WORKING PAPER

Climate Public Expenditure and Institutional Review (CPEIR)

A methodological note

Overseas Development Institute

CAPACITY DEVELOPMENT FOR DEVELOPMENT EFFECTIVENESS FACILITY FOR ASIA AND PACIFIC
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Climate Public Expenditure and Institutional Review: A methodology to review climate policy, institutions and expenditure[1]

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DRAFT for comment

Contents

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[2] *CFF Guidance note* (November 2011)

[3] This classification includes fuel and energy, transport, manufacturing and agriculture.

Introduction

New and additional international finance is becoming available to assist country efforts in their response to climate change. How this finance is integrated into national policy, planning and budgetary systems is an important question that warrants attention. The challenge is to secure a comprehensive, cross-government approach that delivers a coherent national response to climate change involving both the public and private sectors. Such an approach has been termed a Climate Fiscal Framework (CDDE, 2011).

A first step in building a Climate Fiscal Framework is to develop a methodology that reviews how climate change-related expenditures are integrated into national budgetary processes – which can be called a *Climate Public Expenditure and Institutional Review*. This analysis has to be set within the context of the national policy and institutional arrangements that exist to manage the response to climate change in each country. Hence, any analysis needs to take account of the three key spheres of policy development, institutional structures and financial management.

Three core aspects of the national administration in relation to climate change actions need to be explored:

i. An assessment of current policy priorities and strategies as these relate to climate change;
ii. A review of institutional arrangements for promoting the integration of climate change policy priorities into budgeting and expenditure management;
iii. A review of the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

These three elements – national policy, institutions and the budget – provide an essential governance framework for effective climate change actions. Any proposed methodology should therefore address each one in turn. However, it is the budget element, including capacity and processes, which is often perceived to be the weakest link and therefore should be the main focus of the exercise. This comprehensive, cross-government approach can take the form of a Climate Fiscal Framework, which will link climate change priorities with expenditure and taxation decisions through the budget process. This will ensure that any external finances are used most effectively alongside domestic resources, and provide a framework to incentivize private investments[2].

A CPEIR also has an important process function, acting as a starting point for longer term government-led stakeholder dialogue and learning involving the public and private sectors, academia, civil society and international development partners.

Similar types of analyses are already well established, including other forms of public expenditure and institutional reviews (PEIR). So, a first issue to be addressed is to examine the appropriateness of the PEIR methodology as an approach for developing a Climate Fiscal Framework. The PEIR relies on an analysis of historic expenditure and the results of that expenditure. In the case of climate change actions, such spending is very difficult to ascertain as no generally recognized classification exists, within the Classification of the Functions of Government (COFOG) or elsewhere. PEIRs also confine the analysis to public spending, while private flows are globally recognized as a potentially important source of finance for climate change activities. So the CPEIR needs to have three main methodological innovations:

- firstly, that present and planned funding patterns are the main focus of study (rather than past expenditure);

[2] *CFF Guidance note* (November 2011)

- secondly, that all sources of finance are included in the analysis (international and domestic, public and private);
- and thirdly, that any assessment carried out at present cannot expect to be exhaustive, but is exploratory in manner.

Public expenditure reviews

Public expenditure reviews (PERs) involve the analysis of the allocation, management and results of public expenditures and may cover all government expenditure or focus on a few priority sectors. In the case of climate change actions, there is a conceptual hurdle to overcome as such actions are not limited to one or a few sectors, but represent new and additional incremental costs that are incurred across the whole of the economy. However, it may be possible to identify initial 'climate sensitive' sectors and economic classifications that can act as the focus of preliminary enquiry. These expenditures, outlined in the *Government Finance Statistics Manual 2001* (GFSM 2001), may include elements of environmental protection and economic affairs[3] functions and economic classifications such as expenditures on maintenance, grants, subsidies or goods and services.

A common representation of a PER is that it should present what was planned to be spent (the budget); what was actually spent (in terms of expenditures); what was achieved (outputs) and whether these achievements met policy objectives (outcomes), together with an assessment of the institutional mechanisms controlling expenditure and managing performance. However, it is simply too early to make a meaningful commentary on outcomes and the impact of climate change expenditure. What can be done is to highlight the management and information system that needs to be put in place in order for future reviews to be undertaken with confidence. The objective is to show the level of integration of climate change-related expenditures in the national budget, and provide future trend analysis for budget allocation and execution. Trends and issues to be analysed will follow the major standard PER themes of public expenditure trends, public expenditure composition, efficiency of public spending, poverty targeting of expenditure and public expenditure management.

Pradhan, in his 1996 review of PERs, observed there was no systematic framework for public expenditure analysis, and that little guidance was available in the academic literature. He identified six elements as being essential in any PER. Table 1 lists these elements and adds a commentary on their relevance where the focus is on climate change expenditure.

Table 1: Pradhan's elements of a PER and their relevance to climate change expenditure

Pradhan's elements for a PER	Relevance for climate change expenditure
• Discussion of the aggregate level of public spending and deficit of the consolidated public sector and its consistency with the country's macroeconomic framework; this requires that all sources of finance are recognized, both central and local government, extrabudgetary funds and public enterprises;	• The recognition of different sources of finance is an important issue for climate change actions, with much present activity supported by international funding and future activity likely to depend, to a varying degree, on private funding;
• Analysis of the allocation of aggregate spending across and within sectors, and the	• A consideration of allocation to identified preliminary 'climate sensitive' sectors may be

[3] This classification includes fuel and energy, transport, manufacturing and agriculture.

