Finance Ministers Coalition for Climate Action
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Session 2: Embedding climate change into budget processes

Introduction by Weijen Leow, World Bank
Why is this important?

Expenditure and taxation can both support climate/environmental goals
- Public investment programs in solar/wind/energy efficiency, water resource management, coastal protection, etc
- Or detract from goals (expenditures on fossil fuel development or subsidy support)

Domestic public finance for climate is a major source, including in developing countries

(UN Biennial Assessment Report for 2016: $67-157 b, compare $46b official assistance & est $15b foreign private)

Public investments, largely infrastructure, is between 4-8 % of GDP

Ideally the aim is to improve budget cycle to better support climate policy, rather than letting the budget (or external financing) framework define priorities and timeframe
What are the challenges?

National climate strategy and policy is sometimes a standalone exercise. Should be incorporated into development strategy.

Balancing climate and other priorities in the budget
- Climate actions often not well defined, costed, and planned out over time. LT budget framework for climate becomes a stretch.
- Impacts extend over a long time horizon (effects are gradual but permanent), so decisions should be informed by (climate) fiscal risk assessment.
- Communicating its importance to the public through the budget

What considerations to make when distributing sector ceilings?
- Is climate integrated or “embedded” into sector targets and work programs?
- Budget process usually does not include specific climate discussions to explore inter-ministerial synergies and overlaps, climate-focused performance review, etc.
- Even for annual budget calls, what guidelines can Finance Ministry give? Climate is crosscutting theme rather than specific project/program.

Reporting and review
- Can we track climate expenditures? Where do they appear in the budget? Is there one program or one ministry to fund?
- How to assess effectiveness? What are performance indicators; who is accountable?
Efforts to enhance budget processes and financial management... including in developing countries

• Use of climate expenditure reviews and fiscal policy “scans” to initiate policy and systems improvement.

• “Embedding” climate change upstream of budget process. Climate change integrated into sector objectives, and then planning and costing.

• Legislative and administrative instruments that clarifies how climate policy goals will be brought into budget processes, set expectations of line ministries.

• Committee oversight of climate goals with Finance taking the lead (supported by technical agencies)
Less advanced in these areas......

- A single climate budget report that consolidates climate information (expenditures, targets, etc)
- Program-based budgeting
- Compliance audits on climate spending and evaluation of outcomes
- Medium-term budget framework for climate: revenues & expenditures forecasts to support resource allocation to multi-year climate initiatives. (Climate-macromodels?)
- LT fiscal risk assessments
Legislation or administrative

Climate budget call or guideline

Green/climate budget report

LT/MT projections, additional budget rules

Performance criteria, evaluations, audits

Have done expenditure reviews

- Fairly common
- Rare
- Less common

Author research
Discussion: What would good practice in climate budgeting like?

Lord Nicholas Stern: “Climate is not a slice of the economy... it is the whole economy.”

• Climate is included: Each sector ministry has budgeted at least one climate program, or
• Climate is embedded: Climate change issues and opportunities included into sector targets and programs

Adequate and reliable resource allocation over time:
• Climate is factored into medium term budget frameworks, allowing for adequate and reliable, and
• Annual budget circulars to give early signals and clear guidelines on climate vis-à-vis other government priorities.

Effective spending

Regular use of expenditure and fiscal policy review to identify issues. System of performance reviews against climate policy goals. Budget hearings to feature climate.
Annex
Various entry points in the budget process

Central Finance & Planning agencies propose macro and budget framework

Green growth budgeting (Korea)
OECD countries Green budgeting
EU climate budget mainstreaming
Cross cutting Program budget structure (France)
Budget Priority Framework with Memorandum circular on CC (Philippines)
Climate risk screening of sector workplans and projects

Government approves guidelines and ceilings
Central Finance & Planning agencies issue budget circular and ceiling
Central agencies & spending agencies negotiate budget
Spending agencies prepare expenditure plans

Central Finance & Planning agencies approve guidelines and ceilings
Government approves budget and submits to legislature
Central Finance & Planning agencies release funds to spending agencies

EU's tracking and reporting of Climate Actions
Budget brief to inform budget hearings (Philippines)

UK's planning framework of carbon budget
Climate Budget (Philippines)

Climate Performance report (Philippines)
Climate risk screening of sector workplans and projects

Medium Term Management of Green Budget (Ukraine)
Medium Term Budget Statement (South Africa)

Spending agencies execute budget & report

Government approves expenditure plans
Central Finance & Planning agencies propose macro and budget framework
OECD - Paris Collaborative on Green Budgeting

- Progressively integrating environmental costs and benefits into medium and longer-term fiscal planning and financial reporting
  - A Green Budget Baseline Analysis providing a “heat-map” of the environmental impact of various areas of the expenditure and tax policy baseline.
  - Cost-Benefit Analysis and the Environment, a major update of this OECD reference publication.
  - A Green Balance Sheet valuing environmental assets and liabilities.

- Mainstreaming sustainability perspectives within budgetary and broader policy-making, including alignment of incentives
  - A Tax Decarbonisation Country Scan gauging the impact of carbon pricing and decarbonisation on fossil fuel use and tax revenues.

- Developing methodologies and guidelines towards internationally recognised standards
  - Green Budget Benchmarks to provide cross-national indicators of progress against various international environmental goals.
  - A Green Budgeting Toolkit providing core reference and guidance on applying analytical tools and techniques.

Source: OECD
Philippines: Climate change as part of budget hearings

- National Climate Budgeting
- Integrating climate response in the budget cycle

Diagram:
- Agency Internal Planning
- Technical Support
- Proposed Climate Budget
- Budget Briefs
- Technical Budget Hearings
- Climate Expenditures
- Public Reporting
- NEP and GAA

2015 Climate Budget Brief
2016 Climate Budget Brief
Long-term strategy, near-term planning
• National Strategy for Green Growth (2009–2050): high level vision (3 objectives, 10 policy directions)

Central finance and planning agency taking proactive and driving role
• Integrating 5-year green growth plan into Five-Year National Fiscal Management Plan
• Costing and implementation plan for 2009-2013; projects and programs were agreed with the agencies; budget allocation for annual and medium-term plans

High level oversight
Presidential committee on green growth communicated regularly with finance and planning; also other ministries
Fiscal policy adjustments for Green Growth

Green growth translated into budget policy as -

a) **Integrate policy into budget allocation** (annual and medium-term)
   - No separate green stimulus package.
   - Green growth was fully integrated into Korea’s April 2009 supplementary budget

b) **Funding certainty**. Rule established that 2 pct of GDP will be allocated over five years for green growth

c) **Clear policy on social spending**. Green growth budget increase should not require a decrease in health and education budgets.

d) **Reallocation**
   - Fiscal adjustments in budget allocation made within specific expenditure sectors; example of transport sector, raise budget to railroads (from 19 to 25 pct), with ratio of roads over railroads budget falling from 1.6 to 1.2. Another example: total R&D unchanged, but green R&D raised from 16.5 to 22.2 pct.
   - Clawbacks from non-performing programs
   - Cuts in government administration (incl civil service pay)