THE COUNCIL,

Having regard to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Having regard to the Recommendation of the Council on Guiding Principles Concerning International Economic Aspects of Environmental Policies of 26 May 1972 [C(72)128];


Having regard to the Recommendation of the Council on the Use of Economic Instruments in Environmental Policy of 31 January 1991 [C(90)177/FINAL];

Having regard to the Recommendation of the Council on Environmental Information and Indicators of 31 January 1991 [C(90)165/FINAL];

Having regard to the Recommendation of the Council on Improving the Quality of Government Regulation of 9 March 1995 [C(95)21/FINAL];

Having regard to the Recommendation of the Council on Improving the Environmental Performance of Government of 20 February 1996 [C(96)39/FINAL];

Having regard to the Recommendation of the Council on Environmental Information of 3 April 1998 [C(98)67/FINAL];

Having regard to the 2001 OECD Best Practices for Budget Transparency [PUMA/SBO(2000)6/FINAL];

Having regard to the Declaration on International Investment and Multinational Enterprises [C(76)99(Final)] of 21 June 1976 and last amended on 27 June 2000;

Considering that public environmental expenditures constitute a significant share of public budgets in many OECD Member countries;

Considering that public environmental expenditure programmes should be designed to achieve specific environmental objectives, follow sound principles of public expenditure management, and use financial and human resources as efficiently as possible;

Considering that the Polluter-Pays Principle provides the policy framework for financing pollution prevention and control expenditures;
Considering that the Polluter-Pays Principle, as applied in OECD countries, provides for exceptional public financial support for the purpose of pollution prevention and control, provided that it is well-targeted, limited in size and duration, and does not introduce significant distortions in international trade and investment;

Considering that resource pricing should be the basis for pricing water and other natural resources, and that it should be applied progressively to cover operational, maintenance, capital and environmental costs;

Recognising that the design of public environmental expenditure programmes must take account of the specific objectives to be achieved and that such programmes will be shaped by national administrative traditions, the level of economic and institutional development, as well the maturity of markets and the public finance system;

Recognising that public environmental expenditure programmes may be implemented by Member countries nationally, and as part of bilateral and multilateral development cooperation programmes;

ON THE PROPOSAL OF THE ENVIRONMENT POLICY COMMITTEE:

I. RECOMMENDS that Member countries take effective measures to ensure that public environmental expenditure programmes are environmentally effective, economically efficient and managed in accordance with sound principles of public expenditure management.

II. RECOMMENDS that, in establishing and managing public environmental expenditure programmes, Member countries should take the following steps:

- Define priority environmental objectives using evaluation methods, such as risk assessment, cost benefit analysis and cost effectiveness analysis, as well as participatory political processes.
- Demonstrate that public expenditures are necessary to achieve these objectives.
- Define the sources of funds, the size of the budget, and the terms and conditions of the expenditure programme.
- Authorise an appropriate institution to manage the expenditure programme.
- Continue, modify or terminate the expenditure programme in light of periodic reviews of the programme's performance to assess whether its objectives have been achieved and its continuation is necessary.

III. FURTHER RECOMMENDS that, when establishing, reviewing or reforming public environmental expenditure programmes, Member countries make use of the checklists set out in the Annex hereto, which is an integral part of this Recommendation.

IV. INSTRUCTS the Environment Policy Committee and other relevant bodies of the Organisation to further support Member countries' efforts to implement efficient and effective public environmental expenditure programmes, in particular through country environmental performance reviews.

Poland has a transition period of five years (until the end of 2010) to fully implement the provisions of this Recommendation.
ANNEX

GOOD PRACTICES FOR PUBLIC ENVIRONMENTAL EXPENDITURE MANAGEMENT:
CHECKLISTS FOR ESTABLISHING, REVIEWING AND REFORMING PUBLIC
ENVIRONMENTAL EXPENDITURE PROGRAMMES

Checklist 1. Performance in Terms of Environmental Effectiveness

Principle 1. Additionality and consistency with other environmental policy instruments

Good Practices

The need for any proposed public environmental expenditure programme should be justified with reference to the Polluter- or User-Pays Principles. Public funds cannot and should not substitute for weak environmental policies; they should not be spent on achieving environmental objectives that could have been achieved with administrative or economic instruments or by eliminating environmentally harmful subsidies.

