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# Environmental funding

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**How to increase the effectiveness of  
public expenditure in developing countries**

Andrew Lawson and Neil Bird

May 2008



An Overseas Development Institute report produced on behalf of the UK Department for International Development, Canadian International Development Agency, and the United Nations Environment Programme.

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**‘Yet, the budgetary positions of each of the four study countries have improved significantly in the last three years as a result of increased domestic revenues, higher GBS flows, and debt restructuring...’**

**‘Environmental agencies still have strong incentives to pursue financing from projects or user fees and charges – both of which carry significant negative side effects...’**

**‘In none of the study countries was the study team presented with a coherent written or even oral argument to secure higher [budget] funding.’**

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## Acknowledgements

We would like to express our thanks to all the staff of the governments, the NGOs and the development agencies working on the environment and related issues in the four case study countries. They gave freely of their time and were forthright in expressing their opinions, enabling the study team to cover much ground in relatively short country visits. We would also like to extend our thanks to the country teams of the development partners, who facilitated the meetings and in-country arrangements for the studies – the CIDA office in Bamako, the Royal Netherlands Embassy in Accra, the DFID and European Commission offices in Dar es Salaam and the UNEP/ UNDP offices in Maputo. In addition to logistical support, they provided helpful analytical comments on this study.

Overall technical advice and guidance has been provided by an advisory group, led by Angus Mackay of DFID, London, and comprising John Eby, Christian Alix, Camille Pomerleau and Ian Myles of CIDA, Jonathan Duwyn and David Smith of UNEP, as well as Sean Doolan and Tim Sumner of DFID. We would like to thank them for the consistent support provided and for their flexibility in seeking the right technical and practical solutions to the challenges that have presented themselves over the course of the study.

As always, responsibility for the content of this paper rests with the authors alone. In particular, no responsibility for the opinions here expressed should be attributed to CIDA, DFID or UNEP or to the governments of Ghana, Mali, Mozambique or Tanzania.

- This paper is based on a synthesis report, and four country case studies, where much further detail can be found. The full report can be accessed here: [www.odi.org.uk/fecc/projects/budgetsupport-2.htm](http://www.odi.org.uk/fecc/projects/budgetsupport-2.htm)



# Introduction

This paper summarises the conclusions of a four-country study that has examined the linkages between environmental policies and outcomes, public expenditure on the environment and the influence of different modalities of development cooperation. Four short country studies of Ghana, Mali, Mozambique and Tanzania were conducted between September and December 2007. A review of relevant literature on the environment and on the treatment within budgets and budget support processes of other cross-cutting issues, such as gender, was also undertaken.

It has been produced primarily for government officials in partner countries and their environment/natural resources counterparts in donor agencies but it will also be useful for non-environment specialists.



## Background and objectives



The origins of this study lie in concerns within the international development community over the inadequacy of public funding for environmental objectives in many developing countries. There was also concern about the limited attention given to the environment within both national development strategies and the daily practice of public administration.

General Budget Support (GBS) is seen as the aid modality which is most inherently aligned to national policies and systems. Its increased use holds the promise of addressing the problem of financing environmental objectives in a more creative way

than in the past. For example the monitoring framework commonly utilised for General Budget Support provides a mechanism for strategic dialogue between government and development partners.

However, the 2006 OECD Joint-Donor Evaluation of General Budget Support concluded that environmental considerations had received limited attention. It re-emphasised the challenges in integrating environmental priorities into national planning processes, and highlighted the financing gap.

Shortly after this, the Department for International Development (DFID) commissioned a desk review of the links between the environment, budget support and other aid instruments (ODI, 2006). The review suggested that, in the presence of favourable domestic political factors, external agencies could exercise significant influence over the choice and sequencing of public policy. What was required was a better understanding of the interactions between national budgetary processes, budget support arrangements and national environmental actions.

This study aims quite explicitly to address this information gap. Based on four country case studies, the study analyses and documents experience in transferring environmental priorities from national plans to budgets, and through into implementation. It also identifies how development partners might facilitate and support such processes within the context of increasing budget support.

**A better understanding of the interactions between national budgetary processes, budget support arrangements and national environmental actions is required**

# Five key lessons for securing effective public action on the environment

Five key lessons have emerged regarding measures which governments and development partners might take to expand the scope of public actions on the environment and increase their effectiveness:

- 1 Recognise the limitations of environmental mainstreaming through Poverty Reduction Strategies.
- 2 Focus on raising recurrent funding, rather than project financing, for the environment.
- 3 Control the use of taxes, fees and levies as a direct method of financing environmental agencies.
- 4 Structure thematic and sector working groups so as to maximise the quality of policy dialogue and minimise transaction costs.
- 5 Use all avenues of dialogue within GBS arrangements, and make prudent use of Performance Assessment Framework (PAF) indicators.

