



Greening EU Cooperation

Session 10: Greening country systems and policies through PFM actions and budget support

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Economic & fiscal policies

A macro-critical question

The impact of climate change is **critical for macroeconomic stability**:

- An increase in average global temperature by 0.04°C per year would raise loss of GDP per capita by 7% by 2100.
- A 2020 report by the WEF shows that more than half of the world's GDP (some \$44 trillion) is moderately or highly dependent on nature and its services. LICs and MICs are more severely affected.
- 2021 WB Study: ecosystem services severe degradation would cause an annual contraction of real GDP of 9.7% in Sub-Saharan Africa and 6.5% in Asia, by 2030.
- 2022 global catastrophe losses amounted to USD 115 billion (from a 10-year average of annual USD 81 billion losses)

Economic policy is key in climate change mitigation and adaptation:

- It will be costly, so public debt management and fiscal policies need to be carefully calibrated to address needs while maintaining fiscal sustainability.
- But public resources will be far from enough; we need market-measures e.g. carbon pricing...
- ...and incentives to mobilise private funds for green infrastructure and energy transition in addition (increased) domestic revenue and ODA
- [High-level Expert Group report on scaling up sustainable finance in LICs and MICs](#) (April 2024)

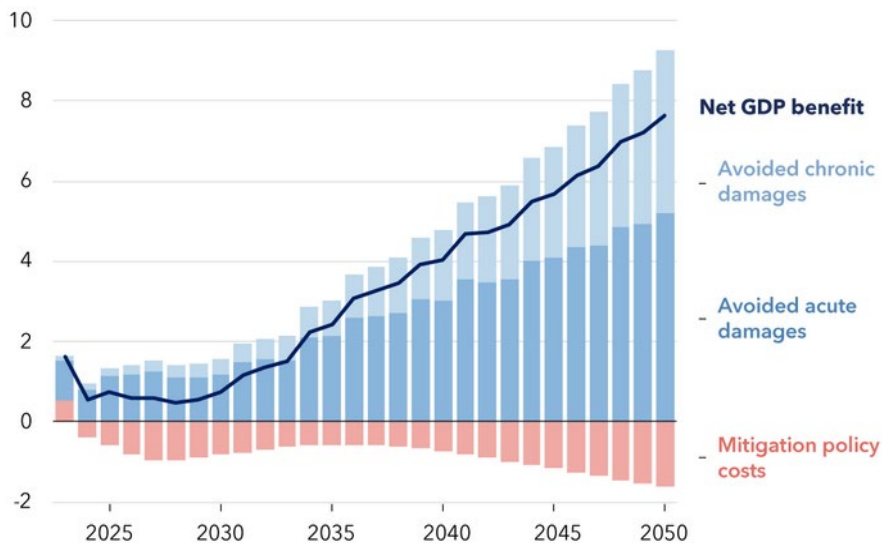


Tools for evidence and actions

Green returns

The economic benefits of accelerating the transition to a low-carbon economy vastly outweigh its cost.

World potential GDP benefit under net zero carbon emissions by 2050 (percent deviation from reference scenario)



Sources: NGFS (2023), Scenarios Portal; IIASA (2023), NGFS Phase 4 Scenario Explorer; and IMF staff calculations. Note: NiGEM model with REMIND-MAGPIE inputs. The reference scenario is the Current Policies scenario with no transition but physical risk.

IMF

Selected diagnostic tools:

- [Climate Policy Diagnostic](#) (IMF)
- [Climate Macroeconomic Assessment Program](#) (IMF)
- [Country Climate and Development Report](#) (WB)
- PFM diagnostics e.g. PEFA, PIMA, MAPS (*see further*)

IMF [Resilience and Sustainability Facility](#) (RSF) – long-term concessional financing to LICs-LMICs-SIDS to mitigate macro-economic risks from climate change & pandemics

Example of [RSF in Cabo Verde](#) (USD 31.5M):

- Governance of climate change policy
- Public investment planning process
- Energy efficiency and energy transition
- Sustainability of water resources
- Financial sector resilience

Synergies to foster with EU actions – e.g. regulatory frameworks, investments, carbon market, sustainable finance

Capacities – forecasting, fiscal risks, taxation, natural capital accounting

PFM entry points & diagnostics

Greening PFM systems

WHY?

