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GREENING DEVELOPMENT: ENHANCING CAPACITY FOR ENVIRONMENTAL MANAGEMENT AND GOVERNANCE

At their Joint High Level Meeting in 2009, DAC and EPOC asked the OECD Secretariat to produce policy guidance on capacity development for environmental management. This work was taken forward between 2009-2011 by a joint DAC-EPOC Task Team consisting of representatives from OECD environment and development co-operation agencies and ministries. Experts from developing countries and international organisations also participated in Task Team meetings.

Further to the written procedure launched on 21 November 2011, the comments received were incorporated and this document is now considered as APPROVED and is issued as FINAL and will become available as an OECD publication.

The document is submitted in PDF format only.

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Foreword

Sound environmental management is fundamental for green growth, sustainable development and poverty reduction. This core message from the 1992 Rio Earth Summit remains all the more valid today as we prepare for Rio+20.

Emerging-market economies and developing countries are heavily reliant on their endowments of environmental resources. Therefore, improved management of these resources can have huge benefits in terms of industrial production, job creation and incomes, export growth and fiscal revenues. However, despite sustained efforts to promote better and more effective environmental management over several decades, the natural resource base continues to deteriorate in many parts of the world. The greatest impact is felt by developing countries with fewer financial resources to address the challenges of environmental degradation, to adapt to changing environments and to pursue green growth strategies.

To reverse this trend, developing countries and donor agencies have to work together to better integrate environmental issues in their policy reform agendas. Such a strategy can have many advantages and positive policy spill-overs: strengthened capacity for environmental management will empower individuals, organisations and society as a whole, and it can create a more transparent governance of environmental and natural resources. While capacity development for the environment is the responsibility of domestic actors, international donors can play an important role in supporting developing countries.

It is against this background that OECD's Development Assistance Committee (DAC) and Environmental Policy Committee (EPOC) have combined their expertise to develop this report *Greening Development: Enhancing Capacity for Environmental Management and Governance*. The report distils lessons learned from the experience of donors and partner countries in incorporating the environment at the national and sectoral levels. It also reflects a shift from the traditional view of capacity development as a purely technical process to one that recognises the importance of country ownership at different levels in governments and society. The report thus advocates the application of country systems as entry points for capacity development for the environment.

This report outlines a number of steps to be considered when building capacity for effective integration of environmental issues into national development plans, national budgetary processes and key economic sector strategies. It identifies the key actors to be engaged in decision-making processes, outlines possible capacity needs and suggests how these can be addressed. In addition, it provides recommendations for donors on how they can support partner countries in strengthening capacity development for the environment and what internal capacity donors themselves may need in order to effectively provide this support.

We hope that this report will assist international donors and developing country partners in their efforts to achieve greener and more inclusive growth. OECD stands ready to support these efforts.

Angel Gurría
Secretary-General, OECD

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Abbreviations and acronyms

CSO	Civil society organisation
Danida	Danish International Development Agency
DAC	Development Assistance Committee
DFID	UK Department for International Development
EIA	Environmental impact assessment
EPOC	Environmental Policy Committee
GDP	Gross domestic product
GEF	Global Environment Facility
GHG	Greenhouse gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
JAS	Joint Assistance Strategy
JICA	Japanese International Cooperation Agency
MDG	Millennium Development Goal
MEA	Multilateral environmental agreement
MTEF	Medium-Term Expenditure Framework
NCSA	National Capacity Self-Assessment
NDP	National development plan
NGO	Non-governmental organisation
Norad	Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Co-operation and Development
PEER	Public Environmental Expenditure Review
PEI	Poverty-Environment Initiative
PFM	Public financial management
PRSP	Poverty Reduction Strategy Paper
SEA	Strategic Environmental Assessment
SEPA	Swedish Environmental Protection Agency
Sida	Swedish International Development Cooperation Agency
UN	United Nations

UNCBD	United Nations Convention on Biological Diversity
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNITAR	United Nations Institute for Training and Research
USAID	United States Agency for International Development
USEPA	United States Environmental Protection Agency

Executive summary

A healthy natural environment and the services it provides are fundamental to economic growth and human well-being. This is especially so in developing countries, where natural capital accounts for 26% of total wealth, compared to 2% in industrialised countries. Economic growth based on the unsustainable use of natural resources is no longer viable in a world facing the pressures of a growing population, climate change and increasing risks of food shortages. The OECD's Green Growth Strategy, released in 2011, provides a framework for growth that allows natural assets to continue to provide the resources and environmental services on which well-being relies.

Moving to a greener development path requires incorporating the environment into every aspect of the national planning and budgeting process. A key obstacle for many developing countries in meeting this objective is a lack of capacity for identifying environmental challenges and priorities and their implications for development, formulating policy responses and implementing strategies. There are many dimensions to this challenge – the lack of capacity to monitor and collect information on environmental degradation, for environmental risk assessment, to make the economic case for greening development, for cross-sectoral co-ordination, and for environmental fiscal reform.

Putting the environment on everyone's agenda calls for innovative approaches to engage all stakeholders who shape policy development and investment decisions. This guidance provides development support providers and developing countries with a practical approach to capacity development for greening development. It goes beyond the traditional focus on environment ministries and their role in environmental protection. It includes finance, planning and sector ministries as well as non-governmental actors such as civil society and the private sector. It also considers the capacities needed by development support providers themselves to be able to provide assistance to countries wishing to green their development path. The approach is cyclical – capacity development is a long process and regular reviews are necessary to monitor progress and feed back into the process. Developing country contexts vary tremendously, calling for flexibility in how the approach is applied.

The cross-cutting nature of the environment demands innovative approaches that shape policy development and investment decisions and make stakeholders aware of the important contribution of sustainable natural resources to development. Achieving this requires a broad range of skills and knowledge among individuals and organisations and an enabling environment that supports this process (*e.g.* international regimes, national policies, rule of law, accountability and transparency).

Within this framework, more specific interventions for greening development include:

- *Use multi-year development planning processes*. Multi-year development planning processes are common in many developing countries. These are an attractive vehicle for systematically incorporating green growth and green development into the national and sectoral planning and budgetary allocations. The capacity needed

for fulfilling this potential is mainly about effective governance, institutional mechanisms to provide environmental input into the national development planning process, and the skills for framing environmental issues in the language of the policy maker and other stakeholders.

- *Develop key actors' technical skills*. Environment ministries must have the skills to compete for national resources in the shift from project funding to funds which are pooled in sector or national budgets. Ministries will need to be able to argue the case for the environment in terms that budget planners can understand, *i.e.* presenting the costs and benefits of specific actions within technically sound budget submissions. This requires a good understanding of the different stages of the budget cycle.
- *Encourage the participation of non-government actors*. The active participation of those outside the government creates accountability, facilitates learning and enshrines citizens' rights of engagement in planning processes. This participation should go beyond simple consultation to real engagement – a process that requires a range of organisational and individual capacities.
- *Build functional and technical skills*. Focus on building, firstly, functional capacities, such as a good understanding of the basic elements of the national planning process, including who provides input and participates in deliberations, how and when; and secondly, technical capacities, such as for collecting robust analytical data to support the case for integrating the environment into national development plans.
- *Plan and target efforts carefully*. Plan for the long haul, but target early efforts to where the most difference can be made – seeking out and building relationships with "champions", and exploiting win-win opportunities.

Development support providers – bilateral and multilateral development co-operation agencies and environment agencies at national and international levels – can play an important role in helping build these capacities. Overall, the process should be guided by the principles of the aid effectiveness agenda to which most development support providers are committed. More effective development support can be achieved by ensuring greater ownership and leadership by developing countries and greater interest by development support providers in using and strengthening developing countries' own financial and planning systems. These processes are themselves a way of building capacity.

At the same time, development support providers also need to evaluate, build and strengthen their own capacities to provide effective support to developing countries heading along the green development path. The final chapter of this guidance offers some recommendations for how development support providers can deliver better capacity building for greening development:

- *View capacity development for the environment as underpinning all development support*. Capacity development for environmental management must be seen as a cross-cutting strategic issue. Capacity development therefore must never be an afterthought, but rather a focal point at all levels of design, implementation and valuation.
- *Collaborate across domestic agencies*. When possible, development co-operation agencies should work with their counterparts in the environment agency or ministry to exploit the comparative advantages of different agencies.
- *Harmonise approaches among development support providers*. Given the large number of development and environment agencies operating in developing countries,

a well-coordinated and harmonised development support approach is necessary in order to ensure effective programme delivery, facilitate exchange of information, and avoid duplicated efforts.

- *Nurture local ownership.* A successful capacity development programme needs to be aligned with the environmental priorities of the developing country in order to secure ownership, oversight and management of the support.
- *Focus on results*. Development support providers need to monitor and evaluate their activities. This will enable them to incorporate lessons learned into subsequent activities and identify new and emerging environmental issues that need to be addressed.
- *Implement best practice guidelines*. These guidelines could help development support providers to understand key principles and tools required in delivering effective support for capacity development for greening national systems.
- *Reflect and learn*. Development support providers need to assess their own capacity needs required in order to effectively provide support to developing countries on enhanced capacity for environmental governance.

Moving forward on this agenda, a concerted effort is required from support providers and developing countries to enhance capacity for greening development. This is a long-term commitment, but one that can build on the lessons that have already been learned on capacity development and the insights from the wider aid effectiveness agenda.

Introduction

Environmental resources and services are vital contributors to economic growth and people's well-being. This is particularly the case in developing countries, where natural resources sectors (agriculture, mining, forestry, fisheries and nature-based tourism) often are the engines of economic growth. It is estimated that natural capital accounts for 26% of total wealth in low-income countries, compared to only 2% in industrialised countries (OECD, 2008a). The condition of soil, water, forests and fisheries therefore has a direct impact on commercial and subsistence activities, as well as on livelihoods. The natural resource base is also an important source of employment and income for the poor, and provides a valuable safety net, providing supplementary income and food in times of crisis.

Economic growth is essential for eliminating poverty, but historically economies have grown by making inefficient use of natural resources. This model of growth is no longer viable in a world facing the pressures of expanding populations, climate change and increasing risks of food shortages. Meeting these challenges, while also reducing poverty, requires a focus on the stock of natural resources as well as the flow of economic ones. Growth in the latter depends on the health of the former. This is the rationale behind the OECD's Green Growth Strategy (OECD, 2011), which provides a framework for integrating economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which well-being relies.

This guidance focuses on a crucial element of the greening development approach: enhancing capacity for better environmental management and governance in developing countries. The global nature of many environmental problems means that the collective efforts of all nations are needed to resolve them. Developing countries are particularly important in meeting this objective because these countries will increasingly be sources of economic and population growth, bringing new pressures on the environment, contributing to future climate change and biodiversity loss. When building capacity for environmental integration in developing countries, it is important to keep in mind that:

- Many developing countries are particularly vulnerable to natural events such as drought or flooding. It is also expected that they will be more affected by the impacts of climate change.
- A large proportion of the population in developing countries is engaged in informal economic sectors such as agriculture, forestry and fishery. Integrating them in green development strategies primarily structured around national planning processes can be a challenge.
- Most developing countries have an established practice of formulating multi-year national development plans that outline the country's economic, structural and social policies. Such governmental practice can be an attractive vehicle for systematically incorporating greening development perspectives into existing plans and an opportunity for transformation if commitment exists among senior officials to revisit drivers of development.

- Similarly, development support providers have a long record in assisting developing countries in formulating, and in some cases also implementing, their development strategies. This established repertoire makes them well placed for assisting developing countries in building their capacity for greening development.

Capacity: A pre-condition for greening development

Environmental management first came on the international agenda in 1972 when the United Nations convened the Conference on the Human Environment in Stockholm, Sweden. This event marked a turning point in increasing political and public awareness of global environmental issues and laid the foundation for environmental action at the international level. The publication of the 1987 Brundtland Report was another milestone. It called for careful integration of three elements in order to achieve sustainable development: economic competitiveness, social development and environmental protection. The impact of improved environmental quality and sustainable management of natural resources on poverty reduction was further established at the 1992 Rio Earth Summit on Sustainable Development.

Despite growing awareness of the intrinsic link between natural resource management and sustainable development, the natural resource base continues to deteriorate in many parts of the world. Over the years, developing countries, with assistance from development support providers, have made substantial efforts to build and improve their capacity to manage the natural resource base. However, the integration of environmental considerations into national planning, public financial management and core economic systems remains limited.

It is clear that a new approach to capacity development for environmental management and governance is required. This approach needs to consider the ability of stakeholders to monitor changes in the natural environment through green accounting; to implement regulations and create price signals to create behavioural incentives; and to reform environmental fiscal systems that encourage an optimal level of resource consumption.

This approach goes beyond the traditional focus on environment ministries and their role in environmental protection; it includes finance, planning and sector ministries as well as non-governmental actors such as civil society and the private sector. Environmental management and governance must be linked to the overall development agenda and in particular to emerging priorities such as climate change and biodiversity loss. Finally, this approach is intended to support developing countries to engage meaningfully in the negotiation and implementation of multilateral environmental agreements (MEAs), such as the United Nations Framework Convention on Climate Change (UNFCCC).

Successful capacity development for greening the national development planning process, the national budgetary process and key economic sector strategies still largely depends on extensive and sustained assistance from development support providers, whether it is through development co-operation agencies or through their counterpart national environmental ministries or agencies. Given the complex and systemic challenge of greening the development processes, capacity needs are comprehensive and diverse. Development support providers need to evaluate, build and strengthen their own capacities in providing such support to meet current and future environmental management challenges in developing countries.

In this context, the term “development support provider” includes both multilateral and bilateral development co-operation agencies and environment agencies at national and international levels. Some environment agencies in OECD countries have international

programmes that provide technical assistance to their counterparts in developing countries. A large share of that technical assistance has been aimed at achieving capacity development for environmental management and governance.

To achieve these goals, this guidance outlines an integrated and systematic approach to capacity development. It is located within the wider context of the aid effectiveness agenda. The 2005 Paris Declaration for Aid Effectiveness commits development support providers to strengthening developing countries' own systems, defined as "national arrangements and procedures for public financial management, accounting, auditing, procurement, environmental and social assessment, result frameworks and monitoring" (OECD, 2005). The Accra Agenda for Action further strengthens this commitment through the Global Partnership on Country Systems, which aims to accelerate the use of country systems by development support providers, to strengthen and reform country systems when needed, and when possible to involve a greater number of stakeholders (OECD, 2008b). On this basis, this guidance advocates using country systems when implementing capacity development initiatives.

What does this guidance aim to achieve?

The guidance focuses on three levels: that of the individual, the organisation and the enabling environment. It provides practical recommendations on how to develop capacity for greening development through integration of environmental concerns into policy frameworks and budgetary processes. Recognising the different country contexts, this guidance advocates an iterative approach to strengthening country systems for the management of natural resources and the environment.

It aims to:

- Promote an understanding of what is meant by environmental integration into national development planning, national budget processes and key economic sectors in meeting the objectives of greening development.
- Identify the capacities needed by developing countries to implement programmes and initiatives to carry out such environmental integration, and suggest a framework to build necessary capacities.
- Review the capacities required by development support providers to assist developing countries with capacity building for environmental integration.

Sustainable environmental management is a long-term process that requires the active involvement of all stakeholders from both the public and private sectors, from non-governmental organisations (NGOs) and associations. However, the focus of this guidance is on capacity development in the public sector only. Where relevant, experience from the private sector is also discussed. The guidance is not restricted to formal national planning processes such as Poverty Reduction Strategy Papers (PRSPs) or National Plans, but extends to public financial management (the budget process in particular) and key economic sectors.

Who is this guidance for?

This guidance is relevant to environment and development co-operation officials in both countries providing support and in developing countries. To developing countries, the guidance offers advice to staff at the ministry of environment, as well as officials from agencies and other ministries such as finance, planning and sector ministries. It outlines the challenges of capacity development for greening development, the country systems

targeted and the actors involved. It also provides a framework that suggests how developing countries can overcome the challenges identified.

In countries providing development support, the intended audience includes senior headquarters-based officials responsible for assisting developing countries in building capacities for greening development; technical officials responsible for designing and monitoring environmental support programmes; and country-based officials responsible for direct liaison with developing country officials. The guidance is also targeted at development and environment agencies concerned with their own internal capacity to effectively provide support to developing countries on capacity building for environmental management.

Structure of this guidance

The remainder of this guidance is divided into five chapters. Chapter 1 sets the scene for this guidance – new approaches in both development assistance and environment management which bring the role of capacity development to centre stage. It outlines the central concept of, and need for, capacity development for greening development at the *i)* individual, *ii)* organisational and *iii)* enabling environment levels. It presents a five-step framework for assessing and responding to capacity needs for greening development – a framework which guides the next three chapters.

Chapters 2, 3 and 4 apply the framework to guide developing countries, with assistance from development support providers, in enhancing their capacity for greening national planning processes (Chapter 2), national budgetary processes (Chapter 3**)** and key economic sectors (Chapter 4). Together, they provide an overview of the challenges, capacity needs and possible entry points for capacity development for greening development as proposed in Chapter 1. Chapter 5 then outlines a framework for enhancing the capacity of development support providers themselves – at the levels of the enabling environment, organisation and individual staff – to effectively assist developing countries.

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OECD (2011), *Towards Green Growth*, OECD, Paris.

Chapter 1

Greening development: a framework for enhancing capacity

This chapter explores new approaches in development co-operation and environmental management. It outlines what the aid effectiveness agenda to which most development support providers are committed means for capacity building and greening development. It proposes a five-step framework to assess and respond to the capacity needs for greening national development planning, national budgetary processes and key economic sectors at three levels: i) *individual,* ii) *organisational and* iii) *enabling environment.*

New approaches for both environment and development

There have been two important developments in recent years that make this guidance especially timely:

1. Foreign assistance to developing countries has shifted from a narrow approach whereby support providers pay for and implement their projects in developing countries, using their own staff, management and financial systems, to a broader approach in which development is guided by the needs and capacity of the developing countries themselves. Decades of development experience show that when development support providers bypass developing countries' own systems and set up parallel projects, programmes and institutions for managing them, the sustainability of their efforts are undermined, as is the developing country's ability to manage their own future (Box 1.1).
2. Environmental management has evolved from a primarily sectoral approach, such as for pollution control, to a more comprehensive approach to greening development. This new approach aims to integrate environmental considerations into core political, economic and social decision-making processes, to ensure sustainable management of the natural resource base while maintaining economic growth.

This new approach to environmental management and the application of country systems have led to an increasing demand from developing countries for enhanced capacities to build and strengthen their environmental governance. The implications of these two approaches for capacity development for greening national processes are discussed in this chapter in turn.

Capacity for a broader development approach

In the past, development support providers often set up parallel systems to implement their assistance programmes. However, these increase transaction costs for the developing country government, hamper alignment with country priorities, reduce ownership, and constrain efforts to strengthen national capacity (OECD, 2010).

The Paris Declaration on Aid Effectiveness has changed how development is viewed and implemented. As described in Box 1.1, effective development support calls for:

- greater ownership and leadership by developing countries;
- greater use by development support providers of country systems;
- greater attention to strengthening local capacity as a foundation for sustainable development.

The opportunities offered by the aid effectiveness agenda have created a great deal of interest in developing countries. Numerous collaborations and dialogue platforms have given developing countries the opportunity to share lessons learned on the application of country systems. This exchange of best practices offers important guiding principles for building capacity for greening development.

With the endorsement of the Paris Declaration and the Accra Agenda for Action, development support providers agreed to build stronger, more effective partnerships for development. By channelling development co-operation resources through developing countries' own systems, assistance providers can support their capacity development, enhance domestic accountability, and contribute to better national development planning and public financial management practices. In the long run, this contributes to the capacity development of all relevant actors rather than just the units or programmes receiving the assistance.

Box 1.1. **International commitments on the use of country systems**

The Paris Declaration on Aid Effectiveness outlines five fundamental principles for making aid more effective, born out of decades of experience of what works and does not work for development:

- **Ownership**: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- **Alignment**: Development support providers align behind these objectives and use local systems.
- **Harmonisation**: Development support providers co-ordinate, simplify procedures and share information to avoid duplication.
- **Results**: Developing countries and support providers shift focus to development results and results get measured.
- **Mutual accountability**: Support providers and developing countries are accountable for results.

These principles are all guided by the belief that developing countries must have more say over their development processes through wider participation in development policy formulation, stronger leadership on aid co-ordination and more use of their own country systems for delivery of financial support. Allocating financial support through developing countries' own institutions builds capacity to manage development resources and creates more sustainable development. For these reasons, the Paris Declaration and the Accra Agenda for Action commit developing countries to strengthening their country systems to the maximum extent possible; and commit development support providers to using these systems wherever possible.

Sources: OECD (2005), *Paris Declaration on Aid Effectiveness*, OECD, Paris; OECD (2008), Accra Agenda for Action, OECD, Paris.

Using country systems for assistance delivery has three main benefits:

- *Reduced transaction costs*. By using and strengthening existing country systems rather than creating new ones, the costs involved for developing countries in managing external support are expected to decrease, contributing to more sustainable development.
- *Increased domestic accountability*. The use of public financial management systems of developing countries can strengthen the domestic accountability process and promote transparency between the ministry of finance, line ministries, parliament, the national audit office, citizens and civil society groups.
- *More sustainable development*. The use of existing country systems for assistance delivery gives developing countries an overview of what development support providers are financing in their countries and how they are doing so. This also helps developing countries to align development assistance with their national priorities and policies, thus contributing to more sustainable development.