**Fuller information on these key lessons and their implications are presented within boxes throughout this paper. Recommendations are also presented for governments and their development partners in the light of the overall findings of the study. These findings and recommendations are most relevant for aid-dependent countries, such as the four case study countries, which are either current or potential budget support recipients.**





# Conclusions on policies, institutions and finance for the environment

## Policies, strategies and political support for the environment

The existing body of environmental legislation and policies across the four countries studied appears to be comprehensive and of reasonable quality. The main challenge concerning the policy framework is not so much the quality of the policy documents and legislation but rather the efficiency of governance institutions and the effectiveness of implementation. The importance attributed to environment and sustainable development in policy statements has, for the most part, not been reflected in resource allocation and implementation at sector level. This has been despite significant and, in the case of

**The importance attributed to environment and sustainable development in policy statements has, for the most part, not been reflected in resource allocation**

### KEY LESSON 1

#### Recognise the limitations of environmental mainstreaming through the PRS

In Tanzania and Mozambique, technical assistance to support improved environmental mainstreaming within the PRS has been successful in:

- promoting public dialogue and public awareness on environmental issues;
- creating networks for policy dialogue between civil society, government and its development partners;
- defining outcome level targets for environmental objectives embedded in the Poverty Reduction Strategies.

But these improved PRS documents and processes have had a remarkably limited impact on the formulation of budgets and actual spending programmes of the environmental agencies concerned. This can be explained in terms of the inherent weaknesses of PRS Papers (PRSPs) as strategy documents and the intrinsic deficiencies of national strategy documents as tools for resource allocation and prioritisation.

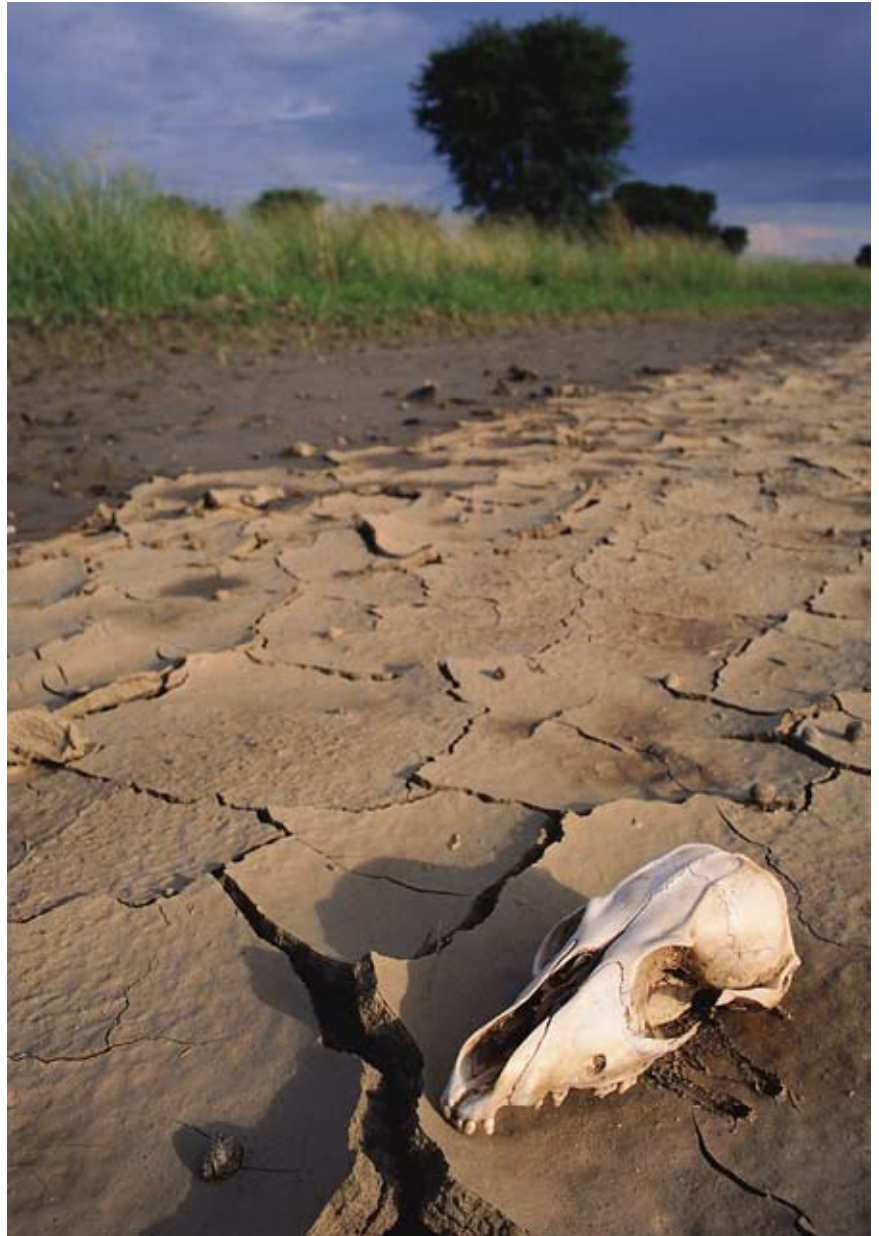
#### The experience suggests three main issues to consider:

- 1 It is necessary to be realistic about the likely impact of greater environmental mainstreaming within Poverty Reduction Strategies. It may be helpful to raise the profile of the environment within national policy dialogue, to promote more inclusive networks for environmental policy dialogue and to set appropriate higher level indicators and targets. However these are unlikely to have much impact on the level of financing assigned to environmental activities or on the specific programmes that will be given priority by environmental and natural resource agencies.
- 2 In order to impact upon budgets and public sector activities, environmental mainstreaming needs to be pursued in relation to sectoral policies, legislation and regulations, as well as organisational missions and mandates.
- 3 Changing the magnitude and strategic orientation of environmental budgets is also likely to require direct attention to securing 'fiscal space' for environmental and natural resource agencies. This will require some combination of actions to increase the aggregate availability of funding, with steps to secure greater control over externally financed project funding and to reduce unwanted costs and budgetary commitments. These actions would probably need to be embedded in a government-wide, medium term fiscal strategy, and to be monitored through budget support arrangements.



Mozambique and Tanzania, successful initiatives to mainstream environmental issues within Poverty Reduction Strategies (see Key Lesson 1).

The effectiveness of public action on the environment is constrained in most countries by the lack of a genuine, high level consensus across sectors on the importance of environmental protection and promotion objectives. In Mozambique and Mali, the inter-ministerial committees designed to achieve this consensus and to maintain high-level coordination on environment interventions are either weak or non-functional. A large part of the problem has been that leadership of these committees rests with poorly resourced environmental ministries. In Tanzania, in contrast, the Department of the Environment is within the Vice President's Office, and this has helped to secure stronger government-wide coordination on the environment. Moreover, in the wake of the droughts of 2005 and 2006, the environment has become a much 'hotter' political issue. It will be important for the environment lobby to find ways of sustaining this political profile in Tanzania and of generating such a profile in other countries.



## Financing of public actions on the environment

We estimate that in the study countries the average annual allocation to the environment protection function (following the classification of the functions of government – COFOG) is between 1% and 2.5% of public spending. In Mali, this allocation was lower than the annual allocation to Culture, Youth and Sports or to Diplomacy and Foreign Affairs. As a consequence, the capacities of the environment regulation agencies are too limited to allow them to engage effectively with strategic debates such as investment decisions, which pose significant environmental threats. Their limited operating budgets prevent them from effectively conducting their basic environmental management functions such as monitoring and surveillance.

In parallel, each of these countries has seen high levels of development project finance. Important investments have been made but, in the absence of effective agencies to control harmful environmental practices and to maintain a consistent promotion of sustainable natural resource management practices, the gains from these investments are difficult to sustain. The United Nations Development Programme (UNDP) estimates that between 1990

**Average annual allocation to the environmental protection function is between 1% and 2.5% of public spending**



**Current incentives do not encourage environmental agencies to compete for funding through the budget**

and 2005 the combined loss of forest area from the four study countries was in excess of 100,000 square kilometres.<sup>1</sup> In the absence of effective control over forest exploitation, this high rate of depletion cannot be expected to have fallen since then.

Ironically, the large numbers of development projects are themselves part of the problem. In most cases, these projects operate in parallel to the national budget process and outside of an effective national prioritisation and coordination process. They tend to include significant salary supplements and fringe benefits in order to attract well qualified staff. As a consequence, many of the staff of the environment agencies who should be undertaking monitoring and control functions, are either preparing or managing projects. Clearly, some of the projects do support core functions of monitoring and surveillance but, in general, the environment regulation agencies that have responded to their funding shortages with a project-based ‘survival strategy’ have had to divert their attentions away from their core functions.

In turning away from their core functions, they have also diverted attention from the national budget as a source of financing. Despite justifiable complaints about inadequate recurrent funding, in none of the study countries was the study team presented with a coherent written or

even oral argument to secure higher funding. In Mali, the approach was rather to argue for the creation of an ‘Environment Fund’. In Tanzania, even when national resources for Sector Environment Units were promised, budget proposals were not forthcoming. There are clearly technical, as well as attitudinal, constraints underlying this but it suggests strongly that current incentives do not encourage environmental agencies to compete for funding through the budget (see Key Lesson 2).

Yet the budgetary positions of each of the four study countries have improved significantly in the last three years as a result of increased domestic revenues, higher GBS flows and debt restructuring. There are consequently higher levels of discretionary public funding available for environmental spending. In Tanzania, in 2006, this permitted the allocation of the equivalent of US\$8 million to the Urgent Action programme on Land Degradation and Water Catchments. In Mali, over 2004-2006, spending by the Ministry of the Environment and Sanitation rose faster than total public spending, and the execution rate on the recurrent budget was close to 100%. Yet, despite the improved context for expanded recurrent financing through the budget, environmental agencies still have strong incentives to pursue continued financing from projects or user fees and charges – both of which carry significant negative side-effects.

