



REPUBLIC OF KENYA
THE NATIONAL TREASURY
AND PLANNING



A TRAINING HANDBOOK

CLIMATE FINANCE: BUDGET CODING, TRACKING AND REPORTING

Enhanced Transparency of Climate Finance in Kenya
2019

ABOUT UNDP

UNDP's work on climate change spans more than 140 countries and USD \$3.7 billion in investments in climate change adaptation and mitigation measures since 2008. With the goal to foster ambitious progress towards resilient, zero-carbon development, UNDP has also supported the implementation of the Paris Agreement on Climate Change by working with countries on achieving their climate commitments or Nationally Determined Contributions (NDCs).

The UNDP NDC Support Programme provides technical support for countries to pursue a "whole-of-society", integrated approach that strengthens national systems, facilitates climate action and increases access to finance for transformative sustainable development. The programme helps countries address these financial barriers by deploying a structured approach for scaling up sectoral investments and putting in place a transparent, enabling investment environment.

Beyond direct country support, UNDP facilitates exchanges and learning opportunities on NDC implementation at the global and regional level by capitalizing on our close collaboration with the UNFCCC and other strategic partners.

The Programme is generously supported by the European Union and the Governments of Germany and Spain and works in contribution to the NDC Partnership.

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FOREWORD

Kenya is a party to the United Nations Framework Convention on Climate Change (UNFCCC), its Kyoto Protocol, and the Paris Agreement. Over the past five years, considerable efforts have been made to mainstream climate change considerations into the country's plans, policies, strategies, projects and programmes. These documents include the Vision 2030; the National Climate Change Response Strategy, 2010; the National Climate Change Framework Policy; the National Climate Finance Policy; the Green Economy Strategy and Implementation Plan; the MTPs; and the Climate Change Act, 2016. They provide a regulatory framework for an enhanced response to climate change and mechanisms and measures to achieve low-carbon, climate-resilient development. Further, they enable mechanisms for mobilising, tracking and reporting on climate finance.

Kenya's economy is highly dependent on its natural resource base. This makes our country highly vulnerable to climate change and threatens our Vision 2030 goal to create a globally competitive and prosperous nation with a high quality of life. Addressing climate change requires us to transform our economy by integrating climate change into development policies and actions across multiple sectors. This will lower greenhouse gas emissions, reduce our vulnerability to climate shocks and deliver poverty reduction gains. Taking action to adapt to and mitigate climate change is in our national interest.

The National Climate Change Response Strategy and its associated National Climate Change Action Plans lay the groundwork for Kenya's Nationally Determined Contribution under the Paris Agreement. Actions to address climate change include tree planting programmes, protecting and conserving the five water towers (Mau Forest Complex, Aberdares, Mt. Kenya, Cherangani Hills and Mt. Elgon), and pursuing geothermal development, energy efficiency programmes and drought management. Kenya has also gained experience in the carbon market by developing mitigation projects under the Clean Development Mechanism and Voluntary Carbon Market, including in the areas of renewable energy, energy efficiency and restoration of degraded lands.

Climate finance is an important enabling aspect of our efforts to address climate change. The Paris Agreement sets a goal of mobilising USD 100 billion per year by 2020 to support mitigation and adaptation activities in developing countries. Significant financial resources from the public and private sectors are expected to be channelled towards climate action. If our country is to take advantage of these opportunities, the proper institutional and financial mechanisms must be in place so that resources are directed efficiently toward national climate and development priorities. This is the context in which we have developed this National Policy on Climate Finance.

The objective of this Training Handbook on climate finance for state and non-state actors is to improve our ability to mobilise and effectively manage and track adequate and predictable climate change finance from public and private sources. The handbook introduces the learner to climate change and presents the historical background of climate financing, sources and the governance structure of climate finance. It further elaborates the process of planning, budgeting and reporting on climate financing at the sector level, as well as costing for climate change in government programmes and/or projects. It dives deep into the climate finance codes used under the Standard Chart of Accounts (SCOA) and their applicability within the Integrated Financial Management Information System (IFMIS) system.

This handbook represents Kenya's first step towards enhancing transparency of the climate finance support needed and received through international and national sources. Further, it links the inputs and impacts in terms of emission reduction and resilience building at national and sub-national levels.

Julius Muia, PhD, EBS

Principal Secretary
The National Treasury

ACKNOWLEDGEMENT

This training handbook on climate finance budget coding, tracking and reporting is part of the Government of Kenya's strategic intervention to build climate finance capacity to better coordinate resource mobilization and track expenditures on climate change at both the national and county levels. Climate finance tracking and reporting will not only enhance coordination and effectiveness of climate change mitigation and adaptation efforts and initiatives but will also promote robust transparency in accordance with the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC).

The handbook was developed by a Multi-Stakeholder Technical Working Group coordinated by the National Treasury and the Ministry of Environment and Forestry. The team was composed of officers appointed from the National Treasury (TNT), the Ministry of Environment and Forestry; State Department of Planning; Council of Governors (CoG); Kenya School of Government (KSG); Kenya Private Sector Alliance (KEPSA); Transparency International (TI) and Pan African Climate Justice Alliance (PACJA). I take this early opportunity to recognize their professionalism and diligence throughout the process of developing the handbook.

A wide range of individuals and institutions were consulted during preparation of the handbook. This culminated in a validation workshop attended by representatives from State departments and agencies of the national government, county governments, civil society, the private sector, and academia. The National Treasury is also grateful to the national and international climate change experts who provided valuable technical inputs to the process.

Reaching this significant milestone in Kenya's response to climate change would not have been possible without the generous financial and technical support from UNDP through the NDC Support Programme under the Low Emissions and Climate Resilient Development Project (LECRD). I also wish to acknowledge the support through PACJA. I sincerely thank you all and look forward to your continued support and collaborative cooperation in future.

Dr. Ibrahim M. Mohamed, CBS

Principal Secretary,
Ministry of Environment and Forestry

EXECUTIVE SUMMARY

Climate finance is one of the key enablers to climate change adaptation, mitigation and enabling environment. It refers to resources over and above programme/project costs mobilized to address the effects of climate change. Climate finance covers the entire cycle - from mobilizing resources to using, coding, tracking and reporting climate change-related expenditures by both government and non-government entities.

This handbook is part of the Government of Kenya's strategic intervention to build climate finance capacity so that it can better coordinate resource mobilization and track climate change expenditures. The goal is to equip all state and non-state agencies with the requisite skills and knowledge to properly identify climate change elements, plan, budget and mobilise resources, and code and track expenditures towards adaptation and mitigation, both as stand-alone initiatives and projects and/or within programmes and projects.

The handbook is organized into four modules. Module one introduces the learner to climate change in general, important terminology and highlights, and practical adaptation and mitigation actions. Module two presents the historical background to climate financing and discusses in detail the sources and governance structure of climate finance. Module three provides a detailed review of the process of budgeting for climate change at the sector level and how to cost for climate change in government programmes and/or projects. It also identifies the entry points for mainstreaming climate financing in the government planning and budgeting process. Module four focuses on the climate finance codes used under the Standard Chart of Accounts and applicable under the IFMIS system used in the country. It also describes the mechanism and procedures to track and report climate-relevant expenditures during budget implementation and financial reporting for the government and non-state actors.

Kenya has developed key policy documents to enable the country to address climate change effectively. The documents adopted include the Climate Change Act, 2016; the National Climate Change Framework Policy; the Green Economy Strategy and Implementation Plan 2016-2030; the National Climate Finance Policy; the Disaster Risk Management Policy; the National Climate Change Action Plan 2018-2022; and the Disaster Risk Financing Strategy 2018-2022.

The relevant references and annexures are presented at the end of the handbook.

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ABBREVIATIONS

ADB	Asian Development Bank	KfW	Kreditanstalt für Wiederaufbau
ADP	Annual Development Plan	LDCF	Least Developed Countries Fund
AF	Adaptation Fund	MCDAs	Ministries, Counties, Department and Agencies
AFD	Agence Française de Développement (French Development Agency)	MDAs	Ministry, Departments and Agencies
AfDB	African Development Bank	MDBs	Multilateral Development Banks
AIA	Appropriation-In-Aid	MERV	Minimum Efficiency Reporting Value
ARUD	Agriculture, Rural and Urban Development	MRV	Monitoring, Reporting and Verification
BPS	Budget Policy Statement	MTEF	Medium Term Expenditure Framework
BROP	Budget Review and Outlook Paper	MTP	Medium Term Plan
CBDR-RC	Common but Differentiated Responsibilities and Respective Capabilities	NCCAP	National Climate Change Action Plan
CCBC	Climate Change Budget Code	NCCC	National Climate Change Council
CCCF	County Climate Change Fund	NCCRS	National Climate Change Response Strategy
CDM	Clean Development Mechanism	NDA	National Designated Authority
CEC	County Executive Committee	NDC	Nationally Determined Contribution
C-FSP	County Fiscal Strategy Paper	NEMA	National Environment Management Authority
CIDP	County Integrated Development Plans	NIE	National Implementing Entity
CIF	Climate Investment Funds	ODA	Official Development Assistance
COP	Conference of the Parties	OECD	Organization for Economic Co-operation and Development
CRA	Commission on Revenue Allocation	OPF	Operational Focal point
CRE	Climate Relevant Expenditure	PFM Act	Public Finance Management Act
CTF	Clean Technology Fund	PIM	Public Investment Management
DANIDA	Danish International Development Agency	PPCR	Pilot Program for Climate Resilient
DFID	Department for International Development (United Kingdom)	PPP	Public Private Partnership
DNA	Designated National Authority	QEBR	Quarterly Economic & Budgetary Review
DOD	Department of Defence	RBCF	Result Based Climate Financing
DRR	Disaster Risk Reduction	REDD+	Reducing Emissions from Deforestation and Forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries
EAC	East African Community	SAGAs	Semi-Autonomous Government Agencies
EII	Energy, Infrastructure and ICT	SCCF	Special Climate Change Fund
EU	European Union	SCF	Strategic Climate Fund
GCF	Green Climate Fund	SCOA	Standard Chart of Accounts
GEF	Global Environment Facility	SIDA	Swedish International Development Agency
GESIP	Green Economy Strategy and Implementation Plan	SREP	Scaling Up Renewable Energy Program
GFS	Government Financial Statistics	SWG	Sector Working Groups
GHG	Greenhouse Gas	TNT	The National Treasury
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German International Development Agency)	TWG	Technical Working Group
ICF	International Climate Funds	UNCED	United Nation Conference on Environment and Development
IFMIS	Integrated Financial Management Information System	UNFCCC	United Nations Framework Convention on Climate Change
IMF	International Monetary Fund		
JICA	Japan International Corporation Agency		

MODULE ONE:
**Introduction to
Climate Change**

OVERVIEW

This module provides a general overview of climate change, response strategies and plans in Kenya. In particular, it introduces the learner to the basic aspects of climate change and its economic impacts globally, regionally, nationally and on devolved units. It also seeks to develop skills and knowledge on low-carbon, climate-resilient economic activities and how they relate to climate financing and sustainable development agenda.

MAIN OBJECTIVE

This module introduces the learner to the basics of climate changes, terminology, causes, impacts and measures to address the causes and impacts.

SPECIFIC OBJECTIVES:

- a. To describe the basic terms used in climate change;
- b. To identify the causes and impacts of climate change; and,
- c. To highlight the response mechanism to the causes and impacts

1.1 BACKGROUND

Climate change is one of the major phenomena that threaten the global development agenda in the 21st century. Aware of the dangers posed by changing climatic conditions, the global community has united to confront this threat to humanity and natural resources.

Response to climate change is a priority of the Government of Kenya, both at the national level and within devolved units. The Constitution and our commitments under global treaties and conventions require the government to take action to mitigate and adapt to the impacts of climate change. The Climate Change Act of 2016 provides the legislative framework for an enhanced response to climate change.

To understand climate change, it is important to distinguish between weather and climate. While weather refers to the state of the atmosphere of a given place at a given time, including characteristics such as rainfall, temperature, wind and humidity, climate is the average weather pattern in a place over a period of at least 30 years, as defined by the World Meteorological Organization. Climate change is therefore a permanent shift in the state of the climate that persists for an extended period of time (30 years or more). It is attributed directly or indirectly to anthropogenic (human) activity, which contributes to increased greenhouse gases (GHG) and, hence, alters the composition of the global atmosphere.

According to the Act, climate change means a change in the climate system caused by significant changes in the concentration of GHG as a consequence of human activities. On the other hand, climate change resilience means the ability to maintain competent function and return to some normal range of function, even when faced with the adverse impacts of climate change.

Climate finance refers to monies mobilized by government or non-governmental entities to finance climate change mitigation and adaptation actions and interventions. Specifically, it refers to the additional cost of building resilience (adaptation) and reducing emissions (mitigation). This separates ordinary development project costs, which would otherwise have been incurred, to address the extra costs of building resilience and reducing emissions within project design (additionality) and implementation.

1.2 CAUSES OF CLIMATE CHANGE

Climate change is attributable to global warming due to an unprecedented increase in the concentration of greenhouse gases (GHG) as a result of anthropogenic activities, particularly the exploitation of fossil fuels.

Greenhouse gases are substances that can trap heat in the atmosphere. Thus, they keep the earth's surface warmer than it would otherwise be. The main GHG are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (NO_x). The result is global warming, which refers to the increase in the average surface temperature of the earth's atmosphere and oceans.

Anthropogenic activities that cause GHG emissions are:

- a. Agriculture – including enteric fermentation from livestock; use of fertilizers; rice cultivation; burning of farm residues; and poor land cultivation;

- b. Land use, land use change and forestry – including the conversion of wetlands to croplands; conversion of forest land to croplands; deforestation; and forest degradation;
- c. Energy demand and supply – including energy generation using fossil fuels; transportation; burning of charcoal and the use of firewood and other biomass;
- d. Waste – including primarily emissions from decomposing waste and disposal of industrial waste; and,
- e. Industrial processes – including emissions arising from processing and the conversion of products from one form to another.

Actions aimed at reducing or avoiding GHG emissions are called mitigation actions.

1.3 IMPACTS OF CLIMATE CHANGE

The impacts of climate change include increased frequency and intensity of extreme weather events, causing, among other events, floods, droughts, strong winds and rising temperatures. This affects different sectors of the Kenyan economy differently. The sectors below are as defined in the Medium-Term Expenditure Framework (MTEF).

Agricultural and rural development: floods and droughts lead to, among other impacts, reduced food production (sometimes total crop failure and livestock death); post-harvest contamination; new pests and diseases in both crops and livestock; and destruction of farm infrastructure.

Energy, infrastructure and ICT: floods cause silting of dams and the destruction of roads, bridges and other infrastructure. Droughts result in lower water levels in dams and rivers, affecting hydro power generation, and reduced water supply for domestic, agricultural and industrial uses.

Health: droughts increase the incidence of respiratory diseases and malnutrition-related complications. Floods often lead to water-borne and vector-borne diseases, such as malaria and zoonotic diseases. Climate change has also led to the emergence of new diseases in areas where they were not previously present.

Education: floods affect access to learning institutions and the usability of facilities. The effect of droughts and floods in agriculture, health, energy and infrastructure affects both learners and teachers and, thus, interferes with the learning process and, ultimately, the quality of education.

Governance, justice, law and order: increased frequency and intensity of droughts has increased armed conflict among communities over water and pasture, especially in arid and semi-arid areas, and to more conflicts amongst pastoralists and crop farmers. Both types of conflict often create internal population displacement (climate refugees) and consequent complications. Human and wildlife conflicts have also grown, especially during extreme droughts and flooding. When infrastructure is flooded, security operations and emergency relief missions are hampered. In some cases, the impacts of droughts and floods have led to cross-border conflicts.

Social protection, culture and recreation: droughts and floods exacerbate the vulnerability of disadvantaged groups, such as the aged, ill, persons with disabilities, women and children. This exerts additional pressure and/or places an additional burden on scarce national resources.

Climate change exacerbates environmental degradation, desertification and biodiversity loss (fresh water, marine life and terrestrial ecosystems), resulting in soil erosion, deforestation, water scarcity, receding water bodies, drying wetlands, melting snow caps, rising sea levels and increased salinity in underground water aquifers and soils. Actions aimed at addressing the impacts of climate change are called adaptation actions.

1.4

CLIMATE CHANGE RESPONSE ACTIONS

Responses to climate change focus on adaptation, mitigation and means of implementation (i.e. finance, technology and capacity building). The Climate Change Act, 2016 describes adaptation as the adjustment in natural or human systems in response to actual or expected climate stimuli, or their effects, that moderates harm or exploits beneficial opportunities. The Act describes mitigation as efforts that seek to prevent or slow the increase of atmospheric GHG concentrations by limiting current or future emissions and enhancing potential sinks for GHG.