Public funds should not be used for environmental projects that would have been implemented anyway e.g. projects that have high, risk-adjusted financial rates of return and could have been financed privately.

Public environmental expenditures should reinforce other environmental policy instruments and be consistent with their stated objectives.

Public expenditure programmes typically should be used to finance investments in fixed assets or precisely defined non-investment projects, and not the operational costs of environmental administration.

External auditors should periodically review the environmental value-added of public expenditures; there should be provisions to phase out public funds after they have fulfilled their purpose.

Principle 2. Well-defined programming framework

Good Practices

Public funds should be spent in the framework of a publicly-available expenditure programme approved by appropriate authorities.

The expenditure programme ideally should specify measurable, agreed, realistic, time-bound objectives. It should identify eligible beneficiaries, financing needs, eligible project types and rules to guide decision-making so that objectives could be met at least cost.

Expenditure programmes should be established as part of a wider environmental programme or policy.

Economic, social, poverty reduction or other non-environmental objectives may be integrated into the public environmental expenditure programme, but, unless explicitly included in the expenditure programme objectives, they should not undermine the achievement of the programme's environmental objectives.
The wider economic effects of public environmental expenditure programmes (e.g. in terms of public deficit, growth, employment) should be assessed, where appropriate, prior to their establishment and further evaluated during implementation.

**Principle 3. Clear identification of environmental outcomes**

**Good Practices**

Standard application forms should be used to the extent practicable to solicit quantitative and qualitative information on projects' environmental outcomes. Once obtained, the accuracy and reliability of this information should be verified.

Indicators of environmental outcomes should be as unambiguous as possible and used as essential criteria in project appraisal and selection. Where appropriate, environmental outcomes should be valued in monetary terms for the purpose of explicit benefit-cost testing of projects.

Environmental outcomes should be monitored throughout the project cycle and after implementation; project level environmental data should be stored in a publicly available database that allows ex-post verification and analysis.

If the project fails to achieve its intended outcomes, as stated in the application form or financing contract, project beneficiaries should be liable to sanctions specified in the contract and enforced in proportion to the violation.

Information on the environmental results achieved by the programme should be periodically reported to those responsible for programme oversight and to the public, reviewed by external auditors and used to assess the programme's performance.

**Principle 4. Maximise environmental effect from available funds**

**Good Practices**

Quantitative information on full, life-time project costs (investment, operational and maintenance) should be requested from applicants in a standard application form and be verified; project level cost data should be tracked and stored in a database format in a way that allows ex-post verification and analysis.

Project selection criteria should aim to achieve the greatest environmental outcome with the programme's resources. A clear cost-effectiveness indicator (unit lifetime cost of achieving environmental effects) and the rate of financial leverage should form the core of the quantitative basis for appraisal, scoring, ranking and selecting projects. Where justified by project size or other relevant considerations, project selection should be supported by transparent benefit-cost analysis.

Quantitative information on cost-effectiveness should be periodically reported to those responsible for programme oversight and to the public, be subject to periodic external, independent reviews and be used to assess the programme's performance.
Principle 5. Leverage additional finance

Good Practices

To maximise their environmental impact, public funds should aim to cover less than 100% of project costs; options for co-financing by the retained earnings of the beneficiary or other sources should be assessed.

The rate of financial leverage should be used to assess the programme's performance.

Public environmental expenditure programmes should not distort competition in financial markets, nor obstruct the development of private financial institutions. Financial products used in environmental expenditure programmes should not compete with those offered by private financial institutions.

