicator.

9:3. The report may comment on the extent to which the legal and regulatory framework of tax administration includes provisions for taxing GHG emitters.

9:4. Tax expenditures are excluded from the scope of this indicator. They are captured by CRPFM-1. Budget alignment with climate change strategies (Elements 5 and 6); CRPFM-2. Tracking climate-related expenditure (Element 7); and CRPFM-13.2. Climate-related evaluation of tax.

9:5. When there are no climate-related taxes that meet definition set in 9:2, this indicator is NA.

CRPFM-9.1. CLIMATE-RELATED TAX MANAGEMENT, AUDIT, AND INVESTIGATION

Key features of a climate-responsive system for tax management, audit, and investigation include the following elements:

(1) Compliance risk of climate-related taxes is assessed and prioritized using a structured and systematic approach.
(2) GHG emitters are registered in a database, which is linked to the taxpayer database.
(3) The GHG emitters database is comprehensive and accurate.
(4) A documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering climate-related taxes.
(5) Planned audit and investigations have been completed as intended.
(6) Penalties for non-compliance exist and are effective.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Every key element is met.
B	Every key element is met, except (6). For Element (3), comprehensiveness and accuracy of the emitters' database are regularly controlled.
C	Elements (1), (2) and (5) are met. For Element (l), the approach may be partly structured. For Element (2), the link between databases may not be full or consistent. For Element (5), part of the planned audit and investigations have been completed.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Information on the procedures and approach used by entities collecting central government taxes to assess and prioritize compliance risks • Evidence of the accuracy and completeness of emitters database • Data on the extent to which audit and fraud investigations are managed and reported on according to a documented compliance improvement plan • The completion rate of audit and fraud investigations (i.e., a comparison of those planned and those conducted)
DATA SOURCES	• Documented risk management approach used by tax authorities to assess and prioritize compliance risks • Documented compliance improvement plan • Status reports on progress in the implementation of planned risk-mitigation activities and audit and fraud investigations • (The best information sources are the entities collecting climate change related taxes, internal audit units and SAI)
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-19 Revenue administration

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-9.1. assesses the extent to which agencies in charge of collecting climate-related taxes ensure the compliance of the system.

9:1.1. **Element 1**. Element 1 is met when a structured and systematic approach is used for assessing and prioritizing compliance risks pertaining to climate-related taxes.

- Compliance risks relate to revenue that may be lost if payers fail to meet the four main tax obligations areas, including: (i) registration; (ii) timely filing of declarations; (iii) payment of liabilities on time; and (iv) complete and accurate reporting of information in declarations.
- A 'structured and systematic approach' means an approach which has clearly documented procedures and steps, is methodical and regularly repeatable.
- Assessors should consider the use of risk management process in registration, filing, payment, and refunds of climate-related tax and customs payments. They should comment on the efficiency of these processes.
- Assessors will also look into the mitigation measures in place (audits and investigations are covered by Element 5).

9:1:2. **Element 2**. Element 2 is met when GHG emitters are registered in a database.

- In case of an emission-based tax, emitters should be registered in a database linked to the taxpayer database.
- The element is considered met when the taxpayer database includes emitters when they are specifically identified as such.

9:1.3. **Element 3**. Element 3 is met when the GHG emitters database is comprehensive and accurate.

- For this Element, the expression 'comprehensive and accurate' means 'as identified' by third party assurance, e.g., auditors, including SAIs, etc.

9:1:4. **Element 4.** Element 4 is met when there is a documented compliance improvement plan that comprises mitigation activities in respect of identified high risks covering climate-related taxes.

- A compliance improvement plan is a high-level plan that describes in a single document the most significant compliance risks identified in the tax system and the actions the tax administration intends to take to mitigate those risks. Compliance improvement plans (also known as compliance management plans or programs) are commonly structured around major sources of tax and payer segments.
- If such plan exists, the narrative should note the climate-related tax and tax payers covered by the planned mitigation measures and which of the four main obligation areas (see 9:1.1) are included.

9:1.5. **Element 5**. Element 5 is met when planned audit and investigations have been completed as intended. Collecting agencies should implement a program of audits and investigation, on the basis of a documented compliance improvement plan (assessed in Element 4).

- The report narrative should identify to what extent the compliance improvement plan for the most recent completed fiscal year is actually implemented as planned.
- It should also explain whether the information on execution of the planned audits and investigations is easily accessible (including completion rates: planned versus conducted).

9:1.6. **Element 6**. Element 6 is met when penalties for non-compliance exist and are effective.

- For this Element, penalties are 'effective' means that they are set sufficiently high to act as deterrence and are consistently administered.

- If penalties for non-compliance exist but there is no evidence of their effectiveness, the element is not met.

CRPFM-9.2. CLIMATE-RELATED TAX ARREARS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The stock of total climate-related tax arrears at the end of the last completed fiscal year is below 10 percent of the total climate-related tax arrears collection for the year.
B	The stock of total climate-related tax arrears at the end of the last completed fiscal year is below 20 percent of the total climate-related tax arrears collection for the year.
C	The stock of total climate-related tax arrears at the end of the last completed fiscal year is below 40 percent of the total climate-related tax arrears collection for the year.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• The stock of tax arrears at the end of the last completed fiscal year. • The total tax collection for the same year.
DATA SOURCES	• Tax collection authority records such as a documented report on (i) the stock of tax arrears; (ii) collection of climate-related taxes
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-19 Revenue administration

DIMENSION MEASUREMENT GUIDANCE

9:2.1. Dimension CRPFM-9.2. assesses the extent of proper management of climate-related tax arrears within the tax entity by focusing on the level of tax arrears. Among other factors, effectiveness of the climate tax depends on the ability of the tax agency to collect the taxes that are due. A proper management of arrears will ensure that tax administrations maximize their collection before they become uncollectable, and that the system can hardly be bypassed. Furthermore, the annual level of climate-related tax arrears gives an indication of the effectiveness of the collection.

9:2.2. For this dimension tax arrears are the total amount, including interest and payment, that is overdue from climate tax revenue payers, i.e., that has not been paid to the tax-collecting entity or other authorized body by the statutory due date for payment. The total amount of arrears excludes late payments of withholding taxes or presumptive taxes that are paid in advance of the final tax assessment.

9:2.3. Assessors should note in the narrative the extent to which arrears include amounts that are considered by the government to be 'not collectible' but not yet written off as well as arrears of collections awaiting adjudication (from appeals of tax assessments).

9:2.4. The comparison with the average level of revenue arrears as calculated by dimension PI-19.4 of the PEFA framework may give an indication on the extent to which the management of climates related taxes is comparable to the management of the other taxes.

Box 30: Tangible CO2 reductions in Chile from carbon tax

The implementation of the carbon tax has involved the establishment of various associated laws, regulations and protocols. Chile has operationalised the carbon tax through a number of steps, including: i) the identification of establishments subject to taxation; ii) the quantification of emissions; iii) emissions declaration; iv) emissions consolidation; v) tax calculation and payment; and lastly, vi) payment prorating by the National Electricity Coordinator. In addition to these steps, the government has secured the establishment of a solid Measurement, Reporting and Verification (MRV) system for the green taxes and built capacity and knowledge throughout these processes. The case of Chile´s carbon tax constitutes a good practice as a result of several factors. The strong political buy-in by the government has ensured the successful implementation of the carbon tax. National capacities have been strengthened by involving multiple public actors in the development of the tax system and through international support. Furthermore, the process has been characterised by strong stakeholder involvement, e.g., by involving the private sector throughout the development of necessary regulations and laws

Preliminary estimations of the influence of the carbon tax on the reduction of global CO2 emissions point to first impacts. The first biennial update report by Chile (see MMA, 2014a) mentions a study from the Pontificia Universidad Católica de Chile, that indicates emission reductions of 3 million tons of CO2 (6% of the total) by 2020 and 6 million by 2030 (11% of the total). Another study mentioned in the report indicates an accumulated reduction potential of 59 million tons over the period 2017-2030 (CCG-UC, 2014). Institutions such as the OECD and the PMR nevertheless recommend that Chile further increases the carbon tax to have an even more tangible impact on GHG emissions.

Source: CHILE'S CARBON TAX: AN AMBITIOUS STEP TOWARDS ENVIRONMENTALLY FRIENDLY POLICIES AND SIGNIFICANT GREENHOUSE GAS EMISSION REDUCTIONS, 2019

CRPFM-10. COMPLIANCE OF CLIMATE-RELATED EXPENDITURE

WHY IT MATTERS

Internal control and audit are vital for obtaining reasonable assurance that climate-related expenditure is used efficiently and effectively, in compliance with applicable rules and for the intended purpose. Well-functioning internal control and audit over regular and emergency spending alike can minimize leakage, prevent wasteful spending, and act as a powerful deterrent to fraud. In turn, the government's ability to effectively audit or investigate irregularities and fraud demonstrates its commitment to ensuring its financial interests are protected and climate-related expenditure is used to fund policy objectives.

Broad coverage of such systems is important as it allows the auditors and investigators to follow climate-related spending, whether it is executed through the budget or transferred to other operators charged with climate policy implementation.

GUIDING QUESTION

Has the government put in place a system to assess the compliance of expenditure with climate-related criteria?

DESCRIPTION

This indicator measures the extent to which efficient control systems are in place to verify the compliance of payments with climate change criteria. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

10:1. For this indicator, an 'effective' system or mechanism means 'in place and performing as intended' as identified by a third-party assurance – i.e., external auditors such as SAIs, internal auditors, etc.

10:2. When there is no definition nor methodology in place to define climate-related expenditure, as assessed in CRPFM-2. Tracking climate-related expenditure, assessors may use the same proxy as in CRPFM-2. (see clarification 2:1.1).

10:3. Assessors may cross check amounts with those assessed in CRPFM-14. Expenditure outturn for climate actions.

10:4. Reference to systems in place at SNG level, for extra budgetary units and public corporations are covered under CRPFM-11. and CRPFM-5. respectively.

CRPFM-10.1. EFFECTIVENESS OF THE SYSTEM OF CONTROLS

Key features of the system of controls of climate-related expenditure include the following elements:

(1) the system of controls is defined in the legal or regulatory framework
(2) controls are performed at the commitment and/or payment stage
(3) controls cover regular and emergency payments
(4) the system of controls was audited at least once during the last three completed fiscal years
(5) the system of controls is effective

A	Every key element is met. Controls are performed at the commitment and payment stages.
B	Every key element is met. Controls are performed at least at payment stage. Audit of the system is partial.
C	Element 1 is met. Controls are performed at least at payment stage. Controls cover either regular or emergency payments. Evidence shows that the control system is partially effective.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year, looking at the last three completed fiscal years for Element 4
DATA REQUIREMENTS	• Data on climate-related transactions • Prescribed budget execution procedures, regulations or rules and payment procedures • Information on commitment controls and associated compliance and assurance arrangements • Evidence that procedures are complied with • Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.
DATA SOURCES	• MoF • Treasury • Accountant General • Inspection units • Heads and finance officers of major budgetary units • Budget directorate • Accounting directorate • Treasury • Oversight body • Internal audit • Regulations and guidance on accounting and payment processing • Information system
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-25. Internal controls on non-salary expenditure

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-10.1. assesses the extent to which the system of ex-ante control in place ensures that climate-related transactions are compliant with their intent. Regular internal or external audit provides assurance on the effectiveness of the control system. An example is provided in *Box 31*.

10:1.1. For this dimension, climate-related expenditure cover subsidies to households, earmarked transfers to extra budgetary units and subnational governments, subsidies to private sector, expenditure resulting from climate-related investment, green procurement.

10:1.2. When PEFA Climate is undertaken at the same time as PEFA 2016, assessors will cross reference the performance assessment of PI-25.2 and PI-25.3 from PEFA 2016 framework.

10:1.3. To evaluate this dimension, assessors should refer to the procedures, information management system, the Treasury department records, or any other records of the MoF or line ministries.

10:1.4. A sampling approach can be applied, using the three major budgetary units[37] implementing climate change actions as measured by gross expenditure in the last completed fiscal year.

10:1.5. If data is not available or is decentralized, assessors could rely on internal or external audit reports or any other studies which could provide the best available estimates.

CRPFM-10.2. AUDIT OF THE COMPLIANCE OF PAYMENTS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Audits and fraud investigations are conducted for the ***majority of*** climate-related payments to ascertain that public monies have been used for the stated climate objectives. They include access to information on the use of climate-related monies by receiving entities. There is an effective mechanism for recovering undue transactions.
B	Audits and fraud investigations are conducted for ***some*** climate-related payments to ascertain that public monies have been used for the stated climate objectives. They include access to information on the use of climate-related monies by receiving entities. There is a mechanism for recovering undue transactions.
C	Audits and fraud investigations are conducted for climate-related payments to ascertain that public monies have been used for the stated climate objectives, but their coverage is partial.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Audit reports (internal or external) • Fraud investigations reports
DATA SOURCES	• Accountant General • Treasury • Internal audit • Inspection units • SAI • Any other oversight body
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-25. Internal controls on non-salary expenditure

[37] The sample should be consistent with information provided in the Questionnaire – 9.a (*Which sectors and institutions are involved in the implementation of the national climate change strategies and policies?*).

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-10.2. assesses the extent to which there is a system of control of the use of public monies after payments have been processed. Audits and fraud investigations are crucial to ensure that monies have been used for their climate-related purpose. An example is provided in *Box 32*.

10:2.1. This system covers payments made by BCG to all operators in charge of implementing climate change policies (see *Box 2)*, i.e., monies received by such entities. Thus, assessors will explain in the narrative whether: (i) there is a system in place for SNGs, extra budgetary units and public corporations to report back to the budgetary central government against the use of monies allocated by transfers - or refer to CRPFM-11. and CRPFM-5. respectively; and (ii) entities in charge of audits and fraud investigations have access to information on the use of such monies.

10:2.2. For this dimension:

- "The majority" refers to 50 percent or more (by value, compared to the total amount of corresponding climate-related funds transferred to such entities)
- "Some" refers to 25 percent or more (by value, compared to the total amount of corresponding climate-related funds transferred to such entities).

Box 31: Ex-ante controls for regular and emergency expenditures in Indonesia

Climate-related expenditures are processed in the same way and subject to the same rules as other types of transactions. Commitment controls are in place at the spending unit level. Government regulation[38] gives detailed explanations and implementation guidelines, including the roles and responsibilities of budget holders, commitment makers, payment verification staff, treasurers, and accounting staff in each ministry. The regulation also describes the authorization and approval procedures to be followed by the line ministries to process payments. With the FMIS, commitments are recorded in the system before the expenditure is incurred, ensuring adherence to the budget ceiling, reducing the time lags in processing payments and revising budgets, and allowing the strict maintenance of an electronic trail of all modifications to source data. Payment verification staff verify all requests for payment to ensure documentation completeness, budget availability, and compliance with contracts and calculations.

When there is an emergency situation, the National Disaster Management Agency uses a regulation[39] which specifically covers disaster recovery budget implementation. Emergency transactions are processed or implemented in the same way as other transactions in general (as described above), but there is flexibility in the amount of the advance requested and its period of accountability submission.

