

PEMPAL BCOP Workshop

INTEGRATING PLANNING
AND BUDGETING -
OPPORTUNITIES AND
CHALLENGES

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Outline of this Presentation

PART 1

- ▶ What are the issues?
- ▶ Definitions of Planning (P) and Budgeting (B) - how P and B compare and differ
- ▶ Why coordination of P and B, not integration, is the right approach
- ▶ Should P and B functions be combined in a single ministry?
- ▶ Lessons from OECD countries
- ▶ Options for reform
- ▶ Conclusions

PART 2

- ▶ Case study - green budgeting and climate tagging

PART 1

To start with a (skeptical) quote from two eminent political scientists

“ All right, you want miracles. I can’t produce them, but I can certainly produce a plan. In that beautiful eighteen-volume document is a rosy future; day by day it curls at the edges, but the charts and the graphs stay resplendent. My beloved predecessor, just before he went into exile, whispered that the plan must serve as a substitute for life. As they say in Rome, the five-year plan is ‘the book of dreams.’ “

Naomi Caiden and Aaron Wildavsky, 1974. *Planning and Budgeting in Poor Countries* (New York: John Wiley & Sons), page ii.

What are the Issues?

All countries need to establish processes for discussing and agreeing their strategic development priorities, BUT

- ▶ Strategic development plans in their present form often don't add much value - they are long, bulky documents, difficult to adapt when policies change, “wish lists” of policies and projects not subject to a resource envelope
- ▶ P and B systems have been slow to adapt to recent developments and shocks, e.g., COVID-19, climate change, implementation/financing of SDGs, digitalization
- ▶ Analytical tools are lacking or underdeveloped, e.g., impact assessments, tools for appraising and selecting investment projects
- ▶ Performance measurement systems are often overburdened with information (‘data cemeteries’), non-aligned between P and B, and frequently ineffective
- ▶ Decision making is fragmented - high level priorities are set in the NDP, and then revisited in the annual budget process
- ▶ There is too much emphasis on form rather than function, i.e., where the “P” function is located rather than its coverage and role
- ▶ A core problem is that there is too much focus on the “P” of planning rather than the “P” of policy-making

Definitions of P and B

- ▶ Modern budgeting goes back until at least the 1700s (e.g., Great Britain and France) but planning has its roots in the 20th century (Soviet Union and France).
- ▶ Budgeting - a core definition is the allocation of scarce fiscal resources across public services and public investments.
- ▶ Planning - definitions are more difficult to find. Waterston (1969) defines planning as “an organized, conscious and continual attempt to select the best alternative to achieve specific governmental goals.”

How P and B Compare (1)

- ▶ P and B are separate institutions with different goals and objectives - that will always be the case and needs to be recognized. Thus, they can never be combined and merged. They both have important but very different jobs to do in government.
- ▶ As Allen Schick (1966) has observed:
- ▶ “ ... Planning and Budgeting have run along separate tracks and have invited different perspectives, one conservative and negativistic, the other innovative and expansionist ... in its extreme form, the one measures saving, and the other spending.”
- ▶ Politicians generally like P better than B. P enables and inspires them, B constrains them.
- ▶ Both P and B can be improved and better coordinated but the prospect of integrating them is probably an illusion.

How P and B Compare (2)

- ▶ Most plans are aspirational or visionary documents with a time horizon stretching out over the medium-term (3-5 years) or long-term (10 or more years, e.g., “Vision 2050”).
- ▶ Strategic planning documents are rarely costed whereas the whole rationale of budgeting is good estimates of the cost of policies, programs and projects.
- ▶ Plans are usually not constrained by a fiscal framework, but budgets (generally) are constrained.
- ▶ Budgets generally focus on spending by budgetary central government. Strategic planning documents have a much wider perspective or may focus on specific sectors or policy areas.

