CONVENTION ON BIOLOGICAL DIVERSITY

INTERNATIONAL TECHNICAL EXPERT WORKSHOP

CLIMATE CHANGE PUBLIC EXPENDITURE REVIEWS: INSIGHTS FROM WORLD BANK EXPERIENCE

Erika Jorgensen, Economic Adviser

Macroeconomics and Fiscal Management

World Bank

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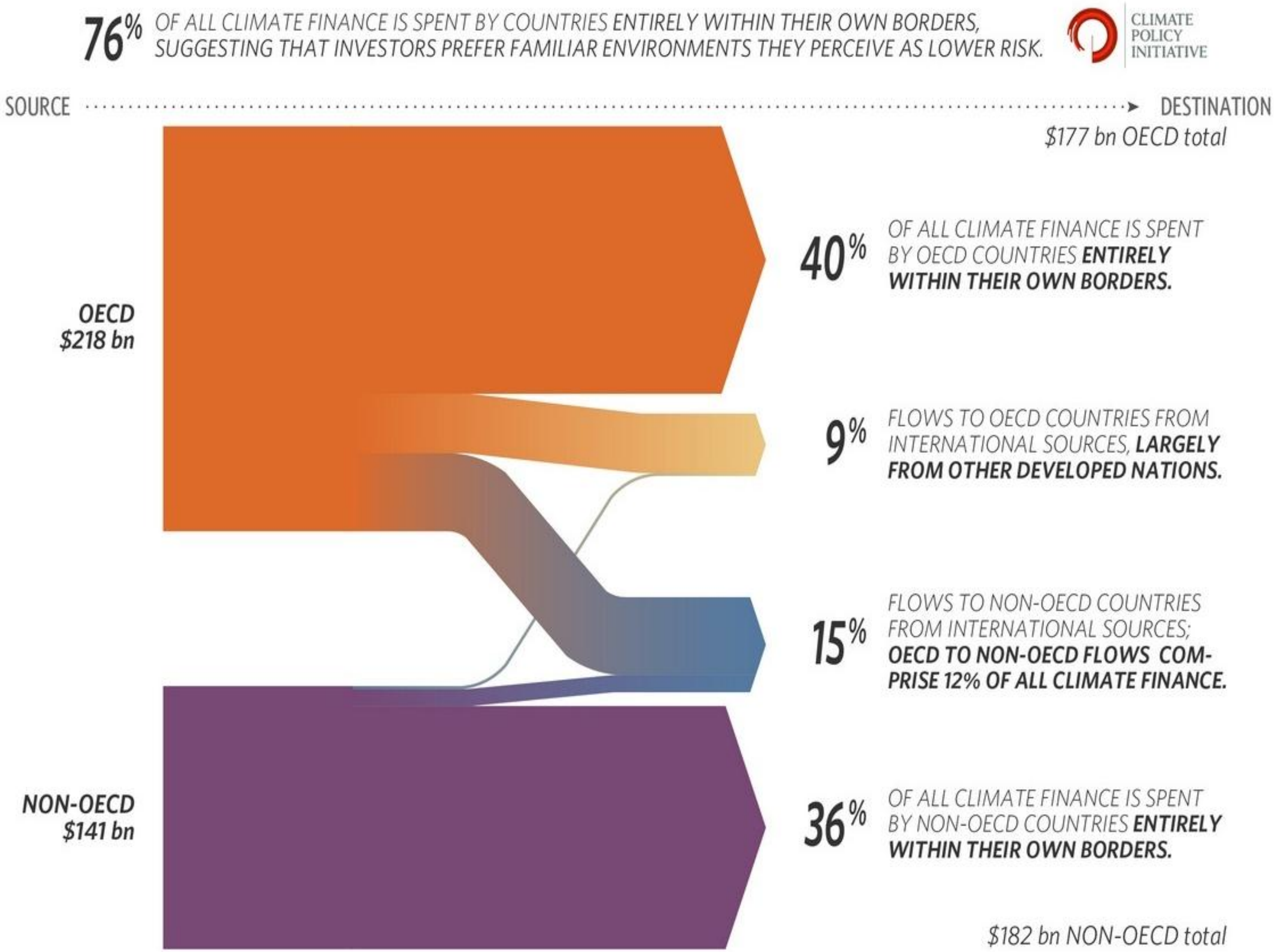
CLIMATE CHANGE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW (CCPER) SOURCEBOOK

