

## Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

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Meeting date:

**Wednesday, 26 November 2014**

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Meeting time:

**09.00**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



For further information please contact:

**Bethan Davies**

Committee Clerk

029 2089 8120

[FinanceCommittee@wales.gov.uk](mailto:FinanceCommittee@wales.gov.uk)

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## Agenda

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- 1 Introductions, apologies and substitutions**
- 2 Papers to note** (Pages 1 – 7)
- 3 Planning (Wales) Bill: Financial Implications of the Bill (09:05–10:00)**  
(Pages 8 – 33)  
FIN(4)–23–14 paper 1  
[Planning \(Wales\) Bill](#)  
[Explanatory Memorandum](#)  
Research Brief  
  
**Carl Sargeant AM, Minister for Natural Resources**  
Neil Hemington, Chief Planner, Welsh Government  
Gemma Christian, Planning Manager, Welsh Government  
Dion Thomas, Senior Planning Bill Manager, Welsh Government
- 4 Motion under Standing Order 17.42 to resolve to exclude the public**

**from the meeting for the following business: (10:05)**

Items 5, 6 & 7

**5 Planning (Wales) Bill: Consideration of the evidence received (10:05–10:30)**

**6 Best Practice Budget Processes Inquiry Part II (10:30–11:00)** (Pages 34 – 121)

FIN(4)–23–14 ptn 1

FIN(4)–23–14 ptn 2

FIN(4)–23–14 paper 2

**7 Forward Work Programme (11:00 – 11:30)** (Pages 122 – 127)

FIN(4)–23–14 paper 3

## Finance Committee

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Meeting Venue: **Committee Room 2 – Senedd**

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Meeting date: **Wednesday, 12 November 2014**

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Meeting time: **09.00 – 09.49**

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Cynulliad  
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National  
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Wales



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### Concise Minutes:

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#### Assembly Members:

**Jocelyn Davies AM (Chair)**  
**Peter Black AM**  
**Christine Chapman AM**  
**Mike Hedges AM**  
**Alun Ffred Jones AM**  
**Ann Jones AM**  
**Julie Morgan AM**  
**Nick Ramsay AM**

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#### Witnesses:

**Georgina Haarhoff, Welsh Government**  
**Andrew Jeffreys, Welsh Government**

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#### Committee Staff:

**Bethan Davies (Clerk)**  
**Claire Griffiths (Deputy Clerk)**  
**Martin Jennings (Researcher)**  
**Joanest Varney-Jackson (Legal Advisor)**

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## 1 Papers to note

1.1 The papers were noted.

## **2 White Paper – Collection and management of devolved taxes in Wales: Factual briefing**

2.1 The Committee received a factual briefing from Andrew Jeffreys, Director Treasury and Georgina Haarhoff, Head of Tax Policy and Legislation, Welsh Government on the Collection and management of devolved taxes in Wales White Paper.

## **3 Wales Audit Office: Consideration of draft report**

3.1 Members agreed the draft report subject to a small addition.

## **4 Public Service Ombudsman for Wales: Consideration of draft report**

4.1 Members agreed the draft report subject to the inclusion of some additional information.

# Finance Committee

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Meeting Venue: **Committee Room 2 – Senedd**

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Meeting date: **Thursday, 6 November 2014**

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Meeting time: **09.00 – 12.10**

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This meeting can be viewed on [Senedd TV](http://senedd.tv/en/2550) at:  
<http://senedd.tv/en/2550>

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National  
Assembly for  
Wales



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## Concise Minutes:

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### Assembly Members:

**Jocelyn Davies AM (Chair)**  
**Peter Black AM**  
**Christine Chapman AM**  
**Mike Hedges AM**  
**Julie Morgan AM**  
**Nick Ramsay AM**

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### Witnesses:

**Isobel Garner, Wales Audit Office**  
**Huw Vaughan Thomas, Auditor General for Wales, Wales Audit Office**  
**Steve O'Donoghue, Wales Audit Office**  
**Kevin Thomas, Wales Audit Office**  
**Nick Bennett, Public Services Ombudsman for Wales**  
**David Meadon, Public Services Ombudsman for Wales' office**  
**Susan Hudson, Public Services Ombudsman for Wales' office**

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### Committee Staff:

**Bethan Davies (Clerk)**  
**Meriel Singleton (Second Clerk)**  
**Claire Griffiths (Deputy Clerk)**  
**Tanwen Summers (Deputy Clerk)**  
**Martin Jennings (Researcher)**  
**Richard Bettley (Researcher)**

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## **1 Welsh Government Draft Budget 2015–16: Consideration of draft report**

1.1 The Committee made amendments to the draft report and agreed a final version to be published on 11 November 2014.

### **TRANSCRIPT**

View the [meeting transcript](#).

## **2 Introductions, apologies and substitutions**

2.1 The Chair welcomed the Members to Committee and noted that apologies had been received by Alun Ffred Jones and Ann Jones.

## **3 Papers to note**

3.1 The papers were noted.

## **4 Wales Audit Office: Scrutiny of Auditor General for Wales' Annual Report and Accounts 2013–14**

4.1 The Committee handled items 4–7 together.

4.2 Members scrutinised Isobel Garner, Chair; Huw Vaughan Thomas, Auditor General for Wales; Steven O'Donoghue, Director of Finance and Kevin Thomas, Director of Corporate Services on the Auditor General for Wales' Annual Report and Accounts 2013–14.

## **5 Wales Audit Office: Estimate of income and expenses 2015–16**

## **6 Wales Audit Office: External Audit Report on the Accounts 2013–14**

## **7 Wales Audit Office: Interim Report 2014–15**

## **8 Public Service Ombudsman for Wales: Scrutiny of estimate for 2015–16**

8.1 Members scrutinised Nick Bennett, Public Service Ombudsman for Wales; David Meaden, Financial Accountant and Susan Hudson, Policy and Communications Manager on the Public Service Ombudsman for Wales' estimate for 2015–16.

## **9 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

9.1 The motion was agreed.

## **10 Wales Audit Office: Consideration of evidence received**

10.1 The Committee considered the evidence and noted that a draft report will be prepared for consideration at the Committee meeting scheduled for 12 November 2014.

## **11 Public Service Ombudsman for Wales: Consideration of evidence received**

11.1 The Committee considered the evidence and noted that a draft report will be prepared for consideration at the Committee meeting scheduled for 12 November 2014.

# Finance Committee

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Meeting Venue: **Committee Room 3 – Senedd**

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Meeting date: **Monday, 3 November 2014**

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Meeting time: **12.30 – 15.28**

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This meeting can be viewed on [Senedd TV](http://senedd.tv/en/2740) at:  
<http://senedd.tv/en/2740>

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## Concise Minutes:

### Assembly Members:

**Jocelyn Davies AM (Chair)**  
**Peter Black AM**  
**Christine Chapman AM**  
**Mike Hedges AM**  
**Alun Ffred Jones AM**  
**Ann Jones AM**  
**Julie Morgan AM**  
**Nick Ramsay AM**

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### Witnesses:

**Jane Hutt AM, The Minister for Finance and Government Business**  
**Jo Salway, Welsh Government**  
**Lynne Hamilton, Welsh Government**  
**Jeff Andrews, Welsh Government**

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### Committee Staff:

**Bethan Davies (Clerk)**  
**Tanwen Summers (Deputy Clerk)**  
**Don Peebles (Expert Advisor)**  
**Joanest Varney-Jackson (Legal Adviser)**

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View the [meeting transcript](#).

## **1 Introductions, apologies and substitutions**

1.1 The Chair welcomed the Members to Committee.

1.2 There were no apologies.

## **2 Papers to note**

2.1 The papers were noted.

## **3 Welsh Government Draft Budget 2015–16: Evidence Session 6**

3.1 The Committee scrutinised the Minister for Finance and Government Business on the Welsh Government's draft budget for 2015–16.

## **4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

4.1 The motion was agreed.

## **5 Welsh Government Draft Budget 2015–16: Consideration of evidence received**

5.1 The Committee considered the evidence received and the draft Report. A revised version of the report will be circulated at the Committee meeting scheduled for 6 November 2014.

# Agenda Item 3

Carl Sargeant AC / AM  
Y Gweinidog Cyfoeth Naturiol  
Minister for Natural Resources



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref : LF/CS/1154/14

Jocelyn Davies AM  
Chair  
The Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

BM November 2014

Dear Jocelyn,

## Planning (Wales) Bill – Finance Committee.

Thank you for inviting me to the Finance Committee on Wednesday 26 November 2014 to discuss the Planning (Wales) Bill. I am pleased to provide further information to assist the scrutiny of the Bill.

The Explanatory Memorandum and Regulatory Impact Assessment that accompanies the Planning (Wales) Bill was produced using the most up to date and available data at that time. My officials worked with a variety of stakeholders to collect the data including Welsh Local Government Association, Local Planning Authorities, Statutory Stakeholders and the development industry. The Regulatory Impact Assessment is supported by a methodology paper which was produced to provide further detail and set out the workings behind the figures within the main Explanatory Memorandum and Regulatory Impact Assessment.

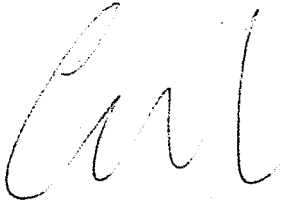
The methodology paper that supports the Explanatory Memorandum and Regulatory Impact Assessment can be found here:

<http://wales.gov.uk/topics/planning/legislation/planningbill-old/explanatory-memorandum/?lang=en>

It has come to my attention that the Explanatory Memorandum and Regulatory Impact Assessment contains minor inconsistencies. The attached document at Appendix One sets out the correction and points of clarification which may assist the Committee.

I trust that this information will assist Members in their scrutiny of the Planning (Wales) Bill. Should you or any Member have any further queries or require more information on any aspect, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carl', written in a cursive style.

**Carl Sargeant AC / AM**  
Y Gweinidog Cyfoeth Naturiol  
Minister for Natural Resources

Carl Sargeant AC / AM  
Y Gweinidog Cyfoeth Naturiol  
Minister for Natural Resources



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref : LF/CS/1154/14

Jocelyn Davies AC  
Y Cadeirydd  
Y Pwyllgor Cyllid  
Cynulliad Cenedlaethol Cymru  
Bae Caerdydd  
CF99 1NA

13<sup>th</sup> Tachwedd 2014

Annwyl Jocelyn,

### **Bil Cynllunio (Cymru) – y Pwyllgor Cyllid.**

Diolch ichi am fy ngwahodd i'r Pwyllgor Cyllid ddydd Mercher 26 Tachwedd 2014 i drafod Bil Cynllunio (Cymru). Mae'n bleser gennyf rhoi mwy o wybodaeth i gynorthwyo'r gwaith o graffu ar y Bil.

Mae'r Memorandwm Esboniadol a'r Asesiad Effaith Rheoleiddiol yn mynd law yn llaw â Bil Cynllunio (Cymru). Fe'u lluniwyd gan ddefnyddio'r data mwyaf diweddar a oedd ar gael bryd hynny. Bu fy swyddogion yn gweithio gydag amrywiaeth o randdeiliaid i gasglu'r data gan gynnwys Cymdeithas Llywodraeth Leol Cymru, Awdurdodau Cynllunio Lleol, Rhanddeiliaid Statudol a'r diwydiant datblygu. Mae papur methodoleg yn ategu'r Asesiad Effaith Rheoleiddiol. Lluniwyd y papur methodoleg i ddarparu mwy o fanylion ac i ddangos y gwaith paratoi ar gyfer y ffigurau sy'n ymddangos yn y Memorandwm Esboniadol a'r Asesiad Effaith Rheoleiddiol.

Mae'r papur methodoleg sy'n ategu'r Memorandwm Esboniadol a'r Asesiad Effaith Rheoleiddiol i'w weld yma:

<http://wales.gov.uk/topics/planning/legislation/planningbill-old/explanatory-memorandum/?skip=1&lang=cy>

Daeth i'm sylw bod y Memorandwm Esboniadol a'r Asesiad Effaith Rheoleiddiol yn cynnwys mân anghysondebau. Mae'r ddogfen sydd ynghlwm yn Atodiad 1 yn nodi'r cywiriadau ac yn cynnwys pwyntiau o esboniad a fydd o bosibl o gymorth i'r Pwyllgor.

Mawr hyderaf y bydd yr wybodaeth hon yn cynorthwyo Aelodau wrth iddynt graffu ar Fil Cynllunio (Cymru). Os oes gennych chi neu unrhyw Aelod unrhyw ymholiadau pellach neu os oes angen mwy o wybodaeth arnoch am unrhyw agwedd ar y gwaith, mae croeso ichi gysylltu â mi.

Yn gywir



**Carl Sargeant AC**  
Y Gweinidog Cyfoeth Naturiol  
Minister for Natural Resources

## 1 Introduction

- 1.1 As part of the process in preparing the Bill for scrutiny some minor discrepancies within the EMRIA for the Planning (Wales) Bill have been identified. This document identifies these and sets out the proposed amendments and detailed calculations required to address them. These changes will be made to the EMRIA and methodology document for the end of Stage 2.

## 2 Development Planning

- 2.1 Details of sources for statutory consultees were not set out in the EMRIA. The data that informed the RIA for the development plans section was provided by Dwr Cymru, Natural Resources Wales and internal data within the Welsh Government.
- 2.2 Within the National Development Framework, Strategic Development Plans and Local Development Plan withdrawal sections of the RIA there were a few mistyped figures which also impacted on the tables within Annex A. The relevant figures and calculations are set out below:

### *National Development Framework*

The figure in table 7.3 is to be amended to £89,875. This is set out in Annex A (page 345) in the total additional cost table for the National Development Framework which identifies the Welsh Government's total additional costs to be calculated as  $£17,975 \times 5 \text{ (years)} = £89,875$ . The annual cost of £17,975 is calculated from dividing the 5 year cost additional of £89,875 (set out in table 7.3) by 5 and rounded up to get the annual cost.

### *Strategic Development Plans*

The Welsh Government figure for staff costs as set out in paragraph 7.38 had been rounded to £50,000 however the exact number was used in Annex A of £53,373. Paragraph 7.38 is to be amended to £53,373.

The figure in Annex A for additional costs to the Welsh Government 2016/17 is a typo and should be £173,373. This is set out in paragraph 7.38. ( $£53,373 + £120,000 = £173,373$ )

Therefore the total figure for additional costs to Welsh Government for SDPs in table 7.6 should be amended to £386,865, This is calculated through:  $£53,373 \times 4 \text{ (years)} + £173,373$ .

Following the above amendments the figure in Table 7.10 needs to be amended so the additional 5 year cost for the Welsh Government is £476,740 (£386,865 + £89,875).

#### *Local Development Plan Withdrawal*

The one off costs in Annex A for Local Development Plan withdrawal (page 351), should read £65 as identified in Table 7.7 and set out in paragraph 7.118. The Welsh Government figure should be £1,720 which is a mid-point of the figures outlined in paragraph 7.117.

The figure of £2,200 should be in the existing costs section for Local Planning Authorities in Table 7.7 and set out in paragraph 7.118.

### 3 Pre-Application Procedure

- 3.1 The methodology paper contains a mistyped figure on page 39. The figure for 75% of 583 should read 437 and not 43.

### 4 Applications to Welsh Ministers

#### *Developments of National Significance*

- 4.1 The number of applications for Developments of National Significance, 3.4 per annum, is calculated using figures within the report Quantification of Infrastructure and Business/ Commercial planning applications submitted in Wales, ARUP October 2014. The detailed calculation is set out within the methodology document supporting the EMRIA and is set out below:

The proposal relates to applications for infrastructure development. The ARUP Report 2014 identified 94 relevant applications that were determined, called-in, or resulted in an appeal against non-determination over a period of 8 years. This gives an average of 12 applications per year.  $94/8 = 11.8$ . Rounded up to 12.

The ARUP Report 2014 further identified which of these applications might qualify as a DNS application, applying the criteria included in the Consultation. 27 applications were identified, which is 29% of the applications were above the relevant threshold. This gives an average of 3.4 DNS applications per year.

$27/94 * 100 = 28.7\%$ . Round up to 29%

$11.75 * 29\% = 3.4$

- 4.2 The EMRIA only used data relating to applications determined, called-in, or appealed against non-determination. Data relating to applications withdrawn or not decided (currently ongoing) was not included. Of the 107 infrastructure applications contained at Table 4 of the Arup report, 94 were determined, called-in, or appealed against non-determination. The other 13 were either on-going at the time of the report, or withdrawn. Therefore,

they were not included in the EMRIA, data as the 13 applications do not reflect the costings of the complete process and therefore could not be relied upon for this calculation.

- 4.3 The process for determining Developments of National Significance will ensure that these applications will receive timelier decisions; this would be within 36 weeks. This is indicated in paragraphs 7.340 and 7.361.
- 4.4 The EMRIA takes into account the process for determining an application for Developments of National Significance including connected applications. The costs of connected applications have not been estimated as those connected applications which would be appropriate to supplement an application for Developments of National Significance have not yet been confirmed and are subject to a separate public consultation. This consultation will inform whether certain consents are to be included as secondary legislation. Whilst the impact and amount of connected applications per annum has not been assessed, they are expected to go through the Developments of National Significance process and within the same timescale of 36 weeks.
- 4.5 There are some typing errors within the Developments of National Significance section which are outlined below:

Paragraphs 7.332 and 7.333 of the EMRIA the term 'DNS Independent Body' should read 'the Welsh Ministers'.

Paragraph 7.347, after 'associated' should read 'fees are assumed to be the same.'

Paragraph 7.328 should read £81,420 as outlined in section 11.19 of the methodology paper. ( $£439,729 - £358,309 = £81,420$ ) The additional costs for Welsh Government is therefore the total cost £81,420 minus the existing cost £8,210 (set out in paragraph 7.299) = £73,210. Table 7.14 will also be updated to reflect this.

## 5 Development Management

- 5.1 There have been miscalculations in the decisions notices, non-validation sections and the total costs table (Table 7.24) for the Development Management section. These changes will also need to be reflected in the total cost tables in Annex A. The relevant figures and calculations are set out below:

*Decision Notices*

The total cost to the LPA for the preferred option is £48,650 (£1,200 + £1,200 + £46,250) these figures are set out in paragraphs 7.598, 7.603 and 7.602. This cost is to be taken away from the current costs in option 1 (which is a range £84,400 to £525,000, as set out in paragraph 7.590) to calculate the savings:

£84,400 - £48,650 = £35,705

£525,000 - £48,650 = £476,305.

Table 7.19 and Annex A table (page 347) should reflect the mid point of this range = -£220,300.

*Non-Validation*

The existing cost figure for the development industry in Table 7.18 and the annual costs table for non-validation on page 346 should be the same as that in Table 7.17 which sets out how this is calculated. The correct figure is £802,750.

*Table 7.24 Total cost for Development Management Section*

Total savings for the LPAs should be identified as £323,943 per annum. This is calculated from annual costs tables -£89,600 + -£220,300 + -£14,043. (Non-validation, decision notices, notification of development on pages 346-347).

Total savings for the development industry £1,202,950 per annum. This is calculated from £37,500 + £15,000 + -£505,450 + -£750,000. (Statutory consultees, notification of development, non-validation, decision notices on pages 346-347)

## 6 Enforcement, Appeals etc.

- 6.1 Due to rounding of figures within the document there have been minor discrepancies between the main document and Annex A. The correct figures for Table 7.35 have been calculated through adding figures in the appropriate tables in Annex A on pages 347-349. As a result of this amendment changes are required to table 7.35 and are set out below:

Table 7.35, Total costs for enforcement and appeals section. Additional cost from legislation:

- Welsh Government -£123,452
- Local Planning Authorities £63,060
- Development Industry £18,375.

6.2 Paragraph 7.911 should reflect the figure outlined in the methodology paper which is £1,082 and not £895.

## 7 Total Costs of Bill

7.1 Annex A sets out the cumulative costs for the Bill by sector. There have been mistyped figures and miscalculations between chapter 7 of the RIA document and Annex A. The net figure for Local Planning Authorities 2016/17 has been mistyped, this should be -£306,183 (page 350). This change means that the total net saving is to be updated to £875,268 (page 350). Paragraph 7.1230 should also reflect this change, as a rounded number to £875,000.

7.2 The table on page 350 Annex A, has been mistyped and the following figures are correct for the Welsh Government additional costs row:

2015/16 = £71,348; 2016/17 = £340,853; 2017/18 = £222,853; 2018/19 = £222,853; 2019/20 = £222,853. Total = £1,080,760. This is calculated from the tables on pages 345 – 349.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

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Claire Griffiths  
Deputy Clerk to the Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CARDIFF  
CF99 1NA

Reference	1107.mju.griffiths
Date	7 November 2014
Pages	1 of 3

Dear Claire,

## **Finance Committee: Best Practice Budget Processes Inquiry, Part II**

When I gave oral evidence to the Committee on 22 October, I offered to provide further information on a couple of points that arose during the session.

### **1. Administration of Landfill Tax collection**

Having checked the position I can confirm that Landfill Tax is indeed currently administered by HMRC rather than by local authorities.

### **2. Estimation and collection of Non-Domestic Rating receipts**

Non-Domestic Rating (NDR) is assessed and collected by each of the 22 Welsh local authorities from the ratepayers within their respective areas, and is paid into a pool administered by the Welsh Government. The sums collected are redistributed back to the local authorities on the basis of a fixed amount per head of population.

NDR is calculated by taking the Ratable Value (RV) of a business property and multiplying it by the NDR 'poundage' for the year in question. The Valuation Office Agency, which is independent of the Welsh Government, values each business property for the purpose of NDR charging and assigns the RV.

The annual accounts for NDR are subject to audit by the Auditor General, and are prepared by the Welsh Government on a receipts and payments basis (with the additional disclosure of NDR balances held at each year end). Estimates for amounts to be collected are not subject to audit, but both sets of figures are included in the table below.

