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Green Budgeting: The Way Forward

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This paper focuses on the integration of climate and environmental perspectives into the budget process. It identifies seven key areas for consideration highlighting the role of central budget offices and the decision-making process for budgeting. It is based on implementation experiences in OECD countries and the work of the OECD Paris Collaborative on Green Budgeting.

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Overview

1. All OECD countries have committed to the 2015 Paris Agreement on Climate Change and have made commitments to reduce greenhouse gas emissions. In the majority of instances, the commitments are to achieve net-zero emissions by 2050 or sooner, as is the case for Austria (2040), Finland (2035), Germany (2045), and Sweden (2045). OECD countries have also made commitments relating to biodiversity, including those in the Aichi Biodiversity Targets. Many OECD countries have passed legislation and prepared national strategies on climate change and environment specify the policy rationale and basis of the reforms.

2. This paper focuses on the roles of central budget offices and the decision-making processes in budgeting. It is based on the work of the OECD Paris Collaborative on Green Budgeting, which supports OECD countries in the integration of climate and environmental perspectives into budgetary processes (Box 1). Recent work by the Collaborative has included the OECD Green Budgeting Framework (see Annex) and Green Budgeting in OECD Countries (OECD, 2021[1]). These resources have contributed to the OECD identifying seven key areas that can help to progress climate and environmental commitments through green budgeting (Box 2).

3. The implementation experiences in OECD countries indicate there is no single approach to integrating climate and environmental perspectives into budgeting. The variation is attributable to differences in national priorities, budgetary frameworks and limitations in the availability of timely information. However, the implementation experiences identify key areas to inform the ongoing development of green budgeting. For instance, the experiences of budget offices indicate a strong focus on *ex ante* assessment by analysing the intended results of reforms prior to including climate and environmental proposals in budgets.

Box 1. OECD Paris Collaborative on Green Budgeting

The OECD Paris Collaborative on Green Budgeting was formed in 2017 in order to assist countries with the integration of climate and environmental objectives into budgeting.

Its purpose is to provide a platform for countries to share experiences on the design of new and innovative tools to assess and drive improvements in the co-ordination of national objectives on climate change end environmental sustainability relative to budgetary processes and resources.

A unique feature of the Collaborative is its multi-disciplinary approach from bringing together experts on budgeting, the environment, taxation and other areas of the OECD. The Collaborative's work on green budgeting is an integral part of the OECD's contribution to the Coalition of Finance Ministers for Climate Action and the Conference of the Parties (COP) (OECD, European Commission, IMF, 20121[2]).

4. Factors such as national strategies on climate change and environmental sustainability have contributed to the ever increasing use of green budgeting in OECD countries. The increased relevance of green budgeting has in turn contributed to integrating green considerations into all policies, which helps in analysing the merits of budget proposals. It has also highlighted the importance of co-ordinating policy commitments, particularly those passed in legislation by parliaments.

5. Green budgeting experiences in OECD countries show that not all budget proposals have equal benefits and there are more proposals than budgetary resources. Although this situation is not new for budgeting in general, it highlights the need for consistent prioritisation and decision-making processes across government to progress the budget proposals that will have the greatest impact.

6. Budget offices are adapting existing budgetary tools, such as performance budgeting, fiscal risk management and macro-fiscal forecasting to ensure core activities of ministries of finance include climate and environmental considerations. From a whole-of-government perspective, adapting existing tools extends to ensuring that the accountability arrangements for ministries and agencies include climate and environmental dimensions in planning, implementation and reporting.

7. The implementation experiences have identified areas of ongoing work, examples include:

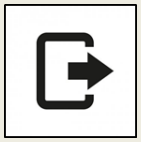
- Addressing differences in the capacities of government ministries in preparedness to meet net-zero and related objectives.
- Identifying gaps in the tools and methods that are available to inform budget priorities (for instance, disclosures on fiscal risk and financial reporting).
- Increasing the performance information available on the implementation of green budget initiatives.

8. This paper recognises that green budgeting practices continue to develop. The OECD will update and refine the seven key areas identified in Box 1 to ensure the key areas remain relevant.

9. The key areas identified in this paper were discussed at the 15 March 2022 meeting of the OECD Paris Collaborative on Green Budgeting in junction with the Working Party on Financial Management and Reporting and the Working Party of Parliamentary Budget Officials and Independent Fiscal Institutions.

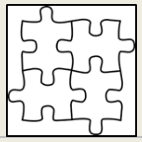
Box 2. Green Budgeting: The Way Forward

1. ***Define green in terms of the results that are to be achieved***



Adopting results-based approaches to green budgeting enable governments to consider a broad range of potential impacts in a budget proposal, including climate and environmental impacts, to inform the selection of budget proposals that can contribute to a government's undertakings on net-zero emissions and related results.

