



**PEFA**

# **PEFA Supplementary Framework for assessing Climate responsive Public Financial Management (PEFA Climate)**

## **Regional Conference – Climate Smart Public Financial Management**

February 27, 2024

PEFA Secretariat

[www.pefa.org](http://www.pefa.org)

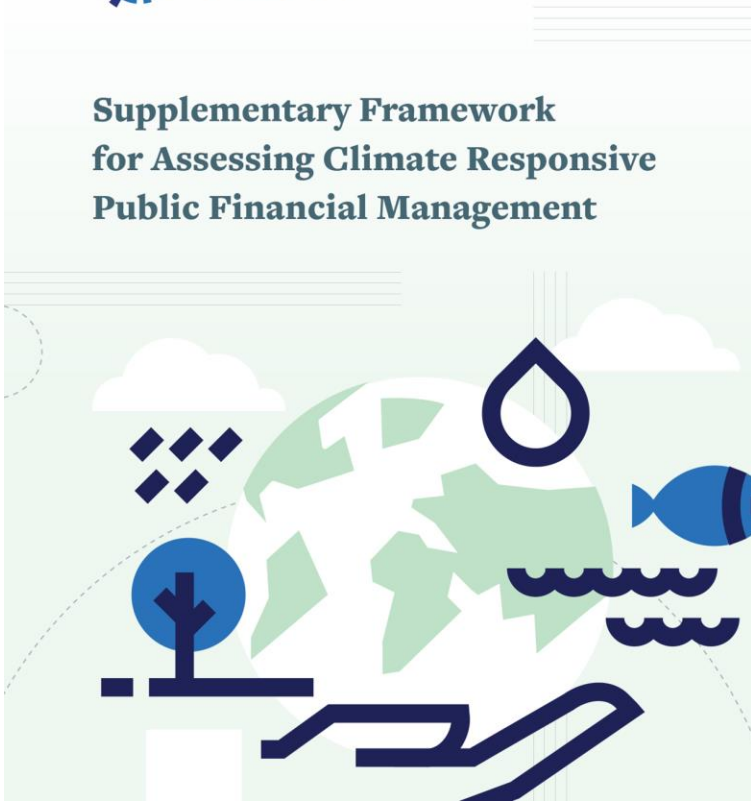
#PEFA



# PEFA Climate in a nutshell



**Supplementary Framework  
for Assessing Climate Responsive  
Public Financial Management**



- **PEFA Climate** provides a standard methodology for assessing how well PFM systems can support the implementation of government climate change policies
- PEFA Climate builds on the **PEFA Framework**
- The **assessment is** undertaken
  - At the request of a government
  - With a mix of PFM and Climate change expertise
- The assessment findings are summarized in a **PEFA Climate assessment report**

## PEFA Climate undertaken as part of a bundle of assessments (PEFA+ or PEFA ++)

One Concept Note covering two or more assessments

Same governance arrangements

One set of data collection and meetings

A snapshot of PFM performance and a closer look at gender or climate change mainstreaming

The opportunity to consider several aspects when working on the PFM reform strategy and action plans

## PEFA Climate as a Standalone assessment

A specific concept note

Specific arrangements

Full set of data collection and meetings

Focused snapshot

Need to streamline plans

# PEFA Climate Pilots

## PEFA + (PEFA 2016 with Climate) or ++ (PEFA 2016 with Gender and Climate)

|   |  |
|---|--|
| Published report                          | Chihuahua, Mexico +<br>Costa Rica +<br>Rwanda ++<br>Paraguay ++<br>Bhutan ++<br>Niger ++<br>Kenya ++ |
| Final report                              | Togo ++<br>Cameroon ++<br>Burundi ++<br>Uganda ++  |
| Revised report                            | Nepal ++   |
| Ongoing assessment                        | Dominican Republic ++  |
| Concept note received by PEFA Secretariat | Zambia ++<br>Honduras ++<br>Colombia ++  |

## Standalone assessment

|                  |                     |
|------------------|---------------------|
| Published report | Samoa<br>Ethiopia   |
| Final report     | Indonesia<br>Jordan |