Source: PEFA CRPFM assessment report Indonesia (2022)

[38] No. 45/2013 and Minister of Finance Regulation PMK No. 190/2012, which has been further refined through PMK No. 178/PMK.05/2018
[39] PMK 105/2013 (refined through PMK 173/2019)

Box 32: Multiple sources of assurance over climate-related budget spending and SNG transfers in Kenya

The internal audit departments across Ministries, Departments and Agencies (MDAs) conduct audits and investigations to ensure that monies have been spent for their intended purpose including monies intended for climate-related programmes. For FY2020/2021, all budgeted central government entities in charge of implementing climate policies adhere to laid out procedures on climate-related expenditure. Some of the climate programmes, like Financing Locally Led Climate Action (FLLoCA), have rigorous criteria that implementing agencies have to adhere to before they can receive transfers from the National Treasury. Transfers for some programmes apply results-based financing. All Counties and MDAs report to the National Treasury how they used monies allocated through conditional transfers including for climate change.

On its part the Office of the Controller of the Budget (OCoB), an independent office established by Article 228 of the Constitution of Kenya, oversees implementation of the budgets for both National and County Governments by authorizing withdrawal from public funds. The OCoB is expected not to approve any withdrawal from a public fund unless satisfied that the withdrawal is authorized by law. The OCoB prepares and submits to parliament a report on the implementation of the budgets of the national and county governments after every four months.

The Office of the Auditor General (OAG) also conducts annual financial, compliance audit, and fraud investigations on the use of public funds, including climate finance even though this may not cover all public entities in a particular fiscal year, largely due to inadequate funding of OAG.

Source: PEFA CRPFM assessment report for Kenya (2022) https://www.pefa.org/node/5187

CRPFM-11. CLIMATE-RESPONSIVE FISCAL DECENTRALIZATION

WHY IT MATTERS

Subnational governments play a crucial role in climate change adaptation and mitigation policies, overseeing activities like urban transportation, land management, housing, and infrastructure building. In some countries, SNGs are also on the frontline of disaster response and are charged with investing in climate adaptation. Therefore, decentralization arrangements are an opportunity to facilitate climate-friendly local initiatives by enabling them to access necessary resources (transfers, local taxes, bonds). Furthermore, SNGs are a major user of public procurement and public investment.

GUIDING QUESTIONS

How does the PFM system enable the subnational governments to contribute to the climate change mitigation and adaptation strategy?

DESCRIPTION

This indicator measures the extent to which fiscal decentralization arrangements factor climate change and facilitate local climate policies conducted by subnational governments (SNGs), ensuring a vertical integration of climate change objectives. It contains three dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

11:1. Subnational governments are a key stakeholder in the implementation of climate change adaptation and mitigation policies. The report may comment[40] on the level of decentralization of the implementation of the country's climate change strategies and policies, using the responses to the Inception Questionnaire – Section 3 – Question 18.

11:2. The coverage of this dimension is CG and the subnational governments with direct financial relationships with CG. The scope of the category of "subnational government", as used in PEFA, is based on the classification structure developed by the International Monetary Fund (IMF) for Government Finance Statistics (GFS)[41]. GFS identifies "state" and 'local' government units both of which are covered by the term "subnational government" in PEFA. State and local governments have fiscal, legislative and administrative authority over a geographical area that is smaller than the respective central government. They have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. However, the right to borrow is not a requirement for treatment as an SNG in PEFA.

11:3. Deconcentrated units of central government are not considered to be SNGs. Such units perform functions under direction from a central authority but do not have powers to raise or spend funds on their own initiative. Deconcentrated units should be included in the assessment of the tier of government that has authority over and responsibility for their activities. This will typically be the CG but may be the state government in states that cover large areas and have diverse responsibilities.

11:4. Two examples of climate-responsive fiscal decentralization are presented in *Box 33* and *Box 34*.

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[40] If not already done in the country's climate profile

[41] International Monetary Fund, Government Finance Statistics Manual 2014, p. 25–27, provides a detailed explanation of the characteristics of state and local governments, including when more than three tiers of government are present.

CRPFM-11.1. CLIMATE-RESPONSIVE FISCAL DECENTRALIZATION ARRANGEMENTS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation. Resources allocated to SNGs support the implementation of their competencies and mandates related to climate change. An evaluation of the implementation of these mandates and competencies has been conducted and published at least once during the last three completed fiscal years.
B	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation. Evaluation of the implementation of these mandates and competencies has been conducted at least once during the last three completed fiscal years.
C	The legal and regulatory framework clearly states the competencies and mandates of SNGs related to climate change mitigation and adaptation.
D	Performance is less than required for a C score.

COVERAGE	Central government (CG) and the subnational governments which have direct financial relationships with CG
TIME PERIOD	At time of assessment covering the last three completed fiscal years
DATA REQUIREMENTS	• Legal and regulatory framework pertaining to decentralization • Evaluation reports on decentralization
DATA SOURCES	• Legislation or rules governing transfers from CG to SNG • Legislature SAI, or agency in charge of evaluation for evaluation reports on decentralization • Annual budget documents • MoF, or specific entity in charge of subnational governments
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-7. Transfers to subnational governments

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-11.1. assesses the extent to which the fiscal decentralization arrangements take climate change into consideration.

11:1.1. The legal and regulatory framework states the mandates and competencies of SNGs regarding activities pertaining to climate change mitigation and adaptation. This provides clarity on what is implemented by CG, on one hand, and by SNGs, on the other hand. It includes the responsibilities of SNGs related to the financial management of climate-related disasters.

11:1.2. For this dimension, resources covered include both conditional and unconditional transfers from the CG, shared taxes, as well as SNG' s right to levy local taxes, or other revenue.

11:1:3. Assessors should comment on whether (i) reassignment of climate change related competencies between CG and SNG levels took place during the last three completed fiscal years; (ii) the corresponding resources were evaluated and resulted in additional transfers.

11:1.4. The way in which SNGs use their competencies and apply their mandates related to climate change should be regularly evaluated, at least once every three years. This evaluation may be independent or not, as defined in CRPFM-13. Climate-related evaluation. For this dimension, such evaluation may be conducted by the SAI, the ministry in charge of climate change, the ministry in charge of SNGs, or other agencies.

11:1.5. While this is not part of the requirements for scoring, assessors may mention in the narrative whether SNGs have conducted climate change related activities beyond the mandate devoted (under the general jurisdiction clause) and the adequacy of resources to conduct such initiatives.

CRPFM-11.2. CLIMATE-RESPONSIVE FISCAL TRANSFERS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy. SNGs report annually to central government on the use of climate-related transfers from central government. The horizontal allocation of unconditional transfers is partly based on climate-related criteria and/or in case of performance-based transfers, climate change is considered as part of the performance indicators.
B	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy. SNGs report annually to central government on the use of climate-related transfers from central government.
C	Climate change related conditional transfers are associated with objectives aligned with the national climate change strategy.
D	Performance is less than required for a C score.

COVERAGE	Central government and the subnational governments which have direct financial relationships with CG
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• List of transfers conditioned to climate-related activities • Horizontal rule-based system or other arrangements for determining the horizontal allocation of transfers to subnational governments for each type of transfer. • Reports of SNGs on the use of transfers
DATA SOURCES	• Legislation or rules governing transfers from CG to SNG • Annual budget documents • MoF, or specific entity in charge of subnational governments • Sample of subnational governments
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-7. Transfers to subnational governments

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-11.2. assesses the extent to which the transfer system from central government to subnational governments takes climate change into consideration.

11:2.1. For this dimension, "transfers" are defined as in PI-7.1. System for allocating transfers in PEFA 2016. Transfers to support subnational government's expenditure can be made in the form of unconditional grants, where their final use is determined by the subnational governments through their budgets, or through conditional (earmarked) grants to subnational governments to implement selected service delivery and expenditure responsibilities—for example, by function or program, typically in accordance with an agreed-upon regulatory or policy standard.

11:2.2. Objectives of climate change related conditional transfers should be associated with targets aligned to the national climate change strategy. Targets may be qualitative or quantitative, and concern activities, outputs or outcomes. They may be set annually, or for a multi-year period, under the general legislative or regulatory provisions on intergovernmental transfers or in separate regulation that governs specific transfers and SNGs. Evaluation of such transfers from CG to SNGs is covered by CRPFM-13.1. Climate-related evaluation of expenditure.

11:2.3. SNGs should report annually to CG on the use of climate-related transfers from CG. Tracking of climate change related expenditure incurred by SNGs is necessary to get a more complete picture of the national spending for climate change action. This entails that SNGs put in place a system to (i) track climate change related expenditure and any related required information and (ii) secure that conditional transfers and financing proceeds are used for the intended purpose, as assessed under CRPFM-10.2. Audit of the compliance of transactions.

11:2.4. Finally, climate change related criteria could be introduced in the system for the horizontal allocation of unconditional transfers as well as in the performance indicators for performance-based grants.

CRPFM-11.3. CLIMATE-RESPONSIVE PFM ARRANGEMENTS APPLIED BY SUBNATIONAL GOVERNMENTS

The fiscal decentralization arrangements satisfy the following criteria:

1. CG arrangements for tracking climate-related expenditure are applied to SNGs
2. The climate change related investment framework covers SNGs.
3. Procedures and rules for the transfer and disposal of CC sensitive non-financial assets apply to SNGs.
4. The legal or regulatory framework for climate-related debt and guarantees specifies arrangements for SNGs.
5. The climate-related procurement framework covers SNGs.

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	At least four elements are fulfilled.
B	Three elements are fulfilled.
C	Two elements are fulfilled.
D	Performance is less than required for a C score.

COVERAGE	Central government and the subnational governments which have direct financial relationships with CG
TIME PERIOD	At time of assessment
DATA REQUIREMENTS	• Public investment framework • Public procurement framework • Procedures and rules for transfer of non-financial assets
DATA SOURCES	• Unit in charge of implementing Green recovery

	• Agency in charge of climate change and/or subnational governments
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-7. Transfers to subnational governments

DIMENSION MEASUREMENT GUIDANCE

Dimension CRPFM-11.3. assesses the extent to which selected climate-responsive PFM arrangements defined at the CG level also apply to SNGs:

11:3.1 **Element 1**. Arrangements for tracking climate change related expenditure, as assessed under CRPFM-2. Tracking climate-related expenditure, are applied by SNGs. These arrangements cover both expenditures funded through transfers from CG and expenditures funded through own SNGs resources (fees, local taxes and grants from stakeholders other than the CG).

11:3.2 **Element 2**. The climate change related investment framework, as assessed under CRPFM-5. Climate-responsive public investment management, covers SNGs. An explicit legal or regulatory investment framework expresses the mitigation objectives and the adaptation requirement for investment programs and projects. It means that depending on their nature and/or importance, any public investment should be compliant with adaptation and mitigation targets. As local investments in total public investment may be significant, it is crucial that SNGs are covered by such frameworks.

11:3.3. **Element 3**. Procedures and rules for the transfer and disposal of climate change sensitive non-financial assets, as assessed under CRPFM-6.1. Climate-responsive non-financial asset management, apply to SNGs. When there is no specific arrangement for climate change sensitive non-financial assets, the score for CRPFM-6.1. is D and subsequently, Element 3 is NA. As for CRPFM-6.1., requirements apply to relevant non-financial assets (see clarification 6:1.2).

11:3.4. **Element 4**. The legal or regulatory framework for climate-responsive debt and guarantees, as assessed under CRPFM-7.2. Climate-related debt and guarantees, specifies the arrangements for SNGs. When there is no specific arrangement, the score for CRPFM-7.2. is D and subsequently, Element 4 is NA.

11:3.5. **Element 5**. The green procurement framework, as assessed under CRPFM-8.1. Climate-responsive public procurement framework covers SNGs. When there is no green procurement framework, the score for CRPFM-8.1. is D and subsequently, Element 5 is NA.

11:3.6. Scoring of this dimension will be adjusted depending on the number of elements that are applicable:

SCORE	If 4 applicable elements	If 3 applicable elements	If 2 applicable elements
A	4 criteria met	3 criteria met	2 criteria met
B	2 criteria met	2 criteria met	1 criterion met
C	1 criterion met	1 criterion met	-
D	Performance is less than required for a C score (B score when 2 elements are applicable).		

Box 33: Climate-responsive fiscal decentralization in Kenya

- **Fiscal Decentralization arrangements:** The National Climate Change Council (NCCC), chaired by the president, oversees climate change mainstreaming at national and county levels. The Act requires county governments to develop climate change policies in their County Integrated Development Plans (CIDPs) and County Sectoral Plans and establish the County Climate Change Fund (CCCF) to support climate change interventions approved by the Climate Council. Thirty-four counties, representing 72% of all counties, have established their CCCFs.

The Climate Change (Amendment) Bill, 2023 aims to mainly empower the Climate Change Council to provide policy direction on carbon markets to the national and county governments, the public, and all other stakeholders.

- **Climate-related expenditure responsibilities:** County governments are responsible for: disaster risk management (response measures to address drought, floods, and other climate-driven disasters); food and nutrition security; water and the "blue economy" (water management and implementation of national government policies on water conservation); forestry, wildlife, and tourism; health, sanitation, and human settlements; manufacturing; and energy and transport.
- **Climate-responsive fiscal transfers:** County governments receive conditional climate-related transfers from the National Treasury for various climate change projects funded by the central government or development partners. Guidelines on these transfers are provided in National Treasury circulars, which outline timelines, co-financing, reporting requirements, purpose of funds, and allocation criteria. Some of the programs supported by these transfers apply results-based financing. The national treasury among the other ministries conduct assessment on a regular basis and publish reports on performance.

Almost all climate change-related conditional transfers align with national climate change strategy and action plans. The county governments report regularly at least quarterly and annually to the national government on the use of climate-related transfers.

- **Climate-related PFM arrangements applied by SNGs:**
  - The National arrangements for tracking climate-related expenditure are the same as for county governments as for national government.
  - The climate change related investment framework covers both national and county governments.
  - The PFM arrangements, however, have their deficiencies. For example, it is not operationalized through the IFMIS and due to capacity constraints within county governments, climate change expenditures funded through own resources such as grants, local taxes and fees, and contribution in kind from stakeholders are hardly tracked.
  - There are no clear guidelines, rules and procedures for transfer and disposal of climate sensitive non-financial assets both at national county government levels.

Sources:

1. Jorge Martinez-Vazquez. 2021. Adapting Fiscal Decentralization Design to Combat Climate Change. Climate Governance Papers Series. Washington, DC: World Bank.
2. Smoke, P., and Mitchell Cook. 2022. Administrative Decentralization and Climate Change: Concepts, Experience, and Action. Climate Governance Papers Series. Washington, DC: World Bank.
3. The Climate Change (Amendment) Bill,2023
4. PEFA CRPFM Assessment for Kenya (2023) https://www.pefa.org/node/5187 .

Box 34: Climate-responsive fiscal decentralization in Nepal

- **Fiscal Decentralization framework:** Nepal's Constitution defines the mandates and competencies of SNGs in climate change mitigation and adaptation. The National Adaptation Program of Actions (NAPA) was prepared in 2010 and implemented Reducing Emission from Deforestation and Forest Degradation (REDD) in 2008. The Local Adaptation Plan of Action (LAPA) streamlines climate change strategies in all 760 SNGs (including seven province and 753 local governments).
- **Climate-responsive fiscal transfers:** Climate-related transfers for conditional grants are associated with targets set annually by the central government sectoral ministries and are aligned with the 2019 National Climate Change Policy. The policy indicates that 80 percent of climate funding should be allocated to the local level. Although there is a mechanism to track and report on the financial progress of the climate change-related conditional grants, there is no effective mechanism to track and report on the use of fiscal transfers by the sectoral ministries to the central government.