2. ***Integrate green impacts into all governmental policies***



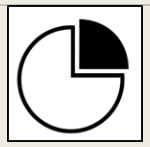
Climate and environmental considerations are not limited to new expenditure and should be applied to existing policies as well as budget proposals. The consideration of the potential impacts of policies to the climate and the environment provides information on the medium and long term budget implications of policies.

3. ***Co-ordinate climate and environmental commitments and budgets***



Legislatures enact legislation on the government's budget and enter commitments that can have implications for the budget. Ministries of finance should identify where such implications exist and the mechanisms available to define the relationship and ensure co-ordination. An example is the relationship between fiscal budgets and carbon budgets where both instruments are approved by parliament.

4. ***Apply a consistent basis to prioritising the activities that matter most to climate and environmental goals***



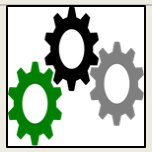
Budgeting relies on clear frameworks and consistent criteria to inform prioritisation and decision making. Taxonomies can enable ministries of finance to take stock of the composition of government expenditure relative to climate and environmental objectives. When combined with data on emissions and environmental considerations, governments can identify reforms that have the greatest impact.

5. **Analyse green budget proposals on merit, separate from funding**



Many OECD countries have introduced carbon taxes, issued sovereign green bonds and allocated lump-sums for the purpose of advancing climate and environmental objectives. All budget proposals should be analysed on their merits within available total funding. The existence of any dedicated funding for climate and environmental objectives does not reduce the need for such analysis.

6. ***Leverage existing budgetary frameworks to implement green budgeting***



Green budgeting integrates climate and environmental perspectives into existing budgetary frameworks, tools and processes, which include fiscal risk management, medium and long-term fiscal statements and performance budgeting. The integration is relevant to the responsibilities of oversight institutions, and it has implications for the capacities needed within a ministry of finance in preparing advice and managing the budget.

7. ***Strengthen accountability and transparency requirements for the implementation of green initiatives***



Government ministries and agencies are accountable for the use of budgetary funds and to fulfil certain obligations on planning, monitoring, and reporting. These accountabilities apply equally to budget programmes that contribute to green objectives. Ministries of finance have a role in preparing guidance on the responsibilities that line ministries are to observe in relation to public expenditure on these matters.

1. Define green in terms of the results that are to be achieved

Climate and environmental objectives comprise result-based undertakings, for instance to attain net-zero emissions by a specified date. The milestones within the objectives also focus on results, but at a more detailed level, such as the sectors of an economy, and can require co-ordination as covered in Key Area 3.

OECD countries use result-based approaches in budget frameworks, including performance budgeting and output-based appropriations. A result-based approach to green initiatives is relevant to managing performance through the budget cycle. In doing so, the focus on results minimises the risk of greenwashing, that is, an unsubstantiated increase of what might be achieved from a budget initiative.

Adopting results-based approaches for green budgeting enables governments to consider a broad range of potential impacts from a budget proposal, including climate and environmental impacts, to inform the selection of budget proposals. Assessing budget proposals based on inputs can underweight innovation and productivity gains from mitigation and adaptation initiatives.

10. The results that OECD countries seek to achieve in relation to climate and environmental goals are specified in international commitments, such as the 2015 Paris Agreement and national comments through legislation. These commitments are then expanded upon in national strategies that articulate the incremental results or milestones that are to contribute to achieving the overall commitment. Table 1 illustrates some of the commitments, by showing the form of the commitment, the target date to achieve the commitment, the scope, and the reporting obligations. The reporting obligations indicate that reporting the results achieved at specific points is an integral aspect of the overall commitment.

Table 1. Commitments to net-zero emissions in selected OECD countries

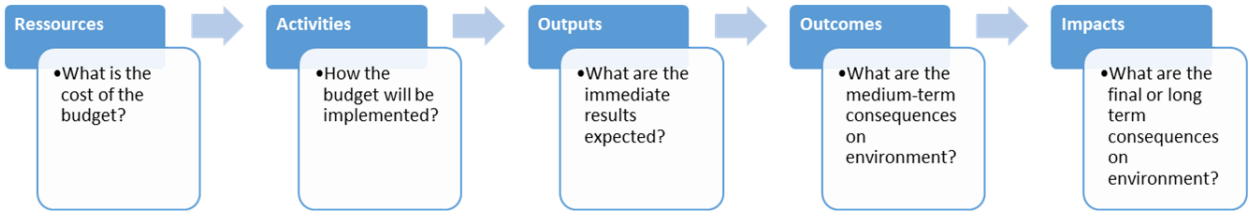
Country	Net Zero	Date	Scope	Reporting Obligations
Austria	In policy document	2040	All GHG emissions	
Canada	In law	2050	All GHG emissions	2033, 2038, 2043, 2048
Chile	In proposed legislation	2050	All GHG emissions	Every 4 years
Colombia	In proposed legislation	2050	CO2 emissions	
Costa Rica	In policy document	2050	All GHG emissions	
Denmark	In law	2050	All GHG emissions	Annual
Finland	In proposed legislation	2035	CO2 emissions	Annual
France	In law	2050	All GHG emissions	Every 5 years
Germany	In law	2045	All GHG emissions	Annual
Hungary	In law	2050	All GHG emissions	Annual
Iceland	In law	2040	All GHG emissions	
Ireland	In law	2050	All GHG emissions	Annual
Italy	In policy document	2050	All GHG emissions	
Japan	In law	2050	All GHG emissions	Annual
Korea	In law	2050	All GHG emissions	
Latvia	In policy document	2050	All GHG emissions	
Luxembourg	In law	2050	All GHG emissions	
New Zealand	In law	2050	Excludes specific emissions	Annual
Portugal	In policy document	2050	All GHG emissions	
Slovak Republic	In policy document	2050	All GHG emissions	
Slovenia	In proposed legislation	2050	CO2 emissions	Annual
Spain	In law	2050	All GHG emissions	Periodically
Sweden	In law	2045	All GHG emissions	Annual
Switzerland	In policy document	2050	All GHG emissions	
United Kingdom	In law	2050	All GHG emissions	Annual
United States	In policy document	2050	All GHG emissions	