# Key elements of the assessment



## AN INCEPTION QUESTIONNAIRE

The inception questionnaire enables to create to country  
“Climate change profile”

## 7 PILLARS, 14 INDICATORS and 29 DIMENSIONS

Performance indicators cover the full budget cycle and are further  
disaggregated into dimensions

## EVIDENCE BASED

## TOOLKIT

# Questionnaire – Climate Change Policy Context

Provides the climate change context, policy priorities, and international commitments of a country

Enables to link the PEFA Climate assessment to the country priorities

## 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<sup>11</sup>  yes, when: \_\_\_\_\_  No

### 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)?**

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?**

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

### 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)**

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

# PEFA Climate indicators

## INDICATORS

**CRPFM–1 Budget alignment with climate change strategies**

**CRPFM–2 Tracking climate related expenditure**

**CRPFM–3 Climate responsive budget circular**

**CRPFM–4 Legislative scrutiny**

**CRPFM–5 Climate responsive public investment management**

**CRPFM–6 Climate responsive non-financial asset management**

**CRPFM–7 Climate related liabilities**

**CRPFM–8 Climate responsive procurement**

**CRPFM-9 Climate responsive tax administration**

**CRPFM–10 Compliance of climate related expenditure**

**CRPFM–11 Climate responsive fiscal decentralization framework**

**CRPFM–12 Climate related performance information**

**CRPFM-13 Climate related evaluation**

**CRPFM–14 Expenditure outturn for climate activities**



**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.

Short description of the indicator

Requirements to be met for a specific score

Dimension to be assessed

**CRPFM—2.1. TRACKING CLIMATE RELATED EXPENDITURE**

| SCORE    | MINIMUM REQUIREMENTS FOR SCORES  |
|----------|--|
| <b>A</b> | 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>B</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). |
| <b>C</b> | The system in place to track climate related expenditure fulfills at least 3 basic elements, including Element 1 (2-5).                      |
| <b>D</b> | 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.

|                          |   |
|--------------------------|---|
| <b>COVERAGE</b>          | Budgetary central government  |
| <b>TIME PERIOD</b>       | Last completed fiscal year  |
| <b>DATA REQUIREMENTS</b> | <ul style="list-style-type: none"> <li>• Definition and methodology for identifying climate change expenditure</li> <li>• Structure of budget classification and chart of accounts</li> </ul> |

# Knowledge product: guidance documents

- Reference to existing guidance documents throughout the set of indicators

**Box 5: 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-Sensitive-Green-PFM-535167>

**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/default/files/2021-10/UNDP-RBAP-Budgeting-for-Climate-Change-Guidance-Note-2021.pdf>

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**Box 10: 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)   | Bangladesh (4+6, based on policy)                                     |
| Colombia (OECD Rio markers and GFLAC definition)  | Ecuador (15 categories, 3-6 specified activities for each)            |
| Ethiopia (OECD Rio markers and reference to national strategies and sectoral plans)                     | Ghana (list of policy objectives and operations)                      |
| France (own definitions consistent with EU taxonomy)  | Nepal (11 climate change-related categories defined by working group) |
| Honduras (own definition, aligned with OECD Rio markers)  | Pakistan (11 tasks/sectors from policy, indicative activities)        |
| 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)   |   |
| <b>Mixed Approach</b>   |   |
| 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>

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# Knowledge product: country examples

- Reference to country examples throughout the set of indicators

## Box 11: 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: (S450) Forest and Land Fires Control  
 KRO: (S450.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)

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## Box 40: 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<sup>39</sup> 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<br>Total Expenditure Outturn | PI-14.2<br>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>

<sup>39</sup> 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.