Climate-related budget allocation to SNGs has increased since FY14, reaching 33.98% of the total budget in FY23, mainly due to increased fiscal transfers and post-earthquake reconstruction.

- **Climate-responsive PFM arrangements applied by SNGs:** Building on the recommendations of the 2011 Climate Public Expenditure and Institutional Review (CPEIR), the Climate Change Financing Framework (CCFF) was also introduced to mainstream climate change in planning and budgeting at all levels of government, including for reporting and verification of climate change financing for improved accountability. The Climate Change Budget Code was introduced to the Medium-Term Expenditure Framework (MTEF) to track climate-related expenditures funded through fiscal transfers, at least up to the provincial level. This is achieved in a structured way through the PLMBIS. However, there is no effective system in place to track climate expenditures and the performance of climate change-related programs and projects SNG level.

Sources:

1. PEFA CRPFM assessment report for Nepal
2. World Bank Group. 2022. Nepal Country Climate and Development Report. CCDR Series. © World Bank, Washington, DC. http://hdl.handle.net/10986/38012 License: CC BY-NC-ND.
3. Upadhaya, B., Wijethilake, C., Adhikari, P., Jayasinghe, K., & Arun, T. (2021). Integrating climate change and livelihood within public investment policies: A cross-country assessment in South Asia (India, Nepal, and Sri Lanka).

CRPFM-12. CLIMATE-RELATED PERFORMANCE INFORMATION

WHY IT MATTERS

Inclusion of performance information within budgetary documentation is considered international good practice. It strengthens the accountability of the executive for the planned and achieved performance of government programs and services. Robust systems for capturing and reporting on planned and achieved outputs and outcomes facilitate monitoring and managerial decision-making, promoting efficiency and effectiveness of public policies.

Transparent disclosure of information on performance is an opportunity for governments to provide a basis for evidencing the link between policy and action and showcasing how public spending is contributing to achievement of the stated climate change objectives.

GUIDING QUESTIONS

Do the executive's budget proposal or supporting documentation include climate-related information on planned and actual performance of climate-related programs and services?

DESCRIPTION

This indicator measures the extent to which information on planned and achieved performance covers the climate change adaptation and mitigation policies and is included in budget documentation. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

12:1. This indicator assesses the extent to which the information on planned and achieved performance covers the climate-related programs (see example in *Box 35*). It does not assess the comprehensiveness of the performance information system but rather if this system is climate responsive.

12:2. The extent to which information on performance is detailed and comprehensive is assessed in the PEFA indicator PI-8. Dimensions 8.1 and 8.2 capture the existence of information on activities to be performed, outputs to be produced, outcomes to be achieved, and key indicators to measure performance.

12:3. As for PI-8, performance information refers to output and outcome indicators and planned or achieved results against those indicators. An output is the actual quantity of products or services produced or delivered by the relevant service (program or function). An outcome is the measurable effect, consequence, or impact of the service (or program or function) and its outputs. Activities are specific tasks or functions of service delivery or program.

12:4. As for PI-8, key performance indicators are the means for measuring planned outputs and outcomes. Output indicators measure the quantity of outputs produced or services delivered or planned. Outcome indicators measure the effects, consequences, impact of the services, and their outputs.

12:5. For countries that have not adopted formal program, performance or results-based budget systems, assessors should identify whether any information on planned and actual performance is presented separately with the budget submission and/or whether ministries with climate-related responsibilities include performance information in their annual reports.

CRPFM-12.1. CLIMATE-RELATED INFORMATION IN PERFORMANCE PLANS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Climate-related objectives, key performance indicators, outputs AND outcomes are assigned to climate-related programs and activities. Indicators are consistent with those established in the national climate change strategy/plan. Performance information is available in the budget or supporting documentation submitted to the legislature and published.
B	Climate-related objectives, key performance indicators, outputs OR outcomes are assigned to climate-related programs and activities. Performance information is available in the budget or supporting documentation submitted to the legislature and published.
C	Performance targets are assigned to climate-related programs and activities. Performance information is available in the budget or supporting documentation submitted to the legislature.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last budget submitted to the legislature
DATA REQUIREMENTS	• National climate change strategy/plan • Published performance information assigned to climate-related programs and activities: planned objectives, outputs and outcomes • Budget and supporting documentation
DATA SOURCES	• Annual budget document and/or supporting budget documentation. • Ministry budget statements and/or performance plans. • Other documents on ministry service delivery plans containing performance information
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI–8 Performance information for service delivery PI–8.1 Performance plans for service delivery

DIMENSION MEASUREMENT GUIDANCE

12:1:1. Initial efforts to mainstream climate change into planning of performance information require that programs that support climate-related adaptation and mitigation policies should be assigned with performance targets, as defined in the country context and in line with the national performance management system. For higher tiers of performance, indicators should be aligned with those established in the national climate strategies or plans (on in their absence, with the NDCs).

12:1:2. The narrative of the report may comment on climate change performance targets that are assigned to programs that are not identified as climate related.

12:1.3. Information on planned performance should be associated with budget documentation and submitted to the legislature, as assessed in CRPFM-4.1. Legislative scrutiny of the budget – Element 2.

12:1.4. When there is no program budgeting, assessors should describe the links between the performance plans and the budgets of agencies in charge of those policies. For example, a subsidy for insulating public housing may be assigned with a planned output of number of housing units covered while its outcomes would be the decrease of energy consumption and the consequent reduction of GHG emissions. The budget of an agency in charge of enforcing the gas emissions of motor vehicles may have a planned output of number of controls.

CRPFM-12.2. CLIMATE-RELATED INFORMATION IN PERFORMANCE REPORTS

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Climate-related achieved outcomes AND produced outputs are reported for climate-related programs and activities. Performance is reported against indicators that are consistent with those established in the national climate change strategy/plan. Reports are submitted to the legislature and published.
B	Climate-related achieved outcomes OR produced outputs are reported for climate-related programs and activities. Reports are submitted to the legislature and published.
C	Achieved performance is reported for climate-related programs and activities. Reports are submitted to the legislature.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last completed fiscal year
DATA REQUIREMENTS	• Published information on actual quantity of outputs produced or delivered, and evidence of measurable progress on outcomes, associated with the programs or services delivered by each ministry for the last completed fiscal year • Published information on activities performed in relation to service delivery that are undertaken by each ministry for the last completed fiscal year.
DATA SOURCES	• Annual budget document and/or supporting budget documentation. • Ministry budget statements and/or performance plans. • Other documents on ministry service delivery plans containing performance information
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI–8 Performance information for service delivery PI–8.2 Performance achieved for service delivery

DIMENSION MEASUREMENT GUIDANCE

12:2:1. Initial efforts to mainstream climate change into reporting of performance information require that performance achieved against the targets referred to in 12:1.1 should be reported.

12:2.2. Information on achieved performance should be associated with reporting and submitted to the legislature, as assessed in CRPFM-4.2. Legislative scrutiny of audit and evaluation reports – Element 3.

12:2.3. When there is no program budgeting, assessors should describe the links between the performance reports and the budget execution reports of agencies in charge of those policies.

Box 35: Climate-related performance information in Ethiopia

As the federal government has adopted and is using program budgeting, the information is disaggregated by program which contain performance indicators. The legislation requires the MoF to prepare and submits a consolidated performance indicator framework, which is known as 'Volume 2' of the federal government budget to the House of Peoples Representatives (HopR), as part of the budget submission documents.

For ministries, which have climate-related responsibilities, such as the Ministry of Agriculture (MoA) Ethiopian Institute of Agricultural Research (EIAR), some indicators in their performance plans are directly related to objectives NDC for renewable energy targets. For instance, some performance indicators of the Ministry of Agriculture, such as:

- Number of community watersheds with development plan,
- Areas of land covered with soil and water conservation technologies,
- Area of land protected for rehabilitation,
- Number of household heads issued second level of land certification,
- Area of land conserved by small-scale irrigation scheme,
- Number of woreda with soil map

are related to the Natural Resources Conservation and Utilization (Watershed development, Rural land use and administration, Small-scale irrigation development, Soil fertility management)[1].

The performance report presents other indicators, such as:

- *Food Security, Disaster Prevention and Preparedness*
- *Strategic food reserves*
- *Ensuring food security*
- *Employment opportunity*

Source: PEFA CRPFM assessment report for Ethiopia https://www.pefa.org/node/5208

CRPFM-13. CLIMATE-RELATED EVALUATION

WHY IT MATTERS

Governments that mobilize and spend resources to fight climate change effects, can increasingly benefit from objective insights into performance of their measures and how they relate to climate adaptation and mitigation objectives. Beyond fostering ownership, accountability and transparency, evaluation of climate-related interventions provides insights that can serve to steer policy choices and strengthen the basis for decisions on allocations.

Performance audit covering SDGs, climate change and environment that are carried out by SAIs can also provide independent, evidence-based perspective on government's efficiency, effectiveness, and outcomes of climate change policy implementation.

Depending on the level of ambition and resources, the range and depth of performance audits and evaluations can vary from individual climate-related projects or programs to broader considerations of policy coherence and its impacts.

GUIDING QUESTIONS

Does the government carry out evaluations of its expenditure and tax climate-related measures?

DESCRIPTION

This indicator measures the existence of an evaluation of the climate change related programs as well as the inclusion of climate change in the evaluation of other programs. It covers both expenditure and taxes. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

13:1. For this indicator, independent evaluations are those undertaken by a body that is separate from, and not subordinate to, the body that delivers the service. It could be a part of the same unit that has a separate reporting line to the CEO, or a senior management committee. For example, it could be a department with specific responsibilities for independent evaluation or review across the unit, including an internal audit department. Regular or periodic spending reviews with relevant objectives and scope related to climate change policy implementation qualify for the purpose of this indicator. The narrative should describe the body in charge of the evaluation, in particular the extent to which it has developed the necessary technical skills to conduct climate-related evaluations.

13:2. Supreme Audit Institutions play an important role as an external oversight body in auditing climate-responsive engagement. Performance audits carried out by the government's external auditor, and covering climate policy implementation (including audit of climate-relevant SDGs), qualify as independent evaluations for the purpose of this indicator. Role of SAIs is referred to in *Box 36* with examples provided in *Box 38* and *Box 39*.

13:3. Reports resulting from climate-related evaluation may be used for the scrutiny of the performance of climate change programs or activities, as assessed in CRPFM-4.2. Legislative scrutiny of audit and evaluation reports – Element 3. *Box 37* provides an example of the relevance of monitoring, evaluation, and learning from climate risk management.

CRPFM-13.1. CLIMATE-RELATED EVALUATION OF EXPENDITURE

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Independent evaluation of climate-related programs and activities has been carried out and published at least once in the last three years. Evaluation of programs and activities indirectly contributing to climate change adaptation and mitigation, including those that undermine climate policy objectives, have included a part devoted to impact on climate.
B	Evaluation of climate-related programs and activities has been carried out and published at least once in the last three years.
C	Evaluation of climate-related programs and activities has been carried out at least once in the last three years.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last three completed fiscal years
DATA REQUIREMENTS	For each ministry devoting expenditure on climate change or whose activity impacts climate change, information on the number and coverage of: • Evaluation reports • Performance audit reports • Functional reviews • Internal audit reports
DATA SOURCES	• Line ministries and departments • Agency in charge of climate change • SAI and/or agency in charge of evaluation • Internal audit department • MoF
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-8.4 Performance evaluation for service delivery

DIMENSION MEASUREMENT GUIDANCE

13:1.1. Dimension CRPFM-13.1. assesses the extent to which the design of climate-related public policies is assessed through evaluations. It also assesses whether the impact on climate of programs and activities which contribute indirectly to CC objectives is evaluated. These programs and activities belong to the sectors as identified in the Inception Questionnaire and referred to in the country context in CRPFM-1. Budget alignment with climate change strategies.

13:1.2. This dimension covers evaluations of investment projects. They can be part of the evaluation of a program or specific to an investment project.

13:1.3. This dimension also covers programs and activities that undermine climate policy objectives, such as subsidy payments for fossil fuel use. Those payments can directly or indirectly subsidize the consumption of fossil fuel (e.g., conversion premiums to switch cars which are also open to ICE vehicles).

CRPFM-13.2. CLIMATE-RELATED EVALUATION OF TAXES

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Independent evaluation of the contribution of tax policy to climate change has been carried out and published at least once in the last three years. It includes both the climate-related taxes and the taxes that are likely to undermine climate policy goals.
B	Partial evaluation of the contribution of tax policy to climate change has been carried out and published at least once in the last three years. It includes the climate-related taxes and the main taxes that are likely to undermine climate policy goals.
C	Partial evaluation of the contribution of tax policy to climate change has been carried out at least once in the last three years. It includes the climate-related taxes or the main taxes that are likely to undermine climate policy goals.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last three completed fiscal years
DATA REQUIREMENTS	• Evaluation reports on tax policy • Evaluation reports on climate change related taxes • Evaluation reports on tax expenditure
DATA SOURCES	• Line ministries and departments • Agency in charge of climate change • SAI and/or agency in charge of evaluation • Internal audit department • MoF, and/or tax agency
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-8.4 Performance evaluation for service delivery

DIMENSION MEASUREMENT GUIDANCE

13:2.1. Dimension CRPFM-13.2. assesses the extent to which tax policy can contribute to tackle climate change. Tax policies can have a major impact on climate. Climate-related taxes, such as carbon taxes, by increasing the cost of carbon products create incentives for producers and consumers to modify their energy consumption to lower-carbon energy sources. However, other tax policies, such as tax exemption for certain types of oil products or differentiated taxations, have an opposite effect. Sometimes such climate harmful tax policies are applied alongside carbon taxes. Therefore, it is crucial that the government carries out an evaluation of the contribution to climate of its tax policy as a whole.

13:2.2. When climate-related taxes are allocated to cover climate-related activities, assessors should verify that the use of these resources is also evaluated.

Box 36: Role of Supreme Audit Institutions in combatting climate change

Independent external audit is an essential requirement for ensuring accountability and transparency in the use of public funds. With the mandate to provide independent external oversight and report on the economy, efficiency, and effectiveness of public policies, SAIs are uniquely placed to examine government efforts to implement internationally or nationally agreed targets related to climate change. SAIs may include climate change as a cross-cutting theme; conduct audits of entities, projects, programs, and activities related to climate change; or audit a nation's progress toward outcome-based targets using a whole-of-government approach, as in the case of the SDGs.

SAI conclusions and recommendations contribute to strengthening accountability, transparency, and impact related to climate change. The audit reports related to climate change add value by providing insights and information to a wide variety of stakeholders at the national and international levels, for example, citizens, legislatures, civil society (including climate advocacy groups), and development partners. SAIs contribute to strengthening the impact on climate change goals when the audit recommendations are accepted and implemented by those charged with governance.

The INTOSAI Working Group on Environmental Auditing (WGEA) supports SAIs in their audit activities in the environmental and climate policy fields. As part of its activities, the INTOSAI WGEA develops audit approaches[42] and provides training and a platform for exchange of information among peers[43].