- ❑ NDCs, SDGs \leftrightarrow government policies (climate/environmental impact, direct or indirect)
- ❑ *Expenditure side*: national budget – a tool to achieve national policy objectives
- ❑ *Revenue side*: fiscal space for policy implementation, incentives for behavioural change

Green PFM is the integration of an environment/climate-friendly perspective into PFM practices, systems, and frameworks (especially the budget process) with the objective to support fiscal policies that are responsive to environmental and/or climate concerns.

Greening PFM systems

WHERE ARE WE?

- ❑ Green PFM practices remain nascent in most countries, including in advanced economies
- ❑ 60% of the OECD membership are not implementing any green budgeting (OECD, 2021)
- ❑ Various diagnostics and studies carried out, but limited follow-up
- ❑ Green taxation is already relatively widespread. Over 70 non-OECD countries having some green taxation in place

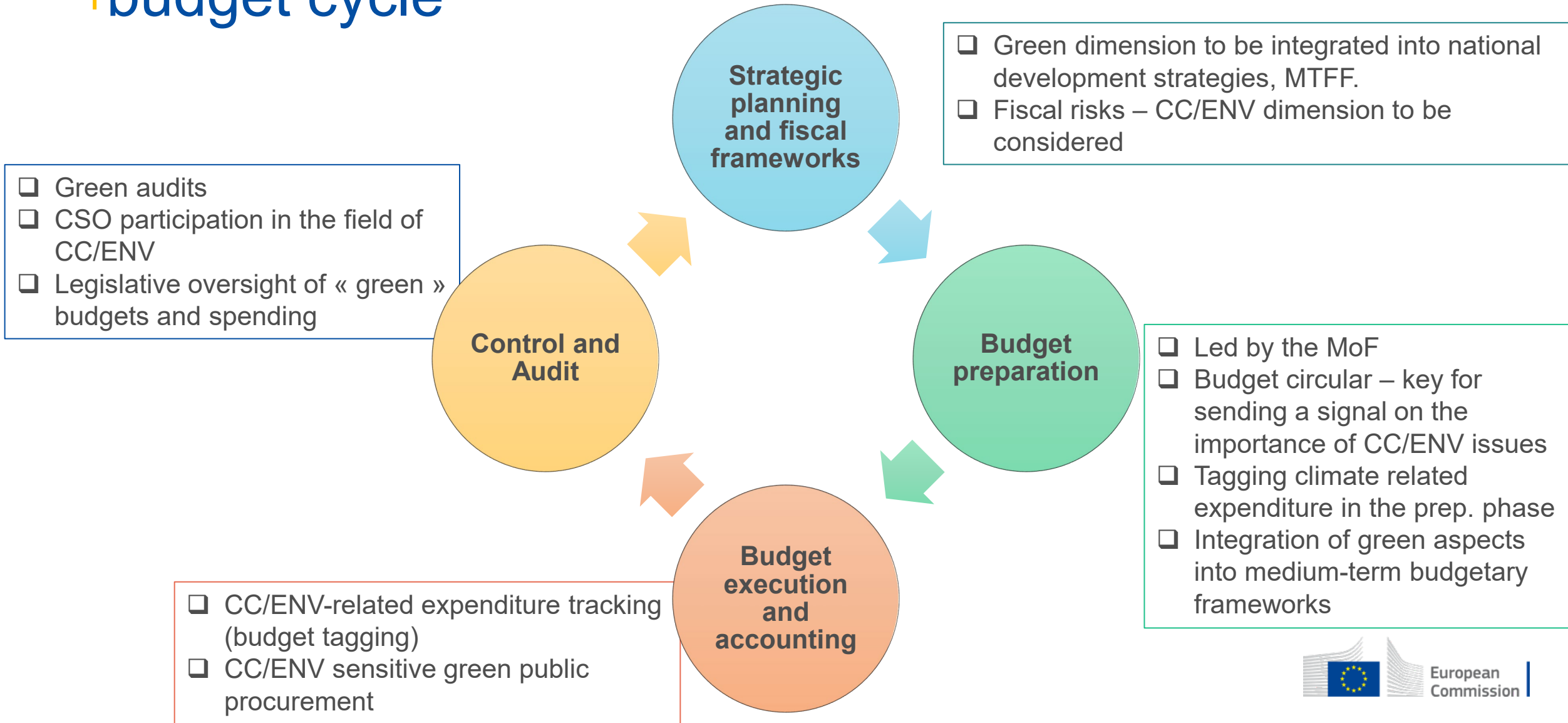
Greening PFM systems

WHAT ARE THE ENTRY POINTS?

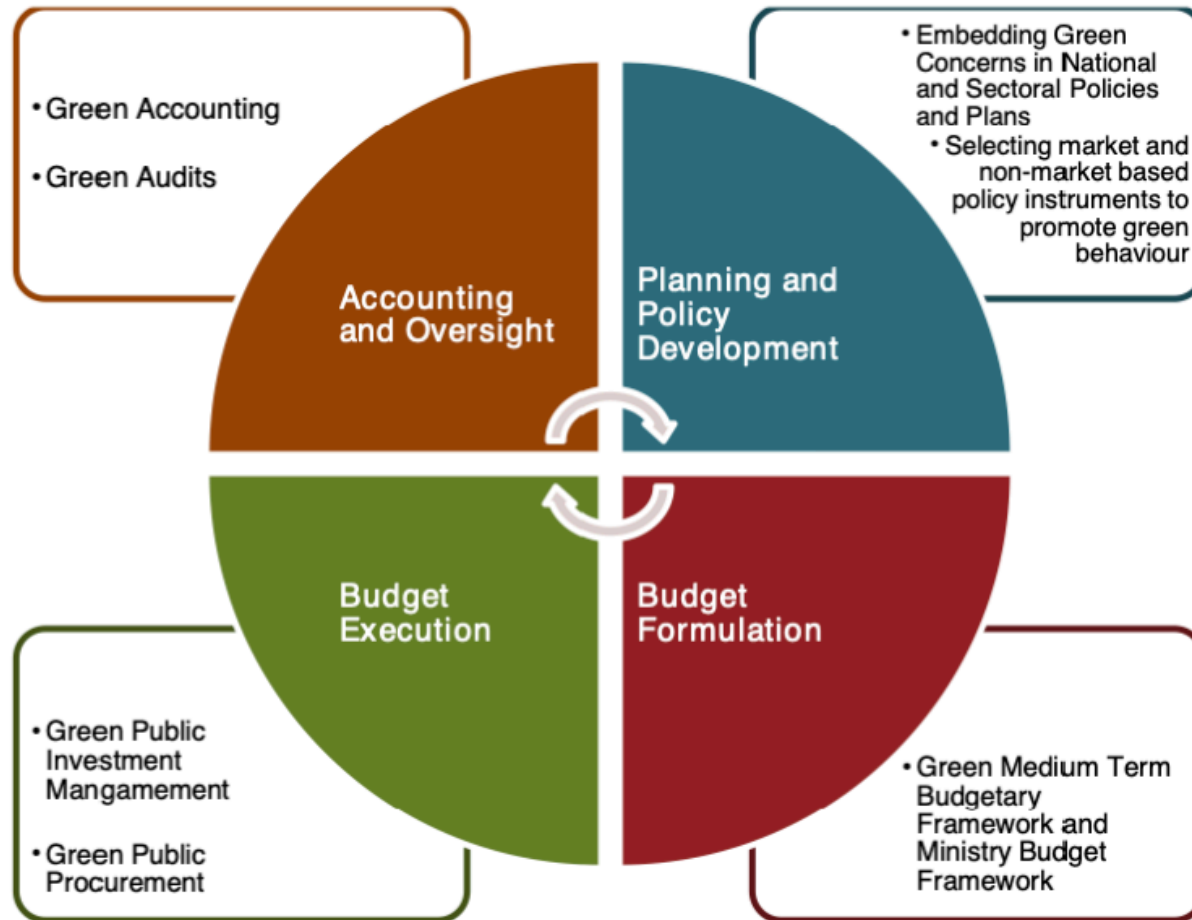
1. Legal framework
- 2. 4 stages of the budget cycle**
3. Beyond the budget cycle (state-owned enterprises, sub-national governments)

