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Green Budget Tagging: Introductory Guidance & Principles (Working Draft)

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Green budget tagging can serve as a useful tool in an overall approach to green budgeting. This introductory guidance was developed by the OECD in collaboration with institutional partners working under Principle 4 of the Coalition of Finance Ministers for Climate Action (IADB, IMF, UNDP, World Bank) and draws lessons from existing country practices. It was informed by a series of round-table events with countries implementing green budget tagging. The document aims to highlight key issues raised in relation to implementing, improving and designing green budget tagging.

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Foreword

As governments work to mobilise its commitments towards addressing climate change, green budgeting and its component tools such as green budget tagging can provide opportunities to advance efforts to address climate change, biodiversity loss and wider environmental degradation. Specifically, it can help raise awareness of how government budget policy is linked to national objectives and provide information that can be used to improve the effectiveness of government revenue and spend in achieving them. By raising visibility of government action, green budget tagging can help to mobilise resources and improve monitoring and reporting of relevant policies and international climate and environmental commitments. This also helps countries to work towards international commitments, such as the Nationally Determined Contributions as part of the Paris Agreement. However, putting green budget tagging into practice can sometimes be a daunting task. What categories should a country use for tagging? What elements of the budget should be tagged? How should the information gathered through tagging be reported and used in decision-making?

Green budget tagging is still a relatively new practice. International partners, such as UNDP, World Bank and IADB have drawn upon leading experiences from Asia, Africa and Latin America to promote understanding and implementation of climate budget tagging. Concurrently, there has been a growing body of experience across the OECD in green budget tagging. As such, there have been calls under various international platforms from the Paris Collaborative on Green Budgeting to the Coalition of Finance Ministers for Climate Action for support in drawing together lessons from this wider range of experience.

The production of this guidance aims to respond to these calls, building on existing work. It also expands the existing discussion beyond climate budget tagging to green budget tagging, giving insight into how tagging can help support the achievement of environmental objectives beyond those related to climate. We welcome the introduction of this guidance, developed by the OECD with the participation and collaboration of the broader community of institutions working in the area of green budgeting, including the World Bank, UNDP, IADB and IMF, all of whom are partners under Principle 4 of the Coalition of Finance Ministers for Climate Action. Because the guidance has been developed in consultation with countries across the Coalition, it reflects and illustrates practices grounded in experiences to date.

Given the diversity of country contexts, it does not aim to stipulate a single set of practices but instead sets out the options for embedding a coherent approach – as a first step. The reader has a useful tool to serve as an introductory guide for basic questions and crucial issues in designing and implementing an effective approach to green budget tagging.

Executive summary

Climate change, biodiversity loss and wider environmental degradation are major, imminent threats facing our planet and our societies. International initiatives such as the Paris Agreement, the Aichi Biodiversity Targets under the Convention on Biodiversity (CBD) and the Sustainable Development Goals (SDGs) are helping governments around the world to commit to pursuing a co-ordinated action. In pursuit of these commitments, many governments have set out national goals, unique to their local contexts and capabilities, to help protect the environment (e.g. biodiversity) and mitigate climate change. Public expenditure amounts to a significant proportion of economic activity – thus, government tax and spending decisions can have powerful social, environmental and economic implications for a country. Given the budget document is the central policy document of government, and the important role it plays in determining how resources are allocated to deliver national goals, it is appropriate that priorities related to environment and climate change be considered as part of the budget process.

Green budgeting offers a range of tools and techniques for governments seeking ways to bring green perspectives to bear on the budget process. One of the central tools in many countries approaches to green budgeting is green budgeting tagging. This can be useful to help track how budget policy impacts cross-cutting goals relating to climate and the environment. This allows countries to identify areas of expenditure and revenue that are helpful or harmful to green objectives. Lessons from country experiences highlight the diversity of approaches, rooted in the national context but aligned to international commitments (e.g. Nationally Determined Contributions).

Before any country starts green budget tagging, it is helpful to have clarity on why it is being introduced - specifically by identifying what “problem” it is trying to solve and to make an assessment of whether or not tagging is indeed the best approach. Designing an approach requires an awareness of key decisions such as defining what is “green” by taking into consideration national objectives and existing international principles and standards, deciding what budget measures tag across sectors and administrative levels, developing a classification system to categorise information and identifying information needs to develop an appropriate weighting system for tagging.

Given the early stage of green budget tagging as a budget tool, countries tend to maintain an adaptive approach to implementation where its scope and processes evolve as capacity and familiarity develops over time. Most countries start by tagging expenditures that make a positive contribution to green objectives. However, some more countries also tag revenues as well as budget lines which negatively impact green objectives. Approaches vary considerably depending on the political rationale for introducing green budget tagging. There are existing approaches and standards for aspects such as categorisation and weighting that countries can draw on. Over time, greater convergence on these aspects may emerge and will serve to foster cross-country comparisons and analysis.

The information produced by green budget tagging can be powerful when it is fed into policy-making and budget decisions. As such, it is important for countries to consider how the information from green budget tagging can be used alongside evidence from other green budgeting tools to influence budget decision-making and provide greater accountability and oversight. Ensuring that green budget tagging is more than a paper exercise is also important in ensuring buy-in for its introduction and development.

Emerging lessons have highlighted key challenges in the implementation of green budget tagging. This includes identifying the appropriate level of granularity for tagging, deciding what to do with budget

measures related to climate adaptation as distinct from climate mitigation, tagging negative budget items and balancing trade-offs across environmental, social and economic objectives. Budget tagging is by its nature subjective and requires sound judgements to be made across government, even when there may be incentives to 'green-wash' or underestimate relevant budget items as part of the process. As such, it is important to ensure tagging decisions are open to scrutiny, both internally and externally, with opportunities for oversight by the supreme audit institution, parliament, and civil society as part of the larger effort.

Green budget tagging should not be a standalone tool, but works most effectively as part of a broader approach to green budgeting with a strong strategic framework (such as relevant strategies, policies and plans which include clear goals for government policy) and supportive enabling environment (such as capacity development and clear guidance for government stakeholders, suitable financial management information systems). The implementation of green budget tagging will be most effective where there is strong political and administrative leadership, a scaled approach to implementation.

On a more strategic level, green budget tagging should be coherent with other public financial management (PFM) reforms. For example, tagging exercises can support the implementation of other PFM reforms such as performance budgeting, or developing a medium-term expenditure framework since they provide information on financial resources allocated to high level policy priorities. Complementing tagging with a wider set of government reforms is also important in maximising progress towards national climate and environmental goals.

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Abbreviations and acronyms

CBA	Central budget authority
CC	Climate change
CEA	Classification of Environmental Activities
COFOG	Classification of the Functions of Government
CPIER	Climate Public Expenditure and Institutional Review
EHS	Environmentally harmful subsidies
EU	European Union
FDES	Framework for the Development of Environmental Statistics
FMIS	Financial Management Information System
FSF	Financial Statistical Framework
GBS	Green budget statement
GBA+	Gender Based Analysis +
GHG	Greenhouse gas
ICMA	International Capital Markets Association
IDB	Inter-American Development Bank
IT	Information technology
MRV	Measurement, Reporting and Verification
MTBF	Medium-term budgetary framework
NDCs	Nationally Determined Contributions
OECD DAC	OECD Development Assistance Committee
PFM	Public financial management
R&D	Research and development
SDGs	Sustainable Development Goals
SEA	Strategic Environmental Assessment
SEEA	System for Economic and Environmental Accounts
UNDP	United Nations Development Programme

Introduction

There is increasing recognition of the physical and transition risks posed by climate change and environmental degradation. For example, evidence shows that changes in the climate system are contributing to a range of biophysical effects that are already impacting society and the economy. Future impacts are expected to be much larger. Given the cost of inaction, many governments have set out national goals to help protect the environment (e.g. biodiversity) and mitigate climate change. Taking action also provides the opportunity to unlock investment and job opportunities associated with a more sustainable economic model.

Public expenditure amounts to a significant proportion of economic activity, thus government spending decisions have powerful social, environmental and economic implications for a country. Along with regulations, the choice and design of tax and expenditure also shape business decisions and influence people's choices to work, invest and consume. Public expenditure also plays a key role to play to mobilize the private finance necessary to tackle climate change and other environmental challenges. Given the budget is the central policy document of government, and the important role that it plays in determining how resources are allocated to deliver on national goals, it is appropriate that priorities relating to the environment and climate change be considered as part of the budget process. This is one of the reasons that we are seeing the emergence of practices such as "green budgeting" (see **Error! Reference source not found.**) as part of broader efforts to ensure the budget supports the achievement of environmental and climate objectives.

Box 1. Green budgeting

Green budgeting is a practice which uses the tools of budgetary policy-making to help achieve "green" objectives, i.e., those relating to the climate and environmental dimensions such as biodiversity, air quality and water (see Section 1 for further information). There is no one-size fits all approach to green budgeting. Any approach should build on a country's existing public financial management (PFM) framework and thus be attuned to the strengths and limitations of the existing budgeting process. While by itself, green budgeting does not change existing policies, it provides decision-makers with a clearer understanding of the overall environmental and climate impacts of budgeting choices. It brings evidence together in a systematic and co-ordinated manner to allow more informed decision-making on how to optimise revenue-raising and resource allocation in order to fulfil national and international commitments.

Source: (OECD, 2020^[1])

Green budget tagging can be a useful tool within an overall approach to green budgeting. In the context of budget management systems where it can be difficult to track how budget policy impacts cross-cutting goals, green budget tagging allows countries to identify areas of expenditure and revenue that are helpful or harmful to green objectives. Green budget tagging encompasses any budget tagging practice that seeks to identify budget measures relating to climate and other environmental objectives, such as biodiversity, air and water challenges (quantity and quality) and others. The information gained from tagging builds a

useful evidence base that can help governments improve coherence between budget measures, green goals and commitments to sustainable development. It also serves to improve transparency in relation to the government's budget policy, thus helping stakeholders such as parliamentarians and civil society hold the government to account for its decisions. Budget tagging is not new, it has been applied in relation to other cross-cutting priorities, such as poverty-reduction, the Sustainable Development Goals (SDGs), and gender. Green budget tagging can, however, sit alongside these other tagging exercises as part of overall efforts to ensure the budget serves to deliver outcomes in relation to cross-cutting high-level priorities.

This document aims to provide guidance for countries looking to develop an effective approach to green budget tagging, recognising that practices are also likely to vary depending on country-specific objectives in relation to the exercise. It draws together the lessons from the international budgeting community through both the Paris Collaborative on Green Budgeting and the Coalition of Finance Ministers for Climate Action. In-depth information on country experiences was drawn from interviews with members of the Paris Collaborative on Green Budgeting, a series of regional roundtables organised by UNDP and the IDB, a review and analysis of climate expenditure tagging methodologies (World Bank, Forthcoming^[2]) and an assessment of the connections across financial and environmental classifications systems (IDB, Forthcoming^[3]).

Section 1 outlines the key decisions that need to be taken in designing an approach to green budget tagging. Section 2 sets out considerations in implementing green budget tagging. Section 3 identifies how to utilise and integrate information from tagging in the wider budget process. Section 4 highlights key challenges and Section 5 presents elements that can support an effective approach. Finally, information provided in this guidance is brought together and synthesised into Principles for Green Budget Tagging at the end of this document.

1. Developing green budget tagging

Before any country starts green budget tagging, it is important to have clarity on why it is being introduced, specifically what “problem” it is trying to solve, and to make an assessment of whether or not green tagging is indeed the best approach. Once these considerations, or first principles, are clear, the country is in a position to think about designing an appropriate approach. There are also important considerations in relation to deciding when to undertake the tagging exercise during the budget cycle. This section presents the different design choices and their respective merits in the context of differing local needs, capacities and policy environments.

1.1 First principles: why do green budget tagging and is it the best approach?

Increasing political focus on the costs of climate change and environmental degradation has led governments to consider what options they have to ensure that public policy supports the achievement of green objectives. Given that the budget is the central policy document of any government, public administrations are looking at how they might develop a budget that is more aligned with national green priorities (including country Nationally Determined Contributions (NDCs), explained in Box 2), better understand financing gaps for achieving green objectives, and find ways to help prioritise investments with green benefits in decision-making. There is also pressure for governments to improve accountability and transparency in relation to actions that they are taking to address green priorities. And some governments may also be subject to reporting requirements relating to how external financing is being spent vis-a-vis green objectives, e.g., for sovereign green bonds¹ or donor financing.

Box 2. Nationally Determined Contributions (NDCs)

Following the 2015 Paris Agreement, commitments were made by parties to mitigate and adapt to the adverse impacts of climate change. NDCs reflect the commitments made by each party to reduce national emissions and adapt to the impacts of climate change. As such, the NDCs provide long-term goal for countries (and globally) in order to meet commitments in the Paris Agreement to reduce emissions, taking into account domestic circumstances and capabilities.

Source: (UN Climate Change, 2020⁽⁴⁾)

These growing needs lead governments to consider green budget tagging as a tool to help mobilise change. However, tagging is not the only tool which can help integrate green considerations in the budget processes and improve transparency and accountability on how money is being spent. It is important to consider the merits of tagging alongside policy measures such as regulations and providing linkages between expenditure and results to feed into the policy process and decision-making – otherwise, tagging

¹ Green Bonds are bonds that signifies a commitment to exclusively use the funds to finance or re-finance “green” projects, assets or business activities.

runs risk of expenditure bias where greater attention is placed on spending and investment as the solution (World Bank, Forthcoming^[2]). There have been efforts to monitor programmes in relation to impacts on various dimensions including poverty, seen in the World Bank’s Public Expenditure Review, as well as the environment, seen in the UK’s Green Book (World Bank, 1996^[5]) (HM Treasury, 2018^[6]), further illustrated in Box 3. In other instances, tools such as the Climate Public Expenditure and Institutional Reviews (CPEIRs) have been a useful diagnostic tool for many countries in assessing opportunities and constraints for integrating climate change concerns within the budget allocation and expenditure process. These provide a qualitative and quantitative analysis of a country’s public expenditures and how they relate to climate change, its climate change plans and policies, institutional framework and public finance architecture (World Bank, 2014^[7]) (UNDP, 2019^[8]). Before embarking on tagging, undertaking an exercise such as this can help countries take stock of their existing climate change structures and resources, and as a baseline for designing further reforms. For many countries, particularly in Asia, CPEIRs have been instrumental for starting the design for country-level tagging processes.

Box 3. The Green Book in the United Kingdom

In the United Kingdom, the Green Book is issued by HM Treasury and provides information on how to appraise policies, programmes and projects by providing guidance on the design and use of monitoring and evaluation before and after implementation. This ranges from policy and programme development, taxation and benefit proposals, as well as changes to existing public assets and resources. In particular, it provides an integrated approach to the assessment of climate mitigation, transition and other sustainability considerations across all government programmes.

