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Final Climate Budget Tagging Methodology

Technical Report

Georgia

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Abbreviations

CBT	Climate Budget Tagging
CPEIR	Climate Change Public Expenditure and Institutional Review
CSAP	Climate Change Strategy and Action Plan
DAC	Development Assistance Committee
EAIMS	Electronic Aid Information Management System
E-Budget	Electronic Budget Management System
ETF	Enhanced Transparency Framework
EU	European Union
LT-LEDS	Long-Term Low Emission Development Strategy
MDB	Multilateral Development Bank
MPG	Modalities, Procedures, and Guidelines
MRV	Monitoring, Reporting, and Verification
NDC	Nationally Determined Contribution
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PFM	Public Finance Management
SDG	Sustainable Development Goal
SOE	State-Owned Enterprise
UNFCCC	United Nations Framework Convention on Climate Change

Introduction

This document contains the Final Climate Budget Tagging (CBT) Methodology for Georgia for the *Consultancy to Provide Technical Support to Georgia for the Development of a NDC Financing Strategy and Investment Plan and Climate Budget Tagging* framed within the overall "NDC Financing Strategy and Investment Plan & Climate Budget Tagging" project.

Climate Budget Tagging (CBT) is a tool for monitoring and tracking climate-related expenditures in the national budget system to provide comprehensive data on climate change relevant spending. This will allow governments to make informed decisions, prioritise climate investments, and encourage policymakers to incorporate climate considerations in policy design. Furthermore, reporting climate finance information will ensure the country meets the international reporting requirements under the United Nations Framework Convention on Climate Change (UNFCCC), accessibility to a range of users and facilitate public disclosure of information.

Overall Methodology

The proposed CBT methodology for Georgia can be broken down into three main components, namely, defining the coverage and granularity of the CBT methodology, classifying the expenditure according to climate change purpose and sector, and lastly, weighting the climate relevance (Figure 1).

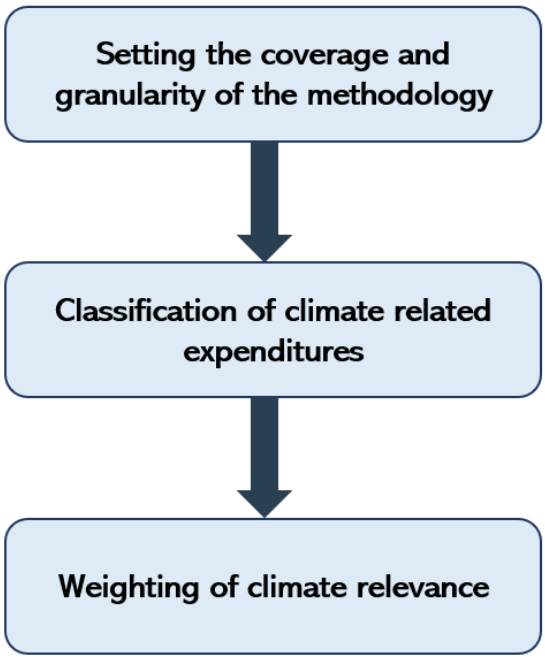

Figure 1. Overview of the proposed CBT methodology.

The proposed CBT methodology for Georgia builds on the approach developed for the project "Support to Georgia in enhancing its national capacities to track and report on climate finance" which aimed to establish a climate finance monitoring, reporting, and verification (MRV) system. This approach is further developed according to the national legislation and strategic areas and themes for actions from the main climate change strategies and action plans.

Structure of the Report

The chapters in the report are arranged according to the three main components of the proposed CBT methodology for Georgia, as follows:

Section A. Coverage and Granularity

This section describes the coverage, which relates to the institutions and type of expenditure to which the methodology will be applied, and the granularity, which defines the level of information to be tagged.

Section B. Classifying Climate Finance

This section presents the classification approach for the identified climate finance in the country, which includes definitions, eligibility criteria, and sectoral classification criteria.

Section C. Weighting Climate Finance

This section presents the weighting approach for the classified climate change related expenditure based on the Climate Change Public Expenditure and Institutional Review (CPEIR) Climate Relevance Index approach.

Section A. Coverage and Granularity

The CBT methodology procedure will depend on its coverage, which relates to the institutions and type of expenditure to which the methodology will be applied, and the granularity, which defines the level of information to be tagged. This section contains a proposal of coverage and granularity, which is the first step in the methodology. Future updates, if appropriate, such as incorporating off-budget items and negative expenditure, should undertake the revision of the coverage and granularity information as a first step.

Coverage

The coverage or entry point to integrate CBT in the budget process will determine what type of expenditure will be tagged. The broader the coverage, the more comprehensive the picture of climate-relevant expenditures and the more effectively resources can be aligned with policy objectives.

The proposed CBT methodology of Georgia defines the budget proposal as the entry point for its application, which will ensure all spending institutions (i.e., tier one budgetary organisations under the classification of program budgeting for the state and autonomous republican budgets, and local authority for local budgets[1]) that need to be engaged in the budgetary process of Georgia to tag their expenditure. It will also ensure that both recurrent (operational) and investment (development) expenditures are tagged, provides information on climate expenditure at an early stage in the budget process, and encourages all spending institutions to consider climate change into the investment from the design stage. Defining the budget proposal as the entry point does have a shortcoming, as other public expenditures that are not subject to budget proposal will not be captured and tagged such as expenditures or transfers to state-owned enterprises (SOEs) and other off-budget items. The incorporation of budget tagging of transfers can be included at a later point, which will also allow off-budget entities to tag transfers and provide information on the alignment of SOE operations with climate policy objectives.