However, the use of country systems can be challenging, especially where developing countries have limited financial management mechanisms. It is therefore important to enhance the capacity of developing countries to construct and strengthen these systems.

Risks of using country systems

A country systems approach can give rise to problems if countries do not have adequate systems in place to manage their development assistance. The main risks can be categorised as: *i)* developmental risks, *ii)* financial (or fiduciary) risks, *iii)* non-financial risks, *iv)* procurement risks and *v)* reputational risks (Table 1.1; Cant *et al.*, 2008).

Table 1.1. **Possible risks of using country systems**

Risks		Risk that…
Developmental risks		Poverty reduction objectives are not achieved
Financial (or fiduciary) risks Funds are not properly accounted for Funds do not achieve value for money		Funds are not used for the intended purposes
		Funds are not properly accounted for
		Funds do not achieve value for money
Non-financial risks	Macroeconomic risks	Poverty reduction objectives and public financial management (PFM) standards are compromised by the macroeconomic framework
	Governance risks	Poverty reduction objectives (and PFM standards) are compromised by governance context
	Partnership (or dialogue) risks	The partnership is threatened by government action
Procurement risks		Proper and effective use of aid is compromised by procurement standards
Reputational risks		The reputation of development support providers is threatened by: *i)* governance issues *ii)* perceived misuse or poor use of funds

Source: Adapted from Cant *et al.* (2008), *Stocktake on donor approaches to managing risk when using country systems*, CIFPA, London and Moroko Ltd., Oxford.

There is also debate on the eligibility criteria and threshold for using country systems. Some support providers argue that the use of country systems is only likely to be beneficial if developing countries comply with certain international standards such as environmental safeguards or procurement standards. Others argue that developing countries not yet in compliance with international standards can still benefit from assistance being channelled through their country systems as long as they are moving in the right direction (Chiche, 2010). Continued support for capacity development can help address many of these challenges.

Capacity for a broader environmental approach

Past decades have seen sustained efforts by developing countries, with assistance from development support providers, to improve their capacity for environmental management. A limiting factor however, has been the emphasis on regulations (sticks) without appropriate provision of incentives (carrots) for country-owned and country-led capacity (Box 1.2). The stick approach, for example, is less likely to encourage innovation in eco-efficiency and green development. It can also cause higher staff turnover and does not encourage feelings of ownership, thus weakening the institutional set-up in developing countries. In addition, the emphasis on environmental protection rather than a broader focus on greening development is often an obstacle to gaining the required capacity and knowledge in developing countries.

Box 1.2. **The nature of environmental capacity in developing countries**

According to the World Bank's 2008 *Global Monitoring Report*, the capacity for environmental management in low-income countries has been relatively stable since the late 1990s. It finds that environmental management in most low-income countries has the following characteristics:

1. Regulations and policies cover a limited set of issues.
2. Limited environmental data exist but their use for priority setting is weak.
3. Environmental assessment systems exist but their quality is low.
4. Policy implementation is weak.
5. Public information is limited.
6. Consideration of environmental issues in sector ministries is minimal.

Source: World Bank (2008), *Global Monitoring Report: MDGs and the Environment – Agenda for Inclusive and Sustainable Development*, World Bank, Washington, DC.

The policy instruments available for environmental management can be categorised into seven groups: *i)* command and control instruments, *ii)* economic instruments, *iii)* liability or damage compensation instruments, *iv)* education or information, *v)* voluntary approaches, *vi)* management and planning and *vii)* assessment instruments (see Table 1.2). They should be used in parallel to achieve the objective of sharing responsibility for and regulating environmental damage.

Table 1.2. **Types of policy instruments**

Types of policy instruments	Examples
Command and control	Licences/permits; air quality standards; emission standards; process standards; product standards; prohibition bans
Economic instruments	Charges; taxes; tradable emission permits; tradable quotas; environmental subsidies; deposit refund systems; performance bonds; non-compliance fees; resource pricing
Liability, damage compensation	Strict liability rules; compensation funds; compulsory pollution insurance; extended producers responsibility
Education and information	Education campaigns for the general public; diffusion of technical information; public information on sanctions for non-compliance; eco-labelling
Voluntary approaches	Unilateral commitments; public voluntary programmes; negotiated agreements
Management and planning	Environmental management systems; zoning; land-use planning
Assessment instruments	Strategic environmental assessments; environmental impact assessments; peer review

Source: OECD (2001), *Sustainable Development: Critical Issues*, OECD, Paris.

In many countries, there are limited incentives for stakeholders to acquire the capacity needed to effectively integrate environmental considerations into all aspects of their work. This might be due to low salaries, non-transparent recruitment and promotion criteria or inadequate facilities and opportunities for support and training (OECD, 2006). Such constraints also result in high staff turnover within many ministries and agencies in developing countries, leading to the erosion of the institutional memory required to build and improve capacities for greening development.

Another limiting factor is the weak and fragile organisational capacity in many developing countries. The fragility of institutions in some countries and their state of "permanent crisis" implies that the role of individuals, especially political leaders and mid-level managers (who conserve the institutional memory), is crucial and will remain so for the foreseeable future.

In this context, capacity development is intended to help developing countries to: *i)* track environmental, resource, social and economic trends, both for priority setting and planning purposes; *ii)* improve regulations and create price signals to encourage the sustainable use of resources; *iii)* reform environmental fiscal systems to encourage resource consumption at the optimal level, raise revenues and free up resources for other priorities; *iv)* effectively implement agreements that often require specialised monitoring and reporting systems; and *v)* integrate the issues agreed upon into planning and decision-making processes at national, sectoral and local levels.

In addition to capacity, the push for environmental integration can come from three levels:

1. *Local drivers*: Successful initiatives for greening development primarily grow out of demands expressed by the local community. Because they have a stake in environmental quality, citizens may seek to influence environmental legislation through lobbying efforts co-ordinated by public interest groups. These groups also play an important role in disseminating information on environmental issues and on emerging trends in both the demand and the availability of ecological resources.
2. *National drivers*: Environmental goals are usually defined at the national level and embedded into a country's development plan. Legislation on, for example, pollution charges and resource efficiency standards, plays an important role in providing guidance to public and private sector stakeholders to minimise their production and consumption impacts on the natural resource base. The ministry of environment, or a related agency, usually takes the lead in overseeing the implementation of such legislation. It co-ordinates with other ministries on the allocation of resources and in monitoring progress on greening development. Other ministries or agencies responsible for areas that affect or will be affected by environment management can also play a leading role.
3. *International drivers*: New capacities are often needed to meet legal requirements established in MEAs (Box 1.3). For example, the UNFCCC requires specialised capacities to identify and monitor the main sources of greenhouse gas (GHG) emissions and to develop GHG inventories. Specialised capacities are also needed to assess climate change mitigation and adaptation options in the context of environmental management strategies.

Box 1.3. **Capacity needs to fulfil international environment commitments**

Under the Cancun Agreements adopted by the parties to the UNFCCC, the industrialised countries pledged to raise USD 30 billion by 2012 and USD 100 billion per year by 2020 for climate change adaptation and mitigation initiatives in developing countries (UNFCCC, 2011). Despite the opportunities such financing brings, the pressure to rapidly disburse the money calls for additional capacities (skills and knowledge) by development support providers, as well as developing countries to effectively manage the funds. While countries providing this support need the capacity to better align their programmes and activities to the priorities identified by developing countries, developing countries must be able to access the diverse multilateral and bilateral funds and to manage those funds effectively.

Across the spectrum of financial and technical support to developing countries related to climate change, a good deal of effort has been directed at capacity development, both at the general level as well as that focused on specific issues or processes. For instance, the recent commitments to climate change adaptation and mitigation under the UNFCCC have resulted in an urgent and substantial need to support developing countries in building their capacities to participate in and benefit from climate change negotiations, financial mechanisms and technical assistance. However, the huge array of development support initiatives can be daunting to developing countries because of their variety. A few examples of these initiatives include:

- United Nations Institute for Training and Research (UNITAR): *Capacity Development for Adaptation to Climate Change & GHG Mitigation in Non-Annex I Countries*;
- United Nations (UN): *One UN Training Service Platform on Climate Change (UN CC: Learn)*;
- UN: *Capacity Development for the Clean Development Mechanism (CD4CDM)*;
- United Nations Development Programme (UNDP): *Capacity Development for Policy Makers to Address Climate Change*;
- UNDP, OECD in partnership with regional partners: *Climate Change Finance and Development Effectiveness*;
- Global Environment Facility (GEF) together with UNDP and United Nations Environment Programme (UNEP): *National Communications Support Programme*;
- The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ): *Tackling Climate Change – Contributions of Capacity Development*;
- UK Department for International Development (DFID): *Climate and Development Knowledge Network (CDKN).*

A framework for capacity development

Having outlined the background against which capacity needs to be built, this section presents a framework for capacity building that guides the remaining chapters in this guidance. First, definitions for "capacity" and "capacity development" are provided, then a five-step framework for building the capacity needed to green development is outlined.

What is capacity, and how is it developed?

Capacity is defined as "the ability of people, organisations and society as a whole to manage their affairs successfully" (OECD, 2006). Capacity is indispensible for country ownership and leadership of its policies and programmes. It is central to sustainable national development – for creating a regulatory climate conducive to economic and social development and for delivering basic public services. This is widely recognised by development support providers and developing countries alike, and is reflected in the 2005 Paris Declaration on Aid Effectiveness (Box 1.4).

Box 1.4. **How does the Paris Declaration define capacity?**

The capacity to plan, manage, implement and account for results of policies and programmes is critical for development – from analysis and dialogue through implementation, monitoring and evaluation. Capacity development is the responsibility of developing countries, but with aid providers playing a supporting role. Under the Paris Declaration:

- **Developing countries are committed to** integrating specific capacity-strengthening objectives within national development strategies and pursuing their implementation through country-led capacity development strategies where needed.
- **Development support providers commit to** aligning their analytical and financial support with developing countries' capacity development objectives and strategies.

Source: OECD (2005), *Paris Declaration on Aid Effectiveness*, OECD, Paris.

Within the development community, capacity development is generally considered to be a three-level process that goes beyond technical co-operation and awareness-raising at the individual level (OECD, 2006):

- *Individual capacity* focuses on the competencies of the individual, such as the knowledge, skills and ability to set and achieve objectives. Building individual capacity focuses on "soft" competencies such as building relationships, trust and legitimacy as well as "hard" competencies such as technical, logistical and managerial skills.
- *Organisational capacity* refers to organisational structures, functions and systems that enable the capacities of individuals to come together to effectively fulfil the mandate of the organisation and to achieve set objectives. Organisational capacity is crucial in ensuring continuity and the preservation of institutional memory, given the high level of staff turnover within many agencies and ministries.
- *The enabling environment* refers to the policy, legal, regulatory, economic and social support systems in which individuals and organisations operate. The enabling environment is determined by international regimes, national policies, rule of law, accountability, transparency and information flows.

Capacity development at the organisational and individual level can be achieved by using a variety of management techniques, analytical and regulatory tools, incentives and organisational structures. For example, it may involve helping people or organisations gain access to knowledge, brokering multi-stakeholder agreements, participating in policy dialogue and creating space for "learning-by-doing". Capacity development efforts are most effective when multiple strategies are employed together, for example by targeting the three levels of the enabling environment, the organisation and the individual. A few examples are outlined in Table 1.3.

A five-step framework for building capacity for greening development

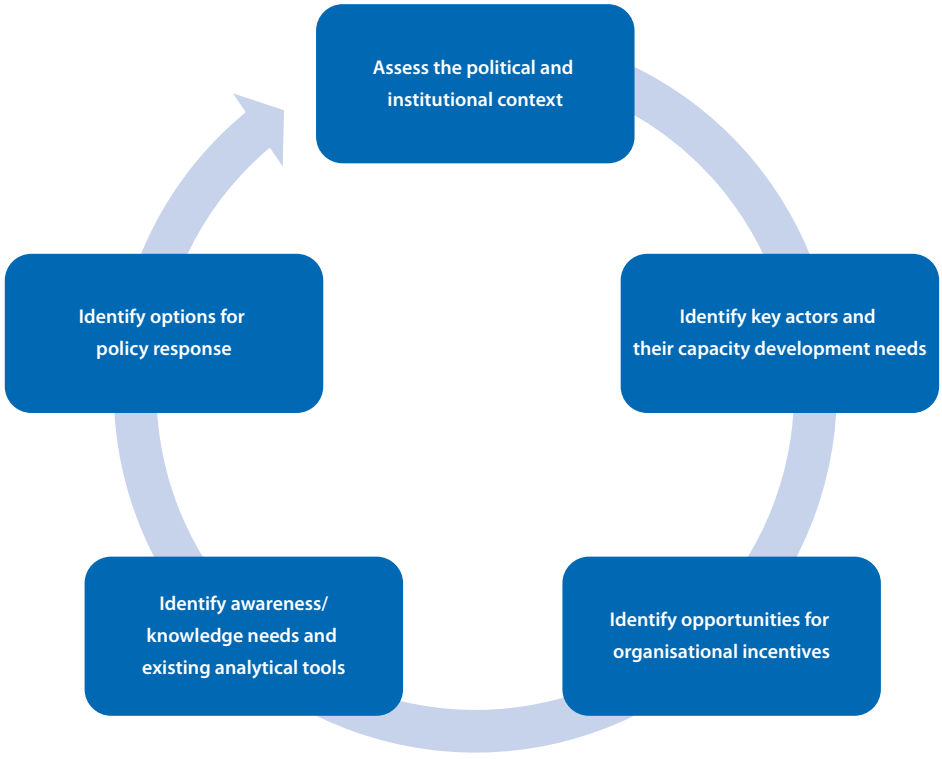
This guidance outlines a five-step framework for initiating capacity development activities (Figure 1.1). The process is iterative – successful capacity development is a long-term proposition and regular reviews are necessary to monitor progress and adjust course if necessary. Developing country contexts vary tremendously, calling for flexibility in how the approach is applied.

Table 1.3. **Capacity development at three levels**

	Enabling environment	Organisational level	Individual level
Overall capacity objective	• Develop regulatory frameworks for environmental governance, rule of law and property rights • Improve inter-institutional co-ordination	• Develop organisational performance and environmental management capabilities	• Improve understanding of environment-development linkages • Develop technical skills (*e.g.* economic and environmental assessment) • Support long-term commitment
Examples of specific interventions	• Support legislative, policy and regulatory reforms • Develop guidelines on environmental management • Monitor and review environmental management systems	• Develop internal guidelines on environmental management • Conduct institutional monitoring and evaluation	• Create awareness and provide basic skills development • Provide training on environmental management tools and valuation techniques
Cross-cutting intervention	• Raise awareness about the benefits of good practice • Create platforms for debate and policy dialogue between key stakeholders (*i.e.* professional networks or conferences to review and discuss states of practice) • Improve co-ordination procedures on *e.g.* the inclusion of environmental sustainability in government policies • Support pilot projects that test proposed capacity building initiatives • Award schemes that identify and appreciate best practice		

Source: Adapted from OECD (2006), *The Challenge of Capacity Development: Working Towards Good Practice*, DAC Guidelines Reference Series, OECD, Paris.

Figure 1.1. **Framework for capacity development for greening development**



Step 1: Assess the political and institutional context

The first step is to conduct an analysis of the political and institutional context: the country's legal framework, government structures and institutions. This information can be obtained by reading publicly available information and by interacting with relevant government officials and other knowledgeable stakeholders in both the public and private sectors. This step also involves familiarity with country level environmental analysis, which outlines environment and natural resource problems and opportunities. This is frequently conducted by various development support agencies. Information on political and social systems and incentive structures can also be obtained through local or national political-economy studies, variously referred to as institutional analysis, power analysis and drivers-of-change analysis (OECD, 2006).

Step 2: Identify key actors and their capacity development needs

Key actors in greening development must be identified, including government officials, private sector representatives and members of civil society organisations (CSOs). This requires a good understanding of the strengths and weaknesses of potential stakeholders. But it is important to go beyond the institutional level and also consider the political and, in some cases, the economic dimensions that influence the commitment and performance of stakeholders in greening development. Once relevant stakeholders have been identified, their respective roles in greening sectoral or national level planning and budgetary processes are mapped out with their corresponding capacity needs. In some cases, it can be helpful to establish special working groups to identify the needs and opportunities for capacity development.

Step 3: Identify opportunities to shape organisational incentives

Next, it is important to identify possible entry points for building capacity for greening development, set priorities and outline the appropriate timescale, targets and resources needed to tackle the identified capacity needs. It is essential to identify and work with "champions" who are committed to reform. Once relevant actors and priorities have been identified, organisational incentives must be addressed. These may need to be reformed to bring about effective capacity building for greening development. Also included in this step is the role of environment agencies in the overall development planning process and their capacities to work with finance and planning ministries.

Step 4: Identify awareness/knowledge needs and existing analytical tools

The actors involved may need to be made aware of the important role the environment plays in achieving economic development. Familiarity with relevant knowledge products already in place is also important. Once they are aware of existing knowledge products (know-how, good practices and intellectual property), the actors need the capacity to effectively apply these tools. This must however, be supplemented by the the capacities of the organisations to adopt and use these tools.

Step 5: Identify options for policy response

The final step addresses the capacity needs of environment and planning officials to translate the available information on the links between environment and development into specific policy responses for greening development. This may range from revised priorities and implementation strategies to specific environmental management measures

and investments. At this point, the major challenge is for environmental actors to learn to use the language of decision makers to secure support for their initiatives.

These five steps broadly outline the core issues that need to be considered when initiating capacity development activities. However, they are not necessarily sequential. Depending on the context, only one or two of the steps might be applicable, while in other cases, all five steps should be considered, but possibly in a different order. It is important to build such initiatives around a realistic timescale linked to the policy-making or planning cycle. Monitoring and evaluation are also important. Capacity development is usually a long process and regular reviews are necessary to monitor progress. This need is in part dictated by the fact that capacity may abruptly dissipate in parts of the system due to staff turnover. Monitoring and evaluation also serve as a basis for learning from experience, improving capacity development outcomes, planning and allocating resources to meet priorities and demonstrating results.

The entry points for capacity development

The use of country systems as entry points for greening development requires environmental considerations to be included in core decision-making processes. Innovative approaches are needed to engage all stakeholders who shape policy development and investment decisions. For example, it is important to ensure that officials at the ministry of finance or economic planning are aware of the environmental implications when setting economic priorities. Initiatives to develop capacity therefore need to be tailored to the various actors involved. They should extend beyond the organisational setting of environment agencies to include ministries of planning and finance and sector ministries. The entry points for greening development can therefore be differentiated between the *national* and the *sectoral* level. Table 1.4 summarises some of the activities usually undertaken by the public sector.

At the *national level*, legislative bodies play an important role in determining the design of environmental institutions. These bodies establish the legal requirements and adopt supplementary policy documents that define environmental goals, the authority in charge and the allocation of funds (OECD, 2009a). Within the executive branch, environment ministries and agencies are usually the primary actors responsible for environment and natural resource management. With the growing emphasis on greening development, environment ministries and agencies increasingly need to collaborate with other government bodies. The nature of such collaboration depends on the national context. In most countries, however, additional actors include the ministry of planning and development (to greening national development plans); the ministry of finance (to allocate resources for green initiatives in national budgets); the ministry of education (to integrate the environment into educational material); and the ministry of security (to address environmental and natural resource security risks). Other crucial partners are bodies within the central government that are responsible for cross-governmental co-ordination, such as the office of the president or the prime minister.

At the *sectoral level*, many line ministries, particularly those managing natural resources, have established environment units. In response, several countries have created inter-ministerial working groups, committees or task forces to examine the interface between the economy and the environment. Informal networks of government officials have also been established to support the exchange of information and co-operation on issues of shared concern (OECD, 2009a). In some cases this is carried out with assistance from development support providers. Despite the importance of greening sectoral strategies, possible conflicts of interest may arise when environmental oversight and resource management are combined within the same agency. In such cases, checks and balances should be incorporated into decision-making processes to resolve possible conflicts (OECD, 2009a).

Table 1.4. **Core environmental functions of the public sector**

I. Policy and law formulation, and provision of finance	• Formulate environmental policies • Design regulatory frameworks • Create the evidence base for decision-making and monitoring implementation • Conduct economic analysis • Analyse and address the social effects of environmental policies • Apply strategic financial planning • Manage public environmental expenditure • Integrate MEA obligations in national and sectoral level planning and programmes
II. Environmental policy integration	• Apply strategic environmental assessment (SEA) • Green territorial development policies • Integrate environmental and security policies • Promote environmentally sound product policies • Co-ordinate between sectors and across governmental units • Ensure preparedness and response to disasters and accidents
III. Policy implementation	• Establish environmental standards • Conduct environmental assessments at the project level • Set company-specific requirements • Correct market failures through economic instruments • Create markets to achieve environmental goals • Promote behavioural change through information regulation • Facilitate corporate initiatives to improve environmental performance • Manage assets and enable the provision of environmental services
IV. Compliance assurance	• Conduct the identification and profiling of the regulated community • Facilitate compliance with applicable environmental impact assessment (EIA) regulations • Detect non-compliance • Ensure a response to non-compliance
V. Activity support	• Define organisational structures and providing leadership • Ensure intra-agency activity and budget planning • Organise effective interaction, both internally and externally • Manage human resources and performance

Source: Adapted from OECD (2009a), "Assessing Environmental Management Capacity: Towards a Common Reference Framework", *OECD Working Papers*, No. 8, OECD, Paris.

