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CLIMATE CHANGE BUDGET INTEGRATION INDEX - AZERBAIJAN

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Acronyms

CBT	climate budget tagging
CC	climate change
CCBII	Climate Change Budget Integration Index
CSO	civil society organization
DAC	Development Assistance Committee
DP	development partner
FMIS	Financial Management Information System
GDP	gross domestic product
LEDS	Low Emissions Development Strategy
MTEF	Medium Term Expenditure Framework
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Cooperation and Development
PFM	public financial management
SAI	Supreme Audit Institution
SMART	specific, measurable, achievable, relevant and time-bound
UNDP	United Nations Development Programme

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1. Introduction

Climate change - and global efforts to address it - present a key challenge to Azerbaijan in the 21st century. In relation to the physical impacts of climate change, a recent study finds that temperatures in Azerbaijan are expected to increase at a faster rate than the global average, posing significant risks to agricultural productivity and for desertification, as well as threats to public health. These impacts are expected to be disproportionately borne by the poorest and most vulnerable members of Azeri society (Chapman et al., 2021). At the same time, global efforts to reduce consumption of hydrocarbons will also create pressures on the Azeri economy to diversify and find new sources of tax revenue and export earnings: as of 2019, oil and gas rents accounted for more than 25% of gross domestic product (GDP) (World Bank, n.d.).

Given this country context, it is vital that the country’s public financial management (PFM) system takes account of the climate challenge. The PFM system will be one of the most important ways in which the government can allocate resources so as to help adapt to the physical risks of climate change. It can also act as a key engine to help diversify the Azeri economy, in part by supporting opportunities to pursue low-emissions and ‘green’ growth in the country - an objective which is reflected in ‘Azerbaijan 2030: National Priorities for Socio-Economic Development’ (President of the Republic of Azerbaijan, 2021).

The Climate Change Budget Intergation Index CCBII), developed by the UNDP (UNDP, 2015b), is a tool that supports understanding of the integration of climate change into PFM systems. It provides a robust, semi-quantitative assessment of the degree of climate change integration into the PFM system which is intended to deliver a range of benefits:

- provide a systemic approach and more objective validation of the progress towards climate change integrated PFM system in countries;
- set a baseline, that can support prioritization and help formulate a reform agenda for climate change integration;
- facilitate cross-country comparison, which may be particularly relevant in the regional context of the EU4Climate program; and
- provide a platform for cooperation framework with development partners.

The CCBII is structured into four dimensions: policy, systems, accountability and development partners. Across each of these dimensions, there are a series of categories and for each category a country is scored against a pre-defined scoring rubric. The maximum potential score is 100. Table 1 provides more details.

Table 1 The CCBII consists of four dimensions

Dimension	Dimension Weight	Category	Category Weight
P. Policy	30	P1. Policy	10
		P2. Requirements	10
		P3. Priorities	10
S. System	30	S1. Reporting	10
		S2. Coding	10

		S3. Calculation	10
A. Accountability	30	A1. Performance	10
		A2. Parliament	10
		A3. CSOs	10
D. DPs	10	D1. Donors	10

Source: (UNDP, 2015b)

The evidence for undertaking this assessment has been gathered by an independent local consultant. Given language barriers, the report review, interviews with officials and assessment of the effectiveness of different mechanisms and processes was undertaken by a local Azeri PFM expert. The appropriate interpretation of this evidence in the context of the CCBII was then undertaken jointly in consultation with this expert.

The remainder of this paper is structured as follows:

- section 2 summarises the key overall findings from the application of the CCBII in Azerbaijan and some the key potential next steps that the tool helps to identify;
- section 3 discusses the results relating to the Policy dimension of the CCBII;
- section 4 discusses the results relating to the System dimension of the CCBII;
- section 5 discusses the results relating to the Accountability dimension of the CCBII; and
- section 6 discusses the results relating to the Development Partner dimension of the CCBII.