Yet P and B share some important common features

Planning	Budgeting
Long-term planning	
Long-term plans and SDGs	Long-term fiscal sustainability analysis
Macroeconomic and Fiscal Framework	
Medium-term strategic planning document	MTFF and MTBF
Thematic and sectoral plans, PSIPs	Budget allocations by sector or ministry
Project Appraisal and Selection	
Project identification and selection	Budget consultation and review
Pipeline of approved projects	Projects included in the budget
Performance Measurement	
Ideally a common system for P and B, but frequently non-aligned systems	

Good coordination between P and B is highly desirable

- ▶ P and B functions can be formally integrated in one institution - e.g., a “ministry of finance and economy”, but in practice the two functions remain separate.
- ▶ Ministers cannot easily wear two hats - one for planning and the other for budgeting, one expansionist and innovative, the other focused on saving.
- ▶ However, good coordination is possible. This happens in countries like Colombia and Ireland where P and B functions are coordinated at both political and working level. Coordination is especially important for infrastructure projects, the main driver of development.
- ▶ In Colombia, a single high-level committee (CONPES) approves both the National Development Plan, the MTF, and the annual budget.
- ▶ In Ireland, medium- and long-term projections of infrastructure requirements are prepared jointly by the finance and planning ministries.
- ▶ But these examples are rare - coordination between P and B functions and officials is usually poor.

Should planning functions be carried out by the Ministry of Finance?

- ▶ There is no common practice internationally, and no theoretically “correct” solution.
- ▶ Globally, about 37 percent of countries have a single entity responsible for both P and B functions; 48 percent have separate P and B entities; 15 percent have no central planning entity. In Europe and Central Asia, over 40 percent of countries have no central planning agency (Allen, Betley, et. al, 2020).
- ▶ All PEMPAL countries have a central planning agency: just under 20 percent have a single entity responsible for P and B; just over 80 percent have separate P and B entities.
- ▶ A key consideration is the need to balance the ambitions and long-term vision of P and the fiscal conservatism of B. Countries may find different solutions to achieve such a balance.

Summary of Organizational Arrangements for P and B

	Single P and B Entity	Separate P and B Entities	No Central-Level P Entity
Advanced economies	15%	26%	59%
Emerging market economies	39%	56%	5%
PEMPAL countries	19%	81%	0%
LIDCs	47%	53%	0%
All countries	37%	49%	15%

Has planning become an outdated or even redundant function?

- ▶ No, aspirations and medium- and long-term development plans are necessary for governments to orient their policies and programs.
- ▶ In the EU, the Commission uses a medium-term planning/financial framework and specific instruments such as the ERDF, the ESF and the Cohesion Fund.
- ▶ Among the PEMPAL countries, 71% have current long-term strategic plans.
- ▶ Indeed, planning seems to be reviving internationally. The number of countries with an NDP has more than doubled from 62 in 2006 to 134 in 2018 (Chimhowu, Hulme and Munro, 2019).
- ▶ Some OECD countries have also shown a revival of interest in P instruments.
- ▶ This trend may partly reflect international commitments to implement the SDGs by 2030, as well as medium- and long-term commitments on climate change.

What are the lessons from OECD countries?

- ▶ Between the 1960s and the 1990s, many OECD countries virtually abandoned strategic development planning in its traditional form (some had never adopted it)
- ▶ The “P” shrunk and the “B” (especially the MTBF) increased in importance
- ▶ Planning in OECD countries has not disappeared but takes a different form:
 - ▶ Increased attention to institutions and tools of policy-making rather than institutions of planning (they are not the same) and the MTBF
 - ▶ Focus on sectoral strategies, e.g., for internal security and defense, climate change/green finance, gender equalization, health, education, social welfare, etc.
 - ▶ Focus on long-term strategic objectives and delivering the SDGs
 - ▶ Poorer EU Member States use planning instruments to manage the resources received through grants for regional development and other purposes
 - ▶ Increased focus on infrastructure and establishing centralized agencies to plan and manage public investments (Australia, New Zealand, Ireland, UK)

Some Options for Better Coordination of P and B functions (1)

Reform Option	Comment
1. Strengthen linkages between core P functions (as set out in development strategies) and the fiscal and budget ceilings set by the finance ministry.	This the weakest link in the P-B interface. Complete solutions are hard to find because of institutional separation of P and B functions.
2. Improve infrastructure planning and provide reliable cost estimates on public investment projects.	Only one-third of countries currently have a multiyear rolling PSIP while a further 8 percent have some elements of a PSIP in place (Allen, Betley, 2020).
3. Align the program-based budgeting (PPB) system with the performance framework used in the strategic planning framework.	A few countries (e.g., Georgia, Slovenia) are attempting to include KPIs for some SDGs within the strategic budgeting framework.
4. Improve public investment management (PIM), e.g., methodologies for appraisal/selection of large investment projects. Add a climate dimension to PIM.	Consistent recommendation of IMF/World Bank PIM reports.

