

Public and Private Environmental Expenditure Review
Agreed methodological framework

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1. Introduction

The agreed methodology framework roots itself in the overarching purpose of influencing national budget and planning processes to integrate biodiversity and climate change concerns and of influencing private sector behaviour through appropriate financial mechanisms.

The goal of the current assignment is to conduct a Public and Private Environmental Expenditure Review (PPEER) with explicit focus on biodiversity and climate change adaptation and advocate for the recommendations of the PPEER at the national level. The PPEER will provide a baseline for future trend analysis in budget allocation and execution and effectively monitor progress on the contribution of environment and biodiversity towards sustainable development, the achievement of National Strategy for Sustainable Development (NSSD) and National Biodiversity Strategy and Action Plan (NBSAP) targets as well as Sustainable Development Goals (SDGs). It will also inform policy options required to translate the Green Economy and sustainable development principles into action.

More specific objectives of the assignment are:

- implementation of the PPEER
- design and delivery of a comprehensive Communications and Engagement plan¹ to accompany the PPEER process in the Kyrgyz Republic.

The two objectives are closely interlinked as the Communications and Engagement plan seeks to find the best ways of communicating the PPEER findings and engaging with relevant stakeholders and decision makers (government, donors, private sector), equipping them in the process with the information that responds to their needs.

¹ While the original TORs refer to Communications/advocacy strategy and plan, the discussions within the PPEER team clearly indicated that this term might be misleading as it is often perceived as a one way supply driven process, where the information is supplied ("communicated") to the different stakeholders using different channels. This is misleading - both within the context of BIOFIN methodology as well as modern concepts of communication, communication is not just about supplying information, but also about meaningful engagement in order to learn about the stakeholders needs/interests/concerns/other and to respond to these needs accordingly. By adding the word "engagement!" we reflect more clearly the wider purpose of communication within the context of the PPEER work in Kyrgyz Republic and thus avoid potential misunderstandings.

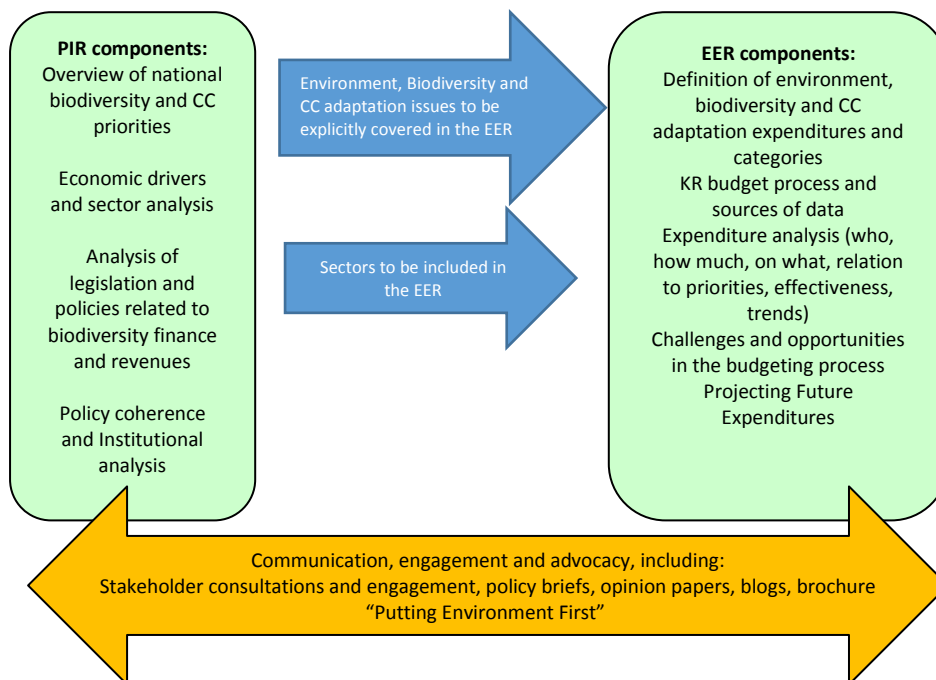
The text below details the main elements of the approach for PPEER implementation, focusing on preparation of the Policy and Institutional Review, and Environment Expenditure Review.

The PPEER will have an explicit focus on biodiversity, as well as climate change adaptation in as far as environmental and biodiversity solutions have direct positive contribution towards climate change adaptation. It is well known that some types of environmental and biodiversity expenditure can be multi-objective² (including having a positive contribution to climate change adaptation effort), therefore the desired effect is to maximize such potential synergies. The current assessment will highlight such areas of potential synergies³.

The PPEER will include two sections:

- Section 1: Policy and Institutional Review (PIR), and
- Section 2: Environment Expenditure Review (EER)

The mutual interlinkages between the two and the communication strategy are presented below:



The methodology described below⁴ is based on the BIOFIN workbook and CPEIR workbook and it incorporates results of discussions and interviews carried out during the first mission of the two international experts, results of stakeholder workshop and series of working sessions of the PPEER team (see also the Narrative Report # 1 with the attachments) as well as **review of the following relevant literature of past and current similar initiatives** including:

- Methodology guidelines: BIOFIN workbook and additional explanations on use of PIR and BER worksheets and Methodological Guidebook: Climate Public Expenditure and Institutional Review (CPEIR)
- International environment, biodiversity and/or CC adaptation expenditure reviews:
 - Development of a Baseline of Biodiversity Expenditure in Namibia, Namibia Nature Foundation 2014,
 - BIOFIN Bhutan inception report

² According to the report of IEED (2014) "Tracking Biodiversity Expenditure in the EU Budget PART I - Guidance on definition and criteria for biodiversity expenditure in the EU budget.", with reference to OECD "of total biodiversity related aid, 82 per cent consists of activities designed to simultaneously address climate change mitigation, and/or climate change adaptation, and/or desertification concerns"

³ To illustrate this approach: the PPEER will identify those environmental and biodiversity expenditures that contribute to climate change adaptation (for example, reforestation designed to enhance biodiversity and ecosystem based adaptation or water management measures which benefit ecosystem health and contribute to climate adaptation). However, the PPEER will not identify adaptation expenditure that has no (or hardly any) relevance to environment or biodiversity, for example infrastructure (flood defence walls, training for civil protection services).

