



The Integration of Climate Change into Budgeting and Finance

23–24 February, 2021





Inclusive Budgeting and Financing for Climate Change in Africa (IBFCCA)



Welcome and Recap of Day One

Shanaz Broermann, CABRI

Integrating Climate Change into Budgeting and Finance

- Importance of integrating gender and climate change into PFM
- Budget cycle: Budget preparation and approval
 - Experience from Mozambique, Gambia, Guinea and Ghana
- Breakaway sessions:
 - Budget oversight and accountability
 - PEFA Climate, lessons from Samoa
- Today, we will look at other integration initiatives round the budget cycle
 - Tracking inclusive climate related expenditure
 - Climate responsive revenue measures, and
 - wider integration initiatives
- Share experience in smaller groups





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TRACKING INCLUSIVE CLIMATE EXPENDITURE – AN INTRODUCTION

23 February 2021

Integration of Climate Change into Budgeting and Finance

Alta Fölscher

What is climate expenditure tracking and why do governments do it?

- Climate expenditure tracking (CET) **classifies and tags public expenditure** according to its **expected contribution to CC mitigation or adaptation** (or response to and recovery from climate-related disaster)
- It may be once off/periodic and done as parallel analytical exercise, or as an annual component of policy and budget management imbedded in the PFM system
- The design of a climate expenditure tracking system is determined by what governments primarily hope to achieve
- Three types of objectives. CET may aim to
 - *Report on climate policies hoping that this will raise awareness and accountability, and influence the revision of strategies and policies (Climate Expenditure Reviews)*
 - *Increase the prioritisation of programmes that deliver mitigation or adaptation by providing information in budget processes (Climate Budget Tagging)*
 - *May aim to improve the design of expenditure programmes to improve their effectiveness in delivering equitable mitigation/adaptation (Climate impact assessments)*
- These objectives are not mutually exclusive and can be sequential

What are the main design considerations?

- The design of a climate expenditure tracking system (whether once off/periodic analytical exercises or imbedded in the PFM system) involve answering four inter-related questions
 - *What will the **coverage of the climate expenditure tracking system** be?*
 - *How will **climate relevance** be defined, classified and scored, and how will associated expenditure be weighted?*
 - *How will the **tags** be generated in the public resource management cycle, and how will the information be used/reported?*
 - *How will the system **be governed** over time?*
- Key objective should drive how trade-offs are decided re dimensions of
 - *Coverage*
 - *Precision/usefulness of information asked*
 - *How it will be imbedded in the system*

given government capacity and the degree to which spending agency ownership of outcomes of exercise is important

Key considerations in coverage decisions

- Coverage can be cumulative: key question is where to start, with what and how fast to expand
- Considerations for different dimensions of coverage
 - *Levels and components of government: should depend on how expenditure competences are assigned in key climate sectors between levels of government and main budget entities and agencies*
 - *Functional sectors of government: only those sectors most relevant to climate goals, or all of government should depend on objective of the exercise*
- Will CET cover all expenditure, or would some types of expenditure be excluded (e.g. expenditure on overheads)

Defining, classifying and scoring climate relevance

■ Defining Climate Relevant Expenditures

- *Country-specific definitions or globally comparable definitions of mitigation and adaptation?*
- *Add response and recovery from climate change loss and damage?*
- *Exclude programmes that have negative impacts on environment and communities?*

■ Determining the degree of CC Relevance

- *Binary is an option*
- *Base for assessing relevance: objective or benefit based*
- *In objective-based systems: Rio markers (2=principal objective; 1=significant; 0=insignificant) or adjusted Rio markers to score climate relevance and weight expenditure*

Objective-based

Assessing the relative importance of adaptation/mitigation compared with any other objectives of the programme

Decide categories of relevance (Rio or more disaggregated) and assign percentages to weight expenditure

Benefits-based

Net benefits of a programme if the expected objectives are achieved *and* climate change is taken into account

Difference between benefits with and without CC determines expenditure weights

■ Should tags be classified further

- *Type of expenditure*
- *Pillars of CC policy*
- *Relevance to whom?*

Imbedding in PFM system & system governance

■ Who will decide rules for system over time?

- *Long-term governance of the system*

■ Responsibility for tagging expenditures

- *Should the tagging be located centrally or in spending agencies?*

■ Validation of imbedded tags

- *Should the finance, climate-lead, planning ministry be responsible for the verification of CET tags? Or a joint exercise?*

■ How should climate expenditure tracking information be reported/ used?