2. Summary and key implications

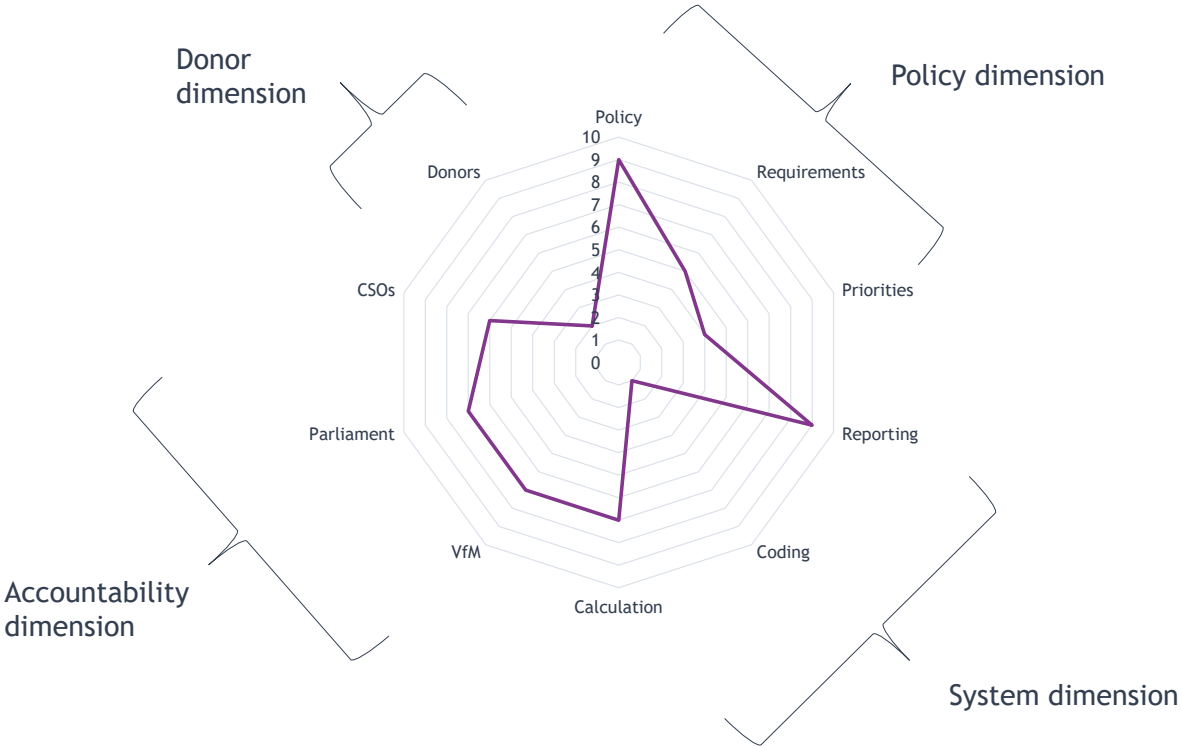
The application of CCBII in Azerbaijan identifies that the country has made good efforts in integrating climate considerations into its PFM systems. Across most of the dimensions within the CCBII, there are areas of strong performance where the country's practices aligns with international good practice. The two broad areas where there are opportunities for development in the future are:

- Ensuring that the integration of climate considerations into PFM systems continues as Azerbaijan's substantive policies on climate become more mature and have the potential to more fundamentally shape Azerbaijan's future development. In particular, the current good practice on PFM and budgetary integration needs to persist as the country develops, and then implements, its Low Emissions Development Strategy and National Adaptation Plan.
- To consider further incremental improvements to PFM and budgetary processes, especially in relation to prioritizing expenditure on climate change, making its climate budget tagging process more systematic, and enhancing the integration of donor climate change programmes into national PFM systems.

Figure 1 shows the results of the application of the CCBII in Azerbaijan. Across the four dimensions, the country is judged to score the highest percentage score in the accountability dimension, where it achieves 67% of the maximum score. Scores on the policy and systems

dimension are very similar, at 60% and 57% respectively. The lowest score is in relation to the donor dimension where the country achieves a score of 20%.

Figure 1 Azerbaijan’s CCBII score



A number of key insights emerge from considering each of the dimensions in turn:

- On the **policy dimension**, the country scores well by virtue of having established an ‘Action Plan for Reducing the Effects of Climate Change’, endorsed at the highest political level, which has a range of specific activities, with budgets and performance indicators attached to these activities. However, the Action Plan itself is at a relatively early stage, with some of key items within the Action Plan including the development of a Low Emissions Development Strategy (LEDS) and a National Adaptation Plan (NAP). It will be important that, as these plans are developed and implemented, they are afforded the same status as the current ‘Action Plan for Reducing the Effects of Climate Change’. This will require that these documents receive the highest level of political sign-off, that there are specific policy targets that arise from these documents to which budgets are attached, and that the Medium Term Expenditure Framework and other strategic budget document reference the actions in the LEDS and NAP. In addition, Azerbaijan could achieve a higher score on this dimension by following up on its high level commitment to integrate climate change into its budget processes by developing tools and templates that facilitate this, and requiring that all budget proposals consider the impact of their spending proposals on the achievement of Azerbaijan’s climate goals. The country could also achieve a higher score on this dimension by placing an explicit prioritisation factor on climate change related expenditures.
- On the **systems dimension**, it will again be crucial to maintain the current good practice on expenditure reporting when the LEDS and NAP strategy are developed, so that stakeholders can understand whether budgetary commitments to implement these

strategy documents are sufficient, and are providing good value for money. In developing this expenditure reporting framework, it will be important to integrate an enhanced version of the currently unpublished climate budget tagging work, and any future developments in this initiative, so that stakeholders can gain a comprehensive understanding of how Azerbaijan's public spending commitments are supporting climate objectives.

- The current good practice on the **accountability dimension** can be maintained by ensuring that the program budgeting initiative is extended to more ministries, and that the targets developed as part of this budget align explicitly with targets in the LEDS and NAP. There are also opportunities to more explicitly engage CSOs in the monitoring and public reporting of spending on climate change activities.
- The current low score on the **donor dimension** (the lowest weighted dimension in the index) reflects more broadly Azerbaijan's approach to reflecting development partner programs in national budgetary processes and documents.