Pradhan's elements for a PER	Relevance for climate change expenditure
extent to which this allocation is consistent with the maximization of social welfare;	appropriate.
• Examination of the role of the public versus the private sector in the financing and provision of social programmes (in particular, whether public expenditures complement or substitute for private sector activities);	• Highly relevant for climate change expenditure: a principle of public expenditure is that it should only support those actions that the private sector is unwilling or unable to meet;
• Analysis of the impact of key public programmes on the poor, including their incidence and total costs;	• Equity concerns feature prominently in PERs, but further metrics are beginning to be developed in the study of climate change actions (e.g. the potential for carbon emissions and responses arising from climate change vulnerability);
• Examination of the input mix or the allocations for capital and recurrent expenditures within programmes and sectors (and the extent to which such allocations promote internal efficiency);	• Highly relevant for climate change, where both new capital expenditure as well as increased recurrent costs are necessary;
• Discussion of the budgetary institutions and processes and the extent to which such institutions and processes promote fiscal discipline, allocative efficiency and equity in the composition of spending, and technical efficiency in the use of budgeted resources.	• This institutional analysis is important as climate change represents a new theme of public policy and the institutional setting is not yet well established.

More recently, the World Bank's website on PERs[4] identified the following as being important elements of an analytical framework appropriate for any PER-type analysis:

- The country is generating adequate revenue in a reasonably non-distortionary, equitable and sustainable manner, and fiscal deficits, if any, are sustainable and consistent with economic growth, inflation and other macro objectives;
- An analysis of the appropriate public-private mix of goods and service provision in the economy after the rationale for public intervention – market failure (efficiency) and redistribution (equity) – has been identified;
- Evaluation of public expenditure priorities – across and within functions – given the resource constraint and distributional objectives;
- Examination of the link between expenditure inputs and outcomes (such an analysis does not necessarily have to be based on complex statistical techniques; good anecdotal evidence could work well where data are poor and/or insufficient);
- Focus on the public sector institutional arrangements (including the political incentives) with suggestions to reform incentives and institutions that are needed to improve the efficiency of public spending.

It can be seen that these bullet points do not differ significantly from Pradhan's earlier PER elements; together they provide a good checklist for the budgetary and performance management issues that need to be addressed under a proposed CPEIR.

[4] Public expenditure reviews (PERs): http://go.worldbank.org/2NYPVF0QT0

World Bank PEIRs

Four country PEIRs were reviewed as part of the present methodological development exercise. They did not follow a common format, but appeared to focus on country-specific priorities (World Bank, 2001; 2002a; 2002b; 2005). However, common themes included: (i) a review of the macroeconomic context; (ii) budget planning and execution; (iii) the institutional framework; (iii) and the issue of fiscal decentralization (Table 2). The last element is recognized as being important for climate finance, where securing the right structures at the local level will determine how effectively climate finance reaches the most vulnerable communities.

Table 2: Main themes of four PEIRs

Country/ Themes	Albania 2001	Ukraine 2002	Bosnia 2002	Tajikistan 2005
	Macroeconomic challenges	The Budget process	Macroeconomic and fiscal framework	Macroeconomic setting
	Allocation and efficiency of public expenditure	Budget preparation	Diagnostic of public sector expenditure	Public expenditure trends
	Expenditure planning	Budget execution	Social service spending, outcomes and reform	Budget management and execution
	Institutional capacity	Legal framework	Institutional dimensions	Policy formulation and human resources
		Fiscal sustainability issues	Fiscal decentralization	Fiscal decentralization

Public Environmental Expenditure Reviews (PEERs)

In recent years there has been interest in applying PER-style analysis to gain a better understanding of environmental governance in developing countries. This body of work exhibits some parallels with the present exercise, as environmental concerns are cross-cutting in nature rather than being limited to any one sector. Box 1 highlights some of the major issues that have arisen from this body of work; many of these issues are likely to arise where climate change expenditure is the focus of study.

In their PEER in Rwanda, GLOCOMS (2009) used four factors to define the boundary of environmental expenditure: (i) the national legal definition of the environment; (ii) the classification of government functions; (iii) institutional mandates and (iv) practices of other countries. This represents one approach that could be replicated for climate change-related expenditure. GLOCOMS also noted that 'until all development expenditure forms part of budget reporting, it will be difficult to capture the true magnitude of environmental expenditure.' This constraint also applies to national climate finance, where traditional, projectized official development assistance (ODA) has been a significant source of early financing in many countries. This finance is often not readily visible in the national budgetary or accounting systems.

A recently completed PEER study in Bhutan (Rinzin and Linddal, 2011) was able to explore national environmental spending by reconstructing the budget at activity level and compiling a new database. Out of a total of 4,600 expenditure lines the 400 largest budget lines accounted for approximately 80% of environmental public expenditure. The analysis highlighted that capital expenditure predominated (also at 80%) and about one-third of the expenditure occurred at the local government level, reflecting the emerging fiscal decentralization in Bhutan. Both of these issues – the balance between capital and recurrent spending, and between central government and local expenditure – are issues to be addressed when examining climate change-related expenditure.

