

Financing and Fiscal Adjustments for Green Policies

- Framework and Korea Case -

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Outline

- I. Climate Change Finance Overview**
- II. Fiscal Adjustments for Green Policies**
- III. South Korea's Case: Integration of Green Growth into National Budget**

I. Climate Change Finance Overview

Public Climate Change Finance

Global

UNFCCC-Mandated Mechanisms

(e.g. Global Environment Facility, GEF)

Mechanisms Outside UNFCCC

Multilateral Funds

(e.g. Clean Technology Fund, CTF)

Bilateral Funds

(e.g. Norway's International and Forest Initiative)

Domestic

National Budget

Outside the National Budget

- State-owned Enterprises
- Local Government
- Extra-budgetary Funds (National Climate Change Funds)

Market-Based Climate Change Finance

UNFCCC-Mandated Mechanisms

(e.g. Clean Development Mechanism, CDM)

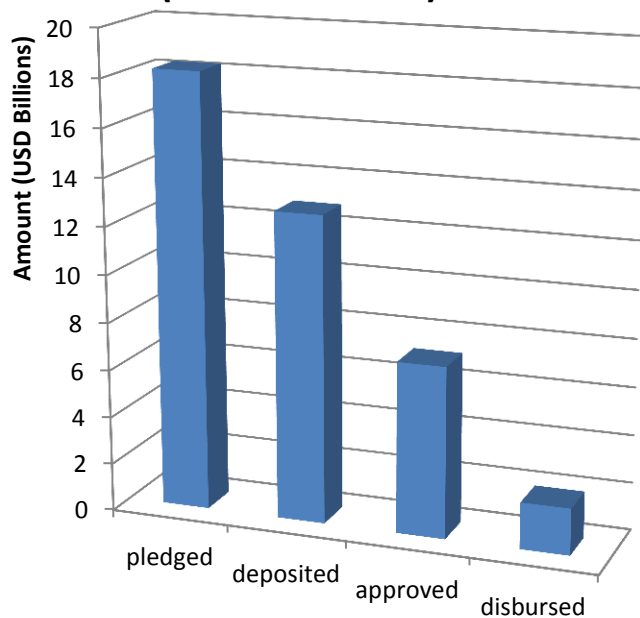
Carbon Markets

(e.g. European Union's Emission Trading Scheme)

Distribution of Global Climate Finance

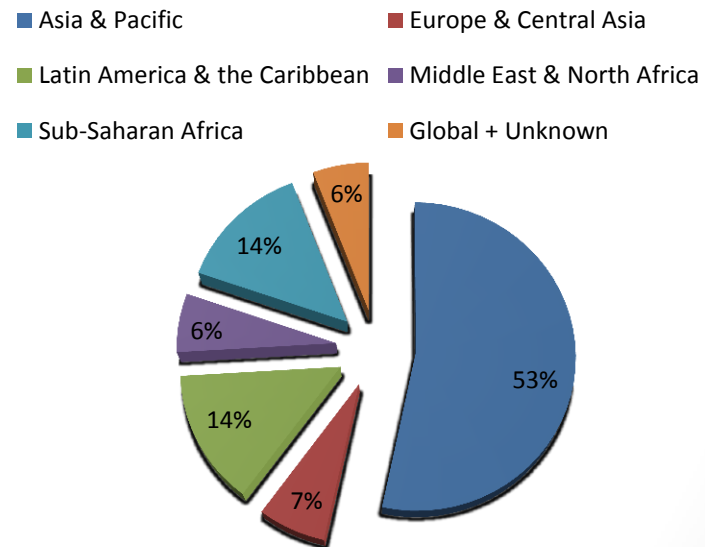
More than 50% of global public climate finance has been funded to the Asia & Pacific region.

Status of Funding (Global in Total)



Source: Draft of Climate Change Public Expenditure Review Sourcebook (World Bank)

Regional Distribution (Approved)