Depending on the circumstances, entry points for capacity development should be differentiated. The national level provides the overall policy framework within which national development plans and budgets are prepared and sectoral strategies are developed. From the perspective of development support providers, the national level is also their principal interface with developing countries. However, it is important to note that the national level can be politically volatile and decisions made at this level may not always be based on a sound assessment of the situation, but rather serve individual or party interests. In some cases, sub-national, regional or international perspectives should also be considered when identifying the capacity development needs of developing countries.

The next three chapters of this guidance focus on three levels where capacity building for greening development is particularly important: national development planning processes, national budgetary processes and key economic sectors.

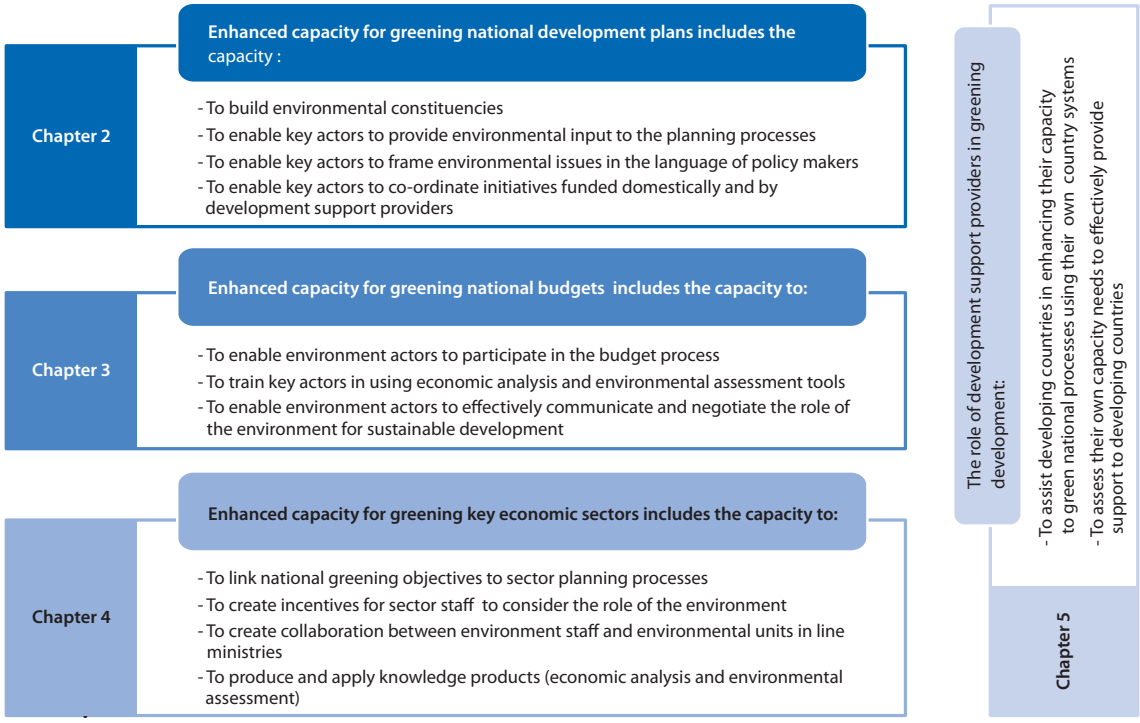
- *National development planning*: Most governments regularly develop broad (multi-sectoral) development plans that outline long-term objectives and priorities based on national and global trends, pressures and opportunities. They also provide a guiding policy framework within which lower level (sectoral and local) governmental bodies operate. National development planning processes usually result in a document that describes the plan or strategy. Common terms for such documents include national economic development plans, five- or ten-year development plans, national

sustainable development strategies and PRSPs. In this guidance, the term "national development plan" (NDP) will be used to refer to all of these documents.

- *National budgetary planning*: Successful development depends in part on the efficiency, integrity and effectiveness with which public authorities raise, manage and expend public resources (OECD, 2009b). The budget is an important instrument for translating national policies into actions and for ensuring domestic accountability, as its implementation is subject to scrutiny by the legislature and external audits (Third International Roundtable – Managing for Development Results, 2007). Budget processes include both a revenue side (bringing in financial resources via tax policy and administration) and an expenditure side (allocating financial resources to expenditure programmes, executing expenditure programmes and controlling expenditures).
- *Key economic sectors*: Government bureaucracies, ministerial portfolios and associated planning and budgeting frameworks are typically structured around sectors. National development objectives are often also defined in sectoral terms. It is in fact at the sector level that national plans and budget allocations are translated into specific policies, programmes and investments. It is also at the sector level that the political and economic interests of government bodies and private sector actors become concrete and certain trade-offs have to be made between different strategies. Line ministries have the formal responsibility of setting and implementing sector policies. Other government actors, the private sector, research institutions and NGOs often focus their activities on the implementation of sector-related activities.

The next three chapters apply the five-step framework to each of these entry points in turn. The final chapter then discusses the capacity needs of development support providers themselves if they are to provide the right kind of capacity support for greening development processes (Figure 1.2).

Figure 1.2. **Entry points for greening national processes examined in this guidance**



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Chapter 2

Greening national development planning processes

National development planning processes must consider the environment if sustainable development is to be ensured. But the capacity for greening these processes is often lacking in developing countries. This chapter outlines the legal and political context and the key actors involved in national planning processes. It then draws on the five-step framework to provide guidance on building the capacity for greening these planning processes. Case studies illustrate how capacity development has allowed environmental issues to be incorporated into national planning processes in a variety of developing countries.

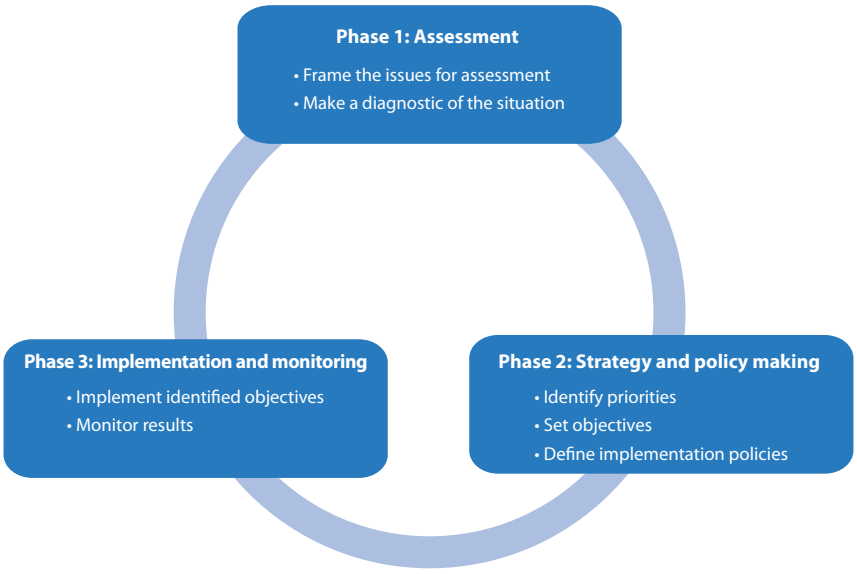
What is national development planning?

National development planning is an important driver of a country's environmental management system. It can set the objectives for government programmes at national, local and sectoral levels. It also directs national budgetary processes and corresponding support from development assistance providers. Planning processes may differ in their scope of the task, the leading agency, their analytical base and the degree of stakeholder participation. Some countries have a long tradition of development planning, with NDPs often having a strong operational character and clear budgets. In other cases, NDPs provide a general policy orientation, leaving investment programming to complementary action plans.

Although countries have various approaches to development planning and implementation, these approaches tend to share three basic phases, which occur in a continuous cycle, usually lasting five to ten years (Figure 2.1):

1. *Assessment*: identification of the issues to be assessed and diagnosis of the situation. The diagnosis builds on monitoring results of the previous planning cycle and newly available analysis and evidence. Occasionally, it also includes an assessment of investment needs. Often, the evidence available to develop the diagnostic is not comprehensive and does not cover all policy issues at the same level of detail.
2. *Strategy and policy making*: identification of the priorities to be addressed, setting the policy objectives and defining the policies to be implemented. These components build on the results of the assessment, but they are also influenced by other factors, such as political negotiations. This phase may also include identification of institutional reforms and investment programmes needed to achieve the intended objectives.
3. *Implementation and monitoring*: implementation of measures to achieve the objectives defined in the previous phase, and monitoring of results. Implementation requires the allocation of resources and the programming and execution of individual measures. The monitoring information will feed into the next planning cycle.

Figure 2.1. **National development planning cycle**



How can national development plans contribute to greening development?

An environmentally sound NDP commonly takes into account: *i)* environmental issues; *ii)* causal links; *iii)* responses; and *iv)* processes (Bojö and Reddy, 2003). Table 2.1 gives examples of these four dimensions. In reality, the process of integrating them all is very difficult and demands that the actors involved have the capacity to address each dimension. For instance, in order to understand the impacts of changes in ecosystem services on the indigenous population, it is necessary to conduct a detailed analysis of these people's livelihoods, the percentage of the population that depends on that particular ecosystem, and the population's preparedness to take on alternative occupations. All these factors need to be assessed when a government prioritises development objectives that benefit the affected population.

Successful greening of NDPs means that policies and strategies identified within the national planning process result in better (pro-poor) management of environmental assets. Successful integration also means that institutional processes under the NDP make it easier for the development community to consider environmental management. Importantly, it encourages active participation of environmental actors in the planning process.

This ambitious goal requires long-term commitment. Rather than focusing on a particular process or document, it is important to focus on developing a legal and political context that makes it easier to integrate environmental issues within the different phases of a national planning process. This includes sector plans and budgets established during successive national planning cycles.

Table 2.1. **Environmental dimensions of a national development plan**

Aspects	Dimension	Details
Environmental issues	Land use	Soil and sub-soil resources (*e.g.* mining, water logging and nutrient depletion) and above-ground resources (*e.g.* deforestation and forest/woodland degradation)
	Water	Quantity and quality of water supply for human consumption, irrigation and other uses; coastal zone and marine aspects; and droughts and floods
	Biodiversity	Degradation of ecosystems, threats to species or genetic resources and opportunities for sustainable use
Causal links	Natural resource degradation and poverty	What are the linkages between the quality of ecosystem services and livelihoods, employment and income (*e.g.* how do natural resources contribute to sustainable livelihoods)?
	Vulnerability	How do climate variability and natural disasters, such as droughts, floods, earthquakes and hurricanes, affect the poor and their livelihoods?
	Incentives	How do policies on pricing, subsidies, taxes, restrictive trade practices, and the exchange rate influence the use of natural resources and the emission of pollutants into the environment?
	Empowerment	To what degree do the poor participate in decision-making processes about a country's natural resources and environment?
Responses	Environmental policy/ fiscal instruments	Legislation, regulation and standards; and the use of economic instruments such as user fees, emission charges and green taxes
	Investment in natural capital	Programmes for natural resource management, such as restoration of soils, forests, woodlands, wetlands, coral reefs, fisheries and management of protected areas
	Investment in human-made capital	Programmes for sustainable infrastructure such as slum improvement, water supply, sanitation, energy efficiency, waste management, urban and rural infrastructure investments aimed at environmental improvements
	Monitoring natural resource outcomes	Targets and indicators for natural resource management such as rate of deforestation, per capita water availability, and dependence on traditional energy sources
Processes	Environmental integration	Approaches used to promote the inclusion of environmental constituencies and the environmental agenda

Source: Adapted from Bojö, J. and R.C. Reddy (2003), *Status and Evolution of Environmental Priorities in the Poverty Reduction Strategies – An Assessment of Fifty Poverty Reduction Strategy Papers*, World Bank, Washington, DC.

Building the capacity for greening national development plans: a five-step framework

Having explored what green NDPs ideally look like, this section explains how do developing countries achieve them? Taking the five-step framework introduced in Chapter 1, the following guiding questions should be explored when preparing a capacity development initiative for greening national planning processes:

- What is the *political and institutional context* that shapes the national planning process? Will it encourage linkages between environment and development outcomes or not?
- Who are the *key actors* that have a potential role to play and do they have the relevant capacity needs?
- How can capacity development be conceptualised as a *programme* consisting of a range of different elements and prioritised activities tailored to the particular process, entry points, targets, timescale and resources required?
- What *organisational* capacities should be prioritised to facilitate environmental integration?
- What are the mechanisms to *raise awareness* and improve access to high-quality *knowledge products* at both the organisational and individual levels?
- What kind of training and technical support can be provided for the use of specific *analytical tools*?
- How can citizens engage in the national planning process and *influence* the specific outcomes?

Table 2.2 summarises the principal actions discussed in this chapter, drawing on the five-step approach. The table also highlights the challenges for greening national planning processes. While the priorities, challenges and actions are grouped into five steps, these are not necessarily sequential actions with each depending on the completion of the previous step. Instead, the table outlines a number of possible options to be considered. However, some of the steps can be followed in a logical sequence. For example, after capacity development training has been completed (Step 4), it is useful to have follow-up measures to ensure that the lessons from the training are implemented in practice (Step 5). At the same time, the training exercises may highlight the need for certain actors to be involved (Step 2) and shed light on the fact that the actors involved often are not well-informed of the interests and perspectives of other stakeholders.

Step 1. The political and institutional context

When greening NDPs, it is crucial to first develop a clear overview of the planning processes, the steps involved and the opportunities for key actors to provide input and feedback. This should be complemented by a good understanding of national policy objectives and issues, and the scope for greening components of the national planning process. This process will always be context specific, based on a country's geographic location, political structure and economic development.

Support to capacity development for greening national development planning processes rarely starts with a clean slate. In most countries, there have already been various efforts to address the integration of environmental issues and the associated capacity development needs. However, in many cases these efforts may not have been sustained or programmatic. It is therefore useful to facilitate a self-assessment exercise that brings together different

Table 2.2. **Steps for building capacity for greening national development planning**

Strategic priorities	Challenges	Actions to deliver capacity development for greening national planning processes
Step 1: Assess the political and institutional context		
• Overall policy process • Specific NDP process • Public dialogue on key issues	• National planning process and institutional roles are often not widely understood by policy makers • National planning process may not be well linked to public dialogue on key issues • Policy actors are not always effectively involved in formal NDP process	• Assess national planning cycle and institutional set-up, *e.g.* PRSP • Link to national policy issues, *e.g.* water shortages, food production, rural poverty • Enlist senior policy makers with an understanding of environment-development linkages • Engage stakeholders in "self-assessment" exercise
Step 2: Identify the key actors and their capacity development needs		
• Government actors • Opinion formers • "Champions"	• Given the number of stakeholders that contribute to the planning process, it is difficult to define a set of capacity needs for individual actors.	• Reach out to key actors and identify their capacity development needs. Actors include: - Environment ministry/agency - Finance/planning ministry - Sector ministries - CSOs - Private sector - "Champions"
Step 3: Identify opportunities to shape organisational incentives		
• Incentives • Cross-agency work • Understand different perspectives	• Role of environment staff is usually limited to environment agency activities and not linked to development outcomes • Planning staff are not always motivated to look at the potential contribution of environmental issues to development objectives • Environment staff have limited experience with cross-agency work	• Enable participation of environment staff in national planning cycle, *e.g.* involvement in central working groups • Ensure incentives for planning staff to consider the importance of the environment for achieving development outcomes • Promote operational collaboration between planning and environment staff *e.g.* joint committee/team
Step 4: Identify awareness/knowledge needs and existing analytical tools		
• Provide support/training • Knowledge products • Country specific evidence • Make the economic case	• Environment staff are not always familiar with the national planning process • Environment staff are not used to framing and communicating the contribution of the environment to development • Country-specific evidence for making the economic case can be limited	• Make planning/environment staff aware of the links between environment, poverty reduction and sustainable livelihoods • Provide technical support/training on economic analysis of environmental assets and services to make the economic case for greening NDPs • Provide technical support/training for SEA-type analysis of national planning process • Collect country-specific data to strengthen the economic case for greening NDPs
Step 5: Address options for policy influence		
• Revise NDP priorities • Implement strategies • Measures and investments	• Formal analysis is not always tailored to the nature of the decision making process • Environment staff not experienced in influencing decision making and have limited negotiation skills • CSOs often have limited influence	• Provide support on integrating technical analysis into decision-making process • Train environment staff in using the language of policy makers • Engage CSOs with potential to influence policy debate

stakeholders to learn from previous efforts and current priorities for greening national planning processes and identifies complementary capacity needs.

Although important, it should be noted that explicit treatment of environmental issues in NDPs is a narrow indicator of greening development. An assessment of the actual level of environmental integration should take into account how NDPs are prepared and to what extent environmental issues are budgeted for and addressed with the growing emphasis on greening development (see Boj**ö** and Reddy, 2003; Boj**ö** *et al*., 2004; IIED, 2009).

Step 2. Key actors and their capacity development needs

Key actors

The preparation of a NDP typically includes a number of *ad hoc* working groups or commissions, led by a line ministry that reaches out to other ministries or agencies responsible for key economic sectors. These usually include agriculture, energy, health, public works and transport. Other actors, who are not formally part of the planning process (*e.g.* academic institutions, environmental NGOs and CSOs) are also essential stakeholders. CSOs that demand and practise improved environmental management are the engine of environmental change in many developing countries and often provide important input into these preparatory commissions and working groups. Private sector actors, usually under the umbrella of a business association, can also be invited to participate in sectoral and environmental working groups. However, government actors need to provide the incentives for the private sector to become an advocate of greening development. The information generated by the working groups is usually collated by the "core team" responsible for drafting the national planning document. This process provides opportunities for other government agencies and non-governmental actors to comment on the draft plan. Once the NDP is finalised, it is usually discussed in cabinet for approval.

While the ministry of environment or a related agency play an important role in ensuring that the development goals outlined in the NDP are environmentally sustainable, the ministries of finance and economic planning usually have the final say on policy priorities and budget allocation. It is therefore important to make key power holders within these ministries and related line ministries aware of the interface between economic growth and the environment.

Capacity needs

The challenge of effective environmental integration is to use good analysis to influence the institutional process. The aim is to convince decision makers and planners of the valuable economic contribution of good environmental management so as to improve national development planning outcomes. This requires the following capacities:

- Capacities to help build long-term environmental constituencies and include all affected stakeholders.
- Effective institutional mechanisms that systematically provide environmental input to the national development planning process.
- Capacities to frame environmental issues in the language of the policy maker and other stakeholders.
- Capacities to co-ordinate initiatives funded domestically and by development support providers.

Table 2.3 provides an example of the capacity needed by an environment agency if it is to actively participate in the planning process. However, the needs could equally apply to a planning agency and members of other working groups.

Table 2.3. **Capacity needs for greening national planning**

Goal	Enabling environment	Organisational level	Individual level
Relevant stakeholders understand the importance of environmental issues	Policy makers involved in national policy dialogues recognise links between environment and development	Incentives exist for environment staff and key stakeholders to communicate with other development policy actors	Environment staff and key stakeholders understand environment-development linkages
Formal involvement of environment agencies in national planning process	Roles agreed for environment agencies to engage in the national planning process *e.g.* environment working groups	Planning agencies agree on institutional mechanisms for including environment agencies and issues in planning	Environment and planning staff have appropriate mechanisms and technical knowledge
Analysis of environment and development links – making the economic case	The planning process brings in policy makers and experts from different backgrounds to analyse and rank strategies and budgets according to evidence	Incentives exist for planning and sector staff to take account of environment data in the planning process	Environment staff have economic analysis and presentation skills to make the environmental case to the planning agency
Formulation of environmental priorities, strategies, measures in national plan – influencing policy	The planning process allows for the formulation of environmental priorities, strategies and measures to achieve development outcomes	Environment agencies are able to participate effectively in relevant working groups and decide on priorities, policies and investments	Environment agencies have the analytical skills to identify and cost environmental measures and to implement planned objectives
Use of environment-development indicators and monitoring mechanisms	A well-functioning system is set up for monitoring the strategy or implementation plan	Environment, planning and sector agencies develop management systems to monitor implementation progress *e.g.* designing indicators	Environment and planning staff have good monitoring and evaluation skills and can identify targets and indicators

Step 3. Shaping organisational incentives

The main constraint to greening national development planning processes is often the exclusion or marginalisation of environment agencies and constituencies. For their part, environment agencies often do not pay enough attention to strategic issues, focusing more narrowly on environmental protection. Furthermore, deliberations on NDPs rarely discuss natural resource rights, ownership and control. Many planning processes fail to balance various sets of interests such as those of extractive industries, people who live on the land, traditional leaders, the government, and other such groups. These interests must be reconciled so that the mutual benefits of protected natural resources can be realised by all (Waldman, 2005).

For stakeholders to be able to carry out the functions identified above, capacities need to be developed at the individual, organisational and enabling environment levels. For example, if a particular government agency is to meaningfully take part in monitoring the implementation of NDPs, that role must be seen as legitimate by other stakeholders. The agency itself must have the resources (human, financial and informational) to carry out the function effectively. Individual staff members of the agency must also have the required knowledge and technical skills to play their part. Even if there is an environment working group within the national development planning process, other working groups may be better placed to take the lead in providing environment-related input. For integration to be effective, environmental issues must be examined at the same time as broader economic and social concerns.