Considering the budget proposal as the entry point for the application, the proposed CBT methodology should be integrated into the Electronic Budget Management (E-Budget) System of the Ministry of Finance. All spending institutions in Georgia communicate budget information on their programmes and sub-programmes and the respective outputs, outcomes, and performance measure indicators to this system, and it subsequently classifies all the budgetary spending according to economic classification, functional classification, and programme classification. First steps have been undertaken to incorporate a classification opportunity (Sustainable Development Goals (SDGs), Gender, Climate Change, etc.), to set the respective performance indicators by climate policy area, and include a narrative on how the program/activities are linked to climate change in the E-Budget

[1] About the amendment of the #385 order of the Minister of Finance from 8 July 2011 on Rules and Methodology on Program Budgeting (Annex N1 - 14.08.2015 N 265): Terms and Definitions.

System. There is no legal requirement but a non-mandatory opportunity for spending institutions to provide this information and it is not a comprehensive tool for full-fledged integration of climate change dimension in the Public Finance Management (PFM) since it does not allow further defining the type of climate change action and quantitative evaluation of the climate-related expenditure. Nevertheless, it can be considered as a major first step for the climate change budget formulation and important steppingstone for further integration of climate change in the budgeting system.

Furthermore, donor spending in Georgia is substantial, and to ensure and cross-check that this is sufficiently captured with the proposed CBT methodology, and that potential off-budget donor funds are tagged as well, it will additionally cover donor funded projects. The proposed CBT methodology should thus also be integrated into the electronic Aid Information Management System (eAIMS) of the Donor Coordination Unit under the Administration of the Government of Georgia. The eAIMS system allows bilateral and multilateral donors to voluntarily report information concerning Official Development Assistance (ODA). The eAIMS also includes information about development financing types, project, and thematic areas. consists of an online database containing all the information on ODA projects in the country which are financed by international development partners.

The tagging will be conducted by the policy departments of the relevant spending institution, who bears ample knowledge on the specificities of the activities, and subsequently passed to the finance departments of the relevant spending institution for finalisation of the assigned weights conjointly with the policy department. Furthermore, it is important to note that the proposed CBT methodology will require and hinge on adequate capacity building for both the policy and finance departments of each spending institution and other stakeholders involved in the process. Considerations can therefore be made to initiate the process at national-level spending institutions, and subsequently cascade down to other lower-level spending institutions.

The coverage of the proposed CBT methodology has been defined considering the aim of Georgia to integrate climate change finance in the Georgian budgeting system. This will not only allow the country to make informed decisions and prioritise climate investment, but also comply with the reporting requirements for developed countries on financial support provided and mobilized under Article 13, paragraph 9 of the Paris Agreement according to the set of modalities, procedures, and guidelines (MPGs) on the enhanced transparency framework (ETF), which is in line with the countries ambitions for legal gradual alignment with the European Union (EU). The methodology therefore focusses on the tracking of spending on positive actions in mitigating or adapting to climate change and does not include climate change negative expenditures. These are expenditures which contributes to climate change rather than mitigate it or adapt to it and have a negative effect on climate objectives. Rather than simply netting it off from the positive figure of climate investment, these should be reported separately. This could therefore be integrated into the methodology at a later stage once sufficient capacity building has been conducted for national stakeholders to grasp the main definitions and aspects of climate change relevant expenditure.

Granularity

Furthermore, the granularity of the proposed CBT methodology will determine where the estimation takes place and the level of information to be tagged. This could be conducted across different classification such as economic classification (personnel, capital, financial expenses, etc.), programmatic classification (programme/project/activity/sub-activity levels) or administrative classification (ministry/department/unit).

The level of granularity will decide the detail and quality of the information that is extracted from the budget practices. Granular analysis will allow a more in-depth assessment, however, the more granular the analysis, the greater the effort required in the estimation of climate-relevant expenditures and the more resources are required to introduce and sustain it. The underlying budgetary classification process and the intentions of the country will therefore ultimately determine the level of granularity that is feasible to be implemented. The proposed CBT methodology for Georgia aims to apply the tag at the lowest level of the program budgeting framework in the country.

The budgetary process in Georgia relies on program budgeting, which covers financial information per program and sub-program, their expected outcomes and outputs, and performance indicators. Planning of the program budget involves the planning of programs/sub-programs in a mid-term period as envisaged in the annual budget, focussing on the expected results of the planned programs and their performance indicators rather than budget allocations for budgetary organisations. For each program, information is provided on the classification code, name, implementing agency, description, expected outcome, and performance indicators of the expected outcome. Subsequently, information is presented on the sub-programs/activities included in these programs on the classification code, name, implementing agency, description, expected outcome, and performance indicators of the expected outcome.

The Rules and Methodology on Program Budgeting (#385, 08/07/2011) defines a program as a *'set of measures to be carried out for the achievement of priorities defined in the budget, which are grouped by common features, and are carried out for the achievement of a common ultimate result'*.[2] Spending institutions share the responsibility over the implementation of the program. It may be implemented only by a spending institution or by a budgetary organisation subordinated to the control (i.e., operating within the system) of such spending institution. Subsequently, a sub-program is defined as a *'set of measures with a specific direction, which in most cases may be aimed at the achievement of a program output'*.[3]

The estimation as part of the proposed CBT methodology of Georgia will therefore take place at the sub-program level, which is the lowest level of detail available in the programmatic budgetary process in the country (Table 1) and will provide sufficiently robust

[2] About the amendment of the #385 order of the Minister of Finance from 8 July 2011 on Rules and Methodology on Program Budgeting (Annex N1 - 14.08.2015 N 265): Terms and Definitions.
[3] Ibid.

results while still allowing relatively rapid assessment. Undertaking the tagging at the sub-program level will provide more accurate information and understanding of what the spending is aiming to achieve, grant applying a specific weight, and ultimately obtain more accurate results. These programmatic lines include budget lines for personnel, capital, financial expenses, etc., which will ensure these are captured by the proposed CBT methodology.