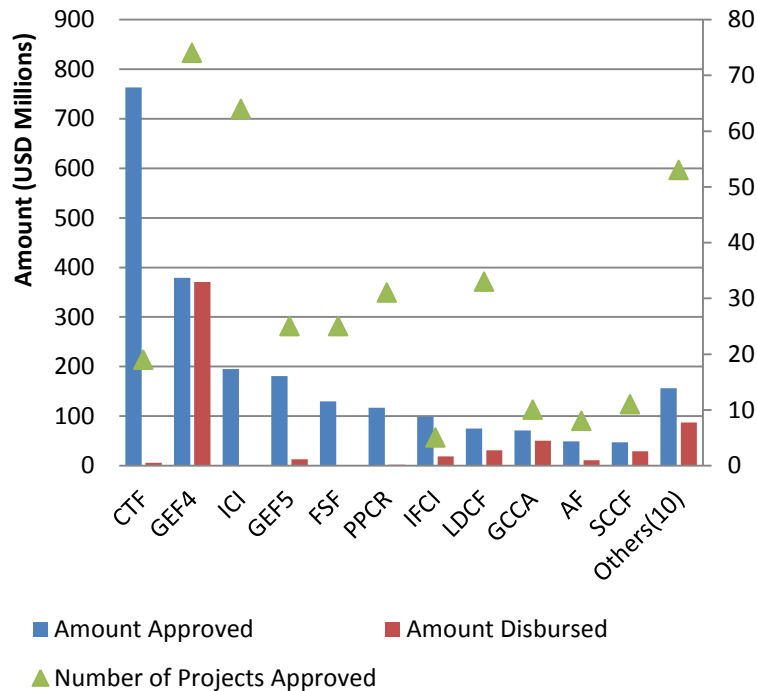


Source: Climate Funds Update, 2012

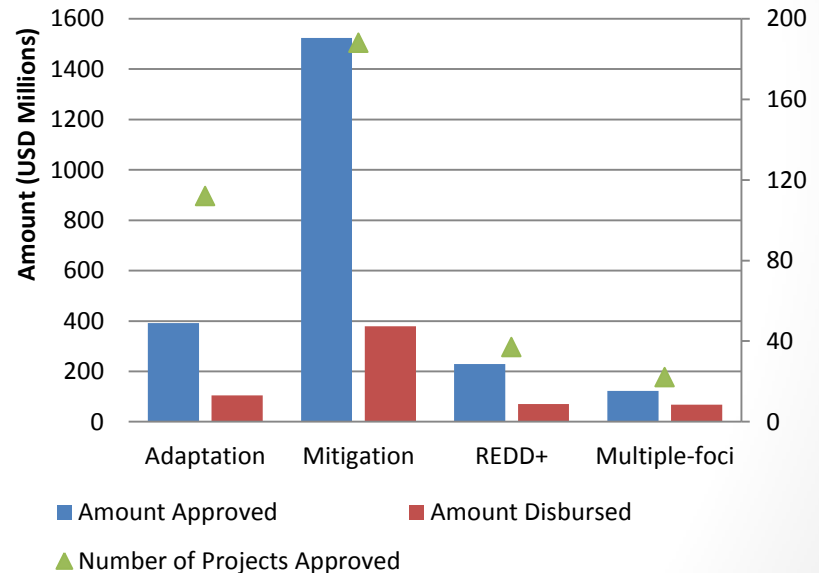
Climate Finance in Asia & Pacific

More than two thirds of the climate finance has supported mitigation activities, mainly funded by the CTF and the GEF.

Funds supporting Asia & Pacific



Approved & Disbursed Funding Across Themes



Source: Climate Finance Regional Briefing: Asia and Pacific (ODI, 2012)

II. Fiscal Adjustments for Green Policies

How to use national budget for LEDS and GG

Climate Public Expenditure and Institutional Review (CPEIR)

How climate change related expenditure is being integrated into national budgetary processes

- 1) Policy development
- 2) Institutional structures
- 3) Public financial management



Nepal, Bangladesh,
Thailand, Samoa,
Cambodia, Indonesia,
Timor-Leste, Viet Nam



Philippines, Morocco, Mexico

Key Issues to be Addressed

- ❖ **How to formulate policies on LEDS and GG**
 - Political ownership, National consensus, Tools

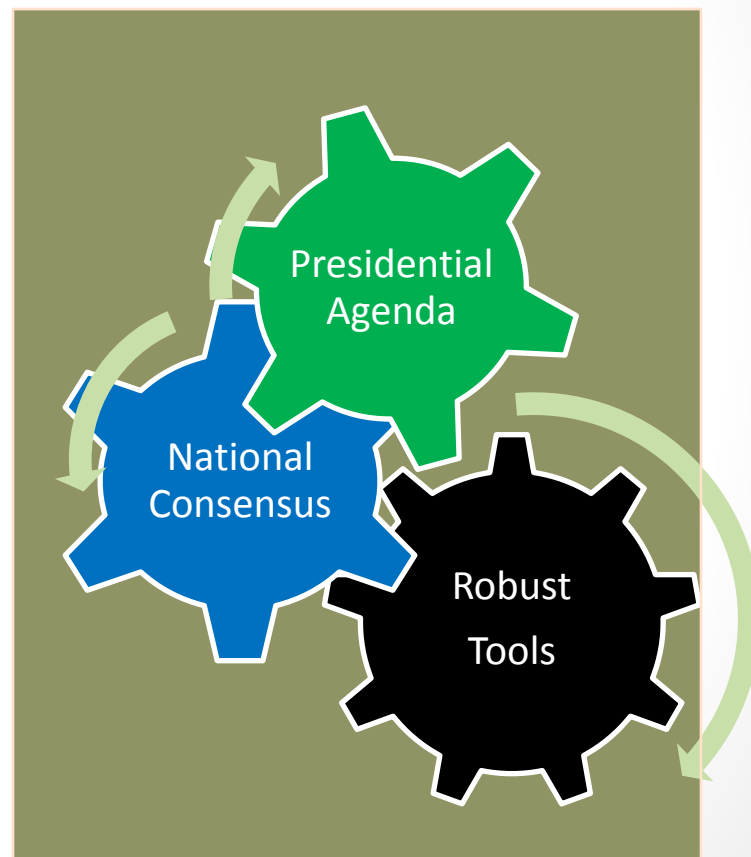
- ❖ **Who leads formulating and implementing those policies**
 - Institutional alignment, Role of central finance and planning agency