Also, green taxation, removal of the harmful subsidies

4 stages of the budget cycle



Example: Green PFM in Bangladesh



- Priority on making economic growth sustainable
- Recognises the value of natural assets
- Standalone approaches at sector level (e.g., forestry) are not enough in the long run
- Full embedding at each stage of the PFM system

EU's support to greening PFM systems in partner countries. HOW?

- ❑ Policy dialogue
- ❑ Support/encourage the use of relevant diagnostic tools
- ❑ Budget support
- ❑ Project approach
- ❑ Working with international partners (WB, IMF, OECD, etc.);
 - Global Public Finance Partnership (IMF)
 - PFM-PP (IMF, financed by the EU)
 - IMF Regional Capacity Development Centres
 - Trust Funds (e.g. EUD Bhutan's work through WB PFM MDTF)

Relevant diagnostic tools

With
EU
Support

PEFA Climate framework

PEFA secretariat

PFM system readiness to support and foster the implementation of government climate change policies.

PIMA climate change module (C-PIMA)

Lead: IMF

Key **public investment management** practices from the climate change perspective

MAPS Sustainable procurement module

MAPS secretariat (hosted at OECD)

Quality and performance of **public procurement systems** from social, economic and environmental point of view.

Other

Public Environmental Expenditure Review (PEER)

Lead: WB

Government **resource allocations**, their efficiency and effectiveness in the context of environmental management framework and priorities. Identifies reforms needed

Climate Public Expenditures and Institutional Reviews (CPEIRs)

Lead: UNDP

Opportunities and constraints for integrating CC concerns within the national and sub-national **budget allocation and expenditure** process

Climate change financing frameworks (CCFF)

Lead: UNDP

Aligning a country's climate policy framework with its budgetary process and integrating climate finance into its existing PFM systems

Example: PEFA – climate module

INDICATORS
CRPFM-1 Budget alignment with climate change strategies
CRPFM-2 Tracking climate related expenditure
CRPFM-3 Budget circular
CRPFM-4 Legislative scrutiny
CRPFM-5 Climate responsive public investment management
CRPFM-6 Climate responsive non-financial asset management
CRPFM-7 Climate related liabilities
CRPFM-8 Climate responsive procurement
CRPFM-9 Climate responsive revenue administration
CRPFM-10 Compliance of climate related expenditure
CRPFM-11 Climate responsive fiscal decentralization framework
CRPFM-12 Climate related performance information
CRPFM-13 Climate related evaluation
CRPFM-14 Expenditure outturn for climate activities

LEVEL OF CRPFM PRACTICE ON A FOUR-POINT ORDINAL SCALE

Score	Level of practice
A	Climate change issues and the policy response are mainstreamed in the relevant PFM institutions, processes, or systems
B	Climate change issues and the policy response are partially mainstreamed in the relevant PFM institutions, processes, or systems
C	Initial efforts have taken place to mainstream climate change issues and the policy response in the relevant PFM institutions, processes, or systems
D	Performance is less than the basic level of performance