Many developing countries have limited capacity to co-ordinate domestic programmes on the environment across governmental agencies, or to harmonise initiatives funded by development support providers. Such co-ordination capacity should be strengthened and placed within a central state agency that has the political clout and convening power to facilitate integration across agencies and sectors and to harmonise externally funded initiatives (Heinrich Böll Foundation, 2011). However, given the unequal power between providers of such support and developing countries, building co-ordination capacity is challenging (Box 2.1). Although experience in this area is still limited, initiatives by developing countries include developing guidance material; establishing inter-agency learning units; and adjusting practice such as engagement with local experts and integration of context-based learning.

Box 2.1. **Sri Lanka: Greening the Poverty Reduction Strategy Paper (PRSP)**

The integration of environmental issues into Sri Lanka's PRSP in 2003 was the result of more than 10 years of gradual capacity development that involved a set of reforms of the institutional structure. In 1990, an inter-ministerial committee led by the Ministry of Environment prepared the first National Environmental Action Plan of an Asian country. In 1991 a powerful inter-ministerial National Environmental Steering Committee (NESC), chaired by the Secretary to the Treasury, was established. With the change of government in 1994, the NESC ceased to function. Subsequently, ten sectoral Committees on Environmental Policy and Management (CEPOM) were established, chaired by the respective secretaries of the sector ministries (Energy, Transport, Health, Water, etc.). By the end of the process, the Ministry of Environment acted as a facilitator and succeeded in creating an enabling environment that encouraged the sector ministries to take leadership and ownership for integrating environmental issues into their development plans.

Source: Bojö, J., *et al.* (2004), "Environment in Poverty Reduction Strategies and Poverty Reduction Support Credits", *World Bank Environment Department Paper*, No. 102, World Bank, Washington, DC.

Step 4. Knowledge and analytical tools

Knowledge and analytical tools to demonstrate the linkages between environment, economic growth and national development objectives are essential for greening national planning processes. This includes enhanced communication and negotiation skills for key stakeholders and the ability to apply technical tools and conduct economic analysis. Technical input from environment ministries contributing to the national planning process should be provided in a form that can be easily processed by the stakeholders involved, such as policy makers, the media and local communities. At the same time, it is important that key stakeholders have the capacity to undertake technical analysis such as SEA for greening national development planning processes (Box 2.2).

The ability to "make the economic case" for the environment through cost and benefit analysis during national planning is also critical. This requires economic analysis that focuses on selected environmental issues and links them to broader development objectives. It also requires the participation of policy makers at an early stage and effective communication of the results (Drakenberg *et al.*, 2009).

Box 2.2. **Ghana: Using strategic environmental assessment to meet green development objectives**

In 2002, the Ghana National Development Planning Commission and the Environment Protection Agency undertook a SEA of the recently completed Ghana Poverty Reduction Strategy (GPRS). The aim was to improve the integration of environmental issues in the next revision of the GPRS. The SEA was carried out by the National Development Planning Commission and Environmental Protection Agency in collaboration with the Netherlands Embassy in Accra, with technical advice provided by the UK Department for International Development (DFID) and the Netherlands Commission for Environmental Assessment. All the key ministries were exposed to SEA processes and guided on how to incorporate environmental issues into policy formulation. The SEA process resulted in refinements to the development policy, alterations of district level plans, and revision of planning guidelines on how to include environmental considerations into planning at sector and district levels. As a result of the capacity development support that was provided, the 2006-09 GPRS was drafted with direct inputs from the SEA team.

Source: OECD (2006), *Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation*, DAC Guidelines and Reference Series, OECD, Paris.

Step 5. Options for policy influence

Measures to improve the integration of environmental issues and greening development concept into NDPs are mainly about improving governance. Relevant improvements include establishing mechanisms that *i)* consider a range of viewpoints during the policy formulation and implementation process; *ii)* bring about social accountability in the context of the environment, and *iii)* facilitate social learning (World Bank, 2005). One approach to increasing the participation of different stakeholders is to legalise citizens' rights to engage in national planning processes and couple that with a formalisation of the governments' responsibilities to address these concerns (Waldman, 2005).

Capacity needs at this level will depend on the role of individual actors in the policy formulation and implementation process. Environment actors participating in preparatory commissions and working groups will need the capacity to negotiate and make the case for greening NDPs, while finance and planning staff may need the capacity to interpret the results from SEA and other environmental analysis. When formulating NDPs, the actors involved must also have the capacity to identify emerging environmental issues and their potential impacts on development. One example is the capacity to integrate climate change consideration into planning processes (Box 2.3).

The dynamic nature of capacity needs

The identification and development of capacity needs is not a one-off exercise that is external to the national development planning process (Box 2.4). In the early phases, capacity priorities are likely to focus on the assessment stage by engaging with environmental actors and leading national development planning agencies. Together they can make the economic case for greening the national development process. As the process evolves, the emphasis shifts towards implementation and monitoring. This requires capacity development for other line ministries, local government actors and civil society representatives who must understand the role they are to play in ensuring that NDPs are successfully implemented.

Box 2.3. **Indonesia: Capacity development for integrating climate change into the NDP**

Indonesia is one of the world's largest emitters of GHGs and levels are expected to increase with economic growth. At the same time, Indonesia is likely to be adversely affected by climate change, especially reduced rainfall and longer dry seasons. This has increased the urgency of integrating climate change into development planning at both national and local levels. In 2008 the Government of Indonesia developed, in collaboration with a group of development support providers, a policy matrix that outlined concrete actions to be undertaken on climate change, complementary goals, targets and timelines. The consultation and involvement of the National Planning Agency and line ministries created ownership over proposed climate change actions and facilitated the alignment of these initiatives with national and sector development policies and programmes. A results-based framework was also developed and agreed upon by all stakeholders.

The Japanese International Cooperation Agency (JICA) is providing technical support to the Government of Indonesia for integrating climate change into national policy programmes. These measures include:

- capacity development for low carbon development strategies;
- capacity development for climate change vulnerability assessments;
- capacity development for the preparation of a GHG inventory;
- training on low carbon design.

The goal is that this programme will strengthen Indonesia's capacity to further integrate climate change considerations into their next five-year policy strategy.

Source: Communication with JICA, July 2011.

Box 2.4. **Identifying capacity needs: practitioners' voices**

In March 2010, participants at the 15th meeting of the Poverty Environment Partnership (PEP) discussed what capacities are needed for integrating environmental issues into national planning processes. Priorities for capacity development identified by the meeting participants can be grouped in three broad areas:

- **Analytical and technical skills** to be able to relate environment issues to emerging priorities (growth, poverty). This includes natural resource accounting, economic valuation, and articulation of poverty-environment linkages in an economic and distributional language.
- **Policy capacity** of government officials, parliamentarians and civil society. In particular, this includes goal formulation, priority setting, and understanding national policy development processes.
- **Governance capacity**. Two broad aspects were identified: *i)* effective environmental governance systems are needed to create the capacities and incentives for sector ministries to have ownership of environmental goals, and *ii)* society needs capacity to hold the government accountable.

Note: PEP is an informal network of development agencies which seeks to improve the co-ordination of work on poverty reduction and the environment. More information on the 15th PEP meeting is available at *www.povertyenvironment.net/pep15*.

Beyond the evolution of capacity needs as the national planning process comes to maturity, "structural" changes on national development processes are also taking place. The evolution of the development agenda, particularly the recommendations that have emerged from the Paris Declaration and the subsequent Accra Agenda for Action, are increasingly influencing national development processes. In the future, this is likely to also affect the capacity needs for greening development.

The role of development support providers

The role of development support providers in national planning processes has evolved from being the primary drivers of the process to assisting developing countries taking the lead. This reflects the commitments agreed upon in the Paris Declaration and Accra Agenda for Action to use country systems in the distribution of support (Box 1.1, Chapter 1). Development support providers can play a fundamental role in assisting developing countries to enhance the capacities needed to effectively green NDPs and in supporting the participation of environmental actors in the planning process.

Promoting the greening of NDPs requires effective prioritisation, realistic targets, and the adoption of a programmatic approach to capacity development that develops over several planning cycles. Throughout the process, domestic country systems are strengthened by a continuous improvement of the design and implementation of relevant public policies on environmental management. These policies can thus more effectively influence economic development and/or poverty reduction. When designing the NDP, emphasis is therefore often on sustaining the national planning process rather than on achieving a particular output. Given the limited resources often allocated to capacity development initiatives, it is important to ensure that these initiatives are carefully prioritised (Box 2.5).

As development support providers increasingly channel their assistance through budget support, they need to ensure that their commitments are in line with the principles of the aid effectiveness agenda. Specific action points that are necessary for greening development at the national level and for adopting better environmental governance include:

- *Expanding the focus from policies and plans to actual implementation*. Development support providers implementing programmes on greening NDPs should ensure that these efforts are not confined to policies and plans but progress to implementation and development of corresponding capacity needs. This implies building a "results orientation" at all levels of decision making.
- *Making effective use of mechanisms co-ordinating development support*. Development support providers should make effective use of existing co-ordination mechanisms at the country level to ensure that they adopt a coherent and co-ordinated approach to integrating environmental issues and the associated capacity development efforts. Where such co-ordination mechanisms are weak or non-existent, development support providers may wish to support the development of such a mechanism.
- *Demonstrating good practice*. Development support providers should set an example by integrating environmental issues into the execution of their own funding instruments. They should also collaborate on developing shared knowledge products on lessons learned and country-based experiences to promote a coherent approach to capacity development for greening development. Importantly, development support providers should apply a realistic, prioritised, and results-oriented approach that ensures a high level of country ownership.

Box 2.5. **Prioritising capacity development initiatives**

External actors must understand the local context in developing countries in order to establish realistic expectations and identify priority actions. Development support providers seeking to assist capacity development for environment initiatives therefore need to recognise that this involves more than just a transfer of skills. Capacity development is first and foremost about the collective institutional capabilities needed to achieve national goals and to contribute to changing social values. Country leadership to create the space for change is critical, but the context determines what is possible at any given time.

Setting specific priorities requires a joint understanding and dialogue around a set of fundamental questions: capacity for what, by whom, why and how? Several elements are important to consider when prioritising capacity development efforts:

- **Seek collaboration**. It is essential to have a shared understanding of objectives and priorities in addressing a particular challenge and readiness for change. Joint approaches allow development support providers to understand local perspectives better, while ensuring a degree of developing country ownership and leadership of the change process.
- **Be transparent and talk with key stakeholders**. Capacity development is a dynamic process and requires regular consultation and dialogue. Transparency requires the participation of key stakeholders (CSOs, parliament, press, and others) wherever possible. Those involved will need to regularly assess the need for political support and how to achieve it.
- **Start small, learn and adapt**. Countries often tend to set overly ambitious targets but under-estimate timeframes. Capacity development often responds well to more humble beginnings, associated with a more gradual learning and scaling-up process.
- **Target "pockets of energy" and opportunities for "win-wins"**. The most effective initial priorities for support are often those where readiness for change already exists and where win-win arrangements are possible for both developing countries and development support providers.

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Chapter 3

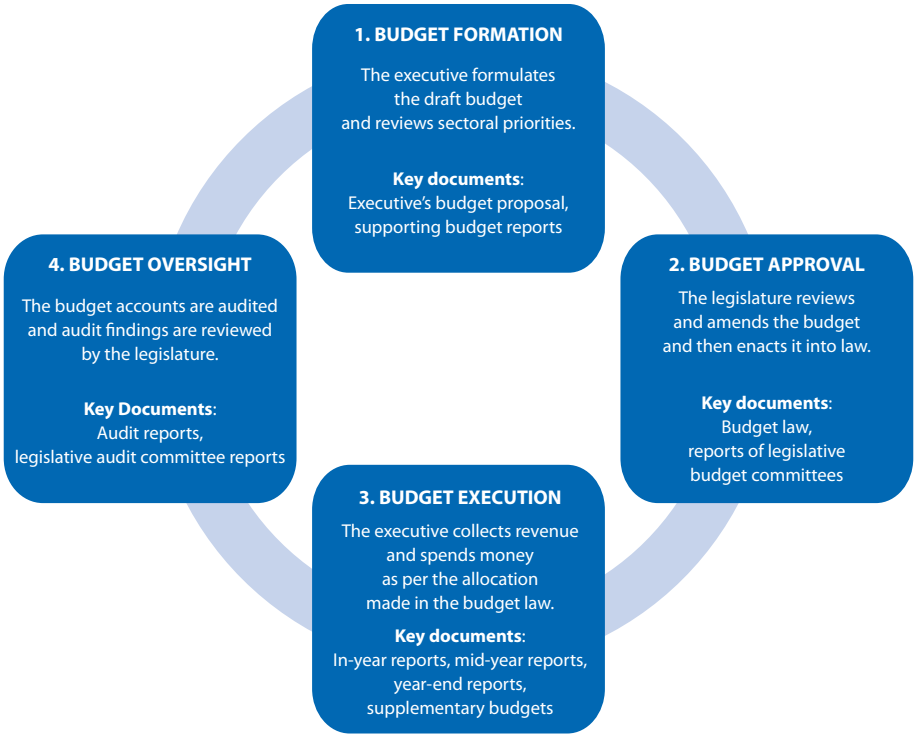
Greening national budget processes

This chapter outlines the linkages between the national budget process and a country's environmental performance and identifies capacity needs for greening national budgets. Among these are good fiscal knowledge, appropriate engagement of key actors, training and human resource development, targeting weaknesses and exploiting synergies and cross-sectoral links. Based on the framework introduced in Chapter 1, this chapter provides guidance on how to develop the required capacities, using case studies to illustrate how capacity development can be supported in various country contexts.

What is the national budget process?

The national budget process is essentially the way a country decides how to raise financial resources (the revenue side) and where to allocate those resources (the expenditure side). It is also referred to as a country's public financial management (PFM) system, and is generally understood to include the entire budget cycle from strategic planning to oversight (Figure 3.1; OECD, 2009). Upstream components of the budget process include strategic planning, preparation of a medium-term expenditure framework, and annual budgeting. Downstream components include revenue management, procurement, accounting, reporting, monitoring and evaluation, audit and oversight.

Figure 3.1. **National budget cycle**



Source: Adapted from Ramkumar, V. (2008), *Our money, our responsibility: A citizen's guide to monitoring government expenditures*, IBP, Washington, DC.

The budget formulation stage includes a review of sectoral priorities. Sector ministries are required to review their performance in order to inform the budget proposal for the next period. The review involves the collection and analysis of data on the development and recurrent expenditures for each ministry. It also includes budget hearings where sector expenditure plans are proposed and scrutinised by the ministry of finance (Buhl-Nielsen and Bird, 2010). Ideally, considerations of costs and benefits are also part of the review process.

Budget allocations should reflect policy priorities. In reality, however, planning and budget processes are often disconnected. Planning processes focus on achieving sector targets over multiple years while budgets are generally annual. Furthermore, since most budgets are structured along departmental lines rather than programmatic lines, it is

difficult to establish direct linkages between policy objectives and the level of funding needed to deliver services that support those objectives (Third International Round Table – Managing for Development Results, 2007).

Under the Paris Declaration (Box 1.1), developing countries are committed to strengthening their PFM systems, while developments support providers are committed to using those systems as much as they can. Developing countries, with strong support from development support providers, have introduced a number of technical instruments for improving the integration of planning and budget processes. These include *i)* the enforcement of pro-poor spending priorities; *ii)* the introduction of medium-term expenditure frameworks (MTEFs), and *iii)* results-oriented programme budgeting (Wilhelm and Krause, 2008). These reforms are at different stages in different countries, reflecting the importance of specific contexts and capacities at the country level.

How can national budget processes contribute to greening development?

Fiscal policies can have important environmental implications. On the revenue side, environmental levies such as taxes and charges can encourage economic activities to become environmentally sustainable and can raise revenues to fund further sustainable development actions. On the expenditure side, budget allocations to sector ministries and agencies can be used to improve the environmental management of sectoral programmes. Budget allocations to environment agencies can also help ensure that core environmental management functions, such as environmental monitoring or enforcement of environmental regulations, are carried out (Table 3.1).

Table 3.1. **Environmental implications of fiscal policies**

Fiscal policy	Policy instruments	Potential environmental impacts
Environmental levies	Traditional taxes	• All taxes (on goods, services, incomes and assets) influence people's decisions about the goods they produce, how they spend their income and what assets they hold
	Environmental fiscal reform (*e.g.* environment-related taxes, charges for environmental services and royalties for natural resources)	• Environment-related taxes can encourage lower levels of pollution and sustainable resource use by changing relative prices • Service charges can ensure the provision of environmental services by contributing to their financial sustainability
Expenditure policy	Direct provision of services and infrastructure	• Investment in natural resource management and ecosystem services can contribute to meeting sector development outcomes • Environmental infrastructure and service delivery (*e.g.* waste management services) should have net positive development impacts
	Financial transfers to economic agents (subsidies)	• Input subsidies can encourage over-use of natural resources and excessive pollution • Product subsidies can encourage over production of goods that damage the environment • Subsidies can encourage the production/use of products or technologies that are environmentally desirable but may not be competitive in the market in the infancy stage (however certain subsidies are environmental harmful and may cause over exploitation of natural resources)
	Expenditure on environmental management functions	• Research, development and diffusion of environmentally sound products and technologies • Implementation of environmental protection/restoration programmes • Provision of incentives to improve environmental performance • Promotion of behavioural change through information, education and awareness raising

Environmental taxes and charges: can they work in developing countries?

The revenue side of the budget offers important opportunities for improving the environmental performance of developing countries, as well as reducing poverty. One approach is through environmental fiscal reform. Environmental fiscal reform includes a range of taxation and pricing measures that can further environmental goals while raising fiscal revenues. It complements and strengthens regulatory measures and other approaches to fiscal and environmental management. Such fiscal reform can help address environmental problems that particularly affect the poor, such as water contamination and air pollution. It can also help indirectly by strengthening sector activities that contribute to better livelihoods and well-being, such as sustainable agriculture (OECD, 2005).

Environment-related taxes and charges are not widely used by developing countries. This is also broadly true in OECD countries, despite some examples of significant environmental fiscal reforms. Moreover, their environmental effectiveness and economic efficiency are often undermined by weaknesses in implementation. Common issues include the existence of multiple tax exemptions, a weak link between actual tax rates and estimated external costs and benefits (externalities), overlaps and inconsistencies with other environmental policy instruments, and complexity (variety of tax rates and special provisions). Furthermore, high taxes on the formal sectors, combined with weak control systems and poor quality of public service delivery, can result in both legal and illegal forms of tax avoidance. Finally, the high proportion of informal sectors in developing countries creates an additional challenge to the application of such environmental taxes.

Despite these challenges, there is growing interest in developing countries in the use of environmental levies (see Box 3.1). This is largely driven by the prospect of raising revenues and keeping them within the sector agency. Given the low budgetary allocations that the environment and natural resource sector tend to receive in the national budget process, internally generated funds are seen by the sector agencies as a way to ensure organisational survival. However, the earmarking of revenues generated by levies for environmental programmes goes against the principles of sound public finance and can generate strong opposition from the ministry of finance. There are also important environmental management and governance risks associated with the use of internally generated revenues in environment agencies. Potential risks include (Lawson and Bird, 2008):

- *Core functions can be left underfunded*. For example, in Ghana, the self-financing model for the environment agencies has become effectively institutionalised with their designation as "sub-vented agencies". This may be a workable model for game parks but not for core environmental management functions such as environmental monitoring or environmental enforcement.
- *Conflicts of interest can arise***.** For example, in Mozambique, "Simple Licences" give Mozambican nationals the right to cut a specific amount of wood within a defined area for a yearly fee without having to provide a full resource inventory and implementation plan. This approach to forest management has encouraged unsustainably high forest exploitation rates because it allows for higher income flows to the forestry department.
- *Major revenue amounts can go missing*. For example, it has been estimated that in Tanzania, 97% of forest revenue is "lost", amounting to USD 40 million annually. This is mainly due to the nature of the large and informal economic sector that make it particularly challenging to collect environmental taxes and charges.

Box 3.1. **India: Building green accounting capacity for using forest levies**

The Indian state of Himachal Pradesh has paved the way in sustainable resource management by developing its capacity to carry out a full economic valuation of its forests and the many environmental services they provide. This valuation has allowed the state to apply levies on activities that damage forest ecosystems and offer financial incentives to rural communities to preserve them. The study of the economic value of the state's forests revealed that they can potentially contribute a staggering USD 26.7 billion a year to the country's GDP. Most of this –USD 18.5 billion – is in the form of watershed benefits such as flood control, soil conservation and the regulation of water supply. Yet the state receives just USD 10 million a year in revenue from its forests and from the sale of timber and other forest products. In order to ensure that the true value of the forests in Himachal Pradesh is properly recognised, the state now applies a levy on anyone using forests in a way that diminishes the services they provide. This is meant to compensate for the loss of their economic and ecological value. The levy also offers incentives to communities to preserve their forests. This capacity development in using a "green accounting" methodology has been taken up by several other states in India and by the National Forestry Commission.

Source: www.lead.org.

Environmental funds have been set up in many countries with the purpose of managing revenues raised by environmental levies and contributions from development support providers to environmental programmes. They have several advantages as a way to deliver an alternative to project funding supported by assistance providers. They are well suited to mobilise national resources and support local capacity building. They can also provide a mechanism for pooling resources from a variety of sources, as well as a framework and mechanism for financing small-scale projects without direct involvement of development support providers (Lovei, 1995).