**Table 1: Non-Domestic Rating: estimates v receipts: 2009-10 to 2013-14**

Financial Year	Estimate (£000)	Collected (£000)	Variance (£000)	Variance (%)
2009-10	831,475	772,678	(58,797)	(7.0)
2010-11	825,879	783,699	(42,180)	(5.1)
2011-12	896,645	844,737	(51,908)	(5.8)
2012-13	930,022	865,452	(64,570)	(6.9)
2013-14	942,608	879,410*	(63,198)	(6.7)

\* The final collection figures for the 2013-14 financial year are unaudited at present.

*Source: Welsh Government compilation of local authority NDR returns*

The above table shows that the total NDR revenues collected by the 22 local authorities in Wales have risen every year, and by 13.8 per cent overall in cash terms over the five-year period. In each year, the NDR collected was between 93.0 per cent and 94.9 per cent of the estimated figure, and the variance was therefore broadly consistent throughout the period.

In addition to the NDR that is assessed and collected by the local authorities and shown in the table above, a small number of very large companies (these are mainly utility companies) pay their NDR directly to the Welsh Government. Estimates are not produced for these payments, but for 2013-14 the Welsh Government collected £77.3 million from 23 companies.

### **Audit arrangements for devolved taxation in Scotland**

Finally, I mentioned during my oral evidence that the Public Audit Committee of the Scottish Parliament had issued a useful report earlier this year on the arrangements that are being put in place between Audit Scotland and the National Audit Office for the audit of devolved taxation in Scotland. I suggested to the Committee [see para 159 of the

transcript] that this would be a good starting point for consideration in Wales of the audit arrangements that should apply here from 2018.

A copy of that report (*Framework for auditing the Scottish rate of income tax*) can be found here: [http://www.scottish.parliament.uk/S4\\_PublicAuditCommittee/Reports/pauR-14-01w.pdf](http://www.scottish.parliament.uk/S4_PublicAuditCommittee/Reports/pauR-14-01w.pdf).

I do hope that this information is of assistance to the Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mike Usher', written in a cursive style.

**MIKE USHER**  
**Sector Lead, Health & Central Government**

Jane Hutt AC / AM  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref: DC/JH/05068/14

Jocelyn Davies AM,  
Chair of the Finance Committee,  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA  
[Jocelyn.Davies@Wales.gov.uk](mailto:Jocelyn.Davies@Wales.gov.uk)

8 November 2014

Dear Jocelyn,

I recently met the Chair of the Climate Change Commission for Wales to discuss various matters including links between the budget process and the Well-being of Future Generations (Wales) Bill. The Commissioner referred to a report by Global Policy Forum, an independent policy watchdog that monitors the work of the United Nations and scrutinizes global policymaking. *Turning Public Budgets Towards Sustainability: A guide to environmental-social budgeting* deals with financial planning in the context of SD goals. The Commissioner felt that the report would be a useful stimulus in setting the context for structuring budgets against our well-being goals, although not something he would suggest we adopt wholesale.

I believe that the report will be a useful resource for me. It may also be of interest to your committee in taking forward its inquiry in to Best Practice Budget Process.

I hope you find the report useful and I look forward to receiving your conclusions in due course.

Bethwisher,  
Jane

Jane Hutt AC / AM  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business

# Turning public budgets towards sustainability



**A guide to environmental-social budgeting**



# Turning public budgets towards sustainability

## A guide to environmental-social budgeting

Published by

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**Editorial assistance:** Mike Gardner, Eleonora Hoffmann, Johannes Peter

**Cover picture (from the top):** “2007-12-29 Industrial terraforming for a better world 1”

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# Executive Summary

International development policy is at a crossroads. By the end of 2015, the future of the Millennium Development Goals (MDGs) will be determined. The United Nations is talking about a “Post-2015 Development Agenda” – an agenda that is supposed to define the fundamental priorities, goals and strategies for development policy beyond 2015.

In parallel, at the UN Conference on Sustainable Development (Rio+20), governments agreed to develop a set of Sustainable Development Goals (SDGs) integrating the three dimensions (social, economic and environmental) of sustainable development and being applicable to all countries in the world. Reconciling these two processes to form one coherent Post-2015 Agenda has been a major challenge. It affects all policy areas beyond development policy in a narrow sense, in particular social, economic and environmental policy – and above all fiscal policy.

## SDGs need means of implementation

Governments have the primary responsibility to implement the Post-2015 Agenda, including the agreed goals and targets. Taking into account the ongoing Post-2015 discourse and combining it with existing state obligations under the International Covenant on Economic, Social and Cultural Rights (ESC Rights), this will entail the commitment of governments to provide the maximum of their available resources for the full realization of Sustainable Development Goals. This has direct implications for fiscal policies and the allocation of public resources.

Together with regulatory policy, fiscal policy is a key instrument for governments seeking to implement the goals and strategies of sustainable development. Governments can generally approach the issue from both the revenue (tax policy) and the expenditure (budget policy) angle. They can pursue a pro-active tax policy to achieve environmental and social policy goals and fulfill their human rights obligations. This includes, for example, the taxation of the extraction and consumption of non-renewable resources, and forms of progressive taxation that are sensitive to the poor’s welfare (e.g. by taxing consumption of luxuries). On the expenditure side, they can initiate social (re-) distribution effects and create ecological steering mechanisms in taking decisions on the use of public revenues. This can include cash transfers

for needy families, child benefits, and the phasing out of ineffective or even harmful subsidies. If the priorities are properly defined, budget policies can become a powerful instrument to reduce social inequality, eliminate discrimination, and promote the transition to sustainable patterns of production and consumption.

Realizing any set of SDGs will only be possible if governments undertake, *inter alia*, the necessary adjustments in their tax and budget policies. In other words, they have to formulate Sustainable Development Budgets in order to implement the Sustainable Development Goals.

## Fiscal implications of the Post-2015 Agenda – Towards a “Whole of Government” approach

The implementation of the Post-2015 Agenda and their goals and targets will require changes in fiscal policy. However, setting ambitious goals and targets does not automatically burden the public budget. A CO2 tax, for example, can contribute to the goal of limiting global warming – and increase public revenues; the phasing out of environmentally harmful subsidies has not only an ecological steering effect, but also reduces public expenditures and increases the fiscal space of governments.

In many cases, however, the realization of the envisaged SDGs will require an increase in public spending. Quantifying the required resources presents conceptual and practical challenges. A general “needs assessment” has to take place in order to estimate the overall amount of public and private funding needed. Different sustainability goals and targets might be associated with different timeframes, which has implications in terms of sequencing financing needs and public expenditures. And it must be ensured that environmental measures do not have negative social impacts and vice versa.

The challenge of interdependencies between environmental and social policy goals and targets requires particular attention. For instance, many environmental policy instruments have regressive effects on income distribution. It should be checked e.g. whether a certain subsidy actually targets the poor, or whether it in fact benefits higher income strata – with unwanted and avoidable environmental side effects.

So far, the analysis of fiscal policy and the resulting reform proposals differ according to whether they are conceived from an ecological, a social, a gender or a human rights perspective. A consistent integration of all these perspectives in budget policy and analysis will be needed to implement SDGs and avoid unwanted side-effects. What is needed is a “Whole of Government” approach to reconcile fiscal policy with sustainable development and human rights.

### Entry points for environmental-social budgeting

In this guide, we describe possible entry points for shaping fiscal policy in accordance with environmental and social criteria. The budget cycle can be a useful tool in identifying such entry points. It distinguishes the different phases of policymaking from the drafting of the budget to policy implementation and monitoring of the results. The overall starting point for analyses and a major challenge for governments, legislators and civil society organizations (CSOs) will be to identify the fiscal implications of the Post-2015 Agenda and to translate the agreed SDGs and their related national targets into tax and budget policies. Estimating the potential costs of the Post-2015 Agenda is going to be one indispensable prerequisite for its implementation.

**Entry point 1:** After estimating the fiscal implications of the Post-2015 goals and targets, the next step will be to translate them into an **SDG-conform budget plan** and the respective annual plan of revenues and expenditures (for more, see [chapter 2.1](#)).

**Entry point 2:** After the government has prepared its budget proposal, it must present it to the legislature (the national parliament) for **enactment** (for more, see [chapter 2.2](#)).

**Entry point 3: Implementing the approved budget** is a key role for governments. They can release funds, deploy personnel, undertake investments, and shape public procurement policies (for more, see [chapter 2.3](#)).

**Entry point 4:** Legislators, Civil Society Organizations and oversight bodies have various opportunities to **track public spending, assess its impact and exercise independent budget control and auditing** (for more, see [chapter 2.4](#)).

### Budget formulation – taking environmental-social criteria into account

Government has the overall responsibility for setting the parameters of the budget, determining the priorities and the allocations to the different sectors, and drafting the final budget proposal that goes to the legislature for approval. In parallel, CSOs can accompany the drafting process by providing the relevant staff in the ministries with information and analyses and producing their own “shadow budget.” Formulating a comprehensive budget is an extremely complex process, which includes, *inter alia*, the following actions:

**Action 1:** Checking the availability of comparable budget data (for more see [chapter 3.1, Action 1](#))

**Action 2:** Scoping the relevant budget segments (for more see [chapter 3.1, Action 2](#))

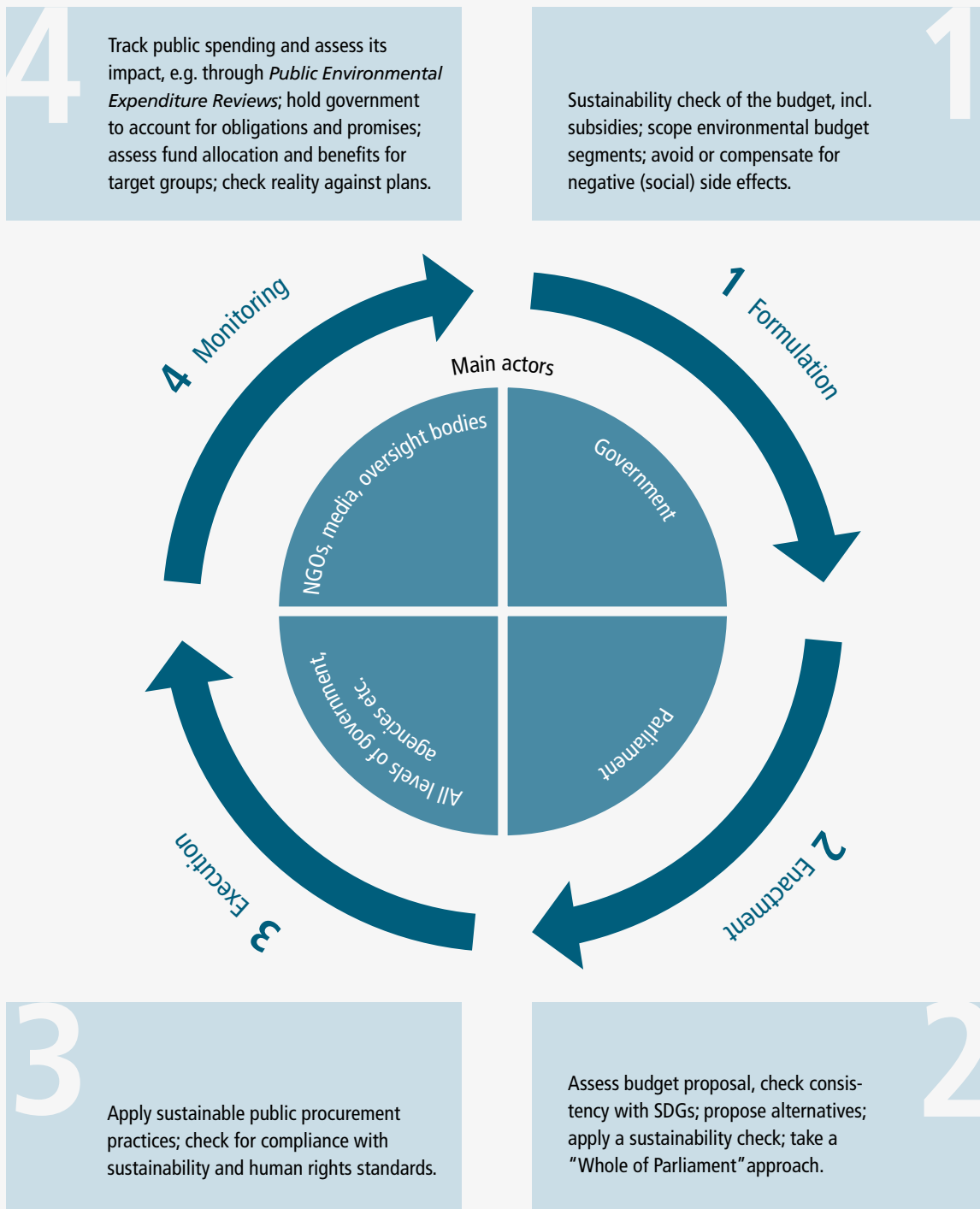
**Action 3:** Matching spending with declared policy priorities (for more see [chapter 3.1, Action 3](#))

**Action 4:** Offsetting spending shifts and compensating adverse effects (for more see [chapter 3.1, Action 4](#))

**Action 5:** Drafting the consolidated budget proposal (for more see [chapter 3.1, Action 5](#))

Dealing with harmful subsidies is one of the key tasks of environmental-social fiscal reforms. Therefore, effective tools to identify and assess environmentally harmful subsidies are of particular importance. However, any “sustainability check” of subsidies must estimate not only the size and negative environmental impact of these subsidies, but also their social and economic effects. Proposals to reduce or eliminate subsidies must take potentially regressive effects and negative consequences for the poor into account.

### The Budget Cycle: Entry points for environmental-social budgeting



In parallel to the formulation of the budget by governments, CSOs can draft “alternative budgets,” based on their own estimates of the financial requirements and fiscal implications of the Post-2015 Agenda. This can be done comprehensively for the budget as a whole, or for individual sectors such as the ministry of health or the ministry of environment. Such activities could build upon the experiences of the already existing alternative budget initiatives. Important examples include the Alternative Federal Budget and the report of the Green Budget Coalition in Canada, the Philippines Alternative Budget, and the Citizens Alternative Budget in Kenya.

### **Enactment – approval of the budget by the legislature**

After the government has prepared its budget proposal, it has to be passed to the legislature. The right of the legislature to change or amend the budget proposed by the executive differs substantially depending on a country’s respective political system and its codified division of powers. In countries where parliament plays an active role in the budget process, parliamentary committees have the opportunity to check whether the proposed budget is in accordance with the SDGs and the respective state obligations and commitments derived from the Post-2015 Agenda.

In parallel to the necessary “Whole of Government” approach to reconcile fiscal policy with sustainable development, parliaments should be in a position to deal with all aspects of sustainable development in a holistic and integrated manner. This could be done, for example, by authorizing a special committee to assess the sustainability impact of all legislative projects – including budget decisions.

### **Execution and implementation – from sustainable development budgets to results**

Implementing the approved budget is the responsibility of government and its sector ministries. They can release funds, deploy personnel, undertake investments, and shape public procurement policies. In this stage of the budget cycle, governments face several challenges.

1. Governments have to ensure that the funds allocated in the budget are actually spent on the designated purpose.
2. Governments have to take care that the funds are spent efficiently and effectively, reach the intended beneficiaries, and achieve tangible results.
3. Governments have to inform the public early in advance of new spending programs or budget cuts.
4. Governments have to see to it that accompanying measures of a budget decision (e.g. compensation payments for subsidy cuts) are carefully sequenced.

One significant issue in this phase of the budget cycle is public procurement. Governments and governmental agencies enjoy considerable purchasing power. Therefore, public procurement can be an important instrument to promote local businesses and high environmental and social standards.

### **Monitoring, impact assessment and auditing**

Legislators, CSOs and oversight bodies have various means and methods of tracking public spending, assessing its impact and exercising independent budget control and auditing. Examples of existing monitoring approaches and instruments include the Public Expenditure Tracking Surveys (PETS), the Public Expenditure Reviews (PERs), particularly the Public Environmental Expenditure Reviews (PEERs), and the Climate Public Expenditure and Institutional Reviews (CPEIR).

While budget monitoring and impact assessments have to be done at national level, there is also an international dimension to these activities. One of the four building blocks of the Post-2015 Agenda could be “*a participatory monitoring framework for tracking progress and mutual accountability mechanisms for all stakeholders.*”<sup>1</sup> Tracking fiscal policies could be one of the integral elements of this mechanism.

<sup>1</sup> Cf. UN Secretary-General (2013), para. 75

# 1

## Introduction: From Sustainable Development Goals to Sustainable Development Budgets

## 1.1 Post-2015: Towards a new global agenda for sustainable development

International development policy is at a crossroads. By the end of 2015, the future of the Millennium Development Goals (MDGs) – the roadmap for development policy since the year 2000 – will be determined. The United Nations is talking about a “Post-2015 Development Agenda” – an agenda that is supposed to define the fundamental priorities, goals and strategies for development policy beyond 2015.

In parallel, at the United Nations Conference on Sustainable Development (Rio+20) in June 2012, governments agreed to develop a set of Sustainable Development Goals (SDGs) integrating the three dimensions (social, economic and environmental) of sustainable development and being applicable to all countries in the world. In their view, this new set of universal goals could be a useful tool for pursuing focused and coherent action on sustainable development.

Reconciling these two processes (the MDG and the SDG processes) to form one coherent Post-2015 Agenda has been a major challenge. It affects all policy areas beyond development policy in a narrow sense, in particular social, economic and environmental policy – and above all fiscal policy.

## 1.2 Four building blocks of the Post-2015 Agenda

It is not yet clear what the Post-2015 Agenda will look like. Intergovernmental negotiations are only starting in the UN General Assembly in autumn 2014, and the final Agenda is expected to be adopted at a Summit of Heads of State and Government in September 2015.

However, in his report “A life of dignity for all: accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015” from July 2013 the UN Secretary-General stated that for a future sustainable development agenda to take root, the following four building blocks had to be agreed upon:

- “(a) a far-reaching vision of the future firmly anchored in human rights and universally accepted values and principles, including those encapsulated in the Charter, the Universal Declaration of Human Rights and the Millennium Declaration;
- (b) a set of concise goals and targets aimed at realizing the priorities of the agenda;
- (c) a global partnership for development to mobilize means of implementation;
- (d) a participatory monitoring framework for tracking progress and mutual accountability mechanisms for all stakeholders.”<sup>2</sup>

Embedded between the reconfirmed universally accepted values and principles and the implementation and monitoring measures, SDGs would be an essential, albeit one, element of the Post-2015 Agenda.

<sup>2</sup> Cf. UN Secretary-General (2013), para. 75 (highlights by the author).

## 1.3 SDGs as an integral element of the Post-2015 Agenda

In the outcome document of the Rio+20 Conference, governments took a decision on the process of developing a set of Sustainable Development Goals and defined their key characteristics. Thus they should “*address and incorporate in a balanced way all three dimensions of sustainable development and their interlinkages.*”<sup>3</sup> The governments also underscored that SDGs should be

- ▶ *“action-oriented*
- ▶ *concise and easy to communicate*
- ▶ *limited in number*
- ▶ *aspirational*
- ▶ *global in nature and universally applicable to all countries while*
- ▶ *taking into account different national realities, capacities and levels of development and respecting national policies and priorities.*”<sup>4</sup>

After the Rio+20 Conference, various expert groups, networks and civil society organizations published their proposals for Post-2015 goals. Most prominently, the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (HLP) included in its report a list of 12 “*illustrative goals.*”<sup>5</sup> Similarly, the UN Sustainable Development Solutions Network, led by Jeffrey Sachs, published in its report a list of ten Sustainable Development Goals and the related targets.<sup>6</sup>

At the intergovernmental level the UN established an Open Working Group (OWG) on Sustainable Development Goals. This Working Group has met under the auspices of the UN General Assembly since March 2013 and is expected to present its final report including a list of proposed SDGs by September 2014. The agenda of this working group includes sectoral issues, such as health, water, energy, food security and nutrition. However, the working group is also discussing macroeconomic policy questions and means of implementation, making it clear that any new set of SDGs has to be accompanied by the necessary macroeconomic policies and the provision of sufficient financial resources to achieve the goals. The UN Secretary-General shared this analysis when he defined “*a global partnership for development to mobilize means of implementation*” as one of the four building blocks of a future sustainable development agenda.

In addition to the Open Working Group, the UN established an Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) under the auspices of the General Assembly. According to its terms of reference, the committee assesses financing needs, considers the effectiveness, consistency and synergies of existing instruments and frameworks, and evaluates additional initiatives, with a view to preparing a report proposing options on an effective sustainable development financing strategy. The Committee plans to finalize its report by August 2014.

Intergovernmental negotiations on the Post-2015 Agenda will start afterwards based, *inter alia*, on the reports of the Open Working Group and the ICESDF. They are to culminate in a Summit at Heads of State and Government level in September 2015 for the adoption of the Post-2015 Agenda. While this phase of policymaking is primarily intergovernmental, civil society organizations (CSOs) have a wide range of opportunities to bring important perspectives to the discussions, help raise public awareness and interest, and monitor the decision-making process. In particular, they can promote goals directly related to taxation and fiscal policy reforms, such as the elimination of environmentally harmful subsidies (while offsetting adverse social impacts) or the closing down of tax havens.

