



# TECHNICAL ASSISTANCE REPORT

## SEYCHELLES

### Developing a Framework for Climate Budget Tagging

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# Abbreviations and Acronyms

CBT	Climate budget tagging
CoA	Chart of Accounts
IFMIS	Integrated financial management information system
IMF	International Monetary Fund
MDA	Ministries, departments, and agencies
MoFNPT	Ministry of Finance, National Planning and Trade
NDC	Nationally Determined Contribution
NDS	National Development Strategy
PFM	Public financial management
PPBB	Program and performance-based budget

# Preface

In response to a request of the Ministry of Finance, National Planning and Trade (MoFNPT) of Seychelles, a team from the IMF's Fiscal Affairs Department, Public Financial Management (PFM) division, visited Victoria from April 1 to 12 2024. The mission team was led by Bryn Battersby and comprised Almudena Fernandez (Fiscal Affairs Department), Amitabh Tripathi (AFRITAC South), and David Gentry and Gcobisa Magazi (IMF experts). The team divided into three teams to concurrently address three areas: climate-related long-term fiscal sustainability and fiscal risk analysis, and climate-sensitive public investment management, and climate budget tagging. The primary outputs from the mission were a customized Q-CRAFT tool for Seychelles, incorporating a range of demographic and climate scenarios; a draft chapter template for the Fiscal Risk Statement, detailing long-term fiscal sustainability analysis and discrete climate-related risks; an updated draft of the public investment management policy, and this Technical Assistance Report summarizing the framework and next steps for climate budget tagging.

The mission discussed findings and recommendations with Ms. Astride Tamatave, the Principal Secretary for Finance. The mission worked with the Budget Department team, including Ms. Noella Brioché, Ms. Ruth Pool, Ms. Terryll Adrienne, Ms. Karen Therese Bedier, and Ms. Agnes Madeleine.

The mission conducted workshops with ministries, departments, and agencies involved in climate change in Seychelles, including senior representatives from Ministries of Agriculture, Climate Change and Environment, Ministry of Lands and Housing, Ministry of Transport; Departments of Fisheries, Department of Blue Economy, Department of Tourism; the Division of Risks and Disaster Division and agencies that included the Seychelles Infrastructure Agency, Seychelles Energy Commission, Seychelles Land Transport Agency, Planning Authority, Seychelles Bureau of Standards, Landscape and Waste Management Agency, and Seychelles Meteorological Authority.

The mission team would like to thank the Seychelles government for their cooperation and their participation in constructive discussions during the mission.

# Executive Summary

**The Government of Seychelles recognizes the urgency to address environmental sustainability and climate resilience.** Climate has been identified as one of the six priority areas in the National Development Strategy (NDS) for 2024-2028 approved in April 2024. The IMF Resilience and Sustainability Facility program established in May 2023 demonstrated the government's commitment to managing climate change as a cross-cutting issue. The Facility included several reforms to introduce climate-sensitivity in public investment management and public financial management practices in Seychelles. This included a reform to identify climate-related expenditures in the Program Performance Based Budget (PPBB) and report on this in a summary climate statement in the PPBB document.

**Initial analysis of the earlier 2024 Annual Budget Estimates indicates there were 49 potentially climate-relevant programs and sub-programs across 28 ministries, departments and agencies (MDAs), out of a total of 204 programs and 163 sub-programs reviewed.** However, this was only a preliminary assessment. In order to accurately gauge climate relevance and differentiate between adaptation and mitigation activities, a comprehensive framework for Climate Budget Tagging (CBT) is needed. CBT is intended to aid governments in integrating climate change considerations into their planning and budgetary processes. It emphasizes the importance of climate concerns in the allocation and execution of resources by evaluating the climate impact of each budget component and assigning an appropriate tag.

**This report summarizes a new CBT framework that has been designed based on the specific characteristics of the Seychelles.** The first step will be to identify climate-relevant expenditure that aligns with the internationally recognized definitions of climate mitigation and adaptation. These definitions should evolve to be consistent with the country's Nationally Determined Contributions (NDC). Guidelines should be developed to summarize these definitions and outline the practical steps for tagging climate-related expenditure. An objective-based scoring system which scores activities depending on the degree of climate relevance for spending programs, sub-programs, projects, and activities is proposed. While most tagging is expected to take place at the sub-program level, when sub-programs lack detailed activities or projects necessary for effective tagging, a weighting system is proposed. A Climate Budget Statement should be prepared to summarize the results of the tagging exercise.

**The implementation of climate budget tagging will require a joint effort from the Ministry of Finance, National Planning and Trade (MoFNPT) and MDAs.** Tagging will be conducted by MDAs and validated by the Budget Department in the MoFNPT. A new CBT working group is proposed, to be led by the Budget Department in collaboration with the Departments of Agriculture, Climate Change and Environment, and the National Planning and the Climate finance advisor. This group will discuss definitions, rules and steer the CBT exercise, review the results of the tagging exercise for quality assurance purposes, and support capacity building for CBT, among others. The Budget Department will propose MDAs to be included in the first pilot of CBT as part of the preparation process for the 2025 Budget. Table 1 presents recommendations to advance toward the piloting of CBT as part of the 2025 Budget.

Table 1. Recommendations

No.	Recommendation	Responsibility and Timing
1	Prepare a first draft of the guidelines for CBT, incorporating key definitions (adaptation/mitigation) and aspects for conducting climate budget tagging.	MoFNPT End of July 2024
2	Ensure the inclusion of references to CBT in the budget circular and revise templates accordingly for the budget process. This should identify the MDAs selected for participation in the pilot phase.	MoFNPT Immediately
3	Establish the institutional framework necessary for the formation of a CBT technical Working Group dedicated to this initiative.	MoFNPT in collaboration with Ministry of Agriculture, Climate Change and Environment, National Planning and climate finance advisor June 2024
4	Develop a preliminary Climate Budget Statement to be included as an annex of the PPBB containing data gathered from the pilot MDAs, with subsequent validation by the Budget Department with the support of the CBT technical working group.	MoFNPT By November 2024