- *Parallel reports or in budget documentation (centrally, by level, or by ministry)*

■ Where should the tagging exercise located in the resource management cycle?

- *Plans, budgets, actual expenditures, performance management system, or all?*

■ At what budget structure level should tags be applied?

- *Higher levels (government units / programmes) or at lower levels (items)*

Thank You



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South Africa: Carbon Tax and Green Energy Incentives

24 February 2021

IBFCCA: Virtual Peer Learning and Exchange Event

Kuhle Mxakaza, Economist, Environmental and Fuel Taxes Directorate
National Treasury



national treasury

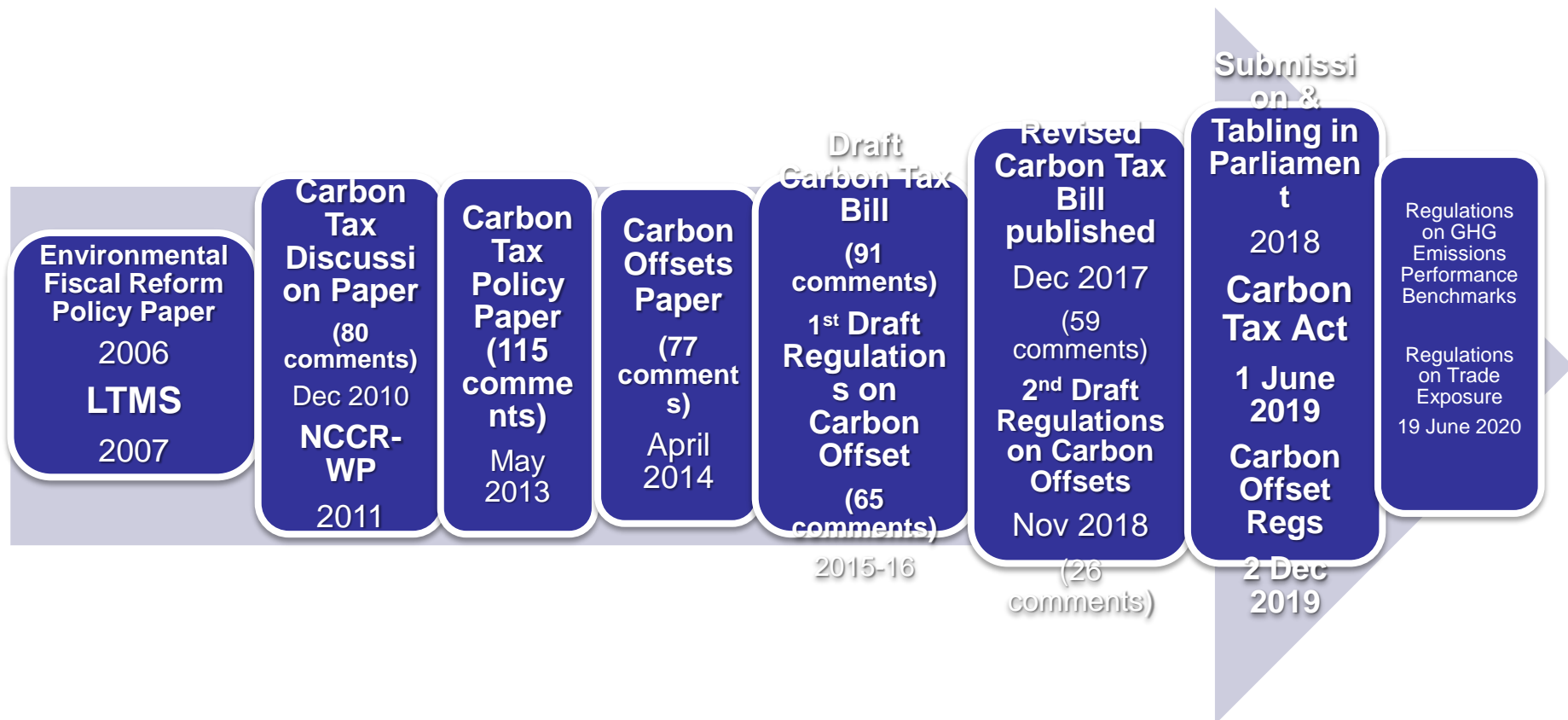
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