EXAMPLE OF INDICATOR: CRPFM-3.1. BUDGET CIRCULAR

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The budget circular provides a methodology to track climate change related expenditure, as well as expenditures that are counter to climate policy. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals, and on how to limit expenditures that are counter to climate. It refers to the national climate change strategies.
B	The budget circular provides a methodology to track climate change related expenditure. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals and refers to the national climate change strategies.
C	The budget circular contains guidance on how to factor climate change mitigation or adaptation planned expenditure into budget proposals.
D	Performance is less than required for a C score.

Ongoing projects to support partner countries

1. Green PFM project (with GIZ)

- ❑ **Objective:** support a list of identified countries in introducing green fiscal reforms
- ❑ **Identified countries of focus:** Cameroon, Rwanda, Benin, Ghana, Malawi, Namibia, Zambia (Sub-Saharan Africa); Mexico, Central American Integration System (SICA) (Central America), Peru (Latin America). Central Asia (tbd)
- ❑ **Project activities:** green PFM toolkit, methodology on greening PFM, workshop, bespoke technical assistance

2. Green PFM in South and South-East Asia (with OECD)

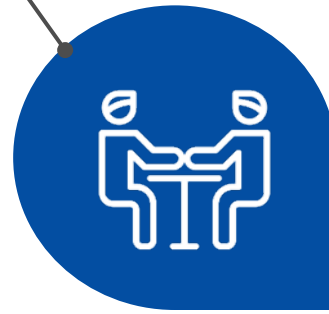
- ❑ **Objective:** Improved integration of climate change, SDGs targets and gender mainstreaming in the budget cycle
- ❑ **Countries of focus:** Bangladesh, Bhutan, Cambodia, Indonesia, India, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam.
- ❑ **Project activities:** in-person workshops, in-country knowledge sharing missions

Budget support

Budget support: not just money!

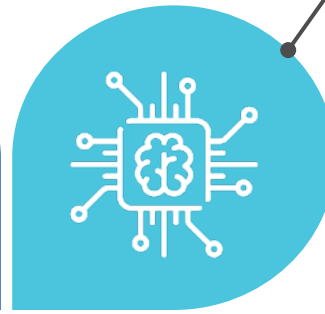
Dialogue

- As budget/policy stakeholder
- Always encompassing macroeconomic, PFM/DRM and fiscal transparency (eligibility)
- All levels (technical > political)



Capacity building

- Use of country systems
- Requirements (e.g. costing/ monitoring)
- Interministerial coordination
- Dedicated technical assistance
- Support/empowerment CSOs



Performance monitoring

- Indicators drawn from policies, or aligned with these at least
- Outcome indicators if possible
- Inclusive reviews, where possible
- Use of country statistical systems



Financial transfers

- Ex post payment (i.e. after actions taken, costs incurred, reforms completed, result achieved)
- Once and only if conditions met
- No earmarking on the use of funds



EU budget support for the Global Gateway

Macroeconomic stability: **fiscal policies** (revenue and spending – recurrent and investment), debt sustainability



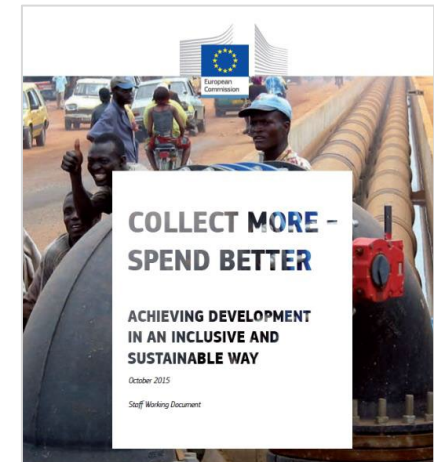
Relevant and credible **development and sector policies:** financing; **legal and regulatory framework;** capacities; investment component and maintenance costs; reporting and monitoring systems