# I. Background

## A. Introduction

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1. **The analysis of climate-related expenditure in the budget preparation phase has gained traction in many countries over the past decade.** Building an overall picture of climate-related expenditure helps highlight the true importance of climate concerns in resource allocation and monitor changes in spending levels and composition from one year to the next.
2. **Climate budget tagging (CBT) can be defined as the process of identifying, measuring, and monitoring climate-relevant spending across government.** CBT can help governments integrate climate change considerations into the planning and budget process by highlighting the importance of climate concerns in resource allocation and execution of these resources. CBT assesses each budget component in terms of its climate impact and assigns it a tag according to whether it is helpful, harmful, or neutral to the achievement of climate objectives. The success of a tagging exercise ultimately rests on the capacity to analyze and classify expenditure in an adequate and reliable manner, and it can be an important factor in attracting international climate finance.
3. **There is no single, widely accepted international standard for tagging climate-related expenditure.** Governments can use different taxonomies and classifications as foundations for their tagging methodologies. The most relevant factor is to strive for robustness and clarity of the classification implemented and consistency with the overall budget system and environmental policies. Though the CBT systems are different and context-specific, they address a similar set of objectives. These include:
  - *Improving the strategic phase of the budget cycle and providing policy guidance:* CBT allows a government to review performance of activities from a spending perspective and facilitates data-informed allocation decisions for new resources from the fiscal space. The data also enables the government to assess the need for a reallocation of resources from poorer performing or non-performing climate change activities to other priority climate activities.
  - *Informing citizens and raising awareness:* The information contained in a CBT system enables the production of budget statements incorporating government's spending on climate. When paired with the publishing of the government's climate execution reports, it can contribute to a country's citizens' assessment of government's spending performance in meeting their climate change commitments.
  - *Enhancing transparency:* Signatories to the Paris Agreement, and members of the Coalition of Finance Ministers for Climate Action, are required to provide climate-related information<sup>1</sup> to the international community as well as their development partners.

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<sup>1</sup> Each signatory to the Paris Agreement is required to submit their NDC every five years. In addition, they are also required to provide regular updates on their progress toward meeting their NDCs, known as "inventory reports," every two years, and information on their greenhouse gas emissions and their efforts to reduce emissions every year. Members of the Coalition of Finance Ministers for Climate Action are encouraged to provide information on their climate-related policies and actions, including experiences and best practices to promote the adoption of effective climate policies and practices.



- *Improving access to green financing:* As a component of the United Nations Framework Convention on Climate Change, the international community has agreed to provide some form of funding to those nations at threat from climate change. A solid framework of climate-related definitions aligned with the country's Nationally Determined Contributions (NDCs), coupled with a well-defined CBT system, plays a critical role in demonstrating a country's eligibility for such support.
- *Enabling expenditure review:* As with all policy initiatives, it is worthwhile to examine how climate initiatives are performing and to assess whether they are achieving the intended results. The information contained in the CBT system provides the financial and non-financial performance information to conduct such an expenditure review. Tagging can provide specific data on the amount of funds allocated for climate-related expenditures, actual spending, and the sources of funding for these expenditures. Non-financial performance information can include data on progress toward achieving climate-related goals and targets, such as emissions and adaptation actions that are not measured under the existing tools.

4. **However, climate budget tagging also has limitations.** As a tool measuring planned and executed expenditure (and in an advance stage revenue), it cannot directly measure savings, such as a reduction in expenditure on greenhouse gas intensive activities. It also does not measure the direct impact of expenditure on climate-sensitive values, such as greenhouse gases emissions. And it does not measure the direct impact of regulatory changes. Instead, CBT focuses exclusively on direct expenditure on climate policies and investment.

## B. The Context for Climate Budget Tagging in Seychelles

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5. **Climate change presents an urgent and multifaceted challenge for Seychelles that can severely impact across economic and industrial sectors.** Erratic weather, particularly unseasonably heavy rains, is shifting funds from planned investments to emergency responses. This reflects broader concerns among small states regarding the mismatch between rapid climate change effects and the pace of climate financing. Although tourism shows signs of recovery, with 2023's real gross domestic product growth at an estimated 3.2 percent and tourist arrivals nearing pre-pandemic levels—reaching 91 percent of pre-pandemic highs—economic challenges persist. Manufacturing was hit by flooding and an industrial accident in December 2023, and other non-tourism sectors (agriculture, transport, and real estate) were weaker than anticipated. The persistent threat of climate change appears large over long-term growth, emphasizing the urgent need for adaptive and resilient economic planning.

6. **The Seychelles' updated NDC highlights the commitment to increase mitigation contribution by reducing greenhouse gas emissions by 293.8 ktCO<sub>2</sub>e in 2023 (26.4%) compared to the business-as-usual scenario.** This reduction will be mainly driven through efforts to transition the energy sector from fossil fuel sources of energy to renewable energy. A considerable risk to achieving the NDC targets is that financing requirements for upscaling climate mitigation and adaptation measures remain unsecure and contingent on global commitments for climate financing solutions. Due to this, it requires complementary fiscal measures for reducing the financing gap in the short to medium run.

**7. The IMF Resilience and Sustainability Facility program established in May 2023 includes a measure to identify the expenditures to meet these commitments.** Reform Measure 4 requires, among other things, the identification of climate-related expenditures and presenting a summary climate statement in the PPBB document. The reform measure also requires that this begins during the 2025 budget process.

**8. The Government of Seychelles is well-prepared to adopt CBT.** Seychelles initiated the implementation of PPBB in 2015, which is aimed at improving the government's ability to achieve its strategic priorities. The PPBB should serve as a link between the NDS and the budget and provide guidance to prioritization in resource allocation. However, it does not yet have a climate focus. While program indicators are identifiable, program performance is not yet linked with the NDS, where climate change has been identified as a priority. A recent AFRITAC South mission reviewed the approach and has made recommendations to make PPBB more strategic and streamlined.<sup>2</sup> The enhancements in the PPBB, the number of programs, the availability of information, the robustness of the budget cycle, and collaboration among stakeholders are key factors that will facilitate this reform.

**9. The PPBB submissions that are part of the budget documentation already provide a good basis for roughly identifying climate-related expenditure.** PPBB submissions include information on strategic objectives, past major achievements, current challenges, strategic priorities for the outer years, some outcomes and output indicators, and some activities/projects of the programs across ministries, departments and agencies (MDAs). The PPBB does not yet have a climate focus but has sufficient information for the initial identification that was undertaken at the level of programs or sub-programs as applicable. Analysis of 204 programs and 163 sub-programs in the 2024 Budget found 49 programs and sub-programs belonging to 28 MDAs were identified as potentially climate relevant.<sup>3</sup> The identified programs relate to sectors that are consistent with two key documents: (i) the NDC, which identifies relevant sectors for adaptation and mitigation initiatives; and (ii) the outcomes and strategies that have been detailed under the environmental sustainability and climate change priority in the NDS (2024-28). This initial exercise (Table 2), as in most countries, ended up with only a rough estimate of budgeted expenditure that is climate related, which could be considerably improved using the steps outlined in the next section. In particular, the analysis of the 2024 Revised Budget concluded that:

- 22 programs appear to be directly related to climate change; for example, those relating to Ministry of Agriculture, Climate and Environment, Department of Fisheries, Department of Blue Economy, Disaster and Risk Management Division.

