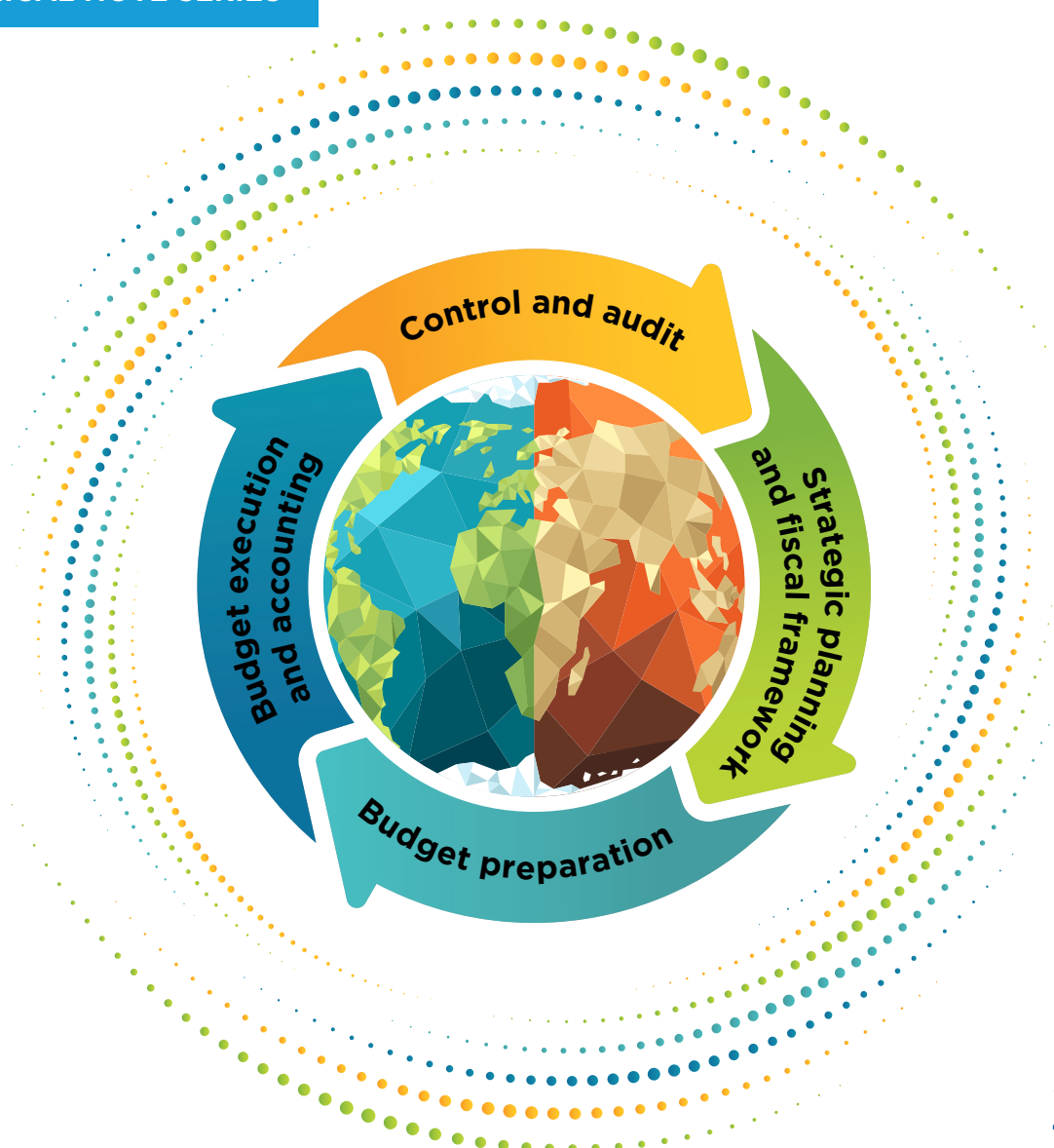


BUDGETING FOR CLIMATE CHANGE

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

With a Focus on Medium-Term Budgets

TECHNICAL NOTE SERIES



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The report was edited by Susan Philip and Duarte Branco. Vandy Ros is responsible for the design and formatting of the publication. Thanks to Duarte Branco for his support in getting the document to be more user-friendly.

About the Governance of Climate Change Finance Team (UNDP)

The Governance of Climate Change Finance Team of the UNDP Bangkok Regional Hub comprises experts specializing in SDG Finance, Governance, Development Finance and Political Economy, Climate Change, Public Financial Management and Development Effectiveness.