Source: IEA 2021.

11. Many OECD countries have elaborated on their climate and environmental commitments through national strategies, for example, Canada, France, Ireland, Japan and United Kingdom, which indicate the results that are needed in specific sectors or from specific policy reforms to help achieve the national commitments. The information in the strategies can help inform the prioritisation of budget proposals.

12. The majority of OECD countries use result-based approaches in budgeting to show what is to be achieved from a specified allocation of budgeted resources. Such approaches are evident from the specification of outputs, projects and programmes. The result-based frameworks express a chain of outputs and outcomes that are to state the objectives of the budgets proposals and the estimated impacts of policies (Figure 1). A result-oriented framework consists of indicators, sources of verification, method of information collection, frequency of data collection and responsibility for measurement. The information gathered from the frameworks make it possible to prioritise budgetary proposals.

Figure 1. Result-Oriented Frameworks



13. By focusing on what is to be achieved from a budget proposal, the risk of greenwashing is reduced. Greenwashing refers to assertions that an activity is contributing to a climate or environmental objective more than is actually the case. The assertions identify climate or environmental credentials that are not valid and/or able to be proven. It is a potential cause of inflated estimates of the cost (and benefits) of a transition to net-zero emissions and environmental goals.

14. The risk of greenwashing can occur throughout the budgetary process. It is highlighted by differences in determining what is green from the point when a budget proposal is prepared relative to monitoring reports and the accounting standards that are to apply in financial reports. In this regard, the emphasis on results is to provide measurable and verifiable evidence of what is to be achieved from a specific proposal in relation to climate and environmental objectives.

2. Integrate green impacts into all governmental policies

Climate and environmental considerations are not limited to new expenditure and should be applied to existing policies as well as budget proposals. Similarly, climate and environmental considerations are broader than the activities of ministries for climate change and the environment, and environmental protection expenditure.

The consideration of the potential climate and environment impacts from policies requires a comprehensive approach to policy development and provides information on the medium and long term budget implications of policies in relation to climate and environmental objectives.

Many climate mitigation and adaptation proposals require capital expenditure. Well-informed decisions on capital management and capital expenditure rely on information about changes in demand on the use of capital assets, which further supports comprehensive consideration of climate and environmental implications across governmental policies.

15. Governments develop policies by considering a broad range of policy variables in order to understand the potential impacts on people, communities, business and the environment. The climate and environment are part of a complex system that are relevant to policy development across government. The breadth of variables help to identify the intended and unintended impacts of a new policy. Climate and environmental considerations should be part of the policy development process for all governmental policies regardless of whether it applies to new or existing expenditure. In OECD countries, such as Denmark, France and Norway, environmental impact assessments are a pre-condition for advancing budget proposals.

16. Policy proposals that contribute to climate and environmental objectives can have large-scale budgetary impacts over time, for instance tax expenditures to subsidise a reduction in carbon emissions, or support individuals and communities that are vulnerable to the effects of climate change. In relation to reaching net-zero emission goals, a number of OECD countries have adopted approaches that consider the medium-term and long-term expenditure impacts of policies by integrating climate and environmental considerations into macro-fiscal projections and scenarios, and the preparation of long-term fiscal statements. Examples of the former are available in Denmark and the United Kingdom (Box 3).

Box 3. Macro-fiscal projections and climate change

- **Denmark** has developed a macro-fiscal model to bring climate and environmental policy variables into its macroeconomic projections. The model, referred to as GreenREFORM, assesses the potential macroeconomic and fiscal impacts of climate and environmental policies. The model takes a long-term perspective, with the projections extending to 2100. The power of the model is its dynamic approach to identify potential macro-fiscal impacts from policy changes on such things as emissions and waste management. In doing, so, the model can look at the potential interaction of policy variables on Denmark's macro-fiscal outlook.
- **United Kingdom**'s Office of Budget Responsibility publishes a Fiscal Risk Report that includes a chapter on climate change. It looks at the potential economic and budget impacts of climate change and the policy levers available to government. The report specifically considers the implications for public spending from decarbonising the UK economy by 2050. It presents a set of scenarios for achieving net-zero emissions, which include the implications of unmitigated climate change and delayed actions on productivity and other variables.