The enablers of climate change responses are policies, legislation and strategies or action plans that provide for adequate and predictable climate finance, climate-relevant technological transfer and capacity building. In that regard, Kenya has adopted the National Climate Change Response Strategy; the Climate Change Act, 2016; the National Climate Change Framework Policy; the Green Economy Strategy and Implementation Plan 2016 -2030; the National Climate Finance Policy; the Disaster Risk Management Policy; the National Climate Change Action Plan 2018 -2022; and the Disaster Risk Financing Strategy 2018-2022.

In addition, climate change has been mainstreamed in the Medium Term Plan (MTP III) 2018-2022, the County Integrated Development Plans (CIDPs) and the Performance Management Systems. At the sub-national level, as of December 2018, some counties had already developed county-specific climate change policies and/or established a climate change fund. These include the county governments of Makueni, Isiolo, Kitui, Wajir and Garissa. Other county governments that have made significant progress in developing their climate change policies and/or establishing climate change funds include Kisumu, Vihiga and Homa Bay.

1.5

CLIMATE CHANGE GOVERNANCE IN KENYA

The Climate Change Act, 2016 assigns responsibility for climate change to all arms of government, the private sector and the general public. Figure 1 describes the institutional framework as defined under the Act.

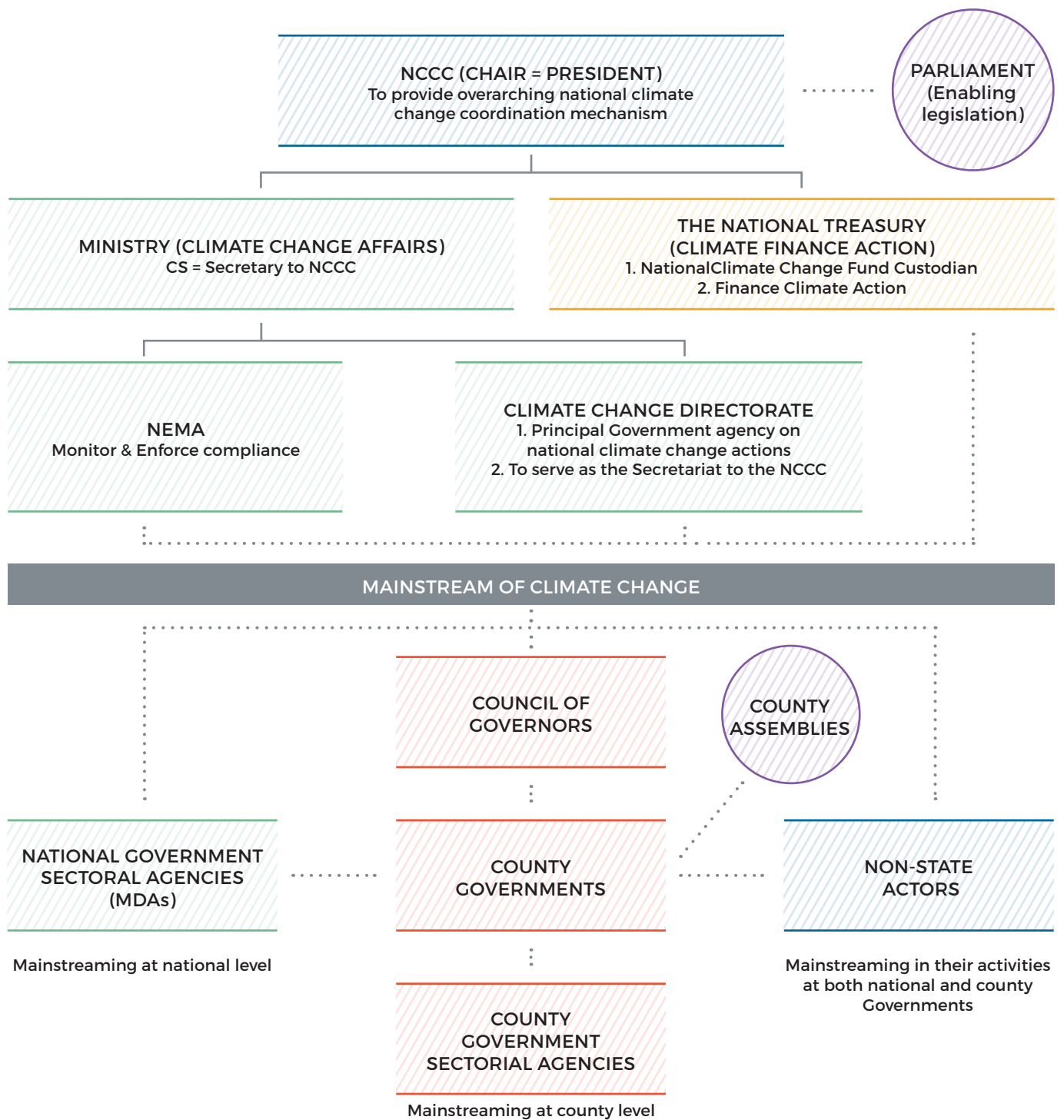


Figure 1: Climate change institutional coordination structure

NATIONAL CLIMATE CHANGE COUNCIL (NCCC)

The NCCC, chaired by the President of the Republic of Kenya, is responsible for overall coordination and advisory functions, including approving and implementing National Climate Change Action Plans (NCCAPs). The Council shall, among other tasks, “ensure the mainstreaming of climate change functions by the national and county governments”. Members of the Climate Change Council are defined in Section 7 of the Climate Change Act (No. 11 of 2016).



EXERCISE

List the members of the National Climate Change Council and their qualifications where applicable.

MINISTRY OF ENVIRONMENT AND FORESTRY

The Ministry of Environment and Forestry is currently responsible for climate change affairs and is charged with formulating and conducting periodic reviews of climate change policy, strategy and NCCAPs. The Ministry's Cabinet Secretary (CS) is the NCCC's Secretary. Through the Climate Change Directorate, the CS provides technical assistance on climate change actions and responses to county governments, based on mutual agreement and needs identified by those governments. The CS reports biennially to Parliament on the status of implementation of international and national climate change obligations.

The Climate Change Directorate (CCD) is currently part of the Ministry of Environment and Forestry, which is responsible for environment and climate change affairs. The Directorate manages the overall implementation of NCCAPs, including coordinating climate change actions and related monitoring, reporting and verification (MRV). The CCD is the Council's Secretariat and coordinates technical implementation of climate change functions. This includes providing analytical support and technical assistance on climate change and coordinating the implementation of and reporting on the NCCAPs.

THE NATIONAL TREASURY AND PLANNING

The National Treasury is responsible for developing a strategy and issuing regulations setting out procedures and powers to identify sources of climate finance, monitor use, and work with the Cabinet Secretary responsible for climate change affairs to develop incentives to promote climate change initiatives. The Climate Change Fund is vested in the National Treasury.

The State Department for Planning is responsible for mainstreaming climate change in national and county planning and for developing climate change indicators. It also monitors climate change actions.

OTHER GOVERNMENT ENTITIES

The Climate Change Act, 2016 sets out the roles and responsibilities of government entities regarding implementation of climate change actions and the NCCAPs:

- **County governments** are responsible for integrating and mainstreaming climate change into CIDPs, designating a County Executive Committee (CEC) member to coordinate climate change affairs, and reporting annually on the implementation of climate change responses. County governments are expected to establish climate change units, led by the CEC member responsible for climate change, to oversee the implementation of climate change actions stipulated in the CIDPs.

- **State departments and national public entities** are to establish climate change units responsible for integrating NCCAPs into strategies and implementation plans and for reporting to the Council on performance and implementation.
- **The National Environment Management Authority (NEMA)** is responsible, on behalf of the Council, for monitoring and enforcing compliance, by public and private entities, with assigned climate change duties and targets.

NON-STATE ACTORS

Various stakeholders have roles in implementing NCCAPs and addressing climate change, including:

- **General Public:** The public will play a role in planning, implementing and monitoring climate change interventions, with an emphasis on enhancing adaptive capacity and improving the ability to withstand climate shocks;
- **Private sector:** The private sector can support implementation of climate change actions in two ways: 1) adaptation – ensuring that businesses can adjust to the extent possible to any consequences of climate change by managing risk and exploiting opportunities; and 2) mitigation – reducing GHG emissions from business operations to minimise the impacts of climate change in the future. The Council may impose climate change obligations on private entities that would likely involve reporting requirements introduced in a phased manner and developed in consultation with the private sector;
- **Public benefit organisations:** They include non-governmental organisations, civil society organisations and faith-based organisations, amongst others, and have been involved in climate change activities in Kenya. Paragraph 1(i) Article 4 of the UNFCCC acknowledges the role of civil society in the areas of education, training and public awareness. Civil society is recognized as a powerful agent of change through creating public awareness, policy research and analysis and conducting advocacy on key socioeconomic issues, including climate change;
- **Academia and research institutions:** They help to provide evidence for knowledge-based decision-making by national and county governments, the private sector, development partners, and civil society. They conduct research on different aspects of climate change, including improving the understanding of climate change attribution in Kenya and developing appropriate technologies to reduce GHG emissions; and,
- **Media:** This sector provides vital information at times of emergency, from issuing imminent floods warnings to explaining how to deal with disease outbreaks. The media helps to disseminate information about climate change. Accurate, timely and relevant information is a critical component of resilience and appropriate climate change action.

The background is a vibrant green color with a pattern of fine, parallel white diagonal lines. Overlaid on this are several large, overlapping, semi-transparent shapes in a slightly darker shade of green, creating a layered, geometric effect.

MODULE TWO:
Climate Financing

OVERVIEW

Multiple enablers (policy, legal and institutional frameworks) and means of implementation (technology, finance and capacity building) are needed to implement climate change actions. This module reviews climate financing as an important component of climate change mitigation and adaptation. It includes the following units: history of climate financing; sources, channels and means of accessing climate finance; and the climate finance governance structure.

MAIN OBJECTIVE

This module explains climate financing and its evolution, sources, channels and importance in facilitating climate actions in Kenya.

SPECIFIC OBJECTIVES:

- a. To understand the historical background of climate financing;
- b. To understand the sources, channels and means of accessing climate finance in Kenya; and,
- c. To understand Kenya's climate finance governance structure.

UNIT ONE

2.1 HISTORICAL BACKGROUND

2.1.1 INTRODUCTION

Climate finance is a crucial climate change mitigation and adaptation element that Kenya needs in order to achieve its development agenda and meet its obligations under the UNFCCC. Over the years, the global community has developed key milestones to define and advance climate change and climate finance through continuous global engagement within United Nations structures. These developments provide the context and mechanisms to better understand and access climate finance. The nations of the world have held several global conferences to address and respond to the challenges and threats that climate change poses. The key highlights, policy recommendations and commitments emanating from these engagements are summarized below.

2.1.2 UNITED NATIONS CONFERENCE ON THE HUMAN ENVIRONMENT

This conference was held in Stockholm, Sweden from June 5-16, 1972. The main aim was to examine the problems of the human environment and identify those that can be solved through international cooperation and agreements. The gathering was important because it defined development's impacts on the environment and the transboundary nature of those impacts. It identified industrial pollution as one of the main causes of climate change.

2.1.3 BRUNDTLAND COMMISSION

The United Nations established the Brundtland Commission in 1983. Its objectives were to identify ways to save the human environment and natural resources and prevent the deterioration of economic and social development. The Commission produced a comprehensive policy framework referred to as "Our Common Future," also known as the "Brundtland Report". It includes three main pillars: economic, environmental and social.

2.1.4 UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT

In 1992, the United Nations Conference on Environment and Development (UNCED), also known as the Rio de Janeiro Earth Summit, adopted Agenda 21 and the three Rio Conventions - the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Convention on Biological Diversity (UNCBD) and the United Nations Convention to Combat Desertification (UNCCD). Although the three conventions are interrelated, the course focuses on UNFCCC.

a. **Agenda 21**

Agenda 21 provides for a global partnership and strives to reconcile the dual requirements of a high-quality environment and a healthy economy for all people of the world. It identifies key areas of responsibility and offers preliminary cost estimates for success. A key proposal from the Summit was that countries should mobilize their own resources from their public and private sectors to finance Agenda 21. However, new and additional external funds were deemed to be necessary if developing countries were to adopt sustainable development practices. Of the estimated USD 600 billion required annually by developing countries to implement Agenda 21, the countries were to transfer USD 475 billion from their own economic activities.

b. **United Nation Framework Convention on Climate Change (UNFCCC)**

Following the scientific findings from research and the first report of the Intergovernmental Panel on Climate Change (IPCC), climate change became one of the priority areas for the Earth Summit. With its adoption, the UNFCCC thus became the United Nations' first legally binding agreement to focus on combating the negative impacts of climate change. The mechanisms for implementing the UNFCCC are discussed at the annual Conference of the Parties.

The first Conference of the Parties (COP) was convened in 1995 in Berlin, Germany. To promote effective implementation of the Convention, the third COP was convened in Kyoto, Japan in 1997, where the first legal instrument, the Kyoto Protocol, was agreed. The Convention's Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) principle had a significant influence on the Protocol. Further, it acknowledged that the developed countries bear significant responsibility for climate change, given the amounts of their industrial CO₂ emissions. It assigned them the responsibility to mitigate climate change impacts and to help the least developed and developing countries to adapt to the negative impacts of climate change.

2.1.5 PARIS AGREEMENT

The Paris Agreement was adopted by the 21st Conference of the Parties (COP 21) to the UNFCCC in 2015 and came into force in 2016. It strengthens implementation of the Convention by dealing with GHG emissions, adaptation, building climate resilience and promoting enhanced means of implementation. Kenya ratified the Paris Agreement in December 2016 and submitted a wide range of ambitious adaptation and mitigation actions as Nationally Determined Contributions (NDC), as required under the Paris Agreement. The NDC is subject to review every five years, in accordance with the principle of no backsliding. The country will require both international support and domestic efforts to realize the NDC targets.

The climate finance goal under the Paris Agreement is to ensure that financial flows are consistent with a pathway towards low-emissions and climate-resilient development within the context of sustainable development. The Agreement reaffirms that financing, both public and private, should be directed towards implementing climate actions. The diagram below presents a summary of the Paris Agreement and the outline of its key provisions.

The Paris climate agreement: key points

Temperatures

2100



- Keep warming “well below 2 degrees Celsius”
- Continue efforts to limit the rise in temperatures to 1.5 degrees Celsius”

Financing

2020-2025



- Rich countries must provide 100 billion dollars from 2020, as a “floor”
- Amount to be updated by 2025

Specialisation



- Developed countries must continue to “take the lead” in the reduction of greenhouse gases
- Developing nations are encouraged to “enhance their efforts” and move over time to cuts

Emissions goals

2050



- Aim for greenhouse gases emissions to peak “as soon as possible”
- From 2050: rapid reductions to achieve a balance between emissions from human activity and the amount that can be captured by “sinks”

Burden sharing



- Developed countries must provide financial resources to help developing countries
- Other countries are invited to provide support on a voluntary basis

Review mechanism

2025



- A review every five years. First mandatory world review: 2025
- Each review will show an improvement compared with the previous period

Climate-related losses



- Vulnerable countries have won recognition of the need for “averting, minimising and addressing” losses suffered due to climate change

© AFP

Figure 2: The Paris Climate Agreement

Source: AFP

KEY CLIMATE FINANCE ASPECTS OF THE PARIS AGREEMENT

One of the Agreement's key goals is to ensure that financing is available to respond to climate change. It addresses various aspects of climate finance:

- a. **Mobilizing climate finance:** developed country Parties shall take the lead in mobilizing financial resources to support country climate change strategies. The mobilization should also take the needs and priorities of developing countries into account.
- b. **Provision:** developed countries shall provide scaled-up financial resources to developing countries. The financing should strike a balance between adaptation and mitigation.
- c. **Scale:** scaled-up financial resources shall be provided, with the climate finance goal of USD 100 billion per year to be met by the 2020. A new and more ambitious finance goal is to be set by 2025 above the floor of USD 100 billion.
- d. **Transparency:** developed countries shall submit biennial reports. These reports should communicate transparent, consistent, qualitative and quantitative information on financial support mobilized or provided through "public interventions," as well as the projected levels of future support.
- e. **Balance:** a balance shall be reached between adaptation and mitigation to address the greater emphasis historically on mitigation.
- f. **Financial mechanism:** to facilitate the provision of climate finance, the financial mechanism established by the Convention shall serve the Paris Agreement. The Global Environment Facility and Green Climate Fund constitute the operating entities of the mechanism that serve the Agreement. Other funds that serve the agreement include the Special Climate Change Funds, the Least Developed Countries Fund and the Adaptation Fund.
- g. **Progress assessment:** a global stocktake process shall be conducted in in 2023 and every five years thereafter. This climate finance information review will provide direction on future financing.



EXERCISE

Discuss the progress of the implementation of the UNFCCC and the Paris Agreement in Kenya. This should include, but not be limited to, policy, legal, institutional and programmatic/projects intervention measures.

