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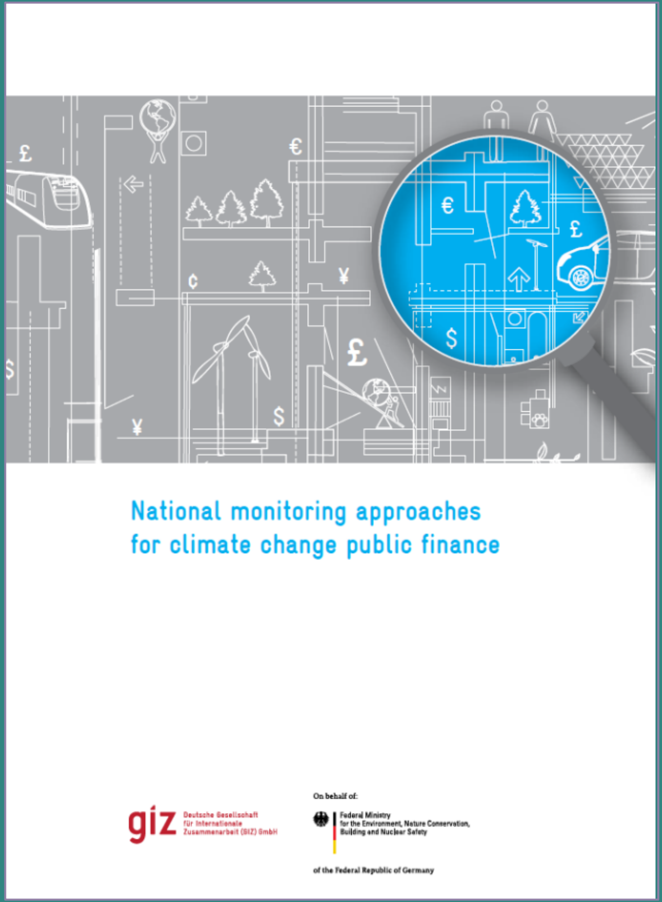
National monitoring approaches for climate change public finance



Introduction

Outline of webinar presentation

Taking the perspective of a national planner in a climate change vulnerable country who has been asked to review the case for monitoring climate change public finance

Four questions to be answered:

1. Why should the government monitor public climate change finance?
2. What lesson learning is available to assist such efforts?
3. What tools exist that could support such monitoring?
4. What influences the overall effectiveness of such monitoring?

1. Why monitor public climate change finance?

Why monitor public climate change finance?

Two very different objectives lie behind an interest to monitor public finance spending on climate change related actions:

- National monitoring efforts of public spending often aim to improve the effectiveness and efficiency of such spending (in this case on climate change actions)
- International reporting to the UNFCCC aims to demonstrate compliance with the international climate change regime

Why monitor public climate change finance?

Five broad benefits can be gained from the monitoring of public climate change finance:

- Climate change policy formulation can be supported
- Awareness of climate change among sector planners and budget officers can be raised
- International obligations met
- Accountability of public spending can be strengthened
- Administrative efficiencies can be secured

Why monitor public climate change finance?

The type of policy-related question that can be answered:

%	Percentage of government spending & Gross Domestic Product allocated to climate change	Such a tracking tool can give a first estimate of the scale of public funding on climate change. Since there is no defined optimal level of this scale, it enables a discussion on the appropriate level of resource allocation under national circumstances. Comparing current spending versus estimated spending for the implementation of national climate change strategies, may help guide this discussion.
?	Where is climate change spending taking place across the government administration?	Identifying which ministries are committing annual budgetary resources to climate change related actions (and its percentage against their overall budget) can help to highlight early leaders on climate change. This may help to examine the coherence between policy and public spending.

Why monitor public climate change finance?