Source: (OECD, 2021[3]) and (Office for Budget Responsibility, 2021[4])

17. The climate change objectives require structural changes to economies and the delivery of public services. The changes require capital expenditure as governments invest in new technologies on electricity generation, transportation and other items. In order to develop reliable businesses cases for large-scale capital investment, it is important to estimate the potential changes in demand for those assets as a result of the users of the assets changing their behaviour as part of government policies that rely on those assets. The business cases should also include climate and environmental considerations, such as the price of estimated cost of carbon over the life of the investment.

3. Co-ordinate climate and environmental commitments and budgets

The legislature enacts the government's annual budget and takes various other actions that can have implications for the budget. On climate and environmental matters, commitments in national strategies and related instruments can have implications for the budget. Ministries of finance should identify the extent to which such undertakings are relevant to the formulation of the budget and identify mechanisms to ensure co-ordination to help meet multiple commitments. An example is the relationship between fiscal budgets and carbon budgets where both are approved by parliament.

18. Governments have responsibilities in relation to multiple commitments. Some of the commitments are through the legislature, such as ratifying the Paris Agreement. At the same time, there are commitments from fiscal budgets on the level of expenditure within a budget period and carbon budgets that specify limits (ceilings) on the maximum level of emissions in a country and/or sector over a specific period (Box 4). A carbon budget informs the scale of transition in a given sector, and in doing so can inform priorities in a fiscal budget by the range of policies and initiatives that might be needed. Like the fiscal budget, carbon budgets are approved by parliament. Each of these instruments are designed to meet certain policy objectives, and the reporting requirements, implementation periods can vary.

19. The multiple instruments are often complementary in progressing a policy objective by more than one ministry. For instance, a ministry of finance on fiscal budgets, and ministries of climate change or environment on carbon budgets. Co-ordination within government between the multiple instruments is essential.

20. Other areas where consideration of co-ordination mechanisms may be required include:

- Subnational governmental bodies where decision making and funding arrangements can sit outside of central government.
- Recovery plans that contain performance requirements on climate and environmental priorities.

Box 4. Examples of carbon budgets in OECD countries

- **France**: The first three carbon budgets were adopted by decree in 2015 at the same time as the national low-carbon strategy. Covering the periods 2015-2018, 2019-2023 and 2024-2028, they set the national greenhouse gas emission ceilings that are not to be exceeded and defined the short-term path for reducing them.
- **Ireland:** The carbon budget establishes a whole-of-economy ceiling on greenhouse gas emissions by sector for a five-year period. The carbon budget is established in legislation (Climate Action and Low carbon Development (Amendment) Act 2021). The first covers the period from 2021 to 2025. The government has referred to the carbon budget as a roadmap to reach a climate neutral economy by 2050.
- **New Zealand:** In 2021, the government announced it plans to establish an emissions budget that would be monitored by the Climate Change Commission.
- **United Kingdom:** In 2020, the government released its sixth carbon budget based on recommendations by an independent Climate Change Committee. The five-year carbon budget covers the period from 2033 to 2037. It includes policy recommendations – intended to inform government policy and budgets priorities – to achieve the budget ceilings.

4. Apply a consistent basis to prioritising the activities that matter most to climate and environmental goals

Budgeting relies on clear frameworks and consistent criteria to inform prioritisation and decision making. The arrangements should be transparent so they can be applied across government.

Taxonomies have enabled ministries of finance to take stock of the composition of government expenditure relative to climate and environmental objectives. When combined with data on emissions and environmental considerations, governments are able to identify the activities and sectors where decarbonisation and other reforms can have the greatest impact relative to policy objectives.

21. A key role of the ministry of finance is to prioritise budgetary proposals according to the government's policy objectives. Doing so requires established assessment frameworks and decision-making processes that can be applied across government. Such prioritisation helps to ensure the proposals with the greatest merit are included in a budget given limited resources. The cross governmental focus is relevant for green budgeting as expenditure decisions can be made outside of budgetary processes, including through climate investment funds, infrastructure bodies and direct financing instruments.

22. Many OECD countries have used classification methodologies to tag expenditure to understand the composition of governmental expenditure relative to climate and environmental objectives. The methodologies can vary to reflect national characteristics (Table 2) and classification exercises have enabled ministries of finance to take stock of expenditure from a climate and environmental perspective.

23. In the case of France and Ireland, the experiences from tagging one budget have helped to expand the methodologies in subsequent budgets. Both France and Ireland use the European Union Taxonomy on Sustainable Activities (European Parliament and Council, 2020[5]).