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<sup>2</sup> Strengthening MTEF and MTBF, T Chiinze et.al (2024). The mission made recommendations regarding streamlining the focus of the PPBB architecture and linking it with the strategic policy priorities as articulated in the NDS and the sector specific plans so that resource allocation can be prioritized. This included limiting the number of outcomes and indicators for each program; and rationalizing the information presented. The mission recommended a pilot approach to introducing a streamlined PPBB approach and focusing on climate sensitive budget programs from key MDAs and extending it to other MDAs in the coming years. In the medium-term, it was also recommended to anchor the program-based approach in the PFM legal framework to enforce better compliance.

<sup>3</sup> The mission worked with a small team of budget officials from the MoFNPT, and the Climate Advisor attached with the Department of Environment in undertaking this exercise.

- Three programs are not directly related but provide policy and advocacy support to the national framework on climate change; for example, Departments of Finance, Planning Authority, and Department of Foreign Affairs.
- The rest of the identified programs (24), seem to have a significant share of climate relevant activities but climate change may not be the principal objective.

**Table 2. Identification of Climate-Related Expenditure in the 2024 Revised Budget**

Total Recurrent Budget Climate Tagged (SR)	Total Capital Budget Climate Tagged (SR)
1,181,567.40	559,492.79
Total Government Recurrent Budget (SR)	Total Government Capital Budget (SR)
7,291,785.22	1,429,218.00
% of Recurrent Budget tagged of total Government Budget	% of Capital Budget tagged of total Government Budget
16 percent	39 percent

Note. This analysis represents only a preliminary approach; it does not take into account the weight that each program or sub-program contributes to climate change, and there may be elements that were not included.

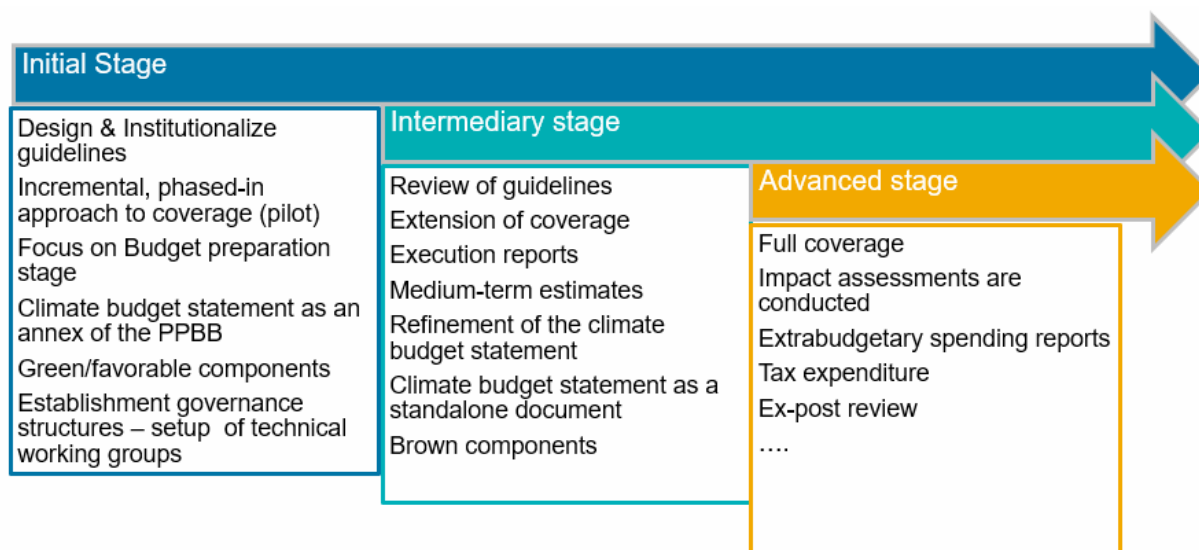
Source: Mission

## II. A Framework for Climate Budget Tagging in Seychelles

### A. Introduction

**10. The implementation of CBT should be a gradual and context-specific process that takes place over a minimum of three years.** In the first year, the Ministry of Finance, National Planning and Trade's (MoFNPT's) CBT efforts should focus on developing a methodology, analyzing green (positive) climate-related expenditures in pilot entities, and drafting an initial climate budget statement. The pilot should be expanded in the second year, with adjustments made to the guidelines and statement, as necessary. Subsequent years could see the implementation of a more advanced form of CBT, analyzing, for example, brown components and tax expenditure, and other features. Figure 1 presents a proposed roll-out for CBT in Seychelles.

**Figure 1. Rolling Out Climate Budget Tagging in Seychelles**



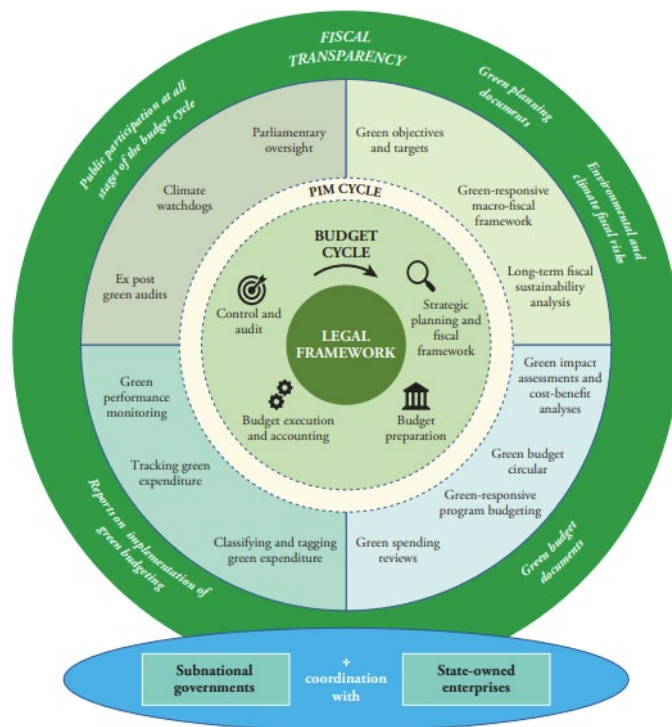
Source: Mission

**11. CBT has the strongest impact if applied consistently in all stages of the budget cycle.** CBT enhances transparency and supports policy making (i) during budget preparation through information on allocation of resources to green priorities and provides information for independent scrutiny; (ii) in budget execution, through tracking the progress of implementation; and (iii) at the end of the budget year, through an assessment of the impact of implementation of green objectives. CBT is also part of a “Green PFM framework” which emphasizes a holistic approach to climate sensitivity across all PFM areas (Box 1).