Source: (HM Treasury, 2018^[6])

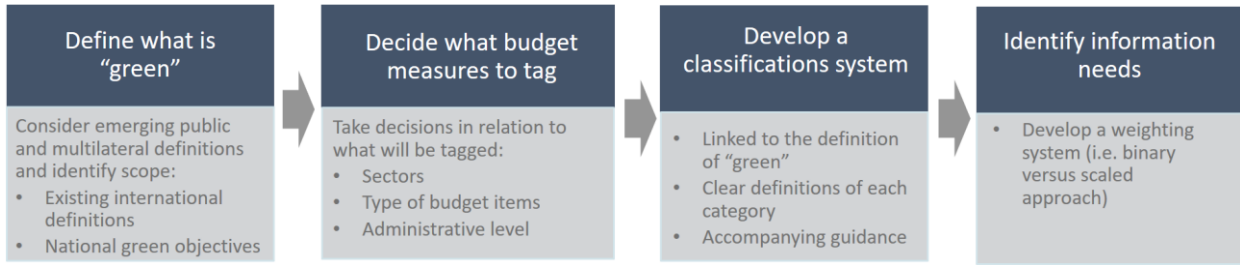
This sort of “first principles” work helps ensure that governments are clear on the purpose of green budgeting and associated tools, such as green budget tagging, before their implementation. The best results from green budget tagging emerge when its design and implementation fulfil a need that emerges from government strategy or policy. Having a clear purpose helps communicate to internal government stakeholders why the practice is being introduced. It also helps inform the design of these tools.

The main benefits of implementing a tagging system include raising awareness, giving visibility to government action, mobilising resources, and improving monitoring and reporting of climate change policies and international climate commitments (UNDP, 2019^[8]). When compared to other methods for assessing how budgets align with green objectives, institutionalised domestic budget tagging has the advantage of being more sustainable and better integrated in budgeting processes. Where tags are integrated in financial management systems, real-time tracking of actual expenditures is enabled (World Bank, Forthcoming^[2]).

1.2 Designing an approach to green budget tagging

While there are significant differences in country contexts and public financial management (PFM) systems, there are also common decisions that must be made in designing any approach to green budget tagging. This includes; defining what is “green”, deciding what budget measures to tag, and developing a classifications system that is fit for purpose. Countries must also decide what type of information is needed from the tagging process. This helps to inform the design of the weighting system in order to capture the proportion that is relevant, depending on institutional capacity and the need for an accurate measure of relevant budget items. This section provides guidance on how to approach each of these key decisions.

Figure 1. Key decisions in designing an approach to green budget tagging



Source: Authors

1.2.1 Defining what is “green”

Defining “green” budget items is not a straight forward task given that there is no international common definition. . At its essence, “green” budget items are those which have a positive impact on broad environmental objectives, whether it be objectives relating to mitigating or adapting to climate change, or those related to other environmental dimensions such as ecosystems, biodiversity, water management, air quality, protection of marine resources, pollution prevention, etc. This also includes consideration for the various shades of green, such as the degree to which investments contribute positively or negatively to environmental impacts. As such, existing definitions of “green investment” vary – making the purpose of an investment critical to defining the green criteria (Inderst, 2012^[9]).

“Green” budget tagging is invariably conflated with climate budget tagging. While climate budget tagging, similar to other tagging practices such as biodiversity tagging, is a subset of green budget tagging, these practices focus specifically on tagging budget items relevant to a narrower range of environmental goals. Green budget tagging may also have a wider purview relating to a number of environmental goals. It may indeed be that green budget tagging starts off tagging budget items related to a narrower range of environmental goals, and then these practices provide useful foundations for building on tagging relating to other environmental objectives.

Invariably, the definition of “green” that is used by any country for budget tagging depends on the national country context. The decision is likely to be influenced by the scope of national green objectives. The choice will also depend on the purpose and ambition for green budget tagging in each country, as well as capacity. In developing the definition of “green” to be used for tagging, countries may also wish to – and have in the past - draw on existing definitions used by different international bodies (such as those in Box 4).

Box 4. Definitions of “green” used by international organisations

European Union (EU) Taxonomy for Sustainable Finance: The EU Taxonomy defines investments in economic activities which make a substantial contribution to one of six environmental objectives; climate change mitigation; climate change adaptation, sustainable and protection of fresh water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems, without harming any of the other activities.

Joint MDB definition of climate finance: Refers to the financial resources (own-account and managed by multilateral development banks, MDBs) committed by MDBs to development operations and components which enable activities that mitigate climate and support adaptation to climate change in developing and emerging economies.

International Capital Markets Association (ICMA) Green Bonds: Green Bond Principles explicitly recognise several broad categories of eligibility for investments in Green Projects, which contribute to the following environmental objectives: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Several states have issued sovereign green bonds and issued green bond frameworks to define the scope of their green investment with the bonds proceeds (France, Netherlands, Belgium, Fiji, etc.).

OECD DAC Rio Markers: Four Rio markers: biodiversity, climate change mitigation, climate change adaptation, and desertification are used to monitor aid targeting environmental sustainability in general and the objectives of the Rio Conventions in particular.

Sources: (European Commission, 2018^[10]), (AfDB,ADB,EBRD,EIB,IDBG,WBG, 2015^[11]), (ICMA, 2018^[12]), and (OECD, 2016^[13])

As countries set out a definition of “green”, it is important to consider linkages to existing principles, standards and metrics at the international level. As later noted in Section 2.7, this includes finding ways to align efforts to existing international statistical standards (such as the Classification of Environmental Activities - CEA). This can help give credibility to national approaches and facilitates cross-country comparisons and analysis.

Once “green” has been defined at the national level, the task of tagging can still be complex for several reasons:

- There may be a number of different operational definitions of “green” in place across government, thus, the relevant definition needs to be clearly communicated so that it is widely understood and not confused with others.
- There can be a sizeable common intersection of the various definitions in terms of some budget items (e.g. renewable energy), commodities (e.g. carbon or renewable energy credits) services (e.g. waste management) and technologies (e.g. to enhance energy efficiency).
- Defining “greenness” is easier for some budget items than for others, e.g., those with multiple purposes, some of which are green, and others not (such as adaptation spending which serves to address the consequences of environmental change induced by human action). There are also some areas where data is difficult to obtain as well as areas where there can be disagreement (e.g. nuclear and large-scale hydro energy), changing consensus (e.g. biofuels, biomass, shale gas), ambiguity (e.g. agriculture, green IT, financial services, waste) or uncertainty how to deal with (e.g. biodiversity, conservation) (Inderst, 2012^[9]).

- Depending on a country's green commitments and climate objectives (such as the NDCs), "greenness" of a budget item can be characterised in absolute terms (a budget item is green or not green) or in relative terms (e.g. one budget item has lower greenhouse gas emissions than another or is more energy-efficient).
- Definitions of "green" can be based on *ex ante* arguments (e.g. any activity in sustainable energy, energy efficiency or water management), or based on specific indicators. There are qualitative and quantitative definitions, trying to measure different grades of "greenness". The latter requires some sort of indicator or measure of greenness (e.g. greenhouse gas emissions, energy efficiency, recycling and waste management, more points in a scoring system, etc.). In other instances, as seen in the EU Taxonomy for Sustainable Finance, a "do no harm" principle is put in place to ensure pursuit of one of the six environmental objectives does not harm any of the other five objectives.

For these reasons, it is important to set out, alongside the definition of "green", clear guidance that sets the boundaries of the tagging, and explains how to tag in these more complex circumstances. Understanding the purpose of the budget item is key in order to pin green criteria down, as it allows for the navigation of potential conflicts.

1.2.2 Deciding what budget measures to tag

Green budget tagging can cover different elements of the budget. There are a range of coverage issues, including the breadth of sectors and budget coverage, the type of budget items to include (positive or negative impact, revenue, expenditure and different types of expenditure) and the administrative level of tagging (central government, subnational government, SOEs).

In terms of the breadth of budget coverage, green budget tagging should as a minimum aim to cover priority sectors such as agriculture, transport, energy, industry and the environment, where budget measures tend to have significant impacts on climate and environmental objectives. However, as budget measures across all government sectors can have a significant impact on climate change and environment objectives, countries should work towards covering budget measures across all sectors where capacity allows and where relevant according to their environmental objectives and pathways.

In terms of the type of budget items to include, countries should aim for green budget tagging to include both positive and negative measures. Country practices until now tend to only identify positive expenditure with other items such as negative expenditure, revenues, tax expenditures and subsidies – which are often more politically sensitive - not being included (World Bank, Forthcoming^[2]). In some instances this is likely to be related to the political sensitivity of negative measures, but it is also likely to be related to capacity considerations. For instance, there may be public support for fuel subsidies or pressure from interest groups (i.e. fossil fuel lobby) or limited capacity to fully identify and analyse an activity's carbon footprint. France, for example, has experienced difficulty in appropriately identifying the environmental impact of expenditure on housing projects. In other instances, areas which have a negative impact towards the environment and climate can conflict with pro-social policies, such as winter-fuel subsidies for low-income households. As later elaborated in Section 4.5, information on negative expenditures can help kick-start policy discussions on the environmental as well as associated social and economic trade-offs of different budget items.

The exclusion of negative measures is problematic, as analysis in Finland and Indonesia have shown that they may outweigh positive measures. Reducing harmful measures is a key feature of climate and environmental policy and should go hand in hand with increased positive measures (World Bank, Forthcoming^[2]). To overcome this, countries can phase their approach to tagging and start with capturing positive expenditures then subsequently expand the practice to include negative (brown) expenditures as greater capacity is developed within the Ministries of Finance and Line Ministries, as in the case of Ireland.

Some countries also make efforts to identify these items as part of a separate exercise (see examples in Box 5).

Box 5. Examples of efforts to identify environmentally harmful spending and tax expenditures

Germany: The German Federal Environment Agency has published a series of reports on environmentally harmful subsidies (EHS). The reports are structured around a sectoral approach identifying EHS in four main sectors: energy supply and use; transport; construction and housing; and agriculture, forestry and fisheries.

Italy: The Italian Catalogue of Environmentally Friendly and Harmful Subsidies was developed by the Ministry of Environment, Land and Sea (MATTM) in response to a request by the Italian Parliament, as part of a general effort aiming to analyse and evaluate fiscal erosion due to tax breaks and tax expenditures. The Catalogue analyses the subsidies by sector: agriculture, energy, transport, VAT and other subsidies, considering both direct subsidies and tax expenditures.

Sources: Umweltbundesamt (2016^[14]), MATTM (2017^[15])

A further issue is whether tagging covers the full range of expenditures, including recurrent and investment/development budgets. As countries consider the scope of tagging, the exclusion of recurrent budgets such as civil servant salaries may potentially overestimate the amount of relevant green expenditures. As these overheads can be a vital part of investment and development budgets, arguments can be made to ensure they are included. Where tagging is applied to budget programmes rather than line items, both recurrent and investment budgets will be covered.

A final consideration on the scope of tagging is whether or not to include sub-national budget measures. In this regard it is worth bearing in mind that the case for tagging to cover local government budgets is particularly strong where there are high levels of fiscal decentralisation and where tax and spend in areas relevant to climate and environmental policy is devolved. Because sub-national governments play a critical role in land use management, urban services, transport, water and environmental management functions, many governments have applied tagging methodologies to transfers to sub-government expenditures (World Bank, Forthcoming^[21]). Furthermore, although not currently common practice, there is an argument for tagging to cover the budgets of State-Owned Enterprises where they play an important share of government expenditures and role in environmentally-relevant sectors (such as energy, water and transport).

1.2.3 Developing a classifications system

Once the definition of "green" in the country context, together with the scope of tagging has been decided, a classifications system can be identified or developed that helps to ensure the tagging system gathers the right information. Different types of classifications systems are highlighted in

Table 1.

For definitions of “green” that focus on climate change, often referred to as “climate budget tagging” or “climate expenditure tagging”, countries may use one category for climate-relevant items (as in the case of Ireland) or break it down between adaptation and mitigation (as is the case in countries such as Bangladesh), depending on the extent to which detailed information is needed. Many countries follow the OECD DAC Rio marker definitions for activities which contribute to climate adaptation and mitigation (see Box 6) (OECD, 2016^[13]).

Box 6. Definitions of climate mitigation and climate adaptation activities

Climate mitigation: An activity classifies as climate mitigation if it contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.

Climate adaptation: An activity classifies as climate adaptation 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. It is important to understand the challenges of climate adaptation being faced across different contexts – with the global south facing greater need to address adaptation.

Source: (OECD, 2016^[13])

Where definitions of “green” include environmental activities beyond climate mitigation or adaptation, such as air and water management quality, and biodiversity, classifications may be guided by or aligned with national strategies in the area of climate and the environment. For example, in Honduras, tagging includes climate-related disaster management which covers activities related to reducing the impact of natural hazards and environmental disasters (World Bank, Forthcoming^[2]). In Bangladesh and Kyrgyzstan, tagging also includes identifying programmes contributing to biodiversity and conservation. Existing usages of these definitions can be found in Box 7.

Box 7. Existing definitions of key environmental protection activities

Air quality management: Refers to all activities a regulatory authority undertakes to help protect human health and the environment from the harmful effects of air pollution.

Water resources management: Is the process of planning, developing and managing water resources, in terms of both water quantity and quality, across all water uses.

Biodiversity: Protection and restoration of biodiversity and ecosystems. This includes efforts to mainstream biodiversity and ecosystem services into national and sectoral policies and using economic and policy instruments to incentivize environmentally-sustainable activities.

Disaster risk management: The application of disaster risk reduction policies and strategies, to prevent new disaster risks, reduce existing disaster risks, and manage residual risks, contributing to the strengthening of resilience and reduction of losses.

Source: (EPA, 2017^[16]) (World Bank, n.d.^[17]) (OECD, 2018^[18]) (OECD, 2020^[19]) (United Nations, 2020^[20])

To help facilitate the classifications process, it is useful to provide clear definitions of the type of budget items that qualify under each category of objectives. The definitions should be sufficiently broad to reflect the cross-sectoral nature of climate and environmental policy, yet sufficiently narrow to be meaningful and credible (World Bank, Forthcoming^[2]). The cross-cutting nature of climate and environmental policy also means that budget measures may qualify to be tagged in more than one category. Tagging guidance should thus also be clear on what to do in this instance (e.g. only tagging budget measures which directly address each objective). Some countries develop “positive” and “negative” list of indicative investments to help guide classification (consideration of “negative” expenditures is further detailed in section 4.3). For example, Colombia’s methodological guide to climate budget tagging includes an Annex that provides an indicative list of activities by sector and subsector that qualify as climate mitigation or climate adaptation (Government of Colombia, 2016^[21]).