3 Cf. UN Doc. A/RES/66/288, para. 246.

4 Ibid., para. 247.

5 Cf. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013), Annex 2.

6 Cf. UN Sustainable Development Solutions Network (2013), Annex 1.

## 1.4 Translating the SDGs into national goals and targets

As governments have emphasized that the SDGs need to take different national realities, capacities and levels of development into account, we can expect that this agenda will be translated into National Post-2015 Agendas for Sustainable Development after the adoption of the Post-2015 Agenda at global level. These agendas could include differentiated lists of national goals and targets. They can build upon the existing national strategies for sustainable development. The formulation of National Post-2015 Agendas can start in autumn 2015, once the international Agenda has been agreed, and should take place in a transparent manner with full participation of parliaments and civil society. This approach of adapting the global agenda to the national realities is also supported by the HLP in its report:

*“The post-2015 agenda must enable every nation to realise its own hopes and plans. We learned from the MDGs that global targets are only effectively executed when they are locally-owned – embedded in national plans as national targets – and this is an important lesson for the new agenda. Through their national planning processes each government could choose an appropriate level of ambition for each target, taking account of its starting point, its capacity and the resources it can expect to command. They could receive input on what is realistic and achievable in each target area from citizens, officials, businesses and civil society in villages, towns, cities, provinces and communities. This is an opportunity for governments to ensure access of citizens to public information that can be used as the basis of national strategies and plans.”<sup>7</sup>*

## 1.5 SDGs need means of implementation

Governments will have the primary responsibility to implement the Post-2015 Agenda, including the agreed goals and targets. In the outcome document of the Rio+20 Conference, governments emphasized the importance of national policies and the mobilization of domestic resources, while acknowledging the need of developing countries to receive additional financial support from the international community:

*“We reaffirm that developing countries need additional resources for sustainable development. [...] We call on all countries to prioritize sustainable development in the allocation of resources in accordance with national priorities and needs, and we recognize the crucial importance of enhancing financial support from all sources for sustainable development for all countries, in particular developing countries.”<sup>8</sup>*

These statements are consistent with the International Covenant on Economic, Social and Cultural Rights (ESCR). Article 2.1 of the Covenant states:

*“Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the present Covenant by all appropriate means, including particularly the adoption of legislative measures.”<sup>9</sup>*

Thus governments have the obligation to provide the maximum of their available resources for ESCRs. This also applies to international assistance, as most recently highlighted in the Maastricht Principles on Extraterritorial Obligations of States in the area of Economic, Social and Cultural Rights.<sup>10</sup>

Again, quantifying the maximum of available resources and the remaining financial gap, which has to be covered by external funding, is a complex task, and as yet there is no internationally agreed methodology.

Transferred to the Post-2015 discourse, this provision would entail the commitment of governments to provide the maximum of their available resources for the full realization of Sustainable Development Goals. This has direct implications for fiscal policies and the allocation of public resources.

7 Cf. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013), pp. 21.

8 Cf. UN Doc. A/RES/66/288, paras. 252–253.

9 UN (1966).

10 Cf. Maastricht University (2012).

## 1.6 Tools and instruments in achieving the SDGs: The key role of fiscal policy

Together with regulatory policy, fiscal policy is a key instrument for governments seeking to implement the goals and strategies of sustainable development. Governments can generally approach the issue from both the revenue (tax policy) and the expenditure (budget policy) angle.

In principle, **tax policy** has the following three functions:

- ▶ **raising revenue** to be able to provide the necessary public goods and services;
- ▶ **redistributing income and assets** from the richer to the poorer strata of society;
- ▶ **re-pricing goods and services** to include environmental and social costs and steer against undesirable practices (such as an excessive consumption of natural resources).

Governments can use these three functions of a pro-active tax policy in achieving environmental and social policy goals and fulfilling their human rights obligations. Often, however, they only do this insufficiently. In fact, many even join the ruinous race to the bottom, thus forfeiting effective measures against tax evasion and tax avoidance, and are reluctant to introduce effective taxation on the environmentally harmful consumption of natural resources. Often, taxes related to the environment have only been introduced in a few selected fields, and so far, systematic ecological tax reforms have remained the exception.

Within the political decision-making structures with their sectoral responsibilities, government institutions addressing sustainable development often remain peripheral. Usually, they lack both the necessary political clout and the financial resources to pursue their strategic tasks and fulfill their role as coordination and monitoring bodies.

In parallel to the revenue side, governments also have scope for action on the **expenditure side**. For they can achieve social (re-)distribution effects and create ecological steering mechanisms in taking decisions on the use of public revenues as well. But all too often, public funds are spent for harmful or at least dubious purposes, be it high military spending or environmentally harmful subsidies.

If the priorities are redefined, budget policies can become a powerful instrument to reduce social inequality, to eliminate discrimination and to promote the transition to sustainable patterns of production and consumption.

Considering these fiscal instruments in conjunction with a possible set of goals within the Post-2015 Agenda, we can roughly distinguish three types of goals with respect to their implementation through fiscal means – in descending order by their immediate influence (see also the illustrative list of Sustainable Development Goals, Targets and Indicators related to fiscal policy in [Box 1](#)).

- ▶ The first set of potential goals and targets would have direct implications for fiscal policies in that they address certain types of such policies. For instance, the goals might call for a certain tax ratio (the ratio of government revenue vs. Gross Domestic Product (GDP)), they might call for the elimination of preferential tax regimes, or even for the implementation of certain types of tax, like taxes on resource consumption or CO<sub>2</sub> emissions. If taken seriously, such goals will directly influence fiscal policies. The same could be true for the expenditure side, for example by phasing out environmentally harmful subsidies.
- ▶ The second type of possible goals would have fiscal implications by requiring more public resources to be allocated in certain sectors. This could very likely be the bulk of goals. If a goal on education for all is included, many countries will have to allocate more money to the education system. If a goal for universal healthcare is included, the same will be true for public health systems. Increasing the quantity of public resources will not be a sufficient but often a necessary condition for achieving the agreed goals and targets.
- ▶ The third set of goals might call for regulatory changes, for instance in order to eliminate or restrict the production and use of persistent organic pollutants, or to limit the depletion of natural resources. The regulatory measures necessary to implement such goals, while not fiscal policies as such, can have significant effects on the revenue as well as the expenditure side of public finance. Prohibiting certain types of behavior (like fishing in certain parts of the oceans) might affect the income of people – making compensation mechanisms necessary. Restricting the use of environmentally harmful technologies (such as nuclear energy) will require replacements, and their introduction might have to be accompanied by subsidies.

## Box 1:

## Illustrative list of Sustainable Development Goals, Targets and Indicators related to fiscal policy

(based on proposals from Governments, UN institutions and Civil Society Organizations)

Entry points in the budget cycle	Goals, targets, indicators
<b>Formulation SDG conform budgets: The revenue side</b>	<p><b>Goal:</b> To promote and ensure the mobilization of adequate public financial resources for the implementation of the Post-2015 Agenda.</p> <p><b>Target:</b> <b>Effective taxation policies</b> that ensure the mobilization of maximum available resources for the fulfillment of human rights and the Post-2015 commitments.</p> <p><b>Indicator:</b> Public revenue as a percentage of GDP; tax/GDP ratio.</p> <p><b>Target: Reduce illicit flows and tax evasion and increase stolen-asset recovery:</b> By 2020, at the latest, all countries have regulatory systems in place that prevent tax evasion and illicit financial flows.</p> <p><b>Indicator:</b> Existence and effective use of national regulation to prevent tax evasion and illicit financial flows (e.g. mandatory country-by-country reporting standards for transnational corporations).</p> <p><b>Target:</b> By 2020, at the latest, introduction of <b>internationally coordinated taxes</b> in areas such as financial transactions, energy and climate.</p> <p><b>Indicator:</b> Existence and effective implementation of a Financial Transaction Tax, a CO<sub>2</sub> Tax, or similar fiscal instruments, with appropriate measures taken in advance to offset any regressive impacts.</p> <p><b>Target:</b> Halve the proportion of <b>development cooperation flows</b> to the government sector not <b>reported on government's budget(s)</b> (with at least 85 % reported on budget) (Baseline year 2010).</p> <p><b>Indicator:</b> Percentage of development cooperation funding scheduled for disbursement that is recorded in the annual budgets approved by the legislatures of developing countries.</p>
<b>Formulating SDG conform budgets: The expenditure side</b>	<p><b>Goal:</b> To achieve progressively the full realization of the Economic, Social and Cultural Rights.</p> <p><b>Target:</b> Provide sufficient public resources for the national <b>education</b> system.</p> <p><b>Indicator:</b> Public investment in education and vocational training as a percentage of GDP; public spending on the education system as a percentage of public expenditures (at national and subnational levels combined).</p> <p><b>Target:</b> Provide sufficient public resources for the national <b>health</b> system.</p> <p><b>Indicator:</b> Public investment in the health system as a percentage of GDP; public spending on the health system as a percentage of public expenditures (at national and subnational levels combined).</p>

Formulating SDG conform budgets: The expenditure side	<p><b>Target:</b> Provide sufficient public resources for the <b>social security</b> system.</p>
	<p><b>Indicator:</b> Public spending on the social security system as a percentage of public expenditures and GDP.</p>
	<p><b>Target:</b> Provide sufficient public resources for <b>food, clothing and housing</b> for poor households.</p>
	<p><b>Indicator:</b> Public expenditures benefiting poor households (e.g. for food, clothing and housing) as a percentage of public expenditures (at national and subnational levels combined) and GDP.</p>
	<p><b>Target:</b> To increase progressively the ratio of public spending on the realization of the economic, social and cultural rights to public <b>military expenditures</b>.</p>
	<p><b>Indicator:</b> Ratio of public expenditures for the realization of the economic, social and cultural rights (e.g. education, health, social security, food, clothing and housing) to public military expenditures; military expenditures as a percentage of public expenditures.</p>
	<p><b>Goal:</b> To promote and ensure environmental sustainability and sustainable use of natural resources.</p>
	<p><b>Target:</b> By 2020, at the latest, incentives, including <b>environmentally harmful subsidies</b> (e.g. fossil fuel, fishery and industrial agriculture), are eliminated, phased out or reformed in order to minimize or avoid negative impacts, with appropriate measures taken in advance to offset any negative social impacts on poor households.</p>
	<p><b>Indicator:</b> Public spending on environmentally harmful subsidies in absolute numbers and as percentage of public expenditures and GDP.</p>
	<p><b>Target:</b> Increase positive incentives, including time-bound targeted <b>“green” subsidies</b>, for the conservation and sustainable use of natural resources and sustainable energy.</p>
	<p><b>Indicators:</b> Public spending on sustainable energy, forest restoration and improved water and sanitation provision; public investment in insulation and green buildings; public spending on research and development for environmental technologies, in absolute numbers and as a percentage of public expenditures and GDP.</p>
	<p><b>Goal:</b> To create an equitable, rule-based, predictable and non-discriminatory international trade system.</p>
	<p><b>Target:</b> By 2020, at the latest, <b>agricultural export subsidies</b> are eliminated, phased out or reformed in order to minimize or avoid negative impacts, with appropriate measures taken in advance to offset any negative social impacts on smallholders.</p>
	<p><b>Indicator:</b> Public spending on agricultural export subsidies in absolute numbers and as a percentage of public expenditures and GDP.</p>
<p><b>Goal:</b> Providing adequate international public finance for global public goods and sustainable development</p>	

Formulating SDG conform budgets: The expenditure side	<b>Target:</b> By 2020, at the latest, increase Official Development Assistance (ODA) to at least 0.7 % of GDP for all high-income countries.
	<b>Indicator:</b> ODA to GDP ratio.
	<b>Target:</b> By 2020, increase <b>Official Climate Finance</b> to at least \$100 billion per year, in addition to ODA, allocated to all high-income countries according to the CBDR principle.
	<b>Indicator:</b> Official Climate Finance to GDP ratio.
Budget execution and implementation	<b>Goal:</b> Sustainable Public Procurement.
	<b>Target:</b> By 2020, all <b>public procurement</b> (at national and subnational levels) follows simple sustainable development guidelines with no procurement going to environmentally harmful activities.
	<b>Indicator:</b> Existence and effective use of sustainable development guidelines for all public procurement.
Monitoring and accountability	<b>Goal:</b> Increasing the transparency of fiscal policy and improving the instruments of tracking progress towards SDG conform budgets.
	<b>Target:</b> By 2020, all countries have systems in place that <b>track environmental and climate related expenditures</b> .
	<b>Indicator:</b> Percentage of countries with systems that track environmental and climate related expenditures.
	<b>Target:</b> All countries have systems in place that track and make public resource allocations to <b>gender equality and women's empowerment</b> .
	<b>Indicator:</b> Percentage of countries with systems that track and make public allocations to gender equality and women's empowerment.

In sum, realizing any set of SDGs will only be possible if governments undertake, *inter alia*, the necessary adjustments in their tax and budget policies. In other words, they have to formulate **Sustainable Development Budgets in order to implement the Sustainable Development Goals**.

The approach of Sustainable Development Budgets should not be confused with the economic concept of sustainable budgets. The latter deals with the issue of how long-term balanced budgets can be designed to ensure macroeconomic stability. Occasionally, this concept is used as an argument to justify austerity policies. Human rights and social or environmental aspects do not play any role in this narrow interpretation of the term sustainability.<sup>11</sup>

11 One example of this approach is the *Fiscal Sustainability in Theory and Practice* handbook published by the World Bank (cf. Burnside 2005).

## 1.7 Fiscal implications of the Post-2015 Agenda

The implementation of the Post-2015 Agenda and its goals and targets will certainly require changes in fiscal policy. However, not each of the future goals and targets will automatically have an impact on the national budget. Some goals and targets might be achieved by means of regulatory policies, be it improved labor standards, CO<sub>2</sub> emission limits for cars, or the prohibition of financial transactions into tax havens or secrecy jurisdictions. Setting ambitious goals and targets does not automatically burden the public budget either. A CO<sub>2</sub> tax or an effective emission trading system can contribute to the goal of limiting global warming – and increase public revenues; the phasing out of harmful subsidies reduces public expenditures and increases the fiscal space of governments.

Another question to be asked is who will actually be responsible for implementing certain goals and targets and, thus, has to provide the necessary financial resources. In principle, *“each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasized.”*<sup>12</sup> But governments can decide (for good or bad reasons) to “outsource” the provision of certain public goods and services either to institutions at the sub-national level, for instance to local authorities, or to private actors. For example, in some countries, education, health-care, pensions, public transport etc. are provided publicly, in others, privately, and many countries have mixed systems. This means, for instance, providing for universal access to healthcare does not always translate into an increase in government spending but could also mean reforms in the regulation of health insurance or subsidizing private investment in clinics through tax breaks.

However, in many cases, the realization of the envisaged SDGs will require an increase in public spending. Quantifying the required resources presents conceptual and practical challenges. First, a general “needs assessment” has to take place in order to estimate the overall amount of public and private funding needed (see [► Box 2](#)). Second, choices have to be made about the public or private provision of the required resources. Third, different sustainability goals and targets might be associated with different timeframes, and this has implications in terms of sequencing financing needs and public expenditures. And fourth, it has to be assured that environmental measures do not have negative social impacts and vice versa.

The problem of interdependencies between environmental and social policy goals and targets requires particular attention. Many environmental policy instruments, for instance, have regressive effects on income distribution. For example, a low-income household spends a larger proportion of its income on heating than its higher-income neighbours, so an energy tax or cutting subsidies might weigh more heavily on the former group than on the latter. In another scenario, improving environmental quality in a neighbourhood may cause an increase in rents and prices in the area. Several options exist for anticipating and countering such negative distributional effects in advance; when using these options, it is important to observe the right order and maintain the overall environmental effectiveness of the original environmental policy.<sup>13</sup> In all cases it should be checked whether a certain subsidy is actually directed at the poor, or whether it in fact benefits higher income strata – with unwanted, and avoidable environmental side effects (see [► chapter 3.4](#)).

Of course, the argument of interdependency between policy areas also works in the opposite direction: many social or welfare-oriented policies will result in higher consumption (which is precisely their impetus). Higher consumption will in turn result in greater resource use and related environmental effects. However, this argument must never be used to disqualify the fulfilment of Economic, Social and Cultural Rights. The question then should be how to assure the fulfilment of human rights for everybody in cases where a society as a whole has already exceeded its fair share of the ecological footprint.

Thus, identifying – and calculating – the fiscal implications of the Post-2015 goals and targets is a complex task, depends on the policy mix opted for (regulatory vs. fiscal instruments), the timeframe, the extraterritorial funding obligations (be it as donor or recipient), and, last but not least, the economic, social and environmental situation in the specific country.

12 Cf. UN (2002), para. 6.

13 Cf. Organisation for Economic Co-Operation and Development (OECD) (2008), p. 40f.

## 1.8 Towards a “Whole of Government” approach to reconcile fiscal policy with sustainable development

So far, the analysis of fiscal policy and the resulting reform proposals differ according to whether they are conceived from an ecological, a social, a gender or a human rights perspective.

- ▶ Ecologically motivated analyses and reform proposals have set out mainly from the revenue side of the budget. They result in specific environmental taxes or more comprehensive concepts of environmental tax reform. An analysis of government spending from an environmental perspective has only been carried out in few individual sectors.<sup>14</sup>
- ▶ Analyses and reform proposals motivated by social policy considerations are far more heterogeneous. For example, with a view to the revenue side, they address issues of capital, income and wealth taxation or the regressive effects of value-added taxes. On the expenditure side of the budget, they take up e.g. the design and public financing of social security systems.
- ▶ The analysis of fiscal policy from a human rights perspective has concentrated on the expenditure side. Under the headword “human rights budgeting,” activities focus above all on whether budget policy is in harmony with the ESCR. In addition, budgets are surveyed with a view to the rights of women, children and youths.

It is surprising that more than 20 years after the Rio Conference on Environment and Development, no country in the world has implemented systematic environmental impact assessments of its budget. The analyses of the environment ministry budgets are by no means sufficient for this purpose, for the budgets of other ministries also have environmental impacts. This applies e.g. to the transport sector, road building, financing economic infrastructure or agricultural expenditures. More recent concepts for climate-sensitive budgets represent a step towards a holistic view of the budget through the environmental lens.

From a pragmatic angle, concentrating on sectoral or actor-related analyses of the budget is easier to conduct than e.g. a complex sustainability check of the entire budget. But they also have clear limits, for separate analyses can lead to incoherent results and conflicting policy recommendations. For example, while subsidies or tax reliefs for the extractive industry can promote employment, they may also bear negative ecological side-effects. In the case of constant public revenues, each proposal on additional spending in one sector (e.g. education) will inevitably lead to less spending in another sector. The International Budget Partnership (IBP) refers to this problem of potential competition between alternative budget proposals:

*“CSOs engaging in budget analysis and advocacy that seeks to strengthen the governments commitment to a particular sector or to a particular group of people must always be aware that public budgeting is about trade-offs. Government budgets allocate scarce resources among competing interests, so increases in spending on one program or service will almost always require a decision either to increase revenues (i.e., taxes, fees, etc.) or cut spending on other programs. CSOs can strengthen their chances of success if they integrate these potential trade-offs into their analyses and advocacy objectives.”<sup>15</sup>*

A consistent integration of the environmental, social and human rights perspective in budget policy and analysis would be ideal. What is needed is a kind of “Whole of Government” approach to reconcile fiscal policy with sustainable development and human rights. Spending that would appear to be harmful from such an integrated perspective could thus be systematically identified (and ultimately eliminated). Equally, proposals on alternative budgets should be conceived in accordance with environmental, social and human rights criteria. The ultimate objective should be to orient the entire budget on sustainable development.

In the following chapter we will describe possible entry points for shaping fiscal policy in accordance with environmental and social criteria. We concentrate on these aspects of sustainability as they have not yet been covered systematically by budget policies and alternative budget initiatives.

14 One of the few exceptions is the Green Budget Coalition (GBC) in Canada (cf. Green Budget Coalition 2012 and [www.greenbudget.ca](http://www.greenbudget.ca)).

15 Cf. <http://internationalbudget.org/budget-analysis/sectors-issues-demographic>

## 2

# Entry points for environmental-social budgeting

The budget cycle can be a useful tool to identify possible entry points for shaping and analyzing fiscal policy systematically in accordance with environmental and social criteria. It distinguishes the different phases of policymaking from the drafting of the budget to policy implementation and monitoring of the results.

One starting point for the analysis, and a major challenge for governments, legislators and civil society organizations will be to identify the fiscal implications of the Post-2015 Agenda and to translate the agreed SDGs

and their related national targets into tax and budget policies.

In some cases this could be done very straightforward, when a goal, target or indicator directly affects fiscal policy. In the Post-2015 discussion, there have been various proposals for such kind of SDGs related to fiscal policy. They refer to the revenue side by suggesting certain targets on taxation policies; to the expenditure side with specific targets for public spending in a certain policy area; to the phase of budget execution and implemen-

## Box 2:

### Estimating needs

Estimating the financial resources that will be needed to implement the goals and targets of a possible Post-2015 Agenda is not trivial. In 2013-2014, the Intergovernmental Committee of Experts on Sustainable Development Financing of the UN had this issue, *inter alia*, on its agenda. The Committee has been supported by a working group of the UN System Task Team (UNTT). One of the background papers of this working group contains a review of global investment requirement estimates in areas of sustainable development.<sup>17</sup>

The authors of the working group list a number of difficulties they faced trying to calculate the investment needs for a Post-2015 Agenda. These difficulties are not just relevant for the global level, but for the national and lower levels of government as well.<sup>18</sup>

- ▶ In order to quantify needs, clear normative targets have to be agreed upon. It is impossible to calculate investment needs for vague goals or targets.
- ▶ There has to be a good understanding of the baseline against which to calculate the necessary increases in spending. If the picture of the status quo is murky, it will be difficult to estimate how much more is needed to improve upon it.
- ▶ The timeframe in which to implement the goals and targets is another important variable as this determines how much money is needed when and for how long.
- ▶ There are interdependencies to be expected for the different types of investments envisaged. There may be benefits as well as negative side effects among policies (cf. below). Thus, certain investments will call for more investments in a different sector while others might reduce the need for investments.
- ▶ Estimating investment needs does not mean estimating the available means – and the additional financing necessary. The way that means are provided may have repercussions on the amount of necessary investments, and this may have to be factored into the calculations.