### Box 1. Beyond CBT: A Holistic View of Green PFM Practices

CBT represents a key component of the *IMF Green PFM framework*; it stands out as one of the tools more relevant for the budget preparation and execution phases, which has gained significant traction over the past decade, albeit not the only one. The concept of *Green PFM* can be defined as the integration of a climate-friendly perspective into PFM practices, systems, and frameworks—especially the budget process—with the objective to promote fiscal policies that respond to climate concerns. Like other types of priority-based budgeting, which seek to mainstream specific priorities or concerns into PFM practices and processes, the implementation of green PFM does not require new and separate PFM systems that could undermine the effectiveness and the centrality of the existing PFM or budget processes; rather, only a modification and a reinforcement of existing PFM practices with elements sensitive to green priorities are necessary.

The IMF envisions the budget process as a four-step cycle anchored by a legal framework: (i) the setting of strategic and fiscal policy goals and targets; (ii) the preparation of the annual budget and its approval by the legislature; (iii) the control and execution of the approved budget and the preparation of accounts and financial reports; and (iv) the independent oversight and audit of the budget.



Although Green PFM reforms constitute a whole-of-government undertaking, the Ministry of Finance, as the custodian of public resources, should be the primary driver. Implementing Green PFM reforms require sequenced action plans that can be updated over time based on actual progress, opportunities, political willingness, and capacity level.

Source: How to Make the Management of Public Finances Climate-Sensitive—"Green PFM," IMF 2022

## B. Producing Climate Budget Tagging Guidelines

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**12. Guidelines for the implementation of CBT would help to establish the steps and tasks that need to be completed for an efficient rollout.** The guidelines should aim to create an effective system that reduces subjectivity and enhances credibility by providing clear definitions for climate-sensitive expenditure. They should outline the government's definitions for climate change, scope, and estimation system, outlining stakeholder roles and requirements. The guidelines should promote uniformity in application and understanding of the CBT approach among the multiple stakeholders, ensuring that the distinction between climate change-related and non-related expenditure is homogeneous, clear and accessible. The CBT guidelines provide a set of rules and processes used by government institutions to estimate the proportion of a sub-program of sub-vote's expenditure on adaptation and mitigation objectives.

**13. An effective system can reduce subjectivity and improve credibility with strict definitions for climate-sensitive expenditure and accessible guidelines for all budget stakeholders.** Budget guidelines and call circulars typically provide guidance on climate budget tagging and its application in the budget process. These guidelines should contain information on the background, objectives, and description of the actions to be taken to address the steps involved in the CBT process. It should also include the government's definition of climate relevant activities, aligned with international thinking and definition; decision on the scope and coverage of CBT; and the estimation system to be used in CBT. In addition, it should clearly delineate the stakeholder roles and requirements, describing the business needs of the stakeholders from the tagging system when tagging is implemented. A glossary of standardized activities (once this exercise is completed) and keywords to 'guide' the development of climate tagging in the country should also be part of the guidelines. The preparation of these guidelines need to be prioritized by the MoFNPT. Annex I provides a proposed structure for the CBT guidelines.

## C. Defining Climate-Related Expenditure

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**14. The process for identifying climate-relevant expenditure for the Seychelles CBT should be consistent with internationally acceptable definitions for climate mitigation and adaptation.** The Rio Marker methodology is a tool commonly used as a starting point to estimate climate-relevant expenditures. It distinguishes expenditure between those aimed at mitigation or adaptation and those supporting other development goals. In the absence of a more specific taxonomy or set of definitions of climate-related activities, Seychelles could begin tagging using these definitions (Box 2).

## Box 2. Definitions of Climate Change Markers according to the Rio Markers

### ***Climate Change Mitigation Marker***

The activity is marked as *climate change mitigation* if it contributes to the objective of stabilizing greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit greenhouse gas emissions or enhance greenhouse gas sequestration.

Specifically, a climate change mitigation activity contributes to:

- The mitigation of climate change by limiting anthropogenic emissions of greenhouse gas, including gases regulated by the Montreal Protocol; or
- The protection and/or enhancement of greenhouse gas sinks and reservoirs; or
- The integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or
- Developing countries' efforts to meet their obligations under the Convention.

### ***Climate Change Adaptation Marker***

The activity is marked as *climate change adaptation* if it intends to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, through increased ability to adapt to or absorb climate change stresses, shocks, and variability, and/or by helping reduce exposure to them.

An activity is eligible for the climate change adaptation marker if:

- The climate change adaptation objective is explicitly indicated in the activity documentation; and
- The activity contains specific measures targeting the definition above.

Source: Organization for Economic Cooperation and Development Rio Markers for Climate Handbook, <http://oe.cd/RioMarkers>.

## D. The Tagging Process

**15. The implementation of climate budget tagging will require a joint effort from the MoFNPT and MDAs.** The MoFNPT in its budget coordination role, should lead the CBT initiative. It is responsible for preparing the guidelines, stakeholder coordination and implementing the methodology in close collaboration with Ministry of Agriculture, Climate Change and Environment. MDAs are responsible for screening their program, sub-program, projects and activities following the guidelines. A new CBT working group coordinated by MoFNPT should be established with the mandate to provide government-wide coordination. The working group should be led by the Budget Department in collaboration with the

Departments of Agriculture, Climate Change and Environment with the key sector ministries being consulted as required.<sup>4</sup> Box 3 includes its responsibilities.

### Box 3. Proposed Responsibilities of the CBT Working Group

The CBT working group should:

- Develop the CBT guidelines.
- Discuss definitions, rules and steer the CBT exercise.
- Review the results of the tagging exercise for quality assurance purposes and endorse the submissions for consistency with the NDC and the NDS before inclusion in the climate budget statement annex that will be part of the PPBB document presented to the National Assembly.
- Support capacity building for CBT and assist line ministries with analytical expertise and feedback on the tagging process.
- Validate changes in CBT criteria.