INTOSAI Development Initiative (IDI), mandated to support SAIs in developing countries, and INTOSAI WGEA agreed to cooperate in facilitating a global audit of climate change adaptation actions[44].

Sources:

- PEFA Secretariat
- INTOSAI Working Group on Environmental Auditing
- INTOSAI Development Initiative

[42] https://www.environmental-auditing.org/publications/studies-guidelines/
[43] https://www.environmental-auditing.org/audit-database/
[44] https://www.idi.no/work-streams/relevant-sais/ccaa

Box 37: Relevance of monitoring, evaluation, and learning for climate risk management

As countries are identifying, developing and implementing interventions (e.g., strategies, policies, plans and programmes) on climate resilience and other development agendas, it is also important to establish mechanisms that facilitate assessments of progress made, impacts achieved, and lessons learned. Effective monitoring, evaluation, and learning (MEL) frameworks support governments and development co-operation in improving decision making under various uncertainties presented by climate change.

Below presents examples of possible questions relevant to MEL for climate risk management interventions.

- Does the intervention achieve its climate risk management objectives and contribute to strengthened climate resilience?
- Have the resources been used in a cost-effective manner?
- Do the net benefits of the intervention continue over time and is maladaptation avoided?
- To what extent is a given climate risk management intervention aligned with the objectives of the Paris Agreement, the Sendai Framework and, ultimately, Agenda 2030?
- Does the intervention support the implementation of the National Adaptation Planning process and Nationally Determined Contributions?

Source: Monitoring, evaluation and learning for climate risk management, OECD, 2021

Box 38: Auditing fossil fuel subsidies in Canada

SAI Canada's 2021 audit of the government's Emissions Reduction Fund found that poor program design resulted in the government being unable to ensure credible and sustainable greenhouse gas emissions in the oil and gas sector. For example, in two thirds of the 40 projects funded by the Emissions Reduction Fund, companies stated in their applications that the funding would allow them to increase their production levels. When production increases, so do the related emissions.

SAI Canada has assessed non-tax subsidies and tax subsidies for fossil fuels in 2019. The topic is important because inefficient fossil fuel subsidies encourage wasteful consumption, undermine efforts to address climate change, and discourage investment in clean energy sources.

Failing to integrate Agenda 2030's three dimensions (economic, social, and environmental) increases the risk that the sustainability of these three factors would be considered on an equal basis or over the long-term. When assessing the efficiency of Tax Subsidies for Fossil Fuels, SAI Canada's audit found that the government focused almost exclusively on economic considerations without integrating social or environmental sustainability factors. In its assessment of the Non-Tax Subsidies for Fossil Fuels, the responsible department did not consider the economic, social, and environmental sustainability of subsidizing the fossil fuel sector.

Source: Auditing Sustainable Development Goals: Key Principles and Tools on Policy Coherence and Multi-stakeholder Engagement for Supreme Audit Institutions, 2022, INTOSAI

Box 39: Development of dedicated climate performance audit methodology by SAI in Bangladesh

The Office of the Comptroller and Auditor General (OCAG) of Bangladesh has been conducting performance audit covering different Government programmes, activities and development projects for quite some time. It, however, did not conduct any performance audit using climate lens. Of late, the OCAG embarked upon a plan to conduct climate performance audit on development projects financed from Climate Change Trust Fund and other climate-related funds. This shift in audit policy has been prompted by the fact that the Government spends around 6 percent to 7 percent of its combined development and operating budget on climate relevant activities and thus the climate relevant allocation increased by 22 percent between FY2009-10 and FY2011-12.

Recent reforms in Public Financial Management (PFM) system particularly the launching of climate inclusive Medium Term Budget Framework (MTBF), Climate Fiscal Framework (CFF), Climate Fiscal Policy (CFP), Country Investment Plan for Environment, Forestry and Climate Change (CIP-EFCC) has also necessitated the conduct of climate performance audit by the OCAG.

In conducting performance audit, the SAI auditors generally follow the Performance Audit Manual issued by the authority of the OCAG of Bangladesh and the INTOSAI guidelines on performance audit. As the climate performance audit is a new protocol in the audit operations of SAI Bangladesh, the OCAG does not have any guidelines of its own to guide its auditors in conducting such audit. As a result, the auditors find it difficult to conduct audit using this new protocol.

In recent years INTOSAI developed guidelines on 'Auditing Government Responses to Climate Change'. But these guidelines are not enough to conduct country specific climate performance audit. Against this background, the SAI Bangladesh has developed this Guidelines to facilitate the conduct of climate performance audit.

Source: Guidelines for Planning Climate Performance Audit, OACG Bangladesh, 2018

CRPFM-14. EXPENDITURE OUTTURN FOR CLIMATE ACTIONS

WHY IT MATTERS

Knowing what was spent provides one measure of progress – or lack thereof – in the implementation of climate change policies and strategies. Comparing what was spent to what was approved, in aggregate and by expenditure composition, is fundamental for analyzing whether the initial budget was realistic and implemented as intended. Results of the analysis can, in turn, be used to support future decision-making on climate change action allocations.

GUIDING QUESTION

To what extent does the actual outturn of climate-related expenditures deviate from the originally approved budget?

DESCRIPTION

This indicator measures the extent to which climate-related expenditures reflect the amounts originally approved, as defined in government budget documentation and end-of-year reports, both at the aggregate level and in terms of composition. It contains two dimensions and uses *Table iv* for aggregating dimension scores.

INDICATOR MEASUREMENT GUIDANCE

14:1. CRPFM-14. assesses the extent to which actual climate expenditures deviate from the original, approved budget. This indicator is the exact replication of PI-1.1. Aggregate expenditure outturn and PI-2.1. Expenditure composition outturn by function of the PEFA 2016 Framework, with a specific focus on climate-related expenditures. CRPFM-14. thus provides insight on whether the strategic policy priorities are actually funded as intended – using only two figures.

14:2. This indicator can be scored when "climate-related expenditure" is compliant with either of the following:

- the definition provided by the government in the inception questionnaire[45] and assessed in CRPFM-2. Tracking climate-related expenditure – Element 1
  or
- the methodology developed by the government to define what constitutes "climate change expenditure"[46], when such definition is not included in the regulation yet.

An example is provided in *Box 40*.

14:3. When there is neither a definition from the questionnaire nor a methodology developed by the government, CRPFM-14. is considered NA. Assessors may use the same proxy as in CRPFM-2 (see clarification 2:1.1) to estimate the performance of the country on CRPFM-14., even though the indicator is still considered NA. For instance, climate-related expenditure, as defined for the purpose of a CPEIR (see CRPFM-2. Tracking climate expenditure) may be documented and used as a proxy (see example in *Box 41*).

14:4. To score this indicator, climate-related expenditure should be mapped to existing classifications used in budget formulation, execution, and reporting. As the time period covers three years, the report should highlight any issues related to comparability of climate-related expenditure from one year to another.

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[45] See question 8e: How does regulation define what constitutes "climate change expenditure"?

[46] See CRPFM-2, Element 1: The government uses a methodology that defines what constitutes "climate change expenditure".

14:5. When PEFA Climate assessment is undertaken at the same time as PEFA 2016 assessment, the classifications to be used for CRPFM-14. calculations are the same as those:

- assessed in PI-4. Budget classification
  and
- applied in PI-1.1. Aggregate expenditure outturn, for CRPFM-14.1. and in PI-2.1. Expenditure composition outturn by function, for CRPFM-14.2.

14:6. When PEFA Climate assessment is undertaken as a standalone assessment, the report should describe the classifications used by the government for budget formulation, execution, and reporting, and comment on their consistency with international standards, as outlined in PI-4.

14:7. As for PI-1. and PI-2. in PEFA 2016, the calibration of this indicator accommodates one unusual or 'outlier' year and focuses on deviations from the forecast which occur in two of the three years covered by the assessment. An 'outlier' year is characterized by higher deviation than other years or lack of data. It is of no importance for the indicator assessment what the reason for the 'outlier' may be. However, the report should comment on those reasons.

14:8. Both dimensions can be calculated using either cash-based accounting or accrual-based accounting. The basis chosen should be noted and used consistently in all indicator assessments. In a cash-based accounting system data on payments is required for scoring even with a modified cash accounting system. If payment data is not available, the PEFA Climate report narrative will need to elaborate on the reasons why, and on the most relevant data to be used instead.

14:9. The methodology for calculating both dimensions of this indicator is provided in a spreadsheet also used to calculate the deviation of PEFA 2016 PI-1 and PI-2 and available in the PEFA website[47]. Calculations for the dimensions are supporting evidence and should be included in the PEFA Climate assessment report as an Annex.

[47] https://www.pefa.org/resources/calculation-sheets-pefa-performance-indicators-pi-1-pi-2-and-pi-23-november-2018

CRPFM-14.1. AGGREGATE CLIMATE-RELATED EXPENDITURE OUTTURN

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Aggregate climate-related expenditure outturn was between 95% and 105% of the approved aggregate expenditure for climate actions in at least two of the last three years.
B	Aggregate climate-related expenditure outturn was between 90% and 110% of the approved aggregate expenditure for climate actions in at least two of the last three years.
C	Aggregate climate-related expenditure outturn was between 85% and 115% of the approved aggregate expenditure for climate actions in at least two of the last three years.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last three completed fiscal years
DATA REQUIREMENTS	For each of the last three completed fiscal years: • End-of-year aggregate climate expenditure outturn • Aggregate climate expenditure approved in the budget
DATA SOURCES	• Annual budget law/documentation /estimates approved by the legislature • Annual budget execution report or Annual financial statements or Comparative statement of budget and actual results
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-1.1. Aggregate expenditure outturn

DIMENSION MEASUREMENT GUIDANCE

14.1: 1. **Dimension CRPFM-14.1.** focuses on aggregate expenditure which includes planned expenditures and those incurred as a result of exceptional events—for example, natural disasters. Expenditures on such events may be met from contingency votes. Expenditures financed by windfall revenues, including privatization, should be included and noted in the narrative and the supporting tables inserted in annex. Climate-related expenditures financed externally by loans or grants should be included, if reported in the budget, along with contingency vote(s) and interest on debt.

14.1:2. Climate-related expenditures include transfers and subsidies of any kind, including to other levels of government. When relevant in the country context, such expenditures also include interest and other costs related to debt but not repayment of the principal.

14.1:3. Considering the role of operators in the implementation of climate change policies defined by the central government, the narrative should include comments on the materiality of transfers and subsidies to such operators and highlight any deviations in outturn.

CRPFM-14.2. CLIMATE-RELATED EXPENDITURE COMPOSITION OUTTURN

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Variance in climate-related expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in climate-related expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in climate-related expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.

COVERAGE	Budgetary central government
TIME PERIOD	Last three completed fiscal years
DATA REQUIREMENTS	For each of the last three completed fiscal years: • The climate expenditure composition of the end-of-year outturn • The climate expenditure composition of the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification • Should the number of main budget heads exceed 20, the composition variance should be assessed against the largest heads that together make up 75% of the budgeted climate expenditure (a minimum of 20 heads if an administrative classification), with the residual heads (excluding contingency items) aggregated into one line. The same rule applies for a programmatic classification.
DATA SOURCES	• Annual budget law/documentation /estimates approved by the legislature • Annual budget execution report or annual financial statements
RELATED PEFA 2016 INDICATOR/ DIMENSION	PI-2.1. Expenditure composition outturn by function

DIMENSION MEASUREMENT GUIDANCE

14.2:1. **Dimension CRPFM-14.2**. measures the difference between the original, approved budget and end-of-year outturn in climate expenditure detailed by program, administrative or functional classification. The calculation excludes contingency items and interest on debt.

14.2:2. While a classification by function or program may provide a more useful basis for comparison of the climate policy intent than would an administrative classification, budgets are sometimes adopted and managed on the basis of an administrative classification only. The same basis should be used for comparing the originally approved budget and the budget outturn.

14.2:3. The detailed level of deviation provided by CRPFM-14.2. lays the ground for a deeper analysis and possibly adjustments in priorities when used in the light of CRPFM-1. on Budget alignment with climate change strategies.

Box 40: Using Climate Budget Tagging to determine outturn in Indonesia

The PEFA Climate assessment report for Indonesia used expenditure identified by CBT to determine the outturn for climate actions. Data includes program expenditures carried out by line ministries and excludes expenditures from other entities and transfers to subnational governments.

At aggregate level, deviation between budgeted amount and actuals was less than 85% in two out of three years.

Table: 2018-2020 Climate-related budgeted and actual expenditure (IDR billion and percent)

Years	Budget	Actuals	%
2018	132,475.5	126,039.6	95.1%
2019	97,663.2	83,539.0	85.5%
2020	76,501.8	49,860.6	65.2%

The report includes an analysis of the split between mitigation, adaptation, and expenditure tagged as contributing to both adaptation and mitigation.

Table: Climate-related budgeted and actual expenditure split by policy (IDR billion and percent)

Climate Change Policy	Budget	Actuals	%
Adaptation	**121,136.2**	**90,942.0**	**75.07%**
2018	48,644.9	42,569.4	87.51%
2019	39,202.1	33,394.8	85.19%
2020	33,289.1	14,977.7	44.99%
Mitigation	**179,835.1**	**164,008.4**	**91.20%**
2018	83,830.6	83,470.2	99.57%
2019	54,351.1	46,460.2	85.48%
2020	41,653.4	34,078.1	81.81%
Adaptation, Mitigation	**6,980.3**	**5,815.7**	**83.32%**
2019	4,110.0	3,684.0	89.63%
2020	2,870.3	2,131.8	74.27%

Source: Ministry of Finance and World Bank team calculations.

At composition level, there was an improvement in composition variance between 2018 and 2019, but a deterioration in 2020 due to budget reallocations aimed at addressing the impact of the COVID-19 pandemic. Similar to aggregate expenditure, the high composition variance for 2020 climate-related expenditure by line ministries was driven by the substantial mid-year budget revisions due to the COVID-19 pandemic. In 2020, the Government carried out significant budget reallocations across ministries to accommodate the fiscal package in mitigating the economic impacts of the pandemic. The COVID-19 fiscal package predominantly came at the expense of infrastructure spending, including climate-related expenditure. For example, the Government delayed the implementation of many climate infrastructure activities under Ministry of Public Works and Housing that had not been tendered in 2020 to the following years.