Figure 1 shows the huge discrepancies in estimated investment requirements calculated by different authors. To give an example, the estimated financial needs to achieve the so-called Aichi Targets (targets set to reduce the loss of biodiversity within the framework of the Convention of Biological Diversity) differ between 153 and 436 billion US Dollars annually. The huge difference between both ends of the estimate shows how difficult it is to make such approximations and how important the underlying assumptions are. The gap between the two estimates for investment needs in biodiversity protection derives, *inter alia*, from assessments on how climate change will be progressing.

16 High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013), p. 31.

17 Cf. UNTT Working Group on Sustainable Development Financing (2013b).

tation, particularly with regard to public procurement; and to the monitoring and accountability mechanisms, for instance by asking for systems to track environmental and climate-related public expenditures (see ▶ Box 1).

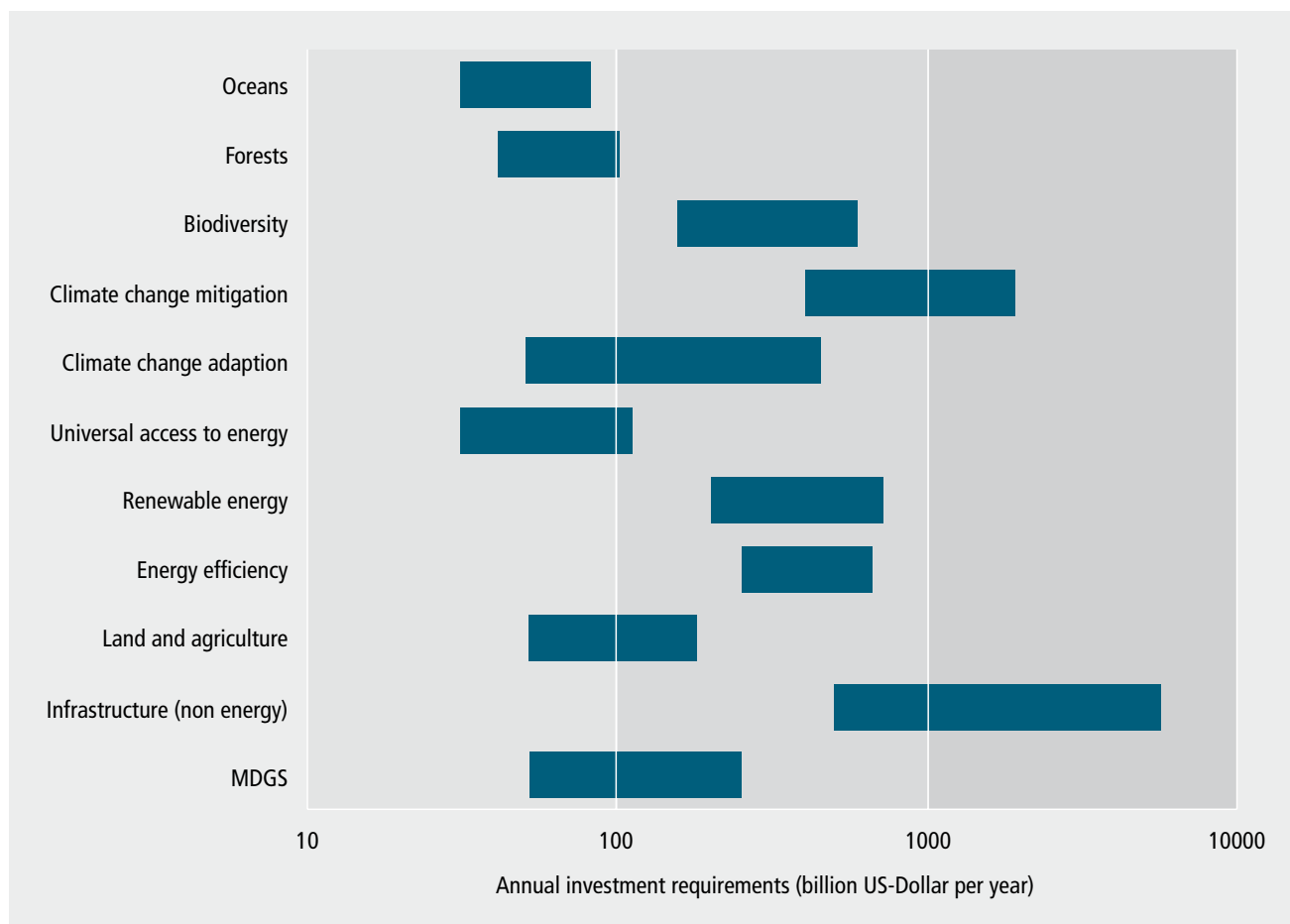
In other cases the budgetary impact of a defined goal would be more difficult to calculate. Realizing, for instance, the goal proposed by the High-level Panel to “increase public participation in political processes and civic engagement at all levels”<sup>16</sup> may cause extra costs for governments, subnational governmental bodies and local

authorities. However, if a goal has been formulated so vaguely, it would be extremely difficult to translate it into measurable targets and to estimate the additional financial requirements. Nevertheless, estimating the potential costs of the Post-2015 Agenda will be an indispensable prerequisite for its implementation (see ▶ Box 2).

Taking the standard model of the budget cycle as a reference framework, the following entry points for environmental-social budgeting can be distinguished:

**Figure 1:**

**Order of magnitude of investment needs from the literature**



Source: UNTT Working Group on Sustainable Development Financing (2013b), p. 5.

18 Cf. UNTT Working Group on Sustainable Development Financing (2013a), p. 3.

## 2.1

### Entry point 1: Formulating an SDG conform budget

After estimating the fiscal implications of the Post-2015 goals and targets, the next logical step – and probably the most critical one in the whole policy cycle – will be to translate them into a mid-term budget plan and the respective annual plan of revenues and expenditures. Based on these estimates, an “SDG conform” budget could be drafted. Normally, the formulation of the draft budget is a key responsibility of the finance minister based on the draft budgets proposed by the sector ministries. Often it takes place behind closed doors without consultation or even information of the public/civil society.

However, parallel to the drafting of the budget by government, CSOs can prepare “alternative budgets,” based on their own estimates of the financial requirements and fiscal implications of the Post-2015 goals. This can be done in a comprehensive way for the budget as a whole, for individual sectors such as the budget of the ministry for health or the environmental ministry, or for specific cross-sectoral goals (e.g. climate sensitive budgets). Such activities could build upon the experiences of the already existing alternative budget initiatives (find more in [chapter 3.1](#)).

## 2.2

### Entry point 2: Enactment – approval of the budget by the legislature

After the government has prepared its budget proposal, it has to present it to the legislature (the national parliament) for approval. Parliaments are most influential in this enactment stage of the budget cycle. However, parliament’s ability to oversee and influence the budget varies across countries. It depends on the parliament’s right to be involved in the budget process prior to the submission of the draft budget and its power to change or amend the budget before approving it. In countries where the parliaments play an active role in the budget process, parliamentary committees can check if the proposed budget is in accordance with the SDGs and the respective state obligations and commitments derived from the Post-2015 Agenda. CSOs can support this assessment by providing their analysis of the draft budget based on their own budget proposals (find more in [chapter 3.2](#)).

## 2.3

### Entry point 3: Execution and implementation – from sustainable development budgets to sustainable development results

Implementation of the approved budget is, of course, a key function of the governments. They can release funds, deploy personnel, undertake investments, and shape public procurement policies. In this stage of the budget policy cycle, governments face several major challenges.

First, they have to ensure that the funds allocated in the budget are actually spent for the designated purpose (e.g. a ten percent increase in the investment in renewable energies).

Second, they have to take care that the funds are spent efficiently and effectively, reach the intended beneficiaries, and achieve tangible results (e.g. an increase in the share of renewable energies in electricity consumption).

Third, they have to inform the public early in advance about new spending programs or budget cuts (in particular the potential beneficiaries as well as the groups negatively affected by a budget decision). For instance, the introduction of a new cash transfer program cannot be implemented effectively, if the “target groups” are not aware of it.

And finally, governments have to see that accompanying measures of a budget decision (e.g. compensation payments for subsidy cuts) are carefully sequenced. If, for instance, a government has decided to phase out subsidies for fossil fuels and introduce compensatory measures for the poor, it must do this in the right order.

As this phase of the budget policy cycle is clearly in the domain of governments and public administrations, legislators and CSOs have only limited ability to participate and to monitor the disbursement of public funds in real time. They can only fulfill their function of holding governments accountable as soon as they have received the relevant allocation and spending reports (find more in [chapter 3.3](#)).

## 2.4

### Entry point 4: Monitoring, impact assessment and auditing

In parallel to the challenges governments face in allocating and spending public funds adequately, legislators, CSOs, and oversight bodies have various opportunities of tracking public spending, assessing its impact, and exercising independent budget control and auditing.

Examples of monitoring approaches and instruments include the Public Expenditure Reviews (PER), the Public Expenditure Tracking Surveys (PETS), and the Climate Public Expenditure and Institutional Reviews. They are based on the assumption that budget allocation alone is not a sufficient indicator of the quality and quantity of public services. Thus, it is crucial to ascertain where and how the sums allocated are actually spent.

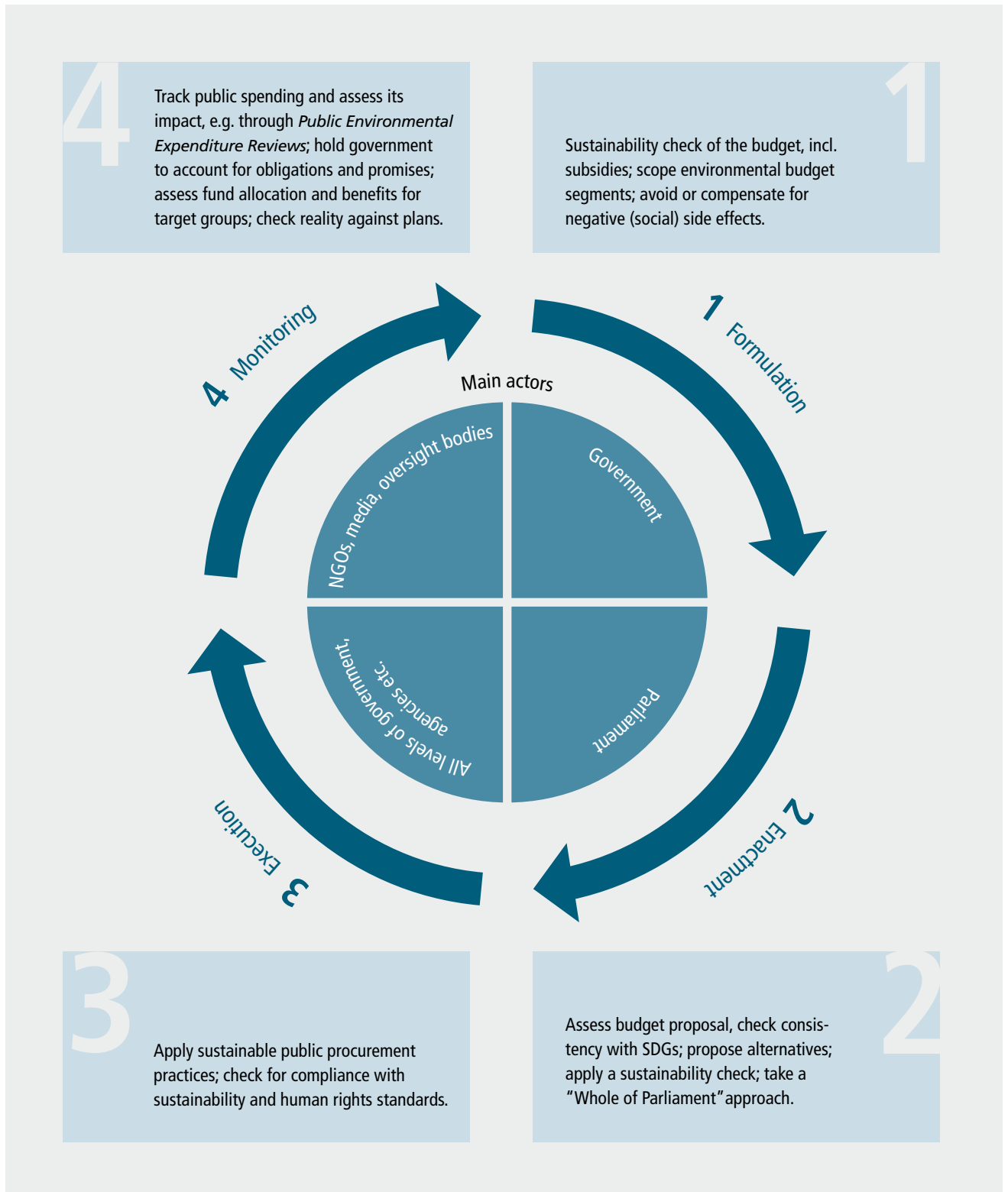
Another set of important instruments are impact assessments of budget policies. There are various types of analysis. One type examines the effects of taxation and public spending on different income groups (particularly “the poor”). Another type looks at the impact on particular social groups, such as women and children (e.g. gender sensitive budget analysis). A third type of analysis assesses the human rights impact of taxes and expenditures. With regard to the Post-2015 Agenda and the implementation of future SDGs, these types of assessment have to be complemented by comprehensive instruments of environmental and social impact assessments of the budget.

While budget monitoring and impact assessments have to be done mainly by CSOs and oversight bodies at the national level, there is also an international dimension of these activities. According to the UN Secretary-General, one of the four building blocks of the Post-2015 Agenda should be “a *participatory monitoring framework for tracking progress and mutual accountability mechanisms for all stakeholders*.”<sup>19</sup> Tracking fiscal policies could be one of the integral elements of this mechanism (find more in [chapter 3.4](#)).

<sup>19</sup> Cf. UN Secretary-General (2013), para. 75.

Figure 2:

The Budget Cycle: Entry points for environmental-social budgeting



# 3

## Practical pathways towards environmental-social budgeting

Governments, legislators and CSOs have different roles and responsibilities in the different stages of the budget cycle. In the following, we will describe key entry points for formulating, implementing and monitoring SDG conform budgets with a specific focus on the environmental and social aspects and their interdependencies. ►

### 3.1

## Budget formulation – taking environmental-social criteria into account

Government has the overall responsibility for setting the parameters of the budget (revenue and expenditure levels, debt and deficit limits etc.), determining the priorities and the allocations to the different sectors, and drafting the final budget proposal that goes to the legislature for approval. With regard to the Post-2015 Agenda and its fiscal implications, the government has to assure in particular that environmental and social criteria are fully taken into account. In parallel, CSOs can accompany the drafting process by providing the relevant staff in the ministries with information and analyses and producing their own “shadow budget.” Formulating a comprehensive budget is an extremely complex process, which includes, *inter alia*, the following actions:

#### Action 1: Checking the availability of comparable budget data

The starting point for the formulation of an SDG-conform budget is detailed data of the existing budget. Only if the data of current revenues and expenditures are (publicly) available, comparable over time and disaggregated can they be used as a suitable base for calculating the necessary changes in the future budget.

#### Action 2: Scoping the relevant budget segments

Based on the current budget, those parts have to be identified which are relevant for implementing the Post-2015 Agenda and achieving the SDGs and the related national targets. This is a complex task, for not only can expenditures with an environmental, social or human rights impact be assigned to the respective line ministries, such as the environment ministry or the ministry for social affairs, but they occur across the whole budget.

The definition of environmental expenditures alone comprises, *inter alia*, the following areas:<sup>20</sup>

- ▶ Air and water pollution control
- ▶ Hazardous waste management
- ▶ Mitigation of greenhouse gas emissions and ozone-depleting substances
- ▶ Adaptation to climate change
- ▶ Sanitation and solid waste management
- ▶ Water supply
- ▶ Watershed management
- ▶ Water resources management
- ▶ Soil degradation control
- ▶ Controlling deforestation and support reforestation
- ▶ Protecting biodiversity and landscapes
- ▶ Support of renewable energy

Additional expenditure items relevant from an environmental perspective include support of organic agriculture and sustainable consumption, but also expenditures with a potentially negative environmental impact, such as fossil fuel subsidies or infrastructure programs (e.g. road and highway construction).

From a holistic sustainability perspective, the huge majority of the budget items have to be taken into account in the drafting process. If this is not feasible due to a lack of capacity or data, concentrating on specific ministries or sectoral priorities might be a pragmatic alternative.

<sup>20</sup> Cf. Markandya/Hamilton/Sanchez-Triana (2006) and International Institute for Environment and Development (2009).

### Action 3: Matching spending with declared policy priorities

The key task in shaping an SDG conform budget will be to compare the estimated costs of what government would need to spend to achieve the Post-2015 goals and targets and the current level of public expenditures.

Often, this will highlight the mismatch between declared policy priorities and commitments and low levels of spending in areas linked to sustainability.

For instance, as one of the Aichi Biodiversity Targets, governments committed to “*increase substantially*” the financial resources for implementing the Strategic Plan for Biodiversity 2011–2020 (Target 20). Though this target can be subject to changes contingent to resource needs assessments to be developed and reported by governments, in general, it has to lead to an increase in the respective budget items. Similarly, the commitment by OECD/DAC (Development Assistance Committee) countries to increase their ODA to 0.7 percent of GDP has to be reflected adequately in their national budgets and mid-term budget plans.

The comparison between the current expenditure level and national, regional or international targets agreed by the government is relatively easy if these **targets refer directly to the budget**. In the Abuja Declaration, for example, African governments committed to allocating 15 percent of their public expenditures to the health sector. However, relying too heavily on these kinds of targets can become tricky – especially when they are measured as a proportion of the budget for certain sectors, like in the Abuja Declaration. One has to keep in mind that this creates a zero-sum game: each rise in one sector must result in lowering expenditures in another. Moreover, it has to be carefully evaluated whether this kind of one-size-fits-all approach can adequately take the specific national realities into account.

There are other ways of assessing whether expenditure levels are adequate:

- ▶ For instance, one can compare certain **expenditure trends** over time, such as the annual public expenditures for measures to mitigate CO<sub>2</sub> emissions (in absolute terms or as a share of the overall budget). With regard to social spending this is particularly relevant in light of the obligation of governments “*to achieving progressively the full realization of the [economic, social and cultural] rights.*”<sup>21</sup>
- ▶ Another method of comparison could be to compare expenditure levels of **neighboring countries** or countries with similar GDP.

The United Nations Development Programme (UNDP) has suggested the use of various ratios, such as the public expenditure ratio (government spending as share of Gross National Product (GNP)), the social allocation ratio (social services share of government spending), the social priority ratio (the human priority share of social sector spending), and the human expenditure ratio (the human priority share of GNP) to assess and compare public spending on human development.<sup>22</sup>

Other international organizations propose not only comparable ratios but also specific targets, such as the UNICEF’s Innocenti Report Card 8, which sets a benchmark for a minimum level of public spending on early childhood education and care as one percent of GDP.<sup>23</sup>

Finally, spending in SDG related areas can be compared with spending in “non-priority” sectors within the budget, for instance military expenditure (see [▶ Box 1](#)).

21 UN (1966).

22 UNDP (1991), p. 39.

23 UNICEF (2008), p. 14.

#### Action 4: Offsetting spending shifts and compensating adverse effects

The increase (or decrease) of expenditures related to SDG priorities inevitably has consequences and side effects for the overall budget. Each increase in a “priority” budget item must be either compensated by a reduction of expenditures in a “non-priority” budget item or by additional revenues. Therefore, each proposal for additional spending must go hand in hand with identifying the generated resource gap, potential savings in other areas or additional revenue sources.

Sometimes it may be possible to offset and simultaneously multiply the impact of spending increases by introducing or raising related taxes (“sin taxes”) or levies in the same sector. The World Health Organization (WHO), for example, proposes taxes on harmful products such as tobacco and alcohol, as *“they reduce consumption, improve health and increase the resources governments can spend on health.”*<sup>24</sup> Additional expenses for measures to tackle global warming could be covered by revenues from a CO<sub>2</sub> tax or the proceeds from an emissions trading system.

However, matching the budget with SDG priorities does not necessarily lead to increased expenditures. On the contrary, the phasing out of environmentally harmful subsidies would reduce public expenditures and increase the fiscal space of governments significantly.

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24 Cf. WHO (2010), p. 20.

## Special focus on environmentally harmful subsidies

### Background and Definition

The resources that governments are spending on environmentally harmful subsidies have increased drastically in recent years. This applies in particular to fuel subsidies. In its 2012 Report, the International Energy Agency notes:

*“Despite the growth in low-carbon sources of energy, fossil fuels remain dominant in the global energy mix, supported by subsidies that amounted to \$523 billion in 2011, up almost 30% on 2010 and six times more than subsidies to renewable.”*<sup>25</sup>

In contrast to this rise in fossil fuel subsidies, in the Outcome Document of the Rio+20 Conference, governments called for the elimination of environmentally harmful subsidies, especially in the areas of fisheries and fossil fuels. The Outcome Document of the Conference states:

*“We reaffirm our Johannesburg Plan of Implementation commitment to eliminate subsidies that contribute to illegal, unreported, and unregulated fishing and overcapacity taking into account the importance of this sector to developing countries [...]. Countries reaffirm the commitments they have made to phase out harmful and inefficient fossil fuel subsidies that encourage wasteful consumption and undermine sustainable development. We invite others to consider rationalizing inefficient fossil fuel subsidies by removing market distortions, including restructuring taxation and phasing out harmful subsidies, where they exist, to reflect their environmental impacts, with such policies taking fully into account the specific needs and conditions of developing countries, with the aim of minimizing the possible adverse impacts on their development and in a manner that protects the poor and the affected communities.”*<sup>26</sup>

The High-Level Panel of Eminent Persons on the Post-2015 Development Agenda also underlined the need to “phase out inefficient fossil fuel subsidies that encourage wasteful consumption.” Its convincing argument is that:

*“About 1.9 trillion dollars, or 2.5% of the world’s total GDP, is spent every year to subsidize fossil fuel industries and protect low prices. If subsidies are reduced, these revenues could be redirected to other pressing priorities. Elimination could reduce as much as 10 per cent of total greenhouse gas emissions by 2050.”*<sup>27</sup>

The complexity and political sensitivity of reforming environmentally harmful subsidies is reflected in the debates around a proper definition of subsidies. The term subsidy includes a broad range of measures, from direct cash transfers or low interest loans to indirect subsidies such as tax exemptions or accelerated depreciation allowances. The OECD defines a subsidy as follows:

*“A result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs.”*<sup>28</sup>

This definition, however, does not include the internalization of externalities due to the lack of full cost pricing. While several experts ask for a definition of subsidies which includes deviations from full cost pricing, others argue that this would be difficult and hardly workable.