Table 1. Illustration of the budget reporting in Georgia.

Program/Sub-program Code	Name	Total sum	o/w Budget Funding	o/w Other resources
2500				
2501				
250101				
25010101				
25010102				
250102				
25010201				
25010202				
2502				
250201				
25020101				
25020102				

Section B. Classifying Climate Finance

This section presents the second component of the CBT methodology, namely, the classification of the identified climate finance in the country.

Projects and activities that potentially encompass climate change are required to be classified accordingly. This is a hierarchical process, where first a distinction requires to be made related to the purpose (i.e., between projects aiming to mitigate and/or adapt to climate change), followed by the classification according to the related sector.

The approach for both the purpose and sectoral classification is proposed according to the national circumstances in Georgia and based on the strategic areas and themes for actions from the main climate change strategies and action plans in the country. Furthermore, the development of the approach has been supported by the following international sources on sustainable climate finance:

- **Organization for Economic Cooperation and Development (OECD) Rio Markers:** The OECD Rio Markers system was developed by the Development Assistance Committee (DAC) of the OECD to monitor and statistically report on the development finance flows targeting the themes of the Rio Conventions. It includes markers (definitions and eligibility criteria) for climate change mitigation and climate change adaptation and a corresponding scoring system.[4]
- **Multilateral Development Bank's (MDB) approach:** The MDB approach is a common approach to tracking and, in future, to reporting climate finance jointly developed by a group of MDBs, which has been gradually updated and detailed. It provides definitions and criteria to identify finance related to adaptation to climate change and mitigation of climate change. For climate mitigation, the approach sets out a list of activities eligible for classification as climate mitigation according to category and sub-category. For adaptation, the methodology sets out three key steps for an activity to be considered adaptation-related.[5]
- **European Union's (EU) taxonomy:** The EU taxonomy is a common classification system for sustainable economic activities, which was created to obtain a common language and clear definition at European level on which activities qualify as 'green' or 'sustainable'. It includes a definition what can be considered as climate change mitigation and nine related activities that can be considered as mitigation. It additionally provides criteria to qualify an activity as climate change adaptation.[6]

[4] OECD DAC Rio Markers for Climate: Handbook, Development Assistance Committee, OECD. Available at: https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf

[5] 2019 Joint Report on Multilateral Development Bank's Climate Finance. Available at: https://www.eib.org/attachments/press/1257-joint-report-on-mdbs-climate-finance-2019.pdf

[6] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852

Purpose Classification

As previously mentioned, the first hierarchical step in the classification of the identified climate finance is to classify the purpose of the climate change related expenditure, as it can be related to climate change mitigation, climate change adaptation, or cross-cutting objectives and outcomes.

There is currently no dedicated legislation in Georgia containing national definitions of mitigation, adaptation, or other climate change related terms. It is essential to establish specific nationally adopted definitions to ensure consistency in the identification of climate expenditures by all parties involved. Climate change issues are addressed in various pieces of legislation, including strategy documents, but no nationally agreed definitions are included.

The methodology therefore builds on internationally recognised definitions and eligibility criteria. Since the UNFCCC and the Paris Agreement have been ratified by Georgia, the approach follows the application of the definitions as outlined in these agreements[7], adjusted according to the definitions as incorporated in the MDB approach and the EU taxonomy. Furthermore, to facilitate the identification of mitigation and/or adaptation economic activities, the methodology incorporates the three-step MDB approach for adaptation, and the eligibility criteria according to the OECD Rio Markers Handbook for mitigation.

As part of this methodology, an economic activity is characterised as a process where resources such as capital goods, labour, manufacturing techniques or intermediary products are combined to produce specific goods or services.[8]

Mitigation

Definition:

Human intervention to reduce or limit the sources or enhance the sinks of greenhouse gas emissions.

Eligibility criteria:

An economic activity should be classified as “geared towards climate change mitigation” when any of the following criteria is fulfilled:

[7] UNFCCC – Glossary of climate change acronyms and terms. Available at: https://unfccc.int/process-and-meetings/the-convention/glossary-of-climate-change-acronyms-and-terms#m

[8] Eurostat Statistics Explained – Glossary: Economic activity. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Economic_activity

- The activity contributes to the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol.
- The activity contributes to the protection and/or enhancement of GHG sinks and reservoirs.
- The activity contributes to the integration of climate change mitigation concerns with the national development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research.
- The activity contributes to national efforts to meet the mitigation obligations under the UNFCCC.

Adaptation

Definition:

Solutions for natural or human systems that aim to prevent or reduce the risk or vulnerabilities of the adverse impact of the current climate and the expected future climate and to increase resilience.

Eligibility criteria:

An economic activity should be classified as "geared towards adaptation to climate change" when any of the following criteria is fulfilled:

- The activity is in accordance with the following three-step process:
  - It sets out the climate change vulnerability context of the project.
  - It makes an explicit statement of intent of the project to reduce climate change vulnerability.
  - It articulates a clear and direct link between specific project activities and the project's objective to reduce vulnerability to climate change.
- The activity contributes to the integration of climate change adaptation concerns with the national development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research.
- The activity contributes to national efforts to meet the adaptation obligations under the UNFCCC.

Cross-cutting

Definition:

Activities related to both adaptation and mitigation climate change aspects, and therefore cannot be assigned to a single one as it is leading to the reduction of greenhouse gases while contributing to the adjustment in natural or human systems to avoid harm or exploit beneficial opportunities.

