

Green Growth Knowledge Platform (GGKP)

Third Annual Conference

Fiscal Policies and the Green Economy Transition: Generating Knowledge – Creating Impact

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Climate change public expenditure and institutional reviews: linking fiscal policies to the green economy transition

Erika Jorgensen (World Bank)

The GGKP's Third Annual Conference is hosted in partnership with the University of Venice, The Energy and Resources Institute (TERI) and the United Nations Environment Programme (UNEP).



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Climate Change Public Expenditure and Institutional Reviews (CCPER): Linking Fiscal Policies to the Green Economy Transition

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Summary. Governments will be critical actors in the transition to a green economy, playing a leading role through the formulation and application of fiscal instruments - through the application of medium- and long-term planning and strategy; through the implementation of policies, laws and regulations including taxation; and directly through both capital and current spending from public funds. It is a matter of concern that key elements of government action, in particular on climate change, are not yet reliably mainstreamed into countries' policymaking processes. Climate change poses specific complex public expenditure policy and management challenges, and central finance and planning agencies need to assume a key role. As guardians of public spending efficiency and arbiters of competing choices, Ministries of Finance need to become adept at understanding the challenges of climate action and the different available tools and approaches for addressing them. A Sourcebook that assesses international experience on fiscal choices and policy planning can provide practitioners with tools and information needed to respond to these challenges, pushing forward the necessary integration of climate action into the growth and poverty reduction agendas.

Methodology and geographical coverage. The Sourcebook provides practical and applicable guidance to policymakers drawing on an assessment of client experiences, expert interviews, consultations with UNDP and GEF, and workshops attended by representatives from the EU, GIZ, the Republic of Korea, SIDA, OECD, DfID, USAID, UNCDF and UNEP, and government officials from more than 22 countries in Asia-Pacific, Africa, Latin America and Europe. The guidance draws on the experience of multiple teams within the World Bank, including building on the more than 400 Public Expenditure Reviews (PERs) undertaken over the last 15 years. A Climate Change PER—as set out in the Sourcebook—adopts a similar analytical framework: (1) fiscal sustainability; (2) strategic resource allocation; (3) the role of government; (4) the efficiency and effectiveness of spending; (5) the incidence of spending; and (6) the capability of institutions and the alignment of incentives. This framework tests the consistency between intended and actual outcomes, i.e., the economic, social, and environmental impacts of public expenditure policies. It recognizes that there are tradeoffs among policy objectives, e.g. increased spending on public services, reduced taxation, and aggregate fiscal discipline. It also acknowledges that policy objectives may be achieved using a range of instruments, by providing information, through regulation and taxation, as well as through public expenditure, and that public expenditure may not be the most cost-effective means of achieving these objectives.

Knowledge gap. A number of public expenditure reviews focused on climate issues have been completed, but no standard methodology nor lessons of experience had yet been developed, until the Sourcebook. Given the growing focus on finance and planning ministries to take a stronger role in the

transition to a green economy and the development of national programs of climate action, there was a clear need for guidance on climate change public expenditure reviews.

Policy relevance and applicability to various countries. In addition to the benefits of traditional public expenditure reviews, climate change PERs make unique contributions by assessing the financial implications of climate change policies, and providing valuable inputs to the process of prioritizing and allocating scarce resources of expenditure programs. Moreover, CCPERs can respond to specific fiscal policy and management challenges posed by climate change, such as decision-making under uncertainty, disaster risk management and diverse budget classification of climate-related activities. Since the precise nature and timing of climate change impacts is “a cascade of uncertainties,” it is important for CCPERs to assess the extent to which governments employ tools and approaches that help incorporate uncertainty, flexibility, and learning in the routine decision-making process. Also, since the distributional consequences of adaptation and mitigation policies are complex and important, they need to be carefully weighed and evaluated in all the scenarios considered in the decision-making process. As for the public expenditure reviews that preceded them, CCPERs are being completed in developing countries, with the support of donors and international aid institutions, including Bangladesh, Burkina Faso, Cambodia, China, Ethiopia, Indonesia, Morocco, Nepal, Philippines, Samoa, Thailand, Tanzania, Uganda, and Vietnam.

Potential distributional impacts. CCPERs include consideration and analysis of distributional impacts of fiscal choices related to climate action, as noted above.

Expected results and implications for further research. 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 Sourcebook will continue to be updated to reflect the latest knowledge on good practice to best inform policy making.