

Module 7

Mainstreaming climate change in the budgetary process

Training workshops on
mainstreaming climate change



MWH

BUILDING A BETTER WORLD

Key topics covered by this module



- Introduction: Linking the budget to policy objectives and expected results
- Entry points for climate change mainstreaming
- Public expenditure reviews
- Implications of climate-related policies and measures for revenue and expenditure
- External resources, including budget support

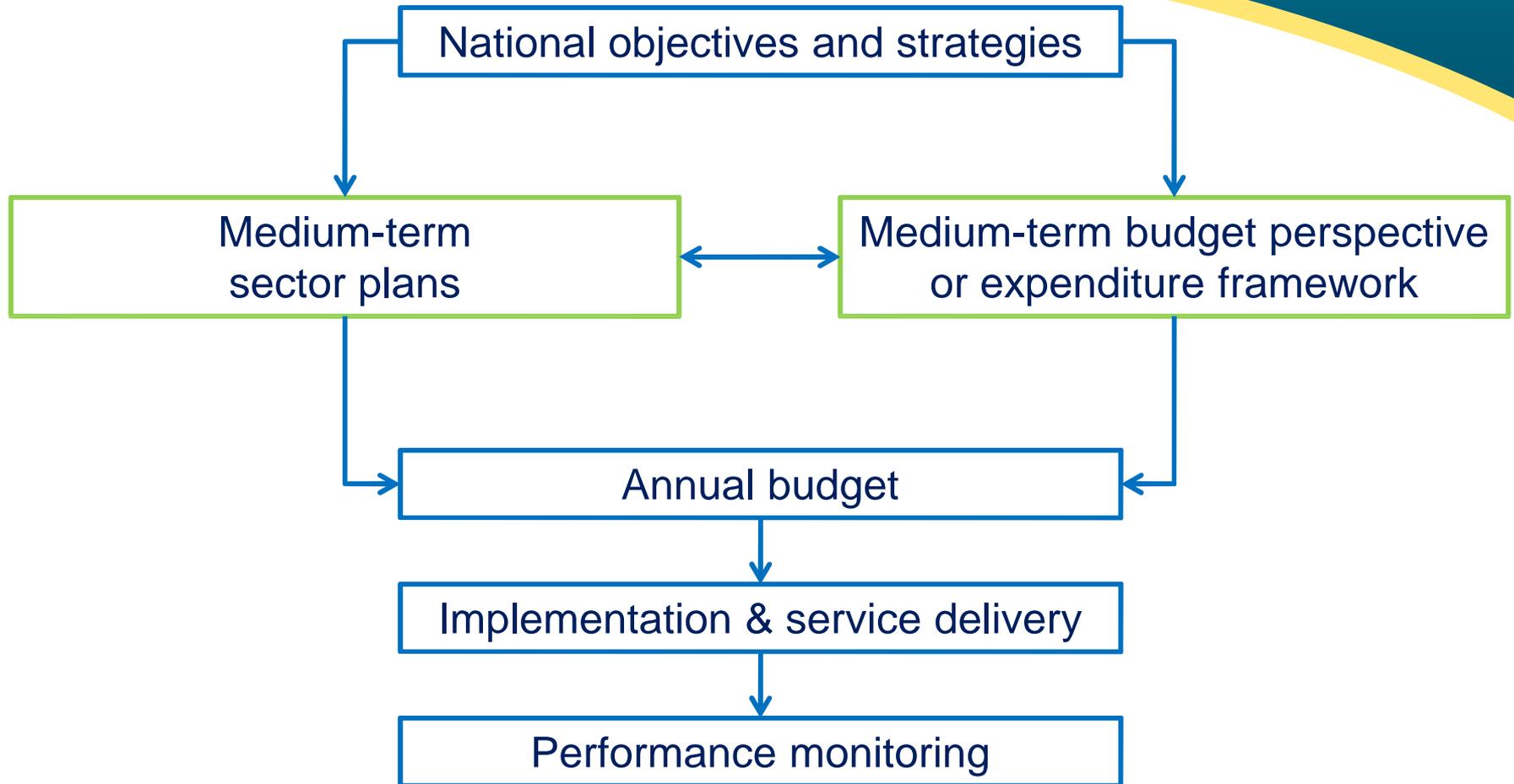
Introduction

Fiscal strategy, budget and medium-term perspective



- A country's fiscal strategy is a set of economic policies that:
 - make use of public expenditure, public revenue, budget surplus or deficit and public debt
 - in support of national policies, including economic stability, growth, poverty reduction, achievement of the MDGs, etc.
- For optimal outcomes, policy, planning and budgeting should be integrated
- Given the time horizon of policies and strategies, it is useful to have a medium-term perspective for national and sectoral budgets