Full financial plans of environmental projects should be required; commitments for financing from other sources should be verified. No disbursement should be made until full financing for the project is adequately secured.
Checklist 2. Performance in Terms of Budgetary Good Practice

Principle 1. Fiscal integrity of revenues

Good Practices

All financial resources available to public environmental expenditure programmes should be clearly specified in the enabling legislation or regulation.

If the financial resources managed within the programme come directly or indirectly from compulsory transfer payments (taxes, charges, fees), they should be treated as public funds in the meaning of the rules and regulations applicable to public finance, public procurement and/or state aid, as appropriate. As such, these resources should be subject to the usual fiscal discipline and requirements for transparency.

Revenues should be recorded in treasury accounts before they are allocated to the environmental expenditure programme.

Principle 2. Avoid constraints to efficiency

Good Practices

Earmarking of revenues should be avoided as it usually results in inefficient use of public resources. However, if it is demonstrated that the advantages of earmarking outweigh the risks, an expenditure programme may be established using earmarked revenues, but it should be limited to a specified period of time. At the end of this time, earmarking should only be continued if it can be demonstrated that it is providing value-added in relation to its stated objectives.

Earmarking within earmarked schemes (e.g. sub-funds for specific sectors or groups of polluters within earmarked environmental expenditure programmes) also should be avoided since it further infringes on efficiency. If earmarking is nevertheless applied, safeguards that prevent inefficient resource allocation and perverse incentives should be implemented, such as competition between projects submitted by different firms within a sector, external controls and/or checks of project appraisal.

Principle 3. High standards of fiscal discipline

Good Practices

The risk of environmental expenditure programmes resulting in unplanned fiscal deficits should be avoided. Debt, and in particular, contingent and implicit liabilities (such as loan guarantees) should not be incurred without an explicit, prior approval from fiscal authorities. Medium-term financial forecasts, including contingent and implicit liabilities of all implementing agencies, should be regularly prepared and disclosed in financial statements.

For all public environmental expenditure programmes, an estimate of the financial resources available and the corresponding expenditures should be provided in the state (or sub-national) budget, at least as an annex. Statements on debt and contingent liabilities, especially of any extra-budgetary
environmental institutions controlled by the government should be submitted along with the budget of
the Ministry of Environment to the Ministry of Finance.

Mandatory internal and external independent financial audits should be regularly carried out.

Ex-post reporting, according to a transparent expenditure classification system, should be regularly
conducted and publicly disclosed.

**Principle 4. Accountability and transparency**

**Good Practices**

Appropriate provisions should be made for holding managers of public environmental expenditure
programmes accountable for their decisions.

Appropriate safeguards should be put in place to protect public funds against corruption and fraud, e.g.
through dynamic systems of management control, including internal and external audits. Any potential
conflicts of interest should be identified and eliminated.

Ex-post reports on performance of managers and results achieved (in terms of specified performance
criteria) should be periodically conducted and disclosed to the public.

**Principle 5. Collection of revenues and public procurement separated from expenditure
management**

**Good Practices**

The primary task of agencies implementing public environmental expenditure programmes should be
programme and project cycle management and project financing. Collecting revenue or making direct
procurement of equipment and construction services should be performed by the government agencies
usually assigned these responsibilities.

Revenue from fiscal or quasi-fiscal instruments should be collected by the appropriate fiscal
authorities under the control of treasury services.

National or international public procurement rules should apply for all purchases that are co-financed
by public funds, even if purchasing is outsourced to a private entity.
Checklist 3. Performance in Terms of Management Efficiency

Principle 1. Sound governance

Good Practices

Public environmental expenditure programmes should be governed by clear, explicit rules.

The terms and conditions of financing, decision-making and administrative procedures, internal policies and principles of project appraisal and selection should be available to the public. They should be coherent and consistent, not change frequently or without explanation, and be periodically reviewed in order to identify areas for improvement.

A clear distinction should be made between policy-making and executive management functions.