There are a number of practical challenges that face monitoring efforts:

- The continuing definitional ambiguity of climate change actions and hence financing, especially for adaptation finance
- Recurrent spending classifications that do not allow for climate change spending to be identified
- Public funds that are not reported on in the national budget
- Actual expenditures (as opposed to budget estimates) not readily available; international disbursements (not commitments) also unavailable

2. What lesson learning is available?

What lesson learning is available?

There are a broader set of experiences of using national budget tracking as a tool to better understand policy outcomes. These include ‘pro-poor budgeting’:

- ‘Virtual poverty funds’ that track poverty reducing public spending through the tagging of specific expenditures within the national budget
- Uganda’s Poverty Action Fund (PAF) is an early example, introduced in 1998

Lessons learned from Uganda's PAF

Overall effectiveness of public programmes: As with the current interest in climate change budgets, pro-poor budgeting focuses on budgetary allocations and expenditures, hence the policy goal impacts are not assessed. Budget tracking should be viewed as a first step in a performance management system, the ultimate effectiveness of which relies on an accompanying assessment of the outcomes and impacts of relevant programmes.

Clarity and consensus over the definition of relevant expenditures: In the case of the Ugandan PAF, over the first 4-year period (1998–2002) the list of eligible programmes changed considerably with the addition of programmes considered to fit the selection criteria. As with climate change actions, the boundaries of pro-poor activities are diffuse and so a broad consensus had to be built over what to include.

Lessons learned from Uganda's PAF

Identify what drives institutional interest to secure recognition of relevant spending: In Uganda, pro-poor expenditures were ring-fenced by government and protected from any budget cuts during the financial year. This acted as a strong incentive to demonstrate that expenditure was pro-poor.

New monitoring and reporting systems may weaken existing budget monitoring and evaluation systems: Parallel reporting was developed for the Ugandan PAF, which was considered to divert attention away from government's pre-existing processes for providing fiduciary assurance.

What lesson learning is available?

Experience to-date suggests that prior to establishing a monitoring system for climate change finance the following seven issues should be considered:

- Establish the objectives of the proposed system (why monitor?)
- Consider the co-measurement on outcomes of spending (focus on results)
- Distinguish different sources of funding (national vs international)
- Define what constitutes a relevant expenditure (climate change related)

What lesson learning is available?

- Distinguish between mitigation and adaptation spending (strategy)
- Determine whether only ‘positive’ spending should be identified (spending that is supportive of, *and* contrary to, climate change policy)
- Explore how such monitoring can be integrated into existing budgetary systems (national budget reform processes)

What lesson learning is available?

The monitoring of finance is insufficient to secure policy goals

- The objective of managing public resources is ultimately one of maximising public welfare, whilst minimizing the public expenditure needed for that aim
- There is a need to consider financial monitoring and outcome monitoring at the same time and not to view these exercises as being non-related

3. What tools exist that could support such monitoring?

Tools for quantifying climate change finance

- There is no one tool currently available to monitor climate change public finance
- A number of tools exist that can help estimate the amount of public finance spent on climate change actions
- These vary in their scope, analytical approach and purpose for which they were developed
- Five tools can be highlighted that cover the breadth of applications and focus on different sources of funding

Tools for quantifying climate change finance: Climate Aid Reporting

Tool	Possible advantages to consider	Possible disadvantages to consider
Climate Aid reporting (for international sources)	The OECD DAC Creditor Reporting System database is well established and has markers for both climate change mitigation and adaptation spending. Database is available on-line and enquiries can be directed to the OECD Secretariat.	Limited to international funding classified as official development assistance. Time delay – data are not available on database for several years. Data are more complete for committed funds than for disbursed funds. Depends on donor self-reporting, which is of variable quality.

Tools for quantifying climate change finance: MDB reporting

Tool	Possible advantages to consider	Possible disadvantages to consider
Multilateral Development Bank reporting (for international sources)	In recent years a range of MDBs have worked on a common methodology for reporting both mitigation and adaptation finance. Includes both loan and grant finance.	Only covers one source of funding: international funding that is channelled through MDBs. Public reporting is at the regional level. Nationally disaggregated data would depend on such information being made available by individual MDBs.