UNIT TWO

2.2 CLIMATE FINANCE SOURCES AND CHANNELS

2.2.1 INTRODUCTION

A definition of the term “climate finance” has yet to be agreed internationally. However, according to the UNFCCC, climate finance refers to 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 may be directed either from developed to developing countries (north-south), from developing to developing countries (south-south), or be drawn from domestic financial flows in developing and developed countries.

Climate finance is critical to addressing climate change and Kenya’s vision for low-carbon, climate-resilient development. This requires significant investments in sectors that emit large quantities of GHG, as to adaptation and building resilience. Climate finance is also important to facilitate the capacity development and technology development and transfer needed to support implementation of climate actions. All areas of climate finance need to be gender responsive to ensure effectiveness and equity. Gender perspectives, principles and tools should be mainstreamed in all levels of the governance structures, procedures, processes and operations of climate finance mechanisms.

2.2.2 SOURCES AND CHANNELS OF CLIMATE FINANCE

The sources and channels of climate finance can be categorized broadly as public or private. For the purpose of this training, public and private sources have been further classified by international and national sources and channels. The diagram below summarizes the global climate finance architecture.

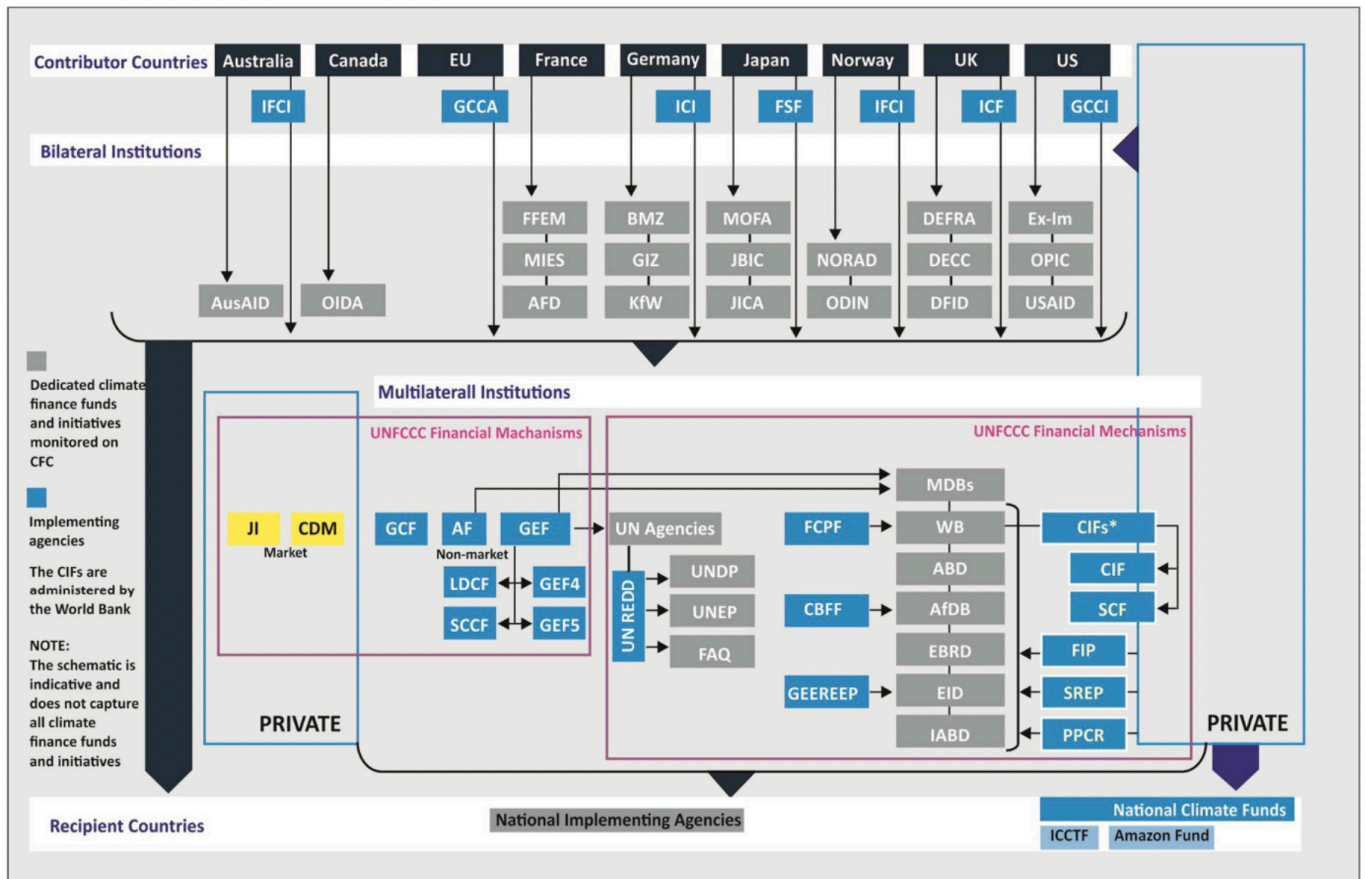


Figure 3: The Global Finance Architecture

Source: The Global Finance Architecture Climate Funds updates.

<https://climatefundsupdate.org/gobal-climate-finance-architecture>

1. PUBLIC SOURCES AND CHANNELS

A. MULTILATERAL FUNDING SOURCES

i. Green Climate Fund (GCF)

The GCF was established in 2010 with initial financing of USD 10.3 million from 43 governments. Its overall objective is to promote a “paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their GHG emissions and to adapt to the impacts of climate change”. GCF supports projects and programmes in developing countries. It is governed by the GCF Board (GCF’s Governing Instrument) and is an operating entity of the UNFCCC Financial Mechanism.

The Green Climate Fund is unique in its ability to engage directly with both the public and private sectors in transformational climate-sensitive investments. It works through a wide range of accredited entities to channel its resources to projects and programmes. Such entities may be international, regional, national or subnational public or private institutions that meet the standards of the Fund. Countries may access the

Fund through multiple entities simultaneously. The GCF supports projects based on the following classifications:

- a. Size: micro (less than USD 10 million), small (USD 10 – 50 million), medium (USD 50 –250 million) and large (more than USD 250 million);
- b. Risk classification: captures the project’s environmental and social risks. The three classifications are Category A (high risk), Category B (medium risk) and Category C (minimal risk).

There are two ways to access GCF funding:

- a. Direct access, whereby a country accesses funding through a National Implementing Entity (NIE), e.g. NEMA in Kenya, or through a regional accredited institution, which may apply directly for project funding;
- b. International access, whereby countries submit project proposals via large multilateral organizations, such as an accredited UN institution or an accredited multilateral development bank (MDB).

Funds from the GCF are accessed through the following windows, each of which has its own template:

- Readiness and Preparatory Support Programme;
- Project Preparatory Facility;
- Request for Proposals (RfPs); and,
- Project/Programme financing.

The Fund’s Private Sector Facility and a specific window for private sector funding are intended to strengthen its engagement and leverage additional funding for climate-related projects and programmes. The GCF supports country ownership, which means that the projects and programmes it supports should fall within a country’s priorities. In addition, the Fund has created a country- level coordination mechanism with a National Designated Authority (NDA)/Focal Point. Kenya’s NDA is the National Treasury.

Adaptation Fund

The Adaptation Fund (AF) was established in 2001 under the Kyoto Protocol. It seeks to finance concrete adaptation projects and programmes in developing countries that are particularly vulnerable to the impacts of climate change. The Fund is financed through a 2 percent levy on the sale of emission credits from the Clean Development Mechanism of the Kyoto Protocol. In past years, it has had to rely increasingly on developed country grant contributions.

Since 2010, it has provided USD 512 million to climate adaptation and resilience activities, including supporting 77 concrete adaptation projects. The AF pioneered direct access to finance for developing countries through National Implementing Entities that are able to meet agreed fiduciary standards, as opposed to working solely through UN agencies or MDBs as multilateral implementing agencies. The Ministry of Environment and Forestry is the AF’s Designated National Authority (DNA) for Kenya. DNAs are government offices that act as a point of contact for the AF in the country. The National Environment Management Authority (NEMA) is Kenya’s accredited NIE. NEMA has successfully accessed AF resources of USD 10 million and is implementing an adaptation programme, which is scheduled to run for three years.



EXERCISE

Analyze project(s) in Kenya funded by the Adaptation Fund, noting challenges and successes.

ii. Global Environment Facility (GEF)

GEF is an operating entity of the UNFCCC's financial mechanism and has a long track record in environmental funding. Climate change is a focal area under the GEF. Resources are allocated based on the impacts of spending on environmental outcomes, while ensuring that all developing countries receive a share of the funding.

The GEF provides funding through four modalities: full-sized projects; medium-sized projects; enabling activities; and programmatic approaches. The selected modality should be the one that best supports the project objectives. Each modality requires completing different templates.

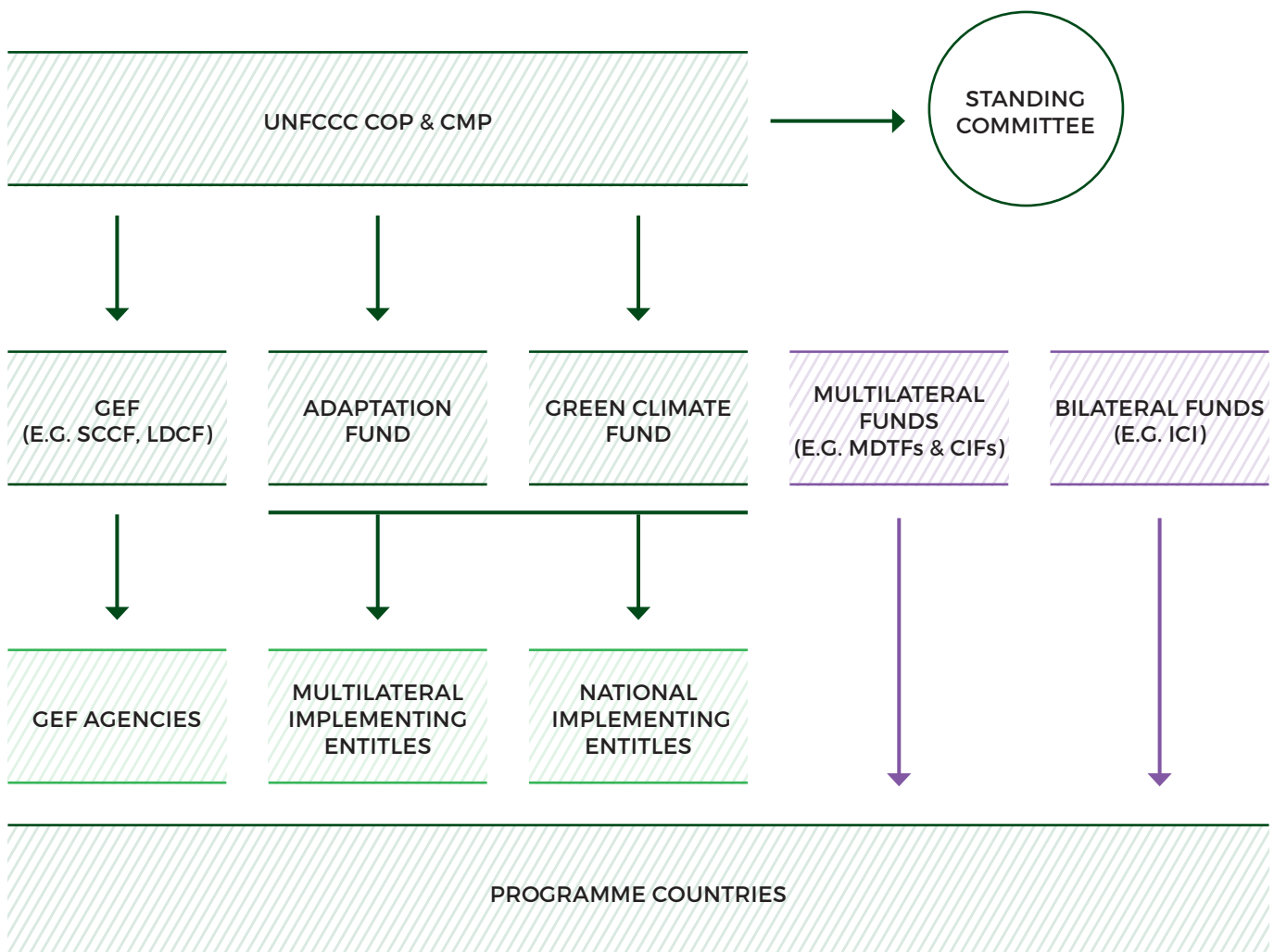


Figure 4: Climate finance under the UNFCCC

The GEF Operational Focal Point (OFP) coordinates all GEF-related activities within a country. The Ministry of Environment and Forestry is the GEF's OFP for Kenya. The OFP reviews project ideas, checks against eligibility criteria and ensures that new project ideas will not duplicate an existing project. All projects to be submitted for approval require a Letter of Endorsement signed by the GEF OFP.

The GEF also administers the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) under the guidance of the UNFCCC Conference of Parties (COP). These funds support the development and implementation of national adaptation plans, although largely through smaller-scale projects (with a country funding ceiling of USD 20 million).

B. BILATERAL FUNDING SOURCES

Climate finance is delivered through various bilateral donor countries and institutions. Some of the key bilateral institutions relevant to Kenya are listed below.

i. European Union

Kenya receives climate finance from the EU as part of its global finance commitment and allocation to climate change. The EU provides funding directly to governments, the private sector or, even, civil society organizations to implement climate change projects. European Union public climate finance is provided through the European Union Commission and its member states.

ii. Germany

Germany contributes to climate finance in three main areas: mitigation, forestry protection and climate change adaptation. Most of the funds are channelled through bilateral development projects in the form of grants and loans. The main source of public climate finance is the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry of Environment. Other entities responsible for channelling climate finance include the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and Kreditanstalt für Wiederaufbau (KfW).

iii. Danish International Development Agency (Danida)

The Danish International Development Agency (Danida) serves as the development cooperation agency of the Government of Denmark under the Danish Ministry of Foreign Affairs. Danida is committed to supporting the achievement of the Sustainable Development Goals and provides support to Kenya particularly on green growth initiatives.

iv. United Kingdom

The Department for International Development (DFID) is responsible for official development assistance (ODA). The DFID climate change program priorities include: green growth and low-carbon development; climate



CASE STUDY

The EU is providing a GBP 32 million grant to conserve Kenya's Mt. Elgon and Cherangany water towers through its Water Towers Protection and Climate Change Mitigation and Adaptation Programme. The project, which is implemented by the Ministry of the Environment and the county governments, is intended to eradicate poverty by enhancing the productivity of ecosystem services.

adaptation; climate risk reduction and risk transfer, including climate risk insurance; sustainable infrastructure development; energy efficiency; renewable energy; and sustainable transportation. DFID provides grants, concessional loans, equity and guarantees.

The UK has set up an International Climate Fund (ICF) that drives urgent action to tackle climate change in developing countries.

v. USAID

USAID is a bilateral funding agency involved in funding climate change mitigation and adaptation activities through loans and grants in Kenya. Its primary focus is on clean energy and low-carbon, climate-resilient development.

Other bilateral finance channels include the Swedish International Development Cooperation Agency (Sida), the Agence Française de Développement (AFD) and the Japan International Corporation Agency (JICA).

C. DOMESTIC SOURCES AND CHANNELS

Budgetary support

The Kenyan government is making significant investments in climate change and implementing climate change-relevant projects and programmes. Most of these resources - around 45 percent - are in the energy sector. Forestry and land use projects and water and sanitation activities each account for an additional 20 percent of resources. Some county governments have allocated approximately 1-2 percent of their development budget to climate change.

i. Government ministries and agencies

They receive financing through budgetary allocations to implement climate change and/or climate-relevant projects.

ii. National and county climate change funds

In 2016, Kenya enacted the National Climate Change Act, which establishes a Climate Change Fund. The Fund receives allocations from the national budget to finance climate change adaptation and mitigation. Under Kenya's devolved governance structure, the counties have created county-specific climate funds to support those activities at the county level.

Subsidies

The Climate Change Act, 2016 provides for incentive mechanisms to encourage the transition to low-carbon pathways, as alternatives to the Business-as-Usual scenario. This may also apply to resilience building through subsidised premiums for climate risk insurance; for example, the Kenya Agricultural Insurance and Risk Management Programme and the Kenya Livestock Insurance Programme.

2. PRIVATE SOURCES AND CHANNELS



CASE STUDY

Through the Forest Carbon Partnership Facility, the World Bank is providing a grant of USD 3.88 million to put in place mechanisms to enable Kenya to reach its overall REDD+ goal to improve livelihoods and well-being, conserve biodiversity, contribute to the national aspiration of attaining a minimum 10 percent forest cover, and mitigate climate change for sustainable development.

