



Towards Sustainable Development — Greening EU Development Cooperation

Module 7: Mainstreaming in budget support



Mainstreaming in budget support

- Assess whether the **supported policy or strategy** adequately integrates environmental and climate-related considerations
- Identify **complementary measures** which can address environmental and climate change challenges and opportunities
- Develop relevant **performance indicators and disbursement criteria** taking into account, where appropriate, key environmental and climate related objectives
- Public environmental expenditure reviews (PEERs) and climate public expenditure and institutional reviews (CPEIRs) can, if available, provide information and rationale for developing suitable indicators



Eligibility criterion 1: Public policies

- **Policy Framework analysis**
 - Is the policy coherent with other government policies?
 - e.g. with environmental and climate change policies and commitments, including NDCs
- **Policy Relevance**
 - What is the policy's contribution to sustainable and inclusive growth?
 - Will the policy contribute to the protection and sustainable use of natural resources and energy efficiency?
 - Will the policy reduce economic vulnerability, by strengthening resilience to economic shocks or natural disasters?
 - Are expenditure allocations and domestic revenue mobilisation policies consistent with the sustainable and inclusive growth objectives?

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Eligibility criterion 2: Macroeconomic framework

- **Context**
 - Understand most pressing challenges and risks that could jeopardise medium term growth and development prospects, *recognising that economic transformation is never socially or environmentally neutral*
- **Macroeconomic indicators. Potential sources of instability**
 - Influence of climate change or environmental degradation on real GDP growth?
 - Pressures on prices and/or competitiveness?
 - Evolution of public expenditures? (change of prices of natural resources? natural disasters?)

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Eligibility criterion 2: Macroeconomic framework

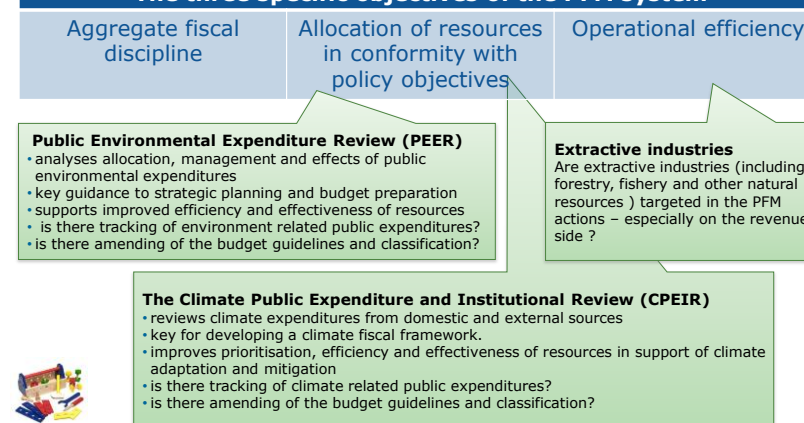
- **Macroeconomic policies**
 - Do they address the identified imbalances?
- **Domestic revenue mobilisation**
 - How much does the NR sector contribute?
 - Specific issues arising for taxing natural resource, especially in natural resource rich countries (transparency, commitment to EITI...)?
 - Oil and resource-rich countries need to reduce reliance on NR revenue
- **Vulnerability to external shocks and efforts to strengthen resilience**
 - Contribution of climate change? (e.g. hydropower contributed 80% of electricity in some parts of Africa)

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Eligibility criterion 3: PFM system

The three specific objectives of the PFM system



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Eligibility criterion 4: Transparency and oversight of the budget

Definition: Budget transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner

Budget Transparency

Full disclosure of all relevant information in a timely and systematic manner

Extractive industries –

- Are environmental revenues published /transparent?
- Who watches and controls? Environment revenues - Is there a role for civil society?
- Is it possible to trace environment and climate expenditure

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Risk Management Framework

- **Risk category 2: Macroeconomic**
 - Including vulnerability & exogenous shocks
- **Risk category 3: Developmental**
 - *This includes the risk that the policies put in place by the government will not be continued or may not attain the desired outcomes in particular with regard to poverty reduction and inclusive economic growth*

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Particular case of OCTs and SIDS (BS guidelines)

- **Most highly vulnerable to natural disasters**
- **Large reliance on natural resources**
- **Key challenges facing SIDS/OCTs**
 - *Contests over ownership and access to natural resources can lead to conflict, corruption and ineffective governance. In that respect, building capacity for managing natural resource wealth, its governance and its environmental and social impact, are essential in SIDS/OCTs*
- **Making EU BS suitable to SIDS/OCTs**
 - *Budget support...can contribute to inclusive and sustainable growth by helping foster a more strategic approach to adaptation to climate changes and resilience to vulnerability/volatility and to promote enhancing sector policies and reforms, including management of natural resources and development capacity*
- **Design features**
 - *Sector budget support, and in particular the policy dialogue that surrounds it, can contribute fostering a more strategic approach to adaptation to climate change*