Source: Mission

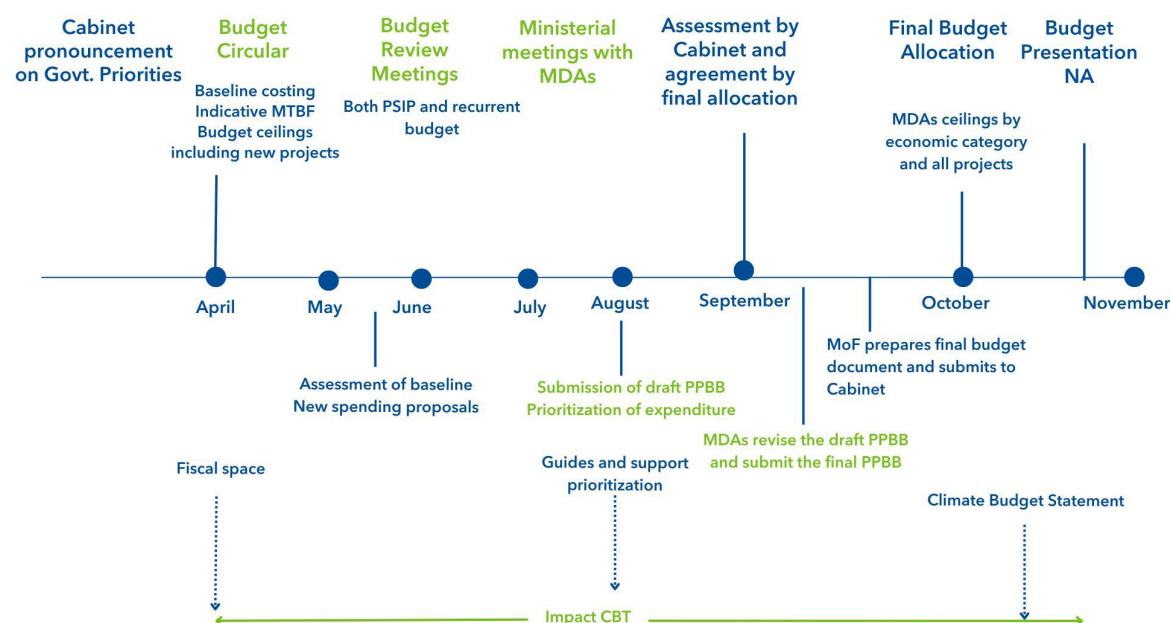
**16. The introduction of CBT will require the inclusion of additional milestones in the budget preparation calendar (Figure 2).** MDAs will tag expenditure, which will be discussed during the budget review meetings and the ministerial meetings with MDAs. Additionally, the draft and final versions of the PPBB should include climate-sensitive information. The Budget Department will be the responsible to prepare with the inputs provided the Climate Budget Statement that will be included as an annex of the PPBB.

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<sup>4</sup> These have been identified in the GCCA+ report on “Proposed System of Climate Markers for Seychelles” (2020).



**Figure 2. Budget Preparation Calendar in Seychelles**



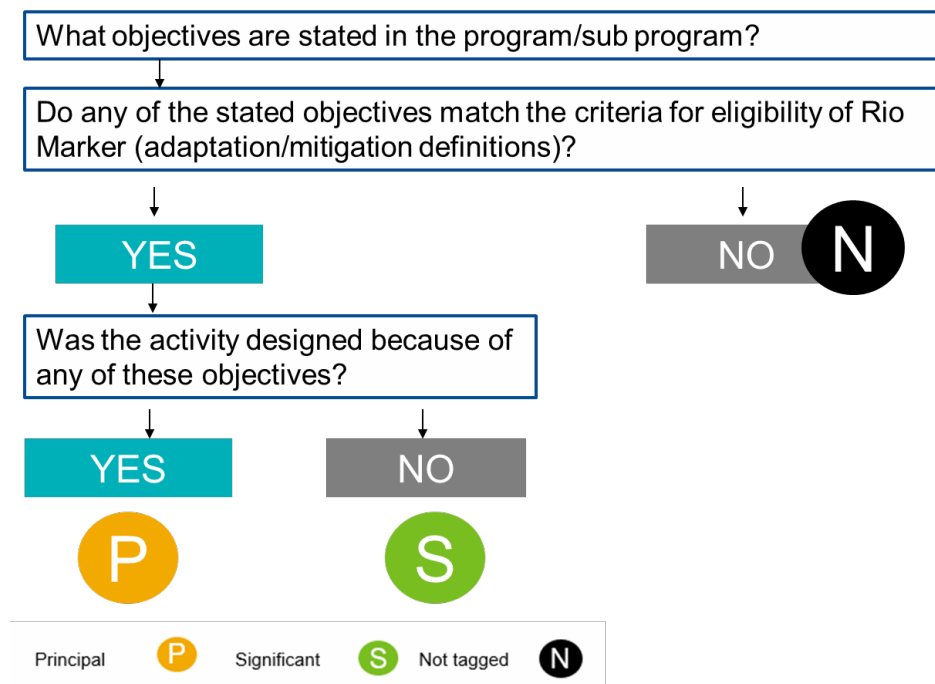
Source: Mission

**17. The Seychelles CBT will assume an objective-based approach to screening of climate-relevant expenditure.** This entails using the Rio Marker system that assigns a scoring system of three values to screening expenditure activities to determine their extent of relevance to climate change. By applying this method, the eligibility of spending programs, sub-programs, projects and activities are screened and marked as either principal (P), significant (S) or not tagged (N).

- The score will be *Principal* (P) when the objective (climate change mitigation or adaptation) is explicitly stated as fundamental in the design of, or the motivation for, the programs, sub-programs, projects and activities. Promoting the objective will thus be stated in the activity documentation as one of the principal reasons for undertaking it. In other words, the programs, sub-programs, projects and activities would not have been funded or designed that way but for the climate objective.
- The score will be *Significant* (S) when the objective (climate change mitigation or adaptation) is explicitly stated but it is not the fundamental driver or motivation for undertaking it. Instead, the programs or sub-programs have other prime objectives, but have been formulated or adjusted to help meet the relevant climate goals.
- Programs, sub-programs, projects and activities that do not target the objective (climate change mitigation or adaptation) in any significant way will be *Not Tagged* (N).
- In the case of programs, sub-programs, projects and activities that have not been assessed, the marker field should be left empty in the system.