Public finance management & fiscal transparency:

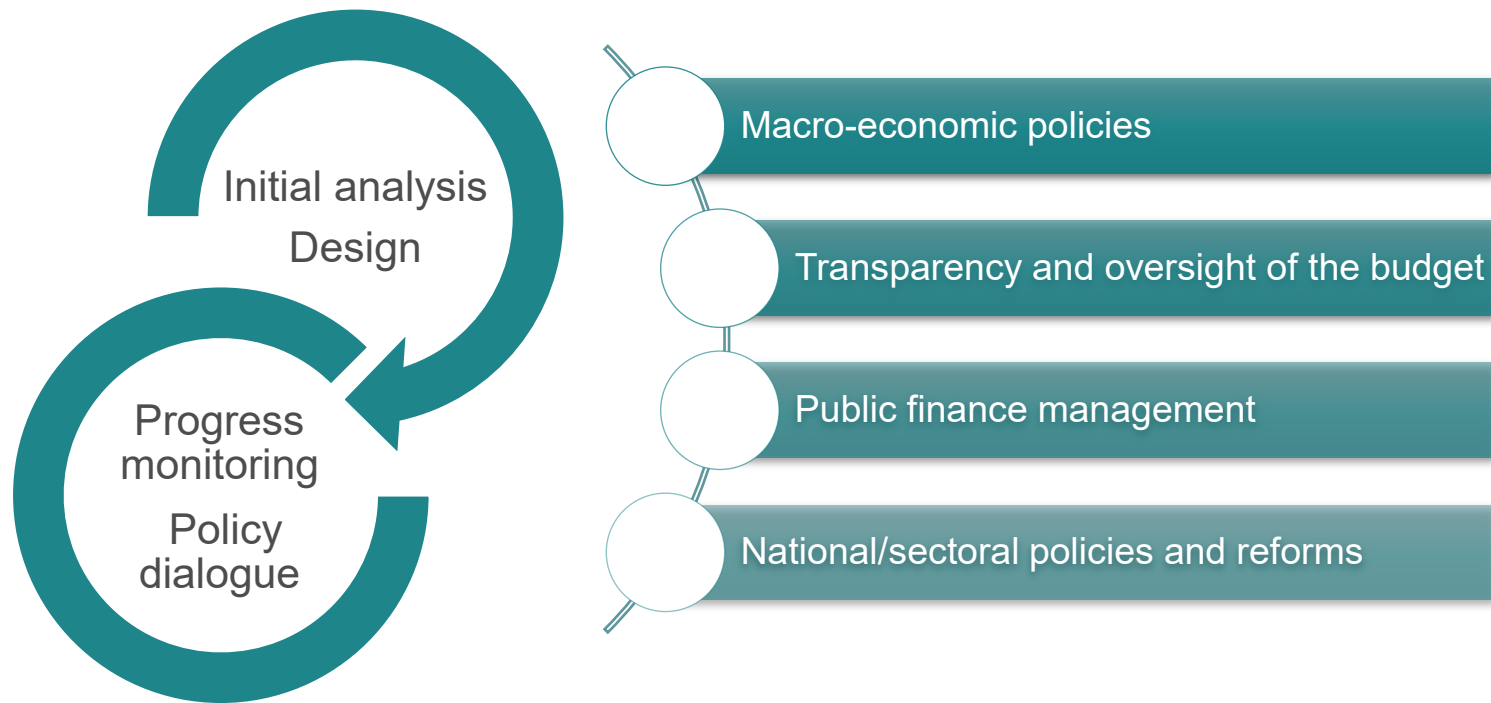
- **tax** and customs administration
- budgeting (gender and **green**)
- **public procurement**
- **public investment management**
- **state-owned enterprises**
- public debt management
- external control & anti-corruption