Box 1. Important themes arising from PEER-type analysis

1. General weaknesses in public finance management that affect environmental governance and limit the implementation of policy priorities:
    - Limitations in the budget classification system;
    - Variability in budgetary allocation (received vs. proposed);
    - Variability in execution rates (spend vs. agreed allocation);
    - Many detailed constraints (probably apply across government).
2. Poor accountability of public environment actions:
    - Very limited statistical information available below ministry level;
    - Fragmentation of the budget;
    - Use of retained funds (internally-generated funds).
3. Poor institutional capacity of environmental agencies:
    - Major constraint appears to be limited recurrent funding.
4. Weakly defined institutional roles and remits:
    - Environmental public bodies fulfilling multiple (and potentially conflicting) roles;
    - The absence of high-level coordination mechanisms ;
    - The financial model of subvented agencies.
5. Limited national demand concerning environmental issues
6. Influence of development partners:
    - Off-budget project funding prevalent (more so than in the social service sectors);
    - Potential opportunities for environmental mainstreaming arising from general budget support dialogue;
    - The harmonization agenda – positive experience with sector working groups.

Definition of climate expenditure

As with environmental expenditure, there is no internationally recognized definition of climate expenditure and therefore no clear boundaries of such spending. This represents a major challenge for any study of climate finance. The phenomenon of ’adaptation deficit’ applies in all countries. This term, perhaps better described as the development deficit, refers to the extent to which societies are adequately adapted to the current climate (Burton, 2004). Normally the deficit is excluded from the baseline and future cost estimates (Smith at el., 2011). Conventional development approaches need to be excluded, but this is difficult to do in academic costing studies and even more difficult in country policy contexts. This was the approach adopted in the World Bank economics of adaptation studies (Narain et al., 2011, World Bank, 2010).

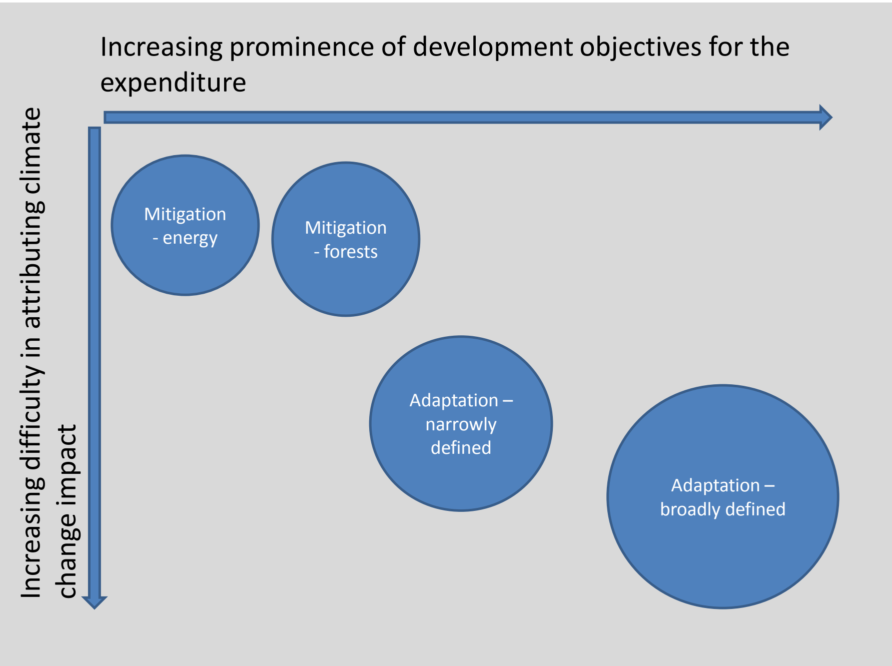
Adaptation costs are defined as those due to climate change but additional to development. Reflecting these issues, the concept of climate finance remains contested within the UNFCCC negotiations. Furthermore there are issues due to the political sensitivity associated with the international transfer of public funds and its relationship with aid flows classified as official development assistance, which may well be addressing the development deficit and needs to cover climate variability. The Organisation for Economic Co-operation and Development (OECD) set out some initial definitions (OECD, 2011) separating out mitigation and adaptation with examples of each. As a first approximation within the CPEIR study, it is proposed to disaggregate climate expenditure initially into four main activity areas, each of which represents a recognized major new area of spending that has developed in response to climate change (Table 3). This will be expanded to include other areas with close linkages to climate change financed areas, such as disaster risk reduction.

Table 3: Classification of climate finance by theme and sector activity

Climate finance theme	Sector activity
Low carbon development/mitigation	Energy
	Natural resources, environment, rural development
Adaptation – narrowly defined[5]	Transport, infrastructure, agriculture, water
Adaptation – broadly defined	All sectors

Figure 1 portrays these components in terms of the prominence given to developmental objectives when planning the expenditure (what are often called the 'co-benefits' of such spending) and the difficulty in attributing the climate change impact of such expenditure.

Figure 1: Comparison of different areas of climate expenditure



What this Figure suggests is that some elements of climate expenditure are easier to identify than others. One response to such a situation is simply to accept there will be varying levels of confidence that can be placed on different estimates of expenditure, and therefore keeping these elements separate and trackable over time becomes an important consideration.