A. INTERNATIONAL PRIVATE SECTOR INVESTMENT AND CAPITAL

This constitutes the largest portion of international climate finance. Sources include private corporations and financial institutions, including both equity and loans for specific projects. The majority of these resources are concessional loans, debt, equity or guarantees.

B. MULTILATERAL DEVELOPMENT BANKS (MDBS)

Overall, MDBs make significant contributions to climate finance. In 2017, they provided USD 35.219 billion. MDBs act as both sources and channels of climate finance. Relevant MDBs in the climate finance sphere include the World Bank Group, the Africa Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the European Investment Bank.

MDBs such as the Asian Development Bank (ADB) and African Development Bank (AfDB) also act as implementing agencies to the Climate Investment Funds and are accredited to other funds.

C. PHILANTHROPIC SOURCES

These financial contributions from individuals and foundations support climate actions in various parts of the world. They may be made to organizations at all levels (local, national, regional and global) for climate change projects in developing and developed countries.

D. CLIMATE INVESTMENT FUNDS

Established in 2008 and with USD 8.3 billion in financing currently, CIF aims to accelerate climate action by facilitating transformation in clean technology, energy access, climate resilience and sustainable forests in developing and middle-income countries. It offers large-scale, low-cost, long-term financing arrangements that reduce the risk and cost of climate financing.

The CIF includes two trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The SCF includes three programs: Pilot Program for Climate Resilience (PPCR), Forest Investment Program (FIP) and Scaling up Renewable Energy Program in Low Income Countries (SREP).

E. DOMESTIC PRIVATE INVESTMENT

Kenya's dynamic private sector plays a key role in helping the country realize its low-carbon, climate-resilient objectives and builds on the strong base already established. The key factor determining the private sector's ability to contribute to financing climate actions is a supportive investment environment with clear and transparent regulations and well-designed policy incentives. The private sector also provides climate finance as part of its corporate social responsibility and corporate shared values. The use of public finance to help leverage private sector investment complements this.

F. CARBON MARKETS

These markets seek to reduce GHG emissions in a cost-effective manner by setting emissions limits and allowing emission units to be traded. By putting a price on carbon emissions through the market system, it helps to internalize the environmental and social costs associated with pollution, thereby encouraging investors and consumers to choose a lower-carbon footprint. They include:

i. Cap and trade

Under this approach, a cap (or ceiling) is placed on the amount of GHG that countries or companies may emit. Any entity that exceeds the cap must pay a fine, which presents a financial incentive to reduce emissions. If a company or country is unwilling or unable to reduce its emissions, it may, instead, buy carbon credits from parties that are on track to meet their reduction targets and thus have credits going spare.

ii. Offset markets

By offsetting or compensating, rather than reducing, emissions, a country or company finances a project elsewhere that should help to reduce emissions, such as renewable energy or reforestation.

iii. Voluntary carbon markets

This approach is relevant to individuals and companies taking voluntary action to offset GHG emissions. When an individual takes an airplane flight, for instance, he or she can purchase credits from a company to offset his/her share of the emissions produced by that flight. The amount paid to purchase those credits should be used to finance a project that reduces emissions.

iv. Market mechanisms under the Paris Agreement

Article 6 of the Paris Agreement establishes two main market mechanisms in which parties may participate voluntarily. Shares of their proceeds will provide funding for adaptation actions in developing countries. These mechanisms include cooperative approaches and a sustainable development mechanism.

G. EMERGING CLIMATE FINANCE INSTRUMENTS

i. Green bonds

Green bonds are designated bonds intended to encourage sustainability and support climate-related or other types of special environmental projects.

Green bonds come with tax incentives such as tax exemption and tax credits, making them a more attractive investment compared to a comparable taxable bond. This provides a monetary incentive to tackle prominent social issues, such as climate change and a shift to renewable



CASE STUDY

1. MIKOKO PAMOJA Project
Mikoko Pamoja, loosely translated “mangroves together”, is the first community carbon project in the world to conserve mangroves through the sale of carbon credits.

2. KENGEN has developed and registered a number of projects under the clean development mechanism (CDM) funding process, e.g. Olkaria 2 Geothermal Expansion Project, Redevelopment of Tana Power Project, Olkaria 1 and Olkaria 4.

sources of energy. To qualify for green bond status, they are often verified by a third party, such as the Climate Bond Standards Board, which certifies that the bond will fund projects that include benefits to the environment.

Further reading: Green Bond <https://www.investopedia.com/terms/g/green-bond.asp#ixzz5Y2S4yMih>

ii. Blue bonds

The blue bond is a debt instrument issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits. They are similar to green bonds, but focus on mobilising resources for conservation efforts in oceans and marine resources.

iii. Results-based climate financing (RBCF)

Under this financing modality or approach, an investor disburses funds to a recipient upon performance and achievement of a pre-agreed set of climate mitigation or adaptation results and successful independent verification. Examples of the application of RBCF include Reducing Emissions from Deforestation and Forest Degradation (REDD+). Various facilities and institutions, such as the GCF and the World Bank, provide funding for REDD+ under RBCF principles.

iv. Blended financing

This financing package is composed of concessional funding provided by development partners and commercial funding by investors. It represents a strategic use of development finance for enhanced mobilization of additional finance. Although it is still an emerging instrument in developing countries, blended finance has been shown to provide financial support to high-impacts project that would not initially attract commercial funding because of the associated high risks, but that have the potential to become commercially viable over time. It is therefore an important instrument aimed at overcoming hurdles related to private sector investment in climate-related projects or programmes.

v. Risk-sharing instruments

These take the form of catastrophe bonds, insurance or weather derivatives. Catastrophe bonds securitize risks associated with natural hazards.



EXERCISE

Select one county that has approved its County Climate Change Fund and analyse the Fund's operation, management, challenges and successes.

2.2.3 CLIMATE FINANCE CHALLENGES IN KENYA

- a. The structure of global climate finance is fragmented, complex and bureaucratic, making it difficult to access funds;
- b. Given Kenya's vulnerability, adaptation and resilience-building are key. However, investment favours climate change mitigation activities;
- c. Climate finance lacks an agreed definition and appropriate transparency;
- d. Coordination and tracking mechanisms are weak; and,
- e. Greater awareness and capacity are needed to develop bankable project proposals that meet the standards of multilateral climate funds.

UNIT THREE

2.3 CLIMATE FINANCE GOVERNANCE IN KENYA

2.3.1 IMPORTANCE OF CLIMATE GOVERNANCE

Following the Paris Agreement on climate change, a significant shift took place regarding the use of climate finance at national levels. Legal and regulatory frameworks and political support within and outside government remains important. To ensure proper governance of climate finance in Kenya, multi-stakeholder engagement has been created in the mitigation of and adaptation to climate change.

Kenya's key climate finance governance institutions include:

- a. **National Climate Change Council**, which was established under the Climate Change Act, 2016 and is chaired by the President, will guide implementation of this policy and receive at least biannual reports on its implementation. The Council's mandate is to provide legislative and policy direction, supervision, oversight and guidance on climate change across all levels of government.
- b. **The National Treasury** is the primary custodian for all matters of climate finance and is responsible for overall implementation of the National Policy on Climate Finance. It also coordinates and facilitates activities related to climate finance, including the activities of the climate finance mechanism (Climate Change Fund) and the Inter-Ministerial Climate Finance Technical Advisory Committee. The National Treasury is Kenya's National Designated Authority (NDA) for the Green Climate Fund.
- c. **National Environmental Management Authority (NEMA)** is accredited to serve both as the National Implementing Authority for the Adaptation Fund and as a Direct Access Entity for the Green Climate Fund. NEMA thus has direct access to the two multilateral funds through development and submission of project proposals that meet their standards and accountability requirements.

- d. **The ministry responsible for climate change affairs through the Climate Change Directorate** develops National Climate Change Actions Plans that outline priority actions to be funded through various climate finance sources and channels.

Other government ministries, departments, agencies, county governments, private sector entities and civil society organizations execute climate change projects funded through various streams and are thus responsible for prudent management of climate resources. Additionally, some county governments have established independent county climate funds that fund their priority local climate actions with different governance arrangements.

2.3.2 CLIMATE FINANCE GOVERNANCE PRINCIPLES

Governance refers to the process of making and implementing decisions. Good governance principles include strategic vision, transparency, accountability, integrity, participation and responsiveness, effectiveness, and efficiency, as well as respect for the rule of law. This unit reviews three of these principles - transparency, accountability and integrity - which are highlighted under the Paris Agreement.

a. Transparency

Transparency refers to the open disclosure of information relating to rules, plans, processes and actions. It allows people outside an institution to monitor its work and to take action when something is not as it should be. Within a transparency framework, duty-bearers must answer for their actions and decisions.

In the climate finance context, an institution involved in climate finance discloses (makes available or upon request):

- its mandate and a full description of its staff and their responsibilities;
- any other financial or political interests that decision-makers may have;
- full details on applications submitted, the status of applications, decisions, the decision-making criteria, the decision-making process, and a description of the persons involved in decision-making;
- information on opportunities for external parties to observe decision-making processes; and,
- details on how to register a complaint.

b. Accountability

Accountability is a mechanism designed to ensure that affairs are conducted or entities are managed with due regard to the interests of those with an interest in the entity's affairs. Accountability guarantees that the actions and decisions taken by public officials regarding government initiatives respond to the needs of the community, thereby contributing to better governance and poverty reduction. It also means that decisions and actions are subject to oversight, guaranteeing that the stated objectives are met.

Good governance involves accountability in terms of improving the delivery of public services, measuring performance, providing incentives to achieve targets and imposing sanctions in case of non-performance.

Accountability is to be viewed in terms of democratic control and integrity of operations, as well as in terms of performance.

Citizens can hold decision-makers to account when they have access to information. This is essential to good governance. Effective financial reporting mechanisms and auditing practices require institutions to:

- provide predictable, timely explanations of their decisions;
- offer a clear process through which individuals affected by those decisions can request a review and register complaints;
- establish an effective whistle-blowing policy to expose wrongdoing that protects whistleblowers from reprisals;
- create a dedicated body within the institution to handle complaints and clear procedures for following up on reports of wrongdoing;
- subject their decisions to timely and enforceable review; and
- consult with members of the public regarding their decisions or actions and establish and impose penalties if those provisions are breached. Such consultations should be meaningful and regular and civil society input should be reflected in final decisions.

c. Integrity

Integrity refers to behaviour and actions consistent with a set of moral or ethical standards embraced by individuals and institutions that create a barrier to corruption. They include the following:

- Develop codes of professional conduct that are enforced for all staff. These should be publicly available and include clear sanctions for non-compliance;
- Conduct background checks or integrity screenings (ideally, by an external body) prior to appointment or employment. These should cover such issues as vulnerability to the influence of politically-connected persons, employment history, reference checks, credential verification and adverse media coverage;
- Ensure that all staff participate in integrity training to ensure that they understand the codes of conduct that govern them, their relevance and importance. Non-attendance should result in sanctions;
- Implement policies and background checks to guard against conflicts of interest. These should cover additional employment, inside information, other business interests, gifts and other forms of benefits, community, family and other expectations and opportunities. Appointments to the institution should be made based on a clear set of professional criteria and should be subject to disclosure requirements which are subsequently verified;
- Impose restrictions to prevent staff from interacting with business groups who might seek undue influence; and,
- Create mechanisms to protect staff against arbitrary dismissal.

2.3.3 ISSUES IN CLIMATE FINANCE GOVERNANCE

Many institutions channel climate finance and their relationships are often complex. There are four key areas of concern in climate finance governance: how funds are generated; how funds are managed; how decisions on eligibility for funds are made; and how funds are used. These are explained below:

a. How funds are generated

'Double counting' occurs when donor countries claim that they are contributing climate finance funds but the resources have already been counted as development aid (that is, they make one payment but deduct it as two expenditures). In so doing, donors avoid making another contribution beyond their development assistance pledges, while, by definition, climate finance should constitute additional funds.

b. How funds are managed

Climate funding institutions may lack effective structures and systems to enhance accountability in the delivering climate finance.

c. How decisions on eligibility for funds are made

Decisions should be made based on clear and objective criteria that guide funds to where they are most needed.

Guidelines and procedures should prioritize the most immediate needs for climate action and give room for creative and objective decision-making.

d. How funds are used

Processes and procedures must be in place to ensure that funds are spent for the proper purposes and are not diverted into questionable contracts or spent without authorization. Unless these processes are designed correctly, climate finance resources could be lost to corruption, abuse, waste or mismanagement.

Guarding against this means adhering to the principles of good governance: transparency, accountability and integrity. In the next section, you can test your knowledge about good governance as it relates to climate finance.

2.3.4 CLIMATE FINANCE RISKS

- a. Sovereign risk
- b. Regulatory
- c. Monetary and fiscal
- d. Political
- e. Corruption
 - Lack of transparency and public disclosure in decision-making processes
 - Policy capture and undue influence from interested parties
 - Conflict of interest
 - Creative accounting and reporting
 - Double counting of finances and emissions

- Mismanagement of public resources
 - Embezzlement and misappropriation of funds
 - Lack of public participation and civil society engagement
- f. Project risk
- g. Technological risk
- h. Social cultural risk

2.3.5 POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK

This sub-section highlights the policy and legal arrangements at the national level related to the international framework that guides and facilitates climate finance governance.

A. United Nations Framework Convention on Climate Change

Climate finance is a means of implementing the Convention to facilitate climate response actions at the national level, in line with the country's commitments to global action on climate change. These commitments are the result of global climate change negotiations undertaken by the countries of the world as part of the Conference of the Parties (COP) process. For example, the process by which developing countries formulate National Adaptation Plans was agreed at COP 16. Thus, Kenya has developed a National Adaptation Plan (2016-2030). Such plans of action require international and national financing to implement these commitments.

As described in Unit 1, the Kyoto Protocol and the Paris Agreement establish important mandates for countries regarding the mobilization and provision of climate finance, with clear guidelines on how to do so to support climate response actions. The two agreements underscore the role of climate finance as an implementation method that facilitates action. Kenyan law supports their relevance to Kenya, as the country is a party to the international climate convention and these agreements.

B. Kenya's Constitution

The Constitution establishes a commitment to ecologically sustainable development. Sessional Paper No. 10 of 2012 on Kenya Vision 2030 establishes the country's goal to become a middle-income country providing a high quality of life to all its citizens by 2030. Climate change poses a significant challenge to its sustainable national development goals.

In addition, Articles 2(5) and 2(6) of the Constitution state, respectively, that "rules of international law shall form part of the laws of Kenya" and "that any treaty ratified by Kenya shall form part of the law of Kenya." Thus, the UNFCCC and the Paris Agreement, which provide for financing for climate actions, form part of Kenyan law.

C. National Climate Change Response Strategy

The National Climate Change Response Strategy (NCCRS) of Kenya aims to strengthen and focus nationwide actions on climate change adaptation and GHG emission mitigation. The strategy recognizes the country's need to address climate change and offers comprehensive and robust adaptation and mitigation interventions that support adaptation to and mitigation of climate change. The NCCRS provides a framework for integrating climate concerns into development priorities, government planning and budgeting.

D. Climate Change Action Plans

Kenya's National Climate Change Action Plans are five-year iterative plans that aim to further the country's sustainable development goals. The plans set out priority adaptation, mitigation and enabling actions and promote mainstreaming of climate change actions into development planning and budgeting processes. The National Climate Change Action Plans also form the framework for implementing Kenya's Nationally Determined Contributions (NDC).

E. National Climate Change Framework Policy

The National Climate Change Framework Policy (2018) aims to integrate climate change considerations into planning, budgeting, implementation and decision-making at the national and county levels and across all sectors. The policy establishes a fund mechanism and strategy that enables implementation of priority actions for climate resilience and adaptive capacity and low-carbon growth. It aims to explore avenues to attract internal and external climate finance, including through foreign direct investment and other multilateral or bilateral funding.

The policy promotes private sector involvement in climate finance opportunities by introducing policy incentives, removing investment barriers, creating a conducive investment climate and facilitating access to finance. It aims to adopt and implement sector-specific anti-corruption, transparency, accountability and integrity mechanisms to ensure the prudent management of climate finance. The policy seeks to establish a framework for coordination and monitoring and for tracking sources, applications, and impacts of climate finance.

F. Climate Change Act, 2016

The Climate Change Act (No. 11 of 2016) is the first comprehensive legislative framework for climate change governance in Kenya. Its objective is to "enhance climate change resilience and low carbon development for the sustainable development of Kenya." The Act establishes the National Climate Change Council (Section 5), Climate Change Directorate (Section 9) and Climate Change Fund (Section 25).