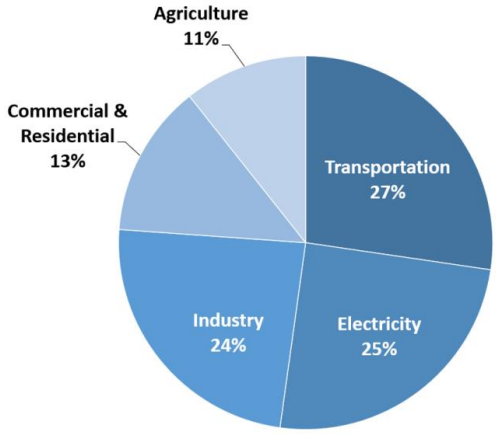
Table 2. Green taxonomies in selected OECD countries

Country	Status	Coverage	Notes
Australia	In development	-	-
Canada	In development	8 sectors	-
Chile	In development	Priority sectors	Contains screening criteria
Colombia	Drafted	8 categories	Includes the do no Significant Harm principle
Japan	Operational	-	Refers to the transition to a low carbon, environmentally-sustainable economy Includes a net zero objective Supported by guidelines
Korea	Proposed version subject to public consultation	9 categories 53 activities	Includes the do no Significant Harm principle
Mexico	In development	-	-
New Zealand	Proposed version subject to public consultation	1 category (agriculture)	Seeks to align domestic and international parameters.
United Kingdom	In development	-	Governance includes a Green Technical Advisory Group

Source: (OECD, IEA, 2021[6])

24. At the same time, ministries of climate change and environment and related organisations have completed assessments of the emission profiles of a country which have helped to identify the areas where the most gains are needed to reach targets such as net-zero emissions. The Environmental Protection Agency has identified the composition of emissions in the United States (Figure 2) (EPA, 2020[7]). The size, composition and gas emissions of sectors vary by country, but indicate priority sectors for reforms on mitigation and adaptation relating to climate and the environment. This observation is consistent with findings of the European Union Technical Expert Group, which identified that 93.5% of Europe's greenhouse gas emissions were from just seven sectors that covered buildings, energy, industry, land use and transportation (Sweatman and Hessenius, 2021[8]).

Figure 2. Greenhouse gas emissions by economic sector in the United States in 2020



Source: (EPA, 2020[7])

5. Analyse green budget proposals on merit, separate from funding

Many OECD countries have introduced carbon taxes, issued sovereign green bonds and allocated lump-sums for the purpose of advancing climate and environmental objectives. Budgetary disciplines analyse budget proposals on their merits within a funding envelope. The existence of funding for climate and environmental objectives does not reduce the need for such analysis and scrutiny.

25. Since 2017, there has been a significant increase in the mobilisation of funding in government for green purposes. Prominent examples include debt funding from the issuance of sovereign green bonds and revenue from carbon taxes (OECD, 2020[9]).

26. Carbon taxes are an important source of governmental revenue. In 2021, 60% of OECD countries had carbon taxes, including Canada, Chile, Denmark, France, Germany, Japan, Mexico, Netherlands, Spain, Sweden and the United Kingdom. The revenues can be considered as central revenue or be earmarked for specific purposes (Table 3) (OECD, 2019[10]).

27. However, access to funding from a specified source should not reduce budgetary disciplines to analyse and prioritise budget proposals that will make the greatest contribution to climate and environmental objectives, as detailed in Key Area 1 of this document. Initiatives that earmark and hypothecate funding should not provide a less rigorous path to funding new spending initiatives. The requirement for analysis and impact assessment exists to identify the most worthwhile proposals.

Table 3. Examples of earmarked carbon taxes in OECD countries

Country	Introduced	Description
Canada	2019	The tax applies to the federal carbon pricing backstop if provinces do not have a sufficiently stringent carbon pricing system in place already. Provincial carbon taxes and emissions trading schemes predate the backstop; the first carbon tax was implemented by British Columbia in 2008.
Denmark	1992	Used for environmental spending and industry compensation.
Ireland	2010	Helps to pay for the negative externalities caused by CO_2 emissions from transport and household heating.
Japan	2012	Supports renewable energy and energy efficiency programs through green subsidies and research and development support.
Luxembourg	2021	Distributed among green projects.
Switzerland	2008	One-third of goes to reduce energy use in the building sector. The remaining two-thirds are reallocated to households and businesses.

28. In December 2016, Poland became the first OECD country to issue a sovereign green bond followed by France in January 2017. By 2021, over half of OECD countries had issued a sovereign green bond, including in Belgium, Chile, Colombia, Denmark, France, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, Poland, Slovenia, Spain, Sweden and United Kingdom (Table 4). Total amount of green bonds issued by OECD sovereigns exceeded USD 170 billion as of 2021.

29. From a budgetary perspective, the issuance of sovereign green bonds can fund initiatives that meet the requirements of the financing frameworks. The frameworks should work within the capital expenditure ceilings set by the government.