Some Options for Better Coordination of P and B functions (2)

Reform Option	Comment
5. Consider setting up a specialized infrastructure agency to support the implementation/monitoring of large public investment projects. Examples: Australia, Ireland, Malaysia, UK.	Too early to determine how effective these are (International Transport Forum). Setting up new institutions nor necessarily the best option. Requires high level commitment/leadership, and well-developed culture of coordination and cooperation among ministers/officials.
6. Make technical changes to the P&B methodology to align the processes, e.g., priority setting, time horizon of strategic planning documents and the MTFF and MTBF (3- or 4-year rolling framework), performance measurement systems, IT systems / digitalization.	Few countries have successfully implemented even these limited measure.

Conclusions

- ▶ A wide variety of practices exist globally. P functions have evolved over the years from the historic French and Soviet models, in diverse ways across countries and regions. National norms and standards that define how P and B should coordinate and communicate are rare.
- ▶ P and B functions are based on fundamentally different objectives, approaches, and skill sets. There is a creative tension between the two functions that in principle can lead to good results, but often does not.
- ▶ Good coordination of P and B is vital to economic development, but rare to find in practice. Institutional fragmentation and cultural norms often work against improved coordination, but a few countries (e.g., Colombia) have achieved success.
- ▶ It is much more important for countries to ensure that their P and B functions are carried out efficiently and effectively than that they place them in some organizational straight-jacket.
- ▶ Progress in aligning P and B may be possible in some technical areas, e.g., priority setting, time frames, performance measurement frameworks, SDGs, digitalization.
- ▶ Establishment of an infrastructure agency at the center of government has shown some beneficial effects, especially in relation to monitoring implementation of strategically important investment projects, but benefits yet to be confirmed.

Selected References

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PART 2

Climate Budget Tagging - A Green Budgeting Tool

- ▶ Objective of green budgeting - to achieve climate change policy objectives through planning/budgeting
- ▶ Overview of green budgeting - definition; tools used internationally
- ▶ Overview of climate (green) budget tagging
 - Definition/Objectives
 - Approaches used
 - Steps for putting climate budget tagging in place
 - Lessons

What do we mean by Green Budgeting?