Expenditure policy: how can the environment be brought into the picture?

Public environmental expenditures are expenditures by public institutions on activities for preventing and reducing pollution and environmental degradation resulting from human activity (Swanson and Lundethors, 2003). These expenditures are therefore not confined to expenditures by environmental authorities and agencies. In fact, other sector budgets offer many opportunities for environmental integration in support of key development goals.

In most developing countries, there is no single "sector budget" for public spending on the environment and natural resources. The environment and natural resources sector consists of a collection of sub-sectors that make use of natural resources for productive uses (such as fisheries, forestry or mining) or deliver environmental services (such as waste management or wastewater treatment). The sector therefore includes a cross-cutting dimension that aims to achieve an appropriate level of investment to manage and enhance environmental assets or services related to productive sectors such as agriculture, energy or health. This cross-cutting component involves functions that are often marginalised in government processes.

In traditional budgeting processes, there is little room for ministries of planning or finance to improve the integration of environmental expenditures into sector budgets since resource limits often are based on historical expenditures. Greening public expenditures in sector ministries such as agriculture or energy requires a strategic policy dialogue and a set

of capacities at the sector level. Co-ordination between the budgeting and planning process is required to provide enough resources to enable sectoral policy objectives to contribute to national environmental outcomes.

MTEFs provide opportunities to green national budgets by linking policy, planning and budget processes. The MTEF combines top-down and bottom-up approaches to public financial management and creates the institutional basis that supports its implementation. However, to be effective, the MTEF approach requires significant and appropriate capacity in data collection and management skills, the knowledge and ability to set priorities, and acceptance of the ministry of finance in a co-ordinating role with other sector ministries. A review of the experience of nine African countries has shown that many MTEFs were not part of the annual budget process due to limited political engagement and the fact that budget behaviour is difficult to change (Le Houerou and Taliercio, 2002).

National budget reforms can change the relationship between finance and environment agencies. As planning and budgeting become an integrated process for allocating resources, budget preparation should change from negotiating numbers to identifying and prioritising options for achieving targets. In this process, environment agencies will need to demonstrate that environmental programmes are worth pursuing and that these programmes can effectively contribute to national development goals. Depending on the level of capacities within the ministry of finance, modernising the budget process can refocus the role of the ministry away from top-down control, to support to line ministries focused on assisting them in meeting their sectoral targets through more effective resource allocation. Such reform provides more flexibility in the management of the budget funds. This however, requires that budget officers have the capacity to develop good results-based management in environment agencies. Improved co-ordination on budgeting for environmental objectives across sectors is also needed in order to ensure consistency between national sustainability objectives and sector allocations.

Building the capacity for greening national budget processes: a five-step framework

Capacity development is a long-term proposition. As such, it is important to recognise that capacities must be developed over several budget cycles. Particular capacities should be developed for each step of the budget process. Given that the budget cycle is usually one year, while the planning cycle can cover five or ten years, a long-term programme for capacity development over several budget cycles is crucial.

Reforming the budget process is likely to be harder than that of the planning process – the stakes for entrenched actors are higher because national budget processes are the mechanisms through which national resources are appropriated and distributed. Capacity development for greening the national budget process must therefore be strategic, based on a sound understanding of the political economy of the budget process, the role and interests of the actors targeted, and the types of efforts that can be deployed. A capacity development framework for the budget process must be based on:

- good fiscal knowledge;
- engagement by a full spectrum of actors;
- training and human resource development;
- targeting key weaknesses;
- working with existing synergies;
- improving cross-sector linkages.

Table 3.2 outlines the challenges and priority actions specific to the budget process following the five-step approach.

Table 3.2. **Steps for building capacity for greening national budget processes**

Strategic priorities	Challenges	Actions to deliver capacity development for environmental issues
Step 1: Assess the political and institutional context		
• Budget process • Alignment with NDP process • Awareness of budget officials	• Budget cycle not widely understood by environment actors • Budget cycle is often not well linked to development planning processes and priorities • It may be hard to identify senior budget officials with a knowledge of environment – development issues	• Assess budget cycle process and institutional set-up • Identify potential link to relevant policy dialogue and key issues *e.g.* forest revenues • Enlist senior officials with experience of environment-development links engaged in budget process
Step 2: Identify the key actors and their capacity development needs		
• Finance/budget actors • Environment actors • CSOs/research bodies	• Given the diversity of stakeholders that contribute to the national budget processes, it is difficult to define capacity development needs for individual actors.	• Reach out to key actors and identify their capacity development needs. Actors include: - Environment agencies - finance/planning ministry - sector ministries - CSOs - "champions"
Step 3: Identify opportunities to shape organisational incentives		
• Incentives • Cross-agency working • Familiarity with the process	• Often environment actors are formally involved in budget process – many environment activities are "project-funded" • Budget staff may not have incentives to consider the role of the environment to sector budgets • Environment and budget staff often do not work together	• Enable formal participation of environment agency in budget cycle *e.g.* involvement in key working groups • Create incentives for budget staff to assess costs and benefits of environmental expenditure • Create working relationship between budget and environment staff
Step 4: Identify awareness/knowledge needs and existing analytical tools		
• Provide support/training • Knowledge products	• Environment staff often do not understand the budget process and fiscal policies • Budget staff are usually not aware of how environment contributes to sector outcomes	• Train environment staff on budget process and fiscal system • Raise awareness of budget staff on the economic and financial value of environmental expenditures • Provide knowledge products *e.g.* case studies and experience sharing
Step 5: Address options for policy influence		
• Revised budget allocations • Prioritised fiscal measures • Financial management	• Specific analysis are not always well suited to the needs of decision-making process in the budget cycle • Environment staff are not experienced at "making the case" • There is a need to encourage influence by CSOs	• Provide support on using results of technical analysis to fit decision-making process • Develop skills in communication and negotiation for environment staff • Engage CSOs with potential to influence the budget process

Step 1. The political and institutional context

This step involves understanding the political and institutional context that governs the budget process and the issues that determine the choice of priorities. In some countries, environmental issues have been successfully integrated into national development plans, such as poverty reduction strategies. But, to a large extent, the importance attributed to the environment in development plans has not been reflected in financial resource allocation

and implementation at the sector level. The annual allocation to environmental protection is often between 1% and 2.5% of public spending (Lawson and Bird, 2008). Such limited operational budgets prevent environment agencies from effectively carrying out their basic environmental management functions such as environmental monitoring or enforcement of environmental regulations. In addition, they have little capacity to engage with sector agencies and integrate environment issues into sector strategies.

Typically, to ensure their survival and development, environment agencies have found it easier to focus their attention on attracting project funding from development support providers or to finance their activities from taxes and fees than to compete with other sectors for national budget funding (Lawson and Bird, 2008). Over the years, external funding has become a major source of finance for most environment agencies. The problem with this approach is that such funding is primarily intended for investment activities. Environment agencies seeking project funding therefore have to reorient their activities in order to meet the investment criteria. As a result, they have little experience in participating in the national budget process and often do not have the basic skills to develop credible budget submissions (Lawson and Bird, 2008).

The need is growing for environment agencies to engage in the national budget process to secure the necessary financial resources for the sector and to ensure that environmental sustainability objectives in national and sector plans are met. Development support providers are increasingly delivering assistance via general budget support and sector budget support instruments (Box 3.2). As a result, environment agencies will need the capacity to raise recurrent financing for public environmental functions from the national budget rather than from project financing from development support providers. Technically sound budget submissions by the agencies, possibly supported by budget guidelines produced by the ministry of finance, would help to secure public resources. Ultimately, however, in order to justify adequate budget allocation, such budget submissions need to show that investments in environmental integration deliver benefits larger than their costs.

Box 3.2. **Ghana: Capacity development for better use of sectoral budgets**

Ghana's natural resource sector is known for its successful integration of environmental considerations into the activities in the sector. The Natural Resources and Environment Governance Programme was developed by the Government of Ghana and a group of development support providers. Financial support was given to the sectoral budget, but the use of the fund was at the discretion of the Government of Ghana conditional on its activities contributing to the progress targets agreed upon. This relatively discrete support to the management of the sectoral budget was enabled by a range of capacity development activities developed for the Government of Ghana, including technical expertise in EIA, SEA and climate change adaptation. One result is that now all policies, plans and programmes instituted by the Natural Resources and Environment Governance Programme must undergo SEA.

Source: OECD (2011), *Strategic Environmental Assessment in Development Practice: A review of Recent Experience*, OECD, Paris.

Step 2. Key actors and their capacity development needs

Key actors

The national budget process is more government-centred than the planning process discussed in Chapter 2, involving mainly (but not exclusively) state actors. The executive branch and parliament tend to be more involved in the formulation of the budget than in national development planning. In contrast, CSOs and the public often have less opportunity for meaningful engagement in the budget preparation than in planning, although this differs across countries (Wilhelm and Krause, 2008). The main actors in the national budget process and their roles include (OECD, 2001):

- *Ministry of finance*: responsible for the custody and management of all public finance. If there is a separate ministry of economy or planning, it is usually responsible for identifying programmes to meet the environmental policy priorities.
- *Line ministries*: responsible for planning, managing and controlling their own budgets. They are accountable for defining and implementing government policies and sectoral budgets. They also have the technical capacities and information needed to make effective trade-offs among on-going programmes and appraise new policies and programmes.
- *Local authorities*: participate in the budget process as budget sector groups to develop more concrete programme proposals. Because of the capacity challenges encountered by budgetary staff, local authorities may play a more important role in the future as co-ordinators of budget proposals across sectors at the local level.
- *The legislature*: participates in the governance of the budget by approving budget allocations, overseeing budget execution, and controlling budget performance. Often, accountability suffers as a consequence of parliamentarians not having enough financial literacy to follow the budget agenda.
- *Supreme audit institutions*: audit government accounts to ensure that the government has implemented the budgets passed by the legislature.
- *Independent research institutes*: can play an important role by questioning whether parliaments have set the right priorities.

It is important to consider the capacity needs of non-environmental actors involved in the budget process or in developing fiscal policies. They need to understand the implications of their actions on the environment. For example, decisions made by the ministry of finance about a wide range of non-environmental taxes or subsidies may well encourage unsustainable use of natural resources. Similarly, environmental policies will have wider impacts on the economy, for example on employment. Environmental actors also need to understand the potential impact of efforts to increase environmental budgets or environmentally targeted taxes on the economy.

Capacity needs

The goal should be to focus resources for capacity development on the areas where they will have the greatest impact. Clearly, the right conditions in the enabling environment must be in place to ensure sufficient political commitment to the integration of environmental issues into the budget process. Only then is it possible to assess what specific capacities are needed at the organisational and individual level and what can be achieved given the

current capacity and technical/political priorities. This can range from the capacity of non-environment actors (*e.g.* the ministry of finance) to understand the importance of environmental issues, the capacity to formulate and justify environmental programmes to the capacity to execute environmental expenditure programmes effectively, the capacity to keep relevant sector actors accountable, and the capacity to co-ordinate providers of development support that finance environment-related activities.

Table 3.3 identifies the priorities for capacity development at the enabling environment, organisational and individual levels. It includes the capacity needs of environment ministries and ministries of finance. A key priority is to ensure that the environment agency has the capacity to present evidence on how the environment achieves specific development outcomes in a language that can be understood by budget officials. This involves strengthening capacities within both the environment agency and the ministry of finance, as well as among other participants involved in the budget process.

Table 3.3. **Capacity needs for greening national budgets**

Goal	Enabling environment level	Organisational level	Individual level
Relevant stakeholders understand the importance of environmental issues	Environment stakeholders have access to the institutional process for preparing the national budget	Incentives and institutional mechanisms for the ministry of finance to assess the financial and economic value of environmental policies and programmes are in place	Staff in ministry of finance have awareness of economic valuation of environmental policies and programmes
Formal involvement of environment agencies in the national budget process	Agreement by ministry of finance on the role of environment agency in budget process	Finance and environment officials have joint understanding of how environment stakeholders will participate in the budget process	Environment staff have good understanding of how budget process works and how they can engage effectively
Analysis of the environment and development links – making the economic case	The budget process involves allocation of financial resources between spending ministries consistent with the national plan and its identified priorities	Ministry of finance staff have incentives to include environmental priorities and measures from the national plan in the budget formulation	Environment staff have skills in environmental expenditure reviews, economic valuation, programme costing and making the case for environmental expenditure to budget officials
Formulation of budget level environmental management measures and environmental fiscal reform	The budget process formally includes specific environmental management measures, use of environmental fiscal instruments, and reform of subsidies	Environment agency has an opportunity to participate effectively in developing budget proposals. The ministry of finance adopts guidance to ensure environmental integration	Environment staff have the analytical and presentational skills to communicate the benefits of budgeted environmental measures, economic instruments and subsidy reform
Use of environment-development indicators and monitoring mechanisms	A well functioning national audit system promotes good management of expenditures in all government agencies	Environment and relevant sector agencies have management systems in place to disburse funds efficiently according to policy priorities	Staff in environment agencies have good project screening, management and monitoring/ evaluation skills

It is clear that one must consider what capacities are required to address both the process and the technical aspects of greening national budgets. Sometimes the national budget process is characterised as a purely mechanical process where technical inputs automatically contribute to the outcome of the budget process in terms of budget allocations or other changes in fiscal policy. In practice, however, the outcomes depend upon the skills of the various actors engaged in the process. Strengthening the environment agency's ability to engage in this process should help to secure improved outcomes. When identifying capacity needs it is also important to keep in mind that different capacities are needed at the various stages (formulation, approval, execution and oversight) of the national budget process.

Step 3. Shaping organisational incentives

When undertaking initiatives to enhance capacity for greening the national budget process, important questions to ask include:

- How can capacity development for greening the budget process be designed as a specific programme consisting of a range of different elements and prioritised activities tailored to the particular process, entry points, timescale and resources required?
- What opportunities exist for addressing organisational capacity needs that will enable the environment agency to have a meaningful role in the budget process?

It is important that the main actors understand the importance of cross-sector co-ordination, and are aware of how these linkages can be identified and improved. Enhanced environmental sustainability in one sector can have a positive impact on other sectors. Often however, these linkages (such as the impact of soil erosion on electricity generation and hydro storage reservoirs) are insufficiently reflected in budget allocations. For example, to help overcome poor accountability due to the fragmentation of the environment and natural resources sector (multiple agencies, spending patterns and funding streams), shared reporting methodologies can be developed. Finance ministry staff can be engaged as resource persons for capacity development efforts targeted at environment agency staff. They can help to foster collaboration among the policy and administrative communities that have been largely ignoring one another (Box 3.3).

Box 3.3. **Uganda: Better tools for greening the national budget process**

For several years, the Ugandan government has been developing its capacity to green national and local planning processes. Uganda's National Environment Management Authority has recently focused on improving its organisational and individual capacity to green the budget process in co-operation with the Ministry of Finance. To that end, it has prepared a users' manual: *Mainstreaming Environmental Issues into Budget Framework Papers.* This guidance follows the standard format of the budget framework papers that are used for submitting budget submissions. It is recognised that additional capacities are needed to target managers responsible for budget processes at national and local government levels. This includes ensuring that managers participate in the entire budgeting cycle. In moving forward, progress in four areas could prove critical: *i)* developing a common understanding among Ministry of Finance and environment and natural resource agencies on what "greening the budget" means, *ii)* developing simple tools and checklists to track progress, *iii)* developing lobbying tools and skills among key environment sector officials to link environmental priorities to political priorities, and *iv)* making use of the annual environment budget performance monitoring and expenditure review to identify areas of improvement.

Source: www.unpei.org.

Step 4. Knowledge and analytical tools

Good fiscal knowledge is essential for greening the budget process. This includes understanding the country's fiscal system (federal systems require a different approach than centralised systems), the decision points for the introduction and reform of taxes or allocation of expenditures, and the different demands on fiscal policy (such as achieving fiscal stability or helping to achieve food security). Such knowledge is particularly important in countries where tax collection and management are decentralised, and where the risk of corruption due to limited transparency is high.

Public environmental expenditure reviews (PEERs) are a useful process for assessing the adequacy and efficiency of environmental expenditures and pinpointing areas for improvement. Such reviews have also increased the dialogue on environmental budgets between ministries and generally raised awareness. PEERs generally address the following activities (Swanson and Lundethors, 2003):

- *Allocation of expenditures to environmental programmes*: cost of environmental policy priorities and comparison with the spending envelope made available; identification of the possible scope for increasing the spending envelope (due to an increase in internally generated resources, but without advocating earmarking); identification of possible policy inconsistencies in budget allocation by using international comparisons, analysing sub-national allocations, and examining trends over time.
- *Management of expenditures in environmental programmes*: rationale for programmes; integration of capital and recurrent expenditures; analysis of amount budgeted compared to amount spent; analysis of the effectiveness of environmental programmes; analysis of the efficiency and quality of environmental programmes (*e.g.* cost-effectiveness).

Essentially, PEERs offer a way of systematically assessing the equity, efficiency and effectiveness of public environmental spending. The data and insights they yield can be valuable for designing policy reforms and developing government budgets and investment projects. They examine whether government expenditures are effectively matched to environmental priorities and identify inconsistencies. If done well, PEERs frequently highlight the mismatch between (new) environmental policy and plans, and (historically) low levels of spending in those areas of government that are now linked to environmental priorities. In many cases, PEERs have helped to redistribute spending towards those institutions responsible for environmental priorities, towards long-term rather than short-term goals, and in some cases have helped to increase environmental budgets (Box 3.4).

Box 3.4. **Recommendations from the PEERs on greening budgets**

Madagascar: highlighted a financing gap for the protected area system and the fact that it was 50% dependent on development support. Furthermore, it showed that the protected area system could become a net source of government revenue through ecotourism fees.

Ukraine: recommended rationalising numerous separate environmental funds, thus reducing overall administrative costs.

Tanzania: demonstrated the value of environmental investment for livelihoods, and recommended increasing the environment authority's budget fivefold.

Colombia: compared current expenditures to the results of a stakeholder survey of upcoming priorities, thereby providing the justification for a major World Bank Sustainable Development Policy Loan.

Mozambique: demonstrated that environmental expenditures were only 0.9% of GDP and identified weak links between environmental policy and actual budgets, highlighting the lack of prioritisation in environmental policy.

Source: Markandya *et al.* (2006), "Geeting the Most for the Money – How Public Environmental Expenditure Reviews Can Help", *World Bank Environment Strategy Note*, No. 16, World Bank, Washington, DC.

In 2006, the OECD Council issued Recommendations on Good Practices for Public Environmental Expenditure Management, which included checklists to support environment agencies in complying with good practices for public environmental expenditure management. The recommendations advise OECD member countries to ensure that public environmental expenditure programmes are environmentally effective, economically efficient and managed in accordance with sound principles on public expenditure management. It further recommends that, in establishing and managing public environmental expenditure programmes, member countries should take the following steps:

- Define priority environmental objectives using evaluation methods such as risk assessment, cost benefit analysis, cost effectiveness analysis, and participatory political processes.
- Demonstrate that public expenditures are necessary to achieve these objectives.
- Define the sources of funds, the size of the budget, and the terms and conditions of the expenditure programme.
- Authorise the appropriate institutions to manage the expenditure programme.
- Continue, modify or terminate the expenditure programme in light of periodic reviews of the programme's performance to assess whether its objectives have been achieved and its continuation is necessary.

The Recommendations also include three checklists on the performance of public environmental expenditure in terms of *i)* environmental effectiveness, *ii)* sound budgetary practice, and *iii)* management efficiency. The checklists identify key principles and good practice. These are valuable tools that can be used by developing countries when greening their national budget process.

Step 5. Options for policy influence

Finance and line ministries often operate as rivals – finance ministries fight to lower and enforce spending ceilings and line ministries try to "build empires". This is less the case between finance and environment agencies, given the low burden of environment agencies' spending on the national budget. As long as the major revenue sources such as taxes on fossil fuels have remained under the control of the finance ministry, no major adversarial relationship has developed. This has resulted in an erosion of the environment agency's capacity to effectively participate in the budget formulation process.

The increasing importance of climate change financing has accentuated the need for greater collaboration between finance and environment ministries and agencies. With this increased interaction, existing capacity gaps have also become apparent – this applies to both finance and environment staff. Such gaps include the capacity to quantify financial needs required to address the impact of climate change (Box 3.5) and the capacity to channel these new sources of finance through existing public financial mechanisms. However, given the potential size of climate finance there is an incentive for all parties involved to enhance their capacity to effectively access and use them.

Box 3.5. **Costa Rica: Capacity development for financial analysis of climate investments**

UNDP has provided support to Costa Rica as part of a global programme on capacity development to address financial needs for climate change investments in key sectors. The programme aims to raise the awareness and technical skills needed by the government bodies involved – including finance and line ministries – to assess the investment needs for climate change adaptation in key sectors. The main focus has been on the water and biodiversity sectors. Specific capacity development activities include two inter-ministerial dialogues and a designated investment and financial flow workshop to identify adaptation priorities and actions and to develop costing methodologies for a better understanding of the specific financial requirements to carry out these activities. Lessons learned from the Costa Rica study are that *i)* measures must be carefully defined to be considered and included in a country's financial plan (they must include an accurate measure of costs and set priorities); *ii)* it is useful to distinguish investment costs from operation and maintenance costs (to adequately consider trade-offs between measures); and that *iii)* a cost assessment of various options is particularly challenging in sectors with greater uncertainty and less experience in public policy, such as biodiversity conservation.