CARBON TAX POLICY CONTEXT

- South Africa voluntarily committed (at COP 15 in 2009) to curb GHG emissions by 34% by 2020 and 42% by 2025 below the BAU trajectory subject to support from developed countries - climate finance, capacity building & technology transfers.
- South Africa **ratified** the Paris Agreement in November 2016 and **endorsed** the submission of its Nationally Determined Contribution (NDC) which requires that **emissions peak in 2020 to 2025, plateau for a ten year period from 2025 to 2035 and declines from 2036 onwards.**
- **South Africa's emissions by 2025 and 2030 will be in a range between 398 and 614 Mt CO₂-eq, as defined in national policy.**
- **Paris Agreement** will require sizable reductions in energy-related greenhouse gas (GHG) emissions by large emitting countries, including in developing economies. The NDC noted **carbon tax** as an important component of our **mitigation policy** strategy to lower GHG emissions.
- **Carbon tax forms an integral part of climate change response policy package** under the National Climate Change Response Policy (NCCRP) of 2011, and in **National Development Plan (NDP)** as an important cost-effective instrument
- **The Carbon Tax Bill gives effect to the polluter-pays-principle** and helps to ensure that firms and consumers take these costs into account in their FUTURE production, consumption and investment decisions. Assists in reducing GHG emissions and ensuring SA will meet its NDC commitments as part of its ratification of the 2015 Paris Agreement.

POLICY & CONSULTATION PROCESS



SOUTH AFRICAN CARBON TAX DESIGN

Revenue

Carbon tax at R127 per ton of CO₂e

60% basic tax-free threshold

Max of 10% tax-free allowance for trade exposure

10% tax-free allowance for process and fugitive emissions

Up to 5% performance allowance

5% tax-free allowance for complying with carbon budgets information requirements

5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability

- Tax-free allowances of **60-95%**

- No impact on electricity prices in the first phase

Revenue Recycling

Energy Efficiency Savings tax incentive

Credit for electricity generators against their carbon tax liability for renewable energy purchases

Credit for the electricity levy

Support for the installation of solar water geysers

Enhanced free basic electricity / energy for low income households

Improved public passenger transport & support for shift of freight from road to rail

REVENUE RECYCLING MEASURES

- In general, “full” earmarking of specific tax revenue streams are not in line with sound fiscal management practices. However, the efficient recycling of revenue is important.
- **Revenue recycling mechanisms for structural adjustment:**
 - **tax shifting**: reducing or not increasing other taxes (offset of electricity levy against carbon tax liability for electricity generators)
 - a range of environmental tax incentives, including **Energy efficiency savings tax allowance**
 - **“soft” earmarking** (on budget allocations): enhanced free basic energy / electricity programme, improved public transport, Carbon Capture and Storage rebate

REVENUE RECYCLING MEASURES (2)

- To help sectors transition, in addition to the tax free allowances, **revenue recycling measures have been implemented as part of a package of support measures under the carbon tax** ie. reducing other taxes, tax incentives and targeted on-budget programmes.
- For the first phase of the carbon tax (until 2022), the **introduction of the tax will have a neutral impact on the price of electricity** to cushion low income households and energy intensive industries.
 - This is achieved by providing a **credit for the payments of the electricity generation levy;** and
 - **credit for the renewable energy premium** built into the electricity tariff.
- In addition business already benefits from the **Energy efficiency savings tax incentive implemented in November 2013.**
- Analysis shows **above measures will protect vulnerable sectors** like mining and iron and steel.

ENERGY EFFICIENCY SAVINGS TAX ALLOWANCE

- The Energy Efficiency Savings Tax Allowance has been implemented since 2013 under section 12L of the Income Tax Act.
- All energy carriers, apart from renewable energy producers, are eligible to claim the 12L incentive.
- **This measure was specifically introduced as one of the options for potential revenue recycling**, even though the carbon tax had not yet been introduced.
 - The incentive allows businesses to claim deductions against their taxable income for energy-efficiency saving measures – measured in kWh equivalent. The rate at which the deduction is calculated was increased from 45c/ kWh to 95 c/kWh in 2015.
 - The South African National Energy Development Institute is responsible for monitoring and verification of energy efficiency savings claims from taxpayers and issues a certificate to the taxpayer endorsing the savings.
- The **mining and manufacturing sectors** are the **largest beneficiaries** of the incentive. **Initial analysis suggests that the monetary value or subsidy for energy efficiency investments is about R3 billion.**
- **National Treasury extended the duration of the EES incentive** to be aligned with the first phase of the carbon tax in Budget 2019 ie. incentive comes to an end on 31 December 2022.
 - A review of the Energy Efficiency Savings Tax incentive will also be undertaken in collaboration with the Department of Energy and SANEDI.

