Annex 1 to Donor Agreement between the Goverment of Belgium and UNEP

This Annex describes how the Contirbution of EUR 3 million from the Government of Belgium to UNEP for activities on Climate Action would be programmed and utilized.

PART 1: UNEP's subprogramme on Climate Action as an implementation modality in support of Agenda 2030 and the Paris Agreement objectives

UNEP's Climate Change Subprogramme and the newly approved Mid-Term Strategy for 2022-2025 provides a multilaterally approved framework to deliver on climate objectives. In the four-year period covered by this new strategy, UNEP will develop responses and deploy solutions that aspire to achieve three interlinked and mutually reinforcing strategic objectives:

(a) "Climate stability", where net zero greenhouse gas emissions and resilience in the face of climate change are achieved;

(b) "Living in harmony with nature", where humanity prospers in harmony with nature;

(c) "Towards a pollution-free planet", where pollution is prevented and controlled and good environmental quality and improved health and well-being are ensured for all.

The overall objectives will be delivered by 3 thematic subprogrammes (climate, nature and pollution) and will be supported by 4 foundational and enabling subprogrammes (science-policy, environmental governance, finance and economic transformations and digital transformations).

To deliver the "climate stability" objective UNEP will, guided by the Paris Agreement, support countries and stakeholders to:

- adopt decarbonization, dematerialization and resilience pathways;
- catalyse public support and political will for climate action;
- increase capacity, finance and access to technologies to deliver on the adaptation and mitigation goals;
- accelerate alignment of private and public finance with the long-term finance goals of the Paris Agreement;
- adopt the enhanced transparency framework arrangements under the Paris Agreement

Proposed utilization of Belgian financial contribution of Euro 1,300,000 (indicative)

The Belgian financial contribution is proposed to be used to:

1. *catalyze finance for climate action, especially towards nature-based solutions;*
2. *advance resilient and climate-smart agriculture;*
3. *promote low carbon and resilient urban development, and*

More specifically, UNEP proposes to:

1) Finance for climate action: catalyse private sector finance for sustainable landscape management, ecosystem-based adaptation and action that delivers both adaptation and mitigation outcomes. Examples of this work includes the expansion of the AGRI3 fund[1] which seeks to unlock USD1 billion in loans from banks that lead to net forest conservation and restoration, sustainable agriculture and improved rural livelihoods – as well as the Restoration Seed Capital Facility which stimulates private equity investment that leads to forest landscape restoration. As a next step, UNEP proposes to look more carefully across the entire project and financial value chain where the biggest barriers rests, including how to unlock institutional investor capital, which is still virtually untapped from a NbS perspective as well as accelerating markets for ecosystem services such as forest carbon. Furthemore, UNEP will strengthen our work on financing for low carbon and resilient commodity supply chains as well as country and stakeholder capacity to access adaptation finance through e.g., the Adaptation Fund Climate Innovation Accelerator and the Global EBA Fund. In addition, UNEP support countries to access the Green Climate Fund (GCF) e.g., to strengthen their Climate Information and Early Warning Systems[2].

2) Resilient and climate smart food systems: UNEP will continue to focus on food systems as one of the key sectors for reducing GHG emissions and building resilience to climate change, as well as delivering on the thematic objectives on biodiversity and pollution. UNEP's work focuses on three areas when it comes to sustainable food systems: Food loss and waste reduction and sustainable diets; sustainable food commodity supply chains and; climate smart and resilient agriculture. UNEP's work supports the development of tools, partnerships, policy guidance and generation of data, forecasts and business models on these three key areas. UNEP's work has a strong focus on catalysing private sector action, including finance and re-investment in agricultural supply chains. Together with partners[3], and as a follow-up to the Food Summit, UNEP aims to incentivize 100 million farmers to adopt practices to sustainably manage and restore land and natural environments while empowering 1 billion consumers with the understanding and access to end-products of these efforts.