<sup>1</sup> UNDP Human Development Report 2007/2008. Table 22: Energy and the environment, pp302-305. [http://hdr.undp.org/en/media/hdr\\_20072008\\_en\\_complete.pdf](http://hdr.undp.org/en/media/hdr_20072008_en_complete.pdf)

## KEY LESSON 2

**Focus on raising recurrent not project financing for public environmental functions**

*Across all the case studies, the most important problem affecting the implementation of environmental policies and programmes has been the severe deficiency of recurrent budget funding. Most of the functions that need to be financed for environmental policy to be effectively implemented are recurrent functions. These should be financed from normal operating budgets, but in the absence of an adequate level of funding, the historical response has been to seek either project funding (from an external funder) or financing from taxes and fees.*

Externally funded projects have thus become the major source of funding for most environmental agencies, with the development budget representing approximately 40% of financing recorded in the budget in addition to a significant amount of off-budget project financing.

The difficulty is that project funding is generally intended for investment activities. Environmental agencies seeking project financing therefore have to reorient their activities towards investment functions and project management activities. As a result, the basic functions of monitoring, inspection and control, as well as public education and information dissemination, have been increasingly neglected as energies have been devoted to winning and implementing projects.

This is not only because project funding is easier to obtain than government recurrent funding. It is also because projects offer opportunities for earning salary supplements of different kinds – such as for greater access to overseas travel and to opportunities for training. It is natural and rational that public servants should be attracted to these opportunities.

On the other hand, there are signs that recurrent budget funding is now less constrained due to debt restructuring, the growth of domestic revenues and the expansion of General Budget Support.

What is now required is to find ways of promoting expansion of recurrent budgets whilst controlling use of project budgets. This is likely to entail actions in the following areas:

- at the **Ministry of Finance** level, efforts to programme steady expansion over the medium term of recurrent budgets for environmental agencies and functions;
- for **Ministries of Planning and/or Ministries of Development Cooperation**, measures to control the growth of project financing and to target it to the specific sub-sectors and institutions, where continued project financing is appropriate;
- for **environmental and natural resource agencies**, measures to improve the quality of recurrent budget formulation and execution whilst controlling the use of project finance;
- for **public service ministries**, measures to improve the terms and conditions of the technical and management cadres so as to avoid the need for project ‘top-ups’ and salary supplements;
- for **development partners**, actions to control the use of project finance in support of environmental actions, to make available additional budget support where necessary and, where appropriate, to provide technical assistance to budget formulation and execution.

**The budgetary positions of each of the four study countries have improved significantly in the last three years**



**Environmental taxes, where natural resource agencies retain the receipts to finance operating costs, have been associated with serious governance problems**

## The use of environmental taxes and user fees

The other ‘survival strategy’ commonly pursued is the procurement of ‘internally generated funds’ or ‘own revenues’ – taxes, fees and levies. Again, this is a source of funding that works largely in parallel with the national budget process, with information on revenue collections and their use frequently being substantially incomplete. In Ghana, the self-financing model for the environmental agencies has become effectively institutionalised, with the designation of these agencies as ‘sub-vented agencies’. Whilst such a model might conceivably be workable for the management of game parks, it is not suitable for most other environmental functions because the most important environmental functions are not typically those that attract fees (see Key Lesson 3).

The establishment of retention arrangements for environmental taxes, such as forestry licensing and export taxes, where the natural resource agencies collecting such taxes are allowed to retain part or all of the receipts to finance operating costs, have also been associated with serious governance problems. The continued application of the ‘Simple Licenses’ regime for forest management in Mozambique seems a clear example of a conflict of interest, where a scheme supporting unsustainably high forest exploitation rates is preserved because it appears to allow for higher income flows to the forestry department.

In Tanzania, the issue of under-reporting of forestry revenue has received recent high profile attention. The TRAFFIC report (Milledge et al, 2007) estimates that 97% of revenue is lost, amounting to some US\$40 million annually of uncollected forest revenues. It also identified



discrepancies between the forest product export figures reported by authorities in Tanzania and China. Trade statistics for 2004 show that China imported ten times more timber products from Tanzania than appear on Tanzania’s own export records. Gross under-reporting of this kind suggests either that tax payments are being collected but misused, or that exporters, probably in collusion with the collecting agencies, are evading tax obligations.

Fortunately, more attention has recently been devoted to these issues. Useful analytical work has been undertaken by development partners in Mozambique and Tanzania to begin to document the problem of missing revenues and to open up a dialogue with government. It will be important for governments and their development partners to work together to find more effective ways of managing environmental revenues.

## KEY LESSON 3

**Control the use of environmental taxes and user fees for direct funding of environmental agencies**

'Own revenues' or 'internally generated funds' have become an important source of funding for environmental and natural resource agencies, especially in Ghana, Mozambique and Tanzania. These comprise a mix of two types of charges:

- 1 Environmental taxes such as licences, royalties and export levies, which are designed to raise the costs of natural resource exploitation in fisheries, mining, forestry and hunting so as to preserve the rate of exploitation at a sustainable level.
- 2 Service charges, which are designed to cover the costs of providing a service (such as the processing of an Environmental Impact Assessment or the services of a park ranger), including monitoring or 'clean-up' services necessitated by the private exploitation of natural resources.