ADDITIONAL GREEN TAX INCENTIVES

- **Accelerated depreciation allowances** for renewable electricity generation and biofuels production (machinery). This applies to electricity production from sources such as wind, hydropower and solar energy.
- **R&D tax incentives (including green technologies)** - 150 per cent income tax deduction or expenditure incurred directly for Research & Development.
- Tax incentives for **biodiversity conservation** to promote biodiversity preservation in South Africa. The incentive allows landowners to have a reduced tax base based on the value of the area of their land that was protected as either a Nature Reserve or a National Park.

CONCLUDING REMARKS

- Increasingly, governments and businesses recognise that the world faces a climate crisis, and acknowledge the need for partnerships to limit global warming to below 1.5 degrees Celsius.
- **Carbon tax is the first step. South Africa will review the design of the carbon tax after it has been in operation for at least three years to ensure that the measure is contributing appropriately to cost-effective emissions reduction.**
- **Government will also continue to monitor developments under Article 6 of the Paris Agreement and their implications for the design and implementation of the domestic carbon offset scheme under the carbon tax.**

THANK YOU

ENERGY EFFICIENCY SAVINGS TAX INCENTIVE: APPLICATIONS PER SECTOR TO DATE

List of approved projects / certificates:

Project	Activity	kWh Saved	Technology
1	Manufacturing	15 940 704	Whole Plant Optimisation
2	Manufacturing	5 094 504 657	Operational Energy Efficiency
3	Manufacturing	3 573 590	Energy Efficiency Project
4	Mining	35 224 669	Operational Energy Efficiency
5	Mining	83 909 700	Energy Efficiency Project
6	Manufacturing	122 567	Lighting Retrofit
7	Manufacturing	59 254 015	Energy Efficiency Project
8	Manufacturing	9 638 183	Whole Plant Optimisation
9	Commercial Building	175 302	Lighting and HVAC
10	Commercial Building	100 675	Lighting and HVAC
11	Commercial Building	124 254	Lighting and HVAC
12	Commercial Building	(99 475)	Lighting and HVAC
13	Commercial Building	681 766	Lighting and HVAC
14	Commercial Building	128 680	Lighting and HVAC
15	Commercial Building	(123 531)	Lighting and HVAC
16	Manufacturing	61 406 520	Whole Plant Optimisation
17	Manufacturing	93 757 774	Whole Plant Optimisation
18	Manufacturing	215 977 808	Whole Plant Optimisation
19	Manufacturing	96 876 426	Whole Plant Optimisation
20	Manufacturing	159 422 461	Whole Plant Optimisation
21	Mining	2 017 987	Energy Efficiency Project
22	Mining	1 457 024	Energy Efficiency Project
23	Manufacturing	363 217	Lighting Retrofit
Total kWh saved		5 934 434 973	
Estimated cost to fiscus (Rand)		2 672 908 688	



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INTEGRATION OF CLIMATE CHANGE INTO BUDGETING AND FINANCE

IBFCCA & CABRI PEER LEARNING & EXCHANGE EVENT

*Strengthening the link between climate change policy and the budget process:
A Provincial Perspective*

Jabu Moroko | National Treasury | 24 February 2021



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



OVERVIEW

- Uniform Provincial Budget Programme Structures
- Provincial Budget Visits (Engagements)
- Benchmark Exercise
- MTEF Guidelines
- Progress & Future Plans

UNIFORM PROVINCIAL BUDGET PROGRAMME STRUCTURES

- NT introduced a *Climate Change* sub-programme in the budget programme structures of provincial *Environmental Affairs* departments

<p>2. Environmental Policy, Planning and Coordination</p>	<ol style="list-style-type: none"> 1. Intergovernmental Coordination, Spatial and Development Planning. 2. Legislative Development 3. Research and Development Support 4. Environmental Information Management 5. <u>Climate Change Management</u>
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- Objectives of the sub-programme:

<p>2.5</p>	<p>Climate Change Management</p>	<p>Develop strategies to respond to the challenges and potential impact of climate change including the development and coordination of provincial climate policy and programmes. Includes both greenhouse gas mitigation response and vulnerability and adaptation responses to climate change.</p> <p>Implement relevant tools such as a greenhouse gas inventory and vulnerability maps as required.</p>
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PROVINCIAL BUDGET VISITS (ENGAGEMENTS)

- An extract of the 2019 Provincial Budget Visits Terms of Reference:

7. Environmental Affairs

- a) What are the visible effects of climate change, particularly global warming, on the province's social and economic sectors? What measures or technological capabilities is the province using to lessen the impact of adverse weather conditions in these sectors?
- b) How does the department facilitate the mainstreaming of climate-resilient development into economic planning and ensure integration into the intergovernmental fiscal budgetary process?
- c) Provide status report on the implementation of the Provincial Climate Change Situational Analysis and Needs Assessment: How are climate change risk and vulnerability assessments used to improve human settlement and guiding planning and budgeting priorities?