[5] The approach adopted by the Kyoto Protocol Adaptation Fund (AF) will be used to guide this definition. Projects funded through the AF can be used to identify adaptation activities.

Box 2. National definition of climate finance

Bangladesh began its CPEIR in August 2011 with an inception workshop involving key ministries of finance, planning, environment, disaster, agriculture and water resources. An international and national consultancy team was recruited to support the process. The next steps of agreement on what is climate change expenditure in Bangladesh is being determined by government officials with the national and international technical experts, along with civil society, donors and other key stakeholders. Once there is agreement about what is climate changes expenditure and whether, or to what extent, this includes all weather sensitive investment, the review will need to assess how they can be integrated into the multi-year national budgeting (Medium Term Budget Framework) process, including the Annual Development Plan (ADP) as part of budget planning, implementation, expenditure management and financing.

In general, investments will be needed in three categories: add-on solutions, whereby ongoing projects need additional elements or activities; retrofitting current investments and activities with additional elements; and establishing completely new projects (Assaduzamman, 2011). It is likely for the low-carbon agenda, the latter is most likely in particular, and for example where transformative solutions are need for climate change adaptation.

While it is taking some time to compile the relevant data, the CPEIR process has helped to promote a more active dialogue between key ministries to develop a while of government approach to climate finance.

Source: Bangladesh CPEIR Inception Report, 2011.

Issues associated with public policy

There has been a rapid development of climate change policy in many countries. This national development has been strongly driven by the international leadership of the UNFCCC, which has helped to frame much of the policy discourse. This policy environment tends to be a rapidly moving one, as new themes promoted at the international level are taken up. Some countries have prepared national climate change policy statements and where these exist they represent an important starting point for analysis. Early priorities may be identified (with varying degrees of definition), which can give some indication of likely areas of new public investment. However, it may be the case that policy positions on climate change have yet to coalesce within one national statement of policy, so an examination of policy development within different sectors as well as different levels of government (e.g. national/local/municipal) will often be necessary. This should allow an assessment to be made on the coherence of the policy environment. In some countries, policy positions may have been enacted into legislation and where this has happened an examination of the legal framework will be an important element of the policy analysis.

In addition to reviewing the content of climate change policy, any analysis should also examine the processes whereby the policy is being formulated. In particular, the role of different stakeholders in formulating policy should be reviewed, as this will often provide an insight into the likely take-up of policy positions and subsequent funding allocations. In many countries, international development partners invest resources in engaging with the policy community and may play a significant influencing role, particularly in areas of policy development such as climate change, which is new and poorly defined.

Climate change actions are also often characterized by a myriad of national planning and strategy processes. Hence the integration of policy, strategy and planning represents a considerable challenge to keep coherence over the intended resource allocation. The CPEIR therefore needs to examine how responses to climate change are being taken forward within a range of different planning exercises, be it the development of disaster risk reduction strategies or clean energy supply. How climate change is mainstreamed into national development strategies, where these exist, is a key area of enquiry. A set of exploratory questions that help to explore these issues – and other policy concerns – is listed in the Annex.

Issues associated with climate change institutions

Spending on climate change actions passes through a range of public and private sector institutions and therefore an analysis of these institutions is a central theme of the CPEIR. In the first instance, it is important to identify the institutional arrangements within government for addressing climate change actions. In some countries this may involve new institutions whose primary function is the management of a national climate change response; elsewhere it will involve this role being added to an existing government ministry or department. The institutional analysis should explore whether these institutional structures are responding to the policy and strategy objectives set by government. An important element of this analysis is whether there are resources identified within the national budget to allow these institutions to build the necessary capacity. Some measure of existing institutional effectiveness should lead to an assessment of the need for further capacity development. With regard to government institutions this may necessarily link to broader reforms within the public sector.

Local government institutions are particularly important in harnessing a climate change response and experience from several countries indicates this is where capacity constraints may be most acute at the present time. Determining the mandates that have been delegated to the sub-national level will be one element of the institutional analysis that needs to be completed. In additional to the public sector, an institutional analysis is required of civil society organizations and the private sector. Both the profit and non-profit sectors already play a significant role in climate change activities in many countries and this calls for an understanding to be developed of their institutional structures, capacity and operating incentives.

Text Box 3. Institutional collaboration necessary for an effective response to climate change

At the national level, climate change remains an emerging policy theme, with variable interest as yet demonstrated at the sector level. The 2011 national climate change policy statement appears a significant landmark, although much remains to be seen whether this will catalyze a major mainstreaming of this policy theme across all sectors of the economy. At present, climate change continues to be strongest when seen as an environmental – rather than an economic or social – concern. The challenge will be for climate change to move beyond its origin as an environmental matter and for it to become a major context for all development planning. Additional resources will be hard to mobilize and sustain if this transition is not made.

This discussion emerging from the findings of the CPEIR exercise was instrumental in bringing together key ministries of finance, planning, environment and local government who have formed a working group to develop a climate budget code and follow up on report's other recommendations. This will ensure that, like gender budgeting and pro-poor budgeting, climate change is fully embedded in the government's own budget system with greater use of country systems for implementation and monitoring.