Tools for quantifying climate change finance: UNFCCC reporting

Tool	Possible advantages to consider	Possible disadvantages to consider
UNFCCC reporting (standards not yet defined)	An obligation under the UNFCCC and therefore non-Annex I countries may receive support in completing the tools (National Communications and Biennial Update Reports).	A common methodology has yet to be defined. International attention is focused on Annex I reporting before considering guidance for non-Annex I countries.

Tools for quantifying climate change finance: climate finance studies

Tool	Possible advantages to consider	Possible disadvantages to consider
Climate finance studies (focuses on domestic resources)	Detailed estimates of public finance channelled through the national budget in support of relevant public programmes across all ministries. Multi-year studies that allow for emerging trends to be identified, particularly in identifying where relevant spending occurs across government.	A common methodology is only now emerging, with some significant differences between country studies. Depends on dedicated research teams working with government. Provides a 'snap shot' of relevant spending rather than a monitoring tool.

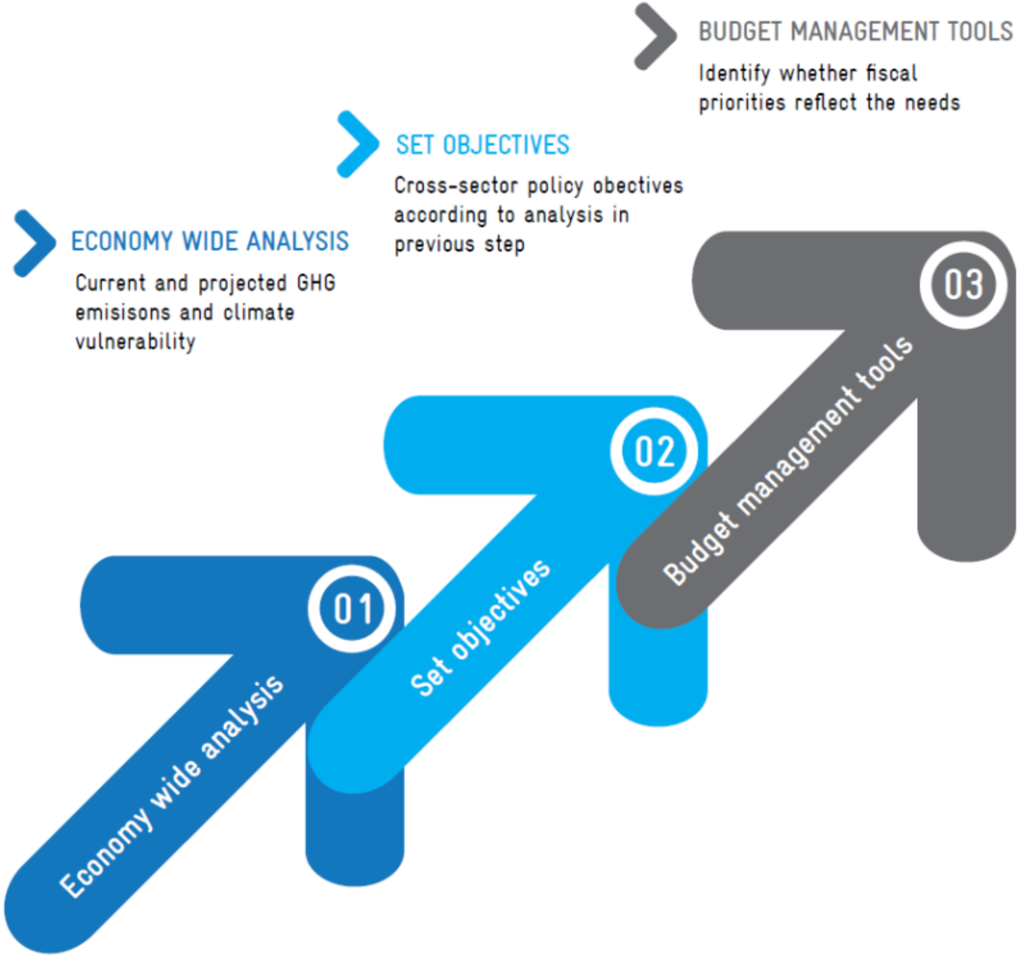
Tools for quantifying climate change finance: national budget tracking