The Fund is described as a financing mechanism that supports implementation of priority climate change actions by both public and private entities. It is vested in the National Treasury. Some key funding sources mentioned include monies appropriated from the Consolidated Fund, donations, endowments, grants, gifts and monies under an Act payable to the Fund. The Fund is administered by the National Climate Change Council and managed by the Principal Secretary responsible for climate change affairs. The detailed modalities and governance structure of the Fund will be established in subsidiary legislation to be enacted by Parliament. The Fund is expected to become the primary vehicle to receive and disburse international climate finance. In doing so, it would aim to overcome the challenges of fragmentation associated with the current disbursement of international public climate finance in Kenya, and build a national institution with core climate finance expertise.

G. National Policy on Climate Finance, 2018

The National Climate Finance Policy (2018) establishes the legal, institutional and reporting frameworks to access and manage climate finance. Its goal is to further Kenya's national development goals through enhanced mobilization of climate finance that contributes to low-carbon, climate-resilient development goals.

The policy provides mechanisms to help the country improve its ability to mobilize adequate resources to adapt to and mitigate the effects of climate change. To ensure that Kenya is effectively positioned to access financing globally for its climate and development priorities, the national policy encourages creating a national climate change fund that will effectively manage and implement projects and track climate finance, thereby improving transparency and accountability.

H. County Climate Finance Framework

Section 19 of the Climate Change Act, 2016 sets out the role of county governments in climate change issues, which includes integrating and mainstreaming climate change actions into county climate change development plans. These are the County Integrated Development Plans (CIDP), broken down into Annual Development Plans, County Sectoral Plans and County Spatial Plans. Further, the Act establishes a climate change unit headed by a CEC in charge of climate change affairs at the county level. This is an institutional coordination mechanism for climate change matters.

County governments may enact legislation that facilitates implementation of national policies, strategies and legislation at the country level, such as the Climate Change Act, 2016 and the National Climate Change Action Plan, because environmental matters are a devolved function. In view of this, various counties have established working climate finance mechanisms. Four arid and semi-arid counties (Isiolo, Garissa, Wajir and Makueni) have developed climate change policies and accompanied this with County Climate Change Fund (CCCF) legislation that establishes County Climate Change Funds. The CCCF legislation commits counties to contribute a certain percentage of their development budget to local climate actions.

MODULE THREE:
**Climate Budgeting
and Costing**

OVERVIEW

This module introduces the concepts of climate budgeting and costing. Climate budgeting refers to a process by which public funds can be mobilized and aligned for climate change actions. This involves an accounting of the budgetary measures taken by the national or county governments to support climate change and related actions and will include details of the amounts that Kenya is investing annually in climate change. Climate costing is the proposed or estimated cost of producing or undertaking climate adaptation and mitigation activities.

MAIN OBJECTIVE

To introduce the learner to the process by which public funds can be mobilized and aligned for climate change actions.

SPECIFIC OBJECTIVES

- a. To describe the budgeting process at both the national and county government levels;
- b. To educate the learner about the process of mainstreaming climate change in budgeting; and,
- c. To explain costing of climate change activities.

UNIT ONE

3.1 NATIONAL BUDGETING

3.1.1 BUDGETING PROCESS (NATIONAL AND COUNTY)

National and county government budget processes are guided by the provisions of the Public Finance Management Act, 2012. The process follows the channels illustrated below.

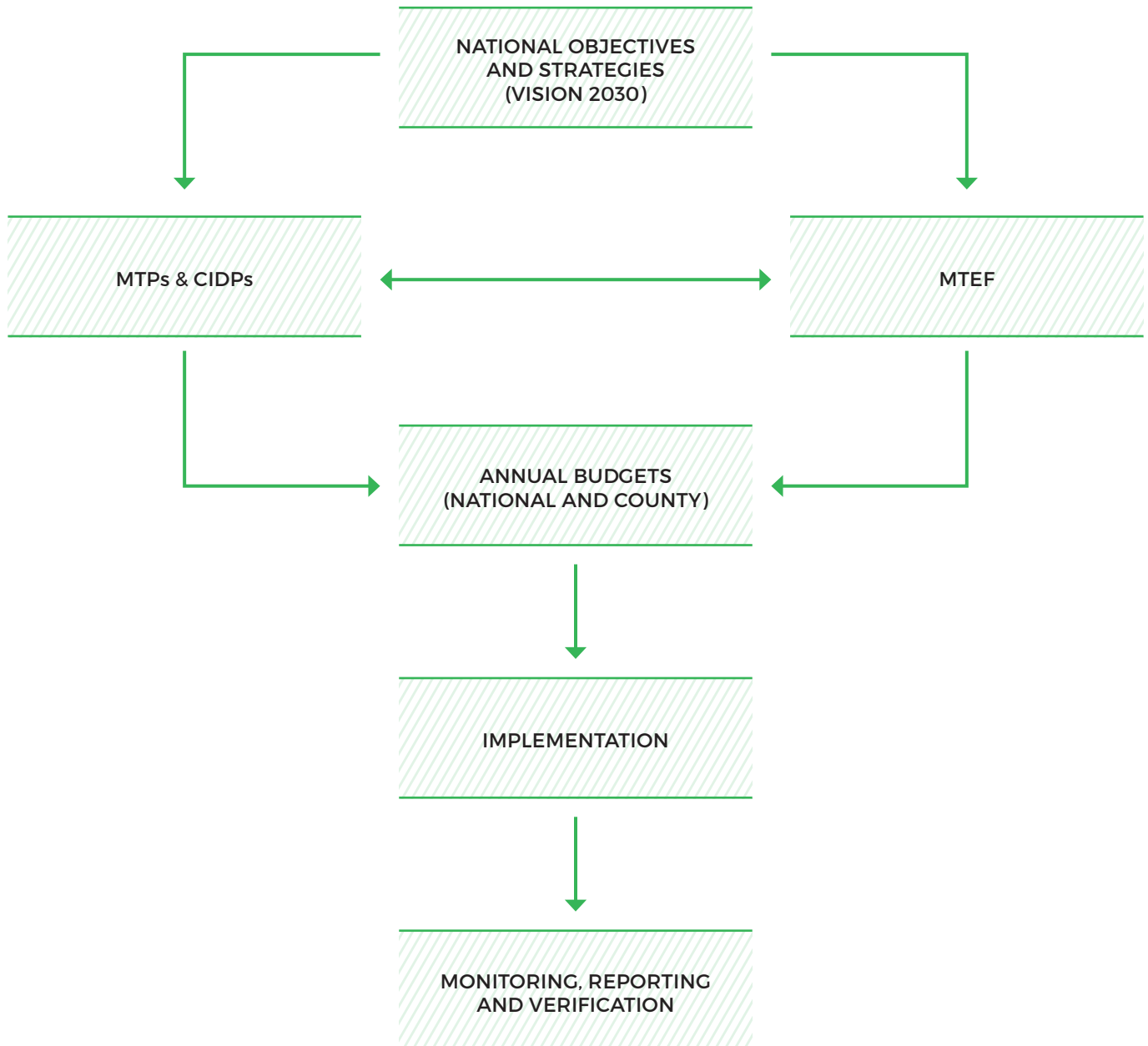


Figure 5: National budgeting channels

3.1.2 LINKING THE BUDGET TO NATIONAL AND COUNTY POLICIES

Policy, planning and budgeting processes should be integrated for optimal national and county development outcomes. Budgets at the national and county levels are linked to the Constitution of Kenya, Kenya Vision 2030 and its Medium-Term Plans (MTPs). County-level budgets are further linked to the County Integrated Development Plans (CIDPs). In addition, the budgets are linked to specific sector, legal and institutional frameworks.

Climate change budgeting is aligned to the Climate Change Act, 2016, the National Climate Change Action Plan (NCCAP), the Nationally Determined Contributions, the National Policy on Climate Finance, the National Climate Change Framework Policy, the Green Economy Strategy and Investment Plan (GESIP), County Integrated Development Plans, MTPs, and other relevant policy documents.

The policies and strategies are long-term and are implemented in short-term budgets through the MTEF, which covers three years.

3.1.3 NATIONAL BUDGETING CALENDAR

The Public Finance Management Act, 2012 guides Kenya's budgeting process at both levels of government. The national budgeting process begins when the Treasury Circular that provides guidelines for the planning and MTEF process is issued. The proposed sector budget allocation is included in the Budget Review and Outlook Paper (BROP), normally released by 30 September. That proposed allocation is finalized in the Budget Policy Statement (BPS), which is submitted to Parliament in February. The budget estimates are finalized and tabled in April with ministry, program and sub-program details. The National Assembly and the County Assemblies play a critical legislative role in approving the national and county budget estimates. This is done through departmental committees of both sets of assemblies. Ministries, counties, departments and agencies play a key role in justifying their budget estimates in these legislative departmental committees.

The budget process for national and county governments follows the budget calendar, as illustrated in Figure 3.2. Detailed budget calendars for national and county governments are found, respectively, in Annexures 1 and 2.

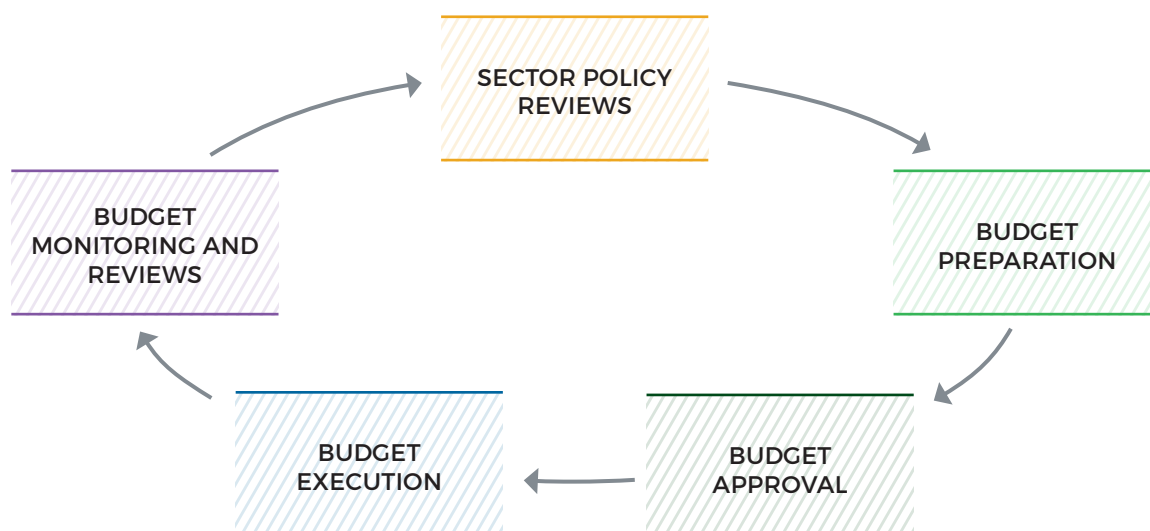


Figure 6: The budget cycle

3.1.4 SECTOR WORKING GROUPS

Between the release of the BROP and the finalization of the BPS, Sector Working Groups (SWGs) review and adjust sector proposals. These groups are meant to facilitate government coordination around the budget so that the main departments and agencies within each sector negotiate over priorities. The 10 SWGs are as follows:

- Agriculture and Rural development
- Energy, Infrastructure and ICT
- General Economics and Commercial Affairs
- Governance, Justice, Law and Order
- Public Administration and International Relations
- National Security
- Education
- Social Protection, Culture and Recreation
- Health
- Environmental Protection, Water and Natural Resources

UNIT TWO

3.2 MAINSTREAMING CLIMATE CHANGE IN BUDGETING

This unit analyses how climate-related projects or programmes are mainstreamed into national and county government budgets. Mainstreaming refers here to the integration of climate change in the budgeting process as part of budget planning, implementation, expenditure management and financing.

3.2.1 BUDGETING FOR CLIMATE FINANCING

To mainstream climate change effectively in the development process as required under the Climate Change Act, 2016, deliberate efforts must be taken to ensure that climate change considerations inform the budgeting, planning and finance processes.

Mainstreaming climate change within the development process is expected to bolster efforts to achieve low-carbon development pathways. It is also expected to enhance climate finance accountability at the local and global levels.

The national and county budgeting processes provide useful opportunities to integrate climate financing. Climate change mitigation and adaptation interventions to be financed should be clearly defined in the MTEF budget proposals, prior to the allocation of expenditures and validation in the BPS.

Expenditures should be allocated accurately within the framework of available and agreed budget resources. Programs should prioritize climate-related expenditures or mainstream them within programs, but with a level of clarity to allow for distinctions. Budget allocations and expenditures should not worsen existing gender inequality and other cross-cutting social issues resulting from the negative effects and impacts of climate change. This should be ensured by merging existing

gender equality policies with the climate budget practice. This involves conducting a gender-based assessment of climate change budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures to promote, rather than weaken, gender equality.

3.2.2 IMPORTANCE OF INTEGRATING CLIMATE FINANCING IN BUDGETING PROCESSES

Integrating climate finance in Kenya's budgeting process helps to:

- a. maximize budgetary allocation of public sector resources to climate change adaptation and mitigation efforts;
- b. track public sector expenditures related to climate change adaptation and mitigation and their effectiveness against policies and plans; and,
- c. strengthen monitoring and reporting of climate change adaptation and mitigation efforts.

3.2. CHALLENGES TO INTEGRATING CLIMATE FINANCING IN BUDGETING PROCESS

These challenges include:

- a. inconsistencies in official financial information, with slight differences between published figures and actual financial records. This is addressed using the actual financial records held by the Integrated Financial Management System (IFMIS) unit of The National Treasury (TNT);
- b. plans developed off-system that may not be clearly linked to budgets, but ministries, counties, departments, and agencies (MCDAs) execute budgets derived from these plans;
- c. the lack of accounting of climate finance provided by development partners to non-state actors because no mechanism exists to enforce reporting on these resources; and,
- d. institutional capacity gaps within the MCDAs to mainstream climate change into budgeting.

3.2.4 IDENTIFYING ACTIVITIES FOR CLIMATE FINANCING

Activities that are eligible for climate financing are identified under the national climate change policies and strategies: the Climate Change Act, 2016; the National Policy on Climate Finance; GESIP 2016-2030; NCCAP; MTPs; Vision 2030; CIDPs; ADPs; and Sector Development Plans. These activities are implemented under the Sector Working Groups at both national and county levels. They must meet the following criteria:

- i. **Mitigation** - contributes to the objective of stabilizing GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. This is achieved by promoting efforts to reduce or limit GHG emissions or to enhance their sequestration.
- ii. **Adaptation** - reduces the vulnerability of human or natural systems to current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, strengthening the ability to adapt to, or absorb, climate change stresses, shocks and variability, and/or by helping reduce exposure to them.

- iii. **Enabling environment** - involves a range of crosscutting enabling actions required to implement the priority adaptation and mitigation actions. These actions equip government and stakeholders with the knowledge, skills, technologies and financing needed to deliver and report on adaptation and mitigation actions. They encompass activities from information and knowledge generation, to capacity development, planning and implementation of climate change adaptation actions.

Examples follow of the types of activities that are eligible for climate financing under the Sector Working Groups.