- An abstract of the Provincial Benchmark Exercise agenda:
-

Agenda

2020 Provincial Benchmark Exercise

January 2020

Budget Council Boardroom, 40 Church Square, Pretoria

09:00 – 16:00

1. **Presentation by Provincial Treasury covering** **09:15-10:30**
 - Climate change crisis is fast looming, how are provincial budgets responding to this (adaptation) and what interventions (mitigation) have been put in place over the MTEF? In terms of infrastructure planning, how is the risk of climate change considered to ensure that structures will be resilient?
 - Agriculture:
 - In its 2019/20 summer Seasonal Climate Watch (November-March), the South African Weather Service (SAWS) has effectively forecasted higher than normal temperatures and below-normal rainfall. Outline the plans to deal with the looming drought due to lack of adequate rainfall as forecasted by SAWS.

MTEF GUIDELINES

- An abstract from the 2021 MTEF Technical Guidelines for Provinces:

- 6.10** Further engagements are envisaged at sub-national level to intensify the awareness and futuristic readiness for climate change. While these reforms are formalised for implementation over the MTEF, provinces are encouraged to remain sensitive to the climate change demands and take interim budgetary precautions to alleviate the impact thereof.
- 6.11** The 2020 budget review highlighted the risk of reactionary measures to combat climate change. As extreme weather patterns are becoming more frequent as a result of climate change, climate damages on infrastructure and economic sectors have put basic services and infrastructure under threat which in turn, strain public budgets. While parts of South Africa continue to grapple with a years-long drought, severe floods and storms there is limited data on the investment government is currently making towards climate change. Integrating climate change into the budget process is required to understand and improve resource allocation efficiency and is a necessary step towards meeting South Africa's long-term climate goals.

PROGRESS & FUTURE PLANS

- Assessment of provinces' climate-informed budget process:

Advanced	Emerging	Beginners
Gauteng	Eastern Cape	Limpopo
KwaZulu Natal	Northern Cape	Free State
Western Cape	Mpumalanga	North West

- Based on the desktop exercise and engagement with provinces
- National Treasury established, in 2019, an internal working group on climate change:
 - to share knowledge and expertise across all levels of the public financial management domain.
- The work group will overlook the following projects:
 - Diagnostic of NT's role on climate change; and
 - Climate Budget Tagging.
- A Climate Budget Tagging Advisory Committee (CBT-AdCom) comprising all government spheres was established in 2020

END

Thank you



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Nigeria's Approach

Halima Bawa-Bwari

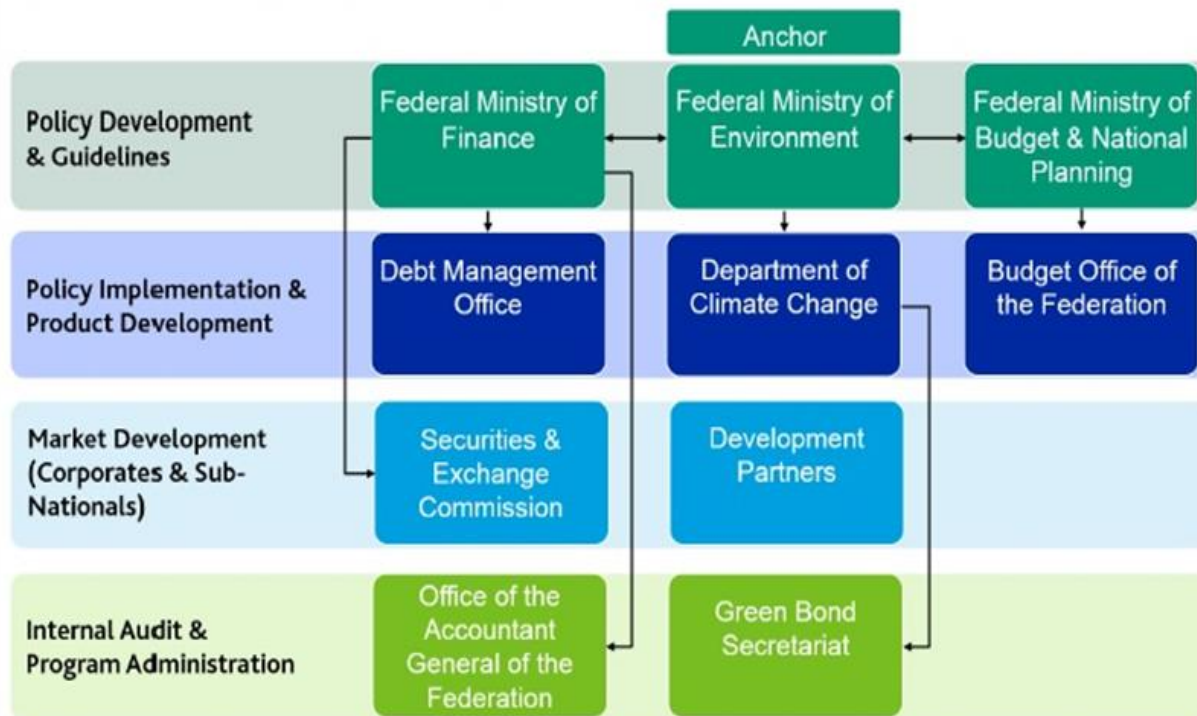
Acting Director, Department of Climate Change