Eligibility criteria:

An economic activity should be classified as "geared towards climate change mitigation" and "geared towards adaptation to climate change" when any of the following criteria is fulfilled:

- The activity is motivated by both the climate change mitigation and the climate change adaptation definitions and eligibility criteria.
- The activity cannot be differentiated into one of these two components, but its intent is related to climate change.
- The activity contributes to the integration of climate change mitigation and adaptation concerns with the national development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research.
- The activity contributes to national efforts to meet the mitigation and adaptation obligations under the UNFCCC.

Sectoral Classification

The second hierarchical step in the classification process of the identified climate finance is to classify the objectives of each identified climate finance related project or activity according to the sector they relate to.

The sectoral classification approach is based on the national climate change policy priorities that are subsequently based on the strategic areas and themes for actions from the main climate change strategies and action plans.

The main national-level climate change strategies in Georgia are the updated Nationally Determined Contribution (NDC), the 2030 Climate Change Strategy and Action Plan (CSAP), and the Long-Term Low Emission Development Strategy (LT-LEDS). The approach therefore focusses on the categories and priorities of these three strategic documents, which contain the main actions Georgia will undertake in the coming years related to climate change. The following table presents how each of these main strategic documents categorises Georgia's climate response measures. It is important to note that the CSAP and LT-LEDS are solely focussed on mitigation of climate change.

Table 2. Categorisation of the CPEIR Climate Change Relevance Index.

Purpose	NDC	CSAP	LT-LEDS
Mitigation	Energy Generation and Transmission	Energy Generation and Transmission	Energy
	Transport	Energy Consumption in Transport	Transport
	Buildings	Energy Consumption in Buildings	Buildings
	Industry	Energy Consumption in Industry and Industrial Processes	Industry
	Agriculture	Agriculture	Agriculture
	Waste	Waste Management	Waste
	Forestry	Forestry	Forest
	-	-	Fugitive Emissions
Adaptation	Coastal Zone, Mountain Ecosystems and Ecosystem Services	-	-
	Coastal Resorts	-	-
	Agriculture	-	-
	Water Resources	-	-
	Endemic Species	-	-
	Forest Lands	-	-
	Human Health	-	-
	Loss and Damage	-	-

Ensuring alignment with the categories and priorities of the NDC, CSAP, and LT-LEDS will allow Georgia to assess on which sectors expenditures are focussed and identify the policies and measures proposed in these strategic documents that have received sufficient funding or require additional support.

The sectoral classification approach was also informed by the Credit Reporting System of the OECD as the current eAIMS system in Georgia, which allows bilateral and multilateral donors to voluntarily report information on projects to the online database, follows the OECD classifications to designate ODA projects to a certain sector. This will ensure consistency among all systems operating in Georgia tracking climate finance.[9] In addition, it has been informed by the MDBs approach for activities eligible for classification as climate

[9] http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dacandcrscodelists.htm

mitigation, which lists 10 categories, 32 sub-categories and 71 corresponding eligibility activities.

Based on these national climate change policy priorities and international approaches and aligning the categories to reach the most harmonised and consolidated approach, the following sectoral classification has been incorporated in the CBT methodology of climate change mitigation, adaptation, and cross-cutting activities in Georgia. Annex I provides examples for the policy areas within each of the sectors, which also was informed by the MDBs approach for activities eligible for classification as climate mitigation.

Table 3. Sectoral classification of climate change mitigation activities.

Sector	Goal	Area
Energy sector	Emission reduction in the energy generation and transmission	Renewable energy
		Energy efficiency power generation
		Energy transmission and distribution
		Policy and legislation
		Education and awareness
		Research and consultancy work
Transport sector	Emission reduction in transport activities	Private road vehicles
		Fuel consumption
		Transport system
		Public transport
		Education and awareness
		Research and consultancy work
		Policy and legislation
Buildings sector	Emission reduction by promoting climate-smart and energy-efficient technologies and services	Buildings
		Education and awareness
		Research and consultancy work
		Policy and legislation
Industry sector	Emission reduction by promoting climate-smart and energy-efficient technologies and services	Energy efficiency
		Emission monitoring
		Policy and legislation
		Research and consultancy work
Agriculture sector	Emission reduction by promoting smart and energy-efficient technologies and services	Agricultural land use management
		Livestock
		Research and consultancy work
		Policy and legislation
		Education and awareness
Forestry sector	Emission reduction through increased carbon capturing capacity	Forest conservation and management
		Research and consultancy work
		Education and awareness

Sector	Goal	Area
		Policy and legislation
Waste sector	Emission reduction by promoting smart and energy-efficient technologies and services	Solid waste management
		Wastewater treatment
		Research and consultancy work
		Education and awareness

Table 4. Sectoral classification of climate change adaptation activities.

Sector	Goal	Area
Tourism sector	Ensuring climate-resiliency of touristic areas	Tourism infrastructure
		Eco-tourism
		Policy and legislation
		Research and consultancy work
Agriculture sector	Improved adaptive capacity for agricultural production	Crop protection and control
		Livestock
		Agriculture infrastructure
		Research and consultancy work
		Policy and legislation
Water resources sector	Sustainable use of groundwater and surface water resources	Research and consultancy work
		Education and awareness
		Water resource management
		Water quality
		Water infrastructure
		Policy and legislation
Natural ecosystems and biodiversity sector	Sustainable management and improved conservation of vulnerable species and ecosystems	Research and consultancy work
		Sustainable ecosystem management
		Biodiversity conservation
		Urban green spaces development
		Policy and legislation
Human health sector	Increased capacity to reduce climate change induced health risks	Research and consultancy work
		Policy and legislation
		Education and awareness
		Health services
Infrastructure sector	Reduced climate change vulnerability of infrastructure	Research and consultancy work
		Buildings
		Roads
		Coastal and riverbank protection
		Policy and legislation

Table 5. Sectoral classification of climate change cross-cutting activities.