Enabling factors for successful investments, maximising their returns



Eligibility criteria are all greening entry points



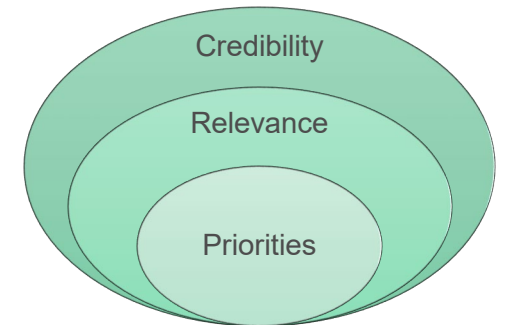
SEA encouraged to help:

- Assess policy relevance in view of CC, environment & biodiversity – also links with fiscal policies and PFM
- Define dialogue priorities
- Design the operation (specific objectives, source of verification for the general conditions, indicators)
- Identify capacity development needs

Useful inputs also to find in the [Risk Management Framework](#) +

Policy analysis – sector, macro-fiscal, PFM

- Does the sector/development policy **meaningfully** address environmental and climate issues? **Coherence** with ambitions/commitments?
- What are the policy implementation **likely impacts** to the environment and to climate resilience? Adequate measures to avoid/minimise them?
- Does the policy take up **opportunities** to contribute to low carbon development, and thus to the transition to a greener economy?
- Can we count on official and public **data to monitor progress**?
- Administrative/institutional **capacities**? HR? **PFM** issues (e.g. natural resource management)? interministerial coordination? Local entities involved?
- **Financing constraints** factored in? Link up policy costing/sector medium-term expenditures and country fiscal framework (revenue, spending)? – Improving **relation between MoF and line ministries** (budgeting)? Does it **incentivise private investments** where relevant and possible?



Transparency matters

- **Communication** to explain reforms and transparency to feed domestic accountability
- **Disclosure of subsidies and tax expenditures with their costs, beneficiaries and environmental assessment in budget documentations** (e.g. tax holidays on large farms or plantations, mining, forestry, water pricing, energy pricing, types of transport)
- **Open and inclusive policy dialogue** (whole of government and non-state entities) with transparency on **results and challenges**
- Empowering **regulatory agencies, control bodies** (e.g. performance audit) and **civil society**
- Fostering **open public-private sector dialogue** (hearing from local SMEs and business associations)



Promoting policy results



SDG 13

Bhutan – Resilience to the impacts of climate change

The EU contributed to constructing or renovating **close to 3 000 km** of irrigation channels



In Bhutan, EU budget support aims to reduce poverty by enhancing food self-sufficiency and improving rural livelihoods. The programme also seeks to build the country's resilience to the negative impacts of climate change by enhancing the sustainable management of natural resources.

With EU support, 2 765 hectares were afforested/reforested in 2018 and about 262 949 hectares of forest area were brought under sustainable management. Furthermore, 9 858 km of farm roads have been built, 2 996.5 km of irrigation channels constructed/renovated and 99 farmers groups and cooperatives registered, creating 584 employment opportunities.



SDG 13

Dominica – Building back better

By the end of 2019 **1 568 houses** resilient to climate change were built or under construction



The EU supports the climate resilience and recovery plan of Dominica, which was created following the devastating Hurricane Maria in 2017. With the assistance of EU budget support, the climate resilience executive agency of Dominica is now operational.

A new construction legal code and its implementation plan were approved to enforce higher standards of climate resilience for the reconstruction/repairing of houses. By the end of 2019, the construction of over 500 new homes was complete, 1 068 houses were under construction and the procurement process for the construction of approximately 3 853 houses was on-going.

In addition, 76 public buildings have been reconstructed/repared/ upgraded since Hurricane Maria.

Finally, the total number of beneficiaries of social protection programmes for 2019/2020 reached 13 563, well above targets.