- ❖ **How to adjust public expenditures to LEDS and GG**
 - Identify climate change related expenditures ('Relevance')
 - Shift resources to those expenditures
 - Deal with would-be expenditure pressure to reduce other crucial budgets, i.e. health and education

III. South Korea's Case

❖ How to formulate policies on green growth

- “Low Carbon, Green Growth” in 2008
- **An Essential Path**
 - New growth paradigm
 - Quality of life
- **Strategy & Plan**
 - National Strategy for Green Growth (2009 - 2050)
 - Five-Year Plan for Green Growth (2009 - 2013)



❖ Who leads formulating and implementing

A newly launched Presidential Committee and a central finance and planning agency (MOSF) were key players.

Framework Act on Low Carbon, Green Growth



❖ How to adjust public expenditure to GG

- About 680 budget activities in 26 agencies were identified as green growth related.
- Top-down and consultation approach:
 - 3 Objectives – 10 Directions – 50 Core projects
 - Consultation among the PCGG, the MOSF, and LMs

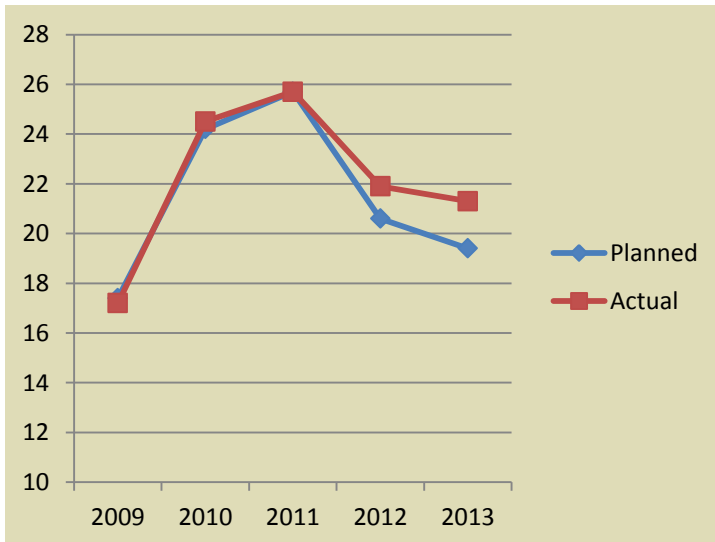
Objective	Mitigation of climate change & energy independence	Creating new engines for economic growth	Improvement in quality of life and enhanced international standing
Direction	<ul style="list-style-type: none"> • Effective mitigation of GHG emissions • Reduction of the use of fossil fuels and the enhancement of energy independence • <u>Strengthening of the capacity to adapt to climate change</u> 	<ul style="list-style-type: none"> • Development of green technologies • Greening of existing industries and promotion of green industries • Advancement of industrial structure • Engineering of a structural basis for green economy 	<ul style="list-style-type: none"> • Green cities, green transportation infra, and water management • Bringing green revolution into our daily lives • Becoming a role-model for the international community as a green growth leader
Core project	15 Projects	21 Projects	14 Projects

(e.g.) (core: strengthening management capacity for water resource stability)
(budget: the Four Major River Restoration Project)