3. Policy dimension

The policy dimension of the CCBII divides into three categories: a (more-detailed) policy category which assesses the policy and strategic planning context for climate change; requirements which explores the extent to which there are legislative or other procedural expectations to reflect climate change issues within the PFM system; and the prioritization category which assesses whether, in theory and in practice, climate change issues are prioritized by government. Each of these categories are given a weight of 10%, implying that this dimension is associated with a weight of 30% within the overall CCBII.

3.1 Policy and strategic context

The policy and strategic planning context category explores the extent to which there is a clear strategic direction to the government's approach to addressing climate change. It explores four issues:

- P1(a) - whether there is a recent, specific high level policy document on climate change (max 1 point);
- P1(b) - the extent to which that document has received endorsement from senior political actors (max 2 points);
- P1(c) - whether the policy is associated with specific policy targets, which are expressed in SMART terms, and to which program budgets can be attached (max 3 points); and
- P1(d) - whether climate change policies and targets are reflected in strategic budget documents such as the medium term expenditure framework (MTEF) or budget circulars (max 4 points).

There are a number of high level strategic documents that set out Azerbaijan's approach to supporting sustainable development (generally) and addressing climate change (specifically). The three most important of these are (1) its Nationally Determined Contribution (Republic of Azerbaijan, 2017); (2) 'Azerbaijan 2020: vision for the future'; and

(3) 'Development Strategy 2022-2026' which has been prepared in accordance with the 'Azerbaijan 2030 National Priorities for Sustainable Development' as approved by the President. Each of these documents are explained further below:

- The NDC targets a 35% reduction in greenhouse gas emissions from 1990 levels by 2030. This is expected to be achieved by, among others, improved energy efficiency awareness; the application of environmentally friendly technologies in the oil and gas sector and a reduction in gas leaks; improved energy efficiency in the residential and commercial sector; the use of alternative and renewable energy sectors; electrification of the transport fleet; collecting methane gas from livestock and poultry; the development of modern solid waste management systems in big cities; and tree planting.
- 'Azerbaijan 2020: vision for the future' is a consolidated document covering all aspects of sustainable development. One of the areas covered is 'Environmental Protection and Environmental Issues' and within this, it expresses the goal that Azerbaijan should 'bring the amount of energy used and carbon dioxide emitted per unit of GDP in 2020 closer to that of the OECD countries.'
- Azerbaijan 2030 National Priorities for Sustainable Development sets out the intention to increase the share of greenery in the total areas of the country, the efficient use of water resources, to grow the share of alternative and renewable energy sources in primary energy consumption and to increase the use of environmentally friendly vehicles. To support the delivery of Azerbaijan 2030, The Development Strategy 2022-2026 includes a goal to 'reduce the effects of climate change'. An 'Action Plan for Reducing the Effects of Climate Change' has been associated with this goal which has five key areas. These include the development and implementation of a Low Emissions Development Strategy (LEDS) and the development and implementation of a National Adaptation Plan (NAP).

These documents indicate that climate change is becoming an increasingly salient issue within Azerbaijan. but, as of today, there is no standalone strategy document on climate change. The high-level strategic references to climate change demonstrate that Azeri policymakers recognize both the importance of climate change and the need for a policy respond to deal with the challenges and opportunities that it presents. At present, the Low-Emissions Development Strategy and the National Adaptation Plan have not been developed although the Action Plan associated with reducing the effects of climate change does refer to these documents. When complete, these document will provide much more detailed, specific guidance on what sectors need to take which actions led by which stakeholders, along with the policies that will facilitate these actions. On balance, the existence of the 'Action Plan on Reducing the Effects of Climate Change', and their explicit intention to develop more detailed strategic documents, means that it is judged that a score of 1 is appropriate.

As regards P1 (b), the 'Action Plan on the Reducing the Effects of Climate Change' is an integral part of the 2022-26 Development Strategy compiled based on Azerbaijan 2030: National Priorities for Socio-Economic Development endorsed by the President. This warrants a score of 2. In the future, once the LEDS and NAP are complete, the status and level of endorsement of these documents will determine the appropriate score on this issue.

In terms of P1 (c), there are two relevant sources of policy targets:

- the first relates to the targets associated with the Action Plan associated with achieving the goal of reducing the effects of climate change; and

- the second relates to targets that have been established in a Pilot Action Plan that has been developed for the purposes of developing a program budget in the Environmental Protection sector (the ‘Pilot Action Plan for the Environmental Protection Sector’).¹

The Action Plan associated with achieving the goal of reducing the effects of climate change within the Development Strategy 2022-2026 specifies five targets:

1. The development of an inventory of thermal gases and the application of a monitoring reporting and verification system.
2. The submission of an updated NDC document.
3. The implementation of a low-carbon development strategy.
4. The implementation of a National Adaptation Plan.
5. A reduction in greenhouse gases in accordance with the NDC

The Action Plan also specifies the funding associated with these requirements and the executive bodies responsible for their implementation. This illustrates that there are some climate change activities that have been identified with targets set - which in the case of target 5 - can be considered ‘SMART’.

The ‘Pilot Action Plan for the Environmental Protection Sector’ also includes a number of climate-relevant targets. For instance, there are annual policy targets related to the forested area of nature reserves and national parks, the overall forested area of the country and the expected increase in forest area through natural restoration.