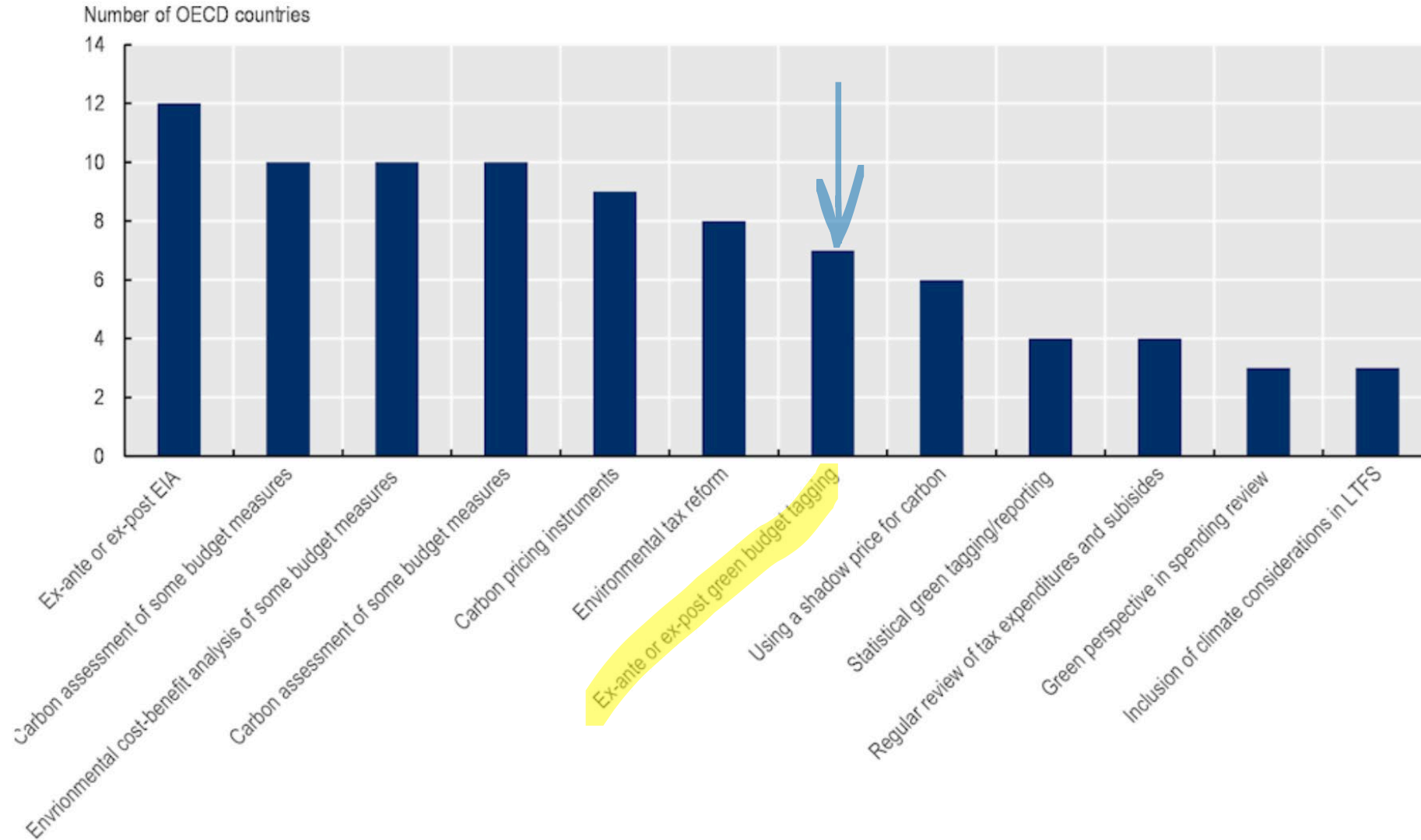
▶ What is green budgeting?

- (OECD/IMF/WB) Using the tools of budgetary policymaking to help achieve climate and environmental goals. These tools are part of a country's annual and multi-annual budgetary processes

▶ What helps make green budgeting effective?

- Being integrated in a strategic framework, which sets out a country's national plan and mission on climate change and the environment (reflected in strategic planning and MTRF)
- Using budgetary policy tools that contribute to evidence-based decision-making (e.g. program budgets)
- Clear institutional design with clearly-defined responsibilities and a timeline for actions
- Using transparent reporting and independent oversight to ensure openness and accountability

Green Budgeting Tools Commonly Used



Climate Budget Tagging - Definition and Objectives

- ▶ What do we mean by climate budget tagging?
 - ▶ Process of identifying, measuring and monitoring climate-relevant expenditures through systematic means [tools]
 - ▶ Tagging classifies budget measures according to their climate and environmental impact
 - ▶ Tagging enhances transparency of governments' green actions [activities]
- ▶ How does tagging help countries achieve their climate policy goals?
 - ▶ (Budget planning) Helps prioritize current and medium-term budget allocations towards climate policy goals
 - ▶ (Budget reporting) Shows climate-related actual spending to help assess progress towards meeting climate policy goals