Table: Budget outturn by expenditure composition

Line Ministries	2018		2019		2020	
	Budget (IDR mln)	Outturn (IDR mln)	Budget (IDR mln)	Outturn (IDR mln)	Budget (IDR mln)	Outturn (IDR mln)
Ministry of Agrarian Affairs and Spatial Planning/National Land Agency	0	0	7,161	6,795	13,036	15,209
Geospatial Information Agency	7,300	6,047	2,640	2,372	3,705	2,612
Meteorology, Climatology, and Geophysical Agency	86,460	81,254	12,340	12,099	15,615	9,146
National Disaster Management Agency	0	0	99,672	94,465	117,692	116,063
Research and Application of Technology Agency	37,078	32,922	3,000	2,932	0	0
Statistics Agency	0	0	183,438	160,724	177,826	112,186
Ministry of Energy and Mineral Resources	3,143,106	2,849,254	1,825,728	1,691,366	2,054,115	1,994,096
Ministry of Home Affairs	0	0	6,146	6,093	0	0
Ministry of Health	0	0	0	0	52,469	94,200
Ministry of Social Affairs	0	0	127,946	125,307	90,059	131,495
Ministry of Agriculture	647,837	589,314	2,149,646	1,812,061	622,233	672,444
Ministry of Marine Affairs and Fisheries	88,068	39,822	27,971	13,114	12,559	52,269
Ministry of Environment and Forestry	2,566,019	2,392,528	4,143,252	3,944,158	1,560,657	1,458,970
National Institute of Aeronautics and Space	0	0	5,394	5,334	48,685	38,143
Indonesian Institute of Sciences	0	0	117,803	90,914	112,012	76,336
Ministry of Transport	28,095,721	32,015,014	15,366,599	12,570,703	10,230,532	13,973,329
Ministry of Industry	26,556	25,121	6,479	5,850	7,853	919
Ministry of Public Work and Housing	97,777,378	88,008,297	73,578,032	62,994,673	61,382,757	31,113,200
Total	**132,475,522**	**126,039,574**	**97,663,248**	**83,538,959**	**76,501,805**	**49,860,619**
Deviation	95.1%		85.5%		65.2%	
Composition variance	8.4%		1.5%		35.7%	

Source: Ministry of Finance and World Bank team calculations

Source: PEFA CRPFM assessment report for Indonesia (2022)

Box 41: Using inputs from CPEIR in Samoa

Samoa does not specifically track climate change related expenditure. In the response to the initial PEFA CRPFM questionnaire, Samoa outlined the Samoan Climate Change Policy will use the definitions as per CPEIR conducted in 2012. The CPEIR identified which outputs[48] were climate related and allocated a proportion of spending for an output (there are three fixed proportions 25, 50 and 80 percent). Annex 3 of the PEFA CRPFM assessment report for Samoa provides details on the different outputs and the proportion of expenditure which is categorized as climate related.

Given the availability of budget and outcome data for 2017/18, 2018/19 and 2019/20 **an exercise was undertaken to map expenditure against the original methodology**. The analysis excludes capital expenditure on public investment, the outcomes of this mapping are provided at Annex 3. Programmatic (through outputs) and operational expenditure is occurring across a variety of Ministries, including the:

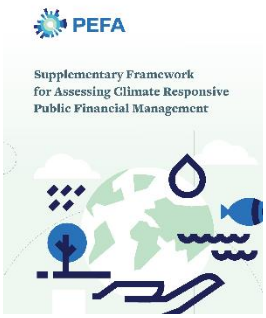
- Ministry of Agriculture and Fisheries
- Office of the Attorney General
- Ministry of Finance
- Ministry of Foreign Affairs and Trade
- Ministry of Health
- Ministry of Natural Resources and Environment
- Ministry of The Prime Minister and Cabinet
- Ministry of Works, Transport and Infrastructure; and
- Ministry of Women, Community and Social Development.

Table: Expenditure Outcomes using CPEIR Methodology (Annex 2 and 3) 2017/18, 2018/19 and 2019/20

Year	PI-14.1 Total Expenditure Outturn	PI-14.2 Composition Variance
2017/18	95.5%	4.4%
2018/19	98.2%	2.9%
2019/20	100.2%	4.1%

Source: PEFA CRPFM assessment report for Samoa (2021) https://www.pefa.org/node/5015

[48] The Samoan Budget is appropriated on an output basis, outputs are provided by ministries and third parties (such as NGO's or development partners, which then contribute towards achieving specific outcomes. Outputs are specific to ministries, who are responsible for delivery, there are no cross portfolio or whole of government outputs.



Section 4: Report structure

About the assessment

The decision to undertake a PEFA Climate assessment is at the discretion of country authorities. The PEFA Climate assessment is intended to be conducted on a voluntary basis concurrently with a PEFA assessment and presented as an add-on to the PEFA report. This would allow to capitalize on data already collected during the PEFA assessment process and result in cost and resource efficiency gains.

The PEFA Climate can also be carried out as a stand-alone activity.

About this section

This section provides guidance on the proposed structure of the report on the PEFA Climate assessment. When conducted as part of a regular PEFA assessment, it is recommended that the findings of the Climate assessment be presented in an annex and summarized in other relevant sections of the PEFA report, for example, the executive summary and the section on the government's reform efforts.

The purpose of the assessment is to provide a snapshot at a certain point of time of climate-related institutions, systems and processes observed in PFM by (i) comparing these characteristics to the A-D benchmark introduced by the PEFA assessment; and (ii) highlighting the strengths of the system and the opportunities to make PFM more climate responsive.

PEFA

PEFA ASSESSMENT OF CLIMATE-RESPONSIVE PUBLIC FINANCIAL MANAGEMENT

NAME OF COUNTRY

1. INTRODUCTION

[1/2—1 page]

Purpose

The introductory section presents the purpose of the PEFA Climate assessment and if and how the findings of the assessment are expected to feed discussions on public financial management improvements.

Background

The subsection presents an overview of the current status of mainstreaming climate change into PFM.

It starts with the "**country climate profile**" as drawn from the inception questionnaire, including the government's strategy, action plans, and climate change initiatives. In particular, the country climate profile highlights **what constitutes for a country "climate change expenditure" based on the policies in place. This definition and the specifics of the climate profile of the country will be used throughout the assessment**.

It also sets the enabling arrangements in place for climate change, that is:

- *Legal and policy framework*. Specific climate-related provisions included – or lacking- in key laws and regulations
- *Institutional structures*. Responsibility and roles of key stakeholders involved in climate change mainstreaming in PFM
- *Coordination mechanisms for climate change mainstreaming*. Vertical and horizontal coordination mechanisms, for example, between finance and line ministries, specific climate change agency and relevant line ministries, arrangements in place with subnational governments, extrabudgetary units and public corporations when they are in charge of implementing climate change strategies, relationship with civil society organizations,

including climate change advocacy groups, relationship with development partners, if relevant

- *Capacity of relevant stakeholders to perform climate change mainstreaming in PFM.*

2. ASSESSMENT FINDINGS AND WAY FORWARD

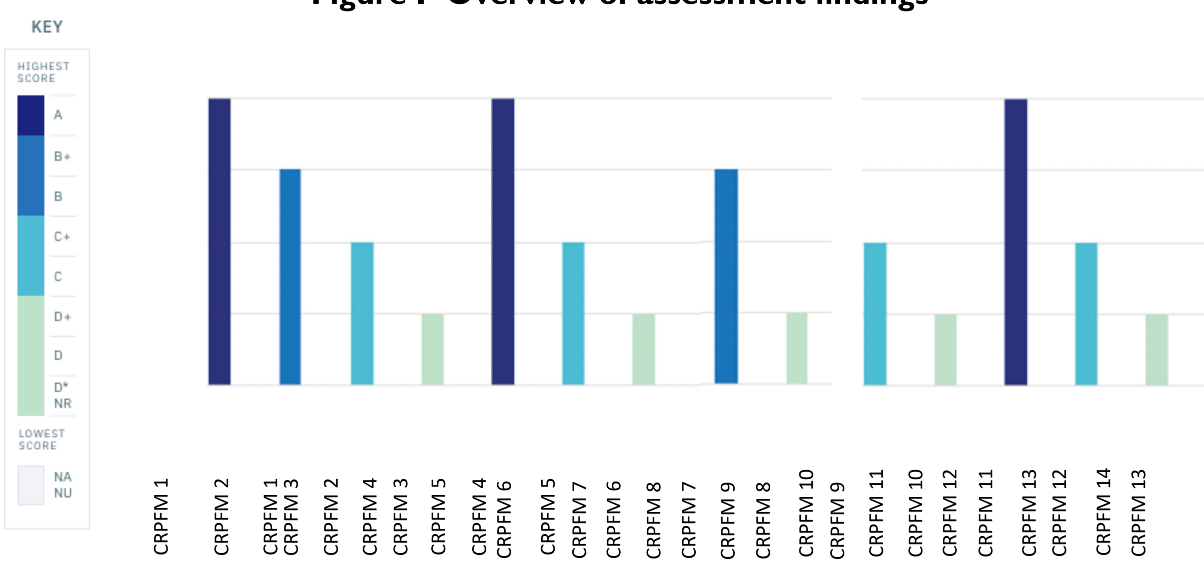
[1 page]

Main findings

This section provides an overview of findings of the assessment of existing practices compared with the PEFA Climate framework. It focuses on key PFM tools and processes in place to support the implementation of climate change policies. This section will also highlight possible areas of improvements on the basis of the inputs from the inception questionnaire. The detailed analysis of findings and evidence to score the indicators is presented in section 3 of the report.

The section may include charts highlighting key assessment findings, similar to the ones presented below. Automated charts can be generated from an automated tool accessible here https://www.pefa.org/index.php/resources/templates-automated-excel-scores-worksheets-pefa-assessments

Figure I- Overview of assessment findings



3. DETAILED ASSESSMENT OF CLIMATE-RESPONSIVE PUBLIC FINANCIAL MANAGEMENT

The section presents a detailed analysis of each of the indicators or questions by scoring them against the calibration and presenting the evidence to justify the scoring. Where relevant, the section will highlight the possible areas of improvements in the light of the inputs from the inception questionnaire.

CRPFM-1. Budget alignment with climate change strategies	**A**

The narrative provides an explanation of assessment findings.

CRPFM-2. Tracking climate-related expenditure	**B**

The narrative provides an explanation of assessment findings.

CRPFM-3. Climate-responsive budget circular	**C**

The narrative provides an explanation of assessment findings.

CRPFM-4. Legislative scrutiny	**D**

The narrative provides an explanation of assessment findings.

CRPFM-5. Climate-responsive public investment management	**A**

The narrative provides an explanation of assessment findings.

CRPFM-6. Climate-responsive asset management	**C**

The narrative provides an explanation of assessment findings.

CRPFM-7. Climate-related liabilities	**D**

The narrative provides an explanation of assessment findings.

CRPFM-8. Climate-responsive public procurement	B

The narrative provides an explanation of assessment findings.

CRPFM-9. Climate-responsive tax administration	D

The narrative provides an explanation of assessment findings.

CRPFM-10. Compliance of climate-related expenditure	C

The narrative provides an explanation of assessment findings.

CRPFM-11. Climate-responsive fiscal decentralization framework	D

The narrative provides an explanation of assessment findings.

CRPFM-12. Climate-related performance information	A

The narrative provides an explanation of assessment findings.

CRPFM-13. Climate-related performance evaluation	C

The narrative provides an explanation of assessment findings.

CRPFM-14. Expenditure outturn for climate activities	B

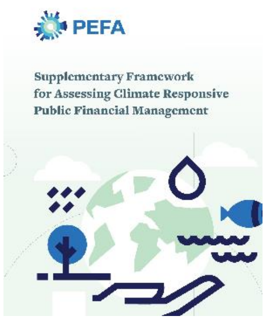
The narrative provides an explanation of assessment findings.

ANNEX 1. QUESTIONNAIRE

ANNEX 2. SUMMARY OF PERFORMANCE INDICATORS

ANNEX 3. SOURCES OF INFORMATION

This section provides a summary of the main sources of information and a list of key stakeholders interviewed.



Section 5: Sources of information

Table v below is designed to help PEFA assessors to collect the data needed to conduct a PEFA Climate assessment. Data should be collected prior to the in-country work and then cross-checked with country authorities, climate advocacy groups, civil society representatives, and other relevant stakeholders.

Table v. Data requirements to conduct a PEFA Climate assessment

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
CRPFM-1. Budget alignment with climate change strategies			
1.1. Budget alignment	• National climate change strategies • NDCs • Medium term budget estimates • Medium term fiscal strategies and report on their implementation • Report of the legislature or the legislative committee • Strategic plans or sector strategies • Budget proposals • In-year and end-of year reports	• Ministry of Finance • Ministries in charge of implementing climate change policies • Corroboration by climate advocacy groups or CSOs	Last budget and budget documentation submitted to the legislature
CRPFM-2. Tracking climate-related expenditure			
2.1. Tracking climate-related expenditure	• Methodology for identifying climate change expenditure • Structure of budget classification and chart of accounts • Evidence that classification(s) are actually used in the budget documents and the chart of accounts • Data on budgeted and actual climate-related transfers to SNGs, EBUs and PCs	• Relevant legislation and regulations identifying the application of the classification • Annual budget document provided by the MoF for the last completed fiscal year • Copy of the chart of accounts used for the last completed fiscal year	Last completed fiscal year
CRPFM-3. Climate-responsive budget circular			
3.1. Climate-responsive budget circular	• Budget circular	• MoF (budget department), corroborated by the cabinet (e.g. memoranda) • Budgetary units implementing climate change activities	Last completed fiscal year
CRPFM-4. Legislative scrutiny			
4.1. Legislative scrutiny of budget	• Budget and budget documents reviewed by legislature, including report on fiscal risks • Details of matters covered by the legislature's review, such as records of meetings, findings and committee reports • Records of legislative sessions and decisions • Report on climate-related risks • Public consultation and corresponding report	• Legislature committees, corroborated by advocacy, civil society, and interest groups • Budget director, secretary or chair of budget committee(s) of legislature, corroborated by advocacy, civil society, and interest groups	Last budget and budget documentation submitted to the legislature

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
4.2. Legislative scrutiny of audit and evaluation reports	• Records of hearings and audit reports for the last three completed fiscal years • Records of attendance at hearings, particularly concerning the audited entities and Supreme audit institution	• Legislature committees, corroborated by advocacy, civil society, and interest groups • Internal and/or external audit reports	Last audit reports or evaluation reports submitted to the legislature. For Element 2: audit report on end-of-year financial report.
CRPFM-5. Climate-responsive public investment management			
5.1. Climate-related provisions in regulatory framework for public investment management	• Regulatory framework for public investment management	• Ministry of finance/planning • Agency in charge of public investments, if any • Audit reports	Last completed fiscal year
5.2. Climate-responsive provisions for project appraisal	• List of approved/ongoing investment projects with relevant data to identify them as 'major' • National guidelines to conduct economic analysis • Economic analysis documentation of approved/ongoing major investment projects • Documentation of the economic analyses review process by an agency other than the sponsoring agency • Documented publication of economic analyses results	• Ministry of finance/planning • Line ministries and agencies • Agency in charge of public investments, if any • National guidelines to conduct economic analysis • Economic analysis of investment projects	Last completed fiscal year
5.3. Climate-responsive provisions for project selection	• List of approved/ongoing investment projects with relevant data to identify them as 'major' • Documentation of government's central review of major investment projects before inclusion of projects in the budget • Documentation on publication and adherence to standard criteria for project selection • Details of standard criteria for project selection	• Ministry of finance/planning • Line ministries and agencies • Agency in charge of public investments, if any	Last completed fiscal year
5.4. Reporting from entities in charge of implementation	• Rules and procedures that regulate reporting by EBUs and PCs • Performance contracts/statements of corporate intent • End-of year reports	• Department in charge of monitoring reporting from EBUs • Department in charge of monitoring reporting from PCs	Last completed fiscal year
CRPFM-6. Climate-responsive non-financial asset management			
6.1. Climate-responsive non-financial asset management	• Register(s) of fixed assets, possibly with information on their usage and age • Register(s) of land, possibly with information on their usage	• Asset management agency, if any • Agency in charge of land management; agency in charge of subsoils	Last completed fiscal year.