Table 1: Examples of activities eligible for climate financing under the Sector Working Groups

SECTOR	ADAPTATION	MITIGATION	ENABLING ENVIRONMENT
Agriculture, Rural and Urban Development (ARUD)	<ul style="list-style-type: none"> • Adopt flood and drought early warning systems • Diversify livelihoods and crops • Uptake agricultural insurance 	<ul style="list-style-type: none"> • Practice agroforestry • Adopt minimum tillage systems • Manage manure and efficiency in livestock management 	<ul style="list-style-type: none"> • Build community-level capacity to raise awareness and educate on disaster management and flood hazards
Energy, Infrastructure and ICT (EII)	<ul style="list-style-type: none"> • Improve energy and resource efficiency in manufacturing sector • Climate proof energy and transport infrastructure • Develop environmentally sustainable transport systems • Adopt climate change-resilient technologies, such as clean cooking solutions, modern coolers and scrubbers 	<ul style="list-style-type: none"> • Follow green building practices • Implement minimum energy performance standards • Increase production of non-forest biomass fuel briquettes (such as agricultural waste, sawdust and human waste) • Develop renewable energy 	<ul style="list-style-type: none"> • Implement policies and regulations to encourage climate-resilient energy, ICT and Infrastructure • Promote mitigation actions in the aviation and maritime sectors • Conduct research into new and emerging energy technologies in the energy sector that will reduce GHG emissions
Environmental Protection, Water and Natural Resources	<ul style="list-style-type: none"> • Climate proof water harvesting and water storage infrastructure and improving flood control • Develop early warning systems in areas susceptible to floods • Restore degraded landscapes (ASALs and rangelands) 	<ul style="list-style-type: none"> • Carry out afforestation, reforestation (Implement REDD+ Initiatives) • Rehabilitate of degraded lands, including rangelands • Adopt climate-resilient solid waste management 	<ul style="list-style-type: none"> • Implement Blue Economy Master Plan • Implement policies and regulations, including fiscal policy • Increase accessibility of Disaster Risk Reduction (DRR) information and tools for climate-change adaptation negotiators and managers
General Economics and Commercial Affairs (Manufacturing, trade, EA and regional integration, tourism development and promotion)	<ul style="list-style-type: none"> • Build climate-resilient infrastructure in manufacturing 	<ul style="list-style-type: none"> • Reduce fuel consumption and fuel overhead costs • Shift 30% of freight from Mombasa to Nairobi from road to rail • Develop a roadmap for the improvement of heavy-duty truck efficiency developed, including increased use of low-rolling resistance tyres, super structure fittings, etc., and vehicle standards. • Promote industrial symbiosis in industrial zone 	<ul style="list-style-type: none"> • Implement policies and regulations for climate-resilient manufacturing

SECTOR	ADAPTATION	MITIGATION	ENABLING ENVIRONMENT
Health	<ul style="list-style-type: none"> • Reduce incidence of malaria and other vector-borne diseases expected to increase because of climate change • Provide comprehensive health insurance, including for climate change-related health impacts. 	<ul style="list-style-type: none"> • Recycle wastes from hospitals and other health facilities 	<ul style="list-style-type: none"> • Implement policies and legal framework
Education	<ul style="list-style-type: none"> • Increase accessibility to climate-change learning materials, Internet connectivity and tools. • Synchronize school calendar with weather-related events. 	<ul style="list-style-type: none"> • Design green buildings (classrooms, dormitories) • Adopt a green schools programme • Use renewable energy - biogas 	<ul style="list-style-type: none"> • Enhance community awareness • Integrate climate change in education curriculum
Governance, Justice, Law and Order	<ul style="list-style-type: none"> • Practice water efficiency • Adopt of climate-smart agriculture 	<ul style="list-style-type: none"> • Practice energy efficiency • Use biogas 	<ul style="list-style-type: none"> • Develop gender and inter-generational awareness plan for climate change • Build capacity for personnel on climate change reporting and climate finance • Support alignment of county legislation to the Climate Change Act, 2016
Public Administration and International Relations	<ul style="list-style-type: none"> • Promote international trade and foreign direct investment in climate- resilient projects • Climate proof national government projects 	<ul style="list-style-type: none"> • Promote international trade and foreign direct investments in low-carbon projects 	<ul style="list-style-type: none"> • Encourage systematic dialogue, information exchange and joint efforts between climate change and disaster reduction bodies, focal points and experts, in collaboration with policy makers and development practitioners • Strengthen policy formulation, planning, budgeting and implementation of the Kenya Vision 2030 • Enhance Kenya's role in global climate change governance system at the UNFCCC and articulate the national interest and positions
National Security	<ul style="list-style-type: none"> • Frame and prioritize climate change as a national security risk/threat • Strengthen coordination among climate change security agencies • Invest in more climate-resilient and agile military • Increase Department of Defence (DOD) commitment to adapting to climate change 	<ul style="list-style-type: none"> • Include a climate change line in the DOD budget to mitigate climate risk and threats • Reduce carbon footprint of security facilities • Enhance security operations, especially in areas prone to climate-related crime 	<ul style="list-style-type: none"> • Build capacity on climate change's role as a 'threat-multiplier' in the geopolitical landscape and its implications for Kenya's national security • Build capacity on climate change risk management and planning considerations facing DOD as it seeks to maintain force readiness
Social Protection, Culture and Recreation	<ul style="list-style-type: none"> • Reduce risk of vulnerable groups to climate-related disasters and reduce risks to communities and infrastructure 	<ul style="list-style-type: none"> • Use vulnerable groups as agents of change in issues related to climate mitigation 	<ul style="list-style-type: none"> • Build capacity within vulnerable group on the effects and impacts of climate change

3.2.5 PUBLIC INVESTMENT MANAGEMENT (PIM) FRAMEWORK

The Public Finance Management Act (PFM) of 2012 established PIM as an efficient framework for project cycle management, providing methodological guidance on efficient public investments. Such guidance is the basis for consistent and comprehensive project appraisal. PIM ensures that projects entering the budget are verified in terms of quality and cost effectiveness, and reduces the likelihood of ad hoc decisions on project funding.

The PIM framework is useful in outlining procedures for project selection, screening, appraisal, monitoring, evaluation and reporting. The guidelines are aimed at supporting expenditure control and spending by providing standard processes to ensure that only priority projects are financed and fully implemented.

The National Treasury provides leadership in implementing PIM through the Cabinet Secretary for Finance. The Public Investment Management Department (national government projects) provides secretariat services for PIM. The State Department for Planning and other line ministries are also key players in implementing the PIM framework.

At the county level, the County Executive Committee Member for Finance spearheads PIM, and the County Investment Management Unit (county government projects) provides secretariat services. Other county departments also play a key role in implementing the PIM.

Scope of the PIM Guidelines

The guidelines apply to:

- i. national and county governments and their entities, including constitutional commissions, independent offices, and state corporations when planning and implementing public investments;
- ii. public investment projects, wholly or partially funded through public finances, irrespective of the source; and,
- iii. projects considered for implementation through public-private partnership arrangements, provided that the guidelines do not contradict the provisions of the Public Private Partnership (PPP) Act, 2013.



EXERCISE

Identify 10 ongoing or recently completed green projects in Kenya.

3.2.6 ENTRY POINTS FOR MAINSTREAMING CLIMATE FINANCING IN THE BUDGETING PROCESS

Climate financing can be integrated in the budgeting process in two stages: as part of policy and planning and during resource allocation.

Policy and planning

i. The Constitution

The Constitution of Kenya provides a legal and policy basis for mainstreaming climate financing. Article 42 of the constitution states, “Every person has the right to a clean and healthy environment, which includes the right to have the environment protected for the benefit of present and future generations”. Article 69 specifies the obligations of the State in ensuring sustainable exploitation, utilization, management and conservation of the environment and natural resources.

ii. Kenya Vision 2030, Medium Term Plans (MTPs), Strategic Plans, County Sector Development Plans, County Integrated Development Plans (CIDPs) and Annual Development Plans (ADPs)

The MTPs are a series of successive five-year plans to implement Kenya Vision 2030. The plans detail how the flagship projects identified under Vision 2030, as well as other key policies and programs, will be implemented over five years.

Similarly, the CIDP is an overall county development framework covering a five-year period. The National Treasury and Planning issues guidelines for development of CIDPs and provides an opportunity to integrate climate financing by requiring counties to include climate actions as program components or as separate programs.

Section 19 of the Climate Change Act, 2016 requires the national government to integrate climate change in the planning process and county governments to mainstream climate change actions and interventions in their CIDPs. Annual Development Plans are developed to implement the CIDPs. A Technical Working Group (TWG) on Climate Change was formed during development of MTP 3 (2018-2022) to ensure that climate change adaptation and mitigation interventions are included in the plan.

Finance officers involved in developing the plans are therefore legally required to integrate climate change actions in them. This creates a basis for financing the projects, as budgeting and financing is aligned to the plans.



EXERCISE

Identify climate-related projects that have been proposed in the following development plans and classify them as adaptation or mitigation:

- a. MTP III
- b. CIDPs of five counties

Resource allocation stage

i. **National Treasury Circular (Budget)**

At the start of every financial year, the National Treasury issues circulars that provide guidelines for preparing and submitting annual budgets. The guidelines relate to: (i) strategic focus and priority areas aligned to current government priorities, which include climate change related actions; (ii) revenue and expenditure estimates; and, (iii) formats and presentation annual budgets and costing of programmes. The circular also provides instructions on costing of adaptation, mitigation and other climate-related actions.

ii. **Budget Review and Outlook Paper (BROP)**

The BROP is prepared in accordance with Section 26 of the Public Finance Management (PFM) Act, 2012. It provides the proposed expenditure limits for the national government, including Parliament and the judiciary and indicative transfers to county governments.

In setting expenditure limits, the National Treasury is aware of any additional financing required to climate proof projects in vulnerable sectors.

iii. **Sector Working Groups (SWGs)**

The budget Sector Working Groups 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.

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;

a. The sectors submit budget requests that integrate climate change across their programs. Overall budget formulation explicitly includes climate change investment;

b. Line ministries at both levels of government establish climate-related key performance indicators that allow them to account for the performance of climate expenditure;

c. Both levels' treasuries use public finance management systems, such as IFMIS, so that climate expenditures can be tracked; and,

d. Budget expenditure reports address climate expenditures and impacts; these are presented to Parliament and fed into planning and budgeting processes.

iv. **Budget Policy Statement (BPS) and County Fiscal Strategy Paper (C-FSP)**

The fiscal framework in the BPS 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. The BPS and C-FSP set out the broad strategic priorities and policy goals that will guide the national and county governments, respectively, in preparing their budgets both for the following financial year and over the medium term.

In developing expenditure priorities and ceilings, financing should take into account the additional cost of climate-proofing projects that are vulnerable to effects of climate change.

v. **Budget preparation for ministries, counties, departments and agencies (MCDAs)**

The National Treasury issues guidelines for budget preparation by MCDAs. They then prepare and submit budgets to the National Treasury for review, consolidation and submission to Cabinet. The counties follow a similar process, by which the Executive Committee member for Finance submits the estimates to the County Executive Committee.

Financing of climate change interventions could be integrated through the guidelines issued, thus requiring MCDAs to submit budgets that have mainstreamed climate financing, pursuant to the Climate Change Act, 2016. The programs and projects indicated in the budgets should include climate change adaptation and/or mitigation components.

This unit introduces the concept of climate costing in relation to adaptation and mitigation activities. Climate relevant expenditure (CRE) is a concept used to define the cost of adaptation and mitigation interventions. It is based on the Climate Change Budget Code (CCBC) report and the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Rio Markers.

Climate finance costing refers specifically to the additional or incremental amount needed to climate proof projects and programmes. The incremental cost associated with projects is based on the cost of capital for the incremental investment in and the change in operating and maintenance costs of a mitigation or adaptation project compared to a reference project. It may be calculated as the difference in the net present values of the two projects.



EXERCISE

- i. Review the FY 2018/19 budget and identify a climate change project that was included through the budgeting process.
- ii. Explain how the project identified in (i) moved through the budget process.

UNIT THREE

3.3 COSTING OF CLIMATE CHANGE ACTIVITIES

3.3.1 CLIMATE RELEVANT EXPENDITURE (CRE)

The term, 'climate relevant expenditure' is used to denote costs invested (capital, labour and related) in programmes and sub-programmes where actual and specific climate change activities may or may not be budgeted exclusively as climate related. 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:

- a. 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;
- b. allocate more than 25 percent of funding to one or all the above climate risk mitigation or climate-proofing categories;
- c. demonstrate that incremental or additional financing has been used for a) above; and,
- d. show that the outcome/output increased resilience, reduced emissions or increased awareness of climate change.

3.3.2 ISSUES TO NOTE WHEN COSTING CLIMATE CHANGE ACTIONS

The extent of budget and expenditure breakdowns in the IFMIS is currently limited to program and sub-program levels and does not capture the cost of each separate action/activity under each sub-program. This absence of activity-level expenditure and work plan information makes it difficult to determine the actual amount spent on the type of climate activity. That poses problems, in turn, in assessing additional and incremental climate finance and, hence, to classify CRE as adaptation, mitigation or enabling environment. Module IV will highlight how this challenge has been addressed.

Climate finance costing should promote inclusivity, thus reducing the burden of climate change on vulnerable groups. This can be done using two methodologies to calculate financing needs: i) unit costing, whereby the total cost of climate intervention is based on the unit cost of individual climate activity; and, ii) impact costing, whereby climate-related monetary costs to individuals, families, economy and businesses and the cost of the government's failure to address gender inequality in climate financing are calculated.

MODULE FOUR

Coding and Tracking

OVERVIEW

This module focuses on the methodology for tracking climate-relevant expenditures using climate budget codes embedded in the IFMIS and other financial management systems.

MAIN OBJECTIVE

To enable learners to understand the criterion for identifying and coding climate-relevant activities and expenditures and to track such activities.

SPECIFIC OBJECTIVES

By the end of the training, learners should understand:

- a. the need and justification for climate finance coding, tracking and reporting;
- b. the financial reporting systems and how climate finance is reported; and,
- c. how to code, track and report climate finance flows.

UNIT ONE

4.1 INTRODUCTION TO CODING AND TRACKING

4.1.1 DEFINITION OF TERMS

The following terms are useful in understanding the concepts presented in this module.

Budget coding refers to the process of tagging climate-change related activities within budget items and assigning specific codes to programmes and projects so that CRE can be tracked (OECD, 2012).

Tracking is a systematic way to trace and link budgetary allocations to their respective expenditures and outputs in climate-relevant activities within the IFMIS.

4.1.2 CONTEXT OF AND RATIONALE FOR CLIMATE FINANCE CODING AND TRACKING

Tracking and reporting climate finance flows has become a central concern for development and economic policy. Tracking helps to provide comprehensive data on climate change-relevant budgeting and spending, enabling the government to make informed climate policy decisions. Alongside other climate data, such as GHG inventories and vulnerability studies, climate finance data will serve as a cornerstone of data-driven decisions on climate investments in the country. Climate finance tracking is therefore essential to provide a standardized guide to identify climate-related projects and track the public climate finance that the country receives.

The main challenge posed by the absence of CRE coding and tracking is that most climate change funding is usually integrated into wider national planning sectors, such as energy, water or agriculture, rather than in specific climate-related sector and programmes. Thus, disaggregation may not be feasible in light of potential cross-sectoral policy conflicts. In addition, the many and different sources of climate change funding in the country involve an ever-growing number of institutions working on climate-related activities.

As outlined in Module 2, public climate change funds in developing countries may come from a number of sources. The most significant in terms of public climate finances are domestically-sourced funds and international public finance. The latter may be categorized further as originating in dedicated climate funds (e.g. the Green Climate Fund, the Adaptation Fund and Climate Investment Funds) or through bilateral and multilateral agencies, most often in the form of ODA.

Domestic funds flow through the normal government processes, as presented in Module 3. On the other hand, the ability to capture international funds (either ex-ante in budget appropriation or ex-post in reporting) varies based on the nature of the funding received and the channel of funding adopted. International climate finance is disbursed through two national channels:

1 This channel follows normal government financial flows. These funds are fully captured in the budget, so they can be monitored using the national budget system. The funds may be disbursed either through the National Treasury as revenue or as Appropriation-In-Aid (AIA).

2 The second channel involves the transfer, by development partners, of funds directly to projects and programmes operating outside government structures. This type of 'off-budget' expenditure is common with development partners who perceive governance structures to be weak, which means that a significant source of funding is neither readily visible nor reported by government systems.

Public spending that flows through the government system and is captured in the national budget operates within a unitary system that uses standardized coding in IFMIS. However, expenditure that passes through the second channel is not adequately captured with the same level of consistency. This poses a risk of double counting of expenditures and makes the monitoring of such flows problematic. Thus, this channel of funding is not captured adequately in many climate change public expenditure analyses to date, creating an analytic gap as projects funded in this way may not necessarily respond to the spending priorities established through the National Climate Change Action Plan. This channel does not comply with the PFM Act of 2012 and the Paris Agreement, Article 13.

The key pillars of climate finance tracking and reporting are as follows:

1	Evidence-based climate change policy formulation and the associated resource allocation across sectors	Climate public expenditure and budget analyses are important to establish evidence-based resource allocation for climate change-related actions, ensuring a balance between adaptation and mitigation actions. Kenya addresses this through five-year National Climate Change Action Plans. With goals and targets identified, it is necessary to understand the resource requirements for the implementation of public programmes that will allow these goals to be met. This will assist further policy development and international climate policy negotiations.
2	Accountability and transparency of public spending	The Constitution requires accountability to citizens regarding all public spending. In addition, it requires public participation in the budget-making process and information on public spending. This calls for enhanced public awareness and transparency in climate change expenditures. Because climate finance is a relatively new policy concern, the availability of financial information about actions enables oversight bodies to make evidence-based decisions on policies, projects and programmes.
3	Efficient and effective systems to track climate budgets and expenditures	Financial management systems can be strengthened to ensure that public programmes are delivered more effectively. This includes augmenting the existing information management and reporting systems with climate change-specific budget codes and indicators.
4	Climate finance reporting and verification	Information regarding international flows will ensure that the international support received can be verified. Kenya conducted a Climate Public Budget and Expenditure Review (CPEBR) in 2016. To ensure that current information on climate budget and expenditures is available, a CPEBR will be conducted biennially to ensure that evidence is used in decision-making.

4.1.3 TRANSPARENT AND ACCOUNTABLE SPENDING ON CLIMATE CHANGE

The demand for accountability and transparency in public spending in developing countries has increased tremendously over the past decade. Disaggregation of public spending in different categories - such as SDGs, gender, climate change and human rights - has become important. International agreements and obligations require timely and accurate reporting, including of financial information.