Federal Ministry of Environment

The Sovereign Green Bond Experience

- ▶ **Introduction**
- ▶ **FMEEnv's Role in the Green Bond Process**
- ▶ **Work streams**
- ▶ **Key requirements for Issuance**
- ▶ **Political and institutional framework**

The Government of Nigeria's green bond institutional framework



Source: Nigerian Federal Ministry of Environment

- ▶ **Green Bond Issuances**
- ▶ **Monitoring and Evaluation**
- ▶ **GB Reporting obligations**
- ▶ **What made it successful?**
- ▶ **Challenges**
- ▶ **Lessons learnt**

Future Climate Change Policy and Budget Process

- ▶ **State and Corporate participation**
- ▶ **States** - so far indirect participation through project sites location.
- ▶ **Corporates** - currently done independent of FGN. Access Bank and North South Power also issued their Green bonds in 2019.

- ▶ Federal and State budgets shows that climate change Mitigation and Adaptation accounts for approximately less than 0.1% of spending in Nigeria.
- ▶ no clear demarcation for climate change projects in the Budgets.
- ▶ Nigeria Climate Change Policy recently revised, awaiting Federal Executive Council approval. The policy document captures update of emerging issues in the various sectors not reflected in the previous policy, such as the inclusion of the Paris Agreement, Gender mainstreaming and social inclusiveness.

NDC and the Finance/Budget Link

- ▶ **At Federal Level** - through the NDC/Green Bond projects - National budgets and processes started being **unconsciously “Green Tagged”** - project funds ring-fencing and monitoring.
- ▶ **At State level** - New initiative - **The State Fiscal Transparency, Accountability and Sustainability (SFTAS)** programme funded by the World Bank - encouraging States to be Transparent and Accountable, by way of providing incentives for compliance.
- ▶ The next phase, in collaboration with FMEnv, is the **Climate Change Budget Tagging Programme (CCBT)** - states to adequately tag climate change projects and establishing frameworks for implementation. Climate Change Budget tagging enables governments to clearly classify, identify and track climate change and Green Growth public expenditures.

CONCLUSION

To deliver on climate commitments, it is necessary to emphasize that capital needs to flow towards low-carbon climate resilient opportunities and away from carbon intensive, polluting activities.





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**Inclusive Budgeting and Financing for
Climate Change in Africa**

**Session 5: Climate responsive
revenue measures and wider
integration initiatives**

Ms. Rebeca Godoy

Financial Market and Product Structuring
Specialist

ARC's Outbreaks & Epidemics team

24th February 2021



About ARC

- Specialized Agency of the African Union established to help African Governments improve their capacities to **better plan, prepare, and respond to extreme weather events, natural disasters and outbreaks and epidemics.**
- Enables countries to **strengthen their disaster risk management systems** and access **rapid and predictable financing** when disaster strikes, mobilizing private sector funds from Capital Markets

How ARC contributes to Inclusive Budgeting and Financing of Climate Change in Africa?