As countries work to develop their classification process, close coordination with the national statistical offices can help harmonise approaches to existing international classification standards. This can mean working to co-develop an approach that helps address a country’s “green” objectives that allows statistical offices (or other agencies managing national accounts) to concurrently use the information to facilitate reporting against global statistical standards. Further considerations in relation to this “statistical tagging” approach are further detailed in Section 2.7.

Table 1. Classifications systems for green budget tagging across select countries

Approach	Country	Purpose of green budget tagging	Classification system
Focused on identifying climate-relevant budget items	Bangladesh	Climate budget tagging helps the country to track and report climate finance.	Expenditures are tagged if they contribute to one of the 6 thematic areas (Food Security/Social Protection/Health, Comprehensive Disaster Management, Infrastructure, Research and Knowledge Management, Mitigation and low-carbon development, Capacity Building and Institutional Strengthening) or one of the 44 programmes under the national climate change policy.
	Colombia	Climate budget tagging aims to help achieve the country's goals as part of the UN Framework Convention on Climate Change (UNFCCC).	Tagging covers national, regional and local expenditures along twelve sectors considered most directly linked to mitigation and adaptation efforts.
	Ireland	Green budget tagging supports the reporting requirements relating to Irish Sovereign Green Bonds.	Tagging identifies expenditure that is dedicated to addressing climate change (using International Capital Market Association's (ICMA's) standard definition of "green expenditure")
Focused on identifying budget items relevant to climate and other environmental dimensions	France	Green budget tagging helps improve transparency around government policy relating to the environment and climate change.	Budget items are classified using the six different categories defined in the EU Taxonomy for Sustainable Finance; climate change adaptation, mitigation, biodiversity, circular economy, water management and air quality.
	Italy	Green budget tagging was introduced at the request of parliament for improved transparency on environmental expenditure.	Tagging identifies expenditure items in accordance with the classifications system set out in the European System for the Collection of Economic Information on the Environment (SERIEE) addressing environmental protection and reducing environmental degradation.
	Philippines	Climate budget tagging was introduced to help track how much expenditure is going towards the priority areas set out in the country's National Climate Change Action Plan.	Tagging identifies expenditure across seven areas; food security, water sufficiency, ecosystem and environmental and ecological stability, human security, climate-smart industries and services, sustainable energy, and knowledge and capacity development.

Sources: (OECD, Forthcoming^[22]) (UNDP, 2019^[8]) (World Bank, Forthcoming^[2]) (Climate Change Commission, 2019^[23]) (Philippines Climate Change Commission, n.d.^[24]) (Ministry of Ecological and Inclusive Transition, 2020^[25]) (Cremins and Kevany, 2018^[26])

As countries engage in this process, country experiences have highlighted key challenges for consideration (further highlighted in Section 4). This includes identifying the appropriate level of granularity for tagging, deciding how to address budget measures related to adaptation and disaster risk management, negative expenditures, ensuring consistency and quality as well as balancing environmental objectives with social and economic objectives.

1.2.4. Identify information needs: developing a weighting system

Another important design choice for any green budget tagging practice is to identify information needed to for the purpose of data tagging. This provides inputs into developing an appropriate weighting system for budget items. For instance, if a country decides to only track expenditures which the majority of the budget contributes towards its green objectives, as in the case of Ireland, it can adopt a more binary approach (either budget programme is tagged or not). On the other side, if a country decides to track the extent to which all its expenditures contribute to its green objectives, it can adopt a more scaled approach to where it tries to identify the proportion of expenditures attributed to the objectives.

The weighting system determines the share of the tagged budget item that is considered (and counted) as green. In most cases, relevant expenditures are costed out on an input basis (as used in methodologies by many multilateral development banks) or identified proportionately, where the amount allocated to a specific objective is proportional to the relevance of the expenditure.

Countries employing a weighting system often try to identify expenditures proportionately by either categorising those that have a primary purpose related to green objectives, often seen in binary approaches, or through a scaled approach where attempts are made to estimate the co-benefits or the degree of climate relevance of a budgetary programme. For instance, when it comes to expenditure on urban transport, only the share of expenditure that has co-benefits with climate change mitigation (by reducing GHG emissions per unit transported) is tagged. In other instances, countries have further assigned weights to expenditures that have been identified to have co-benefits to green objectives. There are two main approaches when it comes to weighting and green budget tagging; the binary approach and the scaled approach.

Under a binary approach, either the full cost of a budget item is tagged or none. For example, research and development (R&D) expenditure would either be fully included or not included at all, even if it is the case that just a portion of the expenditure relates to stated objectives. While this can be simpler than the scaled approach and may serve the needs of a particular tagging exercise or be useful as a first step in budget tagging, it provides a less accurate picture of the quantity of revenues and expenditure that are relevant. Countries pursuing a binary approach to weighting may find it helpful to employ a more conservative tagging approach. This means only counting those budget items which are significantly relevant to the national climate and environmental agendas. A notable example of this is in Ireland where tagging only includes expenditure items which “significantly contribute” towards lowering greenhouse gas (GHG) emissions. This conservative approach can ensure that a binary system does not give an over-estimation of the figures, withstanding accusations of ‘green-washing’ by stakeholders. However, as it excludes expenditure items which may have medium and low relevance to national climate objectives, the tagging may not capture the full breadth of relevant budget items.

A scaled weighting system allows for a certain proportion of a budget item to be tagged. Often, budget items will include some revenue or expenditure that is relevant for the tagging exercise, and some that is not (as was the case with the R&D expenditure illustration above). The calculation of the proportion of the budget item that is relevant may be based on either an inputs or outputs approach. An inputs approach is simpler and considers the proportion of the budget measure that is relevant to green objectives while an outputs approach considers the proportion of the outputs associated with the budget measure that are relevant to green objectives. The latter approach is inevitably open to a greater degree of subjectivity.

Most countries that currently undertake green budget tagging employ a scaled approach to weighting since it allows a more granular quantification of relevant revenues and expenditure. This means budget items are categorised in accordance to their degree of relevance to green objectives. For revenues and expenditure where the primary purpose is not specifically climate change adaptation, for example, only the share with co-benefits to adaptation is tagged. In many cases, approaches are based on the OECD DAC Rio marker methodology, shown in Box 8.

Box 8. OECD DAC Rio marker methodology for budget tagging

The OECD DAC Rio Markers have served as a reference for OECD Development Assistance Committee (DAC) donors to tag bilateral aid projects along four thematic areas: biodiversity, desertification control, climate mitigation and climate adaptation. The Rio Markers employ a three-step classification system:

- **“Not targeted”**: an activity is not targeted to policy objective (e.g. roads)
- **“Significant”**: an activity which contributes to but does not primarily address policy objective (e.g. air quality measures)
- **“Principal”**: an activity which the policy objective is the explicit objective (e.g. wind farms)

Countries build on the Rio marker methodology by adapting them to their classification and weighting approach. In certain instances when expenditures are weighted, countries have assigned percentages along the three categories to identify the degree to which an activity or expenditure to its degree of relevance. For instance, in Ghana, whose its approach is influenced by Rio markers, expenditure items are tagged along high relevance (100%), medium relevance (50%), low relevance (20%). In the European Union, items are tagged and weighted as “Not targeted” (0%), “Significant” (40%) and “Principle” (100%).

Source: (OECD, 2011^[27]) (European union, 2017^[28]) (World Bank, Forthcoming^[2]) (UNDP, 2019^[8])

A scaled approach may be simple, or complex. A simple scaled approach, such as the OECD DAC Rio markers, sets out considerations for identifying different weights to budget items. This type of approach is relatively easy to implement and is more accurate than binary weighting. A complex scaled approach, as seen in Bangladesh, builds on this by factoring in counterfactuals to the weighting process (as further illustrated in Box 8). This approach entails using modules to further narrow down the degree of relevance with which budget items are classified beyond categorical degrees seen in more simplified approaches (e.g. high relevance, relevant, neutral). The complex scaled approach gives the potential for the most accurate information among the different weighting systems, but requires greater capacity for analysis and builds on assumptions which may errors over or underestimating its relationship to climate change or the environment. Examples of countries that use each of these different weighting systems are provided in Box 9.

Box 9. Country examples of different approaches

Ireland (Binary): Adopted a conservative classification approach where it only tagged programmes where it is evident that all, or at least the majority of investment in question supports Ireland's transition to a low carbon, climate-resilient and environmentally sustainable economy.

Moldova (Scaled – Simplified): Programmes, activities and projects which mainly address climate change are fully counted with a 100% weight. Those that do not directly address climate change are classified and weighed in accordance to four categories:

- High relevance with a 70% weight (more than 65% of activities dedicated to climate related interventions)
- Medium relevance with a 50% weight (40-65% of activities)
- Neutral relevance with a 25% weight (14-40% of activities)
- Marginal relevance (less than 15% of activities or with very indirect and theoretical links) are not counted

France (Scaled – Simplified): Expenditures were tagged in accordance to their impact towards their six objectives (Climate change mitigation/adaptation, water resource management, circular economy and risk prevention, pollution abatement and biodiversity and sustainable land use):

- Very Favourable: environmentally targeted expenses
- Favourable: No explicit environmental target, but indirect positive impact
- Favourable but controversial: Short-term favourable effects but presence of a long-term technology lock-in risk
- Neutral: no significant or no information
- Unfavourable: environmentally harmful expenditure

Nepal (Scaled – Simplified): Activities relevant to its list of 11 climate change related activities are classified along three categories:

- Highly relevant (more than 60% of programme budget allocated to climate activities)
- Relevant (20-60% of budget)
- Neutral (less than 20% of budget)

Bangladesh (Scaled - Complex): Applies a climate relevant weight to all relevant expenditures. Weights are calculated by identifying the difference between the degrees of relevance (%) an expenditure area has towards climate change (CC) with the share of expenditure (%) which would still take place in the absence of climate change.

- *Example:* The development of seed production, storage and supply systems is considered 100% relevant. In the absence of climate change, 40% of the expenditure would still take place.

Thus, the weighting is calculated as:

$$[\text{Weight Score}] = [100\%] - [40\%] = 60\% \text{ weight}$$

Source: (Cremins and Kevany, 2018^[26]) (Ministry of Ecological and Inclusive Transition, 2020^[25]) (World Bank, Forthcoming^[2]) (UNDP, 2019^[8])

1.3 Deciding which stage of the budget process to cover

Green budget tagging may be undertaken at the *ex ante* phase of the budget (tagging planned allocations before the budget is approved and executed) or the *ex post* phase (an evaluation of expenditures after the budget has been executed). Undertaking the tagging exercise *ex ante* can theoretically provide useful evidence to help frame budget and policy decisions as they are being formulated. However, typically, programs and projects are tagged after they have been approved: too late to inform design of the budget (although they can still inform the following budget cycle), rationalising rather than informing resource allocation (World Bank, Forthcoming^[21]). The scope for tagging to make significant impact on resource allocation is greatest where tags are applied before measures have been planned and budgeted. Information may also be presented in reports accompanying the draft budget and supporting parliamentary oversight. In the Philippines, the tagging is applied (1) during budget preparation; and then (2) updated after budget hearings, once the proposed budget is developed to the Congress, and (3) once the Congress approves the budget. This allows the information to be taken into account in budget preparation, but also ensures that any changes to the budget emanating from budget hearings or legislative review are reflected (UNDP, 2019^[8]).

Green budget tagging may also be done on an *ex post* basis. *Ex post* tagging provides a more accurate picture of how the budget was used, after budget execution. From an accountability perspective, there are strong benefits of doing both *ex ante* and *ex post* reporting as it allows oversight of how the government intends to use the budget, and also whether or not the government actually allocated resources in the way it planned. This is further illustrated in Figure 2 in Section 3.2. It also allows scope for policy learning and adaptive governance, which is associated with more successful tagging systems (Resch, 2017^[29]). At present, most countries undertake green budget tagging at the *ex ante* phase of the budget process. However, Italy is an example of a country that does budget tagging at both the *ex ante* and *ex post* phases.

When considering *ex post* evaluations, it is important to consider that it is difficult to obtain a global view of the environmental impact of budget measures when only a selected set of tagged budget items are assessed. Countries, such as France, for example, with the advice of the independent High Council for Climate (*Haut Conseil Pour le Climat*) is working to conduct systematic environmental assessments of all budget actions (Haut Conseil Pour Le Climat, 2019^[30]).

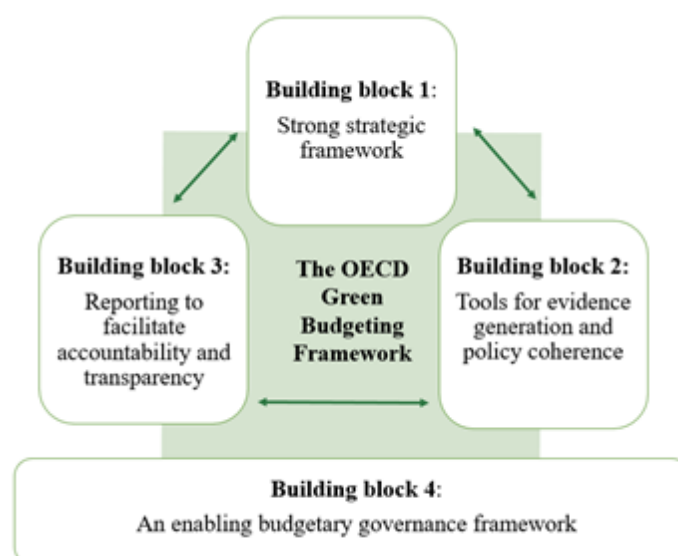
2. Implementing green budget tagging

Once the approach to green budgeting has been defined, the next challenge for governments is to think about how it can be successfully implemented. This means ensuring the tagging approach is sequenced in a manner where it addresses its intended objective with consideration of the roles, responsibilities and capacity of stakeholders and internal systems, processes to ensure quality of information and linkages to existing standards. The following sections cover some of the key considerations, including how green budget tagging fits within a broader approach to green budgeting, the roles and responsibilities of different stakeholders in implementing the tagging, the sequencing of implementation, how to build up capacity and expertise among civil servants and ensuring that the internal systems are fit for purpose. Governments will also wish to consider how to develop a quality assurance process to ensure rigorous, consistent and coherent tagging and how they can build a bridge between budget tagging and statistical tagging, which allows international comparability on finance flows.

2.1 Ensuring there is a strong strategic framework to guide tagging

Green budget tagging can be particularly effective where it sits as part of a wider approach to green budgeting that is guided by a strong strategic framework (see Figure 1). A strategic framework refers to relevant strategies, policies and plans, which include clear goals for government policy, as set out in the OECD's Green Budgeting Framework. For example, in Pakistan and Nepal, the development of a Climate Change Financing Framework (CCFF) has been integral to promote a more integrated approach to facilitate climate finance reforms (Pakistan Controller General of Accounts, 2020^[31]) (Nepal Ministry of Agriculture, 2020^[32]). Experiences from tagging practices preceding green budget tagging show that the strategic framework needs to be specific enough to guide budget allocations, including realistic cost estimates and an operational framework (World Bank, Forthcoming^[2]). In this way, green budget tagging can be used to help direct resources towards the strategic priorities of government in the areas of climate and the environment. A well-defined strategic framework can also help guide what budget items are relevant for tagging, particularly in more ambiguous situations. For example, a combined cycle power plant replacing a carbon power plant may be considered climate positive relative to the status quo, but also climate negative since natural gas still contributes to global warming. Understanding the extent to which the development aligns with longer-term climate policy helps in developing guidance for how to define such items.

