

Finance Ministers Coalition for Climate Action Sherpa Meeting, Helsinki Finland (Feb 21-22, 2019)

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

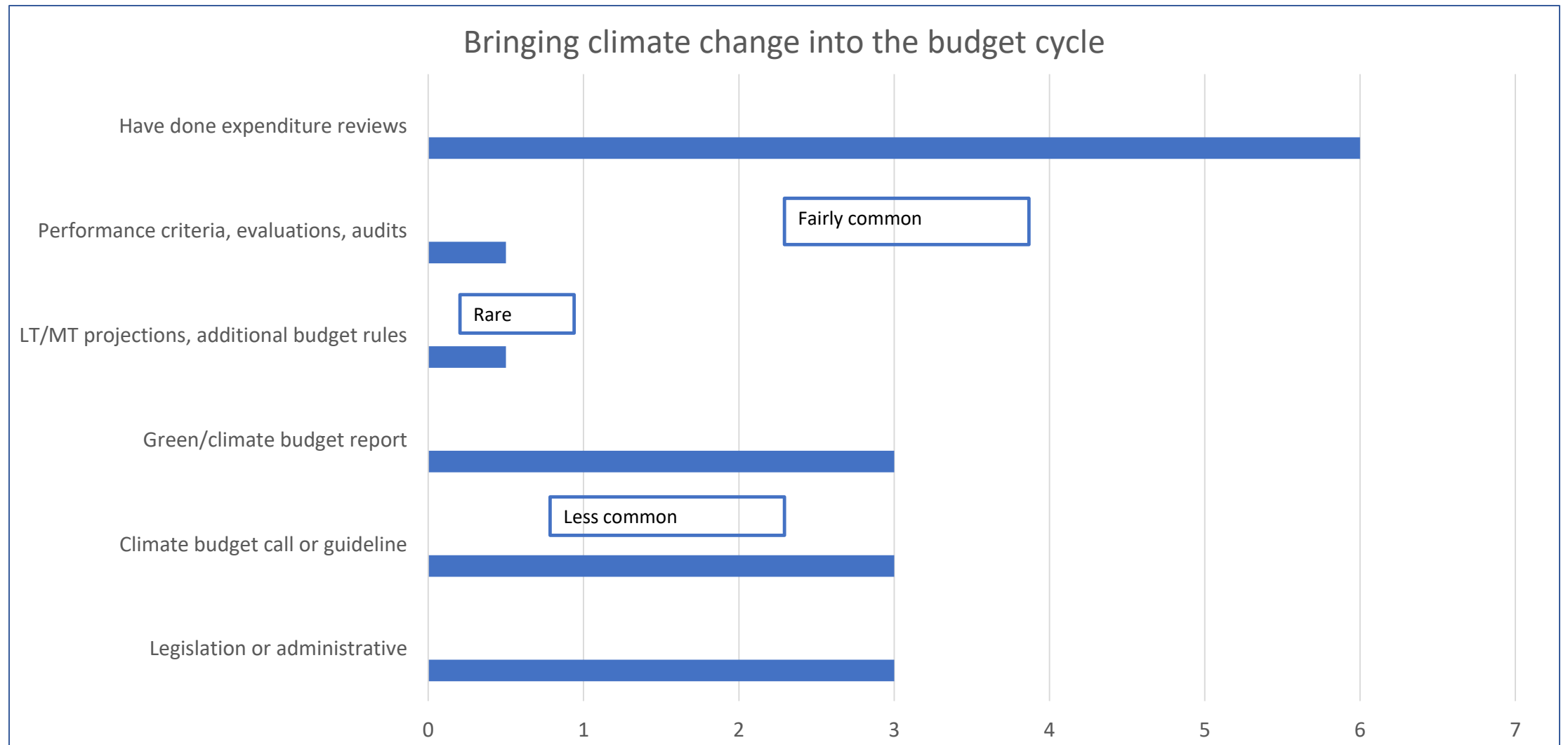
- Can we track climate expenditures? Where do they appear in the budget? Is there one program or one ministry to fund?
- How to assess effectiveness? What are performance indicators; who is accountable?