18. MDAs will apply a value judgment to determine if the objectives of spending (at the level tagged) supports climate change, and if so, to what extent. For conducting this analysis, MDAs can apply a decision tree as shown in Figure 3.

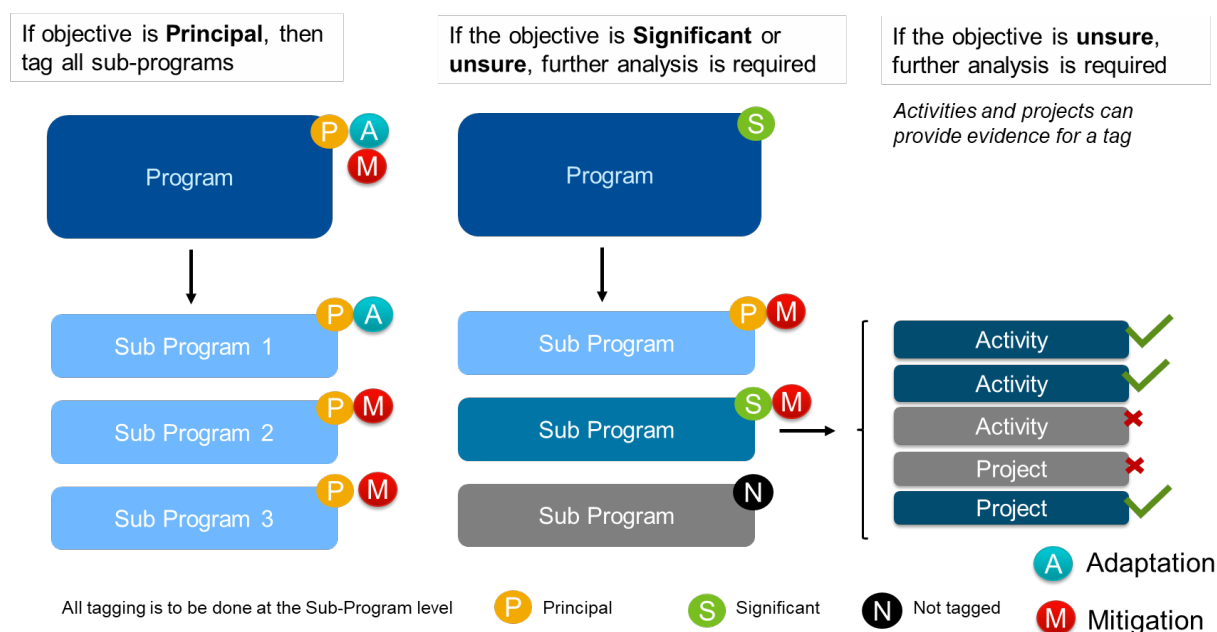
Figure 3. Decision Tree for CBT



Source: Mission based on the Organization for Economic Cooperation and Development Rio Marker handbook

19. The process for tagging will be conducted by the MDAs and validated by the Budget Department (Figure 4). If the objective of the entire program is clearly *Principal* on mitigation or adaptation, because all the sub-programs are tagged as (P), it should be identified if it contributes to mitigation, adaptation, or both. This means that 100 percent of the program will be tagged as climate related. If the sub-program objective's relationship to climate mitigation or adaptation is *Significant* or unsure, then further analysis is required at the activity/project level. When a sub-program is *Significant* and in the absence of activities/projects, the MDA should apply a weight. When a program does not have any sub-programs, activities or projects, the level of tag will be the program, applying a weight.

**Figure 4. Tagging Sequence**



Source: Mission

**20. As tracking expenditure for climate is cross-sectoral and requires interventions from multiple government agencies, some adjustments to the Chart of Accounts (CoA) are likely to be required.** The CoA will also facilitate tracking green expenditure during the budget execution phase, which is also an important component of a tagging system in a more advance stage. It is important that the CoA allows for the possibility of adequately reporting on green expenditure. However, making changes to the CoA to accommodate the increasing list of cross-cutting issues would be sub-optimal. Some countries have opted for thematic segments outside the CoA, in the form of a database table created in their Integrated Financial Management Information Systems (IFMIS) for CBT.

**21. The Seychelles Chart of Accounts (CoA) provides sufficient detail for estimating the value of climate-related expenditure.** The CoA consists of five independent segments and 29 digits (Figure 5). The CoA is well ordered and structured, and using adequate business rules, the integrity of hierarchical structures can be maintained across individual segments. The program segment identifies programs, sub-programs, activities and projects.

**Figure 5. Seychelles' Chart of Accounts**

Administrative					Economic							Programme			Functional			Source of fund
Ministry	Department	Agency (Alpha)	Division	Section/Unit	Type	Main category	Category	Sub-category	Class	Sub-class	Details	Programme	Sub-programme	Activity/project	Division	Group	Class	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
XX	X	X	X	XX	X	X	X	X	X	X	X	XX	XX	XXX	XXX	X	X	XXX

Source: PPBB Implementation Guidelines (2018)

**22. The planned procurement of a new IFMIS in Seychelles could serve to provide a strong foundation for climate tagging.** This would require careful planning and oversight from the MoFNPT and engagement with MDAs. The implementation of a new IFMIS provides an opportunity for developing a standardization of activity names that would bring benefits of clear identification of climate-related activities through easy filtering of climate (or any other priority) activities. This would also facilitate more coherent and consistent aggregation in reporting and analysis of climate-related activities. As part of the transactional data entry phase into IFMIS, administrative units would select a program and sub-program under which each activity/project falls, and it would be helpful to configure the business rules for tagging as part of the system configuration process.

**23. As the IFMIS implementation is likely to take several years, the MoFNPT should develop a reporting template to collect data on green tagging for budget preparation and execution.** An Excel based template has been developed by the authorities. This provides a good basis for CBT before IFMIS is operational as it uses the format of the existing excel based sheet that is used for the budget preparation process. The template should enable MoFNPT to compile data at a central level on green expenditure in the budget and actual expenditure in budget execution.

## E. A Weighting System

**24. A weighting system, though subjective, enables users apply a fraction of activity expenditure that is climate relevant to climate change.** This helps to reduce the risk of exaggeration of climate relevant expenditures (greenwashing). For example, there may be sub-programs or activities that might serve both a development and climate change need. The weights ensure that components of a program that directly contribute to climate change are identified and tagged for subsequent climate change analysis and decision making.