Source: Adapted from *www.undpcc.org*.

The role of development support providers

In the new context of general budget support and heavy reliance on country systems, development support providers can focus on the following priorities when assisting developing countries in greening their national budget processes:

- *Agree on priorities and performance assessment.* Development support providers should agree with developing countries on how to integrate environmental issues into the budget process. They should be mindful of the traditional dependence of environment agencies in developing countries on off-budget support and ensure that these agencies are not marginalised in the shift to budget support. Development support providers should also help developing countries identify domestic and recurrent revenue sources that are aligned with the contribution of the environment to the economy.
- *Develop technical skills and sound environmental programmes.* Development support providers should focus technical assistance on the skills and tools needed by key actors in developing countries. For instance, skills for valuing the economic costs and benefits of environmental policies and preparing public environmental expenditure reviews for key economic sectors are crucial. Support can also be directed to the preparation of guidelines on how environmental programmes should be developed so that they align with the budgetary process and demonstrate their contribution to PRSPs.
- *Provide support through existing mechanisms*. Development support agencies should provide assistance through existing consultative mechanisms in developing countries rather than create parallel processes. While country experts should set the priorities, development support providers can play an active role by providing the resources needed. They can also help clarify the functions of the agencies involved in environmental management in order to reduce possible overlap of responsibilities.

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Chapter 4

Greening key economic sectors

This chapter examines how the planning process works within sectors – a key entry point for environmental integration. The linkages between key economic sectors and environmental outcomes are examined, as well as capacity needs related to sectoral planning. Recommendations on how to address identified capacity needs are based on the framework proposed in Chapter 1. Case studies illustrate how capacity development for the environment has been implemented in practice.

How can economic sectors contribute to greening development?

Government bureaucracies, ministerial portfolios and associated planning and budgeting frameworks are typically structured around economic sectors, such as agriculture and energy. Likewise, national development objectives are usually defined in sectoral terms. It is at the sector level that national plans and budget allocations are translated into policies, programmes and investments. It is also at the sector level that the political and economic interests of government bodies and private sector actors are revealed and trade-offs are made.

The Paris Declaration and the Accra Agenda for Action implicitly regard the sector as a key entry point for organising capacity development support and for implementing the aid effectiveness agenda. A sectoral approach to building capacity for greening development aligns closely with the way that most government and development organisations operate. Line ministries are responsible for setting and implementing sector policies. Other governmental actors, the private sector, research institutions and NGOs often focus their activities on the implementation of sector-related activities. This is especially the case for the private sector, regulated through sectoral compliance standards and regulations. However, there is often limited scope for the private sector to participate in the national development planning and budgetary process, although private sector investments can be an important source of funds for developing capacity in sectors.

Economic sectors are commonly categorised into primary, secondary and tertiary sectors. This, however, should not obscure the complex linkages between the different sectors:

- *Primary* sectors are heavily dependent on "natural capital" such as agriculture, extractive industries, fishing and forestry. People in developing countries rely to a large extent on primary sectors for their employment and livelihoods. Over-exploitation and unsustainable extraction and use of these resources reduce their economic benefits and undermine the long-term viability of the sector.
- S*econdary* sectors involve transforming primary goods into finished products through manufacturing and processing. They are becoming increasingly important for economic growth in many developing and emerging economies because they have the potential to provide much of the value added in terms of jobs and incomes for countries rich in natural resources. As economies shift towards secondary industries such as manufacturing and processing of energy or extracted natural resources, they become dependent on the waste absorption capacity of the natural environment. This makes them susceptible to negative environmental costs such as air and water pollution.
- *Tertiary* sectors, also called service sectors, include the production of services such as information and knowledge products, transport, retail industries, tourism and social services. They tend to focus on services rather than on final products, but can still depend on the health of the natural environment. For example, industries such as tourism often depend on rich natural environments such as tropical forests or attractive coastal areas. This sector can therefore be significantly affected by environmental degradation and/or climate change that may result in coastal flooding and other natural disasters.

Governments use a variety of instruments to influence and shape the development and environmental outcomes of economic sectors. These include changing regulatory and enforcement measures, introducing or reducing fiscal measures, reforming markets or deregulating production, influencing consumer demand, and so on. In the current debate

on greening development, much of the focus is on how policies and measures can be used to green sectors such as energy, agriculture and water.

Although the focus of this chapter is on economic sectors, the general guidance on capacity development for greening economic sectors outlined in this chapter can be applied to all sectors, including infrastructure and social sectors such as education, health and social services.

Energy

In many developing countries, particularly in rural areas, the energy sector is characterised by poor access to modern energy sources. The use of traditional fuels has a significant impact on human health and the environment. Although wood arguably is a renewable energy source, over-harvesting reduces its availability for other purposes (Matheson and Giroux, 2010). Similarly, reliance on large-scale biomass can be problematic if prime agricultural land or forest land is converted to growing crops for conversion into fuel. Nevertheless, given that 80% of people in the world's least developed countries rely primarily on solid fuels such as coal and wood for cooking, there is great potential to increase their access to energy sources that are more environmentally sustainable. Among these sources are hydropower, biofuel, wind and solar energy. These alternative sources of energy offer an important growth sector in developing countries and provide options for lower greenhouse gas emissions.

Agriculture

Agriculture is a major engine of economic growth in most developing countries, accounting for around 30% of GDP in low-income countries, compared with less than 4% in high-income countries (OECD, 2008). In Africa, agriculture is the largest economic sector, generating over USD 100 billion annually and representing 15% of the continent's total GDP (Jayaram *et al*., 2010). Rising global food prices and improvements in possible crop yields offer the potential for economic growth for large portions of Africa. However, poor soil management practices, failure to adequately consider climate change, and inappropriate selections and use of crops, chemicals and fertilisers are eroding this growth potential in some areas. For example, it has been estimated that more than 16% of cropland in low-income countries has been moderately or severely degraded by soil erosion (OECD, 2008).

Fishing and forestry

Fishing is an important source of income for people living in many coastal areas and island states. It is estimated that around 95% of the world's 35 million fishermen live in developing countries (OECD, 2008). Similarly, the value of fish products exported from developing countries far exceeds any other export commodity and accounts for up to 30% of the fiscal revenue for some countries. However, the open access character of the fishing sector means that its sustainability is threatened by ineffective management. Against a background of increasing demand and declining stocks, improved policy design and implementation is needed to ensure that this sector continues to contribute to pro-poor growth. Similarly, the *forestry* industry contributes more than 10% to GDP and employs around 40-60 million people in developing countries (OECD, 2008). A major challenge to this sector is the reduction in global forest coverage by as much as 20% compared to forest coverage during pre-agricultural times. Similarly, weak enforcement of forest management regulations and widespread corruption reduce the potential of forests to contribute to poverty reduction in many countries (OECD, 2008; Box 4.1).

Box 4.1. **Capacity building for sustainable forest management in the Asia Pacific Region**

One of the obstacles to sustainable forest management in the Asia Pacific Region is the lack of capacity for effective forest management. With support from the Government of Australia, the Asia-Pacific Forestry Skills and Capacity Building Programme, comprising of 15 projects, has been underway since 2008. The programme provides field-based instruction to company and government agency staff on improved forest management practices. It also *i)* provides support for training on the development of forest policies and approaches to reduce the prevalence of illegal forest activities, *ii)* promotes the regional exchange of information, and *iii)* increases general debate and awareness on the implications of a post-2012 global agreement on climate change for forest-dependent people.

Source: Australian Government Department of Agriculture, Fisheries and Forestry (2010), *Making headway with sustainable forest management to help combat climate change: Asia-Pacific forestry skills and capacity building programme*, Australian Government Department of Agriculture, Fisheries and Forestry, Canberra.

Extractive industries

Oil and gas development has the potential to generate revenues for many countries in Asia and Africa. In Africa, 19 countries are large oil producers and it is estimated that by 2015, 13% of global oil production will come out of the continent (Roelofsen and Sheng, 2010). However, both on- and off-shore oil and gas production present significant climate change, environmental and social challenges. In extreme cases, these challenges can undermine the viability of investments in the sector and the benefits to the population. *Mining* also offers a high potential for economic growth for many developing countries, representing 20% of GDP in Guinea, 38% of GDP in Botswana and 40% of national exports in Tanzania (OECD, 2008). The African continent has the majority of the world's known resources of platinum, chromium, and diamonds as well as large shares of the world's bauxite, cobalt, gold, phosphate and uranium (Bardouille *et al.*, 2010). But like oil and gas extraction, mining has major environmental impacts on the host community. There is a need to integrate environmental considerations into strategies, regulations and investments to ensure overall sustainable economic and social benefits from these activities (Box 4.2).

Box 4.2. **Zambia: Capacity development for environmental units in sectoral institutions**

Institutional reforms and capacity development at the organisational level aimed at integrating environmental management into sectors have been at the centre of environmental policy debates in Zambia. In 1994, the National Environmental Action Plan recommended the establishment of environmental units within line ministries and sector institutions, with specialist skills suited to their different sector responsibilities. Environmental units have since been established in three high-priority sectors of the country's economy – mines, roads and electricity.

For example, the Mines Safety Department (MSD) was given a new mandate to put greater focus on environmental management in the mining sector. To facilitate this transition, the government has implemented a number of capacity development programmes aimed at enhancing co-ordination between MSD and the Environmental Council. It is also aimed at strengthening the capacity of the MSD in reviewing environmental impact assessment, negotiating environmental management plans, issuing licences and monitoring compliance with environmental standards.

Source: Aongola, L., *et al.* (2009), *Creating and Protecting Zambia's Wealth: Experience and next steps in environmental mainstreaming*, IIED, London.

Infrastructure

Infrastructure is a growth sector in much of the developing world but significant environmental issues are also associated with it, such as railway construction and large power generation programmes. Between 1998 and 2007, annual spending on African infrastructure increased from USD 3 billion to USD 12 billion. Although the baseline is lower in absolute terms, this level of investment greatly exceeds the global average growth in infrastructure investment (Cloete *et al.*, 2010). This growth was largely driven by increased investment by non-OECD governments. For example, China provided 77% of foreign investment in African infrastructure in 2007. Many countries have announced even greater increases in future investments in infrastructure. South Africa, for example, will invest USD 44 billion in transport, fuel, water and energy infrastructure between 2009 and 2011 (Cloete *et al.*, 2010). This is a 73% increase in annual spending on infrastructure compared to 2007-08 levels.

Building the capacity for greening economic sectors: a five-step framework

Table 4.1 illustrates several elements that are particularly important to keep in mind when preparing an environmental capacity development strategy for sector planning processes. These include a clear understanding of the political and institutional context, processes and procedures; who are the relevant governmental and non-governmental actors beyond the relevant ministry or agency; what are the possible entry points for capacity development initiatives to create the necessary institutional mechanisms for environmental integration; what are the knowledge needs that have to be addressed to make the economic case for environmental integration; and what analytical tools are already in place that can be used to formalise this integration. The following sections discuss these in more detail.

Step 1. The political and institutional context

To be able to identify capacity needs for greening the sector planning process, it is important to understand the process involved. Although the process takes different forms in different countries depending on the political and institutional context, it tends to involve a cycle of four main phases (OECD, 2009):

- *Policy formulation*. Based on national-level policies and plans, this stage outlines the broad objectives of the individual sectors for a set time period. It also sets out the main approaches and associated policies to be implemented in order to achieve established objectives. Resources will be mobilised for their implementation based on operational plans. While some strategies will reside within a sector ministry (*e.g.* regulations by the ministry of agriculture concerning the approval, certification and commercialisation of certain pesticides), other policy measures may be more cross-sectoral in nature. These require co-ordination among ministries and the other stakeholders involved (*e.g.* infrastructure programmes, fiscal measures on key inputs and taxation).
- *Planning.* The sector plan translates sector-specific policies into detailed measures, investments and activities that will be implemented over a given time period. This includes guidelines on the number, type and location of facilities to be implemented (*e.g.* the geographic area to be targeted for agricultural reform, the nature of crops to be introduced, and the associated infrastructure requirements). The specific details of the plan are likely to differ for various parts of the country based on natural resource distribution and the environment. When formulating sector plans, it is important to

Table 4.1. **Steps for building capacity for greening sector planning processes**

Strategic priorities	Challenges	Actions to deliver environmental capacity development
Step 1: Assess the political and institutional context		
• Sector planning process • Alignment with key policy issues	• Sector planning process and institutional set-up are often not well-established or consistent • Sector strategies need to respond to key national policy issues	• Assess sector planning cycle and institutional set-up – recognising variations across sectors • Link to key national policy issues *e.g.* water shortages, food production, rural poverty
Step 2: Identify key actors and their capacity development needs		
• Sector actors • Environment actors • Private sector	• Given the high number of stakeholders that contribute to the sector planning process, it is difficult to define a set of capacity needs for individual actors	• Reach out to key actors and identify their capacity development needs. Actors include: - sector ministries - environment agencies - economic actors - financial institutions - research bodies - CSOs - "champions"
Step 3: Identify opportunities to shape organisational incentives		
• Cross-agency working • Institutional liaison	• Environment agency staff are not usually involved in sector planning process • Sector ministries' environment units usually have a limited role *e.g.* project level EIA • Environment agency and unit staff have limited incentives to focus on environment-sector links • Environment staff have limited experience in cross-agency working	• Agree on procedures and supportive role of environment agency in sector planning cycle *e.g.* in key working groups • Support professional links between environment staff and sector environment units • Provide incentives for sector staff to consider environmental issues for sector outcomes • Promote operational collaboration between sector and environment staff *e.g.* joint committee/team
Step 4: Identify awareness/knowledge needs and analytical tools		
• Provide support/training • Knowledge products • Country-specific evidence • Making the economic case	• Environment agency staff have limited knowledge and experience in demonstrating the economic contribution of environmental management to national development goals	• Raise awareness on links between the environment and specific sector strategy programmes and investments • Provide knowledge products *e.g.* guidance, case studies, exchange visits • Technical support/training on sector specific services assessment and economic analysis of environmental assets/services to make the economic case for specific environmental policies and measures • Technical support/training on SEA-type analysis of sector strategies
Step 5: Address options for policy influence		
• Revised sector priorities • Priority investments • Regulatory measures	• Often formal analyses are not tailored to the needs of the sector planning process • Important to use the language of sector decision makers and development practitioners • Environment staff not experienced in influencing decision making and lack negotiation skills	• Provide support on using results from technical analyses to match the specifics of decision-making processes • Develop skills in communication and negotiation for environment staff

consider fully the costs and benefits of the planned actions for the sector and the area. Policy formulation and planning are sometimes grouped together.

- *Resource allocation*. The sector plan depends on the resources made available for the sector in the national budget, which in turn is based on the role of the sector in achieving national planning objectives and the ability of sectoral representatives to make the case for their planned measures. Based on the budget allocated to them (the budget "envelope"), sectoral authorities decide on priority areas and allocate the funds across different geographical regions according to national and sector-wide policies and objectives. Resource allocation involves the precise identification and costing of a specific set of investments, activities or projects to be implemented within a certain timeframe.
- *Programming/implementation*. This stage includes identifying and costing investment options, activities or projects that are feasible within the timeframe of the budget envelope. This stage also includes obtaining information on implementation arrangements, roles, responsibilities and timelines. A nation-wide sector programme is composed of processes both reflecting overall national objectives, such as environmentally sustainable development, and more specific processes addressing priorities at the regional level. However, measures must generally conform to sector-wide guidelines and procedures.

Step 2. The key actors and priority capacity development needs

Key actors

Sector planning processes are not always as clearly defined as other policy processes discussed in this guidance. Efforts to green economic sectors will be influenced by the process of improving the governance and resourcing of the sectors themselves. But economic sectors are complex systems. They include a wide range of actors, most of whom are not part of the government but rather investors, producers, distributors and consumers. It is important to recognise how they will be affected by government policies and decisions. It is important that a diverse set of actors are engaged in greening economic sectors and that careful attention is given to the incentives and constraints facing them. This will lead to a better understanding of how environmental sustainability can be achieved.

Capacity needs therefore go beyond the planning agency and line ministries responsible for a given sector. However, the exact number of actors and their role depends on the type of governance being exercised. For example, network governance involves more actors and in more prominent roles than hierarchical governance. Regardless of the type of governance, prominent state actors will include line ministries and agencies or parliamentary committees. Additional actors commonly identified in the agriculture and energy sectors are summarised in Table 4.2.

When greening economic sectors, the relevant actors must consider the following questions:

- *Overall policy drivers*: What is the influence of key policy objectives on sector planning processes (*e.g.* drivers for agricultural exports, land reform, foreign investment flows, oil/gas development, expansion of renewable power generation)?
- *Scope of planning responsibility*: What is the scope of the government in shaping sector development (*e.g.* crop mix, land tenure, extension services, investment opportunities, power utility ownership, pricing/subsidy measures)?

- *Scope of investment responsibility*: What role does the government have in providing/controlling investments (*e.g.* improved infrastructure, large-scale commercial land development, licensing of oil/gas development, new generating capacity)?
- *Regulatory/enforcement responsibility*: To what extent does the government have to regulate and ensure compliance by economic actors (*e.g.* property rights, use of agricultural chemicals, water consumption, power generation emissions, take up of renewable technologies, energy efficiency)?
- *Technical options/inputs*: What role does the government have in developing, analysing and promoting technical options (*e.g.* crop varieties, sustainable food production methods, energy production/use technologies)?
- *Private sector engagement*: What role does the government have in shaping private sector involvement (*e.g.* encouraging private sector investment in commercial agriculture, privatising power generation, providing incentives to investors in renewable energy)?

Table 4.2. **Key actors in the agriculture and energy sector**

Type of actor	Agriculture sector	Energy sector
Line ministries and agencies	• Agriculture, livestock, fisheries • Water • Other ministries (natural resources, forestry, transport, health)	• Energy • Natural resources (forestry, water, land, mining) • Agriculture • Energy-consuming sectors (transportation, industry, housing, etc.)
Central ministries and agencies	• Finance • Development planning • Environment	• Finance • Development planning • Environment
Other state actors	• Agricultural research institutions and extension services • Sub-national government	• Energy regulatory authority • Sub-national government
Non-state actors	• Farmers, pastoralists, fishermen and labours • Farmer organisations, co-operatives, community-based organisations • Agribusiness and food industry actors • Market developers and traders • Supermarkets and other retailers (including international markets) • Development and environmental NGOs • Individual and institutional consumers	• Energy suppliers (electric utilities, oil and gas companies, suppliers of biomass fuels, suppliers of renewable energy equipment) • Local community energy producers • Private sector associations • Development and environmental NGOs • Consumers

Source: Matheson, G. and L. Giroux (2010), "Capacity Development for Environmental Management and Governance in the Energy Sector", *OECD Environment Working Paper*, No. 25, OECD Paris; Neely, C.L. (2010), "Capacity Development for Environmental Management in the Agriculture Sector in Developing Countries", *OECD Environment Working Paper*, No. 26, OECD, Paris.

Capacity needs

In developing countries, sector budgets are often limited due to issues of prioritisation, low fund availability, poor financial management systems and the slow allocation of funds. Funds may not come in the amount foreseen in the budget or only after personal intervention by influential individuals. Other issues include leakage and corruption, flaws in the initial budgeting process, weakness in basic banking systems for money transfers, or red tape which slows down proceedings. Improving this will in turn result in improved overall planning capacity.

Box 4.3. **Kazakhstan: Strengthening the role of industry in environmental sustainability**

The Kazakhstan Business Council for Sustainable Development (KBCSD) is a coalition of 20 industrial enterprises and consulting companies employing over 100 000 people. Its members are united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. The Council aims to strengthen the role of industry in promoting environmentally efficient projects, technological innovation and in applying the principles of corporate social responsibility in their operations. It also aims to improve the environmental legislation and its implementation, provide analyses and give feedback on relevant draft laws, secondary legislation and policy documents.

In 2003-06, the KBCSD organised a series of workshops to discuss the challenges of compliance with the country's environmental laws and regulations. The KBCSD played an active role within the process of developing the Environmental Code. In March 2007, the government and businesses gathered at an International Business Forum sponsored by the Ministry of Environmental Protection and the National Council for Sustainable Development that provided a platform for constructive dialogue, transfer of experience and benchmarking. The KBCSD also provides training to its members and facilitates national and international networking.

Source: UNECE (2008) Environmental Performance Reviews: Kazakhstan, Second Review, Environmental *Performance Reviews Series*, No. 27, UN, New York/Geneva.

Sectors are affected by the broader enabling environment such as the effectiveness of public financial management, procurement systems, oversight, accountability and the engagement of stakeholders. This is why the capacities needed to effectively green sector planning processes should be assessed at all three levels: the enabling environment level, the organisational level and the individual level. It is important to strengthen the internal capacity of the line ministries for greening sector planning and allocating adequate resources from sector budgets to meet environmental objectives. It is equally crucial for the relevant environment ministry or agency to understand how sector planning and budgeting processes operate and they should work towards playing a more supportive role in greening sector strategies.

The appropriate balance between strengthening environment units within line ministries and empowering environment agencies directly to be part of sector decision making has to be judged on a case by case scenario, depending on factors such as the existing cross-agency working modality of a government. In turn, finance and planning ministries or agencies that usually co-ordinate the sector planning process need to understand the rationale for an enhanced role of the environment agency and agree on its role in the different phases. At the same time, government actors need to be aware of the role non-governmental actors play and involve them in the planning process. This should go beyond simple consultation to real engagement. It requires a range of organisational and individual capacities summarised in Table 4.3.

