



Poverty Environmental Partnership Meeting
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Capacities for integrating environment into national budgetary processes

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Fiscal revenue from natural resource use and environmental pollution

Revenue generated from:

- Economic activities based on natural resources (through direct sales taxes or taxes on labour)
- Payments for the use and extraction of natural resources (water abstraction, fishing, logging, mineral extraction)
- Payments for environmental services
- Environmental pollution charges/taxes and product charges
- Tradable permits (when auctioned)
- Performance-based contracts with private sector operators (lease, concession fees)

Capacities needed to:

- Monitor the evolution of stocks and take corrective action in case of significant stock depletion
- Monitor changes in environmental quality and set environmental quality standards
- Set pollution charge rates at an optimal level in order to provide incentives for environmental investments
- Set relevant indicators and negotiate complex contracts with private operators

Major challenges in managing public environmental expenditure

- The shift from annual to medium-term budgeting (MTEF) not internalised by environmental administrations – the shift has not translated into significant funding opportunities and reallocations for the environment sector
- While MTEFs are structured around programmes, these programmes often are poorly designed and costed – lack of analytical capacity, difficulties with target and indicators setting
- Lack of direct link between programmes and the budget
- Investment and recurrent budgets are often separated and prepared by different divisions
- Even if properly costed, there is little interest in Parliament to longer term financial implications of various programmes – lack of political leadership
- Lack of institutional capacity to implement programmes at both national and local level – lack of capacity to identify and select cost-effective projects for financing
- In addition, even within the framework of general budget support, unpredictable donor resource flows may still disrupt budget execution

Implications for capacity development for environment

- Donors can play an important role in providing TA in relation to the design of environmental programmes and their link to the MTEF process
- Donors can support the development of specific **skills** of environmental authorities in aid-receiving countries, e.g. skills related to analysing costs and benefits of environmental policies, strategies and programmes
- Donors can support the development of appropriate **tools**, e.g. methodologies for collection and analysis of environmental expenditure data, target-setting, guidelines for preparing and costing environmental programmes, (incl. preparing rules and procedures for identifying and selecting projects for financing through respective programmes)
- Donors need to closely involve Ministry of Finance staff in such work
- To avoid undermining the MTEF and subsequent budgetary process in partner countries, donors need to ensure better predictability of donor flows by agreeing with partner countries on strict rules for disbursing aid

Questions for discussions

- Please identify the top five priorities in terms of capacities that need to be developed for making planning and budgetary processes contribute better to the achievement of national environmental goals
- Please describe a good example of capacity development for making planning and budgetary processes contribute better to the achievement of national environmental goals
- Please discuss what you consider should be the key elements of a strategy or initiative aimed at developing the priority capacities you have identified