**25. In the short-term, introduction of a weighting system should not be seen as a pre-condition for starting CBT in Seychelles.** However, there are instances where given the circumstances, MDAs will need to apply a weighting system. In particular:

- In cases where sub-programs do not have activities and/or projects that can provide the necessary detail for effective tagging, a weighting system is employed at the sub-program level, allocating a proportion based on the available data to tag the sub-program's relative contribution to climate-related objectives.
- If sub-programs are not delineated, and tagging must be applied at the program level, MDAs will use a similar weighting system.

**26. The CBT guidelines should offer a standardized weighting scale for these cases.** Weights can be assigned by evaluating the relative impact of each program or sub-program on climate change mitigation and adaptation outcomes. The weighting process is guided by expert judgement and the evidence at hand, ensuring that programs or sub-programs are appropriately tagged to reflect the climate change relevance of public expenditure. The percentage weight assigned will be validated based on consensus within the working group. For Seychelles, a simple weighting approach should be adopted, assigning 100 percent funding to high-level of mitigation/adaptation, 50 percent to medium-relevance projects, and 25 percent to low-relevance projects. This weighting system will be defined in the guidelines. Alternatively, the percentages could be 100 percent – 60 percent – 30 percent.

**27. There is no objectively correct percentage of spending to attribute to climate change expenditure, so this approach is viewed as a best estimate.** The weighting system helps reduce the risk of exaggeration of climate relevant expenditures and ensures that components of a program directly contributing to climate change are identified and tagged for subsequent climate change analysis and decision-making. Program managers should adopt a pragmatic approach especially for apportioning recurrent expenditure. There is a possibility that initially this may lead to some under/over estimation but that should improve as program managers develop more experience with the process.

## F. A Climate Budget Statement

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**28. A Climate Budget Statement would draw on CBT information to inform stakeholders including citizens about progress in this priority area.** This would include reporting on spending developments that are related to climate change commitments and targets. Countries have adopted a variety of approaches on presentation of a climate budget statement. For example:

- *Bahamas* publishes a yearly Statement of Planned Spending on Climate Change Adaptation and Mitigation and Disaster Reduction and Resilience alongside their budget.
- *Ghana's* Budget Highlights, the section on Key Interventions to Address Current Economic Challenges, highlights their expected outcomes for climate change. Ghana also produces a separate document, currently outside the Budget, on climate change expenditure.
- *Grenada* initiated a pilot project for tagging and has included the results of their pilot study in the Prime Minister's Budget Address outlining climate expenditures for investment projects and tax and duty incentives.
- *France* prepares a Green Budget Document that is appended to the State Finance Bill.

- *Ecuador, Indonesia, Nicaragua and Nepal* present climate expenditure as annexes to their annual budget documents.

**29. The initial aim in the case of Seychelles should be to prepare a *first Climate Budget Statement as part of the PPBB document for 2025*.** A sample template for the Climate Budget Statement along with guidance is provided at the Annex II. The initial version of the statement should include a summary listing of programs and sub-programs along with their portion of budget estimates that have been identified as climate relevant, alongside percent of total climate budget against the total budget, in percent and amount. This should be accompanied by a short note on the methodology used and a disclaimer on the likely over or under estimation of these estimates given the limitations of the methodology. It should also cover the plan for finalization of the CBT guidelines (discussed earlier) that will address some of these gaps and result in more realistic estimates going forward.

**30. As the system matures, the scope of these statements can be extended to report on climate-related expenditures during budget execution.** These should be incorporated in the standard reporting templates as CBT should not require a separate reporting framework. This can be done by expanding the scope of in-year and end-year budget reports to include climate-tagging results. Typically, these reports include the approved budget and in-year execution by economic classification. Non-financial information can be included in these reports including performance of climate related indicators to improve the decision-making process. Initially these could be based on reports submitted by line ministries to the MoFNPT.<sup>5</sup> Going forward the process can be automated by including the tagging information in the coding structure of the new IFMIS that is planned.

## G. Next Steps and Recommendations

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**31. The specific recommendations discussed during the mission can be implemented during 2024, but are expected to evolve over time as follows:**

**Recommendation 1: Prepare a first draft of the guidelines for CBT, incorporating key definitions (adaptation/mitigation) and aspects for conducting CBT in line with the Rio Markers.**

1.1 The first draft should be prepared before July 2024, so it guides the MDAs in the process of tagging.

1.2 For the following year (2025), and with the feedback provided by the MDAs included in the pilot, the first draft of the guidelines can be revised and approved by the MoFNPT.

1.3 As CBT expands to cover brown (negative) components, the guidelines will need to be updated to reflect relevant changes in the process of tagging.

**Recommendation 2: Ensure the inclusion of references to CBT in the budget circular and revise templates and CoA accordingly for the budget process.**

2.1. Communicate the MDAs selected for participation in the pilot phase (Table 3) by June 2024.

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<sup>5</sup> Bangladesh, Cambodia, Nicaragua are some countries that annually publish an annual report on actual expenditure.

2.2. During the budget preparation process, the Budget Department is expected to guide and monitor the implementation by MDAs, particularly those included in the pilot (June 2024–November 2024).

2.3. For the following year (2025), CBT coverage will expand to cover the rest of MDAs.

**Recommendation 3: Establish the institutional framework necessary for the formation of a CBT Working Group dedicated to this initiative.** The group will include officials from the Budget Department and the Ministry of Agriculture, Climate Change and Environment, with the functions already identified in the report, and is expected to meet periodically.

3.1. During the preparation of the 2025 Budget, the working group will be essential to guide and complete the first exercise for CBT. Thus, it is advisable to identify at the earliest convenience the relevant officials to be part of it from the Budget Department and the Ministry of Agriculture, Climate Change and Environment.

3.2. The CBT Working Group should develop training programs for MDAs to enhance their understanding and capability in implementing CBT. A capacity-building plan should address the specific needs of various target groups, including budget officers, planners, policy staff, and project managers.

**Recommendation 4: Develop a preliminary Climate Budget Statement to be included as an annex of the PPBB containing data gathered from the pilot MDAs and validated by the Budget Department with the support of the CBT working group.**

4.1. The Budget Department with the support of the CBT working group is responsible for validating the information provided by the MDAs included in the pilot (2024) and by other MDAs in subsequent years. The narrative included in the Climate Budget Statement and the PPBB should focus more on climate change, thereby enhancing the comprehensiveness of the Climate Budget Statement. The process of tagging also represents an opportunity to review the structure of programs and sub-programs.