- In many countries, climate change issues remain the preserve of specialist environmental agencies, but climate change issues must be mainstreamed in national planning starting today.
- The Climate Change Public Expenditure and Institutional Review Sourcebook (CCPEIR) is the first step toward providing practitioners with comprehensive information about the tools and information needed to ***respond to the public expenditure policy and management challenges arising from climate change***.
- CCPERs facilitate the integration of climate change policies into government plans and budgets.

SNAPSHOT OF TODAY’S CLIMATE FINANCE



CHALLENGES OF FINANCING CLIMATE CHANGE SOLUTIONS

- Climate change action requires planning over a long horizon in the face of uncertainty as well as, for many governments, costly financing in the near term.
- Countries need to consider funding from diverse sources within a consistent framework.
- Climate change will affect the core business of finance ministries related to fiscal policy, government budgets, and public debt.
- Good practice is emerging for budgeting for climate action, firmly rooted in the traditional principles of public expenditure management.

CLIMATE CHANGE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW (CCPER) SOURCEBOOK

- Building on more than 400 Public Expenditure Reviews undertaken over the last 15 years and drawing on client experiences, expert interviews, consultations with UNDP and GEF, and workshopswith 22+ countries in Asia-Pacific, Africa, Latin America and Europe.

- The Climate Change Public Expenditure and Institutional Review Sourcebook (CCPER) is the first step toward providing practitioners with comprehensive information about the tools and information needed to ***respond to the public expenditure policy and management challenges arising from climate change***.

- CCPERs facilitate the integration of climate change policies into government plans and budgets.

Challenges of Climate Budgeting (1)

No single institutional advocate

- Spending agencies . . . if aligned with agency objectives and interests
- Environmental agencies . . . but
  - ✓ cannot shift significant resources alone
  - ✓ no impact on base expenditures
  - ✓ modest funding level vs. overall budget

➢ ***Engagement by central finance and planning agencies is essential if climate change policies are to be reflected in budgets.***

Challenges of Climate Budgeting (2)

Many public sector resource allocation decisions relevant to climate change made outside of the budget process

- Central finance and planning agencies should track and report these expenditures
  - ✓budget documentation

Challenges of Climate Budgeting (3)

Authority of Central Agencies and influence over resource allocations:

- Consolidation of parallel budgeting processes (recurrent and investment) under a single central agency
- Enforcement of agency-level budget ceilings at the start
- Statutory requirements for agencies to report on off-budget expenditures
- Adoption of a medium-term perspective to expenditure planning

- ***Modern Budget System***

A Stylized Budget Process

1. **Central agencies** propose macro and budget work
2. **Government** approves guidelines and ceilings
3. **Central agencies** issue budget circular and ceilings
4. **Spending agencies** prepare expenditure plans
5. **Central agencies and spending agencies** negotiate budgets
6. **Central agencies** consolidate state budget
7. **Government** approves budget and submits to legislature
8. **Legislature** debates, (amends,) and approves state budget
9. **Central agencies** release funds to spending agencies
10. **Spending agencies** execute budget and report
11. **Central finance agency** prepares financial statements
12. **Audit authority** reports on financial statements

☑ At the Start of the Budget Process

At the Start of the Budget Process

Pre-budget statements, the budget circular, and administrative guidelines issued at the start of the budget process . . .

- The UK Treasury’s Pre-Budget Report highlights revenue and expenditure measures in support of environmental and climate-change-related policies.