Figure 1. OECD Green Budgeting Framework



Source: (OECD, 2020_[11])

2.2 Setting out the roles and responsibilities of different stakeholders

Identifying the roles and responsibilities of different stakeholders is an important element to implementing green budget tagging. The central budget authority (CBA) and Ministry of Environment or Climate Change have important leadership roles. As part of the leadership role of these institutions, clear responsibilities for the different actors involved (including line ministries, the national statistical office and citizens) should be set out.

Developing a whole-of-government approach

The CBA has a central leadership role in relation to green budgeting and “the power of the purse” means that it usually has considerable ability to drive its implementation.² A particularly important partner is the Ministry for Environment or Climate Change. The CBA often works hand-in-hand with Ministry of Environment or Climate Change counterparts in leading the implementation of green budget tagging. In Kenya, for example, close engagement between the Ministry of Finance and the Climate Change Policy Body has helped to lead the implementation of climate budget tagging and help it become embedded in the country’s policy and legal frameworks (UNDP, 2019_[8]). In Pakistan, the Controller General of Accounts and the Ministry of Climate Change worked together to configure its internal system to assign weights to mitigation and adaptation-related expenditures as well as including climate change into the Medium-term Budgetary Framework (MTBF) in two line ministries (Pakistan Controller General of Accounts, 2020_[31])

To embed practices such as green budget tagging often also requires the collective effort of wider government stakeholders. A key consideration is who has primary responsibility for tagging different budget items. Some countries have centralised tagging processes, where tagging is predominantly

² The Central Budget Authority (CBA) is a public entity, or several co-ordinated entities, located at the central/national/federal level of government, which is responsible for budget formulation and oversight. In many countries, the CBA is often found within or coincides with of the Ministry of Finance/Economy. In many instances, Ministries of Planning also share a leading role with the CBA.

undertaken by the CBA, or the Ministry of Environment or Climate Change, and others have a more decentralised model where tagging is the responsibility of individual line ministries. Each approach has its own merits.

Centralised tagging processes can allow for more consistent tagging, and also has the benefit of being easier to introduce given it involves fewer stakeholders. In France, for example, tagging is conducted by a small team of people within the Ministry for the Ecological Transition of France (*Ministère de la Transition écologique*) who tag relevant budget lines to their six areas of classification while in Bangladesh, a special unit within the Ministry of Finance reviews line ministry budget frameworks and annual development programmes in accordance to their relevance to climate objectives.

Decentralised tagging approaches involve the active participation of line ministries in tagging their budget measures. Where line ministries play a leading role in the tagging process, this may be coordinated either by its budget unit or in conjunction with relevant technical staff and coordinated at the government-level by the CBA and the Ministry of Environment or Climate Change, who aggregate, reconcile, and verify information. This is the more common form of tagging across countries. In Indonesia, for example, specific units ("Echelon II units/directorates") within line ministries are responsible for tagging budgets for submission to the Ministry of Finance. Through a formal reconciliation period of the budgeting process, line ministries meet with the Ministry of Finance to address questions and make adjustments to the tagged budget of outputs (World Bank, Forthcoming^[2]).

Although decentralised approaches involve more stakeholders, this whole-of-government approach can help build collective ownership of the tagging exercise, and engenders greater awareness of climate and environmental objectives which can help integrate green perspectives to the policy development process. Furthermore, giving responsibilities to the line ministries also helps to ensure that the tagging is conducted by those who are the most attuned to the nature of ministry programmes. However, there is a risk that some may "greenwash" budget items as a means to game budget negotiations or minimise negative perceptions of their programs in relation to green objectives. In other instances, due to a lack of verification procedures and heterogeneous approaches, there can be overestimations, as seen in the use of the Rio Markers (Weikmans et al., 2017^[33]). Because of these inherent incentives, it is important to include validation checks to minimise instances of gaming by ministries and agencies. In addition, decentralised tagging requires a sufficient level of capacity within the government both in terms of training for ministry staff and support systems (e.g. IT Systems), and relies on the compliance of a much larger group of stakeholders. Tagging systems that overstretch human resources are unlikely to be sustained.

Strong collaboration and coordination mechanisms

In many instances, strong collaboration between institutions is observed in the development and implementation of green budget tagging. This collaboration may be witnessed in the adoption of a joint approach to leading the reform initiative and setting out guidance for tagging. For example, in the Philippines, after a Climate Public Expenditure and Institutional (CPEIR) review, the Department for Management and Budget conducted consultations with agencies to gather inputs to inform the development of the typology and guidance within the joint memorandum circular (World Bank, 2013^[34]). In another example, in Colombia, the National Planning Department and the Financial Management Committee of the National Climate System worked together to develop the country's tagging methodology. At times, however, failure to identify institutional partners in the development of the tagging process may impede efforts over time. In the same example in Colombia, the Ministry of Finance and Line Ministries were not involved in the development of the tagging methodology leading to an underlying lack of clarity about the division of labour between entities as well as an overall lack of ownership for the results (World Bank, Forthcoming^[2]).

Additionally, strong co-ordination mechanisms (for example, an inter-agency working group) can potentially be a valuable element of any ongoing approach to green budgeting since it involves different stakeholders

from across government. This facilitates a consistent approach, as well as exchange of good practices among different stakeholders. Inter-agency working groups can also help in addressing resistance to new processes being introduced through ensuring that the needs of different stakeholders are communicated across government. These working groups are often seen supporting the implementation of similar practices such as gender budgeting (see Box 9 for the example of Nepal). It is, however, important to note that working groups often require significant time commitment, largely due to challenges coordinating with coordinating with multiple government stakeholders. As such, it is important to ensure groups only comprise of essential stakeholders, and that they have a clear mandate and timeframe for delivering their objectives.

Box 10. Nepal's inter-institutional climate finance working group

In the course of designing the country's tagging methodology, an inter-institutional Climate Finance Working group was set up comprised of representatives from the National Planning Commission, the Ministry of Finance, the Ministry of Environment, Science and Technology, the Ministry of Federal Affairs and Local Development and the Ministry of Forestry and Soil Conservation. This helped to facilitate a process that is attuned to institutional contexts as well promote shared ownership of the tagging exercise through the budgeting and planning process.

Source: (World Bank, Forthcoming^[2]) (UNDP, 2015^[35])

Bringing in external viewpoints

Budgeting is a unique “nexus” that brings together the various dimensions of public policy analysis and that determines where the money goes. However, approaches such as green budgeting can require environmental policy expertise that is not inherent in the CBA. It is important that this nexus is open to expert inputs and viewpoints that can bring this expertise. In certain instances, an expert advisory group could help in this regard, providing technical guidance for the tagging exercise or green budgeting more generally as well as playing a challenge-function. By incorporating expert representatives from civil society, the group can serve as a channel for insights on the needs of citizens ensuring these voices are heard in the decision-making process. This is something that has also proved useful in the implementation of practices such as gender budgeting and equality budgeting. For example, Ireland benefits from the advice of an expert advisory group in its implementation of equality budgeting (see Box 11).

Box 11. Use of an expert advisory group for equality budgeting in Ireland

In 2018, Ireland established an Equality Budget Expert Advisory Group to assist the roll-out of equality budgeting. The objectives of the group were to; provide constructive, critical feedback on the equality budgeting initiative, provide expert guidance and informed insights on the future direction and areas of focus for equality budgeting, promote a coherent, cross-governmental approach to equality budgeting; and identify existing strengths of the Irish policy-making system that can be leveraged in support of Equality Budgeting, along with potential shortcomings that need to be addressed.

The group drew on a range of independent perspectives to provide expert guidance and momentum to equality budgeting. Chaired by the Department of Public Expenditure and Reform (DPER), the panel included government officials from the Department of Justice and Equality, the Department of Finance,

the Department of Employment Affairs and Social Protection, the Central Statistics Office, and the National Economic and Social Council as well as representatives from the Irish Human Rights and Equality Commission, civil society and independent experts, including a representative from the Economic and Social Research Institute and the National Women's Council of Ireland.

Source: (OECD, 2019^[36])

2.3 Ensuring the quality of green budget tagging

Whether green budget tagging is undertaken by the CBA, the Ministry of the Environment and Climate Change or line ministries, it is crucial that there is a quality assurance process that ensures the rigour, consistency and coherence of tagging and the data it generates. This has been identified as a key weakness of existing systems of green budget tagging. Many countries lack the appropriate checks to ensure quality assurance of the information generated from tagging exercises. In cases like the Philippines, as in most contexts, the burden is on the line ministries to validate tagging while in others, such as Ghana, there is no validation process identified (World Bank, Forthcoming^[2]) (UNDP, 2019^[8]).

A strong quality assurance process will ensure budget measures are appropriately classified and will help limit the risk of “greenwashing” or under tagging of the budget. This means, in centralised approaches where the Ministry of Finance and the Ministry of Environment or Climate Change take the lead in tagging, setting procedures for line ministries to validate the data by involving reconciliation processes, as previously noted in the case of Indonesia. In decentralised approaches, it means working closely with the Ministry of Finance and the Ministry of Environment or Climate Change by embedding similar reconciliation procedures to limit instances of ‘gaming’ and ensuring data submitted is of sufficient quality. However, these can only make an impact as long as there is sufficient capacity (in terms of dedication of staff time, technical capability, and integrated IT systems) within ministries. Lessons from the Philippines show that just mandating quality assessment procedures does not necessarily mean overall improvements. Upon requiring ministries submit quality assessment and review forms of tagged expenditures, line ministries decreased the number of expenditures tagged to commensurately cope with the increased workload (World Bank, Forthcoming^[2]).

2.4 Developing a roadmap for implementation

Implementing green budget tagging requires the development of a roadmap, outlining the planned stages of implementation including; design of the green budget tagging framework, development of guidance, training and development, and implementation of tagging, often with an increase of the scope of tagging over time. The speed of implementation is determined by factors such as the strength of political will and administrative leadership, as well as the capacity of government to implement a new reform. Regardless, the introduction of green budget tagging is likely a reform that will take a number of budget cycles to bed in.

The early years of green budget tagging

The early years of green budget tagging – as with any reform, can be particularly challenging. For example, tagging is often more time-consuming as it needs to be done for all baseline budget measures, whereas in subsequent years only new budget items need to be tagged. It may also be that at the start existing IT systems do not yet have tagging functionality. In addition, it is in these early years that the effectiveness of the approach is still being tested and refined. To help overcome this, some countries have adopted a

centralised approach to tagging at the beginning, involving the line ministries more progressively over time. An example of this approach that many countries have taken is provided by Bangladesh (see Box 12).

Box 12. Bangladesh's adaptive approach to implementing climate budget tagging

In Bangladesh, climate tagging was originally done by the Finance Division based on the analysis of line ministries' planning templates. With the introduction of the new budget classification system, and an integrated budget and accounting system in 2018, a new climate finance module has been embedded in the new system – adding a segment to capture data on budget allocation and expenditure against the Bangladesh Climate Change Strategy and Action Plan. Under the evolved tagging system, tagging is done by line ministries with initial support of the Finance Division.

Source: (UNDP, 2019^[8])

The benefit of this is that the leaders of the reform – the CBA and the Ministry of Environment and Climate Change - do a lot of the heavy lifting to get the initiative off the ground. This allows line ministries to become more involved at a time when tagging is less onerous, and gives the opportunity to build a rigorous classification system and the necessary capacity across government and its systems over time. However, it is also important to consider that this approach can demand significant time and commitment from a small number of central staff who, in some instances, may have to tag thousands of budget items. This can further be a challenge when central staff do not hold detailed knowledge about the nature of the budget items enabling them to make accurate determinations of climate and environmental relevance. As such, it is important to ensure that even where there is a centralised approach, staff do still engage with line ministries at some level to verify the accuracy of tagged budget items and ensure the quality of green budget tagging, as outlined in Section 2.3.

Developing tagging guidance

When green budget tagging is being rolled out to line ministries, it is helpful for clear guidance to be provided within budget guidelines or circulars that are issued during the annual budget process. An example is provided by the guidance issued for climate budget tagging in the Philippines (see Box 13).

For centralised tagging processes, as engagements with line ministries are more limited, guidance usually comes in the form of requests for verifying tagged expenditures and opportunities for reconciliation. In other instances where the tagging system is more automatic (relying more on the FMIS), tagging processes may require guidance on modifications made to the FMIS as it pertains to classification and weighting, as well as information for Ministry of Finance staff on the updated changes to the system (UNDP, 2019^[8]).

Box 13. Climate budget tagging guidance issued to line ministries in the Philippines

In the Philippines, a Joint Memorandum Circular issued by the Department of Budget and Management and the Climate Change Commission provides the following guidance for climate budget tagging:

- **Step 1:** Identify Projects/activities/programmes (P/A/Ps) with climate-related adaptation and mitigation expenditures. This requires assigning expenditures as either under Adaptation, Mitigation, Both, or none in accordance to their definitions.
- **Step 2:** Determine the climate change component/s within the P/A/Ps using climate change typologies. This requires comparing activities in accordance to the typology provided within the circular and identifying the appropriate code accordingly.

- **Step 3:** Specify the amount of tagged climate change component. Disaggregating the amounts by personnel services, maintenance and other operating services, financial expenses, and capital outlays.
- **Step 4:** Identify and tag in Outline Submission of Budget Proposal. Encoding the amount and identified codes to the Online Submission of Budget Proposals system.

Source: (UNDP, 2019^[8])

2.5 Building capacity across government

Many countries implementing green budget tagging have noted that the practice can only be rolled out as capacity is strengthened across government agencies. Thus, plans for implementation may need to be adjusted depending on levels of existing capacity. Taking into account the experiences of countries so far in implementing green budget tagging, several lessons can be learnt in relation to developing capacity across government.

Firstly, training is most effective when it is tailored to the needs of each stakeholder. In each country, institutions play varying roles and responsibilities. The CBA, for instance, may play a more coordinating role whilst Ministries of Environment and Climate Change may take a more technical leadership role. The CBA's role is made easier when there is a baseline of policy knowledge in the area of climate and the environment. Ministries of Environment and Climate Change may also need support in developing more effective budget execution. Identifying the appropriate responsibilities and the skillsets required by staff across all of these ministries is an important consideration when designing training.