SDG 14

Cambodia – Increased patrolling of marine and inland fisheries

The EU helped provide **226 patrol boats and seven patrol vessels** for inland and marine fisheries inspection



In Cambodia, the EU supported marine conservation and compliance with laws and regulations in the fisheries sector. The project helped government authorities develop capacities and provided equipment with fast patrol vessels to effectively control and inspect inland and marine fisheries and prevent illegal marine fishing. The fisheries administration bought 20 large patrol boats and 206 smaller boats for inspectors and rangers of fishing communities in inland fisheries, along with two large patrol vessels and five small vessels for inspectors in marine fisheries. In addition, the EU funded five pickup trucks for inspections at marine fishing landing sites.

Increased patrolling has led to a reduction of illegal fishing activities and contributed to a more sustainable and inclusive growth in the fisheries sector.



SDG 15

Colombia – Sustainable development for peace and biodiversity

The EU contributed to the **rehabilitation and recovery of land and to local initiatives to overcome social and economic disadvantages**



EU budget support addressed the socioeconomic challenges of the regions previously affected by armed conflict.

The programme promoted conservation and sustainable management agreements between the authorities and the rural communities of protected areas. It also supported economic development and the reduction of both geographical and gender disparities.

Between 2016 and 2021, it contributed to the rehabilitation or recovery of nearly 28 000 hectares of forest. More than 300 local green businesses and 4 500 indigenous, peasant and vulnerable families benefited from EU support. This success encouraged the Colombian environment ministry to increase its financial support to national parks.



SDG 7

Vietnam – Sustainable energy transition



EU budget support has helped installed wind power capacity to increase by **more than seven times**.



In Vietnam, the EU is contributing to the energy transition for sustainable development.

Thanks to the EU's budget support, grid-connected wind-power-installed capacity increased by more than seven times, and 700 km of extra-high-voltage power transmission lines (500 kV) were installed between 2020 and 2021. Additionally, 531 new energy managers and 82 new energy auditors were trained in 2022.



SDG 11

Tuvalu – Sustainable waste management

The EU helped Tuvalu to export **17 tonnes of baled aluminium cans** to external markets for recycling



The EU assisted Tuvalu in collecting, storing and exporting recyclable waste to external markets for recycling. The budget support programme helped Tuvalu to fund the construction of a recycling and transfer station, purchase the needed heavy equipment and adopt its first waste levy regulation in 2019.

In 2021, 17 tonnes of baled aluminium cans for recycling were exported for the first time from Tuvalu to South Korea. For a small island nation which cannot recycle such waste on its own territory, this is a significant first step and paves the way for future exports of other recyclable waste to external markets.

The EU also supported Tuvalu in waste prevention and the establishment of mechanisms for the sustainable financing of waste management. The budget support programme helped implement a waste levy, which yielded revenues of approximately EUR 165 000 from June 2020 to June 2021. With new items being added to the waste levy, this figure is expected to increase in the coming years.

Thank you

Useful links:

- Webpage with [guidelines](#), 2023 [Budget Support – Trends & Results](#) report and explanatory videos
- INTPA E1 [intranet page](#) with technical [e-notes](#) and database of [budget support operations/indicators](#); links to E-notes on [Green PFM](#), [Green taxation](#), [Green taxation in non-OECD countries](#), [Green Budgeting in the context of the Global Gateway](#)
- [Climate module of the Public Expenditure and Financial Accountability framework \(PEFA\)](#)
- [Methodology for Assessing Procurement Systems \(MAPS\)](#)
- [Climate-Public Investment Management Assessment \(C-PIMA\)](#)
- [IMF’s Climate-Sensitive Management of Public Finances—“Green PFM”](#)
- IMF – [How to Make the Management of Public Finances Climate-Sensitive—“Green PFM”](#)
- Joint EU-IMF-OECD publication [“Green Budgeting: Towards Common Principles”](#)
- UNDP/IIED – [Global Climate Public Finance Review](#)