⁴ Important to note that this is an overall methodology framework and as such new ideas will be developing as the elaboration of PPEER proceeds. To illustrate, in case of Communications and Engagement Strategy it might include means of communication other than those listed in the original TORs. For example, opinion papers might be substituted with blogs by PPEER champions. The choice of means of communication would primarily be dictated by their effectiveness.

- Nepal Climate Public Expenditure and Institutional Review, 2011
- Tracking Biodiversity Expenditure in the EU Budget, Institute for European Environmental Policy, 2015
- Thailand Climate Public Expenditure and Institutional Review, ODI
- Bangladesh Climate Public Expenditure and Institutional Review, Ministry of Planning, 2012
- Mozambique Environmental Expenditure Review 2005-2010, MICOA and PEI, 2012
- Relevant national reviews, including:
 - Analysis of the current budgeting policy and practice for the implementation of poverty-environment budgeting process (orig: Анализ текущей политики и практики бюджетирования на предмет внедрения вопросов бедности и окружающей среды в процесс бюджетирования) Ministry of Finance and PEI,
 - Environmental assessment of KR State Budget for 2013 and Medium Term Fiscal Framework for 2013-2015
 - Report on Expenditure for environmental sector (orig: Расходы на сектор «Охрана окружающая среда»), KR Ministry of Finance, 2016

Section 2 of the methodology explains the preparatory work carried out so far, including the principles of working arrangements within the PPEER team; Sections 3 and 4 present a more detailed methodology for the two main components (PIR and expenditure review respectively) and Section 5 reflects an overview of the workplan.

2. Preparatory work carried out so far and basic working arrangements

The owner of the PPEER is the State Agency of Environment and Forests with close participation from several other government institutions, including the Ministry of Finance and the Ministry of Economics.

The PPEER team is composed of four national experts, supported by the UNDP country office, an international PPEER advisor and an international communications specialist. The team might be further supported by additional expertise on national environment, biodiversity and climate change adaptation issues and the TORs of the national team might be revised in very near future to strengthen the development of PIR component.

Work organisation wise the national experts will draft the PIR and the expenditure review and elements of these two sections of PPEER in cooperation with the international PPEER advisor and supported by the UNDP country office (to be led by the national experts). Drafting of the PIR and the expenditure review will be carried out in a consultative manner engaging the key stakeholders through direct working meetings and interviews. Draft deliverables will be subsequently internally revised (to be lead by the International PPEER advisor). The subsequently draft PIR will be presented and validated in the stakeholder workshop tentatively planned for early June 2017; the draft expenditure review (ER) will be presented and validated early September, and the final deliverable — full PPEER — will be validated with the stakeholders in November, with the final deliverables to be completed end of November 2017. See also proposed implementation plan at the end of this document (Section 5). Development of these deliverables will be accompanied by implementation of a communications and engagement strategy throughout this period, which will include, among other things, development of specific communication materials (policy briefs, opinion papers or blogs and a brochure).

As part of preparatory work, a significant volume of background information has been reviewed. References to relevant findings are included whenever relevant throughout this document.

The following economic sectors that are most important for driving environmental and biodiversity management and climate change adaptation and that are most important as potential or actual finance stakeholders and decision makers have been identified:

- Agriculture,
- Forestry
- Hunting and Fishing
- Energy
- Tourism

- Mineral resources
- Transport.

In addition, the **Education** sector has been highlighted by the stakeholders as one of the key sectors that has potential to drive a change in perceptions among general population (general education) and among relevant sector specialists (vocational training and higher education). **Research** has been highlighted as an area that should be connected to strategic planning processes in order to ensure that key decisions affecting environment, biodiversity and climate change adaptation are based on sufficient understanding of underlying processes and drivers. In this regard the national Academy of Sciences (orig: Академия наук) and other research institutions may potentially play a significant role and this question will be explored in the assessment.

3. Policy and Institutional Review (PIR)

The aim of the Environment, Biodiversity and Climate Change Adaptation Finance Policy and Institutional Review (further - PIR) is to analyse fiscal, economic, legal, policy, and institutional framework in Kyrgyz Republic in order to initiate new or improve / upscale existing environment and biodiversity finance solutions (including those that have positive contribution towards CC adaptation) with an overall aim of greening the KR economy in order to support more sustainable growth and jobs, and to promote environmental improvement, poverty eradication and social equity by shifting investments towards natural capital and cleaner and more efficient technologies. Such investments would have to be supported by targeted public expenditure and policy reforms. To achieve this aim, as explained above, the PPEER will inform policy options required to translate the Green Economy and sustainable development principles into action. In this context the PIR has the following specific objectives:

- Describe how the management of environment, biodiversity and ecosystem services supports national sustainable development goals and visions including climate change adaptation
- Assess economic and financial drivers that impact on environment, biodiversity, ecosystem services and relevant⁵ climate change adaptation efforts
- Catalogue existing environment (with emphasis on biodiversity and ecosystem services) finance mechanisms, incentives, subsidies and other instruments, including an assessment of sources of environment (with emphasis on biodiversity and ecosystem services) revenues
- Identify opportunities for greening of key sectors through improved or expanded environment (with emphasis on biodiversity and ecosystem services) finance solutions including legal, policy, strategic planning, institutional, and operational aspects
- Identify environment finance capacity development needs and opportunities and
- Develop specific policy recommendations to initiate new or improve / upscale existing environment (with emphasis on biodiversity and ecosystem services) finance solutions.

To achieve these objectives, the preparation of the PIR will follow the main steps outlined in the BIOFIN workbook. The text below highlights the main aspects. The scope of the report may be refined, as initial information is gathered and analysed.

a. Preparations

The following data and information sources have been prioritised for PIR needs:

- National Sustainable Development Strategy for Kyrgyz Republic for 2013-2017
- Environmental Safety Action Plan 2011- 2015 (Постановление от 23 сентября 2011 года № 599 Об утверждении Комплекса мер по обеспечению экологической безопасности в Кыргызской Республике на 2011-2015 годы) and Environmental Safety Policy, 2007 (Концепция экологической безопасности Кыргызской Республики)
- National Biodiversity Strategy and Action Plan (Постановление от 17 марта 2014 года № 131 О Приоритетах сохранения биологического разнообразия Кыргызской Республики на период до 2024

⁵ "relevant" in the sense of the scope of the assignment. That is, those efforts that benefit directly from environmental and biodiversity measures

года и Плана действий по реализации Приоритетов сохранения биологического разнообразия Кыргызской Республики на 2014-2020 годы