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



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:

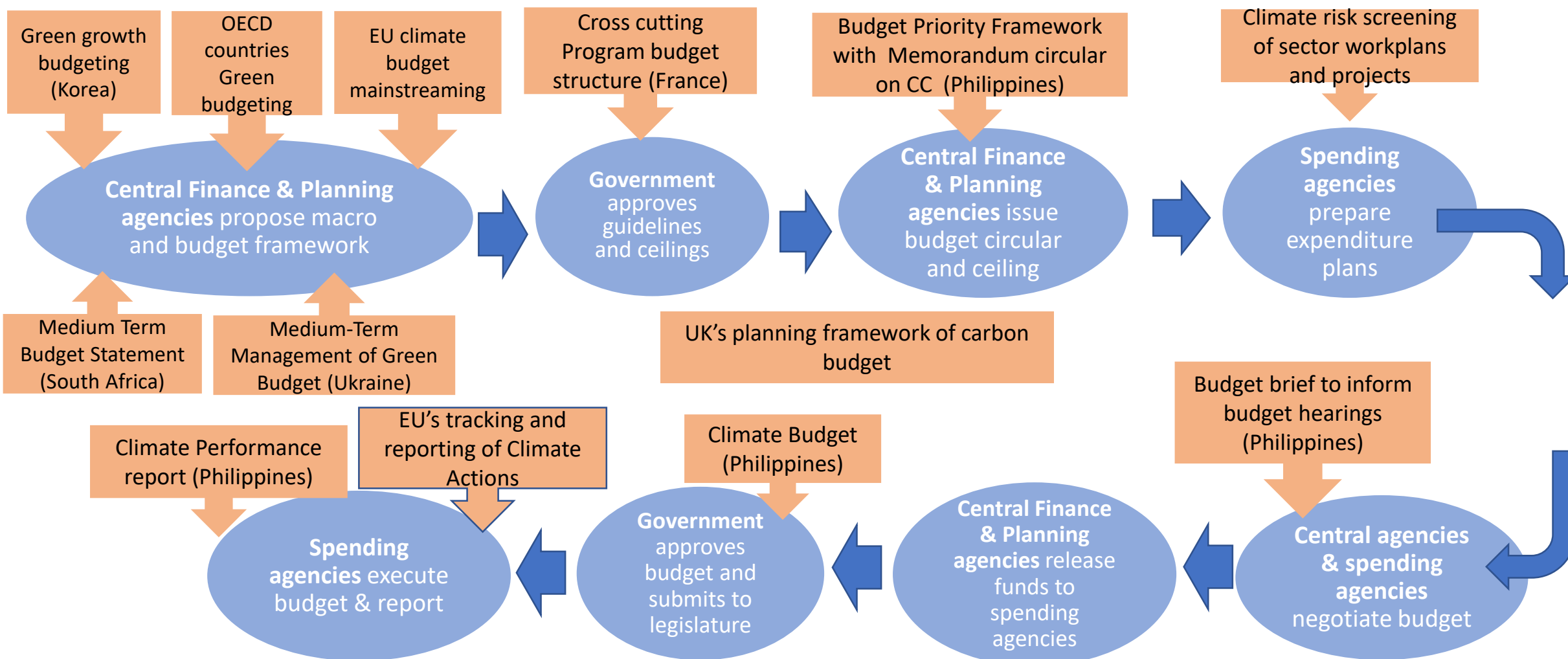
- Climate is factored into medium term budget frameworks, allowing for adequate and reliable, and
- Annual budget circulars to give early signals and clear guidelines on climate vis-à-vis other government priorities.

Effective spending

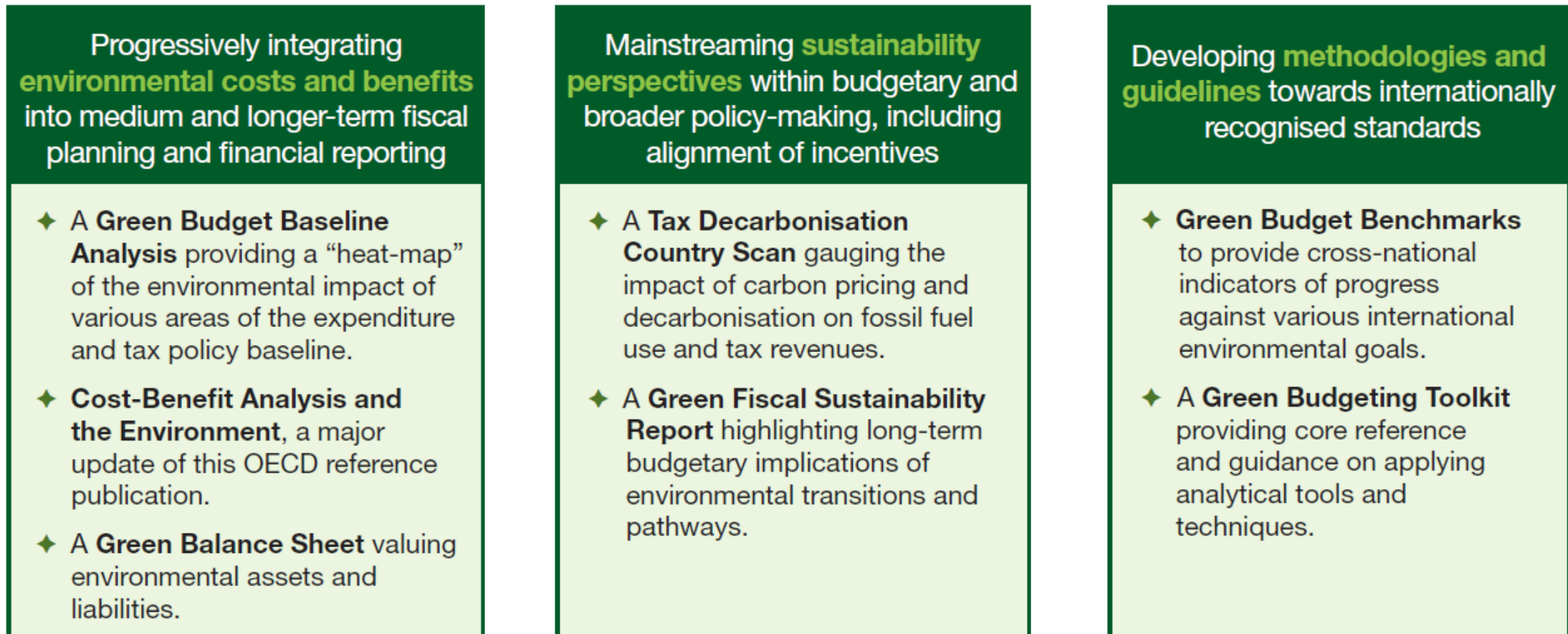
Regular use of expenditure and fiscal policy review to identify issues. System of performance reviews against climate policy goals. Budget hearings to feature climate.