3) Low carbon and resilient urban development: the role of urban areas for climate change mitigation and adaptation is increasing as result of a growing share of the global population meeting their daily needs in cities. Together urban areas account for 60-80% of GHG emission

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[1] AGRI3 is a partnership by UNEP, the Dutch Development Bank (FMO), the Sustainable Trade Initiative and Rabobank
[2] https://www.unep.org/news-and-stories/press-release/new-unep-programme-support-climate-resilience-pacific-islands
[3] Global and regional adaptation networks, Cool Coalition

and 75% of resource footprints. With the financial contribution UNEP will support the transition to climate smart urban areas through improved data collection and planning, private sector and community engagement, and business/finance models that supports decarbonising of sectors. UNEP will promote best practises across sectors, optimizing systems and creating cross-sector synergies between buildings, mobility, energy and urban design which can reduce GHG emissions and resource use by up to 55 per cent. UNEP will deliver support through the Global Alliance on Buildings and Construction, the District Energy in Cities Initiative, and Share the Road to expand the reach and catalyze additional resources that provide consolidated climate change support to urban areas.

Performance monitoring

The Belgium funded activities will contribute to UNEP's 2020-2021 Programme of Work, the new Mid-Term Strategy 2022-2025 and Programme of Work 2022-2023. Performance will be measured through the following indicators:

PoW 2020-2021:

- The number of countries supported by UNEP with institutional arrangements in place to coordinate national adaptation plans;
- The number of countries supported by UNEP that have technical capacity to integrate ecosystem-based management into their national adaptation plans;
- The number of countries supported by UNEP that are ready to access or have accessed climate change adaptation finance to implement adaptation plans;
- The number of countries supported by UNEP that make progress in adopting and/or implementing low greenhouse gas emission development plans, strategies and/or policies;
- Climate finance invested by countries or institutions for clean energy, energy efficiency and/or amount of decarbonized assets, with UNEP support;
- Countries securing finance, including performance-based finance, for the implementation of REDD-plus policies and measures;
- The number of countries that demonstrate quantifiable ability to generate social and environmental (non-carbon) benefits from REDD-plus implementation.

PoW 2022-2023:

- Number of national, subnational and private-sector actors that adopt climate change mitigation and/or adaptation and disaster risk reduction strategies and policies with UNEP support;
- Amounts provided and mobilized in $ per year in relation to the continued existing collective mobilization goal of the $100 billion commitment through to 2025 with UNEP support;
- Number of national, subnational and private-sector actors reporting under the enhanced transparency arrangements of the Paris Agreement with UNEP support.

Progress reporting will be provided as part of UNEP's reporting to member states, through Programme Performance Reporting and Quarterly Reports to the Committee of the Permanent

Representatives. Dedicated and detailed reporting on specific deliverables can be provided upon requeste e.g., through verbal presentations and media products.

Programming of funds and implementation modalities

The Belgian support to the climate change subprogramme will be programmed through existing projects under the climate change subprogramme. For catalytic activities funds will be allocated to core projects for adaptation, mitigation, REDD+, enabling coniditions, thematic assessments and for more specific action, UNEP will use a number of stand alone projects. For core projects an effort will be made to utilize funds as part of the bigger programme with catalityc and co-benefit for greater impact. Each project has a dedicated project document with logframe, a Project Manager and internal monitoring and evaluation requirements, while contributing to the higher-level programmatic indicators.

PART 2: Implementaton of Poverty-Environment Action 2021-2022 with a focus on environment-natural resources - climate change related multi-dimensional poverty, particularly its impacts on women.

Eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge facing the world today and an overarching objective of the 2030 Agenda for Sustainable Development. The mainstreaming of poverty-environment-climate objectives into policy, budgeting, programming and investments by the United Nations Development Programme–United Nations Environment Programme (UNDP–UNEP) Poverty-Environment Action for Sustainable Development Goals (PEA), launched in 2018, and its predecessor entity, the UNDP–UNEP Poverty-Environment Initiative (PEI), demonstrates how improved environmental sustainability can address this challenge and contribute to poverty eradication and a just transition to a net zero carbon economy.

This reflects that in countries were poor people are highly dependent on resources such as soil, forestry and fisheries, the unsustainable use of such resources significantly reduces the social and economic benefits they generate. For example, modelling work in Malawi estimated that significantly reducing soil erosion between 2005 and 2015 would have lifted 1.8m people out of poverty. In Rwanda a cost-benefit analysis calaculated that investing in just 30 green villages for very poor people would reduce the rate of extreme poverty of 16.3% by 0.71%. That is, appropriate investments in the sustainable management of environment and natural resources in developing, natural resource dependent countries, would significantly contribute to poverty reduction – and help countries to build back better and greener.