- National Reports to CBD (Fifth National Report on Conservation of Biodiversity of the Kyrgyz Republic, 2013)
- National Climate Change Adaptation Strategy (Постановление Правительства Кыргызской Республики О Стратегии Кыргызской Республики по адаптации к изменению климата до 2020 года)
- NGO, academic, technical and other reports, for example, The Prospects for Green Economy in the Kyrgyz Republic, 2012 - a joint effort of an interagency expert group
- Medium term budget frameworks (Среднесрочный Прогноз Бюджета) for Kyrgyz Republic for 2015-2017, 2016-2018, 2017-2019
- Sectoral development plans
- Publications and reports related to biodiversity status and trends, finance, institutions and policies (for example, National Report on State of Environment (Национальный Доклад О Состоянии Окружающей Среды Кыргызской Республики За 2006-2011 ГОДЫ) statistical publications: "Environment in Kyrgyz Republic" (Окружающая Среда В Кыргызской Республике, Статистический бюллетень) - annual and 5-year, Экономическая оценка экосистемных услуг государственного природного парка «Каракол»), statistical and/or customs information of export of non-timber forest products; statistical information on sector performance (contribution to GDP, employment, etc)
- National budgets and budget execution reports, including Environmental assessment of KR State Budget for 2013 and Medium Term Fiscal Framework for 2013-2015
- Web based information
- Direct communications from stakeholders.

b. Review and summarising national biodiversity and climate change adaptation visions, strategies and trends

The preliminary analysis has concluded that the NBSAP is not considered a comprehensive strategy for addressing the main biodiversity management needs, therefore results and targets from other complementary sources will need to be considered in order to review biodiversity visions and strategies. Generally, for the purpose of PIR, the following key strategic documents will be considered:

- National Sustainable Development Strategy for Kyrgyz Republic for 2013-2017
- National reports to CBD and other international conventions on environment and climate change
- National Climate Change Adaptation Strategy
- The Prospects for Green Economy in the Kyrgyz Republic, 2012
- Sectoral strategies.

The available targets and actions from these strategies will be recorded containing as a minimum the following information: name of the strategy document, its scope (timewise and geographically), legal status, lead institution (with additional details on entry points within these institutions) and other organisations involved with planning, budgeting, and implementing the strategies (as far as it is relevant to the biodiversity and climate change adaptation), relevant actions with targets and indicators.

These documents will be used to describe the current vision, strategies and trends in environmental management, to explore sector-specific dependencies, impacts, risks and opportunities with regards to biodiversity and climate change including a rapid review of existing economic valuation studies. The review will place a specific emphasis on links between environment biodiversity/climate change and sustainable development targets in the Kyrgyz Republic.

Finally, this review will assess the overall environment, biodiversity and climate change policy coherence, looking at issues such as how much policy attention do these issues receive within national development planning and how much attention do environment, biodiversity and climate change policies pay to each other (are the mutual links identified and captured). It will also assess in broad terms to what extent the national biodiversity and relevant climate actions are responsive to the priority areas identified above, as well as to what extent are they consistent with green growth goals and sustainable development goals and where are the main gaps. It will look into linkages with poverty reduction and gender equality (to what extent the policies and programmes / actions are helping the poor and more vulnerable and what are the gender dynamics). If

biodiversity and climate change policies or programmes are not considered relevant by stakeholders, why is that the case and how does that influence budget allocations? This discussion will be further used in the assessment of institutional capacities in order to see to what extent the gaps identified are related to capacities of institutions that have a role in formulating and implementing more coherent biodiversity and climate change policies.

c. Identification of Economic and Policy Drivers of Environment, Biodiversity and Climate Change Adaptation

This will be carried out using the five-step approach of BIOFIN methodology:

- **Prioritise environment, biodiversity and climate change trends.** The prioritisation will reflect the trends with greatest impact from a social and economic perspective and in terms of their importance for achieving the biodiversity and sustainable development goals, as well as the mutual linkages between these trends (that is, the links between biodiversity and climate change). The trends will be prioritised based on environment and biodiversity conservation importance (according to national strategies and expert opinions); importance in terms of reducing climate vulnerability and contribution positively towards adaptation effort, economic value (ecosystem services, jobs, etc); impact, particularly on the poorest and more vulnerable groups of Kyrgyz population. Prioritisation will take into account the results of the evaluation described below how sectors interact with biodiversity and ecosystem services.
- **Evaluate how economic sectors interact** with biodiversity and ecosystem services and what role they play in climate change adaptation – considering both impacts and dependencies to identify the most important sectors for engagement and finance opportunities. The following main sectors will be considered in this step (Agriculture, Forestry, Hunting and Fishing, Energy, Tourism, Mineral resources, Transport, - if necessary for the purposes of analysis these will be further subdivided into subsectors). The sector linkages with biodiversity and ecosystem services will be analysed in terms of dependencies and impacts (paying particular attention to impact on groups of population of particular interest, such as poor, elderly and women). For each sector to be analysed the following minimum information will be recorded: contribution to GDP, employment (formal and if relevant – informal / subsistence), priority trends, dependencies (how the sector performance depends on biodiversity and/or ecosystem services, how the sector performance depends on climate change adaptation efforts) and how the sector has an impact on biodiversity and ecosystem services. The results will be used to prioritise sectors for which more detailed analysis will be prepared, forming a basis for assessing relevant fiscal policies and valuation studies.
- **Review relevant fiscal policies** – associated with the priority environment, biodiversity and climate change trends, impacts and dependencies. To be prepared for the sectors selected in the previous step.
- **Review relevant economic valuation studies** that shed light on economic drivers of change and present information on the justification of further investments. The review will focus on providing economic evidence to how the environment, biodiversity and climate change trends influence sectors or are being driven by sectors. The primary focus of the review will be on studies carried out within the region. In addition, the review will try to source other data that might help to demonstrate the contribution of environment and biodiversity to the national economy (for example, based on existing estimates on harvest losses due to decreased soil fertility and/or data on exports of non-timber forest products).
- Identify other barriers and opportunities for finance solutions.

d. Review existing finance solutions

The review will identify and describe the relevant existing environment (with focus on biodiversity) finance solutions in Kyrgyz Republic. Special attention will be given to national and sector budgets of the prioritised sectors, potential links with any ongoing tax and subsidy reforms in these sectors (including the entry of the Kyrgyz Republic in the Customs Union) and how these reforms can be linked with greening of the national and sector budgets. Based on the BIOFIN methodology, this stage will consist of the following main steps:

- Map the national and sub-national budgeting process
- Analysis of laws and policies affecting environment (with focus on biodiversity) finance
- Assess environment and biodiversity revenue (revenues from biodiversity and ecosystem services that are explicitly linked to these resources (eg logging fees, fishing licences).
- List subsidies that are potentially harmful to environment and biodiversity and subsidies or taxes that can affect negatively climate change adaptation efforts.