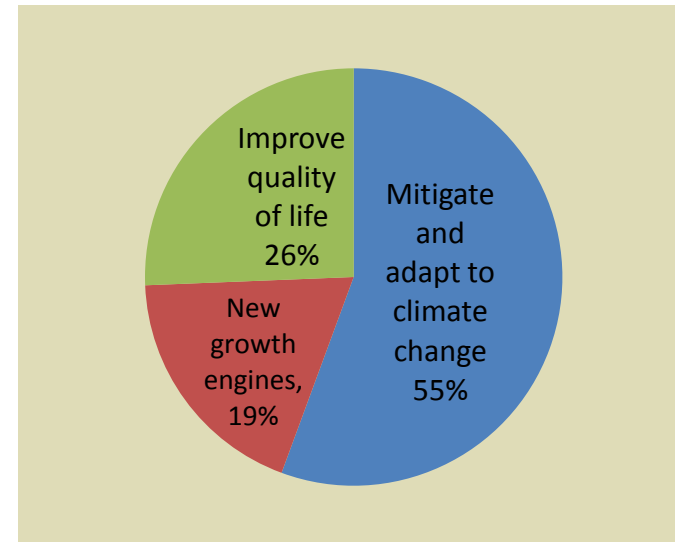
❖ How to adjust public expenditure to GG

- Took a budget target approach using the MTEF
 - Established '2% budget rule': allocate 2% of GDP over 2009 – 2013 (7 to 8% of total budget)
 - Actually, invested 1.6 to 2.1% of GDP
- Over half, allocated in mitigation & adaptation

Green Growth Budget (in KRW trillion)

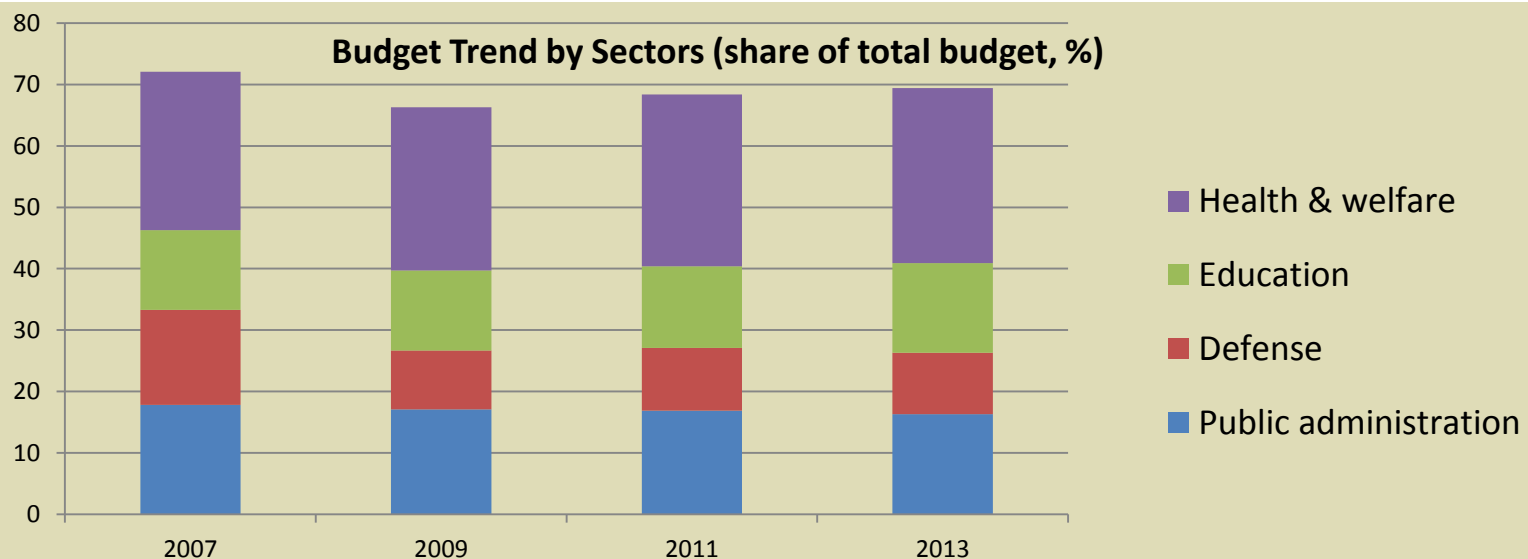


Share of GG Budget by 3 Objectives



❖ How to adjust public expenditure to GG

- While GG budget increased, health and education budgets increased as well.
 - Reduce programs with low execution and poor performance
 - 10% cut in general government administration expenses
- Fiscal adjustments within some expenditure sectors
 - Transport: priority shift from roads to railways
 - R&D: increase of the proportion of green R&D



❖ *Lessons and Forward*

- ✓ **Political leadership & National strategy**
- ✓ **Inter-ministerial institution & CPF agency**
- ✓ **Monetized with back-up of planning and medium-term budgeting mechanism**
- ✓ **Not necessarily zero-sum of budget allocation among GG and other critical sectors**
- ✓ **Top-down approach in GG budget classification: worked but lacked in principles and guidelines**