Sector	Goal	Area
Select from mitigation and adaptation sector classifications	Emission reduction in combination with improved adaptive capacity	Select from mitigation and adaptation area classifications
Multi-sectoral	Emission reduction in combination with improved adaptive capacity	Education and awareness
		Research and consultancy work
		Policy and legislation

Section C. Weighting Climate Finance

Once all the climate change related expenditure is classified, it is required to weight it according to the share of the activity contributing to address climate change issues. For instance, activities often complement and reinforce each other, and it is possible that the same activity, policy, or measure simultaneously addresses both climate change mitigation and adaptation objectives. Furthermore, both adaptation and mitigation activities are also often integrated with other development objectives such as poverty alleviation and energy access.

The CPEIR Climate Relevance Index approach is applied to weight the budget expenditures according to the level of impact to climate change, the objective of the expenditure and whether the budget line focusses solely on climate change aspects or also other development objectives. This approach initially categorises each of the climate change related expenditure in four categories according to their objective and impact (Table 6).

Table 6. Categorisation of the CPEIR Climate Change Relevance Index.

Category	Weight	Rationale
High relevance	Weighting more than 75%	Clear primary objective of delivering specific outcomes that improve and promote climate change purposes.
Medium relevance	Weighting between 50% and 75%	Either (i) secondary objectives related to climate change purposes, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate change purposes.
Low relevance	Weighting between 25% and 49%	Activities that display attributes where indirect climate change benefits may arise.
Marginal relevance	Weighting less than 25%	Activities that have only very indirect and theoretical links to climate change.

Source: UNDP (2015). A Methodological Guidebook – Climate Public Expenditure and Institutional Review (CPEIR)

Annex II provides an overview of examples and characteristics of each of the categories for each of the climate change purposes.

Following the categorisation of the expenditures, a specific weight within each range is applied to the expenditure in order to quantify the specific climate change related benefit. Each category is split into three groups, namely principal, significant, and limited, according to the range (Table 7).

Table 7. Weights within the range of each category.

Category	Weight range	Groups	Weight
High relevance	Weighting more than 75%	Principal	100%
		Significant	90%
		Limited	80%
Medium relevance	Weighting between 50% and 75%	Principal	75%
		Significant	65%
		Limited	55%
Low relevance	Weighting between 25% and 49%	Principal	45%
		Significant	35%
		Limited	25%
Marginal relevance	Weighting less than 25%	Principal	20%
		Significant	10%
		Limited	5%

Generally, when an expenditure is allocated to a specific category, the 'significant' weight should be selected to ensure consistency. However, there are some instances where this should be adjusted:

- Expenditures categorised as 'high relevance' should be scored in the 'principal' group when the primary objective of delivering specific outcomes is to improve and promote climate change purposes. This will ensure that expenditures for climate change purposes are fully attributed to climate change. However, when an expenditure categorised as 'high relevance' provides two main objectives, and one is not related to climate change, it should be scored lower in the 'significant' or 'limited' groups. For example, this can relate to a project aiming to reduce the limited availability on the housing market and building energy efficient and eco-friendly houses, while not specifically stating one as the main objective.
- Expenditures within a particular category should be scored in the 'principal' group when there are multiple climate change areas of purpose identified, such as cross-cutting activities with both mitigation and adaptation benefits. For example, a project can be categorised as 'medium relevance' as it is a mixed programme with a range of activities, however, if there are multiple activities related to several climate change areas, it should be scored as 'principal'.
- Expenditures within a particular category are scored in the 'limited' group when it is clear that more than half of the share of the budget line will be spent on non-climate change related activities. For example, an activity categorised as 'medium relevance', such as a project aimed at improving the attractivity of winter resorts while improving the adaptive capacity, but more than half of the budget line is spent on activities not related to the adaptive capacity, should be scored as 'limited'.
- Expenditures which could be categorised as 'medium relevance' or 'low relevance' are scored in the 'limited' group when there are clear trade-offs related to the objective or level of impact. For example, the improvement of the economic infrastructure will decrease the vulnerability of roads to climate impacts, but will contribute to increased road traffic and their related emissions, and should be scored as 'limited'.

Although the proposed CBT methodology provides clear definitions, eligibility criteria and other classification procedures, it will still partially depend on a subjective interpretation. It is therefore important to ensure that expenditures are not allocated to multiple objectives, causing double or triple-counting the same activity.

Annex I – Sectoral Classification

Sectoral Classification of Climate Change Mitigation Activities

Sector	Goal	Area	Examples
Energy sector	Emission reduction in the energy generation and transmission	Renewable energy	Increased renewable energy (wind, solar, hydro, biomass, wave or tidal power) generation; Technical solutions for system operations, through control centres for renewable energy which can maximise the safe integration of renewable energy into the electricity system.
		Energy efficiency power generation	Improved efficiency of electricity generation in thermal power plants; Renovation of facilities and the renewal of equipment; Switch from GHG intensive fuels to less GHG intensive types of fuels; Conversion of existing fossil-fuel based power plants to co-generation technologies that generate electricity in addition to providing heating or cooling
		Energy transmission and distribution	Installation of equipment to increase the controllability and observability of the electricity system; Construction of new transmission lines; Retrofit of transmission lines or substations and distribution systems to reduce energy use or technical losses; Improving grid stability or reliability in the case of capacity expansion.
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Tax incentives for energy use in households and businesses; Demand-side planning: planning and implementation of different measures destined to influence the way energy is consumed so that a change occurs in the daily energy consumption patterns