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## Country examples: practices and entry points

# Example from Samoa

| Indicator | Description  | 1  | 2  | 3  | 4  | Indicator |
|-----------|--|----|----|----|----|-----------|
| CRPFM-1   | Budget alignment with climate change strategies      | B  |    |    |    | B         |
| CRPFM-2   | Tracking climate related expenditure                 | D  |    |    |    | D         |
| CRPFM-3   | Climate responsive budget circular                   | D  |    |    |    | D         |
| CRPFM-4   | Legislative scrutiny                                 | D  | C  |    |    | D+        |
| CRPFM-5   | Climate responsive public investment management      | D  | D  | D  | D  | D         |
| CRPFM-6   | Climate responsive asset management                  | D  |    |    |    | D         |
| CRPFM-7   | Climate related liabilities                          | D  | C  |    |    | D+        |
| CRPFM-8   | Climate responsive procurement                       | C  | C  | C  | D* | D+        |
| CRPFM-9   | Climate responsive revenue administration            | NA | NA |    |    | NA        |
| CRPFM-10  | Compliance of climate related expenditure            | C  | C  |    |    | C         |
| CRPFM-11  | Climate responsive fiscal decentralization framework | NA | NA | NA |    | NA        |
| CRPFM-12  | Climate related performance information              | B  | C  |    |    | C+        |
| CRPFM-13  | Climate related performance evaluation               | D  | D  |    |    | D         |
| CRPFM-14  | Expenditure outturn for climate activities           | NA | NA |    |    | NA        |

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# Entry points for Samoa

- Described in the PEFA Climate report
  - 1. Reviewing revenue to examine if possibilities for revenue climate related resilience measures could be adopted;
  - 2. Improving public investment practices to incorporate CC resilience characteristics into the overall appraisal, selection, and prioritization activities;
  - 3. Undertake changes to the budget circular to begin mainstreaming climate related expenditure into ministry and agency budget submissions; and
  - 4. Examine the approach towards tracking climate related expenditure from budget to execution for all operational, programmatic and investment expenditure

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- Ministry of Agriculture and Fisheries
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Source: PEFA CRPFM assessment report for Samoa (2021) <https://www.pefa.org/node/5015>

<sup>19</sup> 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.

# Example from Ethiopia

|          | Indicator  | 1  | 2  | 3 | 4 |    |
|----------|--|----|----|---|---|----|
| CRPFM-1  | Budget alignment with climate change strategies      | B  |    |   |   | B  |
| CRPFM-2  | Tracking climate related expenditure                 | D  |    |   |   | D  |
| CRPFM-3  | Climate responsive budget circular                   | C  |    |   |   | C  |
| CRPFM-4  | Legislative scrutiny                                 | D  | C  |   |   | D+ |
| CRPFM-5  | Climate responsive public investment management      | C  | C  | C | D | D+ |
| CRPFM-6  | Climate responsive asset management                  | D  |    |   |   | D  |
| CRPFM-7  | Climate related liabilities                          | D  | C  |   |   | D+ |
| CRPFM-8  | Climate responsive procurement                       | D  | C  | D | D | D  |
| CRPFM-9  | Climate responsive revenue administration            | NA | NA |   |   | NA |
| CRPFM-10 | Compliance of climate related expenditure            | C  | D  |   |   | D+ |
| CRPFM-11 | Climate responsive fiscal decentralization framework | D  | C  | D |   | D+ |
| CRPFM-12 | Climate related performance information              | B  | C  |   |   | C+ |
| CRPFM-13 | Climate related performance evaluation               | B  | NA |   |   | B  |
| CRPFM-14 | Expenditure outturn for climate activities           | NA | NA |   |   | NA |

# Entry points for Ethiopia

- PFM reforms updated and included entry points pertaining to climate responsive PFM
  - Institutional coordination: set up a Climate Change Unit within the Budget Directorate of the Ministry of Finance
  - Tracking: operationalize and finalize the ongoing exercise to embed the climate tagging methodology into IFMIS
  - Public Investment Management: operationalize the PIM proclamation
  - Start from scratch for other PFM areas



# Entry points for Chihuahua-Mexico

- Described in the PEFA Climate report
  - Support the ongoing work on budget classification
    - Identify climate activities and use of a tag/marker
    - Inform the preparation of the next strategic municipal document
  - Raise awareness and strengthen capacities of government officials

# Entry points for other countries

- Described in the PEFA Climate report
  - Use of inputs from PEFA Climate country profile to streamline ongoing initiatives
  - Use of PEFA Climate inputs, CPEIR, and climate vulnerability assessment to classify climate related expenditure

# For more information

- Contact the PEFA Secretariat:  
[services@pefa.org](mailto:services@pefa.org)

