NAP Global Network

Coordinating Climate-Resilient Development

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sNAPshot:
Domestic public finance for implementation of NAPs

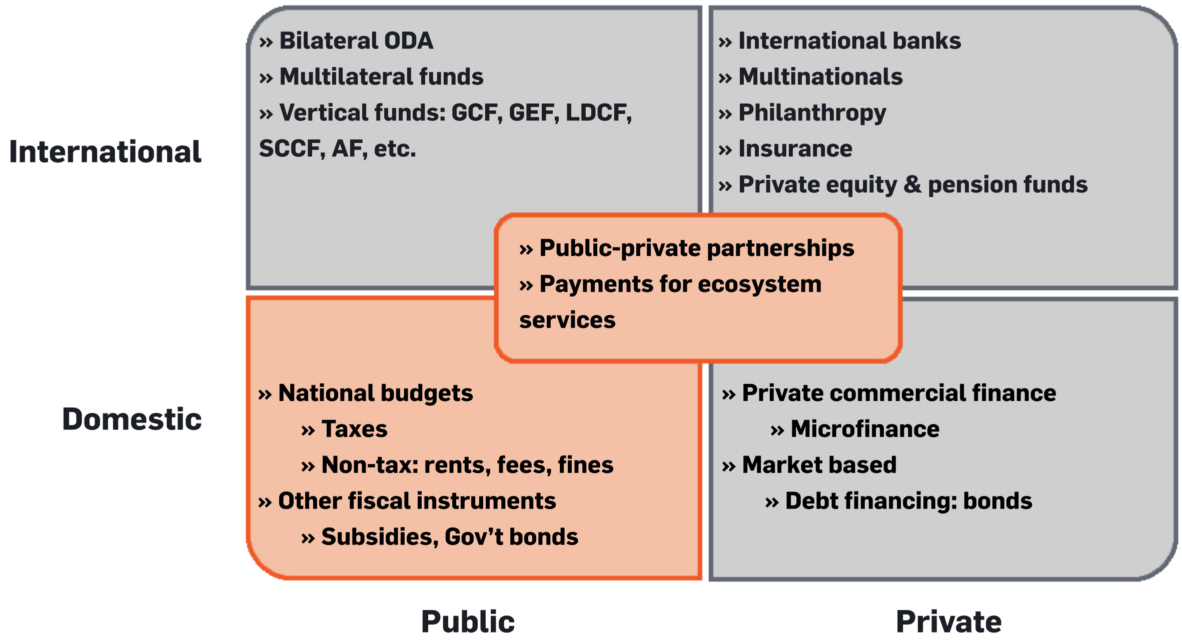
Overview Brief II

This *Overview Brief* introduces the topic of using domestic public finance for the implementation of National Adaptation Plan (NAP) processes. A number of separate ***sNAPshot*** briefs provide further detail on approaches specific countries have taken to using domestic public funds to implement NAPs.

The NAP Global Network's Targeted Topics Forum (TTF) on *Financing NAPs: Options for Implementation* explored the wide range of financing sources and mechanisms that can be used to support the implementation of NAPs. Figure 1 summarizes a range of such options, including domestic public finance, international public finance, and private finance.

To date, domestic finance has received less attention—in part because many of the countries most vulnerable to climate change do not have strong revenue streams to draw from to finance needed adaptation actions. In spite of this, we know developing countries are already investing in actions that will help them adapt to climate change, although they are not necessarily labelled as such. This would include investments in sectors like agriculture and infrastructure that enable farmers and buildings to better withstand climate risk. Without implying that developing countries should rely on domestic finance for all of their adaptation needs, domestic budgeting and finance can help to ensure predictability of resources available to implement adaptation priorities across different sectors and levels of government in the medium to long term addressed through the NAP process. Integration of adaptation into domestic budgeting and finance can also support access to international climate finance by showing government commitment, country ownership and counterpart funding.

Figure 1: Options for financing implementation of NAPs



This overview brief introduces three key aspects of using domestic public finance to implement NAPs: entry points in the national budgeting process, generating domestic finance using fiscal instruments and tracking adaptation finance. While these issues can be connected to the other broad categories of financing for implementation of NAPs illustrated in Figure 1, this brief focuses on how these aspects relate specifically to domestic public finance.

Budgeting for adaptation across sectors in the NAP process

Like any national plan or strategy, implementation of priorities and actions identified through NAPs requires a financing plan and corresponding allocation in the national budget. This includes planning investments for adaptation interventions, as well as planning for recurring expenditures on operations and maintenance to sustain initial investments.

For this reason, it is important to integrate adaptation into both planning and budgeting procedures. There are usually both medium-term and annual components of the planning and budgeting cycle: Medium- to long-term plans like development strategies that incorporate adaptation priorities may be used to inform allocations included within a medium-term expenditure framework (MTEF). An MTEF may in turn inform annual sector budgets, which would ideally reflect the need to allocate funding that may be needed to implement adaptation priorities, on top of the funds that would be needed for the sector to go about business as usual.