The principles underlying these two types of revenue are very different. Service charges should be levied at their marginal cost, so as to prevent any extra burden on the public purse but without any intent to discourage the use of the service by charging an artificially inflated price. Environmental taxes are explicitly designed to raise the costs to the consumer so as to reduce consumption to a sustainable level. Because high value natural resource products, such as tropical hardwoods, tend to have an inelastic world demand, the level of taxation may need to be high in order to achieve the desired reduction in consumption. The resulting revenues may therefore be substantial, generating a high risk of corrupt practices.

Experience suggests that it is important to establish separate collection procedures for these two types of revenue, and to avoid excessive reliance on service charges as a source of finance for environmental agencies because:

- National revenue authorities, although by no means always free of corruption, do have the virtue of having well established, transparent procedures for tax collection, and are thus more likely to be able to collect environmental taxes efficiently and fairly.
- The primary role of environmental agencies is to protect the environment and promote sustainable development practices. Where their funding starts to become dependent on licensing fees, there will be a tendency to set fees and apply rules in such a way as to maximise revenue collection rather than to maintain a sustainable level of resource exploitation.
- Similarly, environmental agencies are likely to start to bias their work programmes towards those that yield the most revenue rather than towards the most important conservation or environment protection activities.
- Where internally generated funds derive from genuine service charges and user fees, these are likely to be modest in volume and fairly volatile; this is not a good basis from which to try to obtain adequate and stable levels of financing.

**The most important environmental functions for public agencies to fulfil are not typically those that attract fees**

## Conclusions on aid modalities and the use of budget support

Changing the nature of incentives held out to government officials in environment ministries is perhaps the most important challenge facing the development partners (DPs). The DPs are a significant player in this process because it is exactly the ‘project-based’ survival strategies, unwittingly encouraged and facilitated by DPs, which have created the situation in which environment ministry staff no longer look to the national budget as a solution to their funding

problems. This would not be so serious if it did not carry high transaction costs and even higher costs in terms of the distortion of work programmes but, unfortunately, it seems to be a major causal factor in the weakening of environmental institutions.

In each of these countries, interventions of development partners in the environment domain are very fragmented in comparison to other sectors such as education, health or transport. Conventional projects, with parallel financial management structures and international technical assistance components, continue to dominate the landscape and spread across a range of sectoral domains. This makes coordination difficult to establish, and – most importantly – diverts government officials away from their core business of promoting sustainable development practices.

Despite the fact that the majority of development partners working in the environment sector have made commitments to the Paris Declaration, we found no significant initiatives currently in place at the country level that have reduced the number of projects or altered their mode of implementation. However, if successfully implemented, the planned sector support programme in Ghana would achieve this change and

merits much interest as a result. In short, any progress made towards harmonisation and alignment is grossly insufficient in relation to the damage to domestic institutions caused by the prevailing modes of project financing.

### The impact of General Budget Support

There have, however, been efforts to promote sector-wide policy dialogue and coordination. In Ghana, Mozambique and Tanzania, the policy dialogue platform provided by GBS has been an important driver of such efforts. The mechanisms put in place for dialogue with the whole of government potentially constitute a powerful opportunity for environmental mainstreaming.

Moreover, GBS is changing the nature of the budgeting process by increasing the volume of available discretionary resources. It is therefore important that the criteria for distributing these additional resources become clear. For that to happen, government policy priorities need to be more clearly formulated, so that they can be converted at the sectoral level into clearly defined spending programmes. At the aggregate level, budget negotiation has to be conducted in a more coordinated fashion, based upon a comprehensive and accurate estimation of available resources, in which off-budget sources of funding are minimised. It is perhaps in these areas that the new avenues for dialogue created by GBS arrangements can be most influential.



**Changing the nature of incentives held out to government officials in environmental agencies is the most important challenge facing development partners**



GBS offers at least three entry points for policy dialogue with the whole of government:

- 1 The Performance Assessment Framework (PAF) which is the GBS monitoring tool that contains the priority indicators and targets on government policy.
- 2 The sector working groups which provide the space for continuous exchange between the parties.
- 3 Perhaps the most important one, the budget itself, the instrument through which funds are channelled under this modality.

In the more mature GBS recipient countries, including Mozambique and Tanzania, the annual budget, the quarterly budget execution reports and the annual accounts are major subjects of dialogue between governments and their GBS partners. Often this dialogue is undertaken within technical working groups and is conducted in a relatively informal way, not directly linked to decisions on annual GBS disbursements. Nevertheless, it is an influential dialogue, which puts information on public spending into the public domain and helps to ensure greater consistency between stated priorities and actual spending. This provides a ready channel for influencing both the level and composition of spending on the environment – a channel of influence, to which DPs do not yet appear to be sufficiently attuned.

### Initial experience with sector working groups linked to GBS arrangements

The integration of environmental issues into GBS arrangements is still recent in Ghana, Mozambique and Tanzania, and has not yet happened in Mali. So environmental issues are still some distance from being integrated into the full range of GBS dialogue mechanisms. Efforts have been focused, in the first instance, on the creation of sector working group structures and on the identification of appropriate PAF indicators. In both areas, activities still constitute work-in-progress, and it is too early to make a definitive assessment. What has become clear is that these are complex processes which need to be actively managed and require both high level analytical and strong interpersonal skills. It is probably true to say that none of the DP environment groups in these countries were adequately prepared for these challenges.