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
	• Register of subsoil assets where relevant, possibly with information on their usage • Published document or set of documents related to one or more nonfinancial asset categories above mentioned • Rules and regulations related to transfer or disposal of financial and non-financial assets • Set of documents submitted to the legislature for information or approval • Reports containing details of transfers and disposal of assets • DRM Strategy and contingency plans covering relevant assets	• Budget and extrabudgetary units holding nonfinancial assets • MoF • Treasury • Internal audit units • SAI	
CRPFM-7. Climate-related liabilities			
7.1. Fiscal risks arising from climate-related contingent liabilities	• Reports on contingent liabilities by CG and by individual CG entities. • Consolidated report on contingent liabilities and information on the frequency of publication.	• Annual financial statements • Financial or other reports of budgetary units • MoF	Last completed fiscal year.
7.2. Climate-related debt and guarantees	• Primary and secondary legislation for government debt management, including provisions for approving loans; issuing loan guarantees and undertaking debt related transactions and documented policies; operational procedures and guidelines for approval, management, monitoring and reporting of these transactions and annual borrowing provisions. • Documented procedures for undertaking debt management transactions. • Evidence of approval by government or the legislature	• MoF • Debt Management office • Debt Management entities • Central Bank.	Last completed fiscal year.
CRPFM-8. Climate-responsive public procurement			
8.1. Climate-responsive public procurement framework	• Legal and regulatory framework for procurement • Climate-related procurement framework (*or Green procurement framework*) • Information on government procurement plans, bidding opportunities, contract awards, resolution of procurement complaints, and annual procurement statistics	• MoF, procurement agency, or entities where the procurement monitoring has been centralized.	Last completed fiscal year.
8.2. Climate-responsive public procurement operations	• Annual report on procurement • Procurement framework agreements for commonly procured goods or services (oil and gas, office cleaning, etc.)	• MoF, procurement agency, or entities where the procurement monitoring has been centralized.	Last completed fiscal year

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
	• Simplified procedures and templates	• procurement data publicly available in official websites • Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)	
8.3. Climate-responsive public procurement monitoring	• Procurement databases or records • External or internal audit reports on procurement • Post emergency compliance reports • Climate-responsive criteria are included.	• MoF, procurement agency, or entities where the procurement monitoring has been centralized. • Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)	Last completed fiscal year
8.4. Climate-responsive public procurement reporting	• Report on public procurement, and/or on green public procurement • Dates of submission of the green procurement report to the legislature • Report on emergency procedures • Evaluation report on green procurement	• MoF, procurement agency, or entities where the procurement monitoring has been centralized. • SAI, internal audit units, procurement agency, agency in charge of disaster management for report on emergency procedures • SAI, internal audit units, procurement agency, agency in charge of climate change for evaluation of green procurement • Corroborations from climate advocacy group, civil society or business associations (e.g., chambers of commerce)	Last completed fiscal year (covering the last three completed fiscal years for the assessment of the CC-responsive procurement)
CRPFM-9. Climate-responsive tax administration			
9.1. Climate-related tax management, audit and investigation	• Information on the procedures and approach used by entities collecting central government taxes to assess and prioritize compliance risks • Evidence of the accuracy and completeness of emitters database • Data on the extent to which audit and fraud investigations are managed and reported on according to a documented compliance improvement plan • The completion rate of audit and fraud investigations (i.e., a comparison of those planned and those conducted)	• Documented risk management approach used by tax authorities to assess and prioritize compliance risks • Documented compliance improvement plan • Status reports on progress in the implementation of planned risk-mitigation activities and audit and fraud investigations • (The best information sources are the entities collecting climate change related taxes, internal audit units and SAI)	Last completed fiscal year
9.2. Climate-related tax	• The stock of tax arrears at the end of the last completed fiscal year.	• Tax collection authority records such as a	Last completed fiscal year

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
arrears	• The total tax collection for the same year.	documented report on (i) the stock of tax arrears; (ii) collection of climate-related taxes •	
CRPFM-10. Compliance of climate-related expenditure			
10.1. Effectiveness of the systems of controls	• Data on climate-related transactions • Prescribed budget execution procedures, regulations or rules and payment procedures • Information on commitment controls and associated compliance and assurance arrangements. • Evidence that procedures are complied with • Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.	• MoF • Treasury • Accountant General • Inspection units • Heads and finance officers of major budgetary units • Budget directorate • Accounting directorate • Treasury • Oversight body • Internal audit. • Regulations and guidance on accounting and payment processing • Information system	Last completed fiscal year, looking at the last three completed fiscal years for Element 4
10.2. Compliance of transactions	• Audit reports (internal or external) • Fraud investigations reports	• Accountant General • Treasury • Internal audit • Inspection units • SAI • Any other oversight body	Last completed fiscal year
CRPFM-11. Climate-responsive fiscal decentralization framework			
11.1. Climate-responsive fiscal decentralization legal framework	• Legal and regulatory framework pertaining to decentralization • Evaluation reports on decentralization	• Legislation or rules governing transfers from CG to SNG. • Legislature, SAI, or agency in charge of evaluation for evaluation reports on decentralization • Annual budget documents • MoF, or specific entity in charge of subnational governments	At time of assessment covering the last three completed fiscal years
11.2. Climate-responsive fiscal transfers	• List of transfers conditioned to climate-related activities • Horizontal rule-based system or other arrangements for determining the horizontal allocation of transfers to subnational governments for each type of transfer. • Reports of SNGs on the use of transfers	• Legislation or rules governing transfers from CG to SNG. • Annual budget documents • MoF, or specific entity in charge of subnational governments • Sample of subnational governments	Last completed fiscal year
11.3. Climate-responsive PFM arrangements applied by subnational	• Public investment framework • Public procurement framework • Procedures and rules for transfer of non-financial assets	• Unit in charge of implementing Green recovery.	At time of assessment

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
governments		• Agency in charge of climate change and/or subnational governments	
CRPFM–12. Climate-related performance information			
12.1. Climate-related information in performance plans	• National climate change strategy/plan • Published performance information assigned to climate-related programs and activities: planned objectives, outputs and outcomes • Budget and supporting documentation	• Annual budget document and/or supporting budget documentation. • Ministry budget statements and/or performance plans. • Other documents on ministry service delivery plans containing performance information	Last budget submitted to the legislature
12.2. Climate-related information in performance reports	• Published information on actual quantity of outputs produced or delivered, and evidence of measurable progress on outcomes, associated with the programs or services delivered by each ministry for the last completed fiscal year • Published information on activities performed in relation to service delivery that are undertaken by each ministry for the last completed fiscal year.	• Annual budget document and/or supporting budget documentation. • Ministry budget statements and/or performance plans. • Other documents on ministry service delivery plans containing performance information	Last completed fiscal year.
CRPFM-13. Climate-related evaluation			
13.1. Climate-related evaluation of expenditure	• For each ministry devoting expenditure on climate change or whose activity impacts climate change, information on the number and coverage of: o Evaluation reports o Performance audit reports o Functional reviews o Internal audit reports	• Line ministries and departments • Agency in charge of climate change • SAI and/or agency in charge of evaluation • Internal audit department • MoF	Last three completed fiscal years.
13.2. Climate-related evaluation of taxes	• Evaluation reports on tax policy • Evaluation reports on climate change related taxes • Evaluation reports on tax expenditure	• Line ministries and departments • Agency in charge of climate change • SAI and/or agency in charge of evaluation • Internal audit department • MoF, and/or tax agency	Last three completed fiscal years.
CRPFM-14. Expenditure outturn for climate activities			
14.1. Aggregate climate expenditure out-turn	For each of the last three completed fiscal years: • The aggregate climate expenditure outturn • The approved aggregate climate expenditure budget	• Annual budget law/documentation /estimates approved by the legislature; • Annual budget execution report or Comparative Statement of Budget and Actual Results.	Last three completed fiscal years.

PEFA Climate Assessment: Data required and sources			
PEFA Climate Indicator	**Data required**	**Data sources**	**Time period**
14.2. Climate-related expenditure outturn	For each of the last three completed fiscal years: • The climate expenditure composition of the end-of-year outturn • The climate expenditure composition the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification • Should the number of main budget heads exceed 20, the composition variance should be assessed against the largest heads that together make up 75% of the budget (a minimum of 20 heads if an administrative classification), with the residual heads (excluding contingency items) aggregated into one line.	• Annual budget law/documentation /estimates approved by the legislature • Annual budget execution report or annual financial statements	Last three completed fiscal years

Section 6: Other useful resources

Coalition of Finance Ministers for Climate Action

The Coalition regularly publishes reports on key topics at the intersection of climate change, economic policy, and finance.
https://www.financeministersforclimate.org/reports

European Union: European Sustainability Reporting Standards (ESRS)

The standards cover the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. They provide information for investors to understand the sustainability impact of the companies in which they invest. They also take account of discussions with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) in order to ensure a very high degree of interoperability between EU and global standards and to prevent unnecessary double reporting by companies.
https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en

Global Reporting Institute: GRI Standards

The GRI Standards enable any organization – large or small, private or public – to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustainable development. In addition to companies, the Standards are highly relevant to many stakeholders - including investors, policymakers, capital markets, and civil society.
https://www.globalreporting.org/about-gri/

IFRS Foundation: International Sustainability Standards Board and IFRS S2 Climate-related Disclosures

The Trustees of the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB) on 3 November 2021 at COP26 in Glasgow, following strong market demand for its establishment. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.
https://www.ifrs.org/groups/international-sustainability-standards-board/

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects').
https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

IMF: The IMF and Climate Change

"Climate change presents a major threat to long-term growth and prosperity, and it has a direct impact on the economic wellbeing of all countries. The IMF has a role to play in helping its members address those challenges of climate change for which fiscal and macroeconomic policies are an important component of the appropriate policy response.

We are gradually mainstreaming climate-related risks and opportunities into our macroeconomic and financial policy advice. Climate considerations are now embedded in our bilateral and multilateral surveillance, capacity development, and lending, while we also increasingly collaborate with other institutions and fora.

Through our analytical work we have examined policy issues such as an international carbon price floor, the transition to a green economy, border carbon adjustments, scaling up private climate finance in emerging market and developing economies, strengthening climate information architecture, fiscal policies to support adaptation, and green public investment and public financial management. "
https://www.imf.org/en/Topics/climate-change

INTOSAI Working Group on Environmental Audit: Audit database

The INTOSAI Working Group on Environmental Auditing (WGEA), established in 1992, aims to increase the expertise in environmental auditing and to enhance environmental governance with high-quality contribution and visibility by both members of the Working Group and non–member SAIs. Currently the INTOSAI WGEA consists of 85 member SAIs being the largest working group under the auspices of the INTOSAI.
https://environmental-auditing.org/audit-database/intosai-wgea-audit-database/

IPSASB: Climate Change: Relevant IPSASB Guidance

A number of queries have been received on how this project relates to the topics of reporting on climate change and the UN SDGs, and which existing IPSAS and RPG are relevant to reporting on these topics. This Q&A therefore provides the IPSASB staff's views on these matters.
https://www.ipsasb.org/publications/climate-change-relevant-ipsasb-guidance

NDC Partnership: Climate Toolbox

The Climate Toolbox draws together tools, guidance, platforms, and advisory support from leading institutions in a searchable database to help countries plan and implement their NDCs.
https://ndcpartnership.org/knowledge-portal/climate-toolbox

New Climate Institute: Climate Policy database

The Climate Policy Database (CDPB) is an open, collaborative tool to advance the data collection of the implementation status of climate policies. The CPDB is annually updated to include latest policy developments. These updated include new policies adopted and updates on existing policies, such as changes to the content and implementation status of policies (for example, when a policy is ended, superseded, or goes from being planned to in force).

The CPDB includes a policy matrix used to analyse the evolution of climate policy adoption, identify adoption gaps, and benchmark what constitutes a comprehensive policy coverage.The CPDB closely tracks national climate policy developments in 42 countries including the European Union (EU) and includes non-exhaustive information for the remaining countries.
https://newclimate.org/resources/tools/climate-policy-database

Taskforce for Climate Financial Disclosures (TCFD): TCDF Recommendations

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support market transparency and more informed capital allocation.
https://www.fsb-tcfd.org/

UNDP: CPEIR and CCBBII

CPEIR aims to help countries review how their national climate change policy aims are reflected in public expenditures. CPEIR also reviews how institutions may be adjusted to ensure the financing of climate change initiatives is delivered in a coherent way across the government.
https://www.undp.org/asia-pacific/publications/climate-public-expenditure-and-institutional-review-cpeir-%E2%80%93-methodological-note

CCBII aims to identify strengths and weaknesses in budgeting for climate change responses and design measures to address the gaps identified.
https://procurement-notices.undp.org/view_file.cfm?doc_id=112182

UNFCC: Resources

The UNFCCC secretariat (UN Climate Change) is the United Nations entity tasked with supporting the global response to the threat of climate change. UNFCCC stands for United Nations Framework Convention on Climate Change. The Convention has near universal membership (198 Parties) and is the parent treaty of the 2015 Paris Agreement. The main aim of the Paris Agreement is to keep the global average temperature rise this century as close as possible to 1.5 degrees Celsius above pre-industrial levels. The UNFCCC is also the parent treaty of the 1997 Kyoto Protocol. The ultimate objective of all three agreements under the UNFCCC is to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system, in a time frame which allows ecosystems to adapt naturally and enables sustainable development.
https://unfccc.int/resources

World Bank: Climate change knowledge portal, CCDR, DRR-PFM and CCIA

The Climate Change Knowledge Portal endeavors to be a one-stop shop for climate change data, related information, and national policy documents. We continually monitor and update our inventory of national documents and climate change information.
https://climateknowledgeportal.worldbank.org/

CCDR

The World Bank Group's Country Climate and Development Reports (CCDRs) are new core diagnostic reports that integrate climate change and development considerations. They will help countries prioritize the most impactful actions that can reduce greenhouse gas (GHG) emissions and boost adaptation, while delivering on broader development goals. CCDRs build on data and rigorous research and identify main pathways to reduce GHG emissions and climate vulnerabilities, including the costs and challenges as well as benefits and opportunities from doing so. The reports suggest concrete, priority actions to support the low-carbon, resilient transition.
https://www.worldbank.org/en/publication/country-climate-development-reports

DRR-PFM

The Disaster Resilient and Responsive Public Financial Management (DRR-PFM) Assessment is designed to help countries strengthen the capability of their Public Financial Management (PFM) systems to prepare for, respond to, and recover from disasters.
https://openknowledge.worldbank.org/entities/publication/dd2884a4-1e1e-5b5d-8d9d-460162a573b9

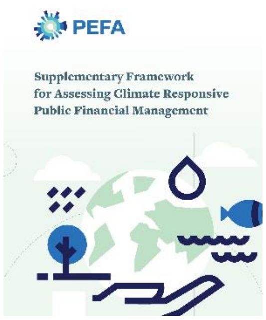
CCIA

The Climate Change Institutional Assessment (CCIA) identifies the strengths and weaknesses of the institutional framework for addressing these climate change governance challenges. The audience for the assessment is officials of center-of-government agencies responsible for policy, planning, and finance, agencies with leading roles in climate change policy, and inter-ministerial climate change bodies.
https://documents1.worldbank.org/curated/en/596001618377875403/pdf/Climate-Change-Institutional-Assessment.pdf

Infrastructure Governance Framework (InfraGov)

To address governance challenges surrounding infrastructure development and enhance the efficiency of infrastructure investments, the World Bank has introduced the Infrastructure Governance Assessment Framework, known as InfraGov. This framework aims to assist countries in optimizing their infrastructure investments and achieving better outcomes. It provides an overview of the governance that leads to quality infrastructure and offers resources and methodologies for conducting such an assessment. The aim is to provide actionable recommendations that result in concrete policy changes.

https://www.worldbank.org/en/topic/governance/brief/infrastructure-governance-framework



Annex 1: Links between PEFA Performance Indicators and PEFA Climate Assessment Indicators

The two tables below provide an overview of the links between indicators from the PEFA 2016 framework and PEFA Climate. The table should serve as a minimum guide to PEFA assessors.