About This Guidance Note

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.) who wish to strengthen the integration of climate change in their medium-term budget frameworks. It follows on previous guidance notes such as, Climate Change Knowing What You Spend: A guidance note for Governments to track climate finance in their budgets (2019). Please see <https://climatefinancenetwork.org/publication/>. [Budgeting for the Sustainable Development Goals Aligning domestic budgets with the SDGs Guidebook](#) (2020) may also be of interest.

About UNDP

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FOREWORD

The impacts of climate change are being felt worldwide, with the poorest and vulnerable bearing its brunt. The COVID-19 pandemic has exacerbated countries' social, economic and environmental challenges, which has set back the development gains made in recent years. This has led to the narrowing of fiscal space and rising debt levels, calling for enhanced policy attention and resource mobilization to meet challenges posed by climate change.

As countries recover from this shock, there are growing calls across societies to build forward better, more inclusively and greener, and accelerate the transition to net zero-carbon economies. National Determined Contributions (NDCs) point to commitments made by countries across the globe to address climate change in the context of the Paris Agreement. Governments understand that climate change impact needs to be assessed within the context of their countries and the flow of finance into priority sectors enabled to secure a more sustainable future.

Domestic sources of finance form the bedrock of these efforts. Therefore, it becomes critical to integrate climate change into countries' fiscal and monetary policies with due consideration to transition-related risks². Finance Ministries are taking the lead to integrate climate change into public budgets to reduce the countries' economic and social costs and risks. In fact, for the first time, the G20 Framework Working Group discussed the macroeconomic risks connected to climate change. The G20 Sustainable Finance Working Group is developing a roadmap to continuously and progressively address this agenda in the G20. Along these lines, more than 70 countries worldwide have embarked on designing SDG financing strategies through [Integrated National Financing Frameworks](#), which increasingly include a focus on mainstreaming climate change into planning and budgeting. As the technical lead, we collaborate with the International Monetary Fund (IMF) and other International Financial Institutions (IFIs), the European Union (EU), as well as 17 other UN agencies like UNICEF, UN Women, ILO and UNCTAD to provide the country level support.

An estimated \$5 trillion+ of annual public and private investment through 2030 is required to meet the Paris Agreement.³ We must accelerate efforts as the costs of climate change on people's lives and the economy is mounting. The intersection between the development, environmental, and climate agendas is the essence of the Sustainable Development Goals. The COVID-19 pandemic is the ultimate proof that we cannot divorce people's health

2. See e.g., World Bank (2020), table 1.

3. <https://www.greenbiz.com/article/net-zero-energy-transition-requires-52-trillion-investment>

from the well-being of our environment. As UNDP, [we](#) support countries, institutions and the private sector through various services and instruments to maximize the impact of public and private finance in combating climate change and its effects. This Guidance Note, which is part of a series of 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 espoused⁴.

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. This includes the budget strategy setting or pre-budget documentation stage (macro-economic analysis, country outlooks, macro fiscal forecasts and budget strategy or equivalent paper), the budget preparation stage (budget circulars and guidelines, sectoral plans and allocations, and budget review by central budgetary authorities) and the budget approval and accountability stage (legislative approval and stakeholders' participation). Each stage is broken down into several sub-stages, with specific measures and tools to integrate climate

change elaborated. The Guidance Note also suggests possible interventions at each sub-stage for different sets of stakeholders, including Ministries of Finance, Climate Change Policy Bodies (CCPBs), relevant Ministries, Departments and Agencies, and those holding accountability (Central Planning agencies, Cabinet, Legislatures, Civil Society Organizations (CSOs), etc.). The note also provides supplementary information on relevant tools and case studies of various countries, thus rooting the recommendations in ground reality.

The Guidance Note also considers how gender and social inclusion aspects can be addressed in tandem to minimize adverse impacts of climate change on the poor. It recognizes that every country is unique and climate change integration within countries' public finance management (PFM) relies on the state of play regarding the broader PFM systems, processes, and reforms. It outlines principles that are responsive to the gradual strengthening of PFM reforms across the different stages of the budget cycle. The Guidance Note also recognizes that this approach can be adapted to mainstream the SDGs into the budgetary framework. By capturing these essential dimensions, the objective of this Note is to provide the necessary information with a systematic approach to policy makers and practitioners for integrating climate change into budgets and strengthening climate policy planning and budgeting, with a focus on Medium Term Budgeting.

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4. See Helsinki Principles Article 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices; and Article 6: Engage actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement.

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