An additional complexity is that the capacity of different line ministries to undertake tagging varies, and so capacity development needs are also different. For example, lessons from workshops in Nepal to design climate budget tagging procedures highlighted the potential challenge that not all ministries are able to produce the same level of details in their proposed programmes (UNDP, 2019^[8]). In addition, the extent to which different ministries face competing demands, perhaps from other ongoing reforms, should be taken to account. These considerations have already been taken into account by some countries implementing green budget tagging, for example in Bangladesh, Nepal and Pakistan where tagging started with key relevant ministries and expanded gradually to other line ministries over time.

A further issue is that some design choices require greater capacity development. For example, decentralised approaches require significant capacity building in line ministries with centralised approaches involving fewer parties to be trained. Recognising this, in the Philippines, the Climate Change Commission and the Department of Budget and Management temporarily set up a Help Desk to assist line ministries in the first years of implementation (see Box 14) (UNDP, 2019^[8]).

Box 14. Philippines climate change expenditures tagging helpdesk

To build capacity and improve readiness to undertake tagging processes across the Philippine Government, the Department for Budget and Management and the Climate Change Commission set up a help desk for line ministry staff. The helpdesk guides ministries on how to; evaluate agency proposals for their climate change components using existing typology and processes, review and approve new typology proposals of the agencies and prepare climate budget briefs and reports based on the result of the tagging process. Annual trainings are held for budget and planning units.

Source: (Department of Budget and Management, 2020^[37])

Maintaining sufficient levels of capacity across the civil service can be challenging in contexts with high staff turnover. Oftentimes, country experiences have shown trained staff are in their post for a limited time requiring trainings to be repeated regularly to ensure those in appropriate roles are adequately equipped to manage their respective tagging processes. As such, capacity development efforts are unlikely to be one-off, but instead will require ongoing engagement with continuous learning and adaptation. In Ghana, for example, this includes training permanent secretaries and ministerial heads in addition to operational staff. Building sufficient capacity and maintaining it over time helps ensure the sustainability of green budget tagging.

2.6 Ensuring internal budget management systems are fit for purpose

Efforts to implement green budget tagging have involved close consideration of a country's internal budget management systems, and whether they have existing tagging functionality that can be adapted for these purposes. Many tagging systems rely on integrated financial management information systems (FMIS) as these are designed with a view to helping ministries aggregate and associate budget information along existing programmatic structures. This can be important when working to integrate green budget tagging to the larger budget process as the tagging exercise, for example, may be one of multiple components to a ministry's procedures to develop its annual budget proposals.

Some countries may also wish to use their Chart of Accounts (CoA) and may adapt it for this purpose by defining or adding a relevant section to enable tagging. For example, in Nicaragua, thematic tags are associated with a code in the CoA. In other instances, countries have introduced detailed climate change codes in their financial management systems to track expenditures at the sector, sub-sector and activity level.³ For example, Ecuador has a six digit thematic code integrated in their electronic Integrated Financial Management System (e-SIGEF) classifying expenditure by activities (World Bank, Forthcoming^[21]). In Ghana, the use and development of coding systems for budget tagging has helped to ensure greater transparency and accountability across the budget.

The use, development and adaptation of these systems means that budget measures can be analysed and tracked throughout the budget cycle more easily and can help support a more efficient tagging process across ministries. For instance, in Bangladesh, once line ministries identify appropriate budget measures to be tagged, its internal system works to classify and weigh budgets in accordance to the country's methodology. Well-designed IT systems can also help ensure compliance with new tagging requirements. For example, Bangladesh uses an integrated budgeting and accounting system (IBAS++) climate change module to tag its expenditures (see Box 15).

Understanding reforms to internal IT systems may have significant cost dimensions, it is important for countries to identify whether it is feasible to modify current systems when undergoing tagging efforts. Where the internal budget management systems cannot be modified, or do not yet have the functionality to support tagging, countries can still move forward. For example, in France, the government tags all budget items on an Excel spreadsheet.

³ Codes often reflect a typology of budget items in relation to their green objective (e.g. climate change mitigation), sub-objective, identification of instrument (e.g. Research or Service Delivery) and its corresponding activity. In the Philippines, for example, a Climate Change Expenditure Typology reflects a 6 numbers or letters each reflecting an area of categorisation (e.g. AI24-01, where A identifies the budget as one addressing Climate Change Adaptation, I representing a priority within the country's action plan, 2 representing a sub-priority, 4 representing the type of instrument used, and 01 representing the activity).

Box 15. Bangladesh's Integrated Budgeting and Accounting System (IBAS++)

Bangladesh tracks all climate finance expenditures through the use of its Integrated Budgeting and Accounting System (IBAS++) in line with the country's Climate Change Strategic Action Plan (BCCSAP). Where previously tagging was manually done by the Finance Division, the system has helped to build capacity across the government by allowing dedicated budget officers from line ministries to input relevant project expenditures into the system where it then automatically weighs and assigns its climate relevance. Information generated by the system is then reviewed by a dedicated unit within the Ministry of Finance to validate and track all expenditures for analysis.

Source: Authors

There is also the issue of organising the collection of new data when it is missing (an ecosystem that reaches beyond the governmental organisation per se).

2.7 Building a bridge between green budget tagging and statistical tagging

When designing an approach to green budget tagging, it can be useful to consider its linkages with existing statistical standards. Where tagging aligns with international approaches to categorise spending, for example, this allows opportunities for comparability across countries, facilitating greater transparency and accountability with regard to the actions being taken by a country to achieve green objectives.

Though budget tagging practices are largely country-specific and vary widely across countries, there are some common international approaches that are used to categorise or define budget items and that build on agreed definitions, reporting instructions or even classifications. These include the OECD DAC Rio Markers methodology (OECD, n.d.^[38]) (OECD, 2016), the European Union climate action taxonomy (EU, 2020), and the Climate Public Expenditures and Institutional Review (CPEIR) methodology (UNDP, 2015) as well as the Multilateral Development Banks' co-benefit methodology (World Bank, 2011^[39]) (AfDB,ADB,EBRD,EIB,IDBG,WBG, 2015^[11]). While these international definitions are not always designed to provide internationally comparable data on expenditures that meet a statistical standard⁴, they may still facilitate cross-country comparisons. For instance, the Rio markers, though not fully comparable from a statistical perspective, build on agreed definitions and reporting instructions allowing for opportunities for broader comparisons.

Box 16. Statistical tagging

Statistical tagging refers to the use of commonly agreed upon official statistical frameworks and standards when tagging expenditure flows. This tends to categorise expenditure after it has occurred and plays an important role in enabling cross-country assessments of public expenditure flows.

Statistical tagging practices comply with statistical standards in that there is the provision of comprehensive set of guidelines for data collection, including: (i) a set of definition(s), associated with clear analytical concepts; (ii) a set of statistical units; (iii) a classification system, ideally connected with other classification systems; (iv) coding processes; and (v) output categories, that should include a structure to organise information and relevant indicators, and which may include an accounting

⁴ An exception is the EU taxonomy which was made alongside NACE.

framework, such as the System of National Accounts (European Commission, IMF, OECD, UN, World Bank, 2008^[40]) (OECD, 2004).

Source: Authors

Currently, there are two functional classification systems relevant for implementing statistical tagging (see Box 15): the Classification of Environmental Activities (CEA) and the Classification of the Functions of Government (COFOG). These are used in international statistical frameworks such as the System of Environmental-Economic Accounting (SEEA), the Financial Statistical Framework (FSF) (UN, EU, FAO, IMF, OECD, World Bank, 2014^[41]).

Although green budget tagging and statistical tagging can serve different primary purposes, there are synergies to exploit. Building bridges between these two types of activities and ensuring a minimum of coherence (for example in terms of definitions and classifications) can help in producing better and more comparable international data on climate and environmental expenditure (such as those collected regularly from countries by the OECD and Eurostat in line with the SEEA and its environmental activity accounts). It would also help improve national data on environmental expenditure. The OECD is currently working with Eurostat and with countries to improve the coverage of climate and biodiversity related expenditure in its surveys including by helping countries identify relevant expenditure items in national data sources. The IDB is currently exploring a methodology for climate budget tagging that can be linked to official statistical frameworks and classifications. This requires exploiting existing classification systems and conceptualising an accounting framework to organise the information (IDB, Forthcoming^[3]). Using existing statistical classifications and methods does not prevent tailoring green budgeting to national needs and objectives, yet can ensure common definitions and groupings and thus facilitate the (re)use of data from green budgeting initiatives in reporting on environmental expenditure. When seeking to build bridges between green budget tagging and statistical tagging, National Statistical Offices and Central Banks, are important stakeholders to engage with.

Countries can work closely with National Statistical Offices or Central Banks to link their budget tagging efforts to these standards and frameworks. This may include working to identify a clear definition (and boundaries) for all national climate change actions (which includes other fiscal tools in addition to expenditure) and aligning it to existing standards and methods for mitigation and adaptation. Illustratively, this can mean using existing classifications (CEA) and methods (such as the Environmental Protection Expenditure Accounts for environmental protection activities) for mitigation activities and developing a list of activities along COFOG and/or ISIC (International Standard Industrial Classification) for national adaptation and risk management actions. To further distinguish between environmental protection mitigation actions and harmful actions, countries can utilise CEA domains as a basis of whether actions are positively or negatively affecting the environment.

3. Using the information from green budget tagging

The information produced by green budget tagging can be powerful when it is fed into policy-making and budget decisions. Using the information for awareness raising alone is unlikely to achieve substantial results and will not justify the time and effort that is involved. Resch et al. points out: “Whatever the expenditure tracking methodology, it should be recognised that, unless the information resulting from the tag, analysis or review is used to inform climate change policy, planning or budgeting, or to strengthen accountability around climate change commitments, it will remain an academic exercise of limited operational value” (Resch, 2017^[29]).

This section looks at how green budget tagging can be used alongside other tools to build a larger stock of evidence on programmes relevant to national climate and environmental goals, and their impact. It then considers how this information can be used during budget decision-making, to improve the performance of government policy and – if desired - to qualify for green finance instruments. Finally, it outlines how the information from tagging can be presented to ensure transparency and facilitate oversight.

3.1 Using green budgeting to build a larger stock of evidence

Green budget tagging is one of many tools that can be employed as part of an overall green budgeting framework to help build a larger stock of evidence on how budget measures contribute to or deter from green objectives. A number of tools can work alongside green budget tagging to facilitate better understanding of the effectiveness of different measures and support budgetary decisions that align with policy goals, including; impact assessments, cost benefit analysis, and a green dimension to performance setting or performance budgeting.

There are different types of impact assessments that can help inform budget decisions, including environmental impact assessments and carbon impact assessments. Environmental impact assessments can serve as a means to highlight the environmental impact of individual policies and programmes. Examples of this include the EU directive on Strategic Environmental Assessment (SEA), which requests the assessment of policy plans or programmes for likely significant effects on the environment and the reasonable alternatives. Carbon impact assessments include methodologies to assess the impact of budget measures on GHG emissions.

Another tool that can gather useful evidence for budget decision-making is cost benefit analysis of projects and policies that have a deliberate aim of environmental improvement or are actions that affect, even indirectly, the natural environment. It helps decision makers to have a clearer picture of how society would fare under a range of policy options for achieving particular goals and improve policy-responses. *Ex-ante* cost benefit analysis can be supported by an *ex-post* assessment to cast light on the accuracy of the *ex ante* answer, or whatever decision rule was used to justify the policy or project (OECD, 2018^[42]).

A green dimension to performance setting, or performance budgeting, can also ensure that there is due consideration to including climate or environmental indicators and objectives as part of the government’s performance framework. It also encourages regular data collection in relation to key environmental metrics,

providing a basis for performance monitoring, impact evaluation and better budget decision-making (OECD, 2019^[43]). In this regard, countries can draw from experiences of gender budgeting where countries such as Austria and Iceland require that each budget chapter has a performance measure related to gender equality.

While these tools may have been in place for a number of years, the evidence they provide can be under-utilised. Where green budget tagging is introduced in the context of political momentum for improving how the budget supports green objectives, it can provide additional impetus for incorporating consideration of the evidence they provide in budget decision-making.

3.2 Using this evidence to inform budget decision making and improve performance

The evidence gathered from green budget tagging and complimentary green budgeting tools is most valuable when it serves as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on how the budget contributes to national climate or environmental objectives. For this to work, the evidence, and analysis flowing from it, should be available for relevant stakeholders at the time that they take key budget decisions. The evidence gathered through these tools can also provide input into processes designed to improve the performance of government policy, including programme evaluation and public expenditure or spending reviews.

Inputting evidence into different stages of the budget cycle

Information gathered through green budget tagging and other tools that support green budgeting can be inputted into the different stages of the government's annual budget cycle to support the allocation of public resources in line with strategic priorities.

This information has a potential role at each stage of the budget cycle, as shown in Figure 2. The first stage that the evidence gathered through tools supporting green budgeting can be used for is the budget planning stage. Lessons from the Philippines show how tagging can inform budget planning and allocation decisions (see Box 17). Other examples are provided by Pakistan, where the Ministry of Water has used information from climate budget tagging to integrate climate change into its MTBF, and Indonesia, where the Ministry of Finance used climate budget tagging data to identify the gap between the existing public spending and the estimated cost of the national climate mitigation action (UNDP, 2019^[8]).

Box 17. The use of budgeting evidence in budget allocation decisions in the Philippines

Each year, the Department of Budget and Management, as part of its budget preparation process, requires government agencies to provide an overview of their climate relevant expenditures (previous, current and succeeding fiscal year). Climate relevant programmes, activities and projects are then classified according to their allotment type (personnel services, maintenance and other operating expenses, financial expenses and capital outlays). As part of this process, Government agencies are requested to summarise and present their climate-related programme budget requests during technical budget hearings.