Each sector needs first to define its environmental goals. For example, development goals for the energy sector may be sustainable energy supply and energy use, as well as some cross-cutting issues. The governance and technical capacity needs can be identified based on these goals and the agreed-upon environmental management strategies. A more detailed list of capacity needs for the energy sector is outlined in Table 4.4. Some of the capacities are fairly generic (*e.g.* capacity for programme delivery), although they require a set of specialised technical skills for various sectors. Other capacities are more specific

Table 4.3. **Capacity needs for greening economic sectors**

Goal	Enabling environment level	Organisational level	Individual level
Relevant stakeholders understand the importance of environmental issues	Sector strategy process formally includes meaningful engagement of environment stakeholders	Incentives are created in the line ministries for improved understanding of the environment and sector linkages. Key environment stakeholders have incentives and opportunities to participate in the sector planning process	Sector staff and environment stakeholders have good knowledge of the role of the environment in different sector goals
Formal involvement of environment agencies in the sector planning and budgeting process	Planning and line ministries agree on formal roles for environment agency in the sector planning process *e.g.* sector working groups	Responsibilities and procedures jointly set out between environment agency and planning/sector ministries for participation	Environment staff have good understanding of the process and the technical skills that enable them to participate
Analysis of environment and sector links – making the economic case	The sector planning process requires a good understanding of the contribution of each sector goal to the overall national development plan and co-ordination among sectors with similar objectives	Planning/sector ministry staff are able to include environmental information in the planning process *e.g.* via environmental units in sector ministries	Sector staff have better understanding of the environment-sector development linkages and they have the analytical and presentation skills needed to make the economic case to planning/ sector ministry decision makers
Formulation of environmental measures and investments in sector plan/budget – influencing policy	The planning process includes the potential for formulating environmental policies, programmes and investments to achieve sector goals and outcomes	Processes are established within line ministries to allow sector staff to incorporate environmental consideration in decision making; environment agencies (and other key actors *e.g.* the private sector) are empowered to participate effectively in relevant institutional mechanisms	Sector staff with support from environment agencies can identify and cost environmental policies and activities to implement sector plan objectives *e.g.* use of SEA
Use of environment-development indicators and monitoring mechanisms	A well-functioning system is set up for monitoring sector plan implementation	Environment and planning/sector agencies have management systems in place to monitor implementation progress	Both sector staff and environment staff have good monitoring and evaluation skills: identifying key targets and indicators

(*e.g.* capacity to monitor the environmental performance of the energy supply sector and support improved performance through enforcement and compliance activities), but underlying them are common characteristics shared with other sectors.

Step 3. Shaping organisational incentives

When examining entry points for enhancing capacity for greening sector planning processes, a review of cross-sectoral environmental linkages is essential in order to ensure sustainability. This exercise also provides an opportunity to scope out the role of the environment in meeting sector targets and creates incentives for the actors involved to maintain a collaborative approach.

A range of mechanisms can be used to green sector planning processes (Table 4.5). Building capacity in these mechanisms change actor configuration, influence agenda setting, mobilise knowledge and improve co-ordination, as well as influence the distribution of resources or create opportunities for monitoring and evaluation (Jacob *et al.*, 2008). Not all instruments are equally appropriate for the different stages of the process. The clustering of instruments in the table suggests that different capacities are needed at each stage to introduce and make effective use of the relevant instruments. The knowledge and experience of using such instruments are core capacities needed to successfully integrate the environment into sector planning.

Table 4.4. **Capacities for sound environmental management in the energy sector**

Capacity required by…	Govern-ment	Energy suppliers	Private sector	Civil society
Energy supply				
Capacity for the creation and maintenance of an enabling environment for sustainable energy production (policies, legislation, regulation, finance, promotion, etc.)	√			
Capacity for energy supply planning (forecasting, full economic cost analysis, technical assessments, evaluation and selection of options, etc.)	√	√		
Capacity for programme delivery (implementation of sustainable energy policy commitments)	√	√	√	√
Capacity to provide environmental oversight of the development of new energy sources	√	√	√	√
Capacity to monitor environmental performance of the energy supply and support improved performance through enforcement and compliance activities	√	√	√	√
Energy use				
Capacity for the creation and maintenance of an enabling environment for energy efficiency (policies, legislation, regulation, finance, promotion, etc.)	√			
Capacity for demand-side planning (end-use analysis, economic and technical assessment of energy efficiency potential, etc.)	√	√		
Capacity for programme delivery (implementation of energy efficiency policy commitments)	√	√	√	√
Capacity to provide oversight of energy demand management programmes and projects	√	√	√	√
Capacity to monitor technical and environmental performance of energy end use and support improved performance through enforcement and compliance activities	√	√	√	√
Cross-cutting				
Capacity to undertake integrated planning (demand and supply)	√	√		
Capacity for strategic and project environmental assessment	√	√	√	√
Capacity to assess climate vulnerability and risks to energy infrastructure (demand and supply)	√	√	√	√
Capacity to engage and communicate with stakeholders	√	√	√	√

Source: Metheson, G. and L. Giroux (2010), "Capacity Development for Environmental Management and Governance in the Energy Sector", *OECD Environment Working Paper*, No. 25, OECD, Paris.

Table 4.5. **Greening the sector planning process**

Policy "products"	Key mechanisms
Sector strategies and plans	• Constitutional provisions to achieve environmental sustainability • Economic analysis of contribution to sector goals • SEA • Extension of the competencies of the environment agency • Inter-ministerial co-ordination (green cabinets, inter-ministerial working groups) • Policy appraisal
Sector budgets and programmes	• Skills and knowledge development of staff within the environment agency • Inter-agency co-ordination (sector working groups) • SEA • Economic cost-benefit analyses • Obligatory reporting
Sector evaluation	• Independent institutions that evaluate and monitor environmental performance • SEA • Obligation to report • Inter-agency co-ordination (green cabinet, inter-ministerial working groups)

Step 4. Knowledge and analytical tools

Of the mechanisms mentioned above, SEA has been developed to integrate environmental considerations into the "upstream" stages of policies, plans and programmes with the goal of improving the environmental impacts of initiatives (OECD, 2006). SEA is applied at the start of the planning processes and provides environmental evidence to support decision-making processes and identifying new opportunities by encouraging a systematic and thorough examination of development options. SEA can help to ensure careful management of environment and natural resources, and provides the foundations for sustainable economic growth. SEA can also assist in building stakeholder engagement for improved governance, facilitate trans-boundary co-operation around shared environmental resources and supports political stability (OECD, 2006). SEA is undertaken within a country system framework and therefore must be adjusted to the context where it is applied.

Complementing SEA is EIA. EIA is a tool commonly used to examine the environmental impact of development support initiatives. EIA analysis is confined to the project level and does not address broader policy or institutional issues, although these may have a strong bearing on the environmental impact of a project. EIAs can be conducted either in the context of a country's own regulations and standards or with reference to the national standards and procedures of the development support provider. The former represents an example of a country system environmental assessment.

Furthermore, the use of economic assessments that demonstrate the costs of unsustainable resource use in concrete sector-specific terms, as well as the economic benefits of investments is very important (Box 4.4). Economic analysis is a powerful tool, particularly because it presents trade-offs and impacts in a language familiar to decision makers and sector planners. It is therefore important that all key stakeholders have the capacity to use these tools and/or to interpret their results.

Box 4.4. **Uganda: Capacity development for climate finance**

Established in 2006, the Uganda Carbon Bureau (UCB) has been conducting training and capacity development on climate change and carbon finance for the public, banking and private sectors in Uganda. The capacity development work aims at building awareness about climate change, highlighting the potential for earning carbon finance and scaling-up the participation of the financial and private sectors in the carbon market.

Formal training is currently being provided to staff of the National Water and Sewerage Corporation, the East African Development Bank (EADB), the Uganda Investment Authority and the Uganda Bankers' Association. UCB's training is having a positive impact on the EADB. Climate change, and the role that the EADB can potentially play, has been included as part of their induction programme for all staff. As a result, there is increased awareness of carbon finance opportunities, and the EADB is planning to set up a Green Fund to support projects that have solid environmental credentials.

Source: Communication with Uganda Carbon Bureau, July 2011.

Step 5. Options for policy influence

This chapter has discussed the process of capacity development for greening the economic sector level. In some cases, integration of capacity development will lead to institutional reform. For example, the specific responsibilities of a line ministry may change. In other cases, sectoral integration will bring together a large spectrum of stakeholders – each with a different perspective on the sector plan and management.

Organisational reform may be needed to facilitate collaboration across agencies. This helps to ensure that environmental considerations are addressed when sector priorities are determined, policies and activities are developed and resources are allocated. There is a tendency to define economic sectors narrowly and to overlook the interactions and interdependencies that exist between sectors. Sustainable development requires that sector policies, plans and programmes are not carried out in isolation from other sectors, but together contribute to an overall strategy.

The role of development support providers

Development support agencies involved in greening national policies should ensure that these efforts are not confined to the national policy planning level, but that they also include sectoral plans and strategies. Similarly, financial management reforms in developing countries should be reflected at the sector level. Feedback from the sector level should contribute to the carrying out of these reforms. Development support providers should also be aware of the capacity needs that underpin successful implementation and achievement of results. When providing support to capacity development for greening individual sectors, the following actions can increase effectiveness:

- *Use capacity development initiatives to address priority weaknesses.* Common methodologies for reporting should be developed to help overcome poor accountability due to the fragmentation of the economic sector (high number of actors involved).
- *Join forces with other relevant programmes.* Capacity development for greening economic sectors can be incorporated into on-going programmes for capacity development in each sector. Any environment and natural resource sector programmes aimed at developing relevant analytical capacity should be built upon.
- *Adopt a long-term iterative approach*. Capacity development for greening economic sectors should expect to learn lessons from using a programmatic approach and build such lessons into subsequent planning cycles in order to achieve a lasting improvement.
- *Improve cross-sectoral co-ordination mechanisms.* If co-ordination mechanisms are improved, it is likely that cross-cutting issues, such as the environment, will be more adequately prioritised, helping to recognise and respond to cross-sector linkages.
- *Set capacity building for individual sectors within the wider context.* Sectors are complex systems and any capacity development initiatives focused on greening sectoral strategies must be aware of broader national objectives and specific political, social and contextual factors. There is a tendency to associate sectors with line ministries and to structure support around ministries' mandated roles and responsibilities. This often results in inadequate attention to other relevant actors and stakeholders, such as sub-national governments and the private sector.

- *Break the task into bite-size pieces.* Sometimes sectors are too large to deal with effectively. In large economic sectors such as agriculture and energy, it may be more effective to focus on one sub-set of the sector. Nevertheless, it is important to maintain an overview of the broader sector and to engage a large number of stakeholders within the sub-sector.

The greening of sector planning processes is a long-term endeavour and should be developed over several planning and budget cycles. The corresponding capacity development goals should also have realistic targets and require broad political commitment which can be difficult to obtain. Reform of the sector planning process is likely to be more difficult than that of the national planning process because the stakes are higher for entrenched actors. In many countries, the sector planning process is also less well-defined and transparent than national planning and budgeting. It is therefore crucial that capacity development initiatives are based on a good understanding of the sector, and those relevant actors are aware of the possible entry points and the different demands on sector strategies. A popular approach is South-South Co-operation (SSC) that brings together countries with similar social or economic circumstances to share their experience and lessons learned on particular issues (see Box 4.5).

Box 4.5. **South-South Co-operation in environmental management**

SSC is an important mechanism through which developing countries can develop some of the capacities they need for equitable and sustainable environmental governance in a specific sector. SSC allows countries with a similar natural resource base, economic development, political structures or social objectives to help each other reinforce institutional measures and technical capacities for goals such as sustainable environment management. One such co-operation mechanisms is the Mesoamerican Environmental Sustainability Strategy (EMSA). This co-operation was established in 2008 and brings together the environment ministries of Belize, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic. With the objective of achieving a more sustainable ecosystem service provision, EMSA agreed to strengthen the Mesoamerican Biological Corridor by: *i)* establishing a regional system of protected areas and enhancing their connectivity, *ii)* establishing an expert network for integral management of hydrographic basins, and *iii)* creating a Mesoamerican system of economic and social valuation of ecosystems. Throughout the process, all governments gain both technical and institutional capacities in reaching the ultimate objective of EMSA.

Source: UNCBD (2010), *South-South Co-operation on Biodiversity*, Newsletter, Volume 1, Issue 1, UNCBD, Montreal.

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Chapter 5

Capacity for development support providers

Successful capacity for greening development depends to a large extent on sustained support from development support providers. This chapter examines what capacities these providers themselves need at the levels of the enabling environment, the organisation and the individual in order to effectively assist countries in building their own environmental capacities. It addresses inter-agency co-operation and provides examples of best practice. It examines how development support providers can themselves assess their existing capacity to deliver assistance and how they can strengthen their capacities for effective future support delivery. A self-assessment tool is included to help development support providers evaluate their capacity requirements.

How can development support providers contribute to greening development?

Chapters 2, 3 and 4 of this guidance have identified three key areas for channelling capacity support for greening development: *i)* the national development planning process, *ii)* the national budgetary process and *iii)* economic sector strategies. Multilateral and bilateral development support providers can play a valuable role in each of these areas to support environmental capacity development. This chapter examines this role, and the capacity needed to achieve it.

Development support providers vary in their commitment to environmental integration, ranging from environmental and social safeguards in their own programmes to direct operational assistance to bring about full environmental integration in developing countries. The extent to which internal capacity is required by the development support providers may therefore vary significantly depending on the focus and scale of their programmes and projects. Some initiatives have been designed to achieve stronger environmental policies and institutions in developing countries whereas others have focused on environmental management of sectors, regions or projects. The particular mix of experience will provide much of the accumulated learning that underpins the procedures and organisational mechanisms for capacity building for greening development. Common environmental policy and management functions of development support providers are outlined in Table 5.1.

Over the past three decades, many development support agencies have adopted policies, procedures and strategies that commit them to promoting environmentally sustainable development. The most common are environmental and social safeguards that apply to their own operations and also to their support for establishing and strengthening environmental policies and programmes in developing countries. The OECD DAC peer reviews of

Table 5.1. **Environmental functions of development support providers**

Activity	Policy and management function
Overall management	• define organisational processes for environment and natural resource management • co-ordinate with other agencies particularly in relation to MEAs and to international cooperation efforts • manage human resources and ensure sufficient staff with knowledge and capacities for environment and natural resource management
Setting objectives	• formulate agency-wide environmental policies – coherent with national environmental policy • formulate agency-wide contributions to international environmental policies (*e.g.* MEAs) • develop safeguard licences and procedures for integration of environmental policies within the development support agency
Environmental integration	• ensure policy coherence within agency processes and contribute to international policy dialogues • set goals and processes for integrating environmental considerations into key agency policies or programmes
Allocation of finance	• apply financial planning to match objectives with available resources over mid- to long-term time horizons • manage environment-related expenditures • allocate sufficient finance to sustain support to capacity development for environmental integration, monitor progress and share lessons-learned
Policy implementation	• establish environmental performance standards and/or access and use equivalent standards in developing countries • assist developing countries in enhancing their capacity for environment and natural resource assessment and management • conduct SEA and EIA for programmes and projects • facilitate agency-wide initiatives to improve environmental performance of operations • develop environment programmes or projects at the regional or country level
Compliance and assurance	• integrate environmental benchmarks and indicators into results-based management frameworks • detect non-compliance and ensure non-compliance responses

Source: Adapted from OECD (2009a), "Assessing Environmental Management Capacity: Towards a Common Reference Framework", *OECD Environment Working Papers*, No. 8.

development support agencies reveal the range of these commitments (Box 5.1). However, the existence of such policies does not mean that development support providers necessarily have the ability to implement them, or the organisational capacity to support greening development in developing countries' own systems.

Box 5.1. **OECD DAC peer review on environment and climate change (2008-10)**

Each DAC member country is peer reviewed on average every four years to *i)* help the country understand where it could improve its development strategy and structures to increase the effectiveness of its investment; and *ii)* identify and share good practice in development policy and strategy. Some of the emerging findings from the environment and climate change section of the peer review include:

- Japan's charter on overseas development assistance states that environment and development should be pursued in tandem.
- In Austria, environment is one of the three legally enshrined objectives for development co-operation.
- In Germany the Federal Ministry for Economic Co-operation and Development has a Programme of Action on Climate and Development.
- The Norwegian Ministry of Foreign Affairs introduced in 2008 a *Practical Guide for Assessment of Sustainability Elements/Key Risk Factors* to provide an environmental and climate risk assessment framework for all new projects and programmes.
- In Sweden, environment and climate change are one of the three thematic priorities for development co-operation. The government has adopted a *Policy for Environmental and Climate Issues in Swedish development co-operation* with capacity development identified as a focus area.
- Switzerland's *Foreign Development Report* requires development co-operation to be in line with national environmental policy.
- The UK Government *White Paper* entitled *Eliminating Poverty* provides a strong focus on climate change.

Source: www.oecd.org/dac.

What capacities do development support providers need?

There are two key challenges facing development support providers: *i)* how to tackle the institutional and technical aspects of greening development, and *ii)* how to align capacity building for greening development efforts with existing country systems. To meet these challenges, development support providers need to examine and strengthen their own internal capacity.

Table 5.2 presents a framework that development support providers can use to assess their ability to effectively support efforts towards greening development. This framework follows the structure used throughout this guidance in addressing capacity development at the enabling environment level, the organisational level and the individual level.

Table 5.2. **Self-assessment tool for development support providers**

Enabling environment level	
Environmental policy framework	• Is there a corporate policy on support to the environment? • Is there a policy on integrating environmental considerations into country programming? • Is there a policy on environmental screening of programmes and projects and is there a commitment to meeting clear environmental safeguards through use of SEA and EIA? • Is there policy coherence with national environmental policy? • Is there policy coherence with other multilateral and bilateral development organisations?
Environmental programme commitment	• Is the environment treated as a programme or as a sector? • Is there provision for financial support for environment-related programmes at regional or country level? • Given country demand, is there adequate financial commitment to support developing country environmental governance and capacity building? • Are there active programmes to support capacity building for environment agencies? • Are there active programmes to support integration of environment issues into development planning processes?
Organisational level	
Environmental staffing and responsibilities	• Is there a dedicated environment unit? • Are there regional- or country-based environmental advisors? • Is there agreed co-operation between the development co-operation agency and the national environment agency? • Do central environmental advisors have input into raising staff awareness, improving institutional incentives, and preparing programmes? • Do regional or country environmental advisors have a role in country dialogue and programming? • Is there any environmental training for non-environmental staff members?
Guidance on capacity development and country systems	• Is there a dedicated unit specialising in capacity development knowledge and practice? • Has any internationally endorsed best practice guidance on capacity development been adopted? • Is there any best practice guidance on applying and strengthen country systems – especially in the context of evolving country needs?
Cross-practice programme capacity	• Are there incentives to use cross-practice working arrangements tailored to capacity development for the environment (*e.g.* joint programming with governance, poverty and capacity development teams)? • Is there an understanding of assessing needs and determining realistic time frames and outcome indicators? • Are there organisational incentives for prioritising capacity development for environment activities in relation to country needs? • Are there mechanisms for cross-practice knowledge management and monitoring and evaluation?
Individual level	
Knowledge and operational experience of: • environmental governance and integration • economics and poverty-environment linkages • results-based management	• Has any best practice guidance on capacity development for environmental governance and integration into development processes been adopted? • Have any reviews or evaluations of past support to capacity development for environmental issues been undertaken? • Are there any arrangements for accessing relevant additional expertise (including institutional analysis, making the economic case, and communications) *e.g.* through helpdesks or framework contracts? • Do staff members have skills in programme preparation and results-based management?

Enabling environment

Most development support providers have policies to safeguard their development activities, although the degree of implementation is variable. Fewer have a clear policy commitment for tackling environmental issues. Possibly even fewer have achieved policy coherence between their national environment policy and the environmental component of their development co-operation policy. Some development support providers identify environment as a programme sector, while others treat it as a cross-cutting issue. There may be limited funds available for support to developing country governments and fewer incentives for developing countries to request support in this area.

A prerequisite for a strong enabling environment is a commitment by development

support agencies to focus on environmental issues and a corresponding allocation of resources (Table 5.3). Without such commitment, it is unlikely that development support agencies will have the organisational capacity to deliver these efforts or the ability to raise awareness on key environmental issues internally. Nor will they be "leading by example" in their engagement with developing countries.