Source: Nepal CPEIR Draft Report, 2011.

Issues associated with the national budget compilation, execution and scrutiny

Finally, with respect to budgetary issues a number of important issues need to be addressed by the CPEIR analysis. The first challenge relates to identifying climate change expenditure within the national budget, so that the most important aspects of public spending can be tracked. This requires that information about planned and actual spending on climate change-related activities (at a sufficiently disaggregated level) can be identified. This will require the CPEIR team to work closely with colleagues in ministries of finance to identify and validate this expenditure. In some countries there may also be a revenue side to national climate finance, through the taxation system and the provision of subsidy payments for selected activities. An important task for the financial analysis is to examine whether such spending is consistent with stated policy goals for climate change actions.

In addition to a review of the national budget, the financial analysis needs to extend to the local government level to explore to what extent discretionary powers for spending and revenue collection have been devolved to local authorities. In the same way, the analysis should explore what competencies for revenue collection and resource allocation have been delegated to non-state actors (e.g. private tax collectors, traditional leaders, etc.). An important source of climate finance in many countries is that derived from international sources. How this external finance is taken up within country and, where public money is concerned, if and how it appears on budget, is another important issue to be addressed. As climate finance increases in scale over the coming years the strength of internal financial controls will become a critical component of the overall system and hence the working of financial audits and the public finance management system more generally needs to be reviewed.

Box 4. Quantifying the national response to climate change

The CPEIR report has revealed some important initial indications of climate expenditure. It is estimated that 2–8% (depending on the definitions) of government expenditure is climate related. The report estimates that up to 40% of climate spending is currently at local level as against the government's target that 80% should reach down to local level. Thirdly the report also revealed that the funding of government climate change expenditure has a larger proportion of donor funding (55%) than the donor element of overall government expenditure (25% is funded by donors). A significant sum of technical assistance of about $ 13 m in respect of climate related expenditure is not budgeted or accounted for through government systems. This results in fragmentation of budget implementation and hinders full coordination of expenditure management. These results have been hotly debated by government and donors – and will be further assessed by more detailed follow-up calculations.

Source: Nepal CPEIR Draft Report, 2011

Conclusions

The analysis of climate finance within many countries is at the earliest stages of development. It is hoped that the methodology described in this paper will contribute towards improving an understanding of the critical issues, as well as highlighting present practices through a number of pilot country studies. Country studies are now underway in Nepal and Bangladesh and further national studies will hopefully be undertaken in the coming months.

The CPEIR is an extremely useful tool in contributing to an overall Climate Fiscal Framework that provides a basis for a cross sectoral approach that is essential for the management of climate change finance. In addition, the CPEIR will be a key building block to develop a Climate Fiscal Framework that assesses the demand and supply for climate funds and the sources of funds available from domestic and external sources.

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Annex - A Climate Public Expenditure and Institutional Review (CPEIR)

The following is an indicative outline for a national CPEIR study, and highlights the objectives of the analysis, the issues that need to be addressed, and the data collection and methods of analysis.

1. Introduction

- Background to study explained
- Objectives of the study described
- Thematic focus of the study outlined. The study will examine three core aspects of the national response to climate change:
  - An assessment of current policy priorities and strategies as these relate to climate change and the extent to which these strategies and policies are coherent with national development, poverty reduction and economic growth strategies.
  - A review of the institutional arrangements for promoting an integration of climate change policy priorities into budgeting and expenditure management including within and across key ministries and stakeholders – with particular focus on priority sectors.
  - A review of the integration of climate change objectives within the budgeting process including as part of budget planning, implementation, expenditure management and financing.
- In carrying out this preliminary analysis, the study aims to develop a credible framework for future analysis of spending on climate change related actions.

2. Climate change policy analysis

2.1 Objectives of the analysis

- To achieve a better understanding of the rationale and approach in identifying and formulating climate change policy and its linkages to expenditure.
- To secure a better understanding, and a comparison, of central and local government climate change priorities.

2.2 Questions/issues to address

- What are the policy priorities for climate change and is there a strategic plan? Is there a coherent, over-arching vision? If there is a plan, is it costed and affordable?
- Does the policy/strategy identify and prioritize the key climate change challenges facing the country?
- Does the government’s climate change policy reflect the national vision of development?
- Does the policy reflect the diversity of value systems of relevant stakeholders?
- Has policy/strategy been developed with the participation of relevant stakeholders in government, the executive, legislature, the private sector, and civil society organizations (CSOs)?
- Is the policy/strategy based on a good understanding of the successes and failures of previous policy/strategy and does it benefit from the lessons learned in the country and in other countries?