- Summarise drivers and existing biodiversity finance solutions.

e. Institutional Analysis

This step provides guidance on carrying out institutional analysis, through three sub-steps:

- List all main stakeholders and decision makers
- Prioritise stakeholders and decision makers in order to focus on those who have or could have a major role in any of the four BIOFIN types of finance solutions (resource mobilisation, realigning existing resources, preventing future costs; and improving delivery of existing finance). Organisations will be assessed on two parameters – how much power do they have to enact change in environment, biodiversity and climate change finance and how much interest do they have. The results from the stakeholder consultations during Workshop 1, as well as follow-up work with the PPEER team during Mission 1 will be used in this prioritisation.
- Evaluate priority organisations. As a minimum the evaluation will focus on the role and effectiveness of the priority organisations vis-à-vis the identified issues related to policy coherence, strategic planning and efficient implementation of the identified finance solutions (or creation of new) and environment / biodiversity / climate change adaptation finance results. These might be generating revenues, better delivery, avoiding future expenditures through mainstreaming environment / biodiversity / climate change adaptation at all stages of planning and budgeting.

The findings of the above analysis will be summarised in the PIR report, containing conclusions and detailed recommendations.

f. The proposed outline of the PIR Report

1. Executive Summary – including key sector findings and recommendations for policymakers (3-5 pages)

2. Introduction (1-2 pages)

- Background information on the Policy and Institutional Review, its objectives, institutional arrangements and contributors.
- The methods used to collect data and the structure of the report.

3. Environment, biodiversity and climate change vision, strategies, and trends (2-4 pages)

Summary of environment, biodiversity and climate change adaptation visions and strategies:

- Key national environment, biodiversity and climate change adaptation strategies and policies; the main visions of environment, biodiversity and climate change adaptation in these strategies
- National development plans and green growth plans other relevant national level developments (such as the entry of the Kyrgyz Republic into the Customs Union)
- Key environment, biodiversity and climate change adaptation trends and how these trends link to national environment and biodiversity goals and strategies; national development plans, green growth plans etc.
- Contribution of biodiversity/ecosystem services and climate change adaptation towards sustainable development; links with the entry of the Kyrgyz Republic into the Customs Union
- Brief overview of the relevant national legislation with emphasis on legislation as an instrument for implementation of the discussed policies (*note: based on the feedback received during the 1st stakeholder workshop this should also include, among others, ecological expertise*).

4. Economic drivers and sectoral linkages (3-5 pages)

This section will take an economic approach to understanding the drivers of biodiversity change, positive and negative:

- Describe sectoral dependencies, impacts, risks and opportunities
- Include a description of the specific sectoral practices having an impact on environment and biodiversity trends and climate change adaptation and uncover the economic and financial drivers for sector specific and general practices
- Cite existing economic, fiscal policy, and other studies and cite how nature contributes to current GDP (including, if available, data on export value of non-timber forest products, contribution to employment of men and women, economic implications of environmental degradation, such as losses in agriculture productivity due to soil degradation).

- Annexed summary of the availability of economic valuation evidence for the country, subdivided by sectors, ecosystems and households/communities/businesses whose value is affected (4-8 pages).

5. The environment, biodiversity and climate change adaptation planning and finance perspective (8–15 pages)

- Overview of the national planning and budgeting process:
 - Overall planning cycle and instruments (including strategic planning, medium term planning and programme planning) and detailed review of the State Budget Process (national and regional level)
 - Discussion on how environment, biodiversity and CC adaptation considerations are / are not taken into account in the planning and budget process. Which institutions have what roles in this process?
 - Role of science in planning (as a justification of environment, biodiversity and CC adaptation management measures).
- Major government subsidies that could be having a harmful impact on environment and biodiversity or subsidies / taxes or other government expenditure that might negatively affect climate change adaptation.
- Tax incentives for climate actions
- Biodiversity and ecosystem services dependent revenues, at least within the public sector and qualitatively estimated for the private sector
- A brief gap analysis of the legal framework for finance solutions (the constitution, national legislation, national plans, sectoral policies and specific policies and regulations (*note: based on the feedback received during the first stakeholder workshop this should also include, among others, ecological expertise*))
- A description of key national entry points, including a rationale for their selection, and the associated agencies and organisations for each entry point
- Summary of environment and biodiversity (including those that could contribute positively to climate change adaptation) finance solutions identified in the country.

6. Policy coherence and institutional analysis (4-7 pages)

- Environment, biodiversity and climate change policy coherence. How much policy attention does environment, biodiversity and climate change adaptation receive within national development planning? How much attention do environment, biodiversity and climate change adaptation policies pay to each other (are the mutual links identified and captured)? Where are the main gaps (assessing the following questions):
 - Are the national environment, biodiversity and climate change adaptation actions responsive to the priorities in these areas?
 - Are they responsive to and consistent with sustainable development and green growth goals and priorities?
 - Do they take sufficiently into account the risks and opportunities arising from developments in other important policy areas (such as the entry of the Kyrgyz Republic into the Customs Union?)
 - Are the policies and programmes of the government in these areas helping the poor and vulnerable?
- Are there environment, biodiversity and climate change policies or programmes that are not considered relevant by stakeholders? Why? How does it have an impact on the figures of resources allocation and use (the question to be answered as the preliminary results from expenditure review become available)?
- Institutional roles and responsibilities with the focus on environment, biodiversity and climate change planning and budgeting tools and finance-related capacities and needs per priority organisation.
- Assessment of biodiversity and climate coordinating mechanisms
- Opportunities to strengthen the capacities of the key institutions in relation to their roles in environment, biodiversity and climate change related planning and budgeting, policymaking, and finance processes.