Source: (World Bank, Forthcoming^[2])

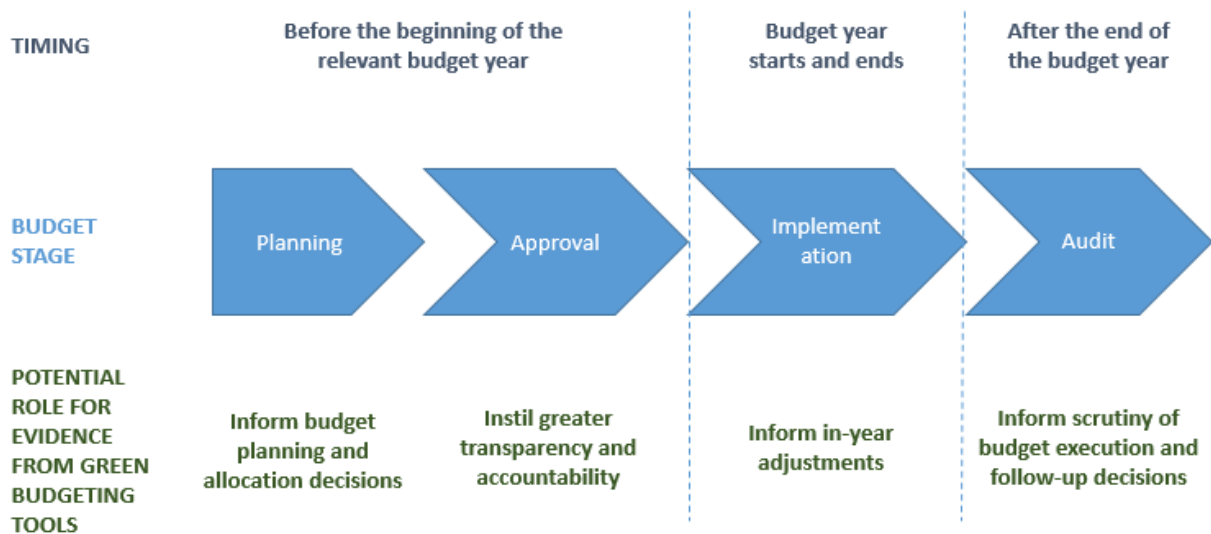
The next stage of the budget cycle is the budget approval phase. Here, information from tools such as green budget tagging can be used to instil greater transparency and accountability, for example, through

facilitating the provision of a green budget statement accompanying the draft budget proposal (see Section 3.4 later in the document).

During the implementation stage of the budget, information can be used to inform in-year adjustments. An example of the information from green budget tagging being used in this way is provided by Honduras, where the information generated through the tagging system appears to inform mid-year reallocations between climate change projects (World Bank, Forthcoming^[21]).

Finally, in the audit stage of the budget, information from green budgeting can be used to inform scrutiny of budget execution, and follow-up decisions on policy design and resource allocation in subsequent years.

Figure 2. Role for evidence from green budgeting at different stages of the budget cycle



Source: Authors

Using information to improve the performance of government policy

Green budget tagging does not account for the effectiveness of budget measures. However, information from green budget tagging and other tools supporting green budgeting can also be used in budget processes such as spending or public expenditure reviews, programme evaluations and other analytical to help guide the efficiency and effectiveness in public budgeting. For example, information from green budget tagging can complement output and outcome performance information to give a more detailed picture of the progress towards climate and environmental policy, or as the basis for reviewing programme performance. Or mitigation expenditure by program can be compared with how much GHG emission reduction is achieved for each program, giving insights into relative value for money (UNDP, 2019^[8]). Information from green budget tagging could also feed into spending reviews, a tool increasingly being used to increase the fiscal space available to government to finance its policy priorities (OECD, 2019^[44]). For example, budget tagging might inform a thematic spending review relating to a specific climate or environmental priority of relevant budget measures that should be considered. Alternatively, tagging might help inform a broad spending review the extent to which an overall package of measures contributes to different strategic objectives.

3.3 Using information to qualify for green finance instruments

A green bond is a type of debt instrument whose proceeds are exclusively earmarked to fund projects that deliver benefits to efforts related to climate change mitigation or adaptation, natural resource depletion, loss of biodiversity, air, water or soil pollution. Some countries have developed the use of green bonds as a key tool to channel investments to green assets in pursuit of their national climate and environmental objectives. In many instances, tagging processes go hand-in-hand with country's effort on green bonds (see Box 18 for the example of Ireland).

Box 18. Ireland's use of green bonds

In October 2018, the Irish National Treasury Management Agency launched the country's first Sovereign Green Bond, where any proceeds raised can be devoted to eligible "green" expenditure with the Government reporting to investors through annual allocation reports. These commitments made it necessary for Ireland to track all Government expenditure on climate-related matters at an ongoing basis. In tracking government expenditure, to ensure consistency and alignment to the requirement of managing green bonds, Ireland utilised the International Capital Markets Association (ICMA) standard definition of "green expenditure" as the basis for its budget tagging classification methodology.

Source: (Cremins and Kevany, 2018^[26])

The information from green budget tagging can help strengthen a nation's framework for green bonds by providing a set of considerations for identifying the eligibility of projects, tracking finances and reporting. For example, Indonesia's Ministry of Finance and National Development Planning Agency relied on its existing climate budget tagging system to assess eligible projects to be financed from its *Green Sukuk* (Indonesia's Green Bond) as well as ensuring associated projects are in accordance to the tenor of the *Green Sukuk*. (UNDP, 2019^[8]). However, although tagging efforts have been one of many tools used to support country green finance initiatives and pursuing green bonds, these do not necessarily require the use of green budget tagging.

3.4 Ensuring results of green budgeting are transparent and open to independent oversight

As mentioned in Section 3.2 Using this evidence to inform budget decision making and improve performance, green budget tagging can help instil greater transparency and accountability during the budget process where the information or analysis from the exercise are made public. The provision of this in the form of a green budget statement (GBS) or a citizen's climate or environmental budget can ensure that analysis is presented in a user-friendly way and is open to scrutiny by external stakeholders such as parliament and citizens.

Green budget statements

A GBS can be used to show summary information from green budget tagging. In this way, stakeholders can assess how the draft budget contributes to national climate or environmental objectives. Where the information and analysis drawn from green budget tagging is presented in a GBS or citizens' budget, this can support greater transparency, accountability and public engagement on budget policy.

These statements may be published as part of the draft budget proposal, serving as one element to contribute to deliberations at the approval phase of the budget cycle. Examples of countries that have already introduced a GBS in the form of chapters or supplementary reports to accompany the draft budget to provide an overview of relevant budget measures and their impact on climate and the environment are provided in Box 19.

Box 19. Examples of green budget statements

France: In order to enhance its reporting on the overall impact of public finance measures on ecological transition, the French Government developed a more comprehensive and updated “Yellow Book” for the 2020 Budget. The document draws on the information gathered from green budget tagging, and also provides additional information such as the economic effect of environmental taxes on households and firms.

Bangladesh: In Bangladesh, the publication of an annual Climate Financing for Sustainable Development report generated from green budget tagging has helped to engage civil society to hold government accountable. The report presents the percentage of climate-related spending subsumed in total public expenditure, with the purpose of showing the Government’s commitment to address the adverse effects of climate change. The report also intends to add to the knowledge and understanding of climate finance among wider stakeholders in Bangladesh so they can be better engaged with and contribute to policy development and monitoring and hold the decision makers to account.

Nicaragua: Final expenditures of activities linked to climate change and disaster risk reduction and environmental management are compiled and reflected in the government’s general liquidation report submitted to the National Assembly. This becomes subject to future audits by the General Comptroller.

Philippines: A climate budget brief, detailing climate change allocations, funding gaps and recommendations in relation to the National Climate Change Plan is used to inform budget hearings. This coincides with a proposed climate budget as part of the President’s Budget to Congress as part of the annual budget process.

Source: Government of France (2019^[45]), (Government of Bangladesh, 2020^[46]) and (World Bank, Forthcoming^[2])

In addition to information and analysis from green budget tagging, a GBS could include information such as:

- **A general green budget statement:** This summarises in broad narrative terms how measures introduced in the budget are intended to support green priorities and goals.
- **A green progress statement:** This provides a more detailed exposition of how the budget measures advance the government’s green agenda, by reference to established objectives and indicators.
- **Distributional impact analysis:** This is an assessment of how specific green measures (both revenue and expenditure) affect individuals, households or firms.

Citizens’ budgets

Citizens’ budgets have been introduced present to the budget in a way that makes sense to the general public and improve government accountability. Some countries, such as Bangladesh and Nepal, have now also introduced a “Citizens’ Climate Budget” to help bring about awareness of government action towards

climate objectives. Lessons from Bangladesh highlight how green budget tagging can serve as a useful tool to engage and inform the public in this regard (see Box 20).

Box 20. Bangladesh's Citizens' Climate Budget

The Ministry of Finance, in conjunction with the Climate Financing for Sustainable Development report, published a 'Citizens' Climate Budget for the 2018/19 and 2019/20 budgets. It provided a concise summary of climate-related budget allocations for the current and upcoming fiscal year, as well as information on actual expenditures of previous budget cycles. The tagging has raised awareness of government commitment to climate action – creating a demand for more information and greater assessments of impact by civil society organisations. In fact, it was only after demands by civil society to include more accurate expenditure figures did the government include actual expenditure information as part of its reports to the public.

Source: (World Bank, Forthcoming^[2]) (UNDP, 2019^[8])

4. Key challenges

In designing and implementing an approach to green budget tagging, there are some aspects that pose larger challenges and it is important to be aware of these, and prepare for them. This section identifies the most prominent challenges, and how they can be addressed. In particular, it looks at the challenges of identifying the appropriate level of granularity for tagging, deciding what to do with budget measures relating to adaptation, tagging negative budget measures, and balancing environmental, social and economic objectives.

4.1 Identifying the appropriate level of granularity for tagging

One of the key challenges faced by countries in implementing green budget tagging is identifying the appropriate level of granularity for budget measures to be tagged. Tagging broader budget lines on the one hand provides a high-level overview of budget alignment to green goals but sacrifices granularity and overlooks that different activities within the budget line may have different or even contrary effects on environmental and climate goals. For instance, should a country tag a budget line as contributing to climate or environmental objectives where only a portion of activities are relevant, external stakeholders may accuse the government of “greenwashing” expenditures. Should it not tag the budget line, then the government may have concerns that the tagging process does not include the full set of programmes which address the country’s climate objectives. Decisions on tagging can also be challenging when budget items are difficult to classify or where additional funding is provided in a budget line to make it climate sensitive (UNDP, 2019^[8]). France, for example, noted the challenges of identifying whether budget lines relating to housing projects positively or negatively impact their green objectives.

Tagging at a more granular level is often more attractive given that it provides greater levels of accuracy. However, it also brings its own risks, given that it requires greater resources (in terms of time and capacity for tagging). Additionally, considerations for the breadth (the number of sectors to be counted) creates an added dimension for countries along with the depth (level of granularity) of coverage.

Given the challenges of both broad and granular tagging, countries have to select an approach which balances their need for accuracy with the need to operate within the government’s capacity, as well as the purpose of the tagging (e.g. mainstreaming, accountability and transparency). Decisions on the appropriate level of granularity can be made in tandem with decisions on the appropriate weighting system in order to reduce trade-offs. For example, when tagging at a higher level, using a weighting system which allows only part of the budget item to be included helps facilitate greater understanding of the budget’s alignment towards green objectives.

4.2 Deciding how to deal with budget measures relating to disaster risk management and adaptation

When designing a tagging approach, it is important to consider the extent to which spending related to disaster risk management and adaptation efforts are consistent and coherent to a country’s national environmental and climate goals and therefore how they should be tagged. One of the reasons that this

activity is difficult to categorise is because it is contextual and differs for each country, depending on its needs. In addition, one country's efforts may also have negative externalities for another country⁵. For example, building a floodwall in a region may be appropriate to prevent instances of future flooding but can have negative spillovers to the local ecosystem and biodiversity and affect neighbouring regions' ability to adapt to climate change. Where adaptation actions serve to exacerbate existing vulnerabilities to climate change, this is referred to as maladaptation (further explained in Box 21).

Box 21. Adaptation vs. maladaptation

Adaptation, as compared to mitigation, involves policies and actions which serve to reduce the adverse consequences of climate impacts that are already underway whilst helping societies to proactively prepare for the future. These efforts can include addressing risks in coastal zones, water resources management, agriculture and biodiversity.

However, certain adaptation efforts, without careful systematic consideration, can be considered **maladaptation** when they serve to exacerbate existing vulnerabilities to climate change. Examples of these include:

- Over-exploiting groundwater resources in the short-term versus longer-term solutions such as rainwater harvesting and wastewater treatment and use.
- Crop insurance to cover farmers against extreme weather conditions which can inhibit further adaptation strategies over the long-term.
- Using pesticide to offset climate uncertainty, eliminating beneficial insects which may make conditions worse.

In many instances, maladaptation can burden vulnerable populations disproportionately. For example, UNEP identified infrastructure projects in the southwest of Bangladesh to address coastal resiliency as a case study of possible maladaptation as short-term benefits may induce greater investment and incentives to encourage coastal populations to stay while over the long-term rising sea levels are likely to inundate the region.

Source: (UNDP, 2019^[8])

At a national or international level, because one region's adaptation efforts can lead to another region's maladaptation, it is also hard to have consistent categorisation of budget measures – making comparability of country efforts much harder to assess. Furthermore, tagging certain mitigation or adaptation measures may largely depend on the country's specific methodology as many of these dimensions (particularly in the development context) can be counted towards development interventions (e.g. expanding electricity via renewable energy or ecosystem rehabilitation to reduce flooding) (World Bank, Forthcoming^[2]). For these reasons, there is a strong argument for tagging disaster risk management and adaptation measures separately from mitigation activities.

4.3 Tagging negative budget measures

Most countries do not tag budget measures which make a negative contribution to climate and environmental goals. Given that the intent and purpose of green budget tagging is often to help inform

⁵ Note, mitigation spend may also have negative externalities.

decisions, not having a sense of areas which negatively contribute to a country's green objectives limits the ability to have a full understanding of a country's progress. For example, analysis in Finland and Indonesia has shown that negative expenditures can outweigh positive climate expenditures (World Bank, Forthcoming^[2]). Oftentimes, this includes overlooking budget measures related to fossil fuel subsidies, as well as agricultural and construction measures. For example, Finland have recently found that its budget contains about EUR 3.5 billion of harmful energy subsidies, twice the amount dedicated to subsidies for becoming carbon neutral and resource-wise (Ministry of Finance, 2019^[47]; Annukka et al., 2019^[48]).

To overcome this challenge, it is recommended, as a starting point, to identify priority sectors and large expenditure areas which are known to already have a negative impact on climate change such as fuel subsidies and programmes which facilitate deforestation, mining and burning coal (UNDP, 2019^[8]). The IMF and the World Bank have worked with countries to assist in this effort. The IMF have found in their assessment that global subsidies remained large at USD 4.7 trillion in 2017 with three quarters of subsidies due to domestic factors such as energy pricing reform (IMF, 2019^[49]). In other contexts, countries have relied on the World Bank's Energy Subsidy Reform Assessment Framework (ESRAF) to identify and quantify energy subsidies in relation to their impact and to evaluate the enabling environment for reform efforts (Energy Sector Management Assistance Program (ESMAP), n.d.^[50]). Though these initial approaches may rely on subjective judgements of programmes, just as in categorising positive expenditure, it provides an opportunity to balance the discussion among decision-makers. An example of a country that is tagging negative budget measures is France (see Box 22).