Looking specially at the environmental side, there is currently no commonly agreed definition of an environmentally harmful subsidy. Adapting the above-mentioned OECD definition, an environmentally harmful subsidy may be defined as:

*“A result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs, but in doing so, discriminates against sound environmental practices.”*<sup>29</sup>

25 Cf. IEA (2012), p. 1.

26 UN Doc. A/RES/66/288 of 27 July 2012, para. 173 and 225.

27 High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013), pp. 45.

28 Cf. OECD (2005b), p. 16.

29 Institute for European Environmental Policy (IEEP) (2009), p. 16.

### Political economy and criteria for success

Dealing with harmful subsidies is one of the key tasks of environmental-social fiscal reforms. Therefore, effective tools to identify and assess environmentally harmful subsidies are of particular importance (see [Box 3](#)).

However, any environmental check of subsidies must estimate not only the size and negative environmental impact of these subsidies, but also their social and economic effects. Proposals to reduce or eliminate subsidies must take into account potentially regressive effects and negative consequences for the poor.

Frequently, subsidies tend to be poorly targeted and unfair, benefitting the rich more than the poor. While the objective of fossil fuel consumer subsidies is to protect the poor from high energy costs, an International Monetary Fund (IMF) analysis of 20 countries revealed that only 18 percent of these subsidies actually reach the poorest 40 percent, while the richest 20 percent receive 43 percent.<sup>30</sup> Despite this imbalance, the phasing out of environmentally harmful subsidies may have negative social impacts, particularly for low-income households. In order to address the negative effects, direct compensation measures are often recommended. This usually involves compensation through other public policy instruments, such as the social security or personal tax systems. For example, basic personal tax allowances can be increased (or tax credits introduced) for low-income households. For individuals whose incomes are so low that they pay little or no tax, compensation for the negative distributive effects can be provided by direct cash transfers. However, this requires the right policy environment. A study by the Arab NGO Network for Development states that

*“[...] subsidy policy cannot be detached from the difficult political, socio-economic, and institutional circumstances. [...] In the absence of robust social protection schemes, subsidy removal can depress wages, diminish citizens’ purchasing power and participation in domestic markets, and endanger the living conditions of vulnerable groups. Subsidy reform should only occur upon the establishment of sustainable and comprehensive social protection schemes, and can only proceed with broad support from a variety of stakeholders.”<sup>31</sup>*

In general, the specific political economy of EHS reforms requires a careful consideration of **five critical criteria for success**:

1. The **timing** of the reform as well as their pace;
2. An understanding of the likely **social impact** of any reform;
3. Careful design of appropriate social support measures;
4. The early introduction of an effective **communications/outreach strategy** communicating the arguments and justifications for the reform; and
5. **Political will** behind the reform coupled with institutional capacity and feasibility.<sup>32</sup>

Although there are different arguments whether a gradual reform or a “shock therapy” work better, most countries opted for gradual reforms. The Iranian government, for example, removed almost all fossil fuel subsidies overnight when launching the reform in December 2010. But some elements such as the reduction of quotas of cheap gasoline/household were introduced more gradually. Before starting any reform, the (potential) social impacts have to be assessed and protective measures to shelter the most vulnerable have to be carefully designed.

30 IMF (2013)

31 Cf. Zaid et al. (2014), p. 2.

32 Cf. Nikoloski (2012).

To continue with the case of **Iran**, according to the Reform Act, households were to receive 50 percent of the revenues raised in the reform, but the act did not indicate who should receive the compensation. Initially, the government wanted to target the transfers towards the poorer households, but ended up paying compensations to over 80 percent of the population. Despite this, cash transfers in Iran were considered a particularly successful element of the reform: they were unconditional and started one month before the increase of the fuel prices.<sup>33</sup>

However, the replacement of various subsidies on food and fuel with monthly income support to all households was associated with rapid inflation, which completely eroded the value of the cash transfers. Lately, government attempted to scale down cash payments and to bring back subsidised food distribution. Mehrun Etebari, Senior Research Assistant with the Saban Center for Middle East Policy, described the dilemma as follows:

*“Now the Rouhani administration on the one hand has become heir to a subsidy payment policy that, if continued in current form, will easily cripple the government, and on the other hand, as a legacy of the previous [Ahmadinejad] government, inflation is dominating society in such a way that if the subsidies are cut off altogether, it will break the backs of many of the poor.”<sup>34</sup>*

Iranian journalist Majid Salim Borujeni echoed these thoughts:

*“All official statistics indicate that the government does not have enough money to continue to pay subsidies; on the other hand, people need cash subsidies in order to manage their lives.”<sup>35</sup>*

In the case of **Ghana** – one of the countries with a stop and go history when it comes to reforming fossil fuel subsidies – the direct socio-economic impact of phasing out subsidies (consumption of fuels for cooking, heating, lighting etc.) was calculated at around 6 percent loss of income, and the indirect impact (higher prices for other goods and services) was estimated at 12 percent.<sup>36</sup> According to an impact assessment of the subsidy reform, *“Ghana’s poverty rate would rise by 1.5 percentage points, meaning that an additional 395,180 people were pushed into poverty by the reform.”<sup>37</sup>* The Government of Ghana had scrapped costly fuel subsidies to restore fiscal stability after overshooting its budget deficit target by nearly 100 percent in 2012. In such cases, where the motivation to remove environmentally harmful subsidies is mainly driven by an interest in fiscal stability, governments risk imposing the negative consequences on the poorest.

Another crucial criterion for the success of any reform is a good outreach /communication strategy. Both, Iran and Ghana, worked with communication strategies emphasizing the pros (energy waste, reducing social inequalities) and the mitigation measures of the cons (compensations, transfers). In both cases, representatives of different authorities were involved in the strategy. This differs from the **Bolivian** experience in December 2010, when attempts to reduce fossil fuel subsidies caused severe popular protests. No massive resistance was noted in Ghana’s and Iran’s latest reform steps.

Last but not least, without political will and necessary institutional capacities, such major reforms are impossible to implement.

33 Nikoloski (2012).

34 Etebari (2013).

35 Ibid.

36 Nikoloski (2012).

37 Cf. Cooke et.al. (2014) p.3.

**Box 3:****Environmental check of subsidies**

The environmental check of subsidies serves the purpose of identifying their negative (side) effects on the environment and analyzing alternative options. At the same time, this includes reviewing the objectives of subsidies and their efficiency and effectiveness.

Screening	In-depth environmental and efficiency assessment	Analysis of reform options
Is there a subsidy?	Is the intervention justified? Is there still a need for the subsidy?	What are the possible reform options?
How environmentally harmful is it?	What are the potential negative environmental impacts?	What are the costs and benefits of each option?
Do other / alternative policy instruments prevent or reduce potential harm to the environment?	To what extent can harm to the environment be reduced? Are other instruments more benign to the environment? Is subsidy reform likely to reduce harm to the environment? Are there options to reduce the environmental impact of subsidies with flanking instruments (e.g. conditions)?	What are the potential economic and social hardship cases and regressive effects?
What is the sectoral policy context? What is the economic and social relevance of the subsidy?	Is the remaining environmental impact acceptable?	What are the facilitating factors for success?
Are there insurmountable obstacles to reform at present?	What social, economic and other effects (e.g. distribution effects) are there / are to be expected?	
Are data available?	Will the intervention also be cost-effective in the long term?	
<b>List of potentially harmful subsidies, incl. analysis of political feasibility of subsidy reform</b>	<b>Analysis of the validity of the subsidy rationale; outline of possible trade-offs between social, economic and environmental impacts</b>	<b>Outline of alternative policies; analysis of impacts of these policies; list of compensatory measures</b>
Compiled on the basis of the Institute for European Environmental Policy (2009) and Umweltbundesamt (2010).		

**Screening** identifies all implicit and explicit subsidies that could be harmful and subsequently selects those whose elimination or reform promises the maximum environmental benefits. Both existing and newly planned subsidies are to be included in the process. In the context of economic activities that have a particularly high impact on the environment (e.g. using fossil fuels to generate energy), an assessment is first made whether the intervention represents a subsidy (e.g. reduced energy taxes for the manufacturing trade).

For the initial step, the definition of subsidies is of considerable importance. Following the OECD (2005), environmentally harmful subsidies can be understood as the result of government interventions creating advantages for producers or consumers in order to supplement their income or reduce their costs without counteracting established environmental practice.

Following an environmental harm assessment, a closer look is taken at the sectoral context with its policy instruments (e.g. legislation on energy taxation). In this context, it is also established whether other interventions limit environmental harm (e.g. quota, limit values). Then an analysis is performed to ascertain whether there are obstacles to subsidy reform (e.g. international agreements). The last screening issue is very important for the environmental assessment of subsidies as a whole and also beyond it. The availability of data represents a fundamental prerequisite for all environmental economics instruments.

In the second step, the **in-depth environmental and efficiency assessment** of the subsidy, an analysis is performed to determine whether and how the subsidy achieves its primary support objective and what environmentally harmful (side) effects it has. The extent and impacts of preferential treatment as well as their fiscal costs are established, and the beneficiaries and responsible parties are disclosed. This in-depth assessment is carried out if at least one environmentally harmful subsidy has been identified during screening, and its negative impacts are not prevented or reduced by alternative political instruments.

Here, it is first of all established whether the intervention is justified and there is still a requirement for support. Often, the duration of subsidies is not limited, and they are continued despite the political objective having been achieved or it having become apparent that this objective cannot be achieved with this instrument.

If further support is justified, the efficiency and effectiveness with regard to the subsidy objective and its environmental impact is checked. These aspects ought to be treated in an integrated manner. Here, Strategic Environmental Assessments, Environmental Impact Assessments, Sustainability Strategies, and the System of Integrated Environmental and Economic Accounting can be drawn on. The latter is especially important for the quantifiability of environmental impacts. If these are not quantifiable, a qualitative description is given.

The reduction of harm to the environment through other instruments or a redesign of the subsidy is then assessed. Finally, the remaining environmental impact is appraised.

The various steps within the in-depth assessment can be compared to those of a Strategic Environmental Assessment.

In the third step, **reform options to eliminate environmentally harmful subsidies** are outlined. These include redesigning subsidies and the application of alternative instruments. A cost-benefit calculation is compiled for each option, and its success factors are analyzed.

The analysis of distribution effects (under social and economic impacts) is of essential importance to the design of subsidy reforms. The result often reveals that subsidies have not been sufficiently tailored to target groups. For example, most petrol subsidies in developing countries are presented as supporting the livelihoods of the poor. In fact, they tend to benefit members of the middle and upper classes disproportionately.

Additionally, environmentally harmful subsidies are likely to cause more pressure on government budgets in the future since expenditures for dealing with environmental degradation are rising. In contrast, subsidies promoting environmental protection can reduce the costs of remedying environmental harm, thus resulting in savings for future government budgets.

### Sectors with the highest environmentally harmful subsidies

A large share of all subsidies world-wide is aimed at increases in production. With rises in production lev-

els and the greater use of potentially harmful inputs (e.g. chemical fertilizer) the risk of harming ecosystems increases. The following table shows the sectors with the highest subsidies:

**Table 1:**

#### Quantity of environmentally harmful subsidies

(figures per year)

<b>Energy</b>	US\$ 480-1,900 billion <sup>38</sup>
<b>Agriculture</b>	US\$ 478 billion (OECD + Brazil, China, Russia, South Africa, Ukraine) <sup>39</sup>
<b>Transport</b>	EUR 270-290 billion (EU only) <sup>40</sup>
<b>Water</b>	US\$ 69 billion <sup>41</sup>
<b>Forestry</b>	US\$ 35 billion <sup>42</sup>
<b>Biofuels</b>	US\$ 22 billion <sup>43</sup>
<b>Fisheries</b>	US\$ 16-27 billion <sup>44</sup>

### Agriculture

Agriculture is of particular fiscal relevance due to the enormous quantity of subsidies and its fundamental contribution to food security. Incentives in agriculture to increase production can lead to greater environmental damages, for example, biodiversity loss, hydrological

changes in habitats because of intensive irrigation, soil erosion caused by intensive cultivation, etc.

### Fisheries

Although much lower than in agriculture, subsidies in the fisheries sector play an important role as well,

38 IMF (2013), p. 1. "On a 'pre-tax' basis, subsidies for petroleum products, electricity, natural gas, and coal reached \$ 480 billion in 2011 (0.7 percent of global GDP or 2 percent of total government revenues). [...] On a 'post-tax' basis – which also factors in the negative externalities from energy consumption – subsidies are much higher at \$1.9 trillion (2 ½ percent of global GDP or 8 percent of total government revenues)."

39 OECD (2013a).

40 [www.eea.europa.eu/data-and-maps/indicators/transport-subsidies](http://www.eea.europa.eu/data-and-maps/indicators/transport-subsidies)

41 Institut for Miljøvurdering (IMV) (2005).

42 IMV (2005).

43 Gerasimchuk et al. (2012), p. 7.

44 Food and Agriculture Organization (FAO) (2012), p. 200.

considering the relative size of the sector in some countries and the (potential) environmental impacts. They reinforce overfishing and the reduction of fish stocks. 57.4 percent of the world's fisheries are fully exploited, and 29.9 percent are overexploited, depleted, or recovering from depletion.<sup>45</sup>

There are different kinds of subsidies in fisheries, for example reductions in operating costs per vessel, reductions in procurement prices for ships (for instance low-interest loans or guarantees for loans to expand or modernize fleets) or subsidized fuels.

As in almost all sectors subsidy policies should not be considered individually but in conjunction with other instruments. 90 percent of global fish production comes from within the 200 sea miles of the EEZ (*exclusive economic zone of a coastal state*), a zone that is legally recognized by the United Nations Convention on the Law of the Sea (UNCLOS) and consequently covered by respective national laws. Thus, national authorities may, for example, define fishing quotas and reduce the size of the fleets, control fishing techniques and limit the periods for fishing.

### Transport

There are various types of subsidies within the transport sector. One option is to push fuel prices below production costs. This contributes to an increase in the number of vehicles as well as the distance traveled by them, and in higher air pollution as a consequence. The second type of subsidies consists of loans/permissions to construct street and road infrastructure that is not refinanced via tolls etc. by its operators. For example, tax privileges of company cars in Germany induce further misled incentives. The consequences are an increased sealing and dissection of landscapes, fragmentation of habitats, and thus risks for biodiversity.

### Water

Subsidies in the water sector consist of fees that do not cover operational and management costs (below-cost pricing). Although often justified with social reasons, subsidies often don't reach poor consumers in an efficient manner. Below-cost pricing leads to waste and overuse of water and this in turn to declining groundwater levels and competition among user groups. Subsidies for irriga-

tion in agriculture are also frequently justified with social concerns: in developing countries, irrigation stands for 75–90 percent of overall water consumption. However, it is not only smallholders who benefit from these subsidies.

### Energy

The energy sector is one of the most subsidized industries not only because of subsidies on fossil fuels. Increases in greenhouse gas emissions, the depletion of non-renewable resources, and a large ecological footprint are negative environmental effects indirectly caused by fossil fuel subsidies. Furthermore, these subsidies undermine incentives for alternative technologies and more energy efficiency.

Subsidies for renewable, non-fossil energy sources are perceived more positively but also demonstrate the dilemma and the complexity of subsidies, too. They also bring about potential negative environmental effects, e.g. with the construction of hydroelectric power plants. The construction of dams, for example, often causes a destruction of biodiversity. Biofuels are another example; their spread – promoted by subsidies – has led to a net increase in greenhouse gases by the change of land use and to a further threatening of food security.

### Forestry

In the forest sector, guarantees of low interest rates, preferential loans for investments, and fee waivers for water and waste water are prominent types of subsidies. The most common subsidy, however, is the under-levy of income for timber. It corresponds to the current value of the spar on the open market, which also serves as a reference value for the amount of rent paid by the tenant to the owner. The felling fees (*stumpage fees*) are determined by the owner (e.g. the state) in order to absorb the economic rent of the forest and are usually less than its current market value. This creates market distortions that make the wood less expensive and thus increase deforestation and associated negative environmental impacts such as erosion, loss of biodiversity, loss of greenhouse gas sinks etc.

The (too) low estimated felling fees also lead to disruptions in international trade: timber is exported at lower prices from countries with low fees than from those who pay the full economic rents.

45 Cf. FAO (2012), p. 53.

## Action 5: Drafting the consolidated budget proposal

After having identified the necessary changes on the revenue and expenditure side of the budget, the mid-term fiscal plan (often formulated in form of an aggregated 5-year plan) and the consolidated SDG conform budget proposal for the upcoming fiscal year can be finalized.

### Options for engagement

#### Governments

Normally, the formulation of the draft budget is a key responsibility of the finance minister based on the draft budgets proposed by the sector ministries. Often, it takes place behind closed doors, without consultation or even information of the public / civil society.

In most countries, the Central Budget Authority is located in the Ministry of Finance (MoF). The MoF announces guidelines to all sector ministries and state agencies based on the government's economic assumptions (including debt service payments), its policy priorities and projected revenues. Taking these guidelines into account, ministries and state agencies prepare their funding requests.

In the next step, the MoF collects, reviews, and analyzes all budget requests. The review process may include meetings or formal hearings between the budget office and the ministries and state agencies.

The examination process results in a proposed state budget. Once a budget proposal is complete, the MoF submits it to the head of government with recommendations. The head of government finalizes the budget proposal with the help of his or her staff.

#### Parliaments

In the drafting phase of the executive's budget proposal, the role of the legislature (i.e. the parliament) is rather limited, by definition. At least the parliament can ask for the timely and easily accessible presentation of the comprehensive and disaggregated figures of the proposed budget.

46 Cf. <http://internationalbudget.org/budget-advocacy/strategies-tools-tactics-opportunities/engaging-actors-government-levels/executive/>.

47 Cf. International Budget Partnership (2012), p. 14.

#### Civil Society Organizations

The formulation process of the budget proposal tends to be hardly accessible. Nevertheless, even in this phase of the budget cycle, CSOs should ask for transparency. As part of the formulation process, heads of the various ministries or departments that administer government programs and activities submit proposals for their sector or scope of responsibility. It is therefore the persons working in the departments who possess considerable influence in the policy process. By establishing sustained information channels to the staff in these administrative units, CSOs can succeed in incorporating their advocacy objectives in the ministry's budget proposals.<sup>46</sup>

In addition, parallel to the drafting of the budget by the government CSOs can draft "alternative budgets," based on their own estimates of the financial requirements and fiscal implications of the Post-2015 Agenda. This can be done comprehensively, for the budget as a whole, or for individual sectors such as the budget of the ministry for health or the environmental ministry. Such activities could build upon the experiences of the already existing alternative budget initiatives. Important examples include the Alternative Federal Budget (see [Annex 3](#)) and the report of the Green Budget Coalition in Canada (see [Annex 4](#)), the Philippines Alternative Budget (see [Annex 1](#)), and the Citizens Alternative Budget in Kenya (see [Annex 2](#)).

### Key documents

The International Budget Partnership lists a number of documents<sup>47</sup> which should be accessible at different stages of the budget cycle. They can help CSOs seeking to adjust a state's budget plan to the Post-2015 Sustainable Development Goals. During the budget formulation stage, governments should make the following publicly available:

- ▶ **Approved budget** of the previous year, including disaggregated data of revenues and expenditures.
- ▶ **Pre-budget statement**, which includes the assumptions used to develop the budget, such as total expected revenue, expenditure, and debt levels, and broad sector allocations; and
- ▶ **Executive's budget proposal**, which presents the government's detailed plans, in terms of policy priorities and budgets for each ministry and agency, for the coming budget year.

## 3.2 Enactment – approval of the budget by the legislature

After the government has prepared its budget proposal, it has to be passed to the legislature. Now it is the parliament's turn. The parliament is most influential in this stage of the budget cycle – provided that it has the authority to approve the budget. However, the parliament's ability to oversee and influence the budget substantially varies by countries. It depends particularly on the parliament's rights to changing or amending the budget before approving it.<sup>48</sup>

### Different shades of parliamentary influence on the budget

Depending on the specific political system in a country and the codified division of powers, the right of the legislature to change or amend the budget proposed by the executive differs substantially:<sup>49</sup>

- ▶ The legislature may have unrestricted powers to amend the budget.
- ▶ The legislature can make amendments, but only if it does not change the total deficit/surplus proposed by the executive.
- ▶ The legislature may only decrease existing expenditures/revenues (i.e. the legislature cannot increase existing items nor create new ones).
- ▶ The legislature may not make any changes; it can only approve or reject the budget as a whole.