4.2. Over time, the Climate Budget Statement will become an independent document, rather than an annex of the PPBB. The development of advanced tools for analyzing climate-related spending and its impact will also allow for deeper insights.

**Table 3. List of MDAs Programs and Sub-Programs Identified to Be Part of the Pilot**

<b>Ministry of Transport</b>
Program 1; Sub-program 3 – Policy Planning and Research Program 2 Project planning and development controls; Program 3 Road transport management
<b>Seychelles Land Transport Agency</b>
Program 2 Road infrastructure projects and maintenance Program 3 Road safety, safety and land transport management
<b>Department of Agriculture</b>
Program 1 PSIP project Solar cold storage Program 2 Agriculture planning and land management Program 3 Crop research Program 4 Animal health and production Program 5 Agriculture extension services Program 6 Biosecurity services
<b>Meteorological Authority</b>
Program 1 Governance management and administration Program 2 Meteorological services
<b>Department of Climate and Environment</b>
Program 1 Governance management and administration Program 2 Climate change and energy management Program 3 Biodiversity Program 4 Environment protection Program 5 Education and awareness
<b>Seychelles Energy Commission</b>
Program 2 Implementation and strategy Program 3 Electricity regulatory services
<b>Landscape and Waste Management Agency</b>
Program 1 Governance management and administration; Program 2 Waste management services; Program 3 Landscape and beautification services

Source: Mission



# Annex I. Suggested Structure of the CBT Guidelines

## Section 1. Introduction

This section will provide some background information, such as the commitments under the NDC, description of the NDS and priorities towards climate, and sectors involved. Additionally, it will present general concepts for CBT, roles and responsibilities with reference to the CBT Working Group, and the integration of CBT with the national planning and budgeting process.

## Section 2. Budget tagging methodology

This section sets out the methodology and steps included in the tagging, and reporting process, as discussed on Section 2 of the report. This section should identify the weights to be implemented.

## Section 3. Validation.

Validation of the tagging exercise – rules and process for quality assurance; role of the Budget Department and the CBT Working Group.

## Section 4. Expected outcomes of CBT

CBT will result in some outputs or documents that will improve the resource allocation as part of the budget preparation process for activities having a climate change impact and showcase Seychelles' climate-related budget, commitments, execution and monitoring of results.

A Climate Budget Statement will support greater transparency, accountability, and public engagement on how the government uses budget policy to ensure that national climate and environmental goals are prioritized and achieved. The first year(s) this statement will be an annex of the PPBB. Over time, it should be submitted to the National Assembly as an independent document with the documents that comprise the annual budget.

Over time, CBT will allow to track climate-related expenditure during the budget execution phase by identifying climate-related expenditure quarterly and annually in the financial and non-financial reports.

Going forward, this information can represent an input for climate and environment expenditure review.

## Annex I. Templates / IFMIS user requirements (when available)

## Annex II. Glossary of standardized activities

This annex can be created following a desk review of existing climate-related projects and activities. It should serve as a guide to MDAs on identification of climate change activities and their categorization as adaptation or mitigation. Some examples can be presented.

For this section, there is useful guidance in the GCCA+ report on Climate Markers for Seychelles (2020). The NDC document and the latest NDS also have valuable information on sectors and activities planned for climate change.

# Annex II. Structure of the Climate Budget Statement

## Executive Summary

### Section 1. Introduction

- Seychelles Climate change context
  - Past achievements and any reporting on NDCs
  - Sector policies and plans for climate change
  - NDC 2021 commitments
  - Updated PIM policy to accommodate climate considerations.
- Key climate priorities for FY 25
  - Linkages to NDS (2024-28)
  - Spending information - highlights
  - Challenges and way forward
- Motivation for a climate budget statement
- Reference to the CBT guidelines and methodology used, include limitations in the approach adopted for FY2025 (for example issues of coverage, reliance on the Annual Budget Estimates for FY24, which do not differentiate between adaptation and mitigation measures)

### Section 2. Report

- Number of programs/sub-programs identified as relevant for climate change included in the pilot.
- Key findings by Portfolio/MDA/Program (see the sample format for the tables to be included)
- More granular information can be provided in the Climate Budget Statement for future years e.g., information on outcome indicators both financial and non-financial; climate relevant projects.

### Section 3. Conclusion

- Highlights
- Overview of implementation of CBT over next year
- In future years, comparison with previous years and analysis of trends

## Sample Table Format for Climate Budget Statement

Department	Program	Sub-program	Strategic Objectives	Measures Description of Initiatives/activities supporting climate change	Resources Allocation		
					2025 (Budget)	2026	2027
Ministry of Transport	1. Governance management and administration	3. Policy Planning and Research	Assist in the sustainable formulation, implementation, monitoring of the policies, strategies, laws and regulations of the transport sector.	Implementation and review of policies relating to ferries, green ports, harbor pilots, vehicle importation. Development of carbon offsetting regulations for aviation. Research and surveys to establish projections of future transport issues.			
	2. Project planning and development control	Not applicable	Plan and develop transport and land infrastructure and to coordinate inter-agency collaboration.	Development of land use plan for land transport planning and future road network.			
	3. Road transport management	Not applicable	Update and prepare regulations on all road transport activities as laid down in the Road Transport Act.	Road improvement to minimize congestion. Vehicle testing for road worthiness.			
Landscape and Waste Management Agency	1. Governance management and administration	Not applicable	Established under the Environment Protection Act Overall management and administrative support service to all programs.	Development of law, plans and policies on landscape and waste management – incentivize use of waste as a resource/ segregation Monitoring the performance of over 500 contractors			
	2. Waste management services	Not applicable	Implement waste management services on Mahe, Praslin and La Digue.	Cleaning of public beaches, road amenities, bin and bin sites Manage waste generation, collection, transportation, treatment, recycling and disposal (landfills) Managing data, records and statistics on waste recycling "Clean up Seychelles" awareness and advocacy campaign.			
	3. Landscape and beautification services	Not applicable	Provide landscaping services in Victoria and other designated areas, including Providence Highway, Ile Perseverance, Ile du Port and on Praslin and La Digue.	Formal landscaping – developing green spaces and gardens Minor capital outlays?			