Where have the problems been? In relation to sector working groups, useful new avenues for dialogue have been created but there is a sense that the nature of dialogue has not always been truly strategic. The problem of the limited level of recurrent budget allocations for the environment has not been highlighted, and the question of the composition of environmental spending does not appear to have been a topic of discussion. While it is perhaps still too early in the dialogue process to expect much progress, there is a continuing absence of coherent and comprehensive institutional reform programmes for the environment sector. The rather prosaic PAF environment indicators chosen in these three countries are a good illustration of this.

In addition, there is a sense that sector working group processes have been more cumbersome than necessary and that structures with lower transaction costs are needed. These are common problems in the initial stages of sector working groups, and there are a number of common sense solutions which emerge from the wider experience of sector working groups, established as part of the GBS dialogue process. We have brought these together in Key Lesson 4.

**The mechanisms put in place for dialogue with the whole of government potentially constitute a powerful opportunity for environmental mainstreaming**

**In establishing sector working groups on the environment, it is essential to keep a balance between the representation of government, civil society and development partners**

#### KEY LESSON 4

##### **Structure environment sector working groups to maximise strategic dialogue and minimise transaction costs**

The environment (or natural resource and environment) sector working groups established under the GBS arrangements in Ghana, Mozambique and Tanzania have created useful new avenues for dialogue over environmental policy. Yet there is a sense that the level of dialogue has not been sufficiently strategic, while the structures have been too cumbersome and transaction cost intensive. Experience suggests three good practices, which might help to avoid these problems:

- 1** In establishing sector working groups on the environment, it is essential to keep a balance between the representation of government, of civil society and of development partners. Across the different domains of the environment there are usually a large number of DPs who wish to be represented in these processes, and it is important to have an effective structure for nominating representatives or ‘spokespersons’ from a *separate* DP environment group to ensure that the DPs do not outweigh the other stakeholders.
- 2** It is important to keep a balance between the amount of time spent in meetings and the time spent in the analysis or in the preparation and review of different kinds of position papers. As the purpose of working groups is to promote consultation and an interchange of views, the natural assumption is that the best way to do this is to maximise time together in meetings. This is mistaken. In practice, it is important to strike a balance between periodic and well organised meetings, and structured ‘thinking time’ between meetings. This ‘thinking time’ should also leave the space for smaller working groups to prepare position papers on particular issues and/or for research and analytical work to be undertaken and the results studied.
- 3** A balance needs to be struck in the design of thematic and sector working groups between a pragmatic, narrow approach, based on meetings within sub-sectoral groups (forestry, fisheries etc) and an ambitious sector-wide approach, which brings together all players and focuses on the environment as a cross-cutting issue. Both perspectives are needed and both are equally valuable but the mix between them needs to be a structured one. Structure is especially important because otherwise the end result will be an excess of meetings with no real strategic thinking or analysis behind them.

### **Selecting environmental indicators for the GBS Performance Assessment Framework**

On the question of the design and selection of PAF indicators, the experience of Ghana, Mozambique and Tanzania suggests that it is easy to forget that the PAF itself is only one avenue of strategic dialogue. Even in the absence of environmental indicators within the PAF, much can be achieved through sector working groups and through technical working groups on the budget. Discussions over the environment budget were rather limited, whereas it is perhaps here that analysis and discussion should initially have been focused.

Instead, though, they were concentrated on the identification of PAF indicators for the environment. In the final event, the indicators selected were probably not appropriate for inclusion in the PAF. The impression is that their presence took on a somewhat symbolic importance. It was more a way of establishing that the environment was an important element in strategic dialogue than a means of promoting the implementation of specific strategic reforms.

In retrospect, we would judge that it was a mistake to have rushed the identification of PAF policy triggers before there had been sufficient analysis and dialogue to generate agreed programmes of strategic reforms. PAF indicators should be used only to support monitoring of specific, strategic reforms. The selection of a PAF indicator should therefore be the culmination of a process of strategic thinking, not the starting point (see Key Lesson 5).

## KEY LESSON 5

### Use all avenues of dialogue within GBS arrangements and make prudent use of PAF indicators

General Budget Support arrangements will usually include at least three avenues of dialogue, which can be adapted to facilitate the incorporation of environmental issues:

- 1 Thematic and sector working groups, which provide a forum for discussion of either thematic or sector-specific issues, from which a sub-set of policy measures is usually chosen for inclusion in the overall set of policy targets and triggers comprising the Performance Assessment Framework (PAF).
- 2 A technical working group on the budget, where budget documents, quarterly expenditure reports and annual accounts are reviewed and discussed to ensure consistency with the principles agreed within GBS memoranda of understanding, notably regarding the use of public expenditures to support implementation of the national poverty reduction strategy.
- 3 The core group responsible for agreeing the content of the GBS Performance Assessment Framework and for monitoring annual performance against the PAF and against the underlying principles agreed in the GBS memorandum of understanding.