Linking spending to policy & results



The medium-term expenditure framework (MTEF)



- A forward-looking budgetary planning tool covering a 3 to 5-year period
 - systematically links strategic objectives (national/sectoral) with actions required to achieve them, corresponding expenditures and resources/resource needs
 - supports the prioritisation of expenditures
 - also facilitates consideration of the operating costs associated with new investment
- Can be established at the national level (inter-sectoral allocations) as well as the sectoral level (intra-sectoral allocations)

In practice



- MTEFs are rather sophisticated tools, and few countries have full-fledged MTEFs
- The preparation of medium-term projections of national and/or sector expenditures is a good starting point
- The uncertainties associated with projections and forecasts should be recognised
- What is the practice in your respective countries?

Entry points for climate change mainstreaming

Climate change at the national resource allocation stage



- The resource allocation stage involves the translation of operational action plans into budgets/MTEFs
- Climate change integration requires:
 - reallocating funding to more vulnerable sectors and regions
 - providing funding for adaptation- and/or mitigation-specific plans or activities

Source: Olhoff & Schaer - UNDP (2010)

CC at the sector resource allocation & programming stage (1)



- The resource allocation stage involves:
 - the translation of the sector action plan into a detailed set of investments, activities and projects
 - the translation of the sector action plan into a budget (and possibly a sectoral MTEF) in line with the sector's budget allocation
 - the identification of implementation arrangements, responsibilities, timelines and specific costs
- This process typically involves a mix of top-down and bottom-up processes

Source: Olhoff & Schaer - UNDP (2010)

CC at the sector resource allocation & programming stage (2)



- Climate change integration requires:
 - adding climate change considerations to the range of criteria used to screen and select projects/specific investments
 - incorporating adaptation and/or mitigation projects, activities and measures identified at the sector planning stage
 - making room in the budget for climate change responses identified in the context of cross-sectoral plans, or claiming resources from a ‘horizontal’ fund to implement them

Source: Olhoff & Schaer - UNDP (2010)

Key stages & actors in budget preparation (1)



Key stages	Key actors
1. Determination of macroeconomic outlook	Min. of Finance/Planning, statistical office, central bank
2. Multi-year strategic planning: medium-term fiscal strategy, medium-term expenditure framework	Cabinet, Min. of Finance
3. Determination of next year's: -expected revenues -acceptable level of deficit -global level of expenditures	Min. of Finance (Budget Dept, Macroeconomic Dept), Cabinet
4. Pre-allocation of expenditures among line ministries, according to policy priorities	Cabinet, Min. of Finance (Budget Dept)
5. Preparation/Circulation of budget circular & expenditure ceilings	Min. of Finance (Budget Dept)

Key stages & actors in budget preparation (2)



Key stages	Key actors
6. Costing of sectoral policies, submission of bids	All ministries & government agencies
7. Review of sectoral bids, testing of cost estimates, finalisation of budget estimates	Min. of Finance (Budget Dept), Cabinet
8. Negotiations, followed by endorsement of budget	Min. of Finance, other Ministries/agencies, Cabinet
9. Preparation of appropriation bill and budgetary documents	Min. of Finance (Budget Dept)
10. Submission of budget to Parliament	Min. of Finance
11. Discussion and adoption of budget (vote)	Parliament

Entry points for climate integration in the budgetary process (1)



- Determination of macroeconomic outlook:
 - impacts of climate change on economic activity & growth
 - impacts of adaptation and mitigation on economic growth
- Multi-year strategic planning & determination of next year's revenues & expenditures:
 - (extra) cost of implementing adaptation and mitigation programmes & measures
 - extra external resources required and pledged in support of adaptation/mitigation efforts
 - revenues and/or cost savings possibly generated by policies in support of adaptation/mitigation

Entry points for climate integration in the budgetary process (2)