On balance, it is judged that a score of 3 is appropriate for this part of the index. This reflects that, through two separate policy documents, there are some policy targets in place and that these are costed and budgets have consequently been assigned. Especially in relation to the ‘Pilot Action Plan for the Environmental Protection Sector’, the policy targets are SMART.

However, maintaining this score will require greater levels of effort in the future. In particular, as the LEDS and NAP are finalized and approved, it will be important to establish SMART policy targets aligned to the strategic objectives in these documents.

Finally, strategic budget documents do present multi-year spending commitments in relation to climate change. In particular, the strategic budget plans of the country contain reference to both the ‘Action Plan on Reducing the Effects of Climate Change’ and the ‘Pilot Action Plan for the Environmental Protection Sector’. As such, a score of 3 is judged to be appropriate, but not a score of 4 as there is no dedicated Climate Change Financing Framework within these documents. Again, as the LEDS and NAP strategies are finalized, creating more extensive and detailed climate change policy commitments, it will be important to maintain this alignment between, on the one hand, climate change policy documents, and, on the other hand, strategic budget documentation.

¹ This is discussed in more detail in section 5.1.

3.2 Requirements

The legislative and other procedural requirements category explores whether budgetary processes create specific expectations regarding how proposed expenditures linked to climate change are presented in the budgets that are prepared by line ministries and approved by Ministries of Finance. It explores four issues:

- P2(a) - whether there are any legislative or procedural requirements in relation to climate change budget formulation (max 2 points);
- P2(b) - whether the budget guidelines support all stakeholders within the PFM process understand how these legislative/procedural requirements are to be met in practice (max 2 points);
- P2(c) - which public sector bodies are required to take account of the requirements around climate change budget formulation (max 3 points); and
- P2(d) - when presenting climate change budgets consistent with these requirements, the information that needs to be provided (max 3 points).

The critical document in determining the scores against these four questions is the ‘Budget and Tax Policy Document of the Republic of Azerbaijan for 2021 and the Next Three Years’. This document states:

‘Considering that Azerbaijan, like other countries, is exposed to the negative effects of climate change, [the Government of Azerbaijan targets] the integration of climate change related financing into the budget process and the MTEF ... At present, work is underway to introduce the Climate Budget Tagging mechanism for climate change. This will allow for budgeting, analysis, monitoring and evaluation of climate change expenditures’

On this basis, the following scores are judged to be appropriate for each of the four issues identified above:

- A score of 1 for P2(a) as the government has created a procedural requirement for climate change to be recognized in the budget. A higher score is not justified as this requirement is not a legislative commitment.
- A score of 1 for P2(b) as the same document recognizes the importance of cross-sector budget planning, a perspective that is reinforced by an instruction letter sent by the Ministry of Finance in 2021, requiring gender indicators to be incorporated in their action plans, so as to contribute to achieving gender equality. However, a higher score is not justified because, at present, there are few or no formal processes, institutional responsibilities or functions and templates to be used to realize cross sector budget planning for climate change.
- A score of 2 for P2(c) as the requirements set out in the Budget and Tax Policy Document is expected to apply to all central government units. A higher score of 3 is not justified as the requirement does not also apply to sub-national government units at this stage.
- A score of 1 for P2(d) as, although there is now a requirement for climate change information to be presented during the budget formulation process, no specific templates, processes and data requirements currently exist to facilitate the provision of this information.

3.3 Priorities

The priorities category explores whether or not there is preference given to climate change related expenditures in the development and implementation of spending commitments. In turn, this breaks down into consideration of four issues:

- P3(a) - whether program/project appraisal systems recognize and include a climate change dimension during MTEF/budget formulation stage (as this will often be a necessary step for climate change programs to be incentivized) (max 3 points);
- P3(b) - whether there is a particular prioritization factor for the climate change allocations during the budget formulation process (max 3 points);
- P3(c) - whether the cross-sectoral nature of climate change finance has led to the establishment of a specific institutional solution related to climate change finance (max 2 points); and
- P3(d) - whether, in practice, climate change expenditures are favored over other budgetary expenditures. This is measured in terms of whether the standard deviation of the percentage variance in actual budget expenditures for climate change related budget lines is greater or less than the same measure for all expenditure (max 2 points).

At present, there is no explicit recognition of climate change issues within project/program appraisal systems. For example, a high score on this indicator would be achieved if the appraisal of projects and programs included explicit consideration of whether the project or program will increase or decrease emissions or lead to an increase or decrease in vulnerability to climate risks. It is possible that such requirements may be introduced in the future now that climate change has been recognized as a fiscal risk but, at present, it is judged that the appropriate score on this issue is 0.

Similarly, climate change is not currently recognized as a priority within the budget setting process. There is no distinct recognition or weight given to climate change expenditures compared to other expenditures. As such, the appropriate score for this issue is also judged to be 0.

The State Commission on Climate Change has an explicit role to enhance coordination of climate change budget formulations. There are 10 members of the Commission, including the Ministry of Finance, with secretariat support provided by the Ministry of Ecology. One of the objectives of the Commission is to coordinate the budget on climate change, including climate related costs. The Commission discusses and evaluates climate-related strategy documents and climate-related projects. A further complementary role is played by the National Coordinating Council whose role is to assess the compliance of consolidated government programs and strategy documents with the Sustainable Development Goals and to ensure coordination with the executive. These arrangements warrant a score of 2.