- In South Africa, policy commitments (such as the proposed carbon tax and establishment of a fund for green economy initiatives) are announced in the medium-term budget statement. The budget circular supports implementation of these policies by providing guidance on the presentation of climate-change-related expenditures in the agency budget proposals.

- The Philippines Budget Circular requires agencies to categorize programs according to the government’s five priority spending areas, one of which corresponds to environment and climate change mitigation and adaptation.

☑ Adopting Medium-Term Expenditure Frameworks (MTEFs)

Adopting Medium-Term Expenditure Frameworks (MTEFs) (1)

- ***Why?*** Annual budgets offer limited scope for adjusting resource allocations in line with emerging policy priorities. Limited resources can be released from base expenditures as ongoing programs have legal obligations to staff and suppliers.

- ***How?*** Medium-term expenditure frameworks (MTEFs) facilitate adjustments in resource allocations and their alignment with new policy priorities (such as climate change), and they provide a predictable basis for agency expenditure planning.

- ***Who?*** MTEFs have become widespread since the mid-1990s, and 132 countries have introduced some form of medium-term expenditure plan.

Adopting Medium-Term Expenditure Frameworks (MTEFs) (2)

A medium-term perspective helps instill discipline in sector-level expenditure planning.

- ***Sector plans*** link expenditures to outputs and outcomes
- ***Rigorous costing*** focuses on realistic delivery
  - ✓ tradeoffs, priorities, and sequencing
- MTEFs set a ***ceiling*** to budget projections
  - ✓ need to identify priorities if additional resources
- ***Realistic costing*** because planning processes bring together sector agency planning units, operational departments, and finance agencies' staffs
- ***Performance reviews*** to link agency-level resource allocations to performance and to results

☑ Review by Central Finance and Planning Agencies

Review by Central Finance and Planning Agencies

- ***How to improve the review function?***
  - ***Specialist climate change policy units or committees***
  - ***Specialist climate change institutions***
  - ***Awareness raising and training***
  - ***Inter-ministerial arrangements to coordinate climate change strategy***
  - ***If separate investment budget, then require formal approval of new projects to integrate climate change considerations***

☑ Creating Incentives and Scaling Up by Setting Budget Targets

Creating Incentives and Scaling Up by Setting Budget Targets

Target setting and monitoring by central finance and planning agencies:

- how ***targets*** should be applied across government to hit aggregate target
- determine the ***criteria*** that define climate change expenditures
- robust budget ***review process*** to ensure that the spending agencies are applying the climate change criteria appropriately, instead of "green-washing" programs
- ***financial reports*** to monitor resource allocations during budget execution and for end-of-year reporting

☑ Long-Term Expenditure Planning

Long-Term Expenditure Planning

- ***Why?*** Short-to-medium-term perspectives fail to capture long-term fiscal implications of economic, social, and environmental challenges of climate change and miss opportunity to mitigate risks and reduce future costs
- ***Who***? All OECD countries now undertake long-term fiscal forecasting, but few consider the long-term fiscal impacts of climate change.
    - United Kingdom
    - Australia
- ***How?*** First step is to simply take stock of climate change impacts, fiscal risks that may arise, and implications for current policy
    - Estimating adaptation costs is hard for financial planners given uncertainty regarding future impacts, the nature of the policy response, and the implications for current policy

Ongoing Work

- Climate Change PERs hold the potential to both better coordinate fiscal policy and fiscal instruments within a country across the range of climate change action as well as the potential to motivate more coherent and deeper action by countries.

- The special public expenditure policy and management challenges posed by climate change are not yet resolved, in particular, decision-making under uncertain future climate conditions, expenditure planning for extreme weather and climate events, and the lack of agreed-upon budget classifications for climate-related activities.

- The Sourcebook will continue to be updated to reflect the latest knowledge on good practice to best inform policy making by providing clear operational guidance, helping to raise awareness, and supporting policy dialogue.
  - *Go to issuu.com and search "climate change public expenditure"*