- Pre-allocation of expenditures:
 - (re-)allocation of funds to sectors identified as vulnerable and/or playing a key role in mitigation efforts
- Preparation of budget circular:
 - instructions on costing of adaptation- and mitigation-related policies and measures
- Submission and review of sectoral bids:
 - costing & integration of adaptation- and mitigation-related policies and measures
 - use of climate risk screening procedures
- Negotiations & endorsement of budget:
 - prioritisation of adaptation- and mitigation-related policies and measures

Climate change in a national budget: illustration



- Budget 2010 of Papua New Guinea:
 - Recurrent expenditure & development expenditure by main programme
 - Env'l protection and conservation services implemented in part by the Dept of Prime Minister & National Economic Council (NEC)
 - Recurrent expenditure of the Dept of PM & NEC
 - Includes 7.18m kina for the 'Office of Climate Change & Environmental Sustainability'
 - General revenue by recipient agency
 - Includes a grant of 781,000 kina to the University of PNG for participation in a Climate Change Network
 - Expenditure projection of the Dept of PM & NEC
 - Includes an entry (but not yet funding) for a 'national system to monitor greenhouse gases'

Keeping track of climate-related expenditures



- During budget preparation and then implementation, monitoring and reporting, attention should be paid to ‘keeping track’ of main climate-related (adaptation and mitigation) public expenditures
 - In most cases, the official budget classification does not have specific line items for such expenditures
 - Even if specific line items existed, incremental climate-related expenditures ‘embedded’ in sector programmes would not appear as such
- This is important for ensuring eligibility for funding from specific climate adaptation/mitigation funds

Implications for public revenue and expenditure

Implications of climate change integration on the revenue side



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- *Carbon tax or other taxes on high-emission activities
- *Personal and business taxes on economic activities related to climate adaptation and mitigation measures (incl. growth effects of increased competitiveness)
- *Foreign grants & other financial transfers related to adaptation and/or mitigation measures/policies

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- *Reduced personal and business taxes on activities that shrink or fail to develop as a result of adaptation/ mitigation policies

Implications of climate change integration on the expenditure side



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- * Subsidies for adaptation & mitigation-related activities
- * Current expenditures in relation to adaptation and/or mitigation activities (incl. capacity & institution building) & infrastructure
- * Public investment (capital expenditure) in adaptation and/or mitigation-related infrastructure, including 'climate proofing' of existing public assets

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- * Reduced subsidies for fuel consumption and other high-emission activities
- * Reduced spending on health care, infrastructure replacement etc. as a result of successful adaptation measures

Activity 5 – Discussion:
Budgetary processes & climate change
mainstreaming

Public expenditure reviews

Sources: World Bank (n.d.) Guidance Note 4, UNDP-UNEP (2010)

Public expenditure reviews (PERs)



- A tool for analysing how budget resources are planned, allocated and actually spent across competing claims, objectives and priorities
- PERs can be used as a tool for supporting the mainstreaming of climate change
 - Focus on public expenditure contribution to climate-resilient, low-emission development outcomes

Entry points for mainstreaming climate-related aspects in a PER



Aspect	Issues to consider
Budget planning process	Role of climate-related considerations in allocation decisions
Expenditure trends and categories	<p>Actual spending on vs. allocations to:</p> <ul style="list-style-type: none">* adaptation- and mitigation-friendly measures• development programmes with a focus on climate risk mngt, climate-resilient / low-emission dvpt <p>Availability of recurrent funding vs. capital investment for climate risk monitoring and mngt</p>
Budget financing	<p>Level of and trends in allocations to climate-relevant sectors and agencies</p> <p>Origin of such allocations (internal vs. external funding)</p> <p>Possibility of increasing internal resources for climate-resilient dvpt as a result of policies in support of adaptation and/or mitigation</p>

External resources

Main sources: www.climatefundupdate.org, UNDP-UNEP (2010)

Main sources of external financing (1)



- Main sources of external public financing for climate change adaptation and mitigation:
 - development cooperation programmes (grants or loans)
 - project support
 - budget support (also called ‘programme support’)
 - UNFCCC Funds
 - UNFCCC Least Developed Countries Fund -> NAPA preparation
 - UNFCCC Special Climate Change Fund -> adaptation and mitigation, technology transfers
 - Global Environment Facility (GEF) Trust Fund
 - climate change focal area