- Implements an African risk- transfer and risk-sharing mechanism **with the participation and mobilization of private sector**
- Addresses **the loss and damage** associated with **climate change** and other disasters
- Supports comprehensive climate risk management approaches, including **scaling up and replicating good practices and initiatives**
- Strengthen and **promotes African collaboration**, centers and networks on strategic approaches

Country's Integration of Products

Market Based Risk Transfer Products

- Risk transfer for assets such as indemnity property insurance or agriculture insurance
- Risk transfer for liquidity and budget management such as parametric insurance or other insurance like products such as catastrophe bonds and derivatives

Risk Transfer

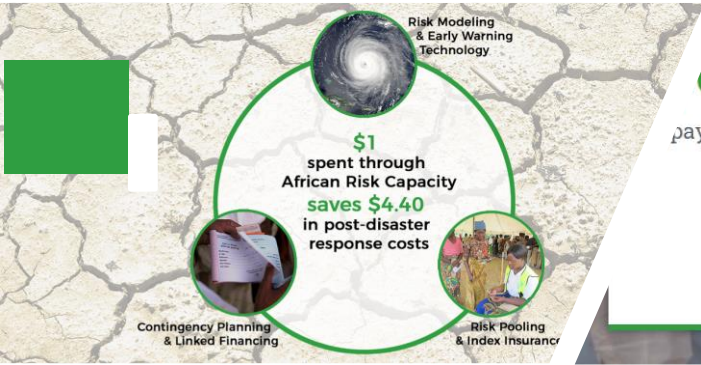
Contingent Financing Products

- Financial instruments such as contingent credit lines provide access to immediate liquidity after a pre-defined shock

Risk Retention

Budget Reserves / Reallocations

- Funds designated specifically for financing disaster related expenditures
- Diverted spending from other planned government programs
- International assistance (uncertain amounts and timing)




61,000,000
payouts for early responses




>2,100,000
vulnerable people assisted




>\$600 million
in drought risk coverage provided




ARC's impact




Customised Early Warning



Contingency Planning



Parametric Insurance



Risk Pooling & Risk Transfer





ARC's Products and Services to clients

- ❑ **Drought** continues to be the flagship product
- ❑ **Tropical Cyclones**
- ❑ **Outbreaks and Epidemics (O&E)**
- ❑ **Floods**
- ❑ ARC's Africa **RiskView**: ARC's forecasting tool
- ❑ Development of **Micro and Meso** insurance solutions in agricultural insurance markets
- ❑ **Capacity Building** throughout the whole process

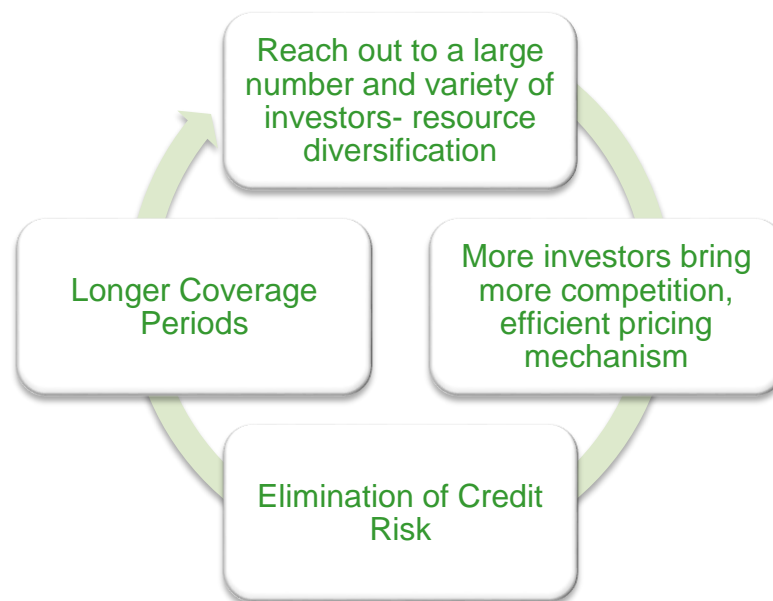
ARC's Mobilizing capital from the private sector for the right scale-up

Building the flexibility to leverage on market's-based solutions

- ❑ **Insurance**
- ❑ **Reinsurance**
- ❑ **Catastrophe Bonds**
- ❑ **Catastrophe Swaps**
- ❑ **Discussions with the sector**
- ❑ Other type of **collateralized insurance and alternatives** within the ILS market