Annex

Various entry points in the budget process



OECD – Paris Collaborative on Green Budgeting



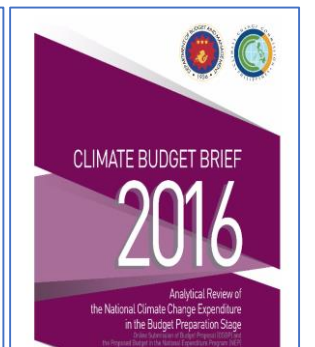
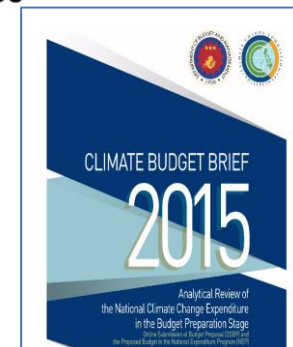
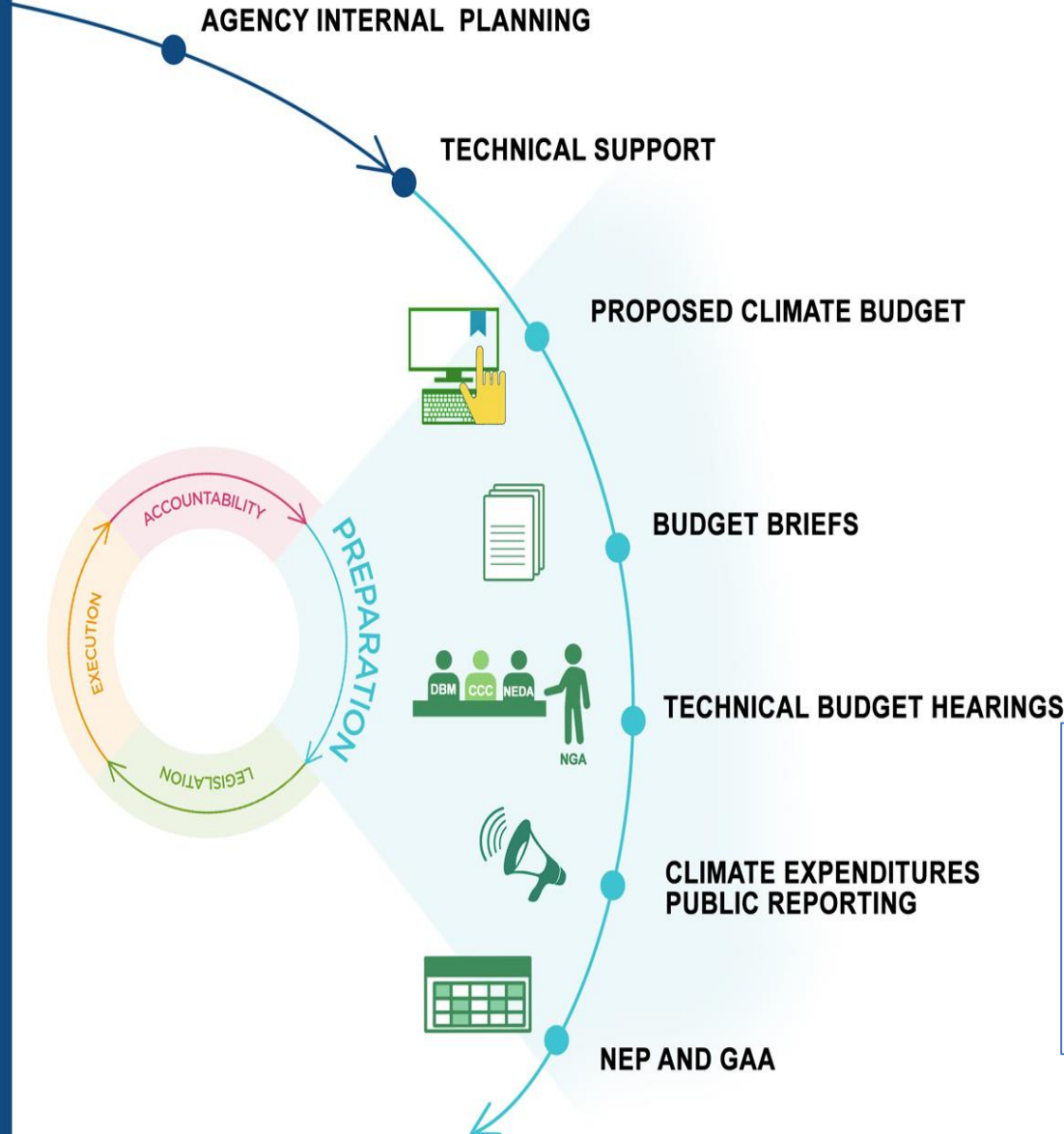
Source: OECD