In countries where the parliament plays an active role in the budget process, parliamentary committees have the opportunity to check whether the proposed budget is in accordance with the SDGs and the respective state obligations and commitments derived from the Post-2015 Agenda. The practical procedures depend on the mandate and responsibilities of the different committees for dealing with the budget.<sup>50</sup> Basically, the following procedures can be distinguished:<sup>51</sup>

- ▶ A single budget committee formally considers all budget-related matters. Sectoral committees may make recommendations, but the budget committee does not have to follow them.
- ▶ A single budget committee formally considers the budget, but members from sectoral committees attend meetings of the budget committee when expenditures in their specific areas are discussed.
- ▶ A single budget committee formally considers budget aggregates (total level of revenue and spending and their allocation to each sector), and sectoral committees formally consider spending for sector specific appropriations.
- ▶ Sectoral committees formally consider appropriations for each respective sector. No budget committee is in place, or if it is, it provides technical assistance only.
- ▶ No formal committee involvement, but committees may choose to consider aspects of the budget.

### Towards a “Whole of Parliament” approach

In parallel to the “Whole of Government” approach needed to reconcile fiscal policy with sustainable development, parliaments should be in a position to deal with all aspects of sustainable development in a holistic and integrated manner. This could be done, for example, by authorizing a special committee to assess the sustainability impact of all legislative projects – including budget decisions. To this end, the Civil Society Reflection Group on Global Development Perspectives has proposed the establishment of Parliamentary Committees on Policy Coherence for Sustainability.<sup>52</sup>

In some countries, such bodies already exist. In Germany, for instance, the German Bundestag established a Parliamentary Advisory Council on Sustainable Development back in 2009.<sup>53</sup> However, this Advisory Council is weak and does not have any mandate to assess the sustainability impact of the Government's budget proposal. The Council admits:

48 Cf. International Budget Partnership (2012), p. 37.

49 Cf. OECD (2007c).

50 In addition, the role of the committees differs in countries with unicameral systems and political systems with two chambers.

51 Cf. OECD (2007c), p. 20.

52 Cf. Civil Society Reflection Group on Global Development Perspectives (2012), p. 99.

53 Cf. [www.bundestag.de/htdocs\\_e/bundestag/committees/bodies/sustainability/index.html](https://www.bundestag.de/htdocs_e/bundestag/committees/bodies/sustainability/index.html).

*“There is, however, one fundamental problem with regard to the treatment of the Advisory Council’s opinions by lead committees, namely the fact that the procedure for evaluating sustainability impact assessments, and hence the way in which lead committees deal with opinions from the Advisory Council, is not yet enshrined as a binding requirement in the Rules of Procedure of the Bundestag, which means that the Advisory Council has scarcely any means of ensuring that its opinions are given due consideration. [...] The best solution would be to insert the requirements of the sustainability impact assessment into the Rules of Procedure. This would be consistent with the principle that government action is reflected in the work of Parliament and is subject to parliamentary scrutiny.”<sup>54</sup>*

### The problem of off-budget revenues and expenditures

One obstacle to the parliament’s ability to oversee and influence the government’s fiscal policy is the problem of off-budget revenues and expenditures. Often, significant revenues and expenditures are accounted outside the regular budget and are therefore beyond the scope of the parliament and its budgetary sovereignty. This is particularly the case in those developing countries in which a huge proportion of the grants and loans given by external donors are not provided as budget support. A strategy paper of the German Federal Ministry for Economic Cooperation and Development underlined as comparative advantages of budget support, *inter alia*:

*“In essence, it operates through national systems, structures and institutions in the partner country. There is no risk that it will bypass the partner country’s budget and create any parallel structures or un-official budgets. It thus strengthens partner country ownership of the reform programme because it is part of government policy and is integrated into national budget processes. This means that budget support is subject to national parliamentary scrutiny and is more transparent for civil society and the media. [...]*

*“It strengthens the national budget process during the stages of budget planning, preparation, implementation and control (public financial management – PFM) via the transfer of resources to the budget. It facilitates budgetary coherence between internal and external resources, and permits comprehensive planning and allocation of funds while avoiding distortions between individual sectors (e.g. through relative under- or over-funding due to bias in donor preferences).”<sup>55</sup>*

But the establishment of off-budget funds is not only a problem for parliaments in ODA receiving countries. They exist in different forms in most countries of the world. Many of them are relevant with regard to any Post-2015 Agenda for sustainable development. The OECD, for example, distinguishes the following types of off-budget expenditures that exist in different countries in different ways and typically are not part of the formal annual appropriation law:<sup>56</sup>

- ▶ Tax expenditures (exemptions, deductions and credits)
- ▶ Social security funds
- ▶ Public health care funds
- ▶ Public sector pensions
- ▶ Funds for higher education establishments
- ▶ Emergency/contingency funds
- ▶ Donor funds
- ▶ Off-budget loans
- ▶ Loan guarantees
- ▶ Stabilization funds
- ▶ Expenditure financed by external loans
- ▶ Military expenditure
- ▶ Public Private Partnerships (PPP)
- ▶ Special accounts managed by the Ministry of Finance/Treasury/Central Budget Authority

Current trends to establish national off-budget climate funds under the auspices of sectoral ministries are particularly problematic. They sometimes manage huge amounts of extra money for climate mitigation and adaptation measures outside the regular budget – and thus risk undermining the principles of good financial governance and a comprehensive environmental-social budgeting approach.

<sup>54</sup> German Bundestag (2011), p. 7.

<sup>55</sup> BMZ (2008), p. 6.

<sup>56</sup> Cf. OECD (2007c), p. 23.

## Options for engagement

### Governments

In this stage of the budget cycle, the role of governments is limited. They have to present the budget proposal to the legislature and be prepared to respond to questions from parliamentarians and to provide additional information on request during the enactment phase.

### Parliaments

As outlined above, parliaments play a key role in this stage of the budget cycle. They have the opportunity (and face the challenge) to assess the budget proposal from a comprehensive sustainability perspective and to secure that the approved budget is consistent with the globally agreed Post-2015 Agenda and its goals and targets.

### Civil Society Organizations

It is during this phase of the budget cycle that civil society groups often have the most potential for input. Since interest in the budget is typically at its highest point when the government presents its budget to the legislature, this creates opportunities for civil society groups to get media coverage and other attention for their budget analyses (see the examples of the Canadian Alternative Federal Budget and the Canadian Green Budget Coalition in [Annex 3](#) and [Annex 4](#)).

Further, in countries where the parliament plays a more active role in the budget process, CSOs may be asked to serve as expert witnesses at hearings and to comment on budget proposals in other ways, as well. CSOs can support the assessment of parliamentary committees by providing their analysis of the draft budget based on their own budget proposals (see the example of the Philippines Alternative Budget Initiative in [Annex 1](#)).

Their analyses and testimony can influence the debate and highlight the importance of taking environmental and social concerns as crosscutting issues in all parts of the budget into account. To this end, they can encourage the parliamentarians to undertake a comprehensive “**sustainability check**” of the budget proposal.

In addition, CSOs can provide information and advice to legislators on the SDGs, the potential commitments and obligations to be derived from the Post-2015 Agenda, and the key features of sustainable development budgets.

## Key documents

During the enactment stage of the budget, the following documents should be made available to the public:

- ▶ **Records** of the parliamentary consultations on the budget proposal.
- ▶ **Proposed amendments** to the budget by the different parliamentary groups.
- ▶ **Enacted Budget**, which is the legal document that authorizes the executive to implement the policy measures the budget contains. The Enacted Budget is issued by the legislature after it approves (sometimes with amendments) the budget proposal presented to it by the executive.

### 3.3

## Execution and implementation – from sustainable development budgets to sustainable development results

Implementing the approved budget is the responsibility of the government and its sector ministries. They can release funds, deploy personnel, undertake investments, and shape public procurement policies. In this stage of the budget cycle, governments face several challenges.

**First**, governments have to ensure that the funds allocated in the budget are actually spent for the designated purpose. For example, if a government has envisaged a ten percent increase in the budget line for investments in renewable energies, this increase has to materialize within the budget year.

**Second**, governments have to take care that the funds are spent efficiently and effectively, reach the intended beneficiaries, and achieve tangible results. In the above-mentioned example of an increase in the budget line for investments in renewable energies, this could be an increase in the share of renewable energies in electricity consumption (though this kind of result can only be identified with a certain time lag after funds have been spent).

**Third**, the government has to inform the public early in advance about new spending programs or budget cuts. This is particularly relevant for the potential beneficiaries as well as the groups negatively affected by a budget decision. For example, the introduction of a new cash transfer program can only be implemented effectively if the “target groups” are aware of it.

**Fourth**, governments have to see that accompanying measures of a budget decision (e.g. compensation payments for subsidy cuts) are carefully sequenced. If, for instance, a government has decided to phase out subsidies for fossil fuels and introduce compensatory measures for the poor, it must do this in the right order – i.e. starting with the compensatory measures first. Here again, proper public information about these measures is crucial.

### Sustainable Public Procurement

Governments and governmental agencies have important purchasing power. On average, governments in OECD countries spend around 13 percent of GDP on goods and services (see [▶ Figure 3](#)). In developing countries this share is generally even higher. Therefore, governments should use public procurement practices as an instrument to promote high environmental, social and human rights standards (as presumably reflected in the Post-2015 Agenda and the SDGs). Redirecting their procurement practices towards “sustainable public procurement” will not only have positive impacts on the environment; it also has positive steering effects as it increases the incentives for the private sector to change production patterns in order to satisfy the growing demand for sustainable goods and services.

In recent years, there has been a growing willingness of political decision-makers at national and international levels to take account of environmental, social and human rights considerations in public procurement.<sup>57</sup>

At the global level, since 2005, the Marrakech Task Force on Sustainable Procurement has been providing tools and capacity building for the implementation of sustainable public procurement in different countries.<sup>58</sup> More recently, the United Nations developed a detailed guidance on sustainable procurement for the UN system (“Buying for a Better World”), which addresses three dimensions of sustainability. In this guidance, sustainable procurement (SP) is defined as follows:

57 Cf. for instance the web-based Sustainable Procurement Resource Centre hosted by International Council for Local Environmental Initiatives (ICLEI) ([@ www.sustainable-procurement.org/home/](http://www.sustainable-procurement.org/home/)), for the Asian-Pacific region AMPHOS 21 (2013), and for the European Union (EU) region [http://ec.europa.eu/internal\\_market/publicprocurement/index\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/index_en.htm) and European Commission (2010).

58 Cf. <http://esa.un.org/marrakechprocess/tfsuspubproc.shtml> and UN DESA (2008).

“Sustainable Procurement integrates requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs. [...] Therefore, SP considers the economic, social/labour and environmental consequences of ‘design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers’ capabilities to address these consequences throughout the supply chain’.”<sup>59</sup>

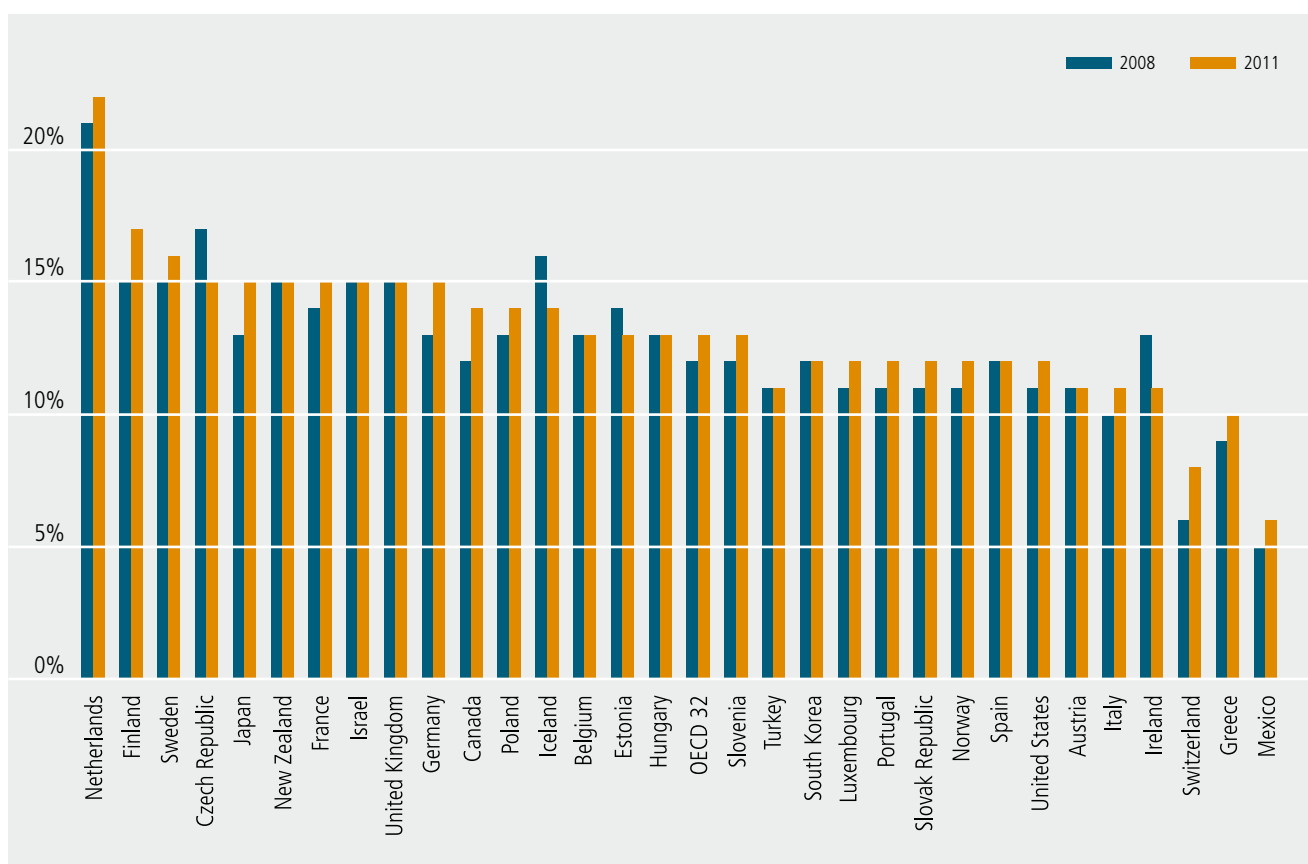
Environmental aspects that need to be taken into account are for example

- ▶ Reduction of greenhouse gas emissions
- ▶ Optimization of the energy and resource efficiency
- ▶ Reduction of waste and toxins in production and disposal
- ▶ Increased use of renewable energies.

In addition to environmental criteria, procurement decisions have to take into account other important aspects such as gender equality, compliance with labor standards, and the impact on poverty reduction.<sup>60</sup>

**Figure 3:**

**General government procurement as a percentage of GDP (2008 and 2011)**



Note: Data is not available for Chile. Data for Canada, Japan, Korea, Mexico, New Zealand and Turkey refers to 2010.

Source: OECD 2013, 2011

59 United Nations Environment Programme (UNEP) et al. (2011), p. 12.

60 GIZ (working paper for internal use) (2012).

At the European level, a new directive on public procurement was adopted by the European Parliament and the Council in early 2014.<sup>61</sup> Thanks to this new directive, public authorities may buy works, goods or services according to criteria which put more emphasis on environmental and social aspects.

With this directive it is possible to introduce social considerations throughout the procurement stages as long as they are linked to the subject matter of the contract. In addition, public institutions now have the possibility to take the manufacturing and processing methods into account in their purchase decision. It is easier for them to request certificates from the bidders to implement social and environmental standards. In this way, the public authorities may prefer vendors that offer better working conditions, promote the integration of disabled or disadvantaged workers and offer socially and environmentally friendly produced goods.

Unfortunately, the final text of the directive still allows taking a purchase decision for the cheapest option, neglecting social and environmental criteria. Although the life-cycle costing provisions have been improved, social externalities cannot be taken into account.

However, governments and public authorities can go beyond the EU directive and apply more comprehensive sustainable public procurement guidelines. With regard to the environmental aspects of sustainability the European Commission already adopted its concept of Green Public Procurement (GPP) in 2008.<sup>62</sup> It defines GPP as follows:

*“Green Public Procurement (GPP) is a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured.”*<sup>63</sup>

The concept of the European Commission relies on having clear, verifiable, justifiable and ambitious environmental criteria for products and services, based on a life-cycle approach and a scientific evidence base. In its communication “public procurement for a better environment,” the Commission recommended, *inter alia*, the creation of sector specific GPP criteria as voluntary instruments. According to the Commission, the criteria used by EU Member States should be similar to avoid a distortion of the Single Market and a reduction of EU-wide competition. Since 2008, the Commission has developed detailed GPP criteria for more than 20 sectors, such as transport, textiles, electricity, and office information technologies.<sup>64</sup>

### Obstacles to Sustainable Public Procurement in countries of the Global South

Proponents of sustainable public procurement reforms often mention the crucial role of a national certification process for the implementation. However, this may represent an impediment for governments in developing countries, as it leads to increased costs for public procurement. Moreover, the additional verification effort that the certification procedures entail causes an increase in expenditures compared to other products with the same functionality. Not least the lack of a sufficient suppliers base must be taken into account in this context.

Governments and public authorities must ensure that Sustainable Public Procurement practices don't discriminate enterprises from developing countries or are misused as non-tariff trade barrier.

61 Cf. European Parliament (2014).

62 Cf. European Commission (2008).

63 Cf. European Commission (2011), p. 4.

64 Cf. [http://ec.europa.eu/environment/gpp/eu\\_gpp\\_criteria\\_en.htm](http://ec.europa.eu/environment/gpp/eu_gpp_criteria_en.htm).

In order to provide support for the development of Sustainable Public Procurement policies in developing countries, UNEP, in cooperation with the Swiss Government, started a project on “Capacity Building for Sustainable Public Procurement in Developing Countries” in 2008. It has been implemented in seven pilot countries (Chile, Colombia, Costa Rica, Lebanon, Mauritius, Tunisia and Uruguay).<sup>65</sup> The project produced a number of outputs, such as guidelines on UNEP’s SPP approach, a study on the impacts of Sustainable Public Procurement on sustainable development and a training toolkit for decision-makers, suppliers and procurers.

Development cooperation is an additional important area to introduce Sustainable Public Procurement. According to Eurodad, more than half of ODA is spent on government procurement of products and services.<sup>66</sup> Not only could smart public procurement practices strengthen domestic procurement systems in developing countries, but they could also increase the effectiveness of ODA.

## Options for engagement

### Governments

Execution and implementation of the approved budget is a key function of the government and its sector ministries and agencies. They have to tackle the various challenges mentioned above and provide updated spending information to the legislature and the broader public in the course of the year. In particular, they can introduce and promote Sustainable Public Procurement policies and practices.

### Parliaments

In this stage of the budget cycle, the role of the parliament is limited. It can request regular, timely reporting of budget and extrabudgetary outturns from the government, which should be compared with original estimates. If adjustments are required in the approved budget, the parliament has, at the request of the government, to scrutinize, and if necessary amend, and approve a supplementary budget. In doing so, it again has to ensure that the supplementary budget is consistent with the globally agreed Post-2015 Agenda and its goals and targets.

### Civil Society Organizations

As this phase of the budget cycle is clearly in the domain of governments and public administrations, CSOs have only a limited ability to participate and to monitor the disbursement of public funds in real time. They can only fulfill their role of holding governments accountable when they have received the relevant allocation and spending reports. However, during the budget year, they can monitor public procurement practices and check whether they are in compliance with sustainability and human rights standards.

### Key documents

During the budget execution and implementation stage, governments should publish the following documents:<sup>67</sup>

- ▶ **In-Year Reports**, which include information on revenues collected, actual expenditures made, and debt incurred at a given point in time, generally through monthly or quarterly publications.
- ▶ **Mid-Year Review**, which summarizes the actual budget data for the first six months of the year (revenues, expenditures, and debt), reassesses the economic assumptions upon which the budget was initially drafted, and adjusts the budget figures for the remaining six months accordingly.
- ▶ **Year-End Report**, which shows the situation of the government’s accounts at the end of the fiscal year and ideally includes an evaluation of the progress made toward achieving the policy goals spelled out in the approved budget, including those related to the Post-2015 Agenda.

65 Cf. [www.unep.org/resourceefficiency/Consumption/SustainableProcurement/CapacityBuildingforSPPinDevelopingCountries/tabid/101246/Default.aspx](http://www.unep.org/resourceefficiency/Consumption/SustainableProcurement/CapacityBuildingforSPPinDevelopingCountries/tabid/101246/Default.aspx).

66 Cf. Ellmers (2011).

67 Cf. International Budget Partnership (2012), p. 14.

## 3.4 Monitoring, impact assessment and auditing

In parallel to the challenges governments face in allocating and spending public funds adequately, legislators, CSOs, and oversight bodies have various means and methods of tracking public spending, assessing its impact and exercising independent budget control and auditing.

While budget monitoring and impact assessments have to be done at national level, there is also an international dimension to these activities. According to the UN Secretary-General, one of the four building blocks of the Post-2015 Agenda should be “a participatory monitoring framework for tracking progress and mutual accountability mechanisms for all stakeholders.”<sup>68</sup> Tracking fiscal policies could be one of the integral elements of this mechanism.

Examples of existing monitoring approaches and instruments include the Public Expenditure Tracking Surveys (PETS) promoted by the World Bank, the Public Expenditure Reviews (PERs), particularly the Public Environmental Expenditure Reviews (PEERs), and the Climate Public Expenditure and Institutional Reviews (CPEIR).

### Public Expenditure Review

Public expenditure reviews examine the allocation, management and results of public expenditures. They may cover all public expenditures or focus on a few priority areas or a single sector.<sup>69</sup> Their objective is not only to evaluate the spending of the government *ex post* but also to provide the basis for future improvements in strategic planning, budget preparation and fiscal management *ex ante*.