Tool	Possible advantages to consider	Possible disadvantages to consider
National budget tracking (focuses on domestic resources)	Detailed estimates of public finance channelled through the national budget in support of relevant public programmes across all ministries. Built into the national budget monitoring and reporting systems. Involvement of relevant sector planners and budget officers.	Requires capacity and interest from sector planners and budget officers across government to establish and maintain system. Limited to funding that passes through the national budget system.

4. What influences the overall effectiveness of monitoring efforts?

What influences the overall effectiveness of such monitoring?

- Effective climate change finance begins with an effective national climate change policy
- Financial monitoring should be designed to increase understanding of the budget's effectiveness to allocate resources for policy goals
- There need to be feedback loops that take on board the evaluation of budget expenditures to help formulate subsequent policies


BUDGET MANAGEMENT TOOLS
Identify whether fiscal priorities reflect the needs
SET OBJECTIVES
Cross-sector policy obectives according to analysis in previous step
ECONOMY WIDE ANALYSIS
Current and projected GHG emisisons and climate vulnerability
03
Budget management tools
02
Set objectives
01
Economy wide analysis

What influences the overall effectiveness of such monitoring?

To conclude, effectiveness may be optimized when financial monitoring is first focused on securing early priority actions, where:

- Carbon emissions reduction potential is highest
- Adaptation efforts support the greatest number of the most vulnerable

In both cases, the amount of finance may be large (where major public investment programmes are required) or small (where regulatory implementation is needed to drive reform)

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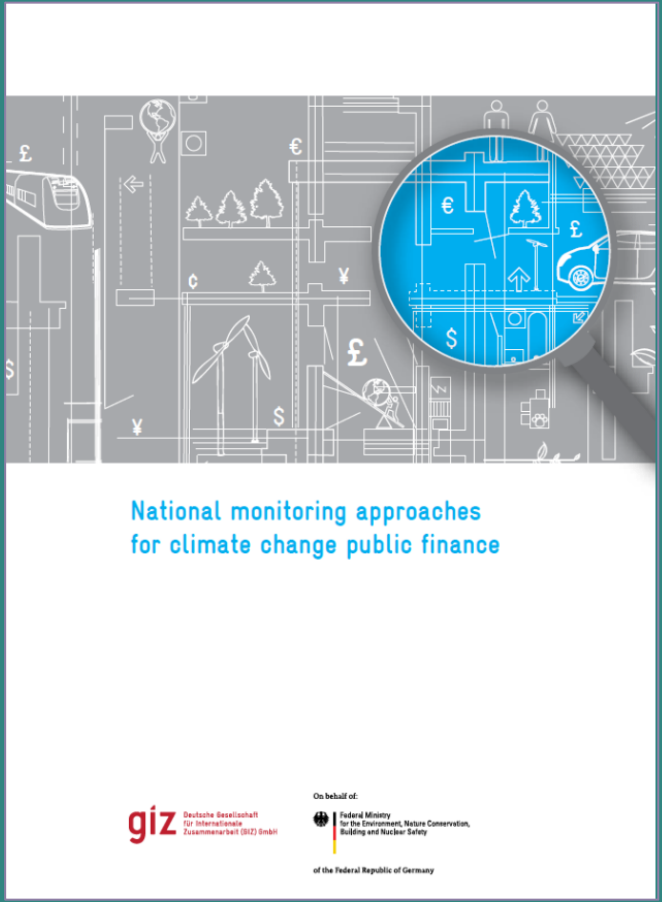

Any questions or comments?