Table vi. Links between PEFA 2016 performance indicators and PEFA Climate assessment indicators

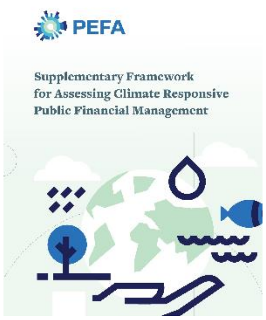
PEFA 2016 pillars and performance indicators	PEFA Climate assessment indicators
PILLAR 1: Budget reliability	
PI–1 Aggregate expenditure outturn	CRPFM-14. Expenditure outturn for climate activities (and PI-1)
PI–2 Expenditure composition outturn	CRPFM-14. Expenditure outturn for climate activities (and PI-2)
PI–3 Revenue outturn	
PILLAR 2: Transparency of public finances	
PI–4 Budget classification	CRPFM-2. Tracking climate-related expenditure
PI–5 Budget documentation	
PI–6 Central government operations outside financial reports	
PI–7 Transfers to subnational governments	CRPFM-11. Climate-responsive fiscal decentralization
PI–8 Performance information for service delivery	CRPFM-12. Climate-related performance information CRPFM-13. Climate-related evaluation
PI–9 Public access to fiscal information	
PILLAR 3: Management of assets and liabilities	
PI–10 Fiscal risk reporting	CRPFM-7. Climate-related liabilities (and PI-13)
PI–11 Public investment management	CRPFM-5. Climate-responsive public investment management
PI–12 Public asset management	CRPFM-6. Climate-responsive non-financial asset management
PI–13 Debt management	CRPFM-7. Climate-related liabilities (and PI-10)
PILLAR 4: Policy-based fiscal strategy and budgeting	
PI–14 Macroeconomic and fiscal forecasting	
PI–15 Fiscal strategy	
PI–16 Medium-term perspective in expenditure budgeting	CRPFM-1. Budget alignment with climate change strategies
PI–17 Budget preparation process	CRPFM-3. Climate-responsive budget circular
PI–18 Legislative scrutiny of budgets	CRPFM-4. Legislative scrutiny (and PI-31)
PILLAR 5: Predictability and control in budget execution	
PI–19 Revenue administration	CRPFM-9. Climate-responsive tax administration
PI–20 Accounting for revenue	

PEFA 2016 pillars and performance indicators	PEFA Climate assessment indicators
PI–21 Predictability of in-year resource allocation	
PI–22 Expenditure arrears	
PI–23 Payroll controls	
PI–24 Procurement management	CRPFM-8. Climate-responsive public procurement
PI–25 Internal controls on non salary expenditure	CRPFM-10. Compliance of climate-related expenditure
PI–26 Internal audit	
PILLAR 6: Accounting and reporting	
PI–27 Financial data integrity	
PI–28 In-year budget reports	
PI–29 Annual financial reports	
PILLAR 7: External scrutiny and audit	
PI–30 External audit	
PI–31 Legislative scrutiny of audit reports	CRPFM-4. Legislative scrutiny (and PI-18)

Table vii. Links between PEFA Climate assessment indicators and PEFA 2016 performance indicators

PEFA Climate assessment indicators	PEFA 2016 performance indicators
CRPFM-1. Budget alignment with climate change strategies	PI–16 Medium-term perspective in expenditure budgeting
CRPFM-2. Tracking climate-related expenditure	PI–4 Budget classification
CRPFM-3. Climate-responsive budget circular	PI–17 Budget preparation process
CRPFM-4. Legislative scrutiny	PI–18 Legislative scrutiny of budgets PI–31 Legislative scrutiny of audit reports
CRPFM-5. Climate-responsive public investment management	PI–11 Public investment management
CRPFM-6. Climate-responsive non-financial asset management	PI–12 Public asset management
CRPFM-7. Climate-related liabilities	PI–10 Fiscal risk reporting PI–13 Debt management
CRPFM-8. Climate-responsive public procurement	PI–24 Procurement management
CRPFM-9. Climate-responsive tax administration	PI–19 Revenue administration
CRPFM-10. Compliance of climate-related expenditure	PI–25 Internal controls on nonsalary expenditure

PEFA Climate assessment indicators	PEFA 2016 performance indicators
CRPFM-11. Climate-responsive fiscal decentralization	PI–7 Transfers to subnational governments
CRPFM-12. Climate-related performance information	PI–8 Performance information for service delivery
CRPFM-13. Climate-related evaluation	PI–8 Performance information for service delivery
CRPFM-14. Expenditure outturn for climate activities	PI–1 Aggregate expenditure outturn PI–2 Expenditure composition outturn



Annex 2: Glossary

Assessors are encouraged to indicate in the PEFA Climate assessment report if the definitions used in the country-specific context and circumstances diverge significantly from the definitions used in this Glossary.

TERM	DEFINITION
Activities	Specific tasks or functions of service delivery or program.
Adaptation	In human systems, the process of adjustment to actual or expected climate and its effects, in order to moderate harm or exploit beneficial opportunities. In natural systems, the process of adjustment to actual climate and its effects; human intervention may facilitate adjustment to expected climate and its effects. (IPCC, 2021)
Administrative classification	Classification that identifies the entity responsible for managing the public funds concerned-the main budgetary heads (votes) of budgetary units that are included in the approved budget.
Administrative unit	See administrative classification.
Age of arrears	Length of time between when the arrears were incurred and the current date.
Aggregate expenditure	Total of all expenditures including: (i) those incurred as a result of exceptional events (i.e., armed conflicts or natural disasters, which may be met from contingency votes); (ii) expenditures financed by windfall revenues including privatization. They should be included and noted in the supporting tables and narrative; and (iii) externally financed expenditure (by loans or grants) – if reported in the budget, contingency vote(s) and interest on debt. Note: Expenditure assigned to suspense accounts is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the PEFA report.
Aggregate expenditure outturn	Total actual expenditure of the budgetary central government for the full financial year corresponding to the approved annual budgeted expenditure.
Aggregate fiscal discipline	Effective control of the total budget and management of fiscal risks.
Aggregation of scores	Combination of dimension-specific scores to reach an overall score for each indicator using an appropriate method based on the degree of linkage between the individual dimensions (see M2).
Approved budget	The budget approved by the legislature (original or subsequently amended) on which budgetary units base their annual expenditure plans.
Approved aggregate budgeted expenditure	Total expenditure by budgetary central government as originally approved by the legislature at the commencement of the budget year. It does not reflect approved budget adjustments made by the executive or the legislature after the approval of the original budget.
All	90 percent or more (by value).
Assets	Resources controlled by a government entity as a result of past events from which future economic benefits are expected to flow.
Assets (stranded)	CRPFM-6.: Assets exposed to devaluations or conversion to 'liabilities' because of unanticipated changes in their initially expected revenues due to innovations and/or evolutions of the business context, including changes in public regulations at the domestic and international levels. (IPCC, 2021)
Border Carbon Adjustments (BCA)	CRPFM-9.: A BCA is a charge on embodied carbon in products imported into a jurisdiction with carbon pricing, potentially matched by rebates for embodied carbon in exports. (IMF, 2021) BCA is a policy measure that aims to address the potential negative impacts of carbon pricing policies on domestic manufacturing industries by leveling the playing field

TERM	DEFINITION
	between domestic producers who are subject to carbon pricing and foreign producers who are not. (Institute for Sustainable Development, 2023)
Budgetary central government (BCG)	Based on the classification structure developed in the GFS. Single unit of the central government that encompasses the fundamental activities of the national executive, legislative, and judiciary powers. The budgetary central government's revenue and expense are normally regulated and controlled by a ministry of finance, or its functional equivalent, by means of a budget approved by the legislature.
Budgetary units	Bodies that are directly charged with responsibility for implementing the budget in line with sector policies and which directly receive funds or authorization to spend from the MOF. Budgetary units that report and receive budgetary funds through a parent ministry should not be considered in the assessment.
Carbon budgets	Questionnaire: Carbon budgets define the upper limits of greenhouse gas emissions for a specific country. They are expressed in million of tons of CO2 equivalent per year.
Carbon markets	CRPFM-7.: Carbon markets are trading schemes that create financial incentives for activities that reduce or remove greenhouse gas emissions. In these schemes, emissions are quantified into carbon credits that can be bought and sold. One tradable carbon credit equals one ton of carbon dioxide, or the equivalent amount of a different greenhouse gas reduced, sequestered or avoided. (UNDP, 2023)
Carbon pricing	Carbon pricing curbs greenhouse gas emissions by placing a fee on emitting and/or offering an incentive for emitting less. *(*UNFCC, 2024*)*
Carbon sinks	CRPFM-6. A carbon sink is any process, activity, or mechanism that absorbs more carbon dioxide from the atmosphere than it releases. Forests, oceans, and soil are the world's largest natural carbon sinks. (UNDP, 2023)
Carbon tax	CRPFM-9. see under climate-related tax
Ceilings	Indicative maximum budget allocations issued to budgetary units early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budgetary units may subsequently be adjusted on the basis of the quality and justification of their detailed proposals. Ceilings constitute an essential element in a disciplined budget preparation process.
Central government	Based on the classification structure developed in the GFS. Institutional units of the central government plus nonprofit institutions that are controlled by the central government. The political authority of the central government extends over the entire territory of the country. (GFSM 2014, para 2.85 and page 398)
Classification of Functions of Government (COFOG)	Detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditures. It provides a classification of government outlays by function that experience has shown to be of general interest. According to COFOG, the functions are classified using a three-level scheme. There are ten first-level or two-digit categories, referred to as divisions. Within each division, there are several groups, or three-digit categories, while within each group, there are one or more classes, or four-digit categories. Developed by the OECD and published by the United Nations Statistical Division. Functional classification of expenditure applied by the GFS.
Climate (*noun*)	Climate in a narrow sense is usually defined as the average weather, or more rigorously, as the statistical description in terms of the mean and variability of relevant quantities over a period of time ranging from months to thousands or millions of years. The classical period for averaging these variables is 30 years, as defined by the World Meteorological Organization. The relevant quantities are most often surface variables such as temperature, precipitation, and wind. Climate in a wider sense is the state, including a statistical description, of the climate system. In various chapters in this report different averaging periods, such as a period of 20 years, are also used. (IPCC, 2021)

TERM	DEFINITION
Climate action	Climate action refers to efforts taken to combat climate change and its impacts. These efforts involve reducing greenhouse gas emissions (climate mitigation) and/or taking action to prepare for and adjust to both the current effects of climate change and the predicted impacts in the future (climate adaptation). (EU, 2021)
Climate change	A change in the state of the climate that can be identified (e.g., by using statistical tests) by changes in the mean and/or the variability of its properties and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings, or to persistent anthropogenic changes in the composition of the atmosphere or in land use. (IPCC, 2021)
Climate-induced disasters	CRPFM-8. Climate change-induced natural disasters include droughts, floods, storms such as cyclones and hurricanes, earthquakes, tsunamis, and volcanic eruptions. These disasters can affect health, food systems and sustainability, structures, safety as well as livelihoods. (UNFCCC, 2024)
Climate responsive Climate related Climate sensitive Climate friendly Climate (*adjective*) (e.g., expenditure, commitments, considerations, debt and liabilities, impacts, assessments, procurement, etc.)	For the purposes of the PEFA Climate assessment, defined as rules, processes or information that aligns with the climate goals of the assessed government, as defined in the NDCs or the overarching climate strategy.
Climate finance	CRPFM-7.: "local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change." (UNFCCC, 2024)
Climate-related risks	CRPFM-6.: Potential for consequences from climate variability and change where something of value is at stake and the outcome is uncertain. Often represented as the probability that a hazardous event or trend occurs multiplied by the expected impact. Risk results from the interaction of vulnerability, exposure, and hazard. (WB Climate Change Knowledge Portal Glossary, 2024)
Climate-related tax	CRPFM-9.: Part of the environmental taxes, defined as taxes whose tax base is a physical unit (or a proxy of it) that has a proven specific negative impact on the environment. (EU: Regulation (EU) No. 691/2011)
Climate vulnerability	CRPFM-5.: The propensity or predisposition to be adversely affected. Vulnerability encompasses a variety of concepts and elements including sensitivity or susceptibility to harm and lack of capacity to cope and adapt. (IPCC, 2021)
Compliance improvement plan	High level plan that describes generally in a single document the most significant compliance risks identified in the revenue system and the actions the revenue administration intends to take to mitigate those risks. Compliance improvement plans (also known as "compliance" and "compliance management plans or programs") are commonly structured around major sources of revenue and payer segments.
Compliance risks	Risks related to revenue that may be lost if payers fail to meet the four main revenue obligation areas, including: (i) registration; (ii) timely filing of declarations; (iii) payment of liabilities on time; and (iv) complete and accurate reporting of information in declarations.
Contingency items	Clearly defined items which are unallocated at budget preparation time but used to cover excesses in spending in any budget unit during execution. Usually established either as a separate vote, or as a sub-vote under the Ministry of Finance, with a clearly marked title such as 'contingency reserve' or 'unanticipated/miscellaneous expenditure' or unallocated appropriation.