Sector	Goal	Area	Examples
		Education and awareness	Education and training on technologies and methods for energy emission reductions; Implementation of footprint calculation exercises and learning in schools
		Research and consultancy work	Implemented innovative, evidence-based initiatives for emission reduction; Promote high-end quantitative and qualitative research on energy topics;
Transport sector	Emission reduction in transport activities	Private road vehicles	Increased share of hybrid and electric vehicles; Stimulate the use of the sharing-economy (apps for sharing cars, sharing commutes in a single-car)
		Fuel consumption	Reduced demand for fossil fuels and increased consumption of biofuels; Set speed limits in cities and on highways to reduce fuel consumption
		Transport system	Increased use of non-motorized means of mobility; Build bike-lanes and bike parking spaces
		Public transport	Increased use of public transport, ensuring a modal shift of freight and/or passenger transport from road or air to rail; Create a consciousness project for example with the disclosure of carbon footprint generated by public and private transport
		Education and awareness	Education and training on low emission transport opportunities
		Research and consultancy work	Implemented innovative, evidence-based initiatives for emission reduction; Promote high-end quantitative and qualitative research on transport technologies
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Tax incentives on bike purchases for households; Incentivise local lifestyle avoiding unnecessary transport

Sector	Goal	Area	Examples
Buildings sector	Emission reduction by promoting climate-smart and energy-efficient technologies and services	Buildings	Developed system for energy efficiency certification for buildings; Integration of energy-efficient approaches in installation of energy-efficient lighting in residential, commercial, and public buildings; Increased use of solar energy for water heating and use of energy-efficient stoves
		Education and awareness	Raise consumer awareness about energy efficiency of appliances; Organisation of events about the cities of the future (exhibitions, participatory assemblies) incorporating energy-efficient technologies
		Research and consultancy work	Increased share of professionals trained in energy efficiency aspects; Stimulate the use of building certification agencies; Promote high-end quantitative and qualitative research on construction topics
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Financial incentives for energy efficiency improvements in buildings
Industry sector	Emission reduction by promoting climate-smart and energy-efficient technologies and services	Energy efficiency	Introduction of modern technologies for reduced energy consumption; Replace old industrial facilities with modern facilities
		Emission monitoring	Development of a system for emission factors and data management; Development of an emission trading system
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Facilitate the renewal of the industrial sector through the use of financial instruments
		Research and consultancy work	Increased share of professionals trained in energy-efficient technologies and services; Stimulate investigation in less polluting industrial processes
Agriculture sector	Emission reduction by promoting	Agricultural land use management	Implemented sustainable soil and pasture management practices; Use of biological pest control

Sector	Goal	Area	Examples
	smart and energy-efficient technologies and services	Livestock	Introduced sustainable domestic animal feeding practices; Promote extensive livestock farming; Livestock projects that reduce methane or other GHG emissions (for example, manure management with biodigesters, and improved feeding practices to reduce methane emissions)
		Research and consultancy work	Improved capacities of generating scientific evidence for development of climate-smart approaches; Promote high-end quantitative and qualitative research on agriculture topics
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Tax incentives for less polluting agricultural approaches; Incentivise consumption of vegetable protein or foster egg production.
		Education and awareness	Education and training on smart and energy-efficient agricultural technologies and services; Stimulate a reduction in meat consumption through awareness raising; Promote the consumption of local products
Forestry sector	Emission reduction through increased carbon capturing capacity	Forest conservation and management	Increased area of restored degraded forests; Integration of sustainable forest management; Development of a forest management system adequate to climate change challenges
		Research and consultancy work	Improved capacities of generating scientific evidence for development of climate-smart approaches
		Education and awareness	Forestry education/training for enhancing knowledge on carbon capturing methods and approaches; Set up activities in educational facilities regarding the carbon capturing capacity of forests
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management; Create new protected region regulations

Sector	Goal	Area	Examples
Waste sector	Emission reduction by promoting smart and energy-efficient technologies and services	Solid waste management	Reduced emissions from existing unauthorized dumpsites and non-hazardous landfills; Increased waste recycling; Waste-to-energy projects
		Wastewater treatment	Reduced emissions from wastewater; Monitor and analyse wastewater to improve efficiency
		Research and consultancy work	Development of a data-based waste management system; Promote high-end quantitative and qualitative research on waste topics
		Education and awareness	Education and training on smart and energy-efficient technologies and services for the waste sector

Sectoral Classification of Climate Change Adaptation Activities

Sector	Goal	Area	Examples
Tourism sector	Ensuring climate-resiliency of touristic areas	Tourism infrastructure	Improved adaptive capacity of coastal and winter resorts
		Eco-tourism	Introduction of sustainable eco-tourism practices; Promote tourism activities adapted to current climate circumstances
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management
		Research and consultancy work	Improved knowledge of the impacts of climate change on tourism; Improved knowledge of climate-resiliency
Agriculture sector	Improved adaptive capacity for agricultural production	Crop protection and control	Plant and post-harvest protection and pest control; Implementation of crops adapted to climate change; Food crop production security measures; Agrarian reform practices; Soil and water management measures; Pastures: Crop insurance
		Livestock	Livestock veterinary services to protect against climate-related diseases; Breeding strategies and programmes; Animal management systems: Livestock insurance;