Box 22. Tagging negative expenditures in France

In 2017, France committed to the Paris Collaborative on Green Budgeting, launched by the OECD, to assess the compatibility of its public finance trajectories with the Paris Agreement and other environmental goals. As part of these efforts, France, for the 2020 Budget, developed a comprehensive "Yellow Book" (*Jaune Budgetaire*) that provides an overview of budget measures and their alignment with France's green objectives. Specifically, measures are categorised according to the extent to which they have a favourable or negative impact on six environmental dimensions. The scale is shown below:



Source: (Ministry of Ecological and Inclusive Transition, 2020^[25])

4.4 Ensuring consistency and quality of tagging

Budget tagging processes are often subjective and susceptible to significant exclusion and inclusion errors. Furthermore, localised approaches and different methodologies make it difficult to compare across countries and in some cases, within countries across sectors. In some situations, the subjective nature of tagging can give opportunity for “greenwashing” or result in under-tagging.

Clear guidance for green budget tagging, together with support on how to deal with the more ambiguous budget lines, and validation processes can help (as outlined in Section 2.3). While this can increase capacity requirements (World Bank, Forthcoming^[2]), these actions help build the system’s credibility.

As part of the continuous improvement process, it can be useful to conduct internal *ex post* checks that help improve tagging processes over time. External stakeholders may also be able to help, such as the supreme audit institution, parliament, independent fiscal institution or civil society. These stakeholders may do this through general scrutiny of tagging reports or through conducting *ex-post* reviews, audits and evaluations which provide a view on the correctness of tagging. A good practice example is provided by Bangladesh where performance audits have been introduced for certain climate tagged projects with a pilot currently also being discussed in Pakistan (World Bank, Forthcoming^[2]).

4.5 Balancing environmental, social and economic objectives

It is important to remember that the information from green budget tagging highlights how budget measures contribute to environmental objectives, but these measures have varying impacts on broader social and economic objectives. It may be that budget measures contributing to environmental objectives also have positive social and economic benefits. In particular, there are often benefits for future generations who would otherwise be affected through the damaging effects of climate change (IMF, 2013^[51]). Recent events have illustrated that there can also at times be tensions between these objectives. For example, France’s efforts to adopt carbon taxes have been met with social opposition from the *Gilets Jaunes* protests as a result of the increased tax burden they placed on the working class with limited access to public transportation. In other instances, pursuits for climate or environmental goals conflict with policies aimed at addressing inequality.

Green budget tagging can be useful in identifying budget measures which negatively impact green goals (e.g., fuel subsidies), stimulating reforms in this area. To ensure that work such as green budget tagging does not inadvertently give rise to social or economic tensions, the evidence that it provides should not be considered alone in decision-making. Instead the information should be used to frame policy discussions on how to reduce the negative environmental impact while managing any associated social and economic trade-offs. These can be in the form of identifying plans to phase out subsidies over time, as observed in Ecuador (Box 23). Consideration should be given to the socio-economic implications of different options.

Box 23. Understanding the distributional impact of subsidy reform in Ecuador

With 7% of Ecuador’s annual spending comprising of energy subsidies, identifying ways to reduce the amount of public spending on subsidies can yield economic and environmental benefits. However, given perceptions that subsidy reductions are felt by the most vulnerable households, reforms have been met with political resistance. A study by the IDB has found that energy subsidies, in absolute terms, largely benefit richer households. By shifting funding from subsidies to an existing social protection programme (*Bono de Desarrollo Humano*) by about US 50 per month, a net benefit of almost 10% will be felt by those in the poorest quintile. Through expert interviews, the study recommended reforms to eliminate subsidies on gasoline whilst increasing transfers to vulnerable households and replacing Liquefied

Petroleum Gas (LPG) subsidies with targeted LPG vouchers that can benefit the poorest 40% of households in the country.

Source: (Schaffitzel et al., 2019^[52])

5. Elements that can support an effective approach

Lessons from efforts to undertake PFM reforms in the past, and in particular from countries introducing green budget tagging, have provided insights into elements that can support an effective approach. This section highlights some of those key elements, including: strong political and administrative leadership, a scaled approach to implementation and ensuring coherence with wider PFM reforms and complementing tagging with a wider set of government reforms to achieve national goals.

5.1 Strong political and administrative leadership

Political buy-in can support the viability and credibility of any new reform and green budget tagging is no different. Stand-alone tagging exercises that are not part of the broader political economy of the country risk being efforts that are not fully utilised and implemented – instead being considered ‘tick box’ exercises.

Ensuring political leadership in relation to green objectives, and processes such as green budget tagging which support their achievement, provides weight to their importance and helps administrative implementation of the tagging across the government (UNDP, 2019^[8]). An example is provided by France where the President has helped initiate the introduction of green budget tagging.

While political leadership is important, particularly at the beginning, administrative leadership by the CBA and the Ministry of Environment or Climate Change helps embed the initiative over time. This is illustrated from experiences of implementing gender budgeting (see Box 24).

Box 24. Strong leadership and its role in supporting gender budgeting in Canada

Canada introduced gender budgeting in 2016. A central tool of Canada’s approach to gender budgeting are ex ante gender impact assessments of policies (GBA+).

The Department of Finance has showed strong leadership from the start in relation to these reforms. At the beginning, to ensure that the line ministries were clear on new requirements, the Minister of Finance stipulated in the budget circular that all new budget proposals must be accompanied by a GBA+.

The Department of Finance then set about trying to improve the quality of information that it was receiving as part of the gender budgeting reforms. For example, in Budget 2018, the Department of Finance highlighted that there was inconsistency in the quality and application of GBA+ analysis accompanying budget proposals. Furthermore, the Department highlighted examples of GBA+ analysis where there was room for improvement and made a commitment to publish GBA+ accompanying all budget proposals starting in Budget 2019. This public “naming and shaming” and commitment to transparency on the information accompanying budget proposals helped ensure that spending

departments took the new requirements seriously and gender budgeting is now becoming an exercise which brings high-quality information to inform budget decisions supporting Canada's gender goals.

Source: (Government of Canada, 2019^[53]; OECD, 2018^[54])

Lessons from gender budgeting show that legal foundations can also ensure sustainability in the longer term. For example, legislation that is fully tested and debated in parliament has helped embed gender budgeting as a valued and enduring feature of public policy making and insulate it, as far as possible, from fluctuations arising from the economic or political environment (OECD, 2019^[55]). This can be observed in the case of the Philippines where the Climate Change Act of 2012 required the Department of Budget and Management to “undertake the formulation of the national budget in a way that ensures the appropriate prioritisation and allocation of funds to support climate change-related programs and projects in the annual program of government” helping to set the basis for their broader climate budgeting approach.

5.2 A scaled approach to implementation

Another element which can support effective implementation of green budgeting is a scaled approach to implementation, whereby countries start small and iterate and expand their efforts over time (as outlined in Section 2.4). Mindful that bureaucratic resistance and limited capacity are some of the main challenges when initiating reforms, this allows countries to develop capacity over time, and tailor the approach. In general, it is observed that this is how countries are implementing green budget tagging. For instance, in Ireland the government started by tagging expenditures with a positive impact on climate change but is moving to tag negative expenditures over time as it develops sufficient capacity and expertise. In the Philippines, the government recognised from the start that reforms are likely to be accomplished over the medium- to long-term. As such, the Department for Budget and Management and Climate Change Commissions focused on generating concrete products quickly to engage stakeholders across the budget process. Like Ireland, due to the novel nature of the tagging process, the initial approach was limited to only positive expenditures with plans to add in tax expenditures and negative expenditures in subsequent years. A further example is given by Nepal's implementation of climate budget tagging (see Box 25).

Box 25. Nepal's scaled approach to implementing climate budget tagging

Nepal started implementation of climate budget tagging along a simplified approach of using 11 criteria to define and share climate relevant activities, serving as the basis to define the weight of each programmes. Building on this, the Ministry of Agriculture is piloting an expansion of the existing criteria based on seven agriculture-specific typologies with relevance being determined along three non-financial factors:

1. the degree to which an activity targets the correct beneficiaries;
2. whether it links to a climate change policy
3. whether it is based on a climate risk assessment

As the pilot with the Ministry of Agriculture develops, Nepal plans to evolve its original methodology to other ministries so that tagging processes are attuned to different sectors.

Source: (UNDP, 2019^[8])

5.3 Ensuring coherence with wider PFM reforms

Many PFM systems have undergone significant reforms in recent decades, particularly since the 2008 global financial crisis. Reforms have focussed on introducing elements such as programme budgeting, performance budgeting, medium-term planning, increased transparency, and greater parliamentary and public participation in the budget process (OECD, 2019^[56]).

Some PFM systems support green budget tagging more easily than others. For example, countries with existing programme budgeting are better-able to incorporate green budget tagging processes than traditional input-based systems. This is echoed in experiences with gender and SDG budgeting, where existing programme-based structures have helped to adopt implementation of additional high-level areas of focus (Stotsky, 2016^[57]). It can also be easier in countries where there are stronger links between planning and budgeting. In sequencing PFM reforms, it is thus helpful to introduce tagging after developments to implement programme budgeting and to link planning with budgeting. Lessons from the implementation of gender budgeting in low-capacity settings also show that there are often greater challenges where a country has weak public expenditure management systems and political economy factors in budget management (vested interests) (World Bank, Forthcoming^[2]).

Initiatives to implement green budgeting and green budget tagging are also part of a wider momentum that has gathered for a set of budgeting approaches focussed on specific priorities, sometimes termed “budgeting for high-level priorities”. Examples include gender budgeting, SDG budgeting and wellbeing budgeting. These approaches look to embed more systematic linkages between budget decision-making and high-level cross-cutting priorities – including through developing greater awareness and capacity to consider these priorities across government, building greater evidence, and using this to make more informed decision-making during the budget process.

In general, tagging exercises can support the implementation of other PFM reforms such as performance budgeting, or developing a medium-term expenditure framework since it provides information on financial resources allocated to high level policy priorities. This facilitates linking spending and policy objectives as well as measuring results from budget policy (UNDP, 2015^[35]). Where information is presented to the public, e.g., through a statement accompanying the budget or as part of a citizens’ budget, it can also support PFM reforms to improve budget transparency and increase accountability and public engagement on how the government is using budget policy to ensure that national climate and environmental goals are prioritised and achieved.

When green budgeting is being implemented and there are already other budget tagging approaches in place, it can be helpful to develop a coherent approach. An example of a coherent approach for tagging multiple dimensions is provided by Iceland, where expenditure is tagged for links to both the SDGs and gender equality. To facilitate a coherent approach, it has developed an IT system which line ministries can use to tag expenditure as relevant to these higher-level priorities.

In other instances, countries may be able to use green budget tagging as a model to expanding tagging to other priorities. In Ecuador, for example, there is consideration to scale climate budget tagging to other areas of the SDGs. This is a natural evolution given the cross-cutting goals of climate and the environment are linked to a number of SDGs. There is also often intersectionality between climate and environmental goals and other high level priorities, with women, those in poverty, people with disabilities, and ethnic minorities often disproportionately affected by climate change and environmental degradation. This builds the case for approaches to green budget tagging that allow measures to be tagged for other dimensions such as gender, poverty or SDGs (UNDP, 2019^[8]). In this way, green budget tagging can provide for a better understanding and discussion around how different policy interventions on climate and the environment impact different socio-economic groups, as recommended in Section 4.5.

5.4 Complementing green budgeting with a wider set of government reforms to achieve national goals

Government spending, together with fiscal instruments including taxes, charges, pricing externalities and subsidies all have the potential to influence progress towards green objectives. To the extent that there is information related to these fiscal policy choices in the budget, green budget tagging can shine an important spotlight on how fiscal policy as a whole is impacting green objectives. However, where transparency on these items falls short, the effectiveness of green budget tagging is affected.

A key area where information is often limited is tax expenditures. Although these can have wide-ranging implications for green objectives, for example, tax benefits for fossil fuels, the quality and scope of reporting varies considerably among countries. To ensure tools such as green budgeting help highlight the alignment between fiscal policy and green objectives, governments must significantly improve their reporting on tax expenditures.

However, the budget is not the only public policy intervention to support progress towards climate and environmental goals. In addition to ensuring that green budget tagging captures the full range of fiscal instruments impacting green objectives, tools such as green budgeting and green budget tagging can be complimented with wider efforts outside the budget process to be most effective. Other interventions might include assessing, amending or introducing regulations, market-based policy instruments or legislation so that they better support the achievement of national climate and environmental goals.

Regulation can be put in place to control emissions, and constrain or ban polluting activities and chemicals that are toxic for people and the environment. Regulatory scans or reviews can help identify actions that are needed to ensure that regulations are coherent with, and support the achievement of, green goals.

Direct regulation can also be supported by innovative market-based policy instruments to meet public policy objectives. Well-designed, market-based instruments such as tradable permits, and deposit-refund systems have proven to be at least as environmentally effective as direct regulation, and often much more economically efficient (i.e. meeting given environmental objectives at lower cost).

Reviewing, amending and developing new legislation also helps ensure that the legal system reflects the changing environmental context and supports the achievement of green objectives. For example, Denmark recently passed new and ambitious climate legislation that enshrined a commitment to reduce carbon emissions by 70% by 2030 in law and will act as the new framework for Danish climate policy in the years to come (Danish Ministry of Climate, Energy and Utilities, 2020^[58]).

Even where strong regulations and legislation is in place, governments are prone to taking policy and decisions that are not coherent with green objectives, e.g., through continuing to support investment in fossil fuels or road building. Some countries are taking efforts to avoid this. For example, New Zealand stated in 2019 that all its major cabinet decisions will now be made through a climate change lens. Decision-making will be supported by climate impact assessments that are now mandatory for policy and legislative proposals designed to reduce carbon emissions, or which are likely to have an impact on emissions greater than 250,000 tonnes a year (New Zealand Government, 2019^[59]).

Where a whole-of-government approach is built, encompassing legal, regulatory, policy and budget decisions, it has significantly more potential to be effective than the implementation of one stand-alone tool. Indeed experience from gender budgeting shows that regulations and laws may be more efficient and effective to achieve gender objectives and so gender budgeting should be seen part of a wider set of reforms for gender equality (World Bank, Forthcoming^[2]).

Bringing it all together: Ten principles underpinning an effective approach to green budget tagging

Many countries are still at the early stages of green budget tagging. This document has set out detailed guidance for countries on how to take budget tagging forward most effectively, drawing together the lessons from the international budgeting community, and benefiting from insights from other PFM reforms. The following Principles synthesise this guidance. They provide a reference tool for those designing, implementing and improving green budget tagging systems that can meet the challenges of the future. The overall intention is to provide a useful reference tool for policy-makers and practitioners around the world, seeking to develop green budget tagging systems that help track how budget measures impact on national climate and environmental objectives. This can help ensure that public resources are planned, managed and used effectively to make a positive impact on national goals.

