

Green Budgeting

Integrating climate and environmental perspectives into budgeting

CESEE Senior Budget Officials

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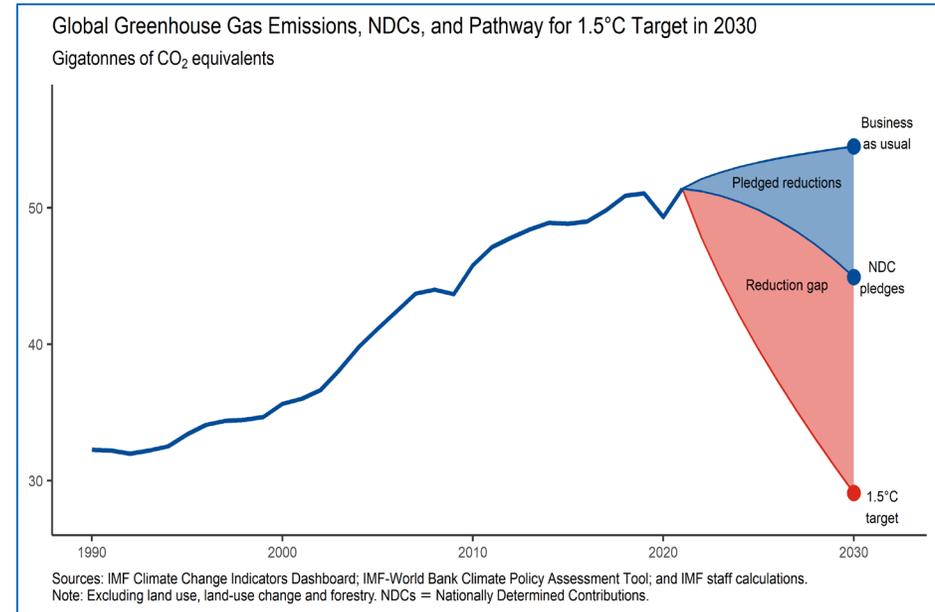


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Climate change challenges are daunting



- The earth's crust is warming at an increasing and alarming rate. The Paris Agreement sets commitments to limit global warming by 2.0°C and to pursue efforts to limit it to 1.5°C.
- Based on research by the Inter-Governmental Panel on Climate Change (IPCC), global temperatures are increasing at a faster rate than expected.

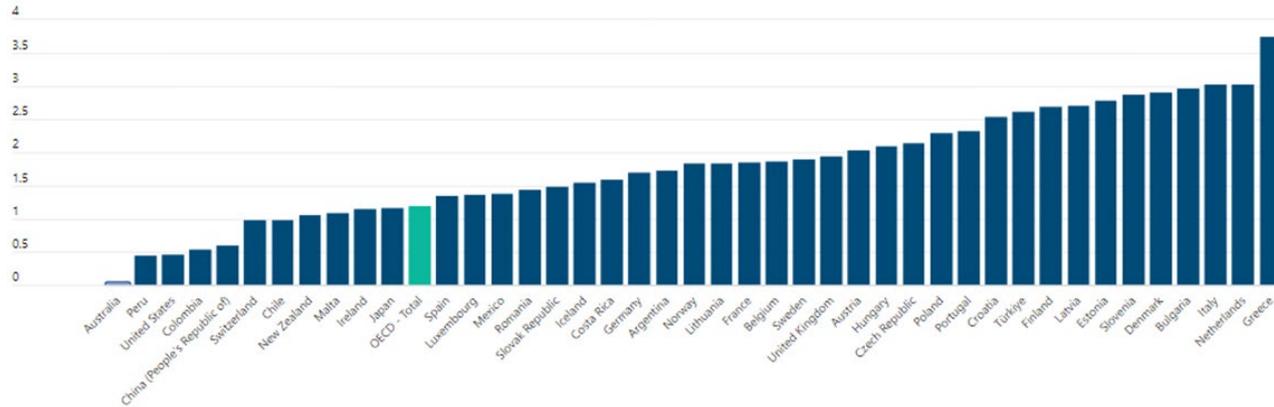


- Nationally determined contributions (NDC) fall short of the target to reduce greenhouse gas emissions.
- Progress to implement nationally determined contributions falls short of the NDC pledges.