Sector	Goal	Area	Examples
		Agriculture infrastructure	Implementation of technologies to improve climate resiliency of agricultural infrastructure
		Research and consultancy work	Improved knowledge of the impacts of changes of climatic parameters; Improved knowledge of spread of infections on agricultural crops
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management
Water resources sector	Sustainable use of groundwater and surface water resources	Research and consultancy work	Improved knowledge of climate change impact on the availability of water resources for irrigation purposes in agriculture, energy production, and dwelling purposes
		Education and awareness	Education and training in water supply and sanitation
		Water resource management	Introduction of technologies for sustainable water management; Water resource conservation
		Water quality	Improved basic drinking water supply; Measures for improved water quality
		Water infrastructure	Rehabilitation/construction of irrigation network; drinking water and sanitation network; and WWTPs
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management
Natural ecosystems and biodiversity sector	Sustainable management and improved conservation of vulnerable species and ecosystems	Research and consultancy work	Improved knowledge of climate change impacts on mountain ecosystems and ecosystem services; Improved knowledge of climate change impacts on coastal zone; Improved knowledge of vulnerable areas of forest lands
		Sustainable ecosystem management	Introduction of technologies for sustainable management of natural ecosystems; Including regions to the natural spaces' protection programs; Charge fees to motor vehicles and visitors entering special relevant natural spaces

Sector	Goal	Area	Examples
		Biodiversity conservation	Encouragement of conservation of endemic species protected under the Red List, and other indigenous species
		Urban green spaces development	Rehabilitation of parks and residential greenery; Increasing city park accessibility
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management
Human health sector	Increased capacity to reduce climate change induced health risks	Research and consultancy work	Improved knowledge of relationships between social, economic, biological, ecological, and physical systems; Medical research against climate induced diseases
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management
		Education and awareness	Medical education/training; Health education to prevent diseases linked to or worsened by climate change
		Health services	Infectious disease control; Activities to prevent climate induced diseases
Infrastructure sector	Reduced climate change vulnerability of infrastructure	Research and consultancy work	Improved knowledge of the vulnerability of human settlements and other infrastructure due to climate change
		Buildings	Implementation of technologies to improve climate resiliency of infrastructure; Improve construction technologies to face extreme climate events such as earthquakes and floods
		Roads	Implementation of technologies to improve climate resiliency of road infrastructure such as anti-frosting in winter periods; Road rehabilitation or maintenance to improve connectivity of remote regions
		Coastal and riverbank protection	Implementation of technologies to improve climate resiliency of coastal zone and riverbank infrastructure

Sector	Goal	Area	Examples
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management

Sectoral Classification of Climate Change Cross-Cutting Activities

Sector	Goal	Area	Examples
Select from mitigation and adaptation sector classifications	Emission reduction in combination with improved adaptive capacity	Select from mitigation and adaptation area classifications	See examples related to mitigation and adaptation sector and area classifications
Multi-sectoral	Emission reduction in combination with improved adaptive capacity	Education and awareness	Education and training in climate change mitigation and adaptation
		Research and consultancy work	Improved knowledge on climate change mitigation and adaptation
		Policy and legislation	Development of new policy documents and legislation; Policy and administrative management

Annex II – Characteristics of Relevance Index Categories

<table>
<tr><th>Category</th><th colspan="2">Mitigation</th><th colspan="2">Adaptation</th></tr>
<tr><td rowspan="3">High relevance</td><td colspan="2">There is a clear primary objective or level of impact that promotes the reduction of GHG emissions or enhancement of sinks. Education and awareness raising activities with a primary objective regarding the reduction of GHG emissions or enhancement of sinks are also considered in this category.</td><td colspan="2">There is a clear primary objective or level of impact that promotes the resilience of natural and human systems in response to climate induced impacts. Education and awareness raising activities with a primary objective to improve the knowledge about climate resiliency are also considered in this category.</td></tr>
<tr><td colspan="2">Examples:</td><td colspan="2">Examples:</td></tr>
<tr><td>Energy</td><td>• Switching to renewable energy
• Training on compiling GHG inventories.
• Activities aimed at sink enhancement.
• Energy sector policies and regulations aimed at climate change mitigation such as energy efficiency standards or certification schemes; energy-efficiency procurement schemes; renewable energy policies, power market reform specifically designed to enable renewable energy.</td><td>Infrastructure</td><td>• Adapting infrastructure to withstand climate change impacts.
• Incorporating flood protection infrastructure.
• Stabilisation of road slopes aimed at avoiding landslides.</td></tr>
</table>

Category	Mitigation		Adaptation	
	Buildings	• Improving the insulation of buildings. • Installation of geo-thermal heating.	**Water resources**	• Implementing an early warning and monitoring system to reduce the vulnerability to drought. • Construction of desalination plants.
	Agriculture	• Reduction in energy use in traction (such as efficient tillage), irrigation and other agricultural processes. • Implementing integrated manure management practices to reduce livestock emissions. • Livestock projects aimed at reducing methane or other GHG emissions (for example, manure management with biodigesters, and improved feeding practices to reduce methane emissions)	**Natural ecosystems and biodiversity**	• Improving natural ecosystems for increased resiliency. • Mapping the vulnerability of biodiversity to identify endangered species due to the effects of climate change.
	Transport	• Promoting non-motorised vehicles such as bikes. • Incentives to increase the consumption of less polluting biofuels.	**Agriculture**	• Implementing farm resistant crops adapted to the new climatic circumstances. • Rehabilitation of degraded pastures due to the effects of climate change.