Finally, the analysis of the variance of executed versus budgeted actual expenditures was undertaken for the three ministries undertaking program budgeting: education, agriculture and environmental protection (see section 5.1). Across these three ministries, the standard deviation of the percentage of the budgeted expenditure that had been executed in the first 6 months of 2021 was 6.05%. Of these, a selection of 7 of these sub-programs were identified as

having high climate relevance². The standard deviation in the percentage of budgeted funding that had been executed for these sub-programs was 2.26%. This implies that the SD_{CC} / SD_{ALL} is 0.45, implying that a score of 2 is appropriate.³

3.4 Summary

Table 2 summarizes the score across the different categories and issues considered within the policy dimension of the CCBI.

Table 2 Summary table on Azerbaijan's performance on the CCBI's policy dimension

Category	Issues	Max score	Actual score
Policy and strategic context	Specific high level policy	1	1
	Endorsement of high-level policy	2	2
	Existence of policy targets and costing that can be linked to budgets	3	3
	Reflection of CC policies in strategic budget documents	4	3
Requirements: legislative and other procedural requirements on CC dimension for PFM	Legislative or procedural requirements on CC budget formulation	2	1
	Specific requirements on CC budget formulation in budget guidelines	2	1
	Units covered by CC budget formulation requirements	3	2
	Information that needs to be included when formulating CC-related budget requests	3	1
Priorities climate change as a priority in the budget system	Appraisal systems include climate change dimension	3	0
	Prioritization factor for climate change expenditures during budget allocation process	3	0
	Institutional coordination on climate change finance	2	2
	Prioritization in practice as measured by variance in expenditures	2	2

² These programs related to the provision of preferential insurance for livestock and crops, the establishment and protection of forest areas, the cultivation of seeds and seedlings for reforestation, the operation and maintenance of water supply facilities, the monitoring of pollution released to the environment, and the collection, summarising, processing and forecasting of hydrometeorological data. A more thorough assessment of climate relevance will be undertaken as part of the forthcoming Climate Public Expenditure and Institutional Review.

³ While this score has been provided, in processing the data, it was observed that the executed expenditure as a percentage of budgeted expenditure was the same for every sub-program within a ministries remit, even when these funds were being executed by different entities. This raises some concerns regarding the quality of this data.

4. Systems dimension

The systems dimension focuses on whether the capacity and practices of the PFM system are likely to facilitate consideration of climate change issues. It focuses on three categories:

- reporting - whether the PFM system facilitates the reporting of climate change expenditures and the extent of institutionalization of these reports;
- coding - whether the PFM system allows for climate change expenditures to be coded as part of the formulation of the budget; and
- calculation - the rigor of the determination of climate change expenditures.

Each of these categories are given a weight of 10%, implying that this dimension is associated with a weight of 30% within the overall CCBII.

4.1 Reporting of climate change expenditures

Reporting of climate change expenditures explores three issues:

- S1(a) - whether there are reports on climate change expenditures and who endorses these reports (max 2 points);
- S1(b) - whether climate change expenditure reports are provided regularly and integrated within the budget reporting system (max 4 points); and
- S1(c) - whether, and in which way, the information contained within the reports on climate change expenditures is validated by the Supreme Audit Institution (SAI) (max 4 points).

There are two main reports which cover climate change related expenditures:

- First, according to the "Azerbaijan 2030: National Priorities for Socio-Economic Development" approved by the President, the expenditures of the "Climate Change Action Plan" are expected to be submitted to the State Commission on Climate Change every six months. It is also expected that information will be provided annually in the consolidated report of the state budget, which is audited by the Performance Audit Department, a specialized unit within the Chamber of Accounts, and submitted to the President, Parliament and the Chamber of Accounts.
- Second, the expenditures of the Pilot Action Plan for Environmental Protection are also reported on a quarterly basis, covering the expenditures of these activities. This includes both climatic and non-climatic parts of the Environmental Pilot Action Plan. These quarterly reports are complemented by an annual report on progress, as well as progress on these indicators. At the same time, the expenses related to the action plan are inspected by the Performance Audit Department, which is a specialized unit within the Chamber of Accounts, and submitted to the relevant body.

In addition, a pilot climate budget tagging (CBT) exercise was undertaken in 2021. As discussed below, this was designed to capture climate relevant expenditures across a wider range of Ministries than covered in the above reports. However, the results of this analysis have not been published.

On this basis, the following scores are considered to be appropriate:

- for S1(a) a score of 2, as there are regular reports on climate change expenditures, some of which are officially endorsed by the Ministry of Finance;
- for S1(b) a score of 3 as these reports are regular (6-monthly) but they are not integrated within the budget reporting system; and
- for S1(c) a score of 4 as the expenditure reports are subject to a review by the Performance Audit Division, a specialized unit within the Chamber of Accounts.