The ten principles underpinning an effective approach to green budget tagging

1. To foster national ownership, the decision to start green budget tagging should be driven by national priorities. Countries can benefit from the study of existing models, experiences and international standards, using these to guide an approach that fits their own national context.
2. In designing the tagging system, categories should align with country-specific climate or environmental goals (such as those relating to biodiversity, water and air quality). This allows the collection of evidence on how budget measures contribute to national goals.
3. A weighting system can help address the reality that some budget measures only partially contribute towards climate or environmental goals.
4. Countries should work towards tagging both positive and negative budget measures across the whole budget, or at least priority sectors, such as agriculture, transport, energy and the environment, where capacity is insufficient. Where possible, disaster risk management and adaptation measures should be tagged separately from mitigation measures.
5. Green budget tagging efforts benefit from political commitment, strong leadership and clarity of the roles and responsibilities of different actors across government so that a whole-of-government approach is in place. Training and capacity development are crucial in supporting the public administration in incorporating the tagging exercise into the annual budget process and ensuring that the practice is sustainable.
6. Tagging is subjective by nature, and to ensure consistency there needs to be clear guidance as well as processes for review and validation. This helps ensure the robustness of data and allays concerns about “greenwashing”.
7. Green budget tagging is one of a number of tools that support green budgeting (such as impact assessments, cost benefit analysis and green performance indicators) through gathering evidence

to facilitate more informed decision-making. However, using the evidence for awareness raising alone is unlikely to achieve substantial results, and the focus should be on ensuring the use of this evidence in decision-making across key stages in the budget cycle (planning, approval, implementation and audit), and to improve the performance of budget interventions.

8. Green budget tagging is supported by a modern budgetary governance framework, which includes programme budgeting and strong links between planning and budgeting. Any approach should be consistent with the broader budget framework and coherent with other PFM initiatives such as gender budgeting and SDG budgeting.
9. Where the information and analysis drawn from green budget tagging is presented in a green budget statement or citizens' budget, this can support greater transparency, accountability and public engagement on how the government is using budget policy to ensure that national climate and environmental goals are prioritised and achieved.
10. The budget is not the only public policy intervention to support progress towards climate and environmental goals. Tools such as regulations and laws are also important and so green budget tagging should not sit alone, but alongside of a wider set of reforms to achieve national goals.

The following Annex provides country case studies which illustrate green budget tagging practices in greater depth, and shows practices in respect of these ten principles.

Annex: Country snapshots

This annex serves to illustrate snapshots of country practices of green budget tagging in respect to the ten principles outlined in this paper. This annex highlights experiences from 4 countries (in alphabetical order):

- **France**
- **Ireland**
- **Nepal**
- **Philippines**

The diversity of objectives, methods and approaches highlight how country approaches are rooted in national contexts. The experiences of these countries indicate that there is no ‘silver bullet’ to developing a green budget tagging approach – each serves to demonstrate that green budget tagging is a relatively new practice where countries are working to iterate and continue to develop their approaches over time. Recent reviews of climate change expenditure tagging have shown challenges still remain (World Bank, Forthcoming^[2]). Therefore, it is important to see these snapshots as ‘guiding posts’ (and not an end goal) for designing and implementing a green budget tagging approach.

France

In light of France’s commitment to the global Paris Climate Agreement, France has prioritised its efforts to address climate change. As a founding member of the *OECD Paris Collaborative on Green Budgeting*, greater considerations have been made on how to ensure environmental impacts are taken to account throughout the budget process. In 2018, the French National Assembly and the Senate decided that the French Government needed to enhance its reporting on the overall impact of public finance measures on ecological transition. Since then, initial pilots for a smaller subset of ministries were conducted and for the 2020 Budget, France developed a more comprehensive and updated “Yellow Book” to provide an overview of relevant policies to highlight their alignment with France’s climate objectives. The document was submitted to Parliament for the first time in October 2019 for the 2020 budget, including information on fiscal policy alignment with environmental targets; environmental tax revenue; environmental tax expenditure; and the economic effect of environmental taxes on households and firms.

France has worked on a comprehensive classification system for environmentally friendly, neutral, and potentially harmful budget expenditure. The approach looks not only at climate change impacts, but at six different environmental aspects, including climate change adaptation, mitigation, biodiversity, circular economy, water and air quality. This approach aims to assess the potentially negative or positive spill-over effects from one environmental sphere to another. It is expected that the methodology will be applied for the first time for the budget law 2021 (*projet de loi de finances*).

Institutional arrangements have been developed to ensure adequate oversight and engagement. Most notably, the country established the High Council for the Climate (*Haut Conseil pour le Climat*) to provide independent expertise to the government on climate-related public policies.

France's green budget tagging "at a glance"		
1.	Driven by national priorities	France's commitment to the Paris Climate Agreement and ecological transition.
2.	Aligned to country-specific green goals	Green budget tagging approach identifies expenditures along six objectives (in line with the EU taxonomy regulation): climate change adaptation, climate change mitigation, biodiversity, circular economy, water and air quality.
3.	Weighting system	Tagged expenditures are counted in full to their impact on the climate and environment
4.	Work towards tagging both positive and negative budget measures	Tags expenditures that positively, neutral impact, and negative impact to the environment and climate. Categorisation range from <i>Very favourable, favourable, favourable but controversial, neutral, and unfavourable</i> .
5.	Political commitment, leadership and clear roles/responsibilities	Addressing the environment and climate is one of key priorities for the French government. Leadership from the Ministry of the Economy and Finance and Ministry of Ecological Transition through tagging process.
6.	Guidance and process for review and validation	Tagging is conducted by a team of experts in the Ministry of Ecological Transition with validation conducted by line ministries.
7.	Tagging coincides with other tools that support green budgeting	
8.	Supported by modern budgetary governance framework	France has a performance budgeting system where both summary and detailed information on performance objectives, indicators and results for each Government programme is published each year for accountability purposes. Medium-term expenditure framework (MTEF) reflect targets for total spending of each level of general government within three or five-year periods.
9.	Presented in green budget statement or citizens' budget	The "Yellow Book", containing information on environmental expenditure in alignment with environmental targets and budgetary policy is presented each year to feed the parliamentary debate on the budget.
10.	Budget coincides with other public policy interventions	The state reviews tax measures that are harmful to biodiversity and will propose new tools to allow a gradual transition to a tax regime that will better suit new environmental challenges (The Planning Act of the Environment Round Table)

Ireland

One of Ireland's central priorities is to lower greenhouse gas emissions and promote climate-resilient development, in line with the Paris Agreement within the UN Framework Convention on Climate Change. In line with this commitment, the Minister for Public Expenditure and Reform and the Minister of Finance committed to implement green budgeting through the budgetary and estimates process. Building on existing processes for budgeting for other high-level priorities (e.g. gender and equality budgeting), the Ministry of Public Expenditure and Reform committed to tracking climate-related expenditure for the 2019 Revised Estimates for Public Services. Driven in part by its purpose on facilitating the country's commitment and use of green bonds, the government adopted ICMA (International Capital Markets Association) standards for classifying climate related expenditures. As such, the scope of expenditures tagged only covered programmes (at the multi-million Euro level) where it significantly supported emissions

reductions. In part, this conservative classification approach focused on withstanding accusations of ‘green-washing’ by stakeholders. Tagged expenditures are analysed and presented as a table under the Revised Estimates for Public Services to Parliament. This helps to promote greater transparency and to serve as an input decision-makers on how to keep Ireland in track to its climate and environmental commitments. The country aims to iterate its approach with plans to develop a tagging system for negative and tax expenditures in subsequent budget years.

Ireland’s green budget tagging “at a glance”		
1.	Driven by national priorities	Ireland’s commitment to reduce greenhouse gas emissions and promote climate-resilient development (Paris Agreement).
2.	Aligned to country-specific green goals	The National Mitigation Plan called on the Department of Public Expenditure and Reform (DPER) to monitor and report climate-related expenditure through the exchequer. Additionally, the National Treasury Management Agency (NTMA) launched the country’s first Irish Sovereign Green Bond where proceeds raised can only be devoted to “green” expenditure which is then reported to investors. A tagging system needed to be in place to facilitate reporting for investors in Sovereign Green Bond.
3.	Weighting system	Adopted a conservative classification approach where it only tagged programmes in full where it is evident that all, or at least the majority of investment in question supports Ireland’s transition to a low carbon, climate-resilient and environmentally sustainable economy.
4.	Work towards tagging both positive and negative budget measures	Captures only positive expenditure. Plans are in place to introduce negative expenditure in future budget years.
5.	Political commitment, leadership and clear roles/responsibilities	Climate change and the environment remain key political priorities for the government. The Department for Public Expenditure and Reform (DPER) plays a key leadership role in the green budget tagging process.
6.	Guidance and process for review and validation	A team of experts within the Department for Public Expenditure and Reform (DPER) conducts the initial tagging process, in close coordination with the Department of Communications, Climate Action and Environment. Validation checks are conducted in subsequent rounds by line ministry.
7.	Tagging coincides with other tools that support green budgeting	National biodiversity expenditure review (NBER) estimates expenditures of biodiversity to assess progress on government commitments on biodiversity and track spending across sectors and departments, non-governmental organisations (NGOs) and the private sector.
8.	Supported by modern budgetary governance framework	Performance-informed budgeting; budget document includes output targets alongside financial allocations; Annual performance report shows key deliverables of each ministry, not yet linked to overarching performance framework or accountability mechanisms. Medium-term expenditure framework (MTEF) includes 3-year rolling ceilings, consistent with fiscal rules.
9.	Presented in green budget statement or citizens’ budget	Information from tagging is presented as table under the Revised Estimates for Public Services to the Parliament.
10.	Budget coincides with other public policy interventions	DPER has also worked with Government Departments receiving funding from carbon tax revenues to develop ex ante performance metrics for programmes that have received added funding from carbon tax increases. Future plans are in place to include ex-post assessment of performance against selected metrics.

Nepal

Facing extreme events of floods, droughts and changing rainfall patterns have affected left Nepal's agricultural system vulnerable to the effects of climate change. In part, due to limited resources to address many of these challenges, the country underwent efforts to tag its budget to access international climate funds to finance climate change activities as well as identify funding gaps for decision-makers and stakeholders. Starting from 11 ministries, tagging efforts have expanded to cover all central government entities in accordance to a positive list of 11 climate change activities. Activities are classified in accordance to their relevance to the listed activities through three groups (Highly relevant where more than 60% of programme budgets are allocated to climate activities; Relevant where 20 to 60 percent of budget are relevant; and Neutral where less than 20% of budget are relevant). Sectoral ministries, in close coordination with the Ministry of Finance, tag proposed budgets through the Line Ministry Budget Information System (LMBIS) where it is reviewed and validated by the National Planning Committee. The results of tagged expenditures are presented as an annex to the budget document (Redbook) as well as in an annual citizens' climate budget.

Nepal's green budget tagging "at a glance"		
1.	Driven by national priorities	Climate change is a key policy priority as it affects the country's agricultural systems.
2.	Aligned to country-specific green goals	Climate Change Financing Framework (CCFF) mapped reforms in the PFM system to improve climate budget accuracy and address sectoral nuances, improve accountability, initiate tagging, and facilitate evaluation of climate investments.
3.	Weighting system	Activities are classified in accordance to their relevance to the listed activities through three groups (Highly relevant where more than 60% of programme budgets are allocated to climate activities; Relevant where 20 to 60 percent of budget are relevant; and Neutral where less than 20% of budget are relevant).
4.	Work towards tagging both positive and negative budget measures	Captures only positive expenditures
5.	Political commitment, leadership and clear roles/responsibilities	Key leadership roles are played by the National Planning Commission and the Ministry of Finance.
6.	Guidance and process for review and validation	The National Planning Commission and the Ministry of Finance, as part of the budget process, provides guidelines for their budget proposals, including requirements for line ministries to tag relevant expenditures into the budget system (Line Ministry Budget Information System).
7.	Tagging coincides with other tools that support green budgeting	
8.	Supported by modern budgetary governance framework	Nepal has a Medium Term Expenditure framework where tagged projects and programmes present a summary of budget estimations and expenditure projections.
9.	Presented in green budget statement or citizens' budget	Climate change relevant expenditures are presented as an annex to the budget document (Redbook). A citizens' climate change budget is also published.

10. Budget coincides with other public policy interventions

Philippines

Philippines started to introduce climate change expenditure tagging in 2014, following the Climate Public Expenditure and Institutional Review in the previous year. The work was led by the Department of Budget and Management and the Philippines Climate Change Commission, with support from the World Bank and Australia. Recognising the need for progressive improvements in transparency in the planning, prioritization, monitoring and reporting of climate responses, the introduce tagging measures aimed to improve understanding of climate change expenditure as a means to mobilize the scale and effectiveness of financing to implement the country's planned Nationally Determined Contributions. Coverage of tagging includes climate relevant activities which explicitly articulates climate change adaptation or mitigation explicitly as a main objective. For activities which partially addresses climate change, the proportion of the activity budget (relevant for climate change) is included into the tagging system. Activities are then further classified according to the country's National Climate Change Action Plan along sub-objectives and instrument categories.

Institutionally, the Department of Budget and management along with the Climate Change Commission take leading roles in developing guidance and providing support to line ministries which are responsible for tagging their expenditures into the budget proposal system. Validation is conducted by the Climate Change Commission and analysed information is provided through briefs as part of the submission of the President's Budget to Congress.

Philippines's green budget tagging "at a glance"

1.	Driven by national priorities	Manifestations of climate change have propelled the government to have climate change as a national priority. The passage of the Climate Change Act (Republic Act 9729) provided the policy framework to formulate strategy, mainstream climate risk into development plans and programmes, identify relevant investments and assess vulnerability across sectors.
2.	Aligned to country-specific green goals	National Climate Change action plan outlined several priorities (Food Security, Water Sufficiency, Ecosystem & Environmental Stability, Human Security, Climate Smart Industries & Services, Sustainable Energy, Knowledge & Capacity Development, Cross-Cutting).
3.	Weighting system	Programmes, activities and projects are counted in full if they primarily address climate change (mitigation or adaptation) as its main objective. For those which partially addresses climate change (mitigation or adaptation), the commensurate proportion of expenditure dedicated to climate change is counted.
4.	Work towards tagging both positive and negative budget measures	Tags only positive expenditures
5.	Political commitment, leadership and	The Department for Budget and Management and the Climate Change Commission play key leading roles in the development of guidance,

	clear roles/responsibilities	capacity building, and validation in close coordination with line ministries.
6.	Guidance and process for review and validation	Guidance is provided as part of the annual Budget Call by the Department of Budget and Management where government agencies and validation checks are conducted by the Climate Change Commission (based on Quality Assurance review forms submitted by line ministries).
7.	Tagging coincides with other tools that support green budgeting	.
8.	Supported by modern budgetary governance framework	Annual budgets contain performance information for all government programmes (in line with objectives, target outputs, and indicators).
9.	Presented in green budget statement or citizens' budget	A climate budget brief is developed by key climate change government agencies and is part of the submission of the president's Budget to Congress. Additionally, a National Climate Budget document is published based on information from expenditure tagging.
10.	Budget coincides with other public policy interventions	

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