- Is a long-term vision complemented by medium- and shorter-term goals and targets and are these reflected in key sector plans, Medium Term Expenditure Frameworks, programmes and Annual Development Plans?
- Is there an effective performance management and policy evaluation framework in place in key spending agencies and Ministries?
- Is the policy/strategy costed and resourced and is any financial shortfall addressed in the strategy?
- Is the policy/strategy consistent with policies and strategies in other sectors?
- Has the policy/strategy been mainstreamed in macro policy and development planning e.g. in national development plans or poverty reduction strategies?
- Is there a clear mandate for local government in national climate change policy? Is local government aware of this? Has local government taken action on this?
- Does the composition of public expenditure reflect the broad policy thrust articulated in relevant sector policy documents? A number of related issues:
  - What is the rationale for public intervention (market failure/social objectives)?
  - If public intervention is justified, what is the best instrument for intervention (direct funding, taxes, subsidies, contracting out etc)?
  - Could any programmes or projects be better performed by the private sector/NGOs (immediately, or in a few years)?
  - How are interventions to support climate change actions co-ordinated and are co-ordination mechanisms effective?
  - How are regional issues addressed?
  - Are there any subsidies?
- Local climate change policy analysis:
  - Is climate change identified as an issue in local development plans and strategies? If so, are there clearly defined targets?
  - Has local government made commitment or initiated actions to address climate change? If so, are there clearly defined targets?
  - Is the local climate change policy aligned with the national climate change policy?
  - Is climate change integrated into local budgetary processes?
  - If there are no climate change policies at the local level, how could they be mainstreamed into local development planning?

2.3 Data collection and analysis

- Desk review of National Development Plans, sector plans and other policy documents.
- Meetings and interviews with stakeholders.

3. Climate change institutional analysis

3.1 Objectives of the analysis

- To achieve a better understanding of the role, responsibilities and functions of different institutions and agencies responsible for climate change.
- To secure a better understanding of the governance structure at both national and local level e.g. the levels of autonomy to determine own policy that reflects local needs, influence of certain ministries on climate change, etc.
- To outline the institutional linkages between policy and practice.
- To map the role of local government in service delivery and implementation of climate change programmes.

3.2 Questions/issues to address

- Description of key institutions and commentary on the overall clarity of roles and responsibilities:
  - Is there evidence of institutional support and leadership for climate change actions at the highest levels of government, e.g. within the ministry of finance, office of the President?
  - What evidence exists of discussion and debate of climate expenditure at parliamentary and cabinet levels in the past three years?
  - What are the government institutional arrangements for addressing climate change issues? How are decisions made, mandates agreed and responsibilities determined?
  - At what level of authority are these institutional arrangements for climate change?
  - Where is the climate change focal point (which ministry, department)?
  - Who holds the climate change budgets and is there evidence of cross-entity and sector coordination of activity?
  - Is the performance of the public sector institutions (as part of the civil service) reviewed or reported on by a central body such as the ministry of public services or the Auditor General?
  - Are the mandates of key ministries and institutions at the national and sub-national levels that have the remit for climate change clear, or is a programmatic approach enabled by other means (e.g. programmatic classification of expenditure or separation of administrative and functional responsibility?)
  - Are the institutional structures compatible with their policy and strategy objectives and legal mandates?
  - Is there effective human resources management and human resources development in relation to climate change in the government?
  - Is there evidence of climate-related capacity building activity and development of expertise in the country?
  - Is there sufficient technological know-how and resources to meet policy/strategy objectives?
  - How effective is the generation, storage, retrieval and reporting of climate change information?
  - What performance and financial monitoring information is available to key personnel with climate change responsibilities?
  - What is the relationship and interaction between Government and non-Government sectors in respect of climate change?
  - What institutional structures exist for climate change related action by civil society?
- Description of local bodies and their roles and responsibilities (now and in the future):
  - Has there been a decentralization process?
  - What are the mandate and powers vested in local government to address climate change?
  - How many tiers of local government are there and what are their functions, responsibilities and powers related to climate change? Are there conflicts of interests between the tiers?
  - Are the current institutional arrangements compatible with their policy and strategic objectives?
  - Does local government have financial autonomy? Who is the budget holder and who has the authority to approve budget on climate change?
  - How does local government work with CSOs and the private sector?
  - What are the roles of CSOs and the private sector in relation to local service delivery and local development objectives?

3.3 Data collection and analysis

- Desk review of relevant papers.
- Meetings and interviews with stakeholders.
- System sketches of key processes and structures (e.g. organigrams).

4. Defining climate change expenditure

4.1 Objectives of the analysis

- To improve understanding of what activities should be labelled as climate change related.
- To identify the main climate-sensitive sectors of the economy.
- To identify the main relevant components of climate change expenditure.

4.2 Questions/issues to address

- Climate change expenditure will cut across different sectors of the economy.
- Proposed approach will involve distinguishing between four main sets of actions funded by climate finance: mitigation-energy, mitigation-forests, adaptation-concrete and adaptation-general spending.
- Some prioritization of sector focus will be proposed.
- Identify how to make the necessary linkages to the national public expenditure management system.
- Identify significant non-government actors and with significant climate related expenditure needs.
- Examine the role of external funding in defining national climate change expenditure.
- Determine national and local government understanding of climate change and climate finance.

4.3 Data collection and method of analysis

- Desk review of National Development Plans, Sectoral Plans, Medium Term Expenditure Frameworks and other relevant regulatory documents.
- Methodological workshop.
- Meetings and interviews with stakeholders (six ministries and three departments).

5. Climate change spending analysis

5.1 Objectives of the analysis

- To identify the scale and trends of planned expenditure on climate change-related actions.
- To better understand expenditure patterns of climate sensitive spending agencies in the public and private sectors.