The Paris Agreement requires developing countries to provide information regularly through the Biennial Transparency Reports (BTR) on financial support needed and received for climate action. Developed countries must provide developing countries with adequate and predictable financial resources for climate action. The Agreement also requires developed countries to provide information regularly on financial support mobilized and provided to developing countries for climate action.

In terms of increasing the transparency of international climate finance flows into the national systems of recipient countries, a national monitoring and verification system provides an opportunity exists to increase both transparency and accountability of such funds. Such a system allows funds that developing countries receive from international sources to be tracked for reporting consistency at the international and national levels.

The National Treasury has developed a Climate Change Budget Code (CCBC), as provided under Section 25(g) of the Climate Change Act, 2016, to track and report climate finance flows within the IFMIS for both national and county budgeting processes. This is part of the implementation of the CCBC Report of 2016, which proposed a broad criterion to identify and tag climate finance and related climate change expenditures by creating a new "Segment 8" within the Standard Chart of Accounts (SCOA).

The identification and tracking of climate finance through IFMIS and any other financial management system will allow Kenya to account for national and county governments' climate-related expenditures. In addition, tracking climate finance flows serves as a readiness tool for the country to access climate finance, both globally and locally, climate proof investments and promote an enabling environment for low-carbon, climate-resilient development. Further, it encourages project development with a climate lens throughout the entire project cycle, thus promoting transparency and accountability in climate change spending by the government, development partners and other non-state actors.

4.1.4 COUNTRIES THAT HAVE DEVELOPED CLIMATE CHANGE CODING AND TRACKING SYSTEMS

Countries that have developed climate change coding systems include:

i. **Indonesia - Low Emission Budget Tagging and Scoring System**

In 2014, Indonesia introduced mitigation budget tagging (Low Emission Budget Tagging and Scoring System, LESS) in key ministries to track resources spent to achieve the national emission reduction target of 26 percent by 2020. LESS aims to identify the total amount of budget allocation and actual expenditure on climate mitigation and to assess the contribution per unit of budget to achieve emission reduction targets.

ii. **Nepal - Climate Budget Tagging**

The Government of Nepal is one of the first countries to adopt climate budget tagging. In 2012, it incorporated the climate tag into the budget system at programme level, classifying expenditures by level of climate relevance.

iii. **Bangladesh - Climate Expenditure Tracking Framework**

The Government of Bangladesh adopted a Climate Fiscal Framework (CFF) in 2014, under which a climate expenditure tracking framework (CETF) would be applied to all line ministries' budget submissions and on-budget ODA would be tagged. The proposed CETF would weigh climate relevance and tag expenditure based on the six thematic priorities under the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009.

iv. **Philippines - Climate Budget Tagging**

The Philippines developed Climate Budget Tagging (CBT) as a tool to monitor and track climate-related expenditures in the national budget system. Starting in 2015, the Philippines mandated CBT in national budget submissions for all government entities. CBT provides comprehensive data on climate change-relevant spending, enabling government to make informed decisions and prioritize climate investments. The Philippines also piloted its CBT tool in the Annual Investment Plan for local government units (LGU) before scaling up to all LGUs in 2016.

v. **Ghana - Climate Change Finance Tracking Tool (CLIMATRONIC)**

The Government of Ghana established a Natural Resources, Environment and Climate Change (NRECC) Unit within the Ministry of Finance and developed two sets of climate change finance tracking tools to track both domestic and external financial resources generated for climate change actions. The first, the Climate Change Finance Tracking Tool, was designed to track CRE using the national budget codes to isolate climate-relevant public expenditure on climate change and international inflows. This tool proposed an architecture to monitor and report climate finance flows and, based on the structure, showed how to use the budget code system to identify and report the CRE.

The second tool, MRV of finance guidance, was also developed to track Ghana's climate finance, verify data completeness and help demonstrate transparency of support and climate action. The guidance document was the first attempt to conceptualize, design, operationalize and tailor MRV of finance to suit Ghana's financial administration structure. The tool provides a dashboard for tracking climate specific funds, a major step in identifying the source of additional funding. This tool focuses primarily on tracking/ monitoring financial inflows from international sources and establishes four main steps to track, verify and report on climate change financing: 1) identify climate finance sources and recipients; 2) verify completeness, 3) align with national budget code as a single mirror; and 4) report.

Table 2: How countries have implemented climate change budget coding and tracking systems

Source: RPLN, 2016

	PHILIPPINES	INDONESIA	NEPAL	BANGLADESH
DEFINITION AND CRITERIA OF CLIMATE RELATED EXPENDITURE	<ul style="list-style-type: none"> Adaptation and mitigation definitions Use of policy areas in NCCAP in definitions to guide screening of climate related expenditure 	<ul style="list-style-type: none"> Mitigation only-direct and indirect actions Use of RAN-GRK priorities as basis but also recognise non-RAN GRK areas 	<ul style="list-style-type: none"> Not split between mitigation and adaptation Based on a short-list of climate related thematic areas, covering all economic sectors 	Adaptation and mitigation based on OECD Rio-Markers definitions
CLASSIFICATION/ CLIMATE CHANGE TYPOLOGY	Typology based on NCCAP 8 priority areas <ul style="list-style-type: none"> 4 level typology covering: NCCAP priority area, sector and sub-sector level to activity level 	There is no explicit typology, climate change related expenditure is tagged by themes	There is no typology	Use of six thematic areas in BCCSAP in tagging
WEIGHING CLIMATE RELEVANCE	The proportion of the expenditure that is climate relevant is subjectively estimated by policy managers	The scoring system has not yet been developed	Adopting a criteria system: <ul style="list-style-type: none"> Highly Relevant – over 60% allocated to climate activities Relevant – 20-60% Neutral – below 20% 	The climate proportion is determined by CPEIR-relevance index approach but assigning more specific percentages
DESIGNING OF TAGGING PROCEDURES				
ENTRY POINT	Budget proposal	Budget proposal	Budget proposal	Budget proposal
LEVEL OF INFORMATION TO BE TAGGED	<ul style="list-style-type: none"> Tag at activity level tagging across economic classification also 	Tag at activity level	Tag at programme level	Tag at operational unit level across economic classification
BUDGET INFORMATION SYSTEM	<ul style="list-style-type: none"> Fully online and computerised Integrated to the existing information system which is already incorporates other tags 	<ul style="list-style-type: none"> Partly integrated computer based and partly manually tagged by MOF Retrofitted to the existing information system (use of the existing field to add climate change themes) 	<ul style="list-style-type: none"> Initially manually done Incorporated climate tag to the budget information system Limited to budget allocations only (no information on actual expenditures) 	A parallel module linked to an integrated budget information system
LEAD INSTITUTIONS	Both Department of Budget Management (DBM) and climate change commission	Fiscal Policy Agency (MOF)	National Planning Commission	Finance Division (Ministry of Finance)

UNIT TWO

4.2 CAPTURING CRE IN THE IFMIS AND OTHER FINANCIAL REPORTING SYSTEMS

4.2.1 STRUCTURE OF SCOA IN THE IFMIS

The Standard Chart of Accounts (SCOA) coding structure is the system by which national budgets and government financial transactions are coded for recording in IFMIS (see Table 2). It is central to coding and tracking all Government of Kenya (GoK) appropriations, whether funded from domestic or external resources, and maps all national MTEF sectors, programmes and sub-programmes defined for national budgeting purposes. It was redesigned in 2012 as part of the wider public finance management reforms that involved the re-engineering of the IFMIS. As currently structured, SCOA contains various segments, which include those listed in Table 3.

Table 3: IFMIS Standard Chart of Accounts – Segments and digits descriptions

Source: CPEBR, 2016

CODE SEGMENT	SEGMENT DESCRIPTION
SEGMENT 1 Class (1 digit, 1 level)	This segment identifies the budget and below-the-line item categories. It is used to identify appropriated and non-appropriated items and is very important for budget reporting. It allows for categorization as revenue budget; recurrent budget; and deposits and development budget, as per the GoK printed estimates. Level 1: X
SEGMENT 2 Vote (4 digits, 1 level)	This segment represents the votes against which the budget is appropriated. It indicates the highest level of the organizational structure of a particular government entity entitled to a vote in the budget. Level 1: XXXX
SEGMENT 3 Administrative (10 digits, 3 levels)	This segment represents the cost centre; that is, the lower level of the organizational structure of a particular government entity (Vote). The lowest level indicates the head or cost/revenue centre. Thus, the code string runs as follows: Ministry>Department (Head)>Cost Centre (Sub-head). Level 1: XXXX: Vote Level 2: XXXX: Head (Department) Level 3: XX: Sub-Head (Cost Centre) Projects and Special Funds have been designated at departmental level and should be able to prepare separate financial statements on need basis. These could also be consolidated at the Vote level, especially during the preparation of annual financial statements.
SEGMENT 4 Funding source (8 digits, 4 levels)	This segment allows for analysis of revenues and payments by funding source. It identifies the broad, as well as specific, source of funding. At the broad level, it categorizes revenues as either GoK (domestic) or external (grant or loan). At the lower level, it drills down to a particular source, e.g. a particular donor, such as the World Bank. Donor funding is further identified by donor items (donor facilities), as each donor normally commits funding under a specific funding programme or agreement, and expects accounting on the same basis. The levels and number of digits under this segment are as follows: Level 1: X: Broad source funding (GoK, grant or loan) Level 2: X: Mode of financing (revenue or AIA) Level 3: XXX: Specific donor code e.g. Danida Level 4: XXX: Donor item (e.g. Support for Public Financial Management)

<p>SEGMENT 5 Programme (10 digits, 4 levels)</p>	<p>This segment provides for a programmatic reporting structure. All expenditures are categorized by programme/sub-programme to support performance- or programme-based budgeting. The reporting hierarchy comprises: Sector>Programme>Sub-Programme</p> <p>Level 1: XX: Sector Level 2: XX: Programme Level 3: XX: Sub-programme Level 4: XXXX: Activity</p>
<p>SEGMENT 6 Economic (7 digits, 5 levels)</p>	<p>This segment analyses the nature of receipts, payments, assets, liabilities and funding flows. The coding structure has been aligned to the IMF Government Financial Statistics Manual 2001 (GFSM 2001). The reporting hierarchy comprises: Category>Chapter >Sub- Chapter>Item>Sub-Item</p> <p>Level 1: X: Category Level 2: X: Chapter Level 3: X: Sub-Chapter Level 4: XX: Item Level 5: XX: Sub-Item</p> <p>The Economic segment is very important for budget control and financial reporting.</p>
<p>SEGMENT 7 Geographic location (8 digits, 3 levels)</p>	<p>This segment enables payments to be tracked to the benefiting locations. The reporting hierarchy comprises: County>Constituency>Ward.</p> <p>Level 1: XXXX: National or specific county Level 2: XX: Constituency Level 3: XX: Ward</p>

Figure 7: IFMIS screenshot showing the seven segments

The screenshot shows a window titled "GOK_ACCOUNTING_FLEX" with the following segments and values:

- Class:** 1 Development Expenditure
- Vote:** 1165 State Department for Crop Development
- Administrative:** 1165105301 Kenya Climate Smart Agriculture Project (KCSAP)
- Source of Funding:** 00001001 Exchequer (GOK)
- Programme:** 0105034810 Kenya Climate Smart Agriculture programme
- Economic Item:** 3111301 Purchase of Certified Crop Seed
- Geographical Location:** 34600406 Laisamis
- Future:** 000 Future

At the bottom of the window are buttons for OK, Cancel, Clear, and Help.



EXERCISE

Discuss your organization's financial information system and show how climate finance has been or can be tracked and reported by using the system.

UNIT THREE

4.3 FACILITATING THE CLIMATE FINANCE TRACKING PROCESS

4.3.1 IDENTIFYING AND DEFINING WHAT TO TRACK

To facilitate budgeting and subsequent tracking of funds channelled to fund a climate-related initiative (a cause), it is important to have additional information on the objectives and outputs/outcomes of the activities enabled by the budget. Objectives provide information on whether the activity was intended for climate mitigation or adaptation and can suggest whether climate co-benefits may exist. Outputs/outcomes will confirm the existence of those co-benefits and will become useful in determining their estimate costs.

4.3.2 APPLYING THE RIO MARKERS TO TRACK CLIMATE FINANCE FLOWS IN IFMIS

The OECD database provides a detailed platform for disaggregating finance data (domestic, ODA and bilateral climate finance) tracked using Rio markers. This tool is necessary to ensure greater consistency and transparency in climate finance reporting. Rio markers are standardized global reporting codes that can be used to compare climate-related expenditures across different countries.

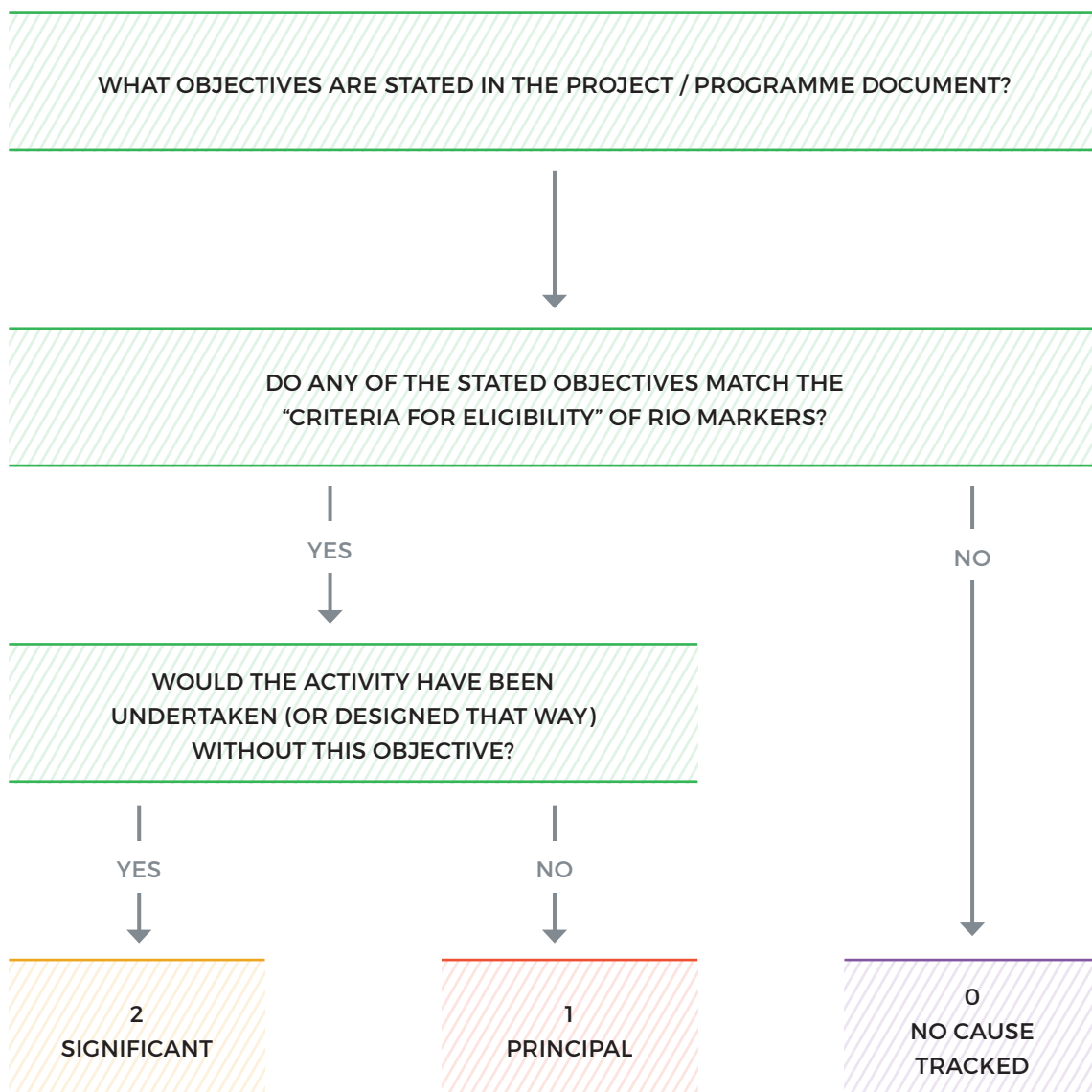
Rio markers are used to flag the relevance of climate-related expenditures to facilitate budgeting and tracking of funds channelled to a fund or programs/projects. The three-tiered scoring system is as follows:

- **0 – Not applicable/No cause tracked:** used by default to indicate expenses not related to climate or any specific analytical cause;
- **1 – Principle:** this marker (and flag 1) is used to indicate the deliberate relevance of the expenditure initiative to climate change; or,
- **2 – Significant:** this marker (and flag 2) identifies the presence of climate co-benefits in an expenditure initiative, although though its objective may not be climate-relevant.

These marks indicate the policy objectives of the projects or programs being developed and implemented at various administrative levels (see Table 3).