Philippines: climate change as part of budget hearings

NATIONAL CLIMATE BUDGETING



Integrating climate response in the budget cycle



Budgeting for Korea's Green Growth Plan

Long-term strategy, near-term planning

- National Strategy for Green Growth (2009–2050): high level vision (3 objectives, 10 policy directions)
- Five-Year Plan for Green Growth (2009–2013): integrating green growth into the main economic planning instrument.

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

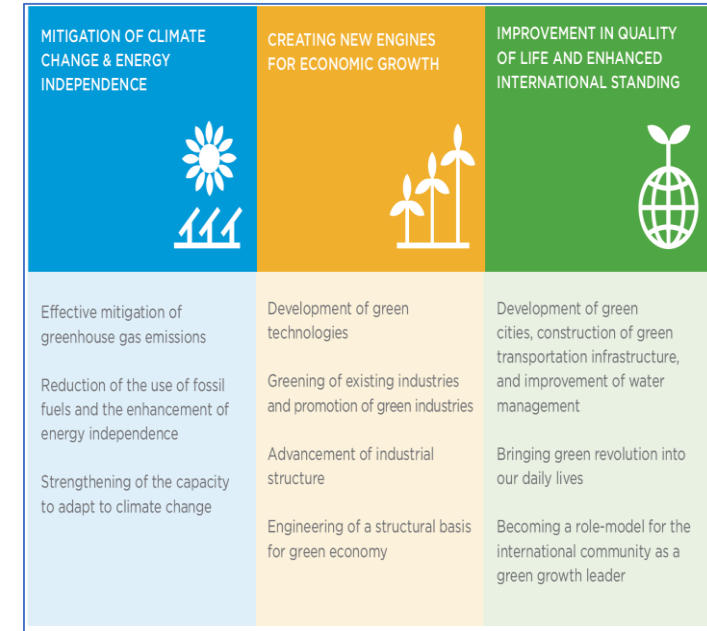
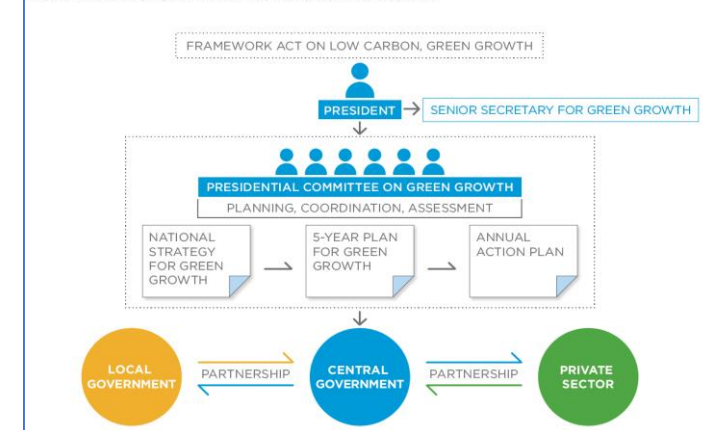


FIGURE 2. INSTITUTIONAL FRAMEWORK FOR GREEN GROWTH



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)