Main sources of external financing (2)



- Adaptation Fund
 - Kyoto Protocol-related, financed through a 2% levy on CDM transactions
- World Bank-managed Climate Investment Funds
 - Clean Technology Fund -> power, transport, energy efficiency
 - Strategic Climate Fund -> new development approaches involving adaptation
- Fast Start Finance
- In future: Green Climate Fund
 - Outcome of Cancun Conference, will in future channel a significant share of multilateral funding for adaptation

Main sources of external financing (3)



- Other sources of external public financing:
 - Funding pledged in Copenhagen for REDD, and other REDD-related initiatives (e.g. UN-REDD)
 - Various bilateral and multilateral funds, incl. the various ‘Carbon Funds’ managed by the World Bank
 - GEEREF (Global Energy Efficiency & Renewable Energy Fund)
 - Global Climate Change Alliance
- Private sources of financing:
 - Clean Development Mechanism (CDM) under the Kyoto Protocol
 - Voluntary carbon markets

Funds with a specific focus on supporting mainstreaming



- Under the Strategic Climate Fund:
 - Pilot Programme for Climate Resilience (PPCR)
- MDG Achievement Fund (Spain, UNDP):
 - Environment and Climate Change thematic window
- Global Climate Change Alliance
- UN-REDD

Budget support



- The transfer of financial resources of an external financing agency to the National Treasury
- Provides extra resources for the national budget
 - either grants (e.g. EC) or loans (e.g. World Bank)
- National procedures apply to the commitment and disbursement of funds
 - implementation via the national Public Financial Management system => reduced transaction costs, increased ownership

Overview of EC budget support modalities (1)



- Budget support is provided in the form of:
 - sector budget support -> support for a sector policy/ programme
 - general budget support -> support for an overall development, poverty reduction or reform strategy
- Joint budget support operations are conducted with other donors where such initiatives exist
- Usually 3-4 year programmes with annual disbursements

Overview of EC budget support modalities (2)



- General eligibility conditions:
 - existence of a well-articulated national or sectoral policy/strategy to which the budget transfer will contribute
 - reasonably stable macroeconomic framework
 - reliable or improving public financial management

Overview of EC budget support modalities (3)



- Annual disbursements include two types of ‘tranches’
 - fixed tranche: paid in full as long as eligibility conditions are maintained
 - provides an element of predictability
 - variable tranche: paid in full or in part based on actual performance against an agreed set of criteria and targets
 - criteria/targets in principle taken from the PAF associated with the supported policy or strategy
 - provides a results-oriented performance incentive

Activity 6 – Illustration & discussion:
Climate-related budget support

National funding entities



- Several countries have now established ‘national funding entities’ to:
 - channel and manage external funding related to CC
 - leverage existing funds and initiatives (incl. those financed with national resources)
 - support the mainstreaming of climate-related programmes and projects into national development strategies
- Expected benefits:
 - Alignment of external funding with national priorities
 - Building of national capacities and institutions
 - Scaling up of the response to climate change

Climate-related national funding entities: examples



**Amazon
Fund of
Brazil**

**Ecuador ITT
Trust Fund**

**Bangladesh
Climate Change
Resilience Fund**

**China CDM
Fund**

**Maldives
Climate Change
Trust Fund**

References



- Olhoff A. & Schaer C. (2010) *Screening tools and guidelines to support the mainstreaming of climate change adaptation into development assistance: A stocktaking report*. Environment & Energy Group, United Nations Development Programme, New York. Available from: http://www.undp.org/climatechange/library_integrating_cc.shtml
- UNDP-UNEP (2010) *Mainstreaming Adaptation to Climate Change into Development Planning: A Guidance Note for Practitioners*. Draft version. UNDP-UNEP Poverty-Environment Initiative. Final version available from: <http://www.unpei.org/knowledge-resources/publications.html>
- World Bank (n.d.) *Mainstreaming Adaptation to Climate Change in Agriculture and Natural Resources Management Projects*. World Bank, Washington, DC. Guidance Note #4 – Developing Readiness for Institutional Capacity Development and an Enabling Policy Framework. [Online] Available from: <http://climatechange.worldbank.org/climatechange/content/mainstreaming-adaptation-climate-change-agriculture-and-natural-resources-management-project>