7. Summary of key recommendations (3-5 pages)

- Overall conclusions and recommendations/national level barrier analysis organised by sectors.
- Legal and policy recommendations (*note: based on the feedback received during the first stakeholder workshop this should also include, among other things, ecological expertise*)
- Changes in sectoral policies and practices that would help reduce environmental degradation, biodiversity loss, that would help improve climate change adaptation effort and/or that could improve environment / biodiversity / climate change adaptation finance.
- Institutional/organisational and capacity development recommendations, including coordination mechanisms.
- Opportunities for improvements in the budgeting and planning process

- Opportunities for increasing interest of private sector to invest in environment, biodiversity and climate change adaptation.

Technical Appendices containing further detail, including:

- Details of the sectoral analysis
- Detailed list and analysis of all policies, laws and regulations reviewed
- Detailed list of all revenues inventoried
- Detailed list and description of each government subsidy reviewed
- Complete listing of all economic valuation studies
- A summary description of all current finance solutions
- Detailed list and description of all stakeholders identified and consulted throughout the PIR

Glossary of terms: This section should define all technical terms used in the report.

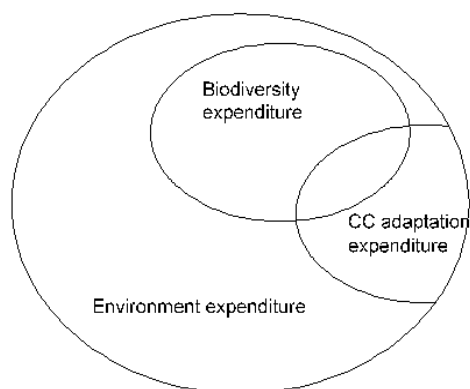
References: This section will include all references cited in the report, with web links whenever available.

4. Environment Expenditure Review (EER) with the focus on biodiversity and climate change

The scope of the environment expenditure review (EER) is broadly defined as environment with focus on biodiversity and climate change. To illustrate the scope, please see the figure below⁶. The purpose of the expenditure review, as defined in BIOFIN workbook, is to use detailed data on public, and whenever available private, and civil society budgets, allocations and expenditures to inform and promote improved environmental (including biodiversity and climate change adaptation) policies, financing, and outcomes. It aims to establish:

- Spending Basics: Who spends, how much, and on what?
- Biodiversity Categories: What are the concentration patterns vis-à-vis main targets and strategies?
- Policy Alignment: Is spending aligned with stated government policies and priorities?
- Delivery Patterns: What are the patterns between allocated, disbursed and spent budgets? Are there barriers in the budgeting process and what opportunities exist for integrating environment more effectively into the budgeting processes?
- Domestic vs external financing: What are the patterns and how do they compare with domestic vs external financing of the state budget as such?
- Financing Sources and Solutions: Are there opportunities to for improved efficiency of environment, biodiversity and climate change adaptation financing?

Figure 1: Scope of the expenditure assessment



The EER will focus on national and local level expenditures (orig: республиканский и местные бюджеты). It will also include a selected number of private companies to assess the level of private sector funding and what are the main drivers for the private sector funding.

The EER covers the period from 2006-2016; however, for the period 2006-2011 slightly different and less precise methodology for data extraction will be used. Though this might appear as a wrong decision to use such an approach, it was chosen in order to highlight what the Ministry of Finance expects to be a sharp decrease in environment and biodiversity expenditure in that period.

The EER will focus on identifying and quantifying the amount of money spent on positive environmental, biodiversity and climate change adaptation outcomes. The expenditure items to be covered in the review will be based on the standard environment, biodiversity and climate change adaptation expenditure classification.

a. Discussion of definitions

Expenditures include financing that is planned in budgets (budgeted), money that is actually allocated, and money that is spent. Looking at these three different “phases” of expenditure in the budget process will allow us to identify relevant allocation and absorption challenges. This definition is based on the BIOFIN methodology and a similar definition is typically used in a standard expenditure review.

For defining environment, biodiversity and climate change adaptation expenditure two main points of departure will be used: international definitions (more specifically those contained in the BIOFIN workbook,

⁶ Important to stress that the review will consider only that part of climate change adaptation expenditure that is also relevant for environmental management.

the Methodological Guidebook: Climate Public Expenditure and Institutional Review (CPEIR), and other international classifications, as well as national definitions.

Biodiversity expenditure includes any expenditure whose purpose is to have a positive impact or to reduce or eliminate pressures on biodiversity, broadly defined. These biodiversity expenditures include direct expenditures that have biodiversity as their “primary purpose” as well as “indirect” expenditures (BIOFIN definition).

This definition is largely aligned with the spirit of the biodiversity concept contained in the NBSAP:

Biological diversity (hereinafter - the biodiversity) is the basis for creating the necessary conditions for the functioning of ecosystems and environmental services necessary for human survival and sustainable development of civilization, contributing to the socio-economic development and achieving the Millennium Development Goals, including poverty reduction.

Definition of what is **environment expenditure** varies for different sources. For example, **Classification of Environmental Protection Activities and Expenditures (CEPA)** classify activities, products, outlays and other transactions whose principal purpose is environmental protection into the following categories⁷:

- Protection of ambient air and climate
- Wastewater management
- Waste management
- Protection and remediation of soil, groundwater and surface water
- Noise and vibration abatement (excluding workplace protection)
- Protection of biodiversity and landscapes
- Protection against radiation (excluding external safety)
- Research and development
- Other environmental protection activities

The **World Bank** in its 2003 study, “Public Environmental Expenditure Reviews (PEERs), Experience and Emerging Practice” by Auphil Swanson and Leiv Lundethors proposed to use the following as a general definition:

Expenditure by public institutions for purposeful activities aimed directly at the prevention, reduction and elimination of pollution or any other degradation of the environment resulting from human activity, as well as natural resource management activities not aimed at resource exploitation or production.

Classification of the Functions of Government (COFOG), which is part of the UN family of international classifications, is used to define the broad functions of government of which one is ‘environmental protection’. This is divided into the following sub-categories:

- Waste management
- Waste water management
- Pollution abatement
- Protection of biodiversity and landscape
- R&D environmental protection
- Other environmental protection services include any expenditure whose purpose is to have a positive impact or to reduce or eliminate pressures on biodiversity, broadly defined.

The drawback of these definitions is that while they all include the notion of intentionality of expenditure, they do not include such expenditures for which environment is a secondary or indirect purpose. As highlighted by stakeholders during the BIOFIN Inception workshop in December 2016, this is one of the key aspects which the current review should address. Therefore for the purposes of the review, we propose the following definition (based on the BIOFIN definition of biodiversity expenditure):

Environment expenditure includes any expenditure whose purpose is to have a positive impact or to reduce or eliminate pressures on environment, broadly defined. These environment expenditures include direct expenditures that have environment as their “primary purpose” as well as “indirect” expenditures.