Table 5.3. **Opportunities to enhance capacity building for greening development**

Enabling environment level	**What to consider:**
Environmental policy framework	• affirm commitment to an environment strategy linked to poverty reduction and the Millennium Development Goals (MDGs) • participate in harmonisation and co-ordination processes to develop a joint vision for greening their development activities • contribute to shared knowledge and tools as well as a strengthened evidence base
Environment programme commitment	• declare commitment to harmonised support to developing county efforts to improve governance and capacity development • make a clear commitment to the country system approach • clarify whether support is channelled through multilateral programmes or provided directly subject to co-ordination of development support at country level
Organisational level	**What to consider:**
Environmental staffing and responsibilities	• review the roles, responsibilities and deployment of environmental staff to assess their compatibility with the level of commitment to environmental capacity development • ensure appropriate deployment between headquarters and country missions to deliver on commitments • adopt or set in place appropriate arrangements for accessing relevant expertise (including institutional analysis, making the economic case, political economy, communications) such as external helpdesks or framework contracts
Guidance on capacity development and country systems	• establish effective linkage with dedicated capacity development staff or access to joint agency capacity • review incentives for collaboration
Cross-practice programme capacity	• review incentives for a cross-practice working mode *e.g.* joint programming with governance, poverty, economics and capacity development teams • ensure that capacity development staff adopt a results-based framework • review incentives for adopting realistic timeframes and prioritised activities • address organisational capacity for applying a programmatic approach to environmental capacity development
Individual level	**What to consider:**
Knowledge and operational experience of: • environmental governance and integration • economics and poverty-environment linkages • results-based management	• adopt best practice guidance on capacity development for integrating the environment and internalise the lessons learned from joint agency work • identify gaps in knowledge and expertise in light of the new consensus on effective delivery of capacity development efforts

Organisational

The scale and responsibilities of the environment unit within development support agencies varies greatly. In some countries, such expertise is limited to headquarters staff, whereas in other cases environment advisors are recruited and work at regional and country levels with operational responsibilities. The extent of collaboration between the development co-operation agency and the environment agency will differ between support providers, leading to different results in delivery of assistance on capacity development. To deliver such assistance, it is important to have mechanisms and incentives for cross-practice work

to bring together the expertise and knowledge needed. Development support agencies also need the following organisational level capacities (Table 5.3):

- procedures for integrating environmental issues into country and sector programmes;
- guidelines for the application of environmental and social safeguards (*e.g.* SEA and environmental screening tools);
- central environment units and regional/country-based environment advisors;
- organisational measures to improve efficiency and transparency such as framework contracts and external help desk facilities;
- processes for inter-agency communication and awareness raising.

Individual

Much of the focus for staff of development support providers (from both development co-operation and environment agencies) is on access to knowledge, best practice and operational learning. This focus encompasses overall capacity development principles and tools, knowledge on how to support relevant country systems, technical and operational understanding of how to respond to the challenge of environmental integration and specific cross-practice expertise. Knowledge of governance, institutional analysis, budgeting, economic analysis, sector strategies and local government are all essential. Increasing the level of economic expertise in development support agencies is critical for assessing the costs and benefits of interventions (Table 5.3).

Box 5.2. **Building capacities to apply SEA in development support agencies**

The process of building capacity for staff in development support agencies to apply SEA includes:

- **Support for SEA**: Technical staff and senior management must understand the reasons why the environment needs to be integrated into decision making processes in addition to the added value of using SEA to achieve this. Subsequently, staff should receive training on the application of SEA as an approach to sustainable decision making.
- **SEA guidelines**: An important step in building SEA capacity is to clearly spell out the type of development support agency and its decision-making processes for which a SEA is needed, how it should be conducted, and what it should include. To be successful, SEA guidelines should consider the specific characteristics of the planning procedures used within the organisation.
- **SEA support**: Access to support is often crucial for the programme officer in a development support agency managing or conducting a SEA. A support package can consist of checklists on what issues should be considered and templates for Terms of Reference for contracting consultants. Access to advice from SEA specialists within the development agency or via an external help desk are other examples of SEA support.
- **Systematic reviews and evaluations**: The establishment of a review mechanism can be an important part of the SEA capacity for a development agency. This can ensure that environmental considerations are integrated into strategic decisions in accordance with established guidelines.
- **Increased co-ordination of development support agencies and exchange of experiences on SEA**: An increased exchange of good practice cases, guidelines and training material provides added value. Development agencies can also participate in events designed to promote the exchange of experience.

Source: OECD (2006), *Applying Strategic Environmental Assessment: Good Practice Guidance for Development Cooperation*, DAC Guidelines and Reference Series, OECD, Paris.

A substantial number of knowledge products and guidance documents have been produced by international development agencies on the economic analysis of environmental integration (Norad, 2007; Drakenberg *et al.,* 2009; OECD, 2008). One important tool mentioned earlier is the SEA; Box 5.2 outlines how staff capacity in using this tool can be built.

Strengthening the capacities of development support providers

Capacity development is a fundamental objective of all development cooperation. As noted in earlier chapters, there is no simple formula for development support providers to use when approaching the topic of capacity development, especially in countries with very limited institutional resources (*i.e.* poor and fragile states) which are increasingly the recipients of development support. Nevertheless, there are some fundamentals that merit attention as development support providers attempt to prioritise the scope and size of their actions. This final section offers some recommendations for development support providers to better deliver capacity building for greening development:

- View capacity development for the environment as underpinning all development support.
- Collaborate across agencies to maximise complementarities.
- Harmonise approaches among development support providers.
- Nurture local ownership.
- Focus on results.
- Implement best practice guidelines for capacity building.
- Reflect and learn.

View capacity development for the environment as underpinning all development support

Capacity development for the environment must be seen as a cross-cutting strategic issue affecting all development support. Such capacity development must never be an afterthought, but rather a focal point at all levels of design, implementation and evaluation. Priorities are best identified collaboratively through processes that engage a broad range of national and local stakeholders, within and outside the government. They should not be one-off processes, but broad-based dialogues with linkages to broader visions and local political realities. They are learning processes which need time to mature and evolve. Over time, successful capacity development gradually makes developing countries less dependent on support from assistance providers.

Collaborate across agencies

Development co-operation agencies are not always best placed to deliver capacity building for environmental integration because they may lack the technical expertise and operational knowledge. Sometimes the development co-operation agency delegates some of the responsibility to its national environment agency or directly engages with the national environment agency through twinning arrangements. This collaboration maximises the comparative advantages of different agencies within a provider's government and promotes better communication and a more coherent approach to implementing activities that have the dual objectives of environment protection and development.

For example, Sweden has developed a framework agreement between the Swedish International Development Co-operation Agency (Sida) and the Swedish Environmental Protection Agency (SEPA) governing the division of responsibility and the factors that relate to co-operation. Sida and SEPA collaborate in many developing countries where support to the environment has been identified as a priority. SEPA draws on skills and experiences from its domestic role to provide support for organisational and individual capacity development on, for example, environmental policy and governance in the public sector. While SEPA is responsible for part of Sida's portfolio on environmental support, this is carried out under the direction of Sida (SEPA, 2010).

Similarly, the United States Environmental Protection Agency (USEPA) is responsible for many bilateral programmes on the environment. These programmes allow other countries, especially developing countries and economies in transition, to benefit from the US experience in developing domestic environmental programmes. For example, with support from the US Agency for International Development (USAID) and the US State Department, the USEPA is implementing projects to enable governments, universities, industries, NGOs and others to address the growing concern of pollution and its impact on health.

Some development support providers choose to provide their financial and technical support through multilateral programmes such as the UNDP-UNEP Poverty-Environment Initiative (PEI). The PEI assists developing countries in establishing institutional and capacity development programmes that aim to integrate the environment into policies and budgets. It seeks to bring about institutional change by increasing the understanding of the link between achievement of a country's development objectives and investment in pro-poor environmental sustainability. This requires a combination of institutional, technical, policy and communication inputs in order to support the preparation and management of individual country programmes. In recognition of this, UNDP and UNEP have created a unit that ensures that the PEI programmes have access to the necessary capacity in terms of management support, knowledge and best practice. In this case, development support providers "outsource" their operational and technical capacity to the joint UNDP-UNEP programme. However, through the experience of PEI partners, development support providers are able to apply the knowledge and lessons accumulated by the PEI to their own activities and thereby form conclusions about what is appropriate for their internal capacity.

Harmonise work with other development support providers

Harmonisation of development support is a fundamental principle of aid effectiveness as indicated in the Paris Declaration. Given the large number of development and environment agencies operating in developing countries, it is important that all actors harmonise their approach in order: *i)* to ensure effective programme delivery, *ii)* to facilitate exchange of knowledge and expertise across agencies, *iii)* to avoid duplication of efforts, and *iv)* to promote a more systematic incorporation of development support activities into national policy, national budgets and key economic sector strategies (Welle *et al.*, 2008). This reduces the transaction costs developing countries face in meeting the multiple requirements by support providers, and ultimately improves overall aid effectiveness.

One approach to such harmonisation of development support is the Joint Assistance Strategy (JAS). JASs are frameworks that specify the modes and arrangements for development support to a particular country. They are based on close co-operation with national governments and aim to improve the management of aid delivery through a harmonised development approach. The goal of JASs is to reduce the transaction costs that governments face when dealing with multiple development partners (OECD, 2009b). One

example is the Kenya Joint Assistance Strategy (KJAS) that involves a joint 2007-12 strategy for 17 development agencies, multilateral organisations and development banks* (USAID, 2007). The KJAS provides the basis for development support for the implementation of the national development strategy, including the 2030 Vision. One priority for the KJAS is to provide joint policy advice and capacity building support to mitigate the impacts of climate change on development activities. Examples include the use of drought-resistant crop varieties, improved water management, climate-proofed infrastructure, and seasonal forecasting to predict and plan for climate-related diseases.

Initiatives to harmonise development support could provide important opportunities for building capacities for greening national development planning, national budgetary processes and key sector strategies. However, the results differ significantly between countries and across sectors. In particular, co-ordination of development support on climate change is primarily confined to environment working groups and has failed to integrate other sectors such as agriculture and energy. Emphasis is often on climate- or environment-specific initiatives, when in fact a large proportion of external support directed through poverty reduction initiatives has implications for the natural resource base. It is therefore important to take a wider approach to harmonising development support for environmental management (Heinrich Böll Foundation, 2011 and Box 5.3).

Box 5.3. **Mozambique: The need for a holistic approach**

In Mozambique, more than 70% of public investment comes from international development assistance. Development support providers therefore have an important role to play in greening national processes. Support to capacity building in environmental governance has been provided through a number of projects. The Netherlands and Denmark have provided capacity support to the Ministry for the Co-ordination of Environmental Action. With the support of the World Bank, environmental units have been created in various sector ministries. However, there is still evidence that institutional capacity remains weak and core environmental functions are not yet fully effective. One of the problems is institutional complexity at the sectoral level. Another may be related to the fact that capacity building initiatives funded by development support providers tend to be geared towards the delivery of project outputs rather than focused on the performance of core environmental functions of the government. This has often resulted in duplication of work and poor co-ordination by the Ministry for the Co-ordination of Environmental Action. A lesson from the Mozambique case is to target core environmental functions across multiple government domains rather than directing them towards a project's specific objectives and activities.

Source: Cabral, L. and D. Francisco (2008), *Environmental institutions, public expenditure and the role for development partners: Mozambique case study*, Final Report, DFID, London.

Nurture local ownership

Successful capacity development support for greening national processes is more probable when it seeks realistic targets that are a priority to developing country partners – this is also in line with the Paris Declaration and the Accra Agenda for Action. Alignment

* Development agencies include those of Canada, Denmark, the European Commission, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States, as well as the African Development Bank, the United Nations, and the World Bank Group.

of capacity development initiatives with country priorities will encourage investment in leadership, oversight and management of such support. Multiple approaches to foster country ownership and leadership already exist but it is important that such approaches are flexible and adjust to local contexts. This suggests deliberate development policies and country-level collaboration which can nurture local leadership. The broader the programme envisaged, the broader the concept of ownership needs to be.

Focus on results

Measurable results are the cornerstone of effective capacity development delivery. With more clearly defined activities, it is easier to set targets and to prioritise resources. This enables development support providers to evaluate progress and to build their subsequent activities on lessons already learned. This ensures that both development support providers and developing countries live up to the commitments outlined in the resulting framework.

The increasing focus on results and value for money in assistance delivery has shaped the recent debate on capacity development. An illustration of the importance placed on this can be seen from a recent World Bank study. The study estimates that development support providers spend more than USD 20 billion a year on capacity development for national planning and budgetary processes in developing countries (Otoo *et al.*, 2009). To ensure that this support brings about change – for example in terms of better environmental integration into national strategies – development support providers have started to harmonise their approach to identifying, designing, monitoring and evaluating their capacity development programmes. This is part of the wider shift away from a focus on measuring inputs and outputs, to a stronger emphasis on achievement of outcomes and long-term impacts.

The World Bank and UNDP (Box 5.4) have pioneered the development of results-based capacity development frameworks. The two frameworks differ in their approach to and in their entry points for evaluating capacity development programmes, but they share a common goal: to understand what factors determine an institution's ability to deliver its mandate.

These existing frameworks, although not specifically tailored to measure capacity development for greening development, are still essential steps for development support providers to carry forward the commitments agreed upon in the Paris Declaration and the Accra Agenda for Action.

Implement best practice guidance

Some development support providers have produced best practice guidance material on capacity development. An example is the UNDP's *Practitioner's Guide: Capacity Development for Environmental Sustainability* (2011). This guidance draws on best practice experiences from UNDP's capacity development group and provides specific advice on how to apply key principles and tools in capacity building efforts. The *Practitioner's Guide* defines a number of functional and technical capacities needed by developing countries in improving environmental integration (Box 5.5).

Reflect and learn

A useful insight into development providers' own assessment of their ability to deliver capacity building support to greening development can be found in self-evaluations of their activities. These evaluations focus on how effective the support has been and how providers can improve their own capacity to achieve better results in the future. Box 5.6

Box 5.4. **Results-based framework to evaluate capacity development programmes**

World Bank approach

The World Bank's Capacity Development Results Framework (CDRF) has identified three capacity factors that determine the ability of an entity to meet the stated development goal(s), as well as the efficiency and effectiveness of that effort. The three capacity factors are:

- conduciveness of the socio-political environment;
- efficiency of policy instruments;
- effectiveness of organisational arrangements.

Each of the capacity factors can be measured against a set of standard indicators which draw broadly on various strands of economic literature. The CDRF also offers a typology of six learning outcomes to capture the immediate results of capacity development efforts. These are: *i)* raised awareness, *ii)* enhanced skills, *iii)* improved consensus/teamwork, *iv)* fostered coalition/networks, *v)* formulated policy/strategy and *vi)* implemented strategy/plan. Each of the learning outcomes can be articulated as learning objectives that support the implementation of specific learning activities.

UNDP approach

UNDP has identified three levels on which capacity development initiatives should be evaluated. Each level has detailed indicators to support the evaluation. The levels include:

- **impact**: change in people's well-being;
- **outcome**: change in institutional performance, stability and adaptability. Improvements can be measured by an institution's ability to *i)* convert inputs to productive use (performance), *ii)* seek resolution to problems and remove barriers (stability), and *iii)* adapt to changing realities and demands (adaptability);
- **output**: product produced or services provided based on capacity development core issues (institutional arrangements, leadership, knowledge and accountability).

Specific components are applied to assess each level of the measurement. For instance, to measure institutional performance, effectiveness and efficiency should be considered. That is, how effective are institutional policies in meeting beneficiaries' needs? How efficiently does the institution use the resources it has? To measure the level of leadership in delivering anticipated output, it is important to assess whether the institution has the capacity to create a vision and to implement this vision? Does it have the ability to communicate effectively?

Sources: Otoo *et al*. (2009), The Capacity Development Results Framework: A strategic and results-oriented approach to learning for capacity development. World Bank, Washington, DC.; UNDP (2010), *Measuring Capacity*, UNDP, New York.

summarises some key lessons. One important finding is that the capacity of agencies to prepare and deliver good capacity development initiatives for environmental integration should be more focused on the developing country's enabling conditions, its institutional arrangements, and on the organisational level rather than solely focused on individual skills and expertise. This requires a better understanding by development support agencies of the key drivers of the country's enabling conditions and how to analyse governance processes. As knowledge and experience of these issues is often not found among environment professionals, the solution may be to draw on cross-practice skills within the development support organisation.

Box 5.5. **UNDP's Practitioner's Guide: Capacity Development for Environmental Sustainability**

Capacity development for environmental sustainability should:

- **Be nationally owned and driven**, using and strengthening national and local systems, plans and expertise that will be integrated into broader sustainability initiatives (*e.g.* minimise one-off projects).
- **Respond directly to the country context**, both national and local priorities, including prioritised environmental and natural resource issues, poverty-environment linkages and the needs of ultimate beneficiaries.
- **Be asset-based**, unleashing and reinforcing existing and emerging environmental capacities within the country, the region and other Southern countries. It should also "develop capacity for capacity development" by expanding country competence to design and deliver capacity assessment and capacity development.
- **Promote the involvement of diverse segments of society** and the ownership of results by key stakeholders, including multiple levels and agencies of government; the private sector; and civil society, including local communities, women and men/girls and boys; poor, marginalised and/or remote communities; and indigenous peoples (as appropriate to the issue).
- **Take a comprehensive and systemic approach**, focusing on key linkages between the enabling environment, organisational and individual levels, and ensuring that individual capacity development (*e.g.* awareness raising, education and training) is reinforced at other levels.
- **Be results-based**, leading to measurable, sustainable capacity outcomes through the use of systematic yet flexible approaches that encourage innovation, adaptive management and learning-by-doing.
- **Be seen as a gradual, long-term process** resulting from achieving short-term incremental milestones, often in a non-linear fashion. This requires both proceeding at a scale and pace that allow the country system to absorb and internalise changes, as well as staying with the process in the face of challenges.
- **Strengthen environmental governance**, including improving political and institutional arrangements, and addressing power imbalances and inequities in access to natural resources and environmental decision-making. This includes promoting attitudinal and behavioural changes, human rights, equity, gender equality, accountability and leadership.

Source: UNDP (2011), *Practitioners Guide: Capacity Development for Environmental Sustainability*, UNDP, New York.

Box 5.6. **Evaluation of capacity building for greening development programmes**

The Norwegian Agency for Development Cooperation (Norad) has recently reviewed and synthesised lessons learned from institutional co-operation and capacity building on environmental integration. Lessons learned include the need to:

- assess the agency's own human resources to undertake the institutional co-operation and capacity building in developing countries;
- analyse the risks and success factors properly before project start-up;
- scale down project planning (which is often too ambitious) to meet the capacity and capability of the local institutions;
- ensure that the institutional co-operation process is clearly demand-driven, and that the Norwegian institution should "hold its horses".

Source: Norad (2008), *Review and synthesis of lessons learned from Institutional Co-operation and Capacity Building in the Environmental Sector in Norwegian Development Co-operation*, Norad, Oslo.

Danish International Development Agency (DANIDA) Environment Sector Programming – a good practice paper

- Programmes should be developed on the basis of apparent need by both environment and finance/ planning agencies.
- Preparation should be based on intimate knowledge of institutional arrangements for environmental governance.
- There should be as much focus on organisational level capacity development as on the individual level – focusing on "country systems".
- There should be a preference for "on the job" training to embed capacity development in the work of the institution.
- Capacity development should be carried out with both staff from environmental institutions and staff from other parts of the environmental management network, *e.g.* lead agencies, other specialised agencies, NGOs, etc.

Source: Danida (2006), *Environment Sector Programming, Good Practice Paper*, Danida, Copenhagen.

Swedish Bilateral Support to Environmental Capacity Development: Overview of key results and lessons learned

- Translating outputs of environmental capacity development to sustainable outcomes and impacts, such as poverty reduction, is a key challenge.
- Greater use of institutional analysis is needed in preparation of development support to environmental capacity building so as to identify political and economic constraints and enabling factors.
- The capacity of developing country environment agencies to engage in national budget processes is crucial for the sustainability of investments in environmental capacity development.
- A focus on climate change can create strategic entry points for environment agencies to participate in high-level policy co-ordination.
- A more ambitious Swedish agenda in this area will require specific expertise as well as general competence development at Swedish embassies and within Sida country teams.

Source: Slunge, D. and E. César (2010), *Swedish Bilateral Support to Environmental Capacity Development: Overview of Key Results and Lessons Learned*, University of Gothenburg, Gothenburg.

Similarly, the UNDP has examined lessons learned from the National Capacity Self-Assessments (NCSAs) supported by the GEF. The GEF has provided financial support for nearly 10 years to 146 countries for country system-focused capacity development, using NCSAs as the principal tool. The NCSAs are a country-driven activity that facilitates systematic and cross-cutting analysis of individual, organisational and systemic capacities needed to meet the objectives of the Rio Convention. The assessment identified some weaknesses in the performance of NCSAs, such as the connection between environmental priorities and recommended actions. The top five capacity development needs expressed by countries to achieve and sustain global environmental outcomes for greening development through NCSAs are: *i)* public awareness and environmental education; *ii)* information management and exchange; *iii)* development and enforcement of policy and regulatory frameworks; *iv)* strengthened organisational mandates and structures; and *v)* economic instruments and sustainable financing mechanisms (Bellamy and Hill, 2010).

The regular review process by development support providers should lead to further reflection on both adjustment of strategies and enhancement of capacities to carry out their programmes on building capacities for greening development more effectively. In the long run, a more programmatic approach should be developed that ensures that "learning by doing" becomes part of the overall process.

The way forward for development support providers

When outlining the role of development support agencies in providing capacity building for greening development, it is important to appreciate what is realistic and feasible. Building capacity for greening development is a complex, long-term endeavour. In some cases, governance reform will be required to facilitate this process. The attainments of development support are therefore determined by the individual country contexts. Development support providers need to make pragmatic decisions and ensure that their support is based upon good analysis of opportunities, barriers and achievable targets. These providers should be able to identify and assess promising entry points, the potential role of champions, the complexity of institutional processes, and the practicalities of learning-by-doing.

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