Table 4. Examples of sovereign green bonds issued in OECD countries

Country	First issuance	Maturity	Amount	Description
Belgium	2018	15 years	EUR 4.5 Bn	The loan is used to finance Energy Efficiency, Clean Transportation, Renewable Energy, Circular Economy and Living Resources and Land Use.
Colombia	2021	10 years	$ 200 M	Colombia issued its first green sovereign bond to finance environmental investment projects.
Denmark	2022	10 years	KR 15 Bn	The issuance volume of green bonds is determined on the foundation of the quantity of eligible green expenditure. The green bond is issued as a twin bond in line with the twin bond concept introduced by Germany in 2020.
France	2017	22 years	EUR 7Bn	The bonds focus on spending from the state budget and the investment programme on climate change and adaptation, biodiversity and pollution. The government committed to publish reporting on the environmental impacts of eligible green spending.
Germany	2020	10 years	EUR6.5 Bn	The Ministry of Finance issued a first green with an innovative twin bond concept. The issuance of this debt is part of a long-term strategy to make green budget spending more transparent and strengthen the country's position in the sustainable finance sector.
Italy	2021	24 years	EUR 8.5 Bn	Green bonds focus on the public green eligible expenditure, with positive environmental impact on Renewable electricity and heat, Energy efficiency, Transport, Pollution prevention and control and circular economy, Protection of the environment and biological diversity, Research.
Latvia	2018	8 years	EUR 600 M	The government planned to extend the resources received to the state budget expenditure carried out and planned in 2020-2022 for ensuring environmentally friendly transport, the preservation of Latvian forests, waters, biodiversity, reducing inequalities and poverty, and other measures aimed at achieving sustainable development objectives.
Lithuania	2018	10 years	EUR 20 M	The loan is used for the project 'Housing Renovation Fund', which helps owners of multi-apartment buildings to modernise buildings, improve energy efficiency and reduce heating costs.
Slovenia	2021	10 years	EUR 1 Bn	The bond is used to finance or refinance environmental or social projects included in the national budge.
Spain	2021	20 years	EUR 5 Bn	The bond framework includes seven eligible green categories, which are renewable energy, clean transportation, sustainable water and wastewater management, energy efficiency, protection and restoration of biodiversity and sustainable management of natural resources, pollution prevention and control and circular economy, and adaptation to climate change.
Sweden	2020	10 years	SEK 20 Bn	The Government adopted a sovereign green bond framework and the selection of budget expenditure to which the proceeds from the bond will be linked, including protection of valuable natural environments, climate investments and railway maintenance.
United Kingdom	2021	32 years	GBP 10 Bn GBP 6 BN	The loan is used to finance expenditure in clean transportation, energy efficiency, renewable energy, pollution prevention and control, living and natural resources, and climate change adaption.

6. Leverage existing budgetary frameworks to implement green budgeting

Green budgeting integrates climate and environmental perspectives into existing budgetary frameworks, tools and processes. It does not imply a separate decision-making process for a separate budget.

Green budgeting is relevant to the responsibilities of oversight institutions, such as fiscal councils, and audit institutions and standard setters, and in doing so leverages the institutional environment in which budget frameworks operate. Integrating climate and environmental perspectives into budget frameworks has implications for the capacities needed within a ministry of finance in its preparation of advice and management of the budget.

30. Green budgeting integrates climate and environmental perspectives into budget frameworks. It shows the actions a government is taking to progress climate and environmental objectives from the allocation of resources in the budget.

31. OECD countries have been introducing green budgeting initiatives by adapting existing budgetary arrangements to manage resources that have climate and environmental impacts. Relevant examples include:

- Performance budgeting: by including performance indicators that are relevant to climate and environmental policy objectives.
- Fiscal risk management: by including fiscal risks for such things as extreme weather events.
- Medium-term budget frameworks: by analysing changes to revenue and expenditure over the medium-term, for instances changes to petrol excise revenues brought about by a greater use of electric vehicles.

32. Other relevant aspects of existing budgetary frameworks include the institutions, in addition to the ministry of finance, that are relevant to the conduct of budgeting:

- Independent fiscal institutions, where the responsibilities can include commenting on fiscal forecasts, preparing scenarios, and costing election platforms. In such institutions, understanding the potential impact of climate and environmental considerations are central to the existing remit of the institutions and its ability to fulfil its functions.
- Supreme audit institutions in terms of the scope of disclosures and adherence to relevant accounting standards and financial reporting obligations.
- Standard setters that establish requirements for financial reporting and national environmental accounts.

33. The scaling up of green policy and budgetary initiatives in OECD countries has brought with it implications for the capacities of central budget offices in ministries of finance. Ministries of finance are not responsible for policies on climate change and environmental policy. However, the complex nature of climate change and environmental sustainability has broadened the scope of analysis and policy advice that a ministry of finance needs to consider. This has implications for the skills sets a finance ministry employs, the data it collects and the analysis it undertakes. Co-ordination between ministries of finance and ministries of climate change and environment has increased since the Paris Agreement, as has the awareness of how climate change and environmental

policies can have implications for budget planning, execution and reporting (Coalition of Finance Ministers for Climate Action, 2022[11]). In the case of the United Kingdom, the 2021 New Zero Review considers the capacities the Treasury will require in order to provide high quality advice to government on a range of policy topics over the medium term (HM Treasury, 2021[12]).