The overall intended outcome for Poverty-Environment Action is "Strengthened integration of poverty-environment objectives into policies, plans, regulations and investments of partner countries to accelerate delivery of the 2030 Agenda and the Sustainable Development Goals."

PEA contributes to UNEP's Medium Term Strategy 2018-2021 Output 1: Advisory services and capacity development to strengthen institutional capacity and policy and legal frameworks for effectively and inclusively addressing the environmental dimensions of Sustainable

Development Goals; and *Output 2*: Advisory services to support countries in applying integrated approaches to the three dimensions of sustainable development in planning and policymaking, including in United Nations common country programming processes and in the context of promoting poverty and environment linkages in countries' policymaking, planning and budgeting.

PEA contributes to UNDP Strategic Plan Outcome 1: Eradicate poverty in all its forms and dimensionsOutcome 2: Accelerate structural transformations for sustainable development;UNDP Strategic Plan Output 1.4.1: Solutions scaled up for sustainable management of natural resources, including sustainable commodities and green and inclusive value chains;UNDP Strategic Plan Output SP 2.4.1: Gender-responsive legal and regulatory frameworks, policies and institutions strengthened, and solutions adopted, to address conservation, sustainable use and equitable benefit sharing of natural resources, in line with international conventions and national legislation (newly introduced in 2020).

Eight full-fledged countries are being supported through the initiative with four in Africa (Rwanda, Mauritania, Malawi, Mozambique) and four in Asia (Bangladesh, Lao PDR, Myanmar, and Nepal). In addition, Tanzania and Indonesia are being supported with Technical Assistance (TA) at country level. Three additional TAs are also being supported at regional level i.e. Green Bonds with South Africa, Blue Economy with Asia Development Bank (ADB) and UN Women on Climate-Smart Agriculture.

PEA's technical support has been well received, at the national and at the regional and global levels. Not only has it built upon original approaches to mainstream the PE nexus in planning, but it has also been innovative in incorporating additional aspects of this nexus; budgeting and other financing mechanisms, private sector involvement, multidimensional poverty assessments and promoting South – South cooperation.

The future of PEA lies also in promoting collaboration and linking up with key partners, within and beyond the UN System, including development assistance agencies. PEI/PEA provides a model for joint UN agency programming and UNDP/UNEP cooperation is often closer more generally in countries where PEI/PEA is implemented. PEA was also integrated into UN Country Team Socio-Economic Recovery Frameworks in Myanmar and Nepal.

A previous review by UK's Department for International Development's project[1] of UNDP UNEP's joint Poverty Environment Initiative notes that the initiative *'..offered value for money. The programme delivered expected objectives at a lower budget than expected. Alternative delivery options would have lacked reach and capability for the same price and would have lacked leveraging opportunities with others donors and the UN system'.*

As a fully joint programme that focuses on the linkages between poverty and environment, the PEA is a model for UN Reform, not least as this reform prioritises joint programming under the guidance of empowered UNRCs. The PEA Project intends to catalyse broader and deeper application of integrated approaches and tools for mainstreaming environmental sustainability and climate objectives for poverty eradication in development planning and budgeting.

PEA is financed by the European Union (EU), Austrian Development Agency (ADA), Norway and Sweden (through UNEP), as well as core and in-kind resources from UNDP and UNEP, and other financial resources mobilized locally i.e., in the countries where it is being implemented.

The Poverty-Environment Action project 2018-2022 currently has a significant financing gap and funds from Belgium of the magnitude indicated would significantly address this gap and also assist the PEA to address other issues identified in the midterm review 2018-2020 – particularly related to sustainability and gender.

The funds from Belgium would be used to support Government and related donors and partners to design policies and strategies to reduce multi-dimensional poverty through improved environment and natural resource (ENR) sustainability and climate resilience. There would be specific focus on key sectors e.g. agriculture and blue economy at the sub-national level. The use of Belgian funds would include a strong focus on contributing to multi-dimensional poverty reduction, including economic empowerment of women. This would be based on PEI and PEA work which has demonstrated that appropriate investments in sustainability and resilience can significantly reduce multi-dimensional poverty and PEA support for applying environment multi-dimensional poverty assessments. For example, analysis of the poverty impacts of unsustainable agriculture and the cost of the gender gap in agriculture in Africa clearly demonstrates that supporting women farmers to adopt climate smart agriculture would improve resilience and food security in addition to significantly reduce poverty in a cost-effective manner.