<table>
<tr><th>Category</th><th colspan="2">Mitigation</th><th colspan="2">Adaptation</th></tr>
<tr><td rowspan="4">Medium relevance</td><td colspan="2">The primary objective or level of impact is not related to reducing GHG emissions or enhancing sinks, but it clearly states a secondary objective to reduce GHG emissions or enhance sinks. This also includes programmes where there are multiple activities without one clear objective, and one of the outcomes or impacts is related to GHG emission reduction or the enhancement of sinks.</td><td colspan="2">The primary objective or level of impact is not related to the promotion of the resilience of natural and human systems in response to climate induced impacts, but it clearly states a secondary objective to build climate resiliency. This also includes programmes where there are multiple activities without one clear objective, and one of the outcomes or impacts is related to increased climate resiliency.</td></tr>
<tr><td colspan="2">Examples:</td><td colspan="2">Examples:</td></tr>
<tr><td>Energy</td><td>• Increase in efficiency of electricity generation to reduce costs but which will reduce emissions.
• Technical solutions for system operations which will play an important role in the safe integration of renewable energy into the electricity system.</td><td>Infrastructure</td><td>• Maintenance and improvement of economic infrastructure, such as roads and railways, which will also decrease the vulnerability of roads to climate impacts.
• Use of anti-frost concrete and additives due to economic reasons but which will also help minimise the potential risk to infrastructure from harsh winter conditions.</td></tr>
<tr><td>Buildings</td><td>• General modernisation of a neighbourhood for improved safety, livelihood, and attractiveness but which will also include energy efficiency measures.</td><td>Water resources</td><td>• Improving water storage, water efficiency and irrigation to improve the livelihoods of communities and will also increase their climate resiliency.</td></tr>
</table>

Category	Mitigation		Adaptation	
	Agriculture	• Implementation of sustainable soil practices motivated by economic objectives, and which will also increase reduced emissions. • Agricultural projects that as a secondary objective improve existing carbon pools (such as rangeland management, collection and use of bagasse, rice husks or other agricultural waste, reduced tillage techniques that increase carbon content of soil, rehabilitation of degraded lands, peatland restoration).	**Natural ecosystems and biodiversity**	• Biodiversity and conservation, unless explicitly aimed at increasing resilience of ecosystems to climate change. • Research of genetically modified species which also provides insight in the adaptive force to new climate circumstances.
	Transport	• Reducing the price for the use of public transport due to the rising fuel prices which will also reduce the use of carbon emitting vehicles. • Setting lower speed limits to reduce accidents but also with the aim to reduce fuel consumption.	**Agriculture**	• Implementation of technologies to improve the economic output of the agriculture sector while also improving the climate resiliency of agricultural infrastructure.

Category	Mitigation		Adaptation	
Low relevance	The objective or level of impact is not related to reducing GHG emissions or enhancing sinks, but the activity does clearly result in these aspects in some order as is proven by international experiences.		The primary objective or level of impact is not related to the promotion of the resilience of natural and human systems in response to climate induced impacts, but the activity does clearly result in these outcomes in some order as proven by international experiences.	
	Examples:		**Examples:**	
	Energy	• Renovating outdated and malfunctioning energy transmission and distribution lines which will lead to a newer and more efficient transmission and distribution grid.	**Infrastructure**	• Low-cost housing opportunities for rural areas, which will indirectly reduce the vulnerability of people without proper housing.
	Buildings	• Rehabilitation of buildings without a primary or secondary driver for energy efficiency, but which is usually connected with energy efficiency measures such as the more cost-efficient and energy-efficient lighting in residential, commercial, and public buildings.	**Water resources**	• Implementing measures for improved water quality which will indirectly increase water security and access to water resources.

Category	Mitigation		Adaptation	
	Agriculture	• Agriculture development without a primary or secondary driver for sustainable development, but which will incorporate cleaner and more advanced techniques that will reduce emissions. • National trend in more local consumption of agricultural products due to the rising prices of food, but which will also causing a decrease in transport emissions. • Reduced resource use in agricultural processes and supply chains as a result of the development of the sector which will also result in energy efficiency.	**Natural ecosystems and biodiversity**	• Research with no explicit link to climate change on a certain ecosystem or species but that will indirectly reduce its vulnerability by increasing the availability of data which can then be used for adaptation planning.
	Transport	• Public transport construction works to improve connectivity, but which will indirectly contribute to reduced usage of polluting vehicles.	**Agriculture**	• Livestock veterinary services to ensure that the animals are healthy, but which will also provide improved protection against climate-related diseases.

<table>
<tr><th>Category</th><th colspan="2">Mitigation</th><th colspan="2">Adaptation</th></tr>
<tr><td rowspan="6">Marginal relevance</td><td colspan="2">There is no stated intention or level of impact related to reducing GHG emissions or enhancing sinks, but there is some theoretical international literature that identifies the activity to potentially reduce emissions. However, it is internationally agreed that there are other options that provide greater emission reductions.</td><td colspan="2">There is no stated intention or level of impact related to the promotion of the resilience of natural and human systems in response to climate induced impacts, but there is some theoretical international literature that identifies the activity to potentially promote resilience. However, it is internationally agreed that there are other options that provide greater climate related resilience of natural and human systems.</td></tr>
<tr><td colspan="2">Examples:</td><td colspan="2">Examples:</td></tr>
<tr><td>Energy</td><td>• International trade promotion agreements, which could support countries by offering consumers goods and technological services and facilitate the use of GHG reducing technologies.</td><td>Infrastructure</td><td>• Overall regulation and policy development which might include some aspects related to improved resiliency of infrastructure.</td></tr>
<tr><td>Buildings</td><td>• Overall regulation and policy development which might include some aspects related to the energy efficiency of buildings.</td><td>Water resources</td><td>• Short term training on water sanitation which will potentially increase knowledge on water resiliency and water scarcity.</td></tr>
<tr><td>Agriculture</td><td>• Laboratory research work related to viticulture which might increase knowledge on sustainable agricultural practices.</td><td>Natural ecosystems and biodiversity</td><td>• Education that does not have an explicit climate change element but will improve the knowledge of participants in general understanding of vulnerability</td></tr>
<tr><td>Transport</td><td>• Policy development to reduce the production and sale of certain heavy duty trucks due to safety reasons, which might potentially increase the use of less-polluting smaller vehicles.</td><td>Agriculture</td><td>• Mutual fund to protect and compensate the industry and farmers against economic losses of bad agricultural output which will potentially result in the introduction and incorporation of more resilient agricultural practices.</td></tr>
</table>