TERM	DEFINITION
Contingent liabilities	As per IMF's GFS Manual 2014, obligations that do not arise unless particular discrete event(s) occur in the future.
Contingency votes	See contingency items.
Climate Public Expenditure and Institutional Review (CPEIR)	CPEIR is a diagnostic tool for assessing climate policy, institutions and expenditure.
Current fiscal year (T)	Fiscal year in which the budget proposals are being prepared and usually presented
Debt related-transactions	Transactions in the market such as swaps to change the risk profile of the debt portfolio, and debt buybacks of illiquid debt securities.
Deconcentrated operations	Regional or district operations managed by local offices of central government agencies and operations run by legally separate entities controlled and mainly financed by central government (formerly called "autonomous government agencies").
Deconcentrated units	See deconcentrated operations.
Disaster risk management	Processes for designing, implementing and evaluating strategies, policies and measures to improve the understanding of current and future disaster risk, foster disaster risk reduction and transfer, and promote continuous improvement in disaster preparedness, prevention and protection, response and recovery practices, with the explicit purpose of increasing human security, well-being, quality of life and sustainable development (SD). (IPCC, 2021)
Decarbonization	Decarbonization means reducing the amount of greenhouse gas emissions that a society produces, as well as increasing the amount that is being absorbed. It entails changing many, if not all, aspects of the economy, from how energy is generated, to how goods and services are produced and delivered, to how buildings are built and how lands are managed. (UNDP, 2023)
Economic category	See economic classification.
Economic classification	Classification that identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending.
Efficiency and effectiveness	As per ISSAI 300:11, the principle of *efficiency* means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing. The principle of *effectiveness* concerns meeting the objectives set and achieving the intended results.
Emission tax	CRPFM-9. see under climate-related tax
Energy tax	CRPFM-9. see under climate-related tax
Established procedures and rules	Formal directions or regulations relating to the authority and responsibility for taking such action, the methods to be used for transfer or disposal, recording or publication of the results. These are considered to be established when the procedures and rules are formally recorded in laws, regulations or directions from appropriate authorities.
Explicit contingent liabilities	As per IMF's GFS Manual 2014, legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value. The requirements become effective if one or more stipulated conditions arise. Examples: (i) umbrella state guarantees for various types of loans—for example, mortgage loans, student loans, agriculture loans, and small business loans; (ii) state insurance schemes, such as deposit insurance, private pension fund insurance, and crop insurance; (iii) financial implications of ongoing litigation and court cases, although often difficult to quantify; and (iv) state guarantees for non sovereign borrowing by private sector enterprises and guarantees on private investments of different types, including special financing instruments such as PPPs.
Exposure	The presence of people; livelihoods; species or ecosystems; environmental functions, services, and resources; infrastructure; or economic, social, or cultural assets in places and settings that could be adversely affected. (IPCC, 2021)
Extrabudgetary	See extrabudgetary units.

TERM	DEFINITION
Extrabudgetary units	As per IMF's GFS Manual 2014, entities with individual budgets not fully covered by the main budget. These entities are separate units that operate under the authority or control of a central government (or in the case of an SNG assessment the state, or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, similar to that of budgetary units, extrabudgetary units have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as extrabudgetary funds or 'decentralized agencies' (ref GFS Manual 2014, Ch 2, s2.82).
Fiscal risks	Risks that can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure, price changes and natural disasters.
Fiscal year	See: current, following, next, outer, previous.
Fixed assets	Produced assets that are used repeatedly or continuously in production processes for more than one year. (GFSM 2014, page 404).
Following fiscal years (T+2, T+3, and so on)	See outer fiscal years.
Function/Subfunction	See COFOG.
Functional classification	See COFOG.
General government (GG)	Resident institutional units that fulfill the functions of government as their primary activity (GFS Manual 2014, 1.2, 2.58, 2.76 and page 404).
Government Finance Statistics (GFS)	The IMF Government Finance Statistics (GFS) Manual 2014 defines the concepts and describes the manner in which revenues and expenditures are classified in chapter 5 (page 84) and chapter 6 (page 114). Appendix 8 (page 385) provides all of the classification codes used in the GFS.
Greenhouse gases (GHG)	Gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of radiation emitted by the Earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. (IPCC, 2021)
Grants	Transfers receivable by government units from other residents or nonresident government units or international organizations that do not meet the definition of a tax, subsidy, or social contribution. When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation, so that only grants from foreign governments and international organizations would remain in the general government accounts. Grants may be classified as capital or current and can be receivable in cash or in kind.
Green budgeting	Green budgeting means using the tools of budgetary policymaking to help achieve climate and environmental goals. Green budgeting entails a systematic approach to assess the overall coherence of the budget relative to a country's climate and environmental agenda and to mainstream an environmentally-aware approach across all policy areas and within the budget process. (EC, IMF, OCED 2021)
Green public procurement (GPP)	CRPFM-8.: Procuring goods, services and works with a reduced environmental impact throughout their life cycle. Green Public Procurement (GPP) is defined in the Communication (COM -2008-400) "Public procurement for a better environment" as "a process whereby public authorities seek to procure goods, services and works with a reduced environmental

TERM	DEFINITION
	impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured." (EU, 2023) GPP is part of a broader sustainable public procurement (SPP) agenda that addresses economic, social, and environmental concerns. (WB, 2021) See also sustainable public procurement
Guarantees	See Explicit contingent liabilities.
Hazard	The potential occurrence of a natural or human-induced physical event or trend that may cause loss of life, injury or other health impacts, as well as damage and loss to property, infrastructure, livelihoods, service provision, ecosystems and environmental resources. (IPCC, 2021)
Implicit contingent liabilities	Do not arise from a legal or contractual source but are recognized after a condition or event is realized (GFS Manual 2014, para 7.252 and page 405).
Intangible non produced assets	Constructs of society evidenced by legal or accounting actions. (GFS Manual 2014, page 405). Two types of intangible non produced assets are distinguished: contracts, leases and licenses, and goodwill and marketing assets (GFS Manual 2014, para 7.104).
Impacts	The consequences of realized risks on natural and human systems, where risks result from the interactions of climate-related hazards (including extreme weather/climate events), exposure, and vulnerability. Impacts generally refer to effects on lives, livelihoods, health and wellbeing, ecosystems and species, economic, social and cultural assets, services (including ecosystem services), and infrastructure. Impacts may be referred to as consequences or outcomes and can be adverse or beneficial. (IPCC, 2021)
Large revenue payers	Those that make significant payments and account, in aggregate, for a large proportion of total revenues (often more than 50 percent of total amount collections). Countries tend to define large payers by reference to: (i) amount of annual sales/turnover; (ii) amount of annual income; (iii) value of assets; (iv) level of imports and/or exports; and (v) type of economic activities (e.g., financial services). Of these criteria, the amount of annual sales/turnover is normally the primary criterion.
Liabilities	CRPFM-7.: A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). (IMF GFSM 2014)
Long-term low greenhouse gas emission development strategies (LT-LEDS)	LT-LEDS provide the long-term horizon to the NDCs. Unlike NDCs, they are not mandatory. Nevertheless, they place the NDCs into the context of countries' long-term planning and development priorities, providing a vision and direction for future development. (UNFCCC, 2024)
Major investment projects	Projects meeting both of the following criteria: • The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and • The project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure.
M2 (AV)	**Averaging method (AV),** prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. The steps in determining the aggregate indicator score are as follows: • Each dimension is initially assessed separately and given a score on the four-point calibration scale. • Refer to the **conversion table for indicator scores using the averaging method** (see *Table iv*) and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator. • Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter. • Enter the corresponding overall score for the indicator.

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Mitigation	A human intervention to reduce emissions or enhance the sinks of greenhouse gases. (IPCC, 2021)
National Adaptation Plan (NAP)	NAP process seeks to identify medium- and long-term adaptation needs, informed by the latest climate science. Once major vulnerabilities to climate change have been identified, the NAP process develops strategies to address them. The NAP approach was established under the Cancun Adaptation Framework (CAF) and re-emphasized in the Paris Agreement. Crucially, NAPs follow a continuous iterative process that is country-driven, participatory and transparent. The two overarching objectives of NAPs are to: Reduce vulnerability to the impacts of climate change by building adaptive capacity and resilience; Integrate adaptation into new and existing national, sectoral and sub-national policies and programmes, especially development strategies, plans and budgets. Countries can utilize the NAP process and its outcomes to update and improve the adaptation elements of the Nationally Determined Contributions (NDCs), a central part of the Paris Agreement. (UNEP, 2023)
Nationally Determined Contributions (NDCs)	In their NDCs, countries communicate actions they will take to reduce their greenhouse gas emissions in order to reach the goals of the Paris Agreement. Countries also communicate in their NDCs actions they will take to build resilience to adapt to the impacts of climate change. (UNFCC, 2024)
Next fiscal year (T+1)	Budget year or fiscal year for which the annual budget proposals are made.
Nonfinancial asset	Economic asset other than a financial asset. Nonfinancial assets are further subdivided into those that are produced (fixed assets, inventories and valuables) and those that are non-produced (land, mineral and energy resources, other naturally occurring assets, and intangible non produced assets).
Non-tax revenue	Revenue other than taxes, separately identified and classified as grants, social contributions, and other revenue.
Operators	Refer to subnational governments, public corporations, and where relevant, extrabudgetary units as described in the responses to the Inception Questionnaire – Question 18[49].
Originally approved budget	The budget approved by the legislature on which budgetary units base their annual expenditure plans at the commencement of the fiscal year.
Other revenue	All revenue receivable excluding taxes, social contributions, and grants: (i) property income; (ii) sales of goods and services; (iii) fines, penalties, and forfeits; (iv) transfers not elsewhere classified; and (v) premiums, fees, and claims related to non-life insurance and standardized guarantee schemes.
Outcome	Measurable effect, consequence or impact of the service (or program or function) and its outputs. Outcome indicators measure the effects, consequences, impact of the services and their outputs.
Outer fiscal years (T+2, T+3, and so on)	Fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in CRPFM-1.
Output	Actual quantity of products or services produced or delivered by the relevant service (program or function). Output indicators measure the quantity of outputs produced or services delivered or planned.
The Paris Agreement	The Paris Agreement, adopted in 2015 within the United Nations Framework Convention on Climate Change, commits countries to keep the rise in global

[49] 18. Which public entities (operators) are involved in the implementation of the country's climate change strategies and policies?

TERM	DEFINITION
	temperature below 2 degrees Celsius this century. The 190 countries who are party to the Agreement also commit to pursuing efforts to limit the temperature increase to 1.5 degrees Celsius. The Paris Agreement has acknowledged that public spending and decision making need to address climate change impacts. (UN, 2015)
Performance indicators or information	Output and outcome indicators and planned or achieved results against those indicators.
Previous fiscal year (T-1)	Last fiscal year completed.
Program	See "program classification".
Program classification	Classification that implies the allocation of resources to each of the programs. If a program allocation is used for approved budgets, the program-based categories should be scored based on the same level at which they were approved by the legislature.
Public access	When a document is available without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. Justification provided by government for limits on access, where applicable, should be noted in the report. Alternative wording: 'made available to the public', 'publicly reported' and 'publicized'.
Public investment	For the purpose of CRPFM-5., creation and/or acquisition of fixed assets.
Publication	When a document has been made available to the public either in print or in readable form on a publicly accessible website. Publication also involves an expectation that users are made aware of the document's availability and how they can access it.
Publicized	See under "public access".
Publicly available or reported	See under "public access".
Published	When a document has been made available to the public either in print or in readable form on a publicly accessible website.
Resilience	The capacity of interconnected social, economic and ecological systems to cope with a hazardous event, trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity and structure. Resilience is a positive attribute when it maintains capacity for adaptation, learning and/or transformation. (IPCC, 2021)
Revenue arrears	Total amount, including interest and payment, which is overdue from revenue payers i.e. has not been paid to the revenue collecting entity or other authorized body by the statutory due date for payment.
Revenue obligations	Four main areas: registration; timely filing of declarations; payment of liabilities on time; and complete and accurate reporting of information in declarations.
Rio markers	CRPFM-2.: The Rio markers were originally designed to help members with the preparation of their National Communications or National Reports to the Rio Conventions, by identifying activities that mainstream the Conventions' objectives into development co-operation. The Rio markers on biodiversity, climate change mitigation and desertification were introduced in 1998, with a fourth marker on climate change adaptation being applied to 2010 flows onwards. (OECD, 2011)
Risk	The potential for adverse consequences for human or ecological systems, recognizing the diversity of values and objectives associated with such systems. In the context of climate change, risks can arise from potential impacts of climate change as well as human responses to climate change. Relevant adverse consequences include those on lives, livelihoods, health and well-being, economic, social and cultural assets and investments, infrastructure, services (including ecosystem services), ecosystems and species.

TERM	DEFINITION
	In the context of climate change impacts, risks result from dynamic interactions between climate-related hazards with the exposure and vulnerability of the affected human or ecological system to the hazards. Hazards, exposure and vulnerability may each be subject to uncertainty in terms of magnitude and likelihood of occurrence, and each may change over time and space due to socio-economic changes and human decision-making. In the context of climate change responses, risks result from the potential for such responses not achieving the intended objective(s), or from potential trade-offs with, or negative side-effects on, other societal objectives, such as the Sustainable Development Goals (SDGs). Risks can arise for example from uncertainty in the implementation, effectiveness or outcomes of climate policy, climate-related investments, technology development or adoption, and system transitions. (IPCC, 2021)
Sampling	Used in situations where responsibilities are highly decentralized or cases involving large numbers of significant entities. Sampling techniques are usually suggested. If not, a statistically sound sampling methodology should be used. In any case, assessors should explain the reason for the use of sampling and justify the sampling approach they adopt.
Service delivery	Programs or services that are provided either to the general public or to specifically targeted groups of citizens, either fully or partially using government resources. This includes services such as education and training, health care, social and community support, policing, road construction and maintenance, agricultural support, water and sanitation, and other services. It excludes those services provided on a commercial basis through public corporations. It also excludes policy functions, internal administration, and purely regulatory functions undertaken by the government, although performance data for these activities may be captured for internal management purposes. It also excludes defense and national security.
Stock of arrears	Total value of arrears.
Structured and systematic approach	Approach which has clearly documented procedures and steps, is methodical and regularly repeatable.
Subnational government	Any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework.
Sustainable public procurement (SPP)	SPP is "a process whereby public organizations meet their needs for goods, services, works, and utilities in a way that achieves value for money on a whole lifecycle basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment" (UNEP, 2011).
Sustainable Development Goals (SDGs)	The 17 Global Goals for development for all countries established by the United Nations through a participatory process and elaborated in the 2030 Agenda for Sustainable Development, including ending poverty and hunger; ensuring health and well-being, education, gender equality, clean water and energy, and decent work; building and ensuring resilient and sustainable infrastructure, cities and consumption; reducing inequalities; protecting land and water ecosystems; promoting peace, justice and partnerships; and taking urgent action on climate change. (IPCC, 2021)
Tax expenditure	Revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.

TERM	DEFINITION
Taxes	Compulsory, unrequited amounts receivable by government units from institutional units. In GFS 2014, using level three [3 digits], taxes are classified into six major categories: (i) taxes on income, profit, and capital gains; (ii) taxes on payroll and workforce; (iii) taxes on property; (iv) taxes on goods and services; (v) taxes on international trade and transactions; and (vi) other taxes.
Transfers (from central government to subnational governments)	Transfers to support subnational government's expenditure can be made in the form of unconditional grants, where their final use is determined by the subnational governments through their budgets, or through conditional (earmarked) grants to subnational governments to implement selected service delivery and expenditure responsibilities—for example, by function or program, typically in accordance with an agreed-upon regulatory or policy standard.
Treasury single Account (TSA)	Bank account or a set of linked accounts through which the government transacts every receipt and payment.
Unallocated appropriations	See under "contingency items"
Unallocated expenses	See under "contingency items"
The United Nations Framework Convention on Climate Change (UNFCCC)	UNFCCC is an international environmental treaty adopted in 1992 to combat dangerous human interference with the climate system. It entered into force in 1994 and enjoys near universal membership, having been signed by 198 parties. It is the parent treaty of both the Paris Agreement and the Kyoto Protocol. (UNDP, 2023)
Vulnerability	The propensity or predisposition to be adversely affected. Vulnerability encompasses a variety of concepts and elements including sensitivity or susceptibility to harm and lack of capacity to cope and adapt. (IPCC, 2021)

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