PERs help to answer four simple but fundamental questions around public finance:<sup>70</sup>


- ▶ What was planned to be spent (the budget)?
- ▶ What was actually spent (in terms of expenditures)?
- ▶ What was achieved (outputs)?
- ▶ Did these achievements meet policy objectives (outcomes)?

The instrument of a PER is often complex, time-consuming and expensive, particularly when it is applied in a comprehensive cross-sectoral way. For this reason, it is mainly carried out by international organizations like the World Bank and national governments (often with financial support from the World Bank or the UN).<sup>71</sup>

### Public Environmental Expenditure Review


The Public Environmental Expenditure Reviews are a special case of PERs. Their purpose is to examine government resource allocations within and among sectors, and assess their efficiency and effectiveness in the context of environmental priorities. In doing so, they can highlight mismatches between ambitious environmental policies and plans and low levels of spending in those areas of government that are linked to environmental sustainability.<sup>72</sup> According to a World Bank note, PEERs offer a way of systematically assessing the equity, efficiency, and effectiveness of public environmental spending. A PEER may be a stand-alone analysis, or it may be part of a wider public expenditure review or country environmental analysis (CEA). The data and insights it yields can be valuable for the design of government budgets, policy reforms, and investment projects. The authors add:


*“The starting point for a PEER is an understanding of a government’s appropriate role in managing natural resources and regulating environmental quality in a particular country. A low level of public environmental spending is not in itself an argument for more expenditure; the question is whether government expenditures are effective in meeting environmental priorities. Managing natural resources and controlling pollution emissions present very different challenges for governments. Some problems, such as conservation, entail short-term expenditures but yield benefits only in the longer term. These characteristics must be taken into account when assessing public expenditures.”<sup>73</sup>*

PEERs have been implemented in various countries, for example in Colombia, Madagascar, the Ukraine and Rwanda (see  Box 4).

68 Cf. UN Secretary-General (2013), para. 75.

69 See e.g. the World Bank Guidance on preparing PERs for human development, World Bank (2009a).

70 Cf.  [www.sdplannet-ap.org/Pages/tool-peers.aspx](http://www.sdplannet-ap.org/Pages/tool-peers.aspx).

71 An example is the PER in Tanzania, cf.  [www.mof.go.tz/mofdocs/news/latest%20news/PER%20NEWSLETTER%20Final.pdf](http://www.mof.go.tz/mofdocs/news/latest%20news/PER%20NEWSLETTER%20Final.pdf).

72 Cf. International Institute for Environment and Development (IIED) (2009).

73 Markandya et al. (2006), p. 1.

**Box 4:**
**Detailed elements of a PEER – case study Rwanda**

The terms of reference for the PEER conducted in Rwanda in 2013 contained the following elements:

- ▶ *“Overview of allocations and trends in public expenditure from all sources (domestic revenue and external funds).*
- ▶ *Overview of other environment sources and expenditure trends where data available – private sector, NGO, community, households.*
- ▶ *Trends on prioritization of the environment sector within overall Government of Rwanda budget and comments on intra-sectoral allocations within the environment sector. Clarify definitions of sector and sub-sectors used in analysis.*
- ▶ *Analyse the effectiveness of expenditure allocation, disbursement and execution.*
- ▶ *Outline reasons for any differences between approved budgets vs actual disbursements and expenditures linking implications to progress in achieving policy objectives.*
- ▶ *Analyse input mix (including recurrent v capital, salary v non-salary, balance between management overheads and service delivery expenditure).*
- ▶ *Evaluate performance of Rwanda in relation to regional and international benchmarks. Cross country comparison should be made wherever possible throughout the report. Identify lessons from international best practice.*
- ▶ *Evaluate marginal social benefits vs marginal social costs on environment interventions in Rwanda where possible.*
- ▶ *Commentary and analysis on trends towards de-centralisation of funds.*
- ▶ *Analyse and comment on equity of allocations at local government level. Evaluate current allocation formulas for de-centralised expenditures and provide suggestions on how this could be improved using available data.*
- ▶ *Comment on the progressiveness of government spending by level of environment.*
- ▶ *Evaluate efficiency of fund allocation with regard to the semi autonomous government agencies such as REMA and RNRA – have the establishment had a value added to the environment sector in terms of financing and execution.*
- ▶ *Support Capacity Building for MINECOFIN and for planning staff in key sectors to integrate environmentally sustainable natural resource use and climate change into national and key sector plans, budgets and monitoring and evaluation using PEER as an entry point.*
- ▶ *Provide guidance on the actual drafting process for the section on environment and natural resources as well as climate change mainstreaming for the EDRS II document drawing on lessons from sector engagement and PEER.*
- ▶ *Organise and hold training on Public Environmental Expenditure Review for the government staff focusing on key sectors under PEI (MINALOC, MINAGRI, MINIRENA, MINICOM, MINECOFIN, MININFRA.”*

74 The PEER was commissioned by the Rwanda Environment Management Authority (REMA) in 2013 to evaluate the expenditures made by districts and sectors on environment and climate change, see for the terms of reference [https://jobs.undp.org/cj\\_view\\_job.cfm?cur\\_job\\_id=35998](https://jobs.undp.org/cj_view_job.cfm?cur_job_id=35998) and for the results [www.rema.gov.rw/index.php?option=com\\_content&view=article&id=413%3Adevelopment-sectors-should-plan-and-allocate-funds-on-environment-and-climate-change-activities&catid=189%3Arecent-events&lang=en](http://www.rema.gov.rw/index.php?option=com_content&view=article&id=413%3Adevelopment-sectors-should-plan-and-allocate-funds-on-environment-and-climate-change-activities&catid=189%3Arecent-events&lang=en).

## Public Expenditure Tracking Surveys

PETS are based on the assumption that budget allocation alone is not a sufficient indicator of the quality and quantity of public services. While, for instance, the shifting of budgetary resources to sectors like education and health could be a necessary step to comply with sustainable development priorities, it would be crucial to ascertain where and how the allocated sums are actually spent.

According to the World Bank, PETS are quantitative exercises that trace the flow of resources from origin to destination and determine the location and scale of anomaly. While there is no standard formula, typically some of the steps involved in such a tracking exercise are:<sup>75</sup>

- ▶ Identification of scope, purpose and actors
- ▶ Design of questionnaires
- ▶ Sampling
- ▶ Execution of survey
- ▶ Data analysis
- ▶ Dissemination, and
- ▶ Institutionalization

The first PETS exercise, which focused on the education and health sectors, was conducted in Uganda in 1996.<sup>76</sup> At that time, the main motivation for the study was the observation that despite budgetary spending for basic services having increased over a decade, outputs and outcomes appeared to be stagnating.<sup>77</sup> This led the team to investigate a simple question: are funds budgeted and executed at the national level being translated into services delivered? It concluded:

*“If the funds intended to increase access to services never make it to the facilities where services are delivered, then it is hardly surprising if outputs remain constant.”<sup>78</sup>*

Nearly two thirds of PETS conducted to date have been carried out in Africa. The following countries have implemented one or more PETS exercises in the health sector: Uganda, Kenya, Tanzania, Zambia, Chad, Cameroon, Ghana, Nigeria, Senegal, Madagascar, Mali, Mozambique, Niger, Nigeria, Sierra Leone, Rwanda, and Burundi.<sup>79</sup>

The PETS method recommended by the World Bank was originally designed to assess the technical efficiency of major development projects. Its main focus was on cost efficiency and cost reduction. For example, the World Bank’s toolkit on agriculture expenditure tracking analysis proposes:

*“Define the result chain suitable for PETS in agriculture. To improve efficiency in agriculture – in other words, to get more outputs and outcomes without spending more [...]”<sup>80</sup>*

In order to conduct PETS in the context of sustainable development budgeting, the narrow cost efficiency perspective had to be replaced by a multidimensional approach, which incorporates environmental, social and economic aspects. The overarching question then had to change from *“how to get more outcomes without spending more?”* to *“did public expenditures reach the intended beneficiaries and effectively contribute to achieving the Post-2015 goals and targets?”*

## Climate Public Expenditure and Institutional Review (CPEIR)

There has been a rapid development of climate change policies in many countries in the past few years. National climate change responses in the form of mitigation and adaptation policies are being developed, and where they already exist, they need to be assessed. For this purpose, a climate sensitive assessment tool has been developed that is based on the already described public expenditure reviews PER, PEER and PETS: The Climate Public Expenditure and Institutional Review.<sup>81</sup>

75 Cf. Waglé/Shah (n. d).

76 Cf. Ablo/Reinikka (1998).

77 Cf. Workie (2013), p. 10.

78 Ibid.

79 Ibid.

80 Cf. World Bank (2011), pp. 57.

81 Cf. [www.aideffectiveness.org/CPEIR](http://www.aideffectiveness.org/CPEIR).

The CPEIR methodology will allow policymakers to assess the present status of the national response to climate change. It examines

*“the linkages between the three spheres of: national climate change policy, the institutional structure through which policy is channeled; and the resource allocation processes whereby public funding is made available for the implementation of relevant projects, programmes and policies.”*<sup>82</sup>

By March 2014, six CPEIRs were completed as pilot studies in Nepal, Bangladesh, Samoa, Cambodia, Thailand, and Indonesia.<sup>83</sup> Public financial management is a core theme of the methodology, as a significant feature of CPEIR is to identify climate change related expenditures in the national budgets.

The approach of CPEIR to identify expenditure codes related to climate change resources is a time-consuming task that requires in-depth institutional knowledge. First, through a review of national development plans, sector plans and other policy-related documentation, the institutional landscape is screened. Afterwards, national budget information systems are filtered by asking which expenditures are relevant to climate change. CPEIR assesses specific program types in every national budget, focusing particularly on the following areas:<sup>84</sup>

- ▶ Renewable energy
- ▶ Electricity
- ▶ Forestry
- ▶ Disaster management
- ▶ Disaster relief
- ▶ Water supply and water quality
- ▶ Irrigation
- ▶ Biodiversity/conservation
- ▶ Eco-tourism
- ▶ Livelihoods and rural development
- ▶ Social protection
- ▶ Railway
- ▶ Roads and infrastructure
- ▶ Health (climate sensitive diseases)
- ▶ Health (general)
- ▶ Governance, planning

The findings of the CPEIRs highlight significant differences between countries in their levels of expenditures for mitigation and adaptation to climate change. It is particularly worth noting that the analyses of the CPEIRs are not limited to a pure environmental assessment but are based on a more comprehensive environmental-social perspective. Thereby, they recognize that mitigation and adaptation to climate change are not only environmental objectives but are highly relevant for social and economic development as well.

## Options for engagement

### Governments

In parallel to budget execution, governments can undertake the surveys and reviews mentioned above (PETS, PERs, PEERs and CPEIRs) in order to improve the efficiency as well as the environmental and social effectiveness of their policies. In addition, they have to provide detailed budget information to external auditors and independent budget monitoring initiatives.

### Parliaments

The capacity of parliaments to undertake comprehensive budget monitoring and expenditure reviews is limited. However, they can request expenditure reports from governments, such as a comparison of target and actual expenditures, commission specific audit reports, and oversee the audit results.

### Civil Society Organizations

CSOs have an interest in an effective oversight system that promotes adherence to the budget and reduces mismanagement or corruption. Groups may advocate reforms to strengthen budgetary control. Similarly, they may engage in some monitoring activities in an independent oversight role. For instance, CSOs can focus on whether amounts for specific projects, such as a school or a water sanitation project, have been used for the intended purpose. They also can assess whether the government funds allocated for these purposes are being used effectively and have reached the intended target group (see the example of the Tanzanian Policy Forum’s activities in monitoring service delivery and budget allocation in the local health sector: [Annex 6](#)).

82 Cf. UNDP/ODI (2012), p. IV.

83 Cf. [www.aideffectiveness.org/CPEIR](http://www.aideffectiveness.org/CPEIR).

84 Cf. UNDP/ODI (2012), p. 32f.

**Box 5:****Climate change and public budgets in Peru****Background**

In the long term, Peru will be severely affected by climate change, above all through the El Niño phenomenon. The country is focusing its climate policy on measures to adapt to climate change in the agricultural sector. This sector provides Peru's productive basis, employing the largest number of people. But at the same time, it is the sector most affected by changes in the climate. Moreover, the largest share of the poor population live in rural areas. Preventive measures for adapting to climate change are regarded as profitable. Every US dollar invested avoids 1.35 to 35 times as much in costs arising from possible disasters.<sup>85</sup> Therefore, there is a considerable interest in (public) investment in measures to adapt to climate change.

But how much are climate change policies really reflected in government expenditure? This question is addressed in the study "Cambio Climático y presupuesto público en el Perú," published by Oxfam and Grupo Propuesta Ciudadana in 2009.<sup>86</sup>

**Methodology**

The study sets a baseline for the budgets allocated by the Ministries of Agriculture and Environment to adaptation measures. In addition to the national budget, it also examines the corresponding budgets of the Piura and Cusco regions. Furthermore, it develops a proposal on monitoring activities and the budget.

The corresponding data was taken mainly from the transparency portal of the Ministry of Economics and Finance.<sup>87</sup>

The following matrix was developed to interrelate the results methodically:

The matrix identifies six core areas of adaptation to climate change. They comprise the areas of water and soils (physical components), biodiversity and forests (biological components) and technology and disaster management (social components). The corresponding causes and effects are assigned to them in the two left columns. The right columns give the responsible political levels and relevant budget lines. This arrangement is based on the classifying system of the Peruvian budget with its budget lines for certain programs and sub-programs. It forms the methodological framework for the analysis as a whole.

The study was unable to identify any explicit budget allocations for adaptation measures e.g. in the context of the national climate strategy (La Estrategia Nacional de Cambio Climático, ENCC)<sup>88</sup>. It therefore examines government expenditure in the six core areas referred to above. They are assigned the respective budget lines in the budgets of the responsible ministries or regional authorities. (Example: irrigation infrastructure → water; environmental remediation → soils).

In the context of the IPACC<sup>89</sup> project, the Peruvian government is currently continuing the study up to the budget year 2012; results are expected by 2014.

**Results**

The study arrives at the conclusion that Peru's climate adaptation policy requires a better and more coherent approach on the part of the Ministries of Environment and Agriculture. The major irrigation projects have to be examined regarding their impacts on the soil, water consumption and the environment. Furthermore, the regions and local communities ought to be integrated more strongly in the strategic objective at national level, and budgets ought to be more decentralized.

In 2007 and 2008, a mere respective 4.4 percent and 4.0 percent of the Peruvian government budget was spent on adaptation measures. The lion's share of the money (52 percent) was accounted for by the core area of water, in particular infrastructure measures for irrigation.

**Evaluation of methodology and instruments**

It is the chief objective of the study to present a clear critical review of Peruvian climate policy, especially with regard to the measures in the field of adaptation. The quantitative analysis of the budget lines belonging to it bears out this review.

So far, however, the scope of the study has remained restricted. A systematic analysis of the entire government budget in accordance with ecological criteria has not been performed.

The budget lines assigned to the core sectors are represented in aggregate form. As a result, individual measures that do not contribute to adaptation or may even counteract it cannot be separated. Examples of this are large irrigation projects, especially in Peru's coastal valleys, where inefficient water consumption has led to the salinification of thousands of hectares of cropland.

Climate change in Peru		Indicator of monitoring the adaptation to climate change	Politics for the adaptation to climate change	Functional subprograms of the 2009 budget attributed to the adaptation to climate change
Cause	Effect			
Deforestation Change of the use of soil	Loss (quantity and quality) of water resources: deglaciation, droughts	Management of the water resources	National and regional governments	0083: water resources; 0050: infrastructure of irrigation
Amplification of the agricultural frontier	Loss of biodiversity	Management of biodiversity	National and regional governments	0080: Protection of flora and fauna
Extensive livestock breeding	Loss of covering vegetation	Reforestation	National and regional governments	0081: Forestation and Reforestation
Industrial activity of the northern hemisphere	Erosion of soils	Conservation of soils	National and regional governments	e.g. 0082: Conservation of soils 0084: Decontamination of hazardous goods
	Change of the patterns of T° and PP: change of microclimates	Adaptation technologies	National and regional governments	e.g. 0016: Applied research 0017: Technical innovation 0046: Protection of the health of vegetation 0048: Protection of the health of animals
	Increase of extreme weather events: El Niño, droughts, heavy precipitation, frost, hail, floodings	Risk management	National and regional governments	0035: Prevention of disasters 0036: Immediate attention to disasters

85 Cf. Galarzo, Francisco (2011).

86 Grupo Propuesta Ciudadana is an umbrella organization of several Peruvian NGOs. It campaigns for a consolidation of democratic structures in Peru, above all addressing issues concerning the decentralization and transparency in public finances.

87 Cf. [www.mef.gob.pe/index.php?option=com\\_content&view=section&id=37&Itemid=100143&lang=es](http://www.mef.gob.pe/index.php?option=com_content&view=section&id=37&Itemid=100143&lang=es).

88 Cf. [www.sernanp.gob.pe/sernanp/archivos/imagenes/Estrategia%20Nacional%20de%20Cambio%20Climatico.pdf](http://www.sernanp.gob.pe/sernanp/archivos/imagenes/Estrategia%20Nacional%20de%20Cambio%20Climatico.pdf).

89 IPACC (Inversion Publica y Adaptacion al Cambio Climato) is a project run by the Peruvian Ministry of Economics and Finance (Spanish: MEF) and the Ministry of Environment (Spanish: MINAM), and supported by GIZ.

In particular, CSOs can analyze public expenditures according to specific criteria like their contribution to the fight against climate change (see the case of Peru in [Box 5](#) and the description of the budget work of the Indian Centre for Budget and Governance Accountability (CBGA) in [Annex 5](#)).

On the basis of tools for a gender-sensitive budget analysis, CSOs can develop instruments that allow for scrutinizing the Post-2015-related issues in a budget. This analytical approach helps to identify policy gaps and limitations and to assess the adequacy of the related resource allocations. Thus a socio-ecological-sensitive policy appraisal is guided by the overarching question *“in what ways are budget policies and their associated resource allocations likely to comply with the Post-2015 Agenda and its goals and targets?”*

### Key documents

During the monitoring and auditing stage of the budget the following documents should be made available to the public:

- ▶ **Expenditure reports**, such as a comparison of target and actual expenditures, to be provided by the government (MoF).
- ▶ All **expenditure surveys and reviews** commissioned by the government, particularly all PETS, PERs, PEERs and CPEIRs.
- ▶ **Audit reports** by the supreme audit institution.

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## List of Abbreviations

List of Abbreviations			
<b>ABI</b>	Alternative Budget Initiative	<b>MDG</b>	Millennium Development Goal
<b>AFB</b>	Alternative Federal Budget	<b>MIICO</b>	Mbozi, Ileje and Isangati Consortium
<b>BMZ</b>	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung	<b>MoF</b>	Ministry of Finance
<b>CAB</b>	The Citizens Alternative Budget	<b>MTEF</b>	Medium-Term Expenditure Framework
<b>CBDR</b>	Common But Differentiated Responsibilities	<b>NGO</b>	Non-Governmental Organization
<b>CBGA</b>	Centre for Budget and Governance Accountability	<b>ODA</b>	Official Development Assistance
<b>CCPA</b>	Canadian Centre for Policy Alternatives	<b>ODI</b>	Overseas Development Institute
<b>CEA</b>	Country Environmental Analysis	<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>CESR</b>	Center for Economic and Social Rights	<b>OECD DAC</b>	Organisation for Economic Cooperation and Development, Development Assistance Committee
<b>CPEIR</b>	Climate Public Expenditure and Institutional Reviews	<b>OWG</b>	Open Working Group
<b>CSO</b>	Civil Society Organization	<b>PEER</b>	Public Environmental Expenditure Review
<b>EEZ</b>	Exclusive Economic Zones of Coastal States	<b>PER</b>	Public Expenditure Review
<b>EHS</b>	Environmentally Harmful Subsidies	<b>PETS</b>	Public Expenditure Tracking Survey
<b>ESCR</b>	Economic, Social and Cultural Right	<b>PF</b>	Policy Forum
<b>FAO</b>	Food and Agriculture Organization	<b>PPP</b>	Public Private Partnerships
<b>GBC</b>	Green Budget Coalition	<b>SAM</b>	Social Accountability Monitoring
<b>GDP</b>	Gross Domestic Product	<b>SDG</b>	Sustainable Development Goal
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit	<b>SPP</b>	Sustainable Public Procurement
<b>GNP</b>	Gross National Product	<b>SWP</b>	Social Watch Philippines
<b>GPP</b>	Green Public Procurement	<b>UBA</b>	Umweltbundesamt/Federal Environment Agency
<b>HLP</b>	High-Level Panel of Eminent Persons on the Post-2015 Development Agenda	<b>UN</b>	United Nations
<b>IBP</b>	International Budget Partnership	<b>UNCLOS</b>	United Nations Convention on the Law of the Sea
<b>ICESDF</b>	Intergovernmental Committee of Experts on Sustainable Development Financing	<b>UN DESA</b>	United Nations Department of Economic and Social Affairs
<b>ICLEI</b>	International Council for Local Environmental Initiatives	<b>UNDP</b>	United Nations Development Programme
<b>ICMS-E</b>	Imposto sobre Circulação de Mercadorias e Serviços Ecológico; Ecological Tax on Circulation of Goods and Services	<b>UNEP</b>	United Nations Environment Programme
<b>IPACC</b>	Inversion Publica y Adaptacion al Cambio Climato	<b>UNICEF</b>	United Nations Children's Fund
<b>IEA</b>	Institute of Economic Affairs	<b>UNTT</b>	UN System Task Team
<b>IEEP</b>	Institute for European Environmental Policy	<b>US</b>	United States
<b>IISD</b>	International Institute for Sustainable Development	<b>WHO</b>	World Health Organization
<b>IMF</b>	International Monetary Fund		
<b>IMV</b>	Institut for Miljøvurdering		

# Annexes

## Annex 1: Alternative Budget Initiative – Philippines

by Isagani Serrano



The Philippines Alternative Budget Initiative (ABI) is an initiative of Social Watch Philippines (SWP) in cooperation with a broad consortium of civil society groups and organizations. The ABI's brain pool is composed of experts and members of academia from various

fields. The ABI engages legislators through presenting budget analyses of government spending as well as recommendations for alternative budget allocations for the next year. Its “orange book,” which contains the initiative's findings and recommendations since 2006, is published each year for legislators and citizens alike. The overall objective of ABI has been to re-orient the entire budget towards the MDGs and sustainable development. The Alternative Budget looks at the sectoral distributions of the Philippines budget and analyses the percentages that each sector receives from the budget, such as social services, economic services and for the general public. These percentages are then used as starting points for budgetary shifts that could be made to incorporate investments in projects that will work towards sustainable development.