5.2 Questions/issues to address

5.2.1 Overall expenditure trends at the national and local levels

- Identify the expenditure of climate sensitive activities.
- Calculate trends in real terms, i.e. after allowing for inflation. Use International Monetary Fund Gross Domestic Product (IMF GDP) deflator.
- Expenditures (recurrent and capital): by ministry/department and major development programmes.
- Climate change planned and actual expenditure as a percentage of overall government expenditure over time.

- Calculate trends in budget allocations and actual expenditure. Review and explain major variances in performance (budgeted vs. actual).
- Is there an adequate definition of climate change or can this be inferred from the classification to allow the most important aspects of public spending to be tracked?
- What is the overall level of spending on climate change and how is it divided between recurrent and capital expenditure budgets?
- Does the present mix of sources of expenditure hold any implications for the efficiency of spending or its sustainability?

5.2.2 Planned and actual expenditure analysis

Economic classification

- Discussion of breakdown of spending by:

  Recurrent
  (i) Salaries
  (ii) Non-salary
  Development
  (iii) Climate change investment spending, special projects etc.
  (iv) Other significant expenditure codes to be identified and analysed.

- Identify key comparators: total number of staff by department/function and grade; changes in staff numbers over the last three years; average salary; changes in average salary over the last three years. Is there an appropriate balance between wage and non-wage recurrent costs (i.e. extension staff, but no resources for them to travel)?
- Absence of clarity in staff costs expenditure is anticipated to be a challenge. A breakdown of government (and relevant state-owned enterprises) staff costs on the basis of the above statistics will help to identify information necessary to assess planned and budgeted expenditure in the thematic areas of activity and perhaps to make comparisons with the private sector.
- Note that the latter two components (non-wage recurrent and development spending) represent the discretionary budget in the sense that allocation decisions are at the discretion of the sector ministry. By comparison, spending on salaries is determined by overall pay rates and staffing structures as approved by central government.

Functional classification

- Is the categorization/classification system such as to allow one to make judgements by functional/programme area?
- Does the budget as classified by function match the policy expressed in the Annual Development Programme?
- **Effectiveness**: Review Medium Term Expenditure Frameworks to determine if planned spending by function matches policy priorities. What are the outputs/outcomes intended to be achieved? Is spending consistent with public/private roles in the sector – public goods, externalities etc? Review project memorandum documentation for key projects at NPC or ministry of finance. Review OPR reports if available (aim is to determine the purpose of the project)
- ***Efficiency:*** Review expenditure on sub-programmes/projects by input mix. Data availability is expected to be a major problem; as such analysis will require accurate data on input costs. Inferences may be made from analysing the split between the various inputs required to produce outputs – for example, the split between salaries, operations and maintenance, transfers and capital expenditure.
- ***Spending by region (Equity):*** Provision of services to regions/districts. By income group (i.e. any beneficiary surveys?).

5.2.3 Source of funds for local and national government

- What are the main sources of funds? Provide a breakdown between central and local government funding by source (i.e. between central government and grant funding to local government and any domestic sources including taxation, donor funding and community generated funds), between public and private sector funding etc. What type of funding is this? (grants, loans, etc).
- What should this look like in the future?
- What about revenues – revolving funds etc? How are these managed, are accounts audited?
- Overview of donor funding and technological and capacity support for climate change. Implications in terms of share of budget, and demands placed upon local capacity (e.g. to manage projects, report on project performance). Assessment of impact of external donors - what is working well and what problems have been created?
- Do donor's climate change funds and requirements have a clear mandate for local government?

5.2.4 Local government expenditure analysis

- How much of the national budget is allocated to local government to spend on climate change related programmes?
- What climate change-related programmes, activities or services should local government spend on, in line with their climate change policy and strategies?
- How do these programmes relate to the objectives and targets identified in local development plans?
- How is this money spent? (e.g. climate proofing local service provisions, procurement to the private sector, supporting CSOs and voluntary organizations, internal capacity development, etc).
- To what extent have discretionary powers for spending and revenue collection been devolved to local authorities, or competencies for revenue collection and resource allocation been delegated to non-state actors (private tax collectors, traditional leaders etc.)?

5.3 Data collection and analysis

- Desk review
- Inception workshop
- Meetings and interviews with stakeholders
- Flowcharting funds flow from central to local government

6. Assessment of climate change public finance management

6.1 Objectives of the analysis

- To gain a better understanding of the national budgeting process with respect to climate change and the integration of policy with expenditure plans.
- To gain a better understanding of the execution (governance, control and performance management) of the climate budget.
- To clarify the strengths and weaknesses of the PFM arrangements.
- To clarify the strengths and weaknesses in the central-to-local flow of climate finance.

6.2 Questions/issues to address

- Focus initially upon a small number of the main climate change ministries (e.g. ministry of environment), and then see if this needs to be expanded to include other ministries/departments/agencies. Six main questions:

- How is the national climate change budget formulated and approved?
- How is the budget implemented / activities carried out?
- Are there any special arrangements in respect of climate change?
- How are funds released? (What modalities used to channel national expenditure to local implementation?)
- What national mechanisms/arrangements are in place to support those who are implementing the budget at the local level?
- What are the monitoring and evaluation processes (including performance review, internal and external audit and oversight)?