⁷ Eurostat, Reference and Management of Nomenclatures, http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=CL_CEPAREM&StrLanguageCode=EN&IntPckKey=&StrLayoutCode=HIERARCHIC

The proposed definition is well aligned with the spirit of the Law on Environment, which in its article 4 defines the objects to be protected as:

Subject to protection from contamination, spoilage, damage, depletion, destruction, destruction and other negative impacts are: land and its subsoil, soil cover, water, forests, flora, fauna and their genetic fund, atmospheric air, and other natural objects, systems and environmental systems as well as the climate and the ozone layer of the Earth and the whole Earth as a planet.^{8, 9}

In the context of the scope of the current assignment it is important to emphasise that the Law on Environment clearly reflects that in the national context climate protection issues fall within the environment domain, which reinforces the suggested scope of the current assessment reflected in Figure 1.

Currently there is no agreed international definition of climate change adaptation expenditure nor functional classification of climate change related expenditure. For the purposes of our assessment we will use an internationally widely used definition contained in the Handbook on the OECD-DAC Climate Markers (2011):

An activity should be classified as adaptation related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.

This definition is well aligned with the explanation contained in the Methodological Guidebook: Climate Public Expenditure and Institutional Review, namely:

Climate change adaptation expenditure includes expenditures for ministerial policies and programmes which are expected to contribute to the national climate change adaptation response.

However for the purpose of our review, which primarily encompasses environment expenditure (so it does not include climate change adaptation expenditure that is not related to environment), we will adapt the OECD definition as follows:

An activity should be classified as climate change adaptation related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience through measures whose purpose is to have a positive impact or to reduce or eliminate pressures on environment, broadly defined. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.

Examples of such activities are¹⁰:

- Supporting the integration of climate change adaptation into national and international policy, plans and programmes.
- Improving regulations and legislation to provide incentives to adapt.
- Education, training and public awareness raising related to the causes and impacts of climate change and the role of adaptation.
- Adaptation-related climate research.
- Implementing measures to control certain diseases in areas threatened by increased incidence of diseases due to climate change.
- Promoting water conservation in areas where enhanced water stress due to climate change is anticipated.
- Promoting heat and drought resistant crops and water saving irrigation methods to withstand climate change.

⁸ Article 4, Law on Environment with amendments (ЗАКОН КЫРГЫЗСКОЙ РЕСПУБЛИКИ от 16 июня 1999 года № 53 Об охране окружающей среды)

⁹ The PPEER could adopt an alternative definition, combining the two could be adopted to more clearly explain the concept of “environment broadly defined”, for example: “**Environment expenditure** includes any expenditure whose purpose is to have a positive impact or to reduce or eliminate pressures such as contamination, spoilage, damage, depletion, destruction, destruction and other negative impacts on environment, broadly defined, which includes: land and its subsoil, soil cover, water, forests, flora, fauna and their genetic fund, atmospheric air, and other natural objects, systems and environmental systems as well as the climate and the ozone layer of the Earth and the whole Earth as a planet. These environment expenditures include direct expenditures that have environment as their “primary purpose” as well as “indirect” expenditures”. PPEER team will finalise the discussion of definitions at early stages of EER preparation.

¹⁰ OECD, 2011, Handbook on the OECD-DAC Climate Markers

- Promoting a diverse mix of forest management practices and species to provide a buffer against uncertainties of climate change.
- Promoting changes in fishing practices to adapt to changes in stocks and target species. Introducing flexibility in the gear that is used, the species that are fished, the fishing areas to be managed, and the allocations that are harvested.
- Implementing measures for flood prevention and management such as watershed management, reforestation or wetland restoration.

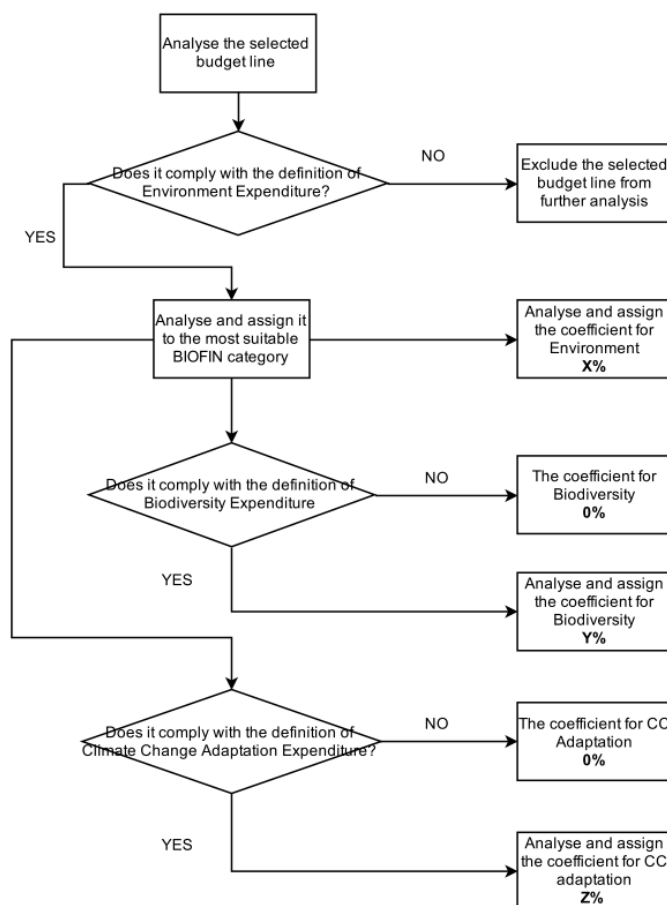
b. Expenditure identification, classification and attribution

From the methodology perspective the use of the proposed environmental and biodiversity expenditure definitions mean that using only environment and biodiversity function codes (705 and 7054 respectively) of the national budget classification system for extracting relevant expenditures is not sufficient and therefore we will identify expenditures also coded with other codes using other means (including sector programmes, medium term budget frameworks and annual implementation reports from the priority organisations).

In 2011 the Kyrgyz Republic started gradual implementation of programme budgets, however due to a number of limitations (including limited actual use of programme budget), the use of programme budgets in expenditure analysis will be feasible only for 2015 and 2016.