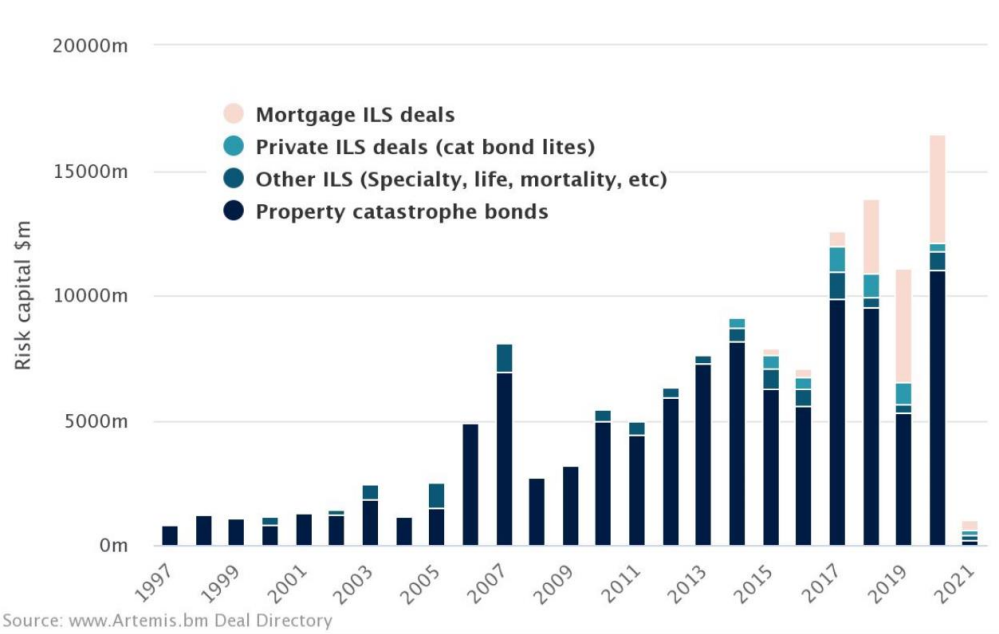
Innovation in the Capital Markets

- ❑ ARC is always exploring ways to improve the array of products available to its member clients
- ❑ Transparency in pricing is key for a successful program
- ❑ Mobilizing capital markets will scale up ARC's initiatives
- ❑ Reinsurance is still the main source for risk-transferring at ARC, but other options are being analyzed, including the Insurance Linked Securities (ILS) Market. Why?



Why Financial Innovation is important?

To Mobilize private sector resources willing to take the risk



Climate Responses Measures and Integration Initiatives

- Several initiatives are already in place and expanding the products and solutions linked to climate change
- Few are currently challenged after years of implementation and track record



- Geographical expansion- Central America
- New products- excess of rain and fisheries sector



- Increasing preparedness, resilience and cooperation in response to climate and disaster risks



- Mobilizing funds to improve financial resilience to climate and disasters shocks



- Largest risk transferred solution by Public Sector
- Expanding to new challenges (Hydrological risks)



- Modeling and assessment tools, integrated solutions to financial vulnerabilities



- Established in 1996 has acted as a Benchmark to other countries within the continent and outside
- It is facing current challenges in its continuity



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Closing remarks and way forward

Neil Cole, Executive Secretary,
CABRI

Take aways

- 17 countries participated; 45 officials from ministries of finance, budget, planning and environment
- Pace and direction of reforms to integrate climate change into PFM systems in Africa varies substantially
- Successful approaches have responded to domestic contexts and been introduced in an iterative manner
- Need functional PFM systems to successfully adapt - to also consider climate change
- Important that gender is fully considered as climate change impacts on men and women differently
- Engagement with civil society organisations as allies

Next 8 months

- Activities during the inception phase will inform the implementation phase of the program
- ✓ **Component A:** Three peer learning and exchange events
 - Coordinating gender and climate change integration into PFM
 - CABRI/UNDP Climate change integration reforms
 - CABRI/IIED Climate finance accountability
- ✓ **Components B and C:** work led by UNDP, IBP and IIED in Ghana and Uganda will continue
- ✓ Opportunities for further engagement with countries
- ✓ How best to approach the reform agenda and support countries in light of Covid-19



Concluding comments

- This is a new field not just in Africa but across the world, which is also relatively new for ministries of finance
- The need for a mainstreaming approach that encompasses all sectors, led by Ministries of Finance as the guardians of public finances.
- Climate change has unique levels of complexity – for example associated with defining what is/ isn't relevant expenditure and also projecting impacts.
- Through the IBFCCA program, we hope to support ministries of finance as they integrate climate change into PFM

Keep Safe



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