- i. An activity may be marked principal when the objective (climate change mitigation or adaptation) is explicitly stated as fundamental in the design of, or the motivation for, the activity. Promoting the objective will thus be stated in the activity documentation as one of the principal reasons to undertake it. In other words, the activity would not have been funded (or designed that way) but for that objective.
- ii. An activity may be marked significant when the objective (climate change mitigation or adaptation) is explicitly stated but it is not the fundamental driver or motivation. Instead, the activity has other prime objectives, but has been formulated or adjusted to help meet relevant climate concerns.
- iii. An activity may be marked not applicable/no cause to be tracked when the activity does not target the objective (climate change mitigation or adaptation) in any significant way.

Figure 8: Climate relevance screening tool
 Source: OECD DAC Rio Markers for Climate - Handbook



4.3.4 INCLUDING SEGMENT 8 IN SCOA

Climate change budget tracking is the last analytical segment within IFMIS, as illustrated below:

Table 4: SCOA Segment 8

SEGMENT 1	SEGMENT 2	SEGMENT 3	SEGMENT 4	SEGMENT 5	SEGMENT 6	SEGMENT 7	SEGMENT 8
Class	Vote	Administrative	Source of funding	Programmes	Economic items	Geographic location	Analytical/tracking (new)
1 digit	4 digits	10 digits	8 digits	10 digits	7 digits	8 digits	4 digits

4.3.5 UNPACKING SEGMENT 8 (TRACKING)

This segment enables CRE to be tracked to the benefiting causes. The reporting hierarchy includes three levels and four digits:

Table 5: Segment 8 unpacked

LEVEL 1	LEVEL 2	LEVEL 3	FULL CODE	DESCRIPTION
Cause	Division	Area		
2 digits	1 digit	1 digit	4 digits	

- Level 1 (Cause) - Shows the main cause/subject of tracking, e.g. Climate Change
- Level 2 (Division) - Shows the major divisions in the cause, e.g. Adaptation
- Level 3 (Area) - Defines specific areas under the divisions, e.g. Principle

Table 6: Detailed coding schematic for typical analysis subjects

LEVEL 1	LEVEL 2	LEVEL 3	FULL CODE	DESCRIPTION
Cause	Division / Focus	Area		
2 digits	1 digit	1 digit	4 digits	
00	0	0	0000	No Cause Tracked
00	0	1	0001	No Cause Tracked
01	0	0	0100	Climate Change
01	1	0	0110	Adaptation
01	1	1	0111	Principle Adaptation
01	1	2	0112	Significant Adaptation
01	2	0	0120	Mitigation
01	2	1	0121	Principle Mitigation
01	2	2	0122	Significant Mitigation
01	3	0	0130	Cross-cutting
01	3	1	0131	(both mitigation and adaptation)
01	3	2	0132	Principle Cross-cutting
01	4	0	0140	Significant Cross-cutting
02	0	0	0200	Enablers (e.g. legislation, capacity building)
02	1	0	0210	Cause 2 (Example -Gender)
02	1	1	0211	Division 1
02	1	2	0212	Area 1
02	1	3	0213	Area 2
				Area 3

Examples of adaptation projects:

1. Kenya Climate Smart Agriculture
2. Kenya Agricultural Insurance and Risk Management Programme
3. Kenya Livestock Insurance Programme
4. Galana Kulalu Food Security Project

Examples of mitigation projects

1. Reducing Emissions from Deforestation and Forest Degradation Plus (REDD+)
2. Lake Turkana Wind Power Project
3. Standard Gauge Railway Project

Table 7: Classification of adaptation and mitigation projects/programs as principal or significant

S/No.	1	2	3
PROJECT / PROGRAM	Kenya Climate Smart Agriculture Project	Kenya Agriculture and Risk Management Program	REDD+ Readiness Project
OBJECTIVE	To increase agricultural productivity and build resilience to climate change risks in targeted smallholder farming and pastoral communities in Kenya	To manage risks and losses amongst smallholder farmers, increase productivity in agriculture, improve access to credit and higher-yielding technology, such as seeds and fertilizers, and support the transition from subsistence to commercially-oriented farming	To put in place mechanisms to enable Kenya to reach its overall REDD+ goal to improve livelihoods and well-being, conserve biodiversity, contribute to the national aspiration of attaining a minimum of 10 percent forest cover and mitigate climate change for sustainable development
ADAPTATION			
Principal (1)	○		
Significant (2)		○	
MIGRATION			
Principal (1)			○
Significant (2)			
CROSSCUTTING			
Principal (1)			
Significant (2)			
ENABLERS			
NOT APPLICABLE			
No Cause Tracked (0)			
IFMIS SEGMENT 8			
Full Code	0111	0112	0121

S/No.	4	5
PROJECT / PROGRAM	Lake Turkana Wind Power Project	Rehabilitation of degraded sites and promotion of appropriate land use management systems to improve quality of ecosystem services of livelihoods in Nandi County
OBJECTIVE	To provide 310MW of reliable, low cost energy to Kenya's national grid (i.e. approximately 15 percent of the country's installed capacity), which will be bought at a fixed price by Kenya Power & Lighting Company Ltd (KPLC) over a 20-year period, in accordance with the Power Purchase Agreement.	To enhance productivity of natural resources and community resilience to climate change leading to environmental well-being and poverty reduction
ADAPTATION		
Principal (1)		○
Significant (2)		
MIGRATION		
Principal (1)		
Significant (2)	○	
CROSSCUTTING		
Principal (1)		
Significant (2)		
ENABLERS		
NOT APPLICABLE		
No Cause Tracked (0)		
IFMIS SEGMENT 8		
Full Code	0122	0111

NB: Learners should note that regardless of the sector where they work, opportunities exist to ensure that each of their programs and projects are climate proofed from the design stage.



DISCUSSION

Based on the above, discuss examples of projects/programs in your respective sectors and:

1. classify them as either adaptation or mitigation; and
2. classify them as either principal/significant adaptation or mitigation based on the objectives/description.

FURTHER READING

1. Climate Change Budget Coding Report (2015)
2. Climate Public Expenditure and Budget Review (CPEBR), 2016
3. OECD DAC Rio Markers for Climate Hand Book
4. Climate Budget Tagging: Experience from Asia, 2016
5. Government Standard Chart of Accounts (SCOAs) manual

UNIT FOUR

4.4 REPORTING ON CLIMATE FINANCE

4.4.1 CLIMATE FINANCE COMMUNICATION AND REPORTING REQUIREMENT

Under the UNFCCC Transparency Framework (Paris Agreement Article. 13), Parties are expected to report on financial support needs and support received. In this regard, identifying and tracking climate-related expenditure in the national budgetary system enables Kenya to monitor and report on financial support needs and support received. This ensures that national policy targets are being achieved and that resources are being spent effectively and efficiently.

The Constitution of Kenya, 2010 also underscores the need for Minimum Efficiency Reporting Value (MERV) to enhance transparency, accountability, integrity and access to information. Further, monitoring and evaluation is a legal requirement for projects and programmes as provided for by the PFM Act, 2012 and associated regulations. The PFM regulations require accounting officers to create measures to monitor and report financial and non-financial performance of entities and projects.

The SCOA used in IFMIS is the central feature of budget coding and tracking of public expenditures. To ensure effective tracking, climate-relevant initiatives are flagged and assigned appropriate budget tracking codes. The codes within SCOA (Segment 8) are then used to track and analyse climate-related expenditures in national budget systems. The climate-relevant expenditure is reported as adaptation, mitigation or enabling environment.

4.4.2 CLIMATE FINANCE REPORTING REQUIREMENTS

The following key questions provide guidance on the reporting requirements:

- i. i. Who to report to?
 - The public and financiers and actors under Kenya's international reporting obligations.
- ii. When to report?
 - Nationally (quarterly, annually)
 - Internationally (biennially)
- iii. What to report?

According to the Paris Agreement, the report should include:

 - Title (activity, programme or project)
 - Programme/project description
 - Channel
 - Recipient entity
 - Implementing entity
 - Amount received (in domestic currency and United States dollars)

- Time frame
- Financial instrument (grant, concessional loan, non-concessional loan, equity, guarantee or other)
- Status (committed or received)
- Sector and subsector
- Type of support (mitigation, adaptation or cross-cutting)
- Whether the activity has contributed to technology development and transfer and/or capacity-building
- Status of activity (planned, ongoing or completed)
- Use, impact and estimated results.

The data and information generated through IFMIS facilitates the analysis and review of CRE. The information generated for reporting will include the following:

- i. Class of budget (recurrent, development, revenue or deposits)
- ii. Vote head (MCDAs)
- iii. Administrative unit (vote head, cost centre)
- iv. Source of funding (domestic or external (grants & loans), channel)
- v. Programme (sector, sub-programme/project, activity)
- vi. Economic item (expense, investment on asset, liability)
- vii. Geographic location (county, sub-county, ward)
- viii. Analytical/tracking (climate change adaptation, mitigation or cross cutting).

The climate-relevant expenditure reports generated through IFMIS will enhance reporting to the UNFCCC. The additional information below will be required to meet the UNFCCC reporting requirements:

- i. The financial instruments, including equity and guarantees;
- ii. Whether the activity, project or programme will contribute to technology development and transfer and/or capacity building if relevant;
- iii. Status of the activity, project or programme; and,
- iv. The project's or programme's use, impact and estimated results.

4.4.3 CLIMATE FINANCE REPORTING CAPACITY NEEDS

The Paris Agreement implementation work programme requires the GEF to continue providing support for reporting under the Transparency Framework. GEF will also continue to support the Capacity-Building Initiative for Transparency (CBIT) as a priority reporting-related need. Public climate finance flows should be reported at the national level, rather than by individual MCDAs and SAGAs. This may require boosting institutional capacity and creates a need for concerted dialogue among government departments and finance institutions within the GoK and with development partners. In some cases, it may require new expertise, as well as new arrangements for institutional cooperation.

ANNEXURES

ANNEX 1: NATIONAL GOVERNMENT BUDGET CALENDAR

ACTIVITY	RESPONSIBILITY	TIMELINE (DEADLINE)
Develop MTEF guidelines	National Treasury & Planning	15th - 30th August
Issue budget circulars and launch Sector Working Group	National Treasury & Planning	30th August
Hold public sector hearings	National Treasury & Planning	1st September - 15th February
Conduct programme performance review	MDAs	15th September - 30th September
Submit Budget Review and Outlook Paper (BROP) to Cabinet	Macro Working Group	30th September
Approve BROP	Cabinet	7 days after submission
Submit approved BROP to Parliament	National Treasury & Planning	14 days after approval
Submit first Quarterly Economic & Budgetary Review" (QEBR) to the National Assembly	National Treasury & Planning	15th November
Release audit reports for the previous fiscal year	Office of the Auditor General	31st December
Submit second Quarterly Economic & Budgetary Review" (QEBR) to the National Assembly	National Treasury & Planning	15th February
Submit BPS, Division of Revenue Bill (DORB) and County Allocation Revenue Bill (CARB) to Parliament for approval	National Treasury & Planning	15th February
Approve BPS	Parliament	28th February
Submit Debt Management Strategy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council	National Treasury & Planning	28th February
Publish and publicize the Approved BPS	National Treasury & Planning	1st March
Approve Division of Revenue and County Allocation of Revenue Bills	Parliament	15th March
Submit budget estimates to Parliament	National Treasury & Planning	30th April
Submit third Quarterly Economic & Budgetary Review" (QEBR) to the National Assembly	National Treasury & Planning	15th May
Present the Budget Statement to Parliament	National Treasury & Planning	1st June - 15th June
Pass appropriation bill	Parliament	30th June
Finance bill passed	Parliament	Within 90 days after passing the appropriation bill

ANNEX 2: COUNTY GOVERNMENTS' BUDGET CALENDAR

ACTIVITY	RESPONSIBILITY	RELEVANT LEGISLATION	TARGET DATE
Issue County Budget Circular	Issued by CEC-MF from each county	PFMA (2012) Section 128 (2)	30th August
Submit County Annual Development Plan (ADP) to the County Assembly (CA) for approval	CEC-MP	PFMA (2012) Section 126 (3)	1st September
Submit C-BROP to CEC	County Treasury (CT)	PFMA (2012) Section 118	30th September
Recommend revenue sharing (vertical and horizontal)	CRA makes recommendations on revenue sharing (vertical and horizontal)	PFMA (2012) Section 190	31st December
Submit C-FSP to CA	County Treasury	PFMA (2012) Section 117 (1), (6), (8)	28th February
Submit county Debt Management Strategy to the CA	County Treasury	PFMA (2012) Section 123 (1), (3)	28th February
Submit budget estimates to the CEC	CEC-MF	PFMA (2012) Section 129, (1), (2), (3), (4)	30th April
Submit Annual Procurement Plan (APP) to the Controller of Budget	County Treasury		31st May
Submit annual cash flow projections for the county to the Controller of the Budget with copies to the Intergovernment Budget and Economic Council and NT	CG	PFMA (2012) Section 127 (1)	15th June
Approve budget estimates	County Assembly	PFMA (2012) Section 131 (1)	30th June
	CA approves budget estimates and passes the Appropriation Bill	PFM 2012, 131(5)	30th June
	With CEC approval, the CEC-MF submits the County Finance Bill to the CA	PFMA (2012) Section 133	Within 90 days of approval of Appropriation Bill
Develop supplementary estimates	County Executives to the Cabinet Secretary for Finance	PFMA (2012) Section 135	On an 'as needed' basis

ANNEX 3: DEFINITION OF TERMS

THE FOLLOWING DEFINITIONS SHALL APPLY IN THIS TRAINING HANDBOOK:

Accredited entity: an entity that is accredited by the GCF Board in accordance with the Governing Instrument and relevant Board Decisions. The role of an accredited entity relates to project implementation management and oversight, which includes originating and preparing a funding proposal and, subsequently, managing the necessary stages of the implementation process until its conclusion (project management) on behalf of the provider of funds, and reporting obligations.

Activities: For the purposes of this training handbook and unless otherwise specified, refers to programmes, projects and subprojects.

Adaptation: the adjustment in natural or human systems in response to actual, expected climatic stimuli or their effects, which moderates harm, or exploits beneficial opportunities.

Budget coding: the process of tagging climate change-related activities within the budget items and assigning specific codes to programmes and projects to enable budget tracking of climate relevant expenditure (OECD, 2012).

Climate finance: monies available for or mobilized by government or non-government entities to finance climate change mitigation and adaptation actions and interventions.

Climate change: a change in the climate system caused by significant changes in the concentration of greenhouse gases as a consequence of human activities and that is in addition to natural climate change that has been observed during a considerable period.

Conference of the Parties (COP): the formal meeting of the UNFCCC parties to assess progress in dealing with climate change and to negotiate to establish legally-binding obligations for developed countries to reduce their greenhouse gas emissions.

Climate Relevant Expenditure (CRE): costs invested (capital, labour and related) in programmes and sub-programmes, where actual and specific climate change activities may or may not be budgeted exclusively as climate related.

Climate change resilience: the capability to maintain competent function and return to some normal range of function even when faced with adverse impacts of climate change.

Executing entity: any entity through which climate finances is channelled or used for a funded activity and/or any entity that executes, carries out or implements a funded activity.

Environmental and social risk: a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.

Emissions: In relation to a greenhouse gas, emissions of that gas into the atmosphere where the emissions are attributable to human activity.

Fund: The Climate Change Fund established under section 25 of Kenya's Climate Change Act, 2016.

Mitigation: efforts that seek to prevent or slow the increase of atmospheric greenhouse gas concentrations by limiting current or future emissions and enhancing potential sinks for greenhouse gases.

Greenhouse gases (GHGs): substances that are able to trap heat in the atmosphere and thus keep the earth's surface warmer than it would otherwise be. The main GHG are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (NO_x). Others include hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and indirect gases. The resultant effect is global warming, which refers to the increase of Earth's average surface temperature and of the temperature of the atmosphere and oceans.

Mainstreaming: the integration of climate change actions into decision-making and implementation of functions by the sector ministries, state corporations and county governments.

Rio markers: standardized global reporting codes that can be used to compare climate-related expenditures from different countries. Rio markers are used to flag the relevance of expenditure in relation to climate to facilitate budgeting and tracking of funds channelled to a fund or programs/projects.

Stakeholders: individuals or groups, communities, governments who: (a) are affected or likely to be affected by the activities; and (b) may have an interest in the activities (other interested parties). The stakeholders of an activity will vary depending on the details of the activity and may include local communities, national and local authorities, including neighbouring governments, neighbouring projects, and nongovernmental organizations.

Standard Chart of Accounts (SCOA) coding structure: a system by which national budgets and government financial transactions are coded for recording in IFMIS.

Tracking: a systematic way to trace and link budgetary allocations to their respective expenditures and outputs in climate-relevant activities within the IFMIS.

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