7. Strengthen accountability and transparency requirements for the implementation of green initiatives

Government ministries and agencies are accountable for the use of budgetary funds and fulfil certain obligations on planning, monitoring, and reporting, including requirements on the control environment for the use of public funds. These accountabilities apply equally to budget programmes that contribute to green objectives. The inclusion of green dimensions in accountability documents is not necessarily automatic.

Ministries of finance have a role in preparing guidance on the responsibilities that line ministries are to observe in relation to public expenditure, e.g. administrative circulars on current and capital expenditure. The guidance should include the monitoring, disclosure and reporting of information relating to budget initiatives that progress climate and environmental objectives, as well as expenditure generally.

34. Government ministries and agencies manage public resources within budget frameworks and have accountability obligations on planning, incurring expenditure, monitoring and reporting. With respect to climate and environmental initiatives, the obligations do not fall necessarily to ministries of finance and require a whole-of-government approach, as the ministries and agencies implementing the initiatives have the strongest incentives best sources of information to complete the public accountability obligations.

35. Updating the guidance to ministries and agencies can help ensure climate and environmental considerations are explicitly included in the accountabilities that ministries and agencies are to meet. The information can improve the performance of public financial management by ensuring the required information is available consistently across government. In the case of Ireland, it has updated the capital expenditure component of the Public Spending Code and is in the process of updating the current expenditure components.

36. An example of the information that may be relevant for monitoring and reporting is available from the dashboard prepared by the OECD International Programme for Action on Climate (Box 5).

Box 5. International Programme for Action on Climate (IPAC)

In 2021, the OECD established IPAC to support progress towards net-zero emissions by providing information to help monitor the effectiveness of countries' actions. This includes the development of a Dashboard of indicators. The Dashboard provides a cross-dimensional perspective from 10 indicators:

1. GHG emission trends and intensities
2. Net-zero mission trajectories
3. Climate related impacts on environmental conditions
4. Climate related risks from extreme weather
5. Climate related vulnerabilities and impacts on wellbeing
6. Changes in the energy mix
7. Carbon pricing
8. Climate related taxation
9. Climate related innovation
10. Climate policy

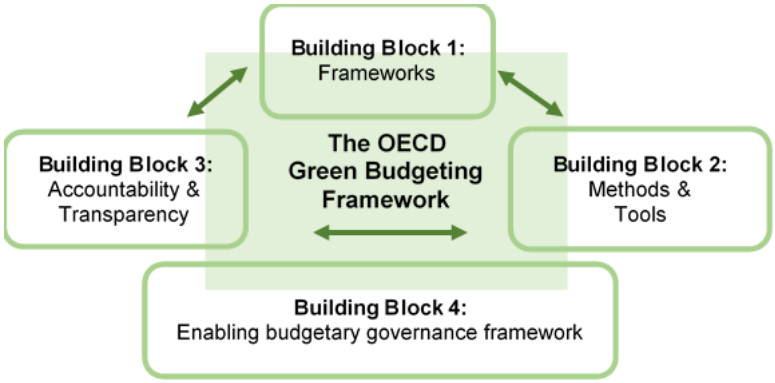
The development of indicators and data classification methodologies is carried out in close co-ordination with the Paris Collaborative on Green Budgeting.

Source: (OECD, International Programme for Action on Climate[13])

Annex A. OECD Green Budgeting Framework

The OECD Green Budgeting Framework articulates the development of green budgeting in OECD countries (Figure 3). The framework comprises four building blocks which countries have used to integrate climate and environment perspective into budgeting. The OECD uses the framework to provide implementation support on green budgeting and to provide timely information on new developments.

Figure 3. OECD Green Budgeting Framework



Source: (OECD, 2020[14])

Framework

37. In the OECD Green Budgeting Framework, Building Block 1 on Frameworks refers to the way governments are undertaking green budgeting (Table 5).

Table 5. Building Block 1: Framework considerations

Building Block 1	Relevant Dimensions	Notes
Framework	National Environmental Strategy	Countries are developing environmental, climate and biodiversity strategies. These strategies establish the national context and policy priorities relative to international agreements and country-specific consideration. The strategies in turn inform policy development and proposals for new spending in budgets.
	Legal basis	The legal basis for green budgeting can include such the constitution, budget framework laws and administrative practices. The legal basis can illustrate a government's commitment to green budgeting and in particular beyond a single electoral period.
	Objectives	Governments use various objectives and targets to define and monitor green budgeting initiatives. These objectives can vary by country and reflect national characteristics.
	Policy making and prioritisation	Green budgeting should be integrated into public policies in general and should be part of budget negotiations to guide the prioritisation of budgetary allocations and investments.
	Governance	The governance of green budgeting should identify which ministries are primarily responsible for green budgeting and its implementation, whether other actors are involved and whether the scope covers the entire budget.
	COVID-19 recovery plans	The majority of OECD countries have adopted recovery plans in response to the COVID-19 pandemic. These plans identify public expenditure to support an economic, environmental and social recovery.