In addition, Belgian funding would be used to support the design and implementation of outputs to broaden and sustain poverty-environment mainstreaming beyond the PEA project, for example through virtual platforms, training, guidelines and strategies to increase allocations for poverty-environment mainstreaming. These activities would be supported by the Poverty-Environment Action Helpdesk, a facility to which countries within and outside of the geographic scope of the PEA project could apply online for guidance and technical support in four areas of poverty-environment, climate and gender mainstreaming: Knowledge Management, Partnerships, Resource Mobilization and Technical Assistance.

Expected results are:

1. Improved sustainability and resilience that contributes to multi-dimensional poverty reduction, with a priority focus on women in the target countries.

2. Poverty-Environment-Climate mainstreaming applied more broadly beyond the PEA target countries.

Proposed utilization of Belgian financial contribution of Euro 1,700,000 (indicative)

The overall budget for suggested activities/projects to be implemented is **USD 2 020 000,** broken down per activity as follows:

Mozambique

Given that substantive progress has been made at the national level in integrating Poverty Environment objectives, and that key implementation challenges are at the sub-national level, the recommendation is to focus on local development at district level on:

1. Support for decentralized policy implementation, by ensuring integration of national environment and climate change policy into local development plans and budgets to build resilience and reduce poverty.

   Proposed budget: USD 50 000.

2. Support local inclusive development, by promoting transparency on the use of revenues from extractive industry, forestry and tourism to build socio-economic climate resilience at community level. In principle, this would be districts benefiting from revenues in the central and northern parts of the country, due to their high levels of poverty. The Government of Mozambique GoM has a system for collecting and disbursing 2.75% of mineral revenues at the local level, but the system has not been designed or implemented adequately. Not least through PEA/SUNRED II efforts, GoM has reached internal agreement to reform the system to make it efficient and effective however a great deal of work is needed to design and implement a credible system that actually contributes to development at the local level and then to implement it at district and community level.

   Proposed budget: USD 100 000.

3. Support implementation of Local Adaptation plans by promoting good practices of Climate Change Adaptation including to target multi-dimensional poverty reduction.

   Proposed budget: USD 100 000.

4. The above would include carrying out ENR/climate-multidimensional poverty assessments at sub-national level to ensure poverty reduction is adequately targeted in sustainability and resilience objectives. (Note: Rwanda and Tanzania experience of such assessments will be useful here).

   Proposed budget: USD 100.000.

Rwanda

1. Support to monitor implementation of PEA developed Environment and Climate Change (ECC) budget statements to align sector budget allocations with poverty-environment objectives in the National Strategy for Transformation (NST). Potentially including design of a budget coding system to track environment and climate change allocations and expenditure across the public finance management system.

   Proposed budget: USD 50 000.

2. Application of environment-natural resources (ENR)-climate multi-dimensional poverty assessments in selected districts to identify priority sustainability and resilience investment opportunities that contribute to poverty reduction. The results would be used to influence Government and donors to allocate funds to these investment opportunities. Further the results would be used to catalyse such an approach in other districts.

   Proposed budget: USD 100 000.

3. Enhance capacity building at district level to carry out poverty-ENR-climate assessments that enable government, donor and private sector funds to be targeted at improving

sustainability and resilience while also contributing to poverty reduction. (Capacity building material to be based, inter alia, on outputs from 1 above and lessons learnt from earlier not-so-successful attempts at district level ENR-climate multi-dimensional poverty assessments).

Proposed budget: USD 40 000.

Support to engagement of private sector in greening their investments for poverty reduction.

Proposed budget: USD 20 000.

Tanzania

1. Support to enable women's access to and control over productive ENR assets within the policy, planning, investment and budgeting process (including climate-smart agriculture (CSA) policies) as means to enhance women economic opportunities for poverty reduction.

   Proposed budget: USD 100 000.

2. Support community level pilot innovative interventions for women-led Climate-Smart Agriculture technologies and practices integrating sustainable climate resilience and sustainable natural resources management and rural development.

   Proposed budget: USD 150 000.

Regional/Africa

1. Prepare guidelines on best practice for designing and implementing budget coding for tracking environment and climate change allocations and expenditure across national public finance management systems as a tool to support increased allocations for sustainability and resilience in a manner than reduces multi-dimensional poverty. The guidelines would be used to influence other countries to apply environment and climate change budget coding.

   Proposed budget: USD 60 000.