Looking forward, it would be valuable for the reporting to cover a wider-range of climate change related expenditures. The discussion above demonstrates that current Azeri practice towards the reporting of climate change expenditures is strong. However, at present, this practice only applies to a relatively small set of expenditures, namely those explicitly related to the ‘Action Plan on Reducing the Effects of Climate Change’ and on the ‘Pilot Action Plan on Environmental Protection’. In future, this can be enhanced. In particular, there are a wider range of expenditures that are also likely to be climate relevant but which are not explicitly identified as such, while some of the spending on environmental protection will have limited climate change relevance. As such, it would be valuable for the systems identified above to be applied to a more comprehensive and robust definition of climate relevant expenditures, and for this definition of climate relevant expenditures to be linked to the application of the LEDS and NAP.

4.2 Coding

This category also explores three issues.

- S2(a) - considering both whether there is ‘tagging’ of climate change budget allocations as part of the budget formulation process and how this tagging process is designed, in particular whether it is manual or computerized and, if computerized, whether it is fully integrated into the Financial Management and Information System (FMIS). CBT allows for climate change budget allocation to be marked, facilitating easier reporting of those expenditures.
- S2(b) - analyzing whether there is ‘tagging’ of climate change expenditures as part of the budget formulation process. This is similar to S2(a) but focuses on the tagging of expenditures rather than of budget allocations.
- S2(c) - exploring whether the information on climate change budgeting is made available before ceilings and allocations are made, such that these decisions can be influenced by the results of the tagging process, or only after the decisions are made, such that the information only serves as an accountability function.

The Government of Azerbaijan has made a commitment to climate budget tagging (CBT) and launched a pilot in the 2021 state budget. The commitment to CBT was made in the document ‘Budget and Tax Policy Document of the Republic of Azerbaijan for 2021 and the Next Three Years’ as discussed in section 3.2 above. Moreover, in the 2021 state budget, a pilot was applied in relation to the education, agriculture and environmental protection sections of the budget, although the results of this pilot were not made public.

Given the commitment to introduce CBT and the 2021 pilot, the following scores are judged to be appropriate:

- In relation to S2(a), a score of 1 is considered appropriate given both that a pilot CBT exercise has been undertaken in relation to budget allocations, and there is also a

commitment to more systematic CBT in the future. However, a score higher than 1 is not considered appropriate as this would require that the tagging exercise was increasingly computerized and for the tagging process to be integrated into the FMIS.

- In relation to S2(b), a score of 0, as the tagging exercise only focused on budget allocations rather than also considering subsequent expenditures.
- In relation S2 (c), a score of 0, as the results of the CBT exercise have not been published.

4.3 Calculation

The calculation category considers five issues:

- S3(a) - whether there is a methodology on what is considered climate change finance and the extent to which it has been formally adopted (max 2 points);
- S3(b) - the degree of precision expected when determining climate change expenditures, in terms of, for instance, the extent to which individual budget lines within programs are considered when calculating climate change expenditures (max 4 points);
- S3(c) - whether there are criteria used for determining whether a particular expenditure is considered to be climate relevant (max 1 point);
- S3(d) - whether the definition of what constitutes a climate relevant expenditure covers both mitigation and adaptation, or just one of these categories (max 2 points); and
- S3(e) - whether a consistent methodology for calculating climate change expenditures has been applied so that consistent comparisons can be made over time (max 1 point).

Based on the practice adopted in the CBT pilot, the scores considered appropriate for this category are as follows:

- For S3(a), a score of 1 as the pilot used an indicative methodology for defining climate change finance which, although considered appropriate for an initial pilot, has not been formally approved by the Ministry of Finance or other government stakeholder.
- For S3(b), a score of 2, as the pilot used ranges to identify different degrees of climate change relevance. Specifically, four 'blocks' of relevance identified: marginal level - up to 25%, low level - 25-50%, medium level - 50-75%, high level - above 75%. These were applied at the program, sub-program, measure and organizational levels.
- For S3(c), a score of 1 is considered appropriate as a set of criteria were used to determine whether an expenditure was considered to be climate relevant, drawing on the OECD DAC indicators as well as previous analysis by the UNDP (UNDP, 2015a) .
- For S3(d), a score of 2 as the CBT analysis covered both mitigation and adaptation analysis.
- For S3(e), the CBT exercise was applied to both the year for which the budget was being formally approved and the three subsequent years for which indicative budgeted amounts were identified. As such, at that point in time, a comparison across years was possible and a score of 1 is considered appropriate. However, it should be noted that this exercise was only intended as a pilot so that lessons could be learned and to allow the approach to evolve over time. Any subsequent modifications will make cross-year comparisons of formally approved climate-relevant expenditures less relevant.

4.4 Summary

Table 3 summarizes the scores in relation to each issue and category within the systems dimension.