- Has the overall expenditure needs in respect of climate change been assured?
- Do allocations appear to be sufficient to address the main recurrent and investment needs?
- Is planned and actual spending consistent with stated policy priorities?
- Is there any move towards formulating and monitoring multi-year spending programmes, with clear spending priorities, and monitorable indicators of success?
- Identify the institutional and administrative structures in relation to the medium term planning (such as Budget Working Groups, Budget Management Committees, Planning Cells and Budget Management Cells)?
- Are major programmes and projects consistently funded?
  - Does intra-year cash flow (allocations vs expenditure) show highly variable (size) and uncertain (timing) expenditure allocations to programmes and projects?
  - If yes, is this due to a sector management issue or a higher-level issue (e.g. ministry of finance allocations to the sector are unpredictable)?
  - Is government is able to 'protect' climate change (as a national priority theme) from unstable allocations?
- Does the government consult service users and providers in the definition, budget formulation and allocation, implementation and monitoring of programmes?
- To what extent is all climate change funding and expenditure reflected in the National Budget and National Accounts of the country?
- Are adequate accounting classification and aggregation controls in place and are these complied with?
- Are climate change implications considered in ministry procurement plans?
- Is the impact on climate change considered in all capital project appraisals and development project designs?
- Execution – what are the rules governing budget execution (how are funds released)? Are procurement procedures adequate?
- What are the funding flow modalities from the national budget to the local level?
- How should the climate change budget be integrated into the national-to-local flow?
- Is the distinction between expenditure on recurrent and capital items adequately defined in financial regulations? Are accounting regulations in place and recently updated? Financial Management Manuals up to date? Financial Management Act in place? (Legal and Statutory)?
- Is there consideration of local government in national -evel budget formulation and execution; budget authorization, monitoring and auditing; rules and institutions governing budget allocation and activities (restrictions etc); decision-making and debating on budget allocation?
- Which locality receives the funds? How is the prioritization of budget allocation determined? (e.g. political links, high climate risk regions, poorer regions, competitive bid).
- How responsive is this to local government needs and priorities?
- Does local government have a central or peripheral role in the national climate change budgeting process?

- Assessment of impact of external donors, what is working well and what problems have been created? Do donors impose special and additional reporting requirements? What is the effect on local capacity?
- Include views from the auditor general on critical issues relating to budget process, and how the process may be improved.

6.3 Data collection and analysis

- Desk review
- Meetings and interviews with stakeholders

7. Assessment of local government institutional capacity and expenditure management

7.1 Objectives of the analysis

- To improve understanding of the ways in which local government contribute to addressing climate change.
- To identify the modalities used by local government to finance and deliver climate change programmes.
- To map local government's perspective with regard to their capacity and willingness to manage climate finance and implement climate change programmes .
- To identify climate finance that is channelled directly to the local level without the involvement of local government.

7.2 Questions/issues to address

- How are decisions made as to what constitutes climate change-related priorities in local policy and budget?
- How do local government request climate-related budget? How do local government assess the needs for this budget?
- Is the local planning process to access, budget, manage and deliver climate finance a) a decentralized and autonomous approach, or b) a linear operational process aimed at executing national policy?
- What modality is used by local government to finance climate change related-programmes? (e.g. e.g. capital vs revenue funding, building into existing service delivery budget, special programmes)
- What modality is used by local government to delivery climate change related-programmes? (e.g. climate proofing local service provisions, procurement to the private sector, supporting CSOs and voluntary organizations, etc)
- Do local government have the capacity to:
    - assess the situation, create a vision and manage?
    - develop vision and formulate policy on climate change?
    - budget, monitor and implement climate change finance?
    - develop partnerships and networks and strengthen existing linkages with identified stakeholders?
    - evaluate progress in climate change programmes?
- Assess strengths and weaknesses in:
    - Politicians, staff and service providers' understanding of climate change and climate finance.
    - Staff composition, skills, knowledge and experience in, and willingness to, formulate, debate, execute, authorize and monitor climate budget for implementation.
    - Focal point for climate change in local government and issues of 'silo' thinking.

- Ability of local government to develop/strengthen climate-resilient and/or low carbon services/programmes and climate change policy.
- Awareness, ability and willingness of local government to identify and prioritize climate finance for the protection of vulnerable groups and reduce their exposure to climate risks.
- Key local partners that local government work with on climate change, potential of pooled revenue and expenditure to improve performance.
- Capacity and willingness of local government to work with service users and providers to identify suitable local climate change adaptation or mitigation approaches.
- Capacity and willingness to account for and report on climate finance and the performance of climate change programmes, and responsiveness to community needs.
- Involvement of service users and the public, as well as their ability and access, to make local government accountable for their performance.

• Are the funds channelled directly from donors or central government to local level that do not involve local government?
  - Is the local government aware of these funds?
  - Who delivers these funds? (CSOs, NGOs etc) Do they work with local government?
  - Is this funding accounted for within local/national climate budget?
  - How effective are these funded programmes?
• What technical capacity does local government have to programme and deliver climate finance?
• What experiences are there of collaborative working on accessing, planning, budgeting, managing and delivering climate finance involving a range of national and local stakeholders?

7.3 Data collection and analysis

• Desk review
• Inception workshop
• Meetings and interviews with stakeholders

8. Conclusions and recommendations

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