As reflected in Figure 1, environment expenditure encompasses the “total” size of expenditure of interest for this assessment, so that biodiversity expenditure and climate change adaptation expenditure are part of environment expenditure. Therefore in order to determine the size of the budget that is relevant to environment, to biodiversity and to climate change adaptation, we will adopt the following process, see also Figure 2 explaining the process.

Figure2: Process for expenditure classification



First we will determine the budget lines that comply with our definition of “environment expenditure”. We will look at individual activities or budget lines each year (2012, 2013, 2014, 2015, 2016) in each agency selected as a priority agency in the PIR. For each line we will first determine if it complies or does not comply with our definition of environment (based on relevant documentation, subsequently to be confirmed with the agency representatives) and for those that comply - assign it to the appropriate BIOFIN category and subcategory and then estimate the proportion of the respective budget line that is relevant to environment. After this step, we will further assess those lines identified as relevant to environment to see whether they are relevant also to a) biodiversity and b) climate change adaptation and estimate the proportion of the budget that is relevant.

Understandably, based on our environment and biodiversity expenditure definitions, all biodiversity expenditure and all climate change adaptation expenditure is also environment expenditure, but not all environment expenditure will be biodiversity expenditure or climate change adaptation expenditure. This will reflect through the different coefficients assigned for BIOFIN categories for each budget line for these three topics (environment, biodiversity and climate change adaptation).

Assigning values of coefficients will be further discussed by BIOFIN team and in order to decide the “steps” for these coefficients (5, 10, or 25%). It is possible that we will adopt approach similar to that used in Thailand and India climate expenditure reviews for example, where first the expenditure was classified as expenditure with high / medium / low /marginal relevance to climate change and then coefficients were assigned to these larger groups. In deciding the “steps” for these coefficients we will carefully consider the interests and concerns of our stakeholders and how these choices will influence how the reliability of the expenditure review is being perceived by our stakeholders

As such the basic **data base structure** will be the same as in the BIOFIN Data Tool module “Biodiversity Expenditure Review (BER) module”, but it will include extra layer to differentiate within environment expenditure the biodiversity expenditure and the climate change adaptation expenditure.

To accommodate this approach, the names of some of the BIOFIN categories will be adjusted in order to enable us to fully use this categorisation for all three groups of our analysis (environment, biodiversity and climate change adaptation). As shown in Table 1 below, most of the BIOFIN categories are sufficiently wide to fully encompass wider environmental and/or climate change adaptation expenditures, while some are not (for example education and awareness building). Therefore we will explore possibilities to “rename” some of the categories so that we can fully use this categorisation for both environment and biodiversity expenditures, and we will analyse if we need to add any extra subcategories (preliminary analysis carried out so far suggests that adding new subcategories will not be required). We will also clearly reflect links with the national budget classification system (see some examples in Table 1 below).

Table 1: Reflection of database structure through BIOFIN categories and links with national government function classification system

Category	Subcategory	Links with Kyrgyz Republic budget functional classification
Access and benefit sharing	Contractual Arrangement	
	Financial compensation	
	ABS Clearing House Mechanism	
	Nagoya Protocol (ratified/enforced)	
	Bioprospecting	
Biodiversity Environmental awareness and knowledge	Non-formal biodiversity environment education, including technical training	705, 7054, 709
	Biodiversity Environment awareness (e.g. public awareness campaigns, park visitor education etc.)	705, 70541
	Biodiversity Environment communication	705, 7054
	Biodiversity Environment scientific research	70541, 7055
	Technology innovation for biodiversity environment	704
	Valuation of environment , biodiversity and ecosystems	
	Indigenous and local communities knowledge	
	CBD Clearing House Mechanism	
Biosafety	Genetically modified organisms (GMOs), including Living modified organisms (LMOs)	
	Invasive alien species	
Green economy	Corporate social responsibility (CSR)	
	Environmental Impact Assessment (EIA)	
	GHG mitigation	704 (7042, 7044, 7045)
	Green supply chain	
	Sustainable extractive industries	704 (7044)
	Sustainable consumption	
	Sustainable energy	704 (7043)
	Sustainable investing	
	Sustainable tourism	704
	Sustainable transportation	704
Sustainable urban areas		
Biodiversity Environmental	Biodiversity Environmental laws, policies, plans	705, 7054
	Other relevant laws, policies, plans	

	Biodiversity Environment coordination and management	705, 7054
	Biodiversity Environment finance	
	Strategic Environmental Assessment (SEA) frameworks	
	Spatial planning	
Pollution management	Multilateral Environment Agreement (MEA)	
	Protection and remediation of soil, groundwater and surface water	7053 or 70421
	Protection of ambient air and climate	7053
	Other pollution reduction measures	7053
	Waste management	7051
Protected areas and other conservation measures	Wastewater management	7052
	Protected areas, including indigenous and communities conserved areas	70541
	Expansion of protected areas	70541
	Landscape/seascape conservation, including of valuable ecosystem services	Within 705 and 704
	Poaching, wildlife trade and CITES	70542, possibly 7031 (e.g., 70314)
	Loss of valuable habitats, including targeted conservation of species outside PAs	7054 and within 704
	Ecosystem connectivity	7054
Restoration	Ex-situ conservation of species (botanical gardens and gene banks)	7054, some might be within 70822
	Reintroduction of species	7054
	Site re-development and engineering	Within 704
	Site-management	Within 704
Sustainable use	Post-disaster relief	The most likely within 7022
	Sustainable agriculture	Within 70421, 70424 and 70429
	Sustainable aquaculture	Within 70423
	Sustainable fisheries	Within 70423
	Sustainable forestry	Within 70422
	Sustainable land management (UNCCD and multiple use)	Within 704
	Sustainable marine and coastal management	Within 704
	Sustainable rangelands	Within 70421
Sustainable wildlife	Within 70423	
	Watershed management	Within 704 (including 70435 and 7042)

Explanations regarding the references to the government function codes:

- 7022 – civil protection
- 7031 – law enforcement authorities
- 7042 – agriculture
 - 70422 – forestry
 - 70423 – fishing and hunting
 - 70424 – water management and drainage
- 7043 – fuels and energy
 - 70435 – electricity
- 7044 – mining and processing industries
- 7045 – transport
- 705 – environment protection
 - 7051 – waste
 - 7052 – wastewater
 - 7053 – pollution
 - 7054 – biodiversity
 - 70541 – protected areas
 - 70542 – protection of animals
 - 70543 – plant protection
 - 7055 – research and development
- 709 – education

The same BIOFIN categories will be used to show the links with the national priorities, with the international classification of government functions (COFOG) and this will be developed at early stages of EER.