Ensuring that adaptation is included in national budget cycles requires collaboration between actors in different ministries and agencies: those in ministries of climate-sensitive sectors need to understand the linkages between their sector's adaptation priorities and the national budget, and the ministries of planning and finance need to understand the cost and importance of implementing adaptation actions. As a part of its NAP process, one way that Togo is addressing this challenge is by developing a practical guidebook on how to integrate climate change in different steps of its planning and budgeting cycle. The guidebook—which represents a collaboration between the country's ministries of environment and planning—targets planning officers in different climate-sensitive line ministries. It provides step-by-step guidance for addressing adaptation in their programs and budgets.[i]

Box 1: Domestic public finance for implementation at sub-national levels

Implementation of adaptation priorities identified through NAP processes often requires action at sub-national, municipal, and local levels. National funds are one mechanism that countries are using to channel national domestic funds to local levels.[ii] The Philippines' People's Survival Fund (PSF) established in 2012 is one example. It provides PHP 1 billion (approximately USD 20.6 million) per year to finance adaptation programs and projects at the local level by Local Government Units and local non-government organizations.[iii] The PSF receives core annual finance from the domestic national budget that can be complemented by contributions through donations, grants and other contributions.

Generating domestic revenues for adaptation: Fiscal instruments

Governments can use a range of known fiscal instruments to raise revenue and promote changes in behaviour by reforming incentive systems. Earmarking revenues from fiscal instruments such as taxes, subsidy reforms, or green bonds for adaptation purposes presents opportunities to increase domestic funds available for adaptation. Table 1 below describes some examples of different fiscal instruments and their potential to finance adaptation.

Fiscal Instrument	Impact	Example of potential for financing adaptation
Taxes, charges, or fees	Higher cost of a good or service changes incentives and raises government revenues.	Costa Rica uses a portion of revenues from its fuel tax to implement adaptation policies, particularly its ecosystem-based adaptation approach to forests and water protection.[iv]
Subsidies (reform)	Subsidies move part of the cost of a good or service from the consumer to the taxpayer; reform would move the cost back to the consumer.	Indonesia has reallocated USD 16 billion in fossil fuel subsidies to sectors such as infrastructure, water, sanitation and health. These funds have the potential to be used to cover the additional costs of adaptation in these climate-sensitive sectors.[v]
Government green/ climate bonds	Raise revenue by issuing bonds for projects meeting certain environmental standards.	The municipal government of Washington, D.C. has issued USD 400 million in municipal green bonds to finance projects including widening of storm water tunnels, which will support adaptation to increased frequency and intensity of storms.[vi]

Tracking domestic funds used to finance adaptation

Results of tracking adaptation finance can support reporting, monitoring, and review in the NAP process, demonstrating how resources have been allocated to implement adaptation priorities and assess progress, effectiveness, and gaps. Tracking domestic public funds used for adaptation is also an important way of demonstrating country ownership and commitment to acting on adaptation priorities. A key challenge related to tracking includes identifying what constitutes adaptation finance: given the close integration of adaptation considerations into development, sector, and subnational planning, it can be difficult to separate out and determine how much should count as adaptation finance versus business-as-usual finance. Programs, projects and other initiatives often have adaptation benefits but are not necessarily labeled as adaptation. Kenya is an example of a country that has attempted to address this challenge through development and implementation of a system for tracking national adaptation and mitigation finance through the domestication of the Rio Markers covering climate change, which are already used by the Organization for Economic Co-operation and Development (OECD) to track international flows of climate-related official development assistance that includes climate change as a primary objective, and/or that includes climate change as a significant objective when supporting climate-sensitive sectors.[vii]

An accompanying set of sNAPshot briefs addresses countries' experiences with domestic public finance for implementation of NAPs in more detail.

Further reading

[i] Togo's Guide Stratégique (forthcoming). Targeted topics: Financing NAPs, options for implementation (2016).

[ii] Dazé, A. (2016). Vertical integration in NAP processes: A guidance note for linking national and sub-national adaptation.

[iii] Terton, A. & Price-Kelly, H. (2016) sNAPshot: Philippines's approach to initiating sector integration of adaptation considerations.

[iv] Ledwell, C. (2016). Financing Adaptation and Resilience through Fossil Fuel Subsidy Reform and Fuel Duty.

[v] Gagnon-Lebrun, F. (2016). Finding money to pay for adaptation : Economic instruments.

[vi] Climate Bonds Initiative. (2015). Bonds and climate change : The state of the market in 2015.

[vii] OECD. (2016). OECD Statistics on External Development Finance Targeting Environmental Objectives Including the Rio Conventions.

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The NAP Global Network is a group of individuals and institutions who are coming together to enhance bilateral support for the NAP process in developing countries. Based on experiences and lessons shared through the activities of the NAP Global Network, sNAPshots highlight examples of how countries are currently approaching different aspects of the NAP process. If interested in participating the NAP Global Network, please sign up online.

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