In addition to the areas of education, agriculture, health, social protection and the special concerns of indigenous peoples, ecological aspects are considered. The 2013 report, for example, contained a chapter titled “Ensuring a Climate-Sensitive and Disaster Risk Reduction-Proofed National Budget for FY 2013: Deviating from a Business-As-Usual Mode in Budgeting”<sup>90</sup> which particularly analyses climate change-related budget items in the 2013 National Expenditure Program.

### Public Finance, the Budget Process and Citizen's Participation

Citizen's participation in the Philippine budget process is limited largely because laws (some of which originate from the time of President Marcos' rule) which do not provide for citizens' participation shape public finance structures and practices. Under present budget law, the president prepares and proposes the budget, which is then enacted by congress. Law does not provide for citizens' participation in the entire budget process except during the appropriation stage. However, even this tends to be limited since congress cannot increase the amount of the total budget and the President can exercise enormous veto powers. ABI has succeeded in increasing budget allocations for MDG related expenditures since 2006, and has now realized that it also has to look at budget implementation and expenditure tracking. Citizens groups are just starting to monitor certain government expenditures.

At present, accountability is considered the domain of the legislature, which conducts hearings on spectacular and scandalous issues. The Commission on Audit conducts audits and prepares audit reports, which are used by both legislators and citizens groups for demanding accountability. Again, these efforts tend to be uneven. Audit reports only come to the attention of the public when there are scandals and spectacular cases involving high officials. Citizens groups do not examine audit reports on a regular basis. Hence, these are largely underutilized, and effective accountability is not achieved.

### Impact

Since 2006, ABI has firmly established a niche in the annals of the Philippine budget process. Members of media are now well accustomed to the budget analyses, briefings, and statements which are issued by SWP/ABI each year – from the Budget Call, to the passage of the Appropriation Act, its implementation and finally, budget accountability. Congressmen and senators are intimately acquainted with the “Orange Book,” which details alternative budget proposals on education, health, agriculture, and environment. They look forward to the annual briefings being given by SWP/ABI for members of the Appropriations Committee in the House and the Committee on Finance of the Senate. As a matter of fact, they also request for one-on-one briefings with the Technical Working Groups of SWP/ABI on specific sections of the budget.

The public have grown familiar with the faces of SWP/ABI spokespersons on television and print media, too. Their voices are constantly heard over the radio and in many public platforms. Their trademark orange color is a familiar sight during budget hearings. Public awareness of the national budget is increasing.

For further reading:

@ <http://socialwatchphilippines.wordpress.com/>

## Annex 2: The “Citizens Alternative Budget” in Kenya

by John Mutua



In Kenya, the Institute for Economic Affairs (IEA) releases a Citizens Alternative Budget, which seeks to influence government decisions and help civil society develop viable alternatives to government policy. Equally, it provides a complementary avenue for deepening participatory budgeting, given the legal basis

for public participation in government planning and budgeting processes. As the country transits to a devolved system of government, it is envisaged that through the IEA pre-budget hearings and Citizen Alternative Budgets there is likely to be an increased civil society engagement in county government planning and budgeting.

The 2013/14 alternative budget contains budget proposals from the public and sector stakeholders who attended the IEA annual pre-budget hearings that took place on 5 and 6 February 2013. The proposals submitted were consolidated and synthesized by the IEA according to the various Medium Term Expenditure Framework (MTEF)

sectors, largely based on their feasibility, and assessed whether they made economic sense and were in line with national priorities of the government. Furthermore, this alternative budget takes note of the Budget Review and Outlook Paper 2013/14 as a pre-budget statement that sets the macroeconomic framework through which government will prepare the forthcoming budget.

The Citizens Alternative Budget criticizes that the Kenyan government does not make all of the budget documents public to its citizens. The government of Kenya produces midyear reviews and the yearend report for internal use but does not publish these documents. The Citizens Alternative Budget report gives brief backgrounds to the topics in need of funding and then provides bullet points of the IEA’s proposals in a clearly arranged document. These proposals and their justifications are subsequently compiled in tables divided by sector, e.g. the health sector (see example). However, the budget proposals do not present specific figures for the government to work with but simply highlight the areas that need additional funding.

For further reading:

④ [www.ieakenya.or.ke/programmes/budget-information-programme](http://www.ieakenya.or.ke/programmes/budget-information-programme)

**Example:**
**Health Sector proposals Budget 2013/2014**

No	Proposals	Justification
1	Increase the Personnel Emoluments and budgetary allocation to both the ministries of Public Health and Sanitation and Ministry of Medical Services.	Improved health worker recruitment, retention and welfare, and better provision of medical services to the public.
3	Remove user fees from public hospitals.	User fees are a significant barrier in preventing people from accessing sexual reproductive health (SRH) services. The majority of the poor are unable to make use of higher health facilities and referral hospital due to related costs.
4	Improve resource allocation towards setting youth friendly centers in public health facilities.	Enhanced access to reproductive health information among the youth thus reduction in incidences of teenage pregnancy, HIV/AIDS infection and school dropout rate.
5	Improve equitable allocation of resources towards maternal and new-born health care.	Achievement of millennium goal number 4 and 5 on reduced child mortality and improved maternal health by 2015.
6	Increase provision of sexual and reproductive health services in local dispensaries with trained staff on all forms of sexual abuse.	Improve the health status of young women and men, and this will enable them to seek treatment immediately upon occurrence as opposed to over-the-counter treatment.

Source: Institute of Economic Affairs (2013), p. 5.

## Annex 3: The Canadian “Alternative Federal Budget”

by David Macdonald



The Canadian Centre for Policy Alternatives (CCPA) initiated the Alternative Federal Budget (AFB) project in 1994. Since then, it has annually released an Alternative Federal Budget report. In preparing the report, CCPA works with researchers and activists from a wide spectrum of civil society organizations,

representing millions of Canadians. CCPA itself is an independent, non-partisan research institute concerned with issues of social, economic and environmental justice which was founded in 1980.

CCPA outlines the AFB as follows: *“From its beginnings, the fundamental premise of the AFB is that budgets are about choices. The AFB starts from a set of social justice values – human dignity and freedom, fairness, equality, environmental sustainability, and the public good. AFB participants collectively develop a set of taxation and spending measures that reflect these values, and create a sophisticated and workable budgetary framework within which they are met. This framework acknowledges political and economic realities but nevertheless produces a dramatically different result than the federal government’s budget.”*<sup>91</sup>

The AFB is a “what if” exercise: It describes what a government could do if it were truly committed to an economic, social, and environmental agenda that reflects the values of the large majority of Canadians – as opposed to the interests of a privileged minority. The AFB is also an exercise in economic literacy – to demystify budget making. It is an exercise in public accountability. And finally, it is used as a vehicle for building policy consensus amongst progressive civil society organizations and providing the fuel for popular mobilization. The AFB report starts off with an economic analysis on where the economy is successful but also, more importantly, where it is failing, and which improvements need to be made to create a more equitable society for all. The AFB for 2013 focused particularly on macroeconomic policy and fair and progressive taxation. Austerity measures are put at blame and the report states that

*“Since the expiry of Canada’s stimulus programs two years ago, little thought has been put into getting the country back on its feet again. Instead of focusing on sustaining a fragile recovery by putting Canadians back to work, governments have switched rapidly into ‘austerity mode’ by cutting government services when they are needed the most. Growth is the problem in Canada, not deficits.”*<sup>92</sup>

The document mainly consists of comprehensive analyses of the different societal and environmental areas that are funded by government. These are very detailed descriptions of the current state of these sectors and where funding is needed to make policies more effective and successful in achieving environmental sustainability and a more equitable society. Taxation is a major issue within the AFB reports as well. It looks at the types of taxes that are being raised in Canada and makes suggestions on specific tax reforms.

*“Unlike the United States and most European countries, Canada has no wealth, inheritance, or estate tax. Capital gains taxes may be levied on some portion of inheritances, but they don’t apply to the base amounts and are often avoided. This means those who are lucky enough to be born into a privileged family can benefit from enormous inheritances without paying tax. The AFB proposes a minimum inheritance tax of 45% on large estates that are passed on to the heirs of wealthy families on amounts in excess of \$5 million.”*<sup>93</sup>

AFB findings and recommendations are based on secondary sources and statistics on the Canadian economy. The proposals are based on research and comparisons made to other countries’ governmental spending and tax reforms.

For further reading:

📄 <https://www.policyalternatives.ca/projects/alternative-federal-budget>

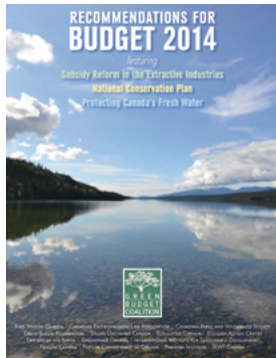
91 Cf. 📄 [www.policyalternatives.ca/projects/alternative-federal-budget/about#sthash.xloTKtXd.dpuf](https://www.policyalternatives.ca/projects/alternative-federal-budget/about#sthash.xloTKtXd.dpuf)

92 Cf. Canadian Centre for Policy Alternatives (2013), p. 8.

93 Ibid. p. 30.

## Annex 4: The Canadian “Green Budget Coalition”

by Andrew Van Iterson



The Green Budget Coalition (GBC) is a Canadian initiative that has been active since 1999 and brings together fourteen leading Canadian environmental organizations, collectively representing over 600,000 Canadians, to present an analysis of the most pressing issues regarding sustainability in Canada

and to make a consolidated annual set of recommendations to the federal government regarding strategic fiscal and budgetary opportunities. The Green Budget Coalition's recommendations, which are aimed at influencing the ongoing budget process of the current year, are also fed into the Alternative Federal Budget (see [Annex 3](#)) – which rather than influencing the actual budget works on showing alternatives to taken paths.

The Green Budget Coalition's central strengths include its unique strategic role, its diverse membership (from Greenpeace to Ducks Unlimited), its relationships with and access to parliamentarians and senior government officials (particularly at the Canadian finance department), its focus on select priority recommendations designed to create large-scale environmental and conservation benefits, its emphasis on aligning fiscal policy with environmental sustainability (through ecological fiscal reform), its strong internal cohesion, and its enviable record of success.

### Methodology

The GBC operates on a consistent annual cycle, based around the Canadian federal budget cycle. With the federal budget usually released in February or March, the GBC holds its annual meeting one to three months later, at which member representatives assess successes and lessons from the past year, identify and prioritize recommendations for the subsequent year's budget, and also address internal issues regarding leadership, membership and finances.

The GBC chooses its recommendations within three to four caucuses: nature conservation, healthy communities and toxics cleanup (including water and infrastructure), climate change/energy, and ecological fiscal reform (which cuts across the other caucuses). The recommendations are mostly on spending measures, but also for subsidy reforms (i.e., reductions for mining and fossil fuels, increases for green energy) and environmental pricing. The GBC usually “features” one recommendation per caucus, which is given more space in the annual document and more time in government meetings. Recommendations are prioritized based particularly on environmental importance and political timeliness. The GBC operates on a consensus basis, and members generally trust each other's knowledge in their respective subject areas, as long as the tone fits the GBC's constructive approach.

Over the months following the annual meeting, GBC members conduct research, and liaise with government officials, to draft early versions of the GBC's recommendations, which are fact-based and constructive. Once completed and agreed upon, these are circulated widely within government in September as a "Preliminary Recommendations" document, to provide early notice to government of the GBC's priorities and to generate feedback. The GBC then arranges meetings with a series of deputy ministers (the non-political department heads) and finance department officials, which leads to the departments thoroughly reviewing the relevant recommendations and providing valuable advice on how to strengthen the recommendations.

Following those meetings, the GBC revises and finalizes, translates (into French), and lays out the text into a professional 40-60 page document. The final bound document is then sent to all parliamentarians and over 500 other government officials, before a second series of meetings at the end of November with departmental ministers, parliamentarians from all parties, and political staff, particularly from the finance department, in which GBC members promote their recommendations.

The government meetings provide a prime opportunity for GBC members to have open discussions with senior government representatives (they might not otherwise meet), and for government officials to discuss their key concerns with a group of environmental leaders at one time.

### Impact

Over time, through consistent dedication to fact-based proposals and discrete, constructive engagement, the GBC has gained increasing respect within government and increased access to senior officials, to the point that the GBC is effectively a part of the government's annual budget development process, and that both GBC and government officials look forward to their annual (and sometimes more frequent) meetings.

Furthermore, the GBC is uniquely situated to facilitate cooperative efforts by its diverse members. The process of developing the GBC's recommendations leads to numerous valuable discussions where differences of opinion and diverse knowledge and experiences can be shared, resulting in stronger common positions. In addition, when unexpected challenges and opportunities arise, the GBC often facilitates important discussions amongst major environmental and conservation groups (within and outside the GBC) towards developing integrated and complementary strategies.

The GBC has played an influential role in the federal government's allocation of over C\$20 billion towards environmental sustainability since its inception in 1999, as well as a series of subsidy reform measures and a 2005 budget annex on environmental taxation.

For further reading:  
[@ www.greenbudget.ca/](http://www.greenbudget.ca/)

## Annex 5: The Indian Centre for Budget and Governance Accountability (CBGA)

by Jvotsna Goel



CBGA, an independent think tank based in New Delhi, scrutinizes public policies and budgets in India and advocates for greater transparency, accountability and scope for participation in budgets. CBGA recognizes the fundamental problems in the overall policy framework in the country,

and believes that the country's tax to GDP ratio needs to be stepped up significantly in the coming years, that a re-prioritization of budgets in favor of critical sectors is needed, and that government budgets need to be a lot more responsive to the needs and challenges confronting the disadvantaged sections of population (children, women, Dalits, Adivasis, religious minorities, persons with disabilities, and unorganized workers). Fiscal policy in the country should promote substantive decentralization, from the Union government to state governments and from state to local governments.

### CBGA projects on budgets

- ▶ CBGA serves as the secretariat of People's Budget Initiative (PBI). PBI is a civil society coalition, which promotes the inclusion of people's movements, grass-roots organizations and NGOs in the policy processes that determine the priorities underlying government budgets in India. The central idea of PBI is to democratize budgets by giving people's voice its due space in the budget processes. Over the last several years, the reach of PBI has grown, and more than three hundred organizations from 20 different States have joined its efforts.

Further reading:

📄 [www.cbgaindia.org/budget\\_advocacy\\_peoples\\_budget\\_initiative.php](http://www.cbgaindia.org/budget_advocacy_peoples_budget_initiative.php)

- ▶ CBGA have been organizing a Consultation on Budget Transparency and Accountability in various regions of India, in collaboration with state's government affiliated research institution and a local CSO. This is an ongoing effort by CBGA to institutionalize pre-budget consultations with civil society as an annual process every year.

Further reading:

📄 [www.cbgaindia.org/bwi\\_genesis.php](http://www.cbgaindia.org/bwi_genesis.php)

- ▶ Some of CBGA's specific work in the area of climate change and environmental issues: CBGA carried out a study related to climate change adaptation in collaboration with Oxfam India - "Adaptation to climate change in India: A study of Union Budget" in 2009. This study undertook an in-depth assessment of government budgets in India from the lens of adaptation to climate change. The major conclusion of the study raised the awareness level with several stakeholders in India. CBGA carried out another study on evaluating the performance of the National Clean Energy Fund (NCEF) in 2012. This study found that inconsistencies between NCEF's Stated Objective, Operational Guidelines and Actual Implementation by Sponsor Ministries. Recently, CBGA carried out tracking of public spending towards harnessing of renewable energy in India. These studies made an impact in enhancing public understanding of climate change issues and the deep engagement of key stakeholders with setting up of appraisal and monitoring guidelines for funding.

Further reading:

📄 [www.cbgaindia.org/files/research\\_reports/Adaptation%20to%20Climate%20Change%20in%20India%20-%20A%20Study%20of%20Union%20Budgets.pdf](http://www.cbgaindia.org/files/research_reports/Adaptation%20to%20Climate%20Change%20in%20India%20-%20A%20Study%20of%20Union%20Budgets.pdf)

📄 [www.cbgaindia.org/files/policy\\_briefs/Policy Brief-Framework & Performance of National Clean Energy Fund %28NCEF%29.pdf](http://www.cbgaindia.org/files/policy_briefs/Policy%20Brief-Framework%20&%20Performance%20of%20National%20Clean%20Energy%20Fund%20NCEF%29.pdf)

📄 [www.cbgaindia.org/files/recent\\_publications/Public%20Spending%20Towards%20Harnessing%20Renewable%20Energy%20In%20India.pdf](http://www.cbgaindia.org/files/recent_publications/Public%20Spending%20Towards%20Harnessing%20Renewable%20Energy%20In%20India.pdf)

## Annex 6: Monitoring service delivery and budget allocation in Mbeya, Tanzania

by Semkae Kilonzo



In the Ileje district of southwestern Tanzania, expectant mothers about to give birth had to cross a crocodile-infested river into Malawi because a local medical center did not have enough money to pay for a midwife. It took a Social Accountability Monitoring (SAM) exercise by civil society originations and citizens

to uncover that money was available but had somehow been diverted. Once it became clear that there was a staff budget, remedial action was taken. Now the women of Ileje receive pregnancy and birth delivery services without risking their lives on a needless, long and hazardous journey.

In May 2010, Policy Forum (PF) and MIICO (Mbozi, Ileje and Isangati Consortium) entered into a three-year-long partnership to implement SAM in the area. Specifically, MIICO stakeholders in Ileje chose the health sector in Ileje District Council. This initiative was premised on the assumption that an improved understanding of the public resource management framework within which services are delivered would empower citizens when combined with improved access to and use of evidence from within the public resource management processes.

More specifically, it gave participants a snapshot of challenges in health service provision and how communities are coping with them. It was also an opportunity to closely see how bureaucratic bottlenecks can slow down the speed of achieving development outcomes and what civic actors, once enabled and in certain contexts, can do to hasten it.

SAM maps out the public resource management framework in Tanzania using a five-step approach. It also identifies specific systemic weaknesses in the Tanzanian public resource management system and analyses their real and/or potential impact on the efficiency and effectiveness of public service delivery. This holistic monitoring approach consists of analyzing:

- ▶ Resource allocation and strategic planning;
- ▶ Expenditure management;
- ▶ Performance management;
- ▶ Public integrity management; and
- ▶ Accountability to oversight.

Using this approach, the SAM team found that a critical staff shortage in the district existed despite a budget allocation to cover for the posts during the financial year. When questioned about this, council officials stated that the process for recruitment for health posts was long and involved lengthy bureaucratic procedures, and that the mandates for each stage of the process were unclear due to conflicting messages from current legislation and regulations. This meant that the two dispensaries built in the villages of Chabu and Shinji and completed since 2009 were not operational.

Constant follow-up by the monitoring team began to yield results. During a visit to the Chabu and Shinji dispensaries on January 31 2012, the team was told that personnel had already been recruited. Therefore, pending the completion of staff housing and registration, the dispensary would be able to begin operating immediately. As of July 2012, the Chabu dispensary has been operational with two staff having started to work and a third one soon to join. Personnel for Shinji dispensary are still awaiting the completion of staff housing.

Further reading:

[www.policyforum-tz.org/resources/pf-social-accountability-monitoring-page](http://www.policyforum-tz.org/resources/pf-social-accountability-monitoring-page)



# Turning public budgets towards sustainability

## A guide to environmental-social budgeting

International development policy is at a crossroads. By September 2015, governments plan to adopt a Post-2015 Development Agenda – an agenda that is supposed to shape the fundamental priorities, goals and strategies for development policy beyond 2015. In parallel, governments have agreed to develop a set of Sustainable Development Goals integrating all dimensions (social, economic and environmental) of sustainable development and being applicable to all countries in the world. Forming one coherent Post-2015 Agenda, including the SDGs, affects all policy areas beyond development policy in a narrow sense, in particular social, economic and environmental policy – and above all fiscal policy.

Governments have the primary responsibility to implement the Post-2015 Agenda. This has implications for fiscal policies and the allocation of public resources. Governments will have to formulate Sustainable Development Budgets in order to implement Sustainable Development Goals, facing the challenge of interdependencies between environmental and social policy goals. A consistent integration of different perspectives in budget policy and analysis will be needed to implement SDGs and avoid unwanted side-effects.

This guide describes possible entry points for shaping fiscal policy in accordance with environmental and social criteria and shows how to use them in order to achieve environmental-social budgets. It uses the budget cycle as a tool in identifying such entry points, from the drafting of the budget to policy implementation and monitoring of the results.

The starting point for analyses will be to identify the fiscal implications of the Post-2015 Agenda. The next steps will be to translate them into an SDG-conform budget plan and to have it approved by the legislature. Implementing the budget is a key role for governments. One significant issue in this phase of the budget cycle is public procurement, which can be an important instrument to promote local businesses and high environmental and social standards. Finally, legislators, civil society organizations and oversight bodies have various opportunities to track public spending, assess its impact and exercise independent budget control and auditing.

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# Agenda Item 7

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