There is a general tendency with most GBS arrangements to place excessive attention on the PAF, while often failing to maximise the potential of other avenues of dialogue. Initial experiences with the integration of environmental issues into GBS suggest a similar tendency.

#### The following good practices are recommended:

- 1 Maximum use should be made of thematic and sector working groups. These provide a space where environmental policies and programmes can be reviewed and discussed – either on a sector by sector basis (agriculture, forestry, mining etc) or on a cross-cutting basis. Annual indicators of progress on the environment may be agreed, indicative targets established and progress monitored. Because most commitments made at this level are indicative and are not linked to GBS disbursements, dialogue is usually more open and, potentially, more constructive; and because the focus is narrower than in the overall PAF, dialogue can be more detailed.
- 2 Environmental budgets and environmental spending need to be placed on the agenda of GBS budget technical working groups. These groups provide access to information on budgetary and spending decisions, and may provide a mechanism for influencing the size and composition of environmental budgets.
- 3 The PAF itself should be used only to support monitoring of specific, strategic reforms. Where strategic reforms to environmental budgets, policies or institutional arrangements have been designed by government, it may be helpful both to government and its development partners to publicly signal the expected path of progress through pre-defined policy triggers and targets within the PAF. The annual monitoring process then provides a public framework to assess progress and to judge whether progress merits continuation and/or an increased level of GBS disbursements.

**The selection of a PAF indicator should be the culmination of a process of strategic thinking, not the starting point**



# Recommendations for governments and development partners

There are serious weaknesses in the institutional and financial framework for environmental policy implementation. In a context of increasing vulnerabilities due to climate change, these weaknesses need urgent attention. Development partners can do much to help, notably by improving their aid delivery practices. Yet in the end, it is governments that must take the lead in redressing the situation and creating a framework to maximise the environment's potential for sustainable, broad-based growth. This paper concludes by recommending the following four actions for government and four for development partners.

## Recommendations for governments

- 1 There is a need to strengthen the structures for mobilising and coordinating actions on the environment at the highest levels of government. In three of the four case study countries, we found inter-ministerial committees on the environment which were either weak or non-functional. The reason for this is that, in large part, these committees have been headed by Environment Ministries or their equivalents, rather than operating at more senior levels of government, such as at the Prime Ministerial or Vice Presidential level. Reactivating these committees at the very highest levels of government must be the first step towards coordinated actions on the environment. Using a crisis narrative may be the best strategy to galvanise action, and the most obvious opportunity is the challenge of responding to climate change.
- 2 It is necessary to find ways of raising the available finance through recurrent budgets for the main environment regulation agencies and the other government departments involved in the promotion of sustainable development practices:
  - The environmental agencies concerned should be directed to prepare realistic and comprehensive budget estimates of the recurrent resources required to implement fully existing environmental legislation and, where necessary, technical support should be provided to do this.
  - These estimates should be reviewed by Ministries of Finance and, if considered appropriate, with development partners. Publication of budgetary estimates (both annual and medium-term) should be encouraged to promote greater public accountability.
  - In the short term, additional resources will need to be generated by controlling the growth of other sectors, but with such small percentages of the national budget currently dedicated to the environment, even small savings elsewhere would make a difference.
  - In the longer term, greater fiscal space needs to be obtained by continued growth of revenues, expansion of general and sector budget support and continued reductions in debt commitments.
- 3 Methods need to be found to reduce the numbers of projects being managed by the environment regulation agencies, whose primary responsibilities are to implement national legislation on the environment:

**Environmental agencies should be directed to prepare comprehensive budget estimates of recurrent resources required to fulfil their statutory duties**

- Environmental sector agencies should be directed to negotiate with their DPs to find ways of merging different projects currently working in the same or similar areas. They should also ensure that all new projects are fully justified on cost-benefit grounds and make maximum use of co-financing and other opportunities for harmonisation.
  - In parallel, the central agencies responsible for aid coordination should clearly restate, for the benefit of development partners, the circumstances under which project financing would be considered appropriate and the methods of implementation which should be favoured. If possible, the policy document should also lay down norms for the payment of staff allowances from project funds.
- 4** Simultaneously, government initiatives aimed at improving the terms and conditions of scarce professional groups within the public sector need to be accelerated. Project allowances (which are often discretionary and therefore not transparent) should be replaced with formal improvements to terms and conditions which are fully transparent and can be justified by reference to performance and professional qualifications. The Tanzanian Selective Accelerated Salary Enhancement scheme (SASE) may provide a good example of how progress might be made in this area.<sup>2</sup>



## Recommendations for development partners

The actions of development partners in the environment sector have unwittingly weakened the very institutions that need to be strengthened if the benefits of environmental investments are to be sustained. Changing this is the most important challenge in the short term. There is also a need to raise the level at which environmental dialogue is conducted so that there is a political engagement with developing countries on environmental issues. Consequently, better preparation for political engagement is needed, marshalling analytical skills to support policy dialogue and taking advantage of the new avenues for dialogue that have been created by budget support arrangements. This will make demands on DPs' own human capacities, both at headquarters and in-country. It will be important to break down these grand elements of strategy into practical measures. Much of this is country specific but we would make four recommendations to help achieve progress:

- 1** As a first step, DPs working on the environment should offer the support necessary for their government partners to be able to address the agenda laid out above. This will involve high level engagement between heads of government and senior ministers on environmental issues: political level engagement is needed to stimulate political commitment to environmental issues in developing countries. It is also likely to require technical assistance (TA) to support improvements in budgeting,

**2** The SASE scheme is a medium term pay reform programme for the whole civil service, which allows certain key professional groups to receive their salary enhancements in advance, without having to wait until the moment when the overall scheme is financeable. We do not have up-to-date information on the effectiveness of the scheme but it seems a good example of the sort of change which is needed. Further information on this and other types of pay reform schemes may be found in Kiragu, Mukandala and Morin (2005).



revenue administration and the management of operations within environmental agencies. Support to policy development may also be needed either through TA or through advice provided more informally, such as by participation in working groups. Additionally, it will involve assistance in mobilising DP commitment to the rationalisation of project support and the expansion of budget support financing.

**Central agencies responsible for aid coordination should clearly restate, for the benefit of development partners, the circumstances under which project financing would be considered appropriate**

- 2 This should be supported by direct actions amongst DPs engaged in the environment to accelerate the implementation of the Paris Declaration principles within the sector:
  - Instructions should be developed regarding the regular submission of information on project budgets and project expenditures to the Ministry of Finance and to the relevant sector ministries.
  - A process of rationalising and restructuring existing sector project portfolios should be initiated so as to maximise co-financing opportunities and eliminate unnecessary duplications.
- 3 A crucial element of the strategy laid out above for government partners is the achievement of a switch from project financing to higher recurrent financing through the budget. This will almost certainly require higher levels of budget support and the strengthening of environmental issues within budget support arrangements. We offer the following recommendation to help make this happen:
  - *At headquarters levels*, policy teams should bring together the economists who generally lead GBS processes with environment and natural resource advisers. Simple guidelines for the integration of environmental issues into budget support should then be issued, drawing on some of the key lessons identified in this study. These should give attention to the use of analytical tools such as Strategic Environmental Assessment (SEA) and Public Environment Expenditure Reviews (PEERs), which might provide a stronger factual and analytical basis for dialogue on environmental budgeting and policy issues.
  - *At country level*, more detailed planning is needed to manage the transition towards the use of budget support instruments for the environment. This process needs inputs from GBS specialists to help address the quite complex decisions and trade-offs involved. We would recommend that this take the form of feasibility and design studies for budget support for the environment. These studies would need to consider:



- the choice between adapting existing GBS arrangements and designing new SBS explicitly focused on the environment and natural resources;
  - appropriate funding levels;
  - appropriate indicators and disbursement modalities;
  - the ways in which a multi-dimensional strategic dialogue on the environment should be built up;
  - the ways in which sector working groups might most effectively be structured;
  - specific capacity building measures for DPs, government and other stakeholders to help these new approaches to work effectively.
- 4 Finally, there is a need for a longer term view to be promoted within DP agencies to avoid rushing the agenda and to allow national ownership to take hold within the partner countries where they operate. Such a long term view (with perhaps a 20-year planning horizon) would give prominence to new types of environmental analysis, including scenario planning, which would support the mainstreaming of higher-level environmental considerations in government strategic planning processes.

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## GLOSSARY

<b>Budget support</b>	A <b>method of financing</b> a partner country's budget through a transfer of resources from an external financing agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. In the case of <b>General Budget Support</b> , the dialogue between donors and partner governments focuses on overall policy and budget priorities, whereas for <b>Sector Budget Support</b> the focus is on sector-specific concerns.
<b>CIDA</b>	Canadian International Development Agency
<b>COFOG</b>	Classification of Functions of Government
<b>DFID</b>	Department for International Development of the UK
<b>Discretionary resources</b>	Finances made available to public agencies at the discretion of government through the national budget. This funding is usually subject to the rigour of the annual budget process, whereby costed programmes are scrutinised by the Ministry of Finance and voted on by the national legislature. Discretionary funds are therefore approved on the basis of national priority setting.
<b>DP</b>	Development Partner
<b>EIA</b>	Environmental Impact Assessment
<b>GBS</b>	General Budget Support
<b>NGO</b>	Non-Governmental Organisation
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>PAF</b>	Performance Assessment Framework
<b>Paris Declaration</b>	International agreement to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators.
<b>PEP</b>	Poverty and Environment Partnership
<b>PRS(P)</b>	Poverty Reduction Strategy (Paper)
<b>SEA</b>	Strategic Environmental Assessment
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environmental Programme





Overseas Development  
Institute

Overseas Development Institute  
111 Westminster Bridge Road  
London SE1 7JD

Tel: +44 (0)20 7922 0300

Fax: +44 (0)20 7922 0399

Email: [publications@odi.org.uk](mailto:publications@odi.org.uk)

Website: [www.odi.org.uk](http://www.odi.org.uk)