Climate Budget Tagging - Approaches

- ▶ **Budget preparation:** relevant instructions and forms are included in budget call circular
 - ▶ Manual tagging, initially: Budget sheets (e.g. Excel) for each program and its activities, with two climate change-specific columns (column 1 for climate relevance of each activity (yes/no); column 2 for budget amounts allocated to each activity)
 - ▶ Use of FMIS/Chart of Accounts to enable comparisons between planned budgetary amounts with actual expenditures
- ▶ **Budget execution and reporting:**
 - ▶ Manual tagging, initially
 - ▶ Adapt Chart of Accounts (CofA) to include climate/green coding elements
 - ▶ Ensure that FMIS has adequate functionality for accounting and reporting of climate-related expenditures
- ▶ **Examples of FMIS/Chart of Accounts coding for tags:**
 - ▶ Example 1: Use of 4-digit segment in CofA applicable to cross-cutting policy areas:
 - ▶ Digits 1-2: subject of the tagging (such as climate change)
 - ▶ Digit 3: the focus (adaptation, mitigation, or both/cross-cutting)
 - ▶ Digit 4: relevance level (principal, significant, or not targeted)
 - ▶ Example 2: Use of 5-digit code
 - ▶ Digit 1: objective of the National Climate Change Policy
 - ▶ Digits 2-3: relevant sector
 - ▶ Digit 4: type of policy response
 - ▶ Digit 5: specific strategy/activity
 - ▶ Example 3: Use of 6-digit thematic code (expenditures can be assigned to only one theme)
 - ▶ Digits 1-2 classify expenditure as either equality or environment-related
 - ▶ Digits 3-4: category of expenditures.
 - ▶ Digits 5-6: type of activity

Climate Budget Tagging - Steps

- ▶ Government-led process of **identification, measurement, and monitoring of climate-relevant public resource collection and use**

1. Identification:

- ▶ Define coverage to be used (e.g. sectors, government level, policy objectives [mitigation, adaptation, biodiversity, combatting desertification])
- ▶ Define other methodological elements, e.g. criteria for screening and weighting (if used) of policy measures, based on either positive or negative environmental impact (France, Ireland)
- ▶ Define climate-relevant revenues and expenditures (using existing international methodological frameworks [e.g. Rio-based marker methodology or EU Taxonomy for sustainable activities] or policy-based individual country frameworks)

2. Measurement:

- ▶ Design system for climate budget tags (e.g. in Chart of Accounts) to be used for budget formulation, execution and reporting

3. Monitoring:

- ▶ Set out institutional responsibilities for design, management, implementation and oversight of climate budget tagging system
- ▶ Decide how information will be presented (budget documentation, in-year and annual execution reports)

4. Pilot!

- ▶ Estimate climate-relevant revenues and expenditures, as defined

Climate Budget Tagging - Lessons

As of end-2022, at least 18 countries and one regional government have implemented climate budget tagging, including two OECD countries to date (Ireland in 2018 and France in 2020), and others are in development, including PEMPAL members.

- ▶ **Design of tagging definitions and methodology:** Tagging methodology and definition of climate-relevant activities and expenditures should be aligned to national climate change policies and strategies to support implementation of national climate policy
- ▶ Be aware that tagging is only practicable where **budget classifications identify programs and projects**
- ▶ Include **direct expenditures** (current and capital) as well as **tax expenditures** (forgone revenues) and **subsidies** in climate budget tagging systems
- ▶ Define the **objectives of the climate budget tagging system** and consider alternatives
- ▶ In addition to expenditure allocations, focus also on **policy alignment**, **efficiency**, and **effectiveness of resources**
- ▶ Include expenditures on **activities that have an adverse impact on climate outcomes**
- ▶ Don't ignore **climate-related activities undertaken by SNGs and SOEs**, which can be significant
- ▶ Be aware that implementing climate tagging systems can be **resource-intensive** and **require capacity strengthening** - plan for this as part of the design
- ▶ Engage **key institutional stakeholders**, including both central and line agencies, in **design** and **implementation of climate budget tagging**

Green budget tagging in selected OECD countries



Key references

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 - ▶ For main report, see: <https://openknowledge.worldbank.org/bitstreams/ca65ecfc-90b8-5b40-a6e7-689d14c8cccf/download>
 - ▶ For technical annex, see: <https://openknowledge.worldbank.org/bitstreams/d5464fd5-3525-5cce-952f-c5c756c0af7a/download>