An appropriate arrangement should be made for the policy-making function, such as the establishment of a supervisory board. Policy-making in this context includes programming, priority-setting, establishing rules, performance evaluation, supervision and control. Political oversight should be confined to programming and supervision. This is where the political process has a legitimate and important role to play.

The supervisory board of a public environmental expenditure programme should include representation from the key stakeholders with appropriate checks and balances between different interest groups. Consideration should be given to involving non-environmental authorities, parliament and non-governmental organisations, as appropriate.

Principle 2. Professional executive management

Good Practices

Responsibilities for the day-to-day management and implementation of environmental expenditure programme should be clearly separated from policy-making, clearly defined in statutory and operational documents, and shielded from ad hoc political pressures in support of specific projects.

An implementing agency should have a clear, legal mandate. It should be a professional, executive management body with an appropriate degree of operational autonomy, subject to strict accountability for performance. Its responsibilities should focus on project cycle management, and in particular, on impartial project appraisal and selection.

Executive managers should be held accountable for their performance. The supervisory board of the public environmental expenditure programme should apply explicit performance criteria and indicators when assessing the performance of executive managers.

Implementing agencies of large specialised environmental expenditure programmes should have staff assigned exclusively to their management and selected by executive managers.

The skills of the staff should adequately match the technical requirements of a given expenditure programme. The recruitment and remuneration of managers and of staff should be based strictly on
merit. Remuneration should be adequate to attract and maintain suitably-qualified people and to reward integrity and commitment.

**Principle 3. Sound project cycle management**

**Good Practices**

The project cycle should be subject to intelligible, transparent and written procedures which are consistent and publicly available, in particular to all potential beneficiaries; a project cycle manual should be available and staff required to use it.

Project identification should be proactive (for example by advertising the programme to potential beneficiaries), follow from the objectives of the public environmental expenditure programme, and be based on a realistic analysis of market trends and demand for financing.

Applications for financing should be accepted only in standard forms tailored to different project types and supported by clear, user-friendly instructions. Application forms should be easily available to all potential applicants, preferably in an electronic version.

Project appraisal and selection criteria and procedures should be objective, transparent and clear. Discretionary elements of project appraisal and selection should be subject to explicit, written procedures, and the results of such decisions kept in publicly-available files.

Appraisal systems and procedures should be tailored to the size and complexity of different project types. For large investment projects, a two-stage appraisal process should be used (first stage - screening against eligibility criteria; second stage – appraisal and ranking of eligible projects).

The appraisal system should be relatively simple, based on impersonal rules, and allow for meaningful comparison of comparable projects against one another, or against a benchmark. The appraisal system should also allow for an ex-post verification of the selection process, including tracking personal responsibilities for important judgments and decisions. Appraisal reports should be clear and publicly available.

**Principle 4. Fair and unbiased relations with external stakeholders**

**Good Practices**

Relations with external stakeholders (beneficiaries, intermediaries, consultants) should be handled in a transparent, unbiased, and arms-length manner. Communication policy should ensure that all applicants have equal access to information on funding opportunities and equal opportunity to have their projects impartially reviewed on a merit basis.

Any outsourcing of tasks should be undertaken through a fair, transparent, competitive process.

**Principle 5. Effective management of financial products and related risks**

**Good Practices**
Only financial products specified in the terms and conditions of the public environmental expenditure programme should be used by the implementing agency.

The complexity of operations, and the choice of financial products, should be proportional to the institutional capacity to manage the associated risks.

Grants are the most administratively simple and transparent financial product. When used, they should be designed and disbursed so as: to maximise incentives for timely and cost-effective implementation of individual projects and of the implementing agency's entire portfolio; to maximise the leverage of other resources; and to minimise chances of misuse of public money by applicants.

Other financial products could be considered in proportion to institutional capacity and in order of increasing risk and these include: interest subsidies, loans through intermediaries, direct loans, leasing, equity investments and loan guarantees. Before a new financial product is adopted, its feasibility should be checked through an assessment of risks, market needs and supported by a financial plan.