2. PEA staff post in the Africa Regional Office at P3 level 2021-2022 to provide technical support to countries, and enhance global uptake of poverty environment action approaches and tools, taking into account the mid term review recommendation to this effect.

   Proposed budget: USD 150 000.

Regional/Asia

1. Indonesia Technical Assistance. Deepening of climate budget tagging at the lower tiers of governments and analytics for integrated development planning that takes into consideration the risks to vulnerable population. Support shall also be provided at the sub national level (Indonesia) in aligning budgeting to environment and poverty considerations.

   Proposed budget USD 150 000.

2. Blue Economy regional or/ and a global workshop to strengthen the institutional and government capacity. The workshop would focus on the experiences and knowledge sharing on blue economy, looking at the dynamics of blue economy, the type and nature of government interventions to support blue economy and mobilisation of resources. It would draw on expertise from the development partners and from countries which have already made progress on blue economy.

   Proposed budget: USD 200 000.

3. PEA staff post in the Asia-Pacific Regional Office at P3 level 2022 to provide technical support to countries, and enhance global uptake of poverty environment action approaches and tools, taking into account the mid term review recommendation to this effect.

   Proposed budget USD 150 000.

Global

In collaboration with UNITAR, develop innovative approaches to deliver poverty-environment-climate mainstreaming capacity development in a post-COVID environment and beyond 2022 and to this end develop and launch training modules on a capacity building platform, which are user friendly and easily accessible by countries also after the project comes to an end in 2022.

Poverty-Environment Action is developing a virtual capacity-building that will facilitate enhacement of capacity building of government policymakers and partners to mainstream poverty-environment and climate change objectives into development agendas, plans and programmes, as well as into financing and investments. The platform is being developed in the context of COVID-19 pandemic which has presented an urgent need to assist countries in finding ways of combining sustainable financing to implement the SDGs with COVID-19 recovery efforts. The virtual capacity-building platform will provide strategic guidance on best practice on design, piloting, implementation and monitoring of poverty-environment-climate mainstreaming approaches and tools for strengthening SDG implementation.

The platform will also be crucial for generation and sharing of poverty-environment-climate mainstreaming knowledge including emerging topics. This includes partnering with UNITAR to develop training modules on poverty-environment and climate mainstreaming and make them accessible virtually. This will be followed by detailed targeted training to both PEA and non-PEA countries as well as partners on mainstreaming poverty-environment and climate objectives into governments and partners processes and plans.

The virtualy platform will host communities of practice in each area of technical assistance offered on poverty-environment, climate and gender mainstreaming, fostering South-South cooperation and exchange of experience and lessons learned, and complimenting the Poverty-Environment Action Helpdesk.

Through inter-agency collaboration modalities, UNDP, UNEP and UN Office for Disaster Risk Reduction (UNDRR) aim at identifying enabling factors for promoting similar objectives, methodologies, and institutionalization process for DRR and Climate Change budget tagging and tracking systems, as part of **performance-based budgeting (PBB) reforms** – transition government finance to the International Financial Management System (IFMIS) promoted worldwide as a framework for linking medium-term national strategies with annual budget processes. Climate and disaster risk reduction budget tagging and tracking systems provide the evidence base for fiscal frameworks that link policies with planning and budgeting as the financial backbone for national efforts to address climate change and reduce disaster risks and losses. UNDRR, UNEP and UNDP, in colloboraton with PEA and UNITAR, would establish a cross-regional task force to facilitate an exchange on experiences and lessons learned to foster enhanced methodologies and coherent technical support approaches to governments interested in institutionalization of climate and disaster budget tagging and tracking systems.

The main objectives of the Task Force are:

- Assess gaps, challenges and strengths of the different approaches and methodologies being applied so far in DRR and Climate Change Action;
- Identify the opportunities and levers for more coherent approaches to budget tagging and tracking systems and the application of evidence to influence policy changes and investments;
- Identify technical support needs to provide support to countries to build on budget reviews findings and recommendations to develop budget marking systems for climate and disaster expenditures and financing frameworks and/or focused sectoral analysis.

The community of practice on DRR and Climate Budget Tagging and Tracking would promulgate best practice and lessons learned through detailed targeted online training to PEA and non-PEA countries, with support from the Poverty-Environment Action Helpdesk serving as a coordinating office for the community of practice and training programme.

Proposed budget USD 500 000.