Table 3 Summary table on Azerbaijan's performance on the CCBII's systems dimension

Category	Issues	Max score	Actual score
Climate change expenditure report	Status of endorsement of CC expenditure reporting	2	2
	Institutionalization of climate change expenditure reporting	4	3
	Extent of validation/audit of climate change expenditure reporting	4	4
Climate change budget coding	Budget tagging applied to budget allocations	4	1
	Budget tagging applied to CC expenditures	4	0
	Publication of information of climate change budget allocations	2	0
Calculation of climate change budget allocations/expenditures	Methodology/definition on what constitutes climate change finance	2	1
	Degree of precision when calculating the climate relevance of budget allocation	4	2
	Use of criteria for determining CC relevance	1	1
	Coverage of mitigation and/or adaptation	2	2
	Potential for cross period analysis	1	1

5. Accountability dimension

The purpose of the accountability dimension is to identify how easy it is to hold the executive to account for both the formulation and the execution of public finances towards climate change issues, and the effectiveness of this accountability. It covers three main categories:

- Information: the availability of performance information on climate change related budget planning and execution and the way in which this information is used;
- Parliament: the extent to which Parliament has dedicated institutions and procedures in place to hold the executive to account for the planning and execution of climate change related expenditures; and
- CSOs: the extent to which there are opportunities taken to make use of the expertise and knowledge of CSOs to support identifying climate change related priorities and spending against these priorities.

Each of these categories are given a weight of 10%, implying that this dimension is associated

with a weight of 30% within the overall CCBII.

5.1 Information

The Information category explore three key issues:

- A1(a) - the extent to which performance information on climate change related budget allocations and spending is made available (max 4 points);
- A1(b) - the extent to which the performance indicators are Specific, Measurable, Achievable, Relevant and Time-Bound (SMART) (max 3 points);
- A1(c) - the point in the budget cycle when performance information is used (max 3 points).

The key development in Azeri budget processes of relevance to this category is the adoption of program budgeting in the Education, Agriculture and Environmental Performance sectors. Under this development, the public budget in these sectors is classified in terms of the specific programs which it will support. The performance of the spending allocated to these programs is assessed using a series of key performance indicators (KPIs). This is operationalised through the development of (pilot) action plans in the relevant sectors. These action plans include strategic targets, programs, sub-programs, measures, executive bodies, expenditures and performance indicators. Expenditures and performance indicators are provided for the last year, the expectation for the current year, next year and the next three years. The action plan, together with the budget orders, are developed by the leading organizations in each sector during the budget proposals and submitted to the Ministry of Finance. The adoption of program budgeting in these sectors is a pilot and, depending on its success and lessons learned, it will be rolled out into other sectors in the future.

In the context of this recent development the scores for this category are judged as follows:

- In relation to A1(a), there are a number of performance indicators of relevance to climate change programs that have been identified and against which performance will be assessed over the period 2021-2025. These indicators have been identified both in relation to key strategic targets and then in relation to specific subprograms. For example, in relation to environmental protection, there is a strategic target in relation to the forested areas of the country and then program targets in relation to, for example, the forest area increased by planting and sowing; the forest area protected from fires, diseases and pests; and the area of seedlings grown for restoration. A similar structure exists in relation to water resource management. At present, there is no explicit identification of the relevance to these programs to climate change objectives, although this type of link could be drawn i.e. the NDC explicitly mentions the role of tree-planting in helping to deliver emissions reductions. However, while this performance information exists, it is limited to internal budget documentation only and not made publicly available. This limits the appropriate score to 2. A higher score of 3 would require the information to be made publicly available. Moreover, is only available for three sectors and important sectors where there are climate change relevant budget allocations - such as energy and transport - do not have equivalent indicators.
- In relation to A1(b), the indicators being used meet the 'SMART' criteria in almost all instances and so a score of 3 is judged as being appropriate.

- In relation A1(c), a score of 2 is judged to be appropriate as the information is presented to the budget decision makers in budget documents, so as to inform their decisions before key budget decisions are made. However, there is no evidence to suggest that performance indicators are used within budget execution reports.

5.2 Parliament

The Parliament category looks at four key issues:

- A2(a) - whether there is a parliamentary committee that covers climate change related issues (max 2 points);
- A2(b) - the extent to which that committee is involved in scrutinising climate change related expenditures before they are approved (max 3 points);
- A2(c) - the extent to which that committee is involved in scrutinising the effectiveness and efficiency of climate change related expenditures (max 3 points); and
- A2(d) - whether parliament has specific measures to hold the executive to account in relation to climate change related expenditures (max 2 points).

The appropriate scores for these issues are judged to be as follows:

- The Committee for Natural Resources, Energy and Ecology has a role in scrutinizing climate change related draft laws. This warrants a score of 1 for A2(a); the higher score of 2 would only have been possible if there had been a committee with an exclusive focus on climate change.
- For A2(b) this committee reviews the draft version of the ‘Pilot Action Plan for Environmental Protection’, including budget suggestions, before finalization. As such, this warrants a score of 1. A higher score would require that the Committee also provided a written brief confirming that the budgets are consistent with the national climate change policies. This is not currently possible as the focus of the scrutiny is on the ‘Pilot Action Plan for Environmental Protection’ as a whole, without an explicit effort to link these expenditures to the climate change objectives of the country, for example, to its NDC.
- In relation to A2(c), there is a Budget Office in the Chamber of Accounts (Performance Audit Division) which has a specific function to undertake efficiency analysis. This covers both the effectiveness of the allocation of funds to the ‘Pilot Action Plan for Environmental Protection’, and the expenditure associated with ‘Action Plan on Reducing the Effects of Climate Change’. This warrants a score of 3.
- With the development of program budgeting, the Committee for Natural Resources, Energy and Ecology receives the draft ‘Pilot Action Plan on Environmental Protection’, reports on its implementation, the results of the Chamber of Accounts’ assessments, and organizes hearings. As the pilot action plan is new, hearings on its annual implementation will begin in 2022. This warrants a score of 2.