In parallel, for the period covering 2006-2011, we will extract environment and biodiversity expenditure that has been classified with the relevant government function codes (705 and 7054) and analyse the trends within that period separately.

c. Data collection

Private and public expenditure data will be collected from the identified sources. Public expenditure data will be mostly obtained from the state budget information system and from agency reports. Private expenditure

data will be obtained using the data from the Statistics Committee and direct interviews with selected private companies (to be selected on basis of PIR findings regarding the main sectors and main dependencies and impacts). See table 2. All data obtained will be treated in confidence and will only be divulged publicly in aggregated form and with the permission of the government and those providing data.

Table 2 Review of necessary primary and secondary data for PPEER

Year	Data	Source
2006-2011	Budgets coded with relevant function code (705, 7054)	Budget information management system (Ministry of Finance)
2012-2014	Agency budgets	Budget information management system (Ministry of Finance) Agency budgets and reports
2015-2016	Agency budgets and Programme budgets	Budget information management system (Ministry of Finance) Medium term budget frameworks (Среднесрочный Прогноз Бюджета) for Kyrgyz Republic for 2015-2017 and 2016-2018 Agency budgets and reports Working meetings with agency representatives
2015-2016	Private sector expenditure	Statistics committee data on private sector environmental expenditure Information from selected private sector companies
2012-2016	Donor funds	Database on donor projects in Kyrgyz Republic not included in the state budget.

Data will be collected such as to reflect the differences between budgeted, allocated and spent amounts as well as to separate current and investment expenditure. Whenever feasible, the sources of the expenditure will be identified (eg national budget, environmental protection fund, donor funds).

Data will be collected and recorded in the reported currency and in nominal terms (not adjusted for inflation). Whenever the currency is different from the national currency (eg in case of donor funds) it will be calculated in soms using the exchange rate for the year in question.

d. Data analysis

Data analysis will follow the standard BIOFIN methodology, with the emphasis on the following:

- Environment, biodiversity and climate change adaptation expenditure in a national context: what percentage of budgets and expenditures are directed at environment, biodiversity and climate change adaptation expenditure as compared to other areas, comparison to GDP and annual government budget, comparison between different institutions, national and local level. Sources of expenditure (national versus donor).
- How effectively budgets are turned into expenditures and whether spending constraints are due to lack of initial budget, lack or delayed allocation of resources, or the absorption capacity of the executing agencies and organisations. This will include comparative analysis among key organisations (organisations with the highest environment, biodiversity and climate change adaptation expenditure).
- How well the expenditure reflects the stated priorities for environment, biodiversity and climate change adaptation and to what extent the government is equipped to track its expenditure on stated priorities in these areas.
- Trends in expenditure.

Projecting future expenditure

The expected future biodiversity expenditures will be projected based on the trends established in the previous step (data analysis). The projections will cover a forward period of the next 5-10 years (to be determined as part of follow-up consultations with stakeholders). Projections of future expenditures will be based upon past expenditures and existing government projections, including the so-called budget ceilings per agency. All methodological decisions on projections will be clearly explained and justified in an annex, and will

be discussed and validated with stakeholders both during interviews and during the third stakeholder workshop.

e. Outline of the report

The results will be presented in an expenditure review (EER) report. The suggested outline of the report follows (subject to changes as the work will progress):

1. Executive Summary
2. Acknowledgements
3. Introduction
4. Methodology
 - Scope of ER including past and future time periods
 - Definition of environment, biodiversity and related climate change adaptation expenditures and categories
 - Explanation of Kyrgyz Republic budget classification
 - Attribution methodology for allocating indirect expenditures
 - Sources of data
5. Results
 - Summary Results – macroeconomic data and budget trends
 - Sector Budgets
 - Environment, biodiversity and climate change adaptation in the Budget
 - Environment, biodiversity and climate change adaptation spending by Sector and Categories
 - Environment, biodiversity and climate change adaptation spending by organisation
 - Environment, biodiversity and climate change adaptation spending funded by government vs donor funded
 - Challenges and opportunities in the budgeting process (including comparison of analysed spending with stated government priorities and opportunities for increased efficiency)
 - Projecting Future Expenditures
6. Recommendations and Conclusions
7. Annexes

Draft of policy brief and opinion paper on PPEER (draft by national consultants) [NOTE: if opinion paper is blog, should be written in week before launch]							X			X
Draft of policy brief and opinion paper on PPEER (revised draft by PPEER internat. consultant).							X			X
Final policy brief and opinion paper on PPEER (draft by national consultants)								W2		
Final of policy brief and opinion paper on PPEER (revised draft by PPEER internat. consultant) IIED to check English style – must be clear and accessible								W4		
Sign off EN – all changes made, no further changes permitted unless factual inaccuracies									W1	
Send for RU translation									W1	
Format EN version in UNDP template & circulate for checking									W2	
Format RU version in template									W3	
EN cleared for print by team including international consultants									W3	
RU cleared for print by team including international consultant									W4	
Brochure “Putting environment first”										
First draft written by international consultants in EN. Circulate for comment – turnaround one week						X	14 th *			
Second draft: circulate for final comments								W1		
Final text 16 pages: final sign off EN. All changes made, no further changes permitted unless factual inaccuracies								W2		
Infographics								mid		
Data made available										
‘Story’ of data agreed								W4		
Brief designer & first concept sketches									W1	
Concept agreed & first design proofs									W2	
Final designs									W4	
Brochure “putting environment first” with infographics – for printing (RU, EN): SEPTEMBER: EN brochure to design - early Week 3 (with placeholder for infographics). First design proof of EN brochure early Week 4. Circulate for comments (3 days) OCTOBER: Second proof EN brochure including infographics end Week 1 Circulate for final comments. Sign off EN brochure for print end Week 2 Send proof for RU translation end Week 2. EN brochure to print beginning Week 3. Final RU proof for checking end Week 3 Sign off RU brochure Week 4. NOVEMBER RU brochure to print – the latest beginning Week 1								X	X	X

* Rosalind on annual leave in August. Can look at a draft on the week that starts on 14 August.