Methods and tools

38. The building block on tools and methods has received considerable attention by ministries of finance across OECD countries to produce and synthesise information to help interpret climate and environmental considerations in budgeting (Table 6).

Table 6. Building Block 2: Methods and tools

Building Block 2	Relevant Dimensions	Notes
Methods and Tools	Medium-term perspective(s)	The climate and environmental goals are expressed over medium-term and long-term periods. The relevance to budgeting is the co-ordination of goals into such things as a government's fiscal framework to mainstream policy objectives across relevant frameworks in government
	Macro-fiscal Projects	The ministry responsible for macroeconomic forecasting should produce forecasts and scenarios that integrate environmental considerations according to a timetable that is consistent with the budgetary cycle.
	Risk management	Fiscal risk management identifies potential fiscal risk in the short, medium and long term. The analysis of climate and environmental risks should be integrated into fiscal risk management across government.
	Carbon related tools	Carbon tools include carbon assessment of budget measures, carbon-pricing instruments including the use of a shadow price of carbon to evaluate public policies and investments.
	Impact appraisal	Several tools allow to measure the impact of green budgeting: – Environmental cost-benefit analysis: An analysis of the cost and benefits of a budget proposal that takes into account the environment consequences that affect the natural environment. – Impact assessments and evaluations: It contributes to policy development by informing policy design and decision making with potential ways to adapt proposals in the future.
	Budget classification and review	Tools are available to rank and score budgetary expenditure to facilitate the prioritisation of existing and new budgetary allocations: – Green budget tagging: It classifies budget measures according to their climate and environmental impact and enhance the transparency of a government's green actions. – Green spending reviews: it considers the extent to which ministries and governmental agencies can transition to net-zero emissions and environmentally sustainable operations.
	Taxation	Taxation can change the behavior of economic agents, including through a carbon tax, and a regular review of environmentally harmful tax expenditures and subsidies.
	Accounting	Require appropriate metrics for the government function to be applied consistently across departments.
	Green finance	Green bonds and sustainability bonds are an important lever for financing the ecological transition. They allow governments and public entities to finance environmental projects, especially infrastructure investments.

Accountability and transparency

39. The accountability and transparency building block supports the functioning and credibility of government in its progress toward green policy objectives (Table 7).

Table 7. Building Block 3: Accountability and transparency

Building Block 3	Relevant Dimensions	Notes
Accountability and transparency	Monitoring and reporting	The ministry of finance and line ministries monitor and report on budgeting initiatives, which should include the climate and environmental considerations of budget initiatives.
	Disclosure and financial reporting and sustainability	Green budgeting information should be incorporated in public financial data disclosure and financial and sustainability reporting standards / requirements.
	Oversight	The fiscal impacts of climate change and environmental sustainability are relevant to the remit of oversight institutions, such as fiscal councils and audit offices, to support fiscal transparency and accountability.
	Transparency	A structured dialogue between government, civil society bodies and other stakeholders on climate or environmental impact of budgets is central to communicating budget policies. Green budgeting initiatives should be published on an open and accessible platform (website, open data).

Enabling environment

40. The purpose of the last building block is to leverage the existing resources in budgetary frameworks and processes in the application of green budgeting and, where necessary, adapt these resources for green budgeting purposes (Table 8).

Table 8. Building Block 4: Enabling environment

Building Block 4	Relevant Dimensions	Notes
Enabling environment	Performance budgeting	Performance measures, impact indicators and targets are designed to provide meaningful information about the purpose, execution and review of budget initiatives. Introducing a green perspective to performance budgeting can help to: clarify policy priorities and focus public spending accordingly, monitor and evaluate effectiveness of the expenditure, increase transparency and accountability, adjust policies, programmes and management systems according to the green results achieved.
	Programme budgeting	A budget programme is a defined group of projects and/or activities that are intended to give effect to a policy. Programmes differ from input costs, as they articulate the public services and goods that are produced by a department. Introducing green budgeting within programme budgeting allows governments to assess how the programme relates to climate and environmental policy objectives, and to analyse the contribution of a ministry's actions to those objectives.
	Co-ordination	Ministries of finance alone do not undertake all green budgeting. Co-ordination with the different levels of government, other line ministries (ministries of climate change and environment) and within ministries and departments is necessary to access specialist expertise and other resources that can inform budget priorities and assessment techniques.
	Training	The capacities required to undertake green budgeting often require new or adapted ways of going about existing budgetary functions. As part of the on-going training that central budget office's provide to staff, the green budgeting aspects of budget circulars and guidance can call for training initiatives within a ministry of finance as well as the line ministries that receive the circulars.

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