5.3 CSOs

The final category considers the extent to which there is CSO participation in the development and execution of public related expenditures on climate change, both to provide expertise and to support holding the government to account. The specific issues considered are:

- A3(a) - whether there is an institutional framework to support CSO participation in climate change related finance (max 3 points);
- A3(b) - the extent to which CSOs are engaged in the formulation of climate change related budgets (max 4 points); and
- A3(c) - the extent to which CSOs play an official or unofficial role in climate change budget monitoring and reporting (max 3 points).

The State Commission on Climate Change has established a ‘Public Council under the Ministry of Ecology’ for CSOs to cooperate with the government on climate change. This public council has 14 CSO members and has three key objectives: improving the ecological condition and restoration of the landscape of contaminated lands; mitigation of the effects of climate change; and increasing, restoring and regulating water bioresources. In this context, the appropriate scores are judged to be the following:

- For A3(a), the Public Council demonstrates that there is a specific forum of CSOs on climate change aspects that is in partnership with the government. As such a score of 3 is judged to be appropriate.
- For A3(b), with support from the World Bank, CSOs have been involved in the development of the ‘Pilot Action Plan for Environmental Protection’ which, as noted above, includes budgetary requests. A score of 2 is judged appropriate. A higher score is not judged appropriate as there is no explicit evidence proving that the executive uses this input when determining budgets.
- For A3(c), the institutional arrangements described above provide an opportunity for CSOs to be involved in the monitoring of climate change monitoring and reporting. However, there is no evidence that CSOs are placing independent monitoring and reporting assessments in the public domain. These arrangements are not easy to capture within the scoring rubric of the CCBII as CSOs are involved in the monitoring and reporting of budget expenditures, but this involvement is not through the publication of independent reports. A score of 1 is considered to be relevant.

5.4 Summary

Table 4 provides a summary of the assessment on the accountability dimension

Table 4 Summary table on Azerbaijan’s performance on the CCBII’s accountability dimension

Category	Issues	Max score	Actual score
Information	Availability of climate change performance information	4	2
	SMART-ness of indicators	3	3
	Point in budget cycle when performance information is used	3	2
Parliament	Existence of relevant committee	2	1
	Role of parliament in budget scrutiny prior to approval	3	1
	Extent to which there are regular	3	3

	assessments of climate change expenditures from effectiveness and efficiency perspective		
	Role of parliament in holding executive accountable for climate change expenditures	2	2
CSOs	Extent of institutional partnership on climate change finance	3	3
	Role of CSOs in climate change budget formulation	4	2
	Role of CSOs in climate change budget monitoring and reporting	3	1

6. Development partner dimension

The final dimension considered by the CCBI relates to the way in which development partner (DP) funds for climate change activities are treated by the PFM system. In contrast to the other dimensions, this dimension only has one category, with the key issues explored being:

- D1(a) - whether there is a procedural requirement that DPs' climate change programs are reflected in national budget documents and to follow the monitoring and reporting systems associated with a country's PFM system (max 2 points);
- D1(b) - the extent to which DP funding on climate change is known and available to line ministries and integrated within the government's FMIS (max 2 points);
- D1(c) - whether development partner programs on climate change are presented within the government's own budgetary documents (even if they are not part of the budgetary system) (max 2 points); and
- D1(d) - The percentage of DP funds for climate change that are, in practice, channeled through national PFM systems (Max 4 points).

This dimension is given a weight of 10% within the overall index.

At present, there are few requirements no requirements for any DP funding to take account of the considerations under this dimension. In particular:

- Under D1(a), there is, at present, no legislative or procedural requirement for DP programmes to be reflected in relevant budgetary documents or the PFM monitoring and reporting systems. As such, the appropriate score is 0.
- Under D1(b), it is clear the relevant line ministries do have good understanding of the climate change related funding programs and budgets of DPs⁴, which can be used with domestic budget formulation, but this is not integrated into national PFM information systems. As such, a score of 1 is warranted.

⁴ Recent co-operation arrangements have included partnerships with the United Nations Development Program, the United Nations Environment Program, the United Nations Food and Agriculture Organization, as well as the German Society for International Cooperation and the Korean International Cooperation Agency.

- Under D1(c), many DP projects on climate change have been identified in the draft State Budget Reports and Execution Reports. However, these costs are not reflected in formal state budget documents. This also warrants a score of 1.
- Under D1(d), the appropriate percentage is 0% and so the appropriate score is 0.

Table 5 provides a summary of the assessment on the development partner dimension

Table 5 Summary table on Azerbaijan’s performance on the CCBII’s accountability dimension

Category	Issues	Max score	Actual score
Development partner funding	Procedural requirements on CC planning, budget execution and monitoring/reporting in country’s domestic PFM system for DP programs	2	0
	Integration of DP’s climate change finance into national PFM information systems	2	1
	Reflection of DP programs in government’s budget documents	2	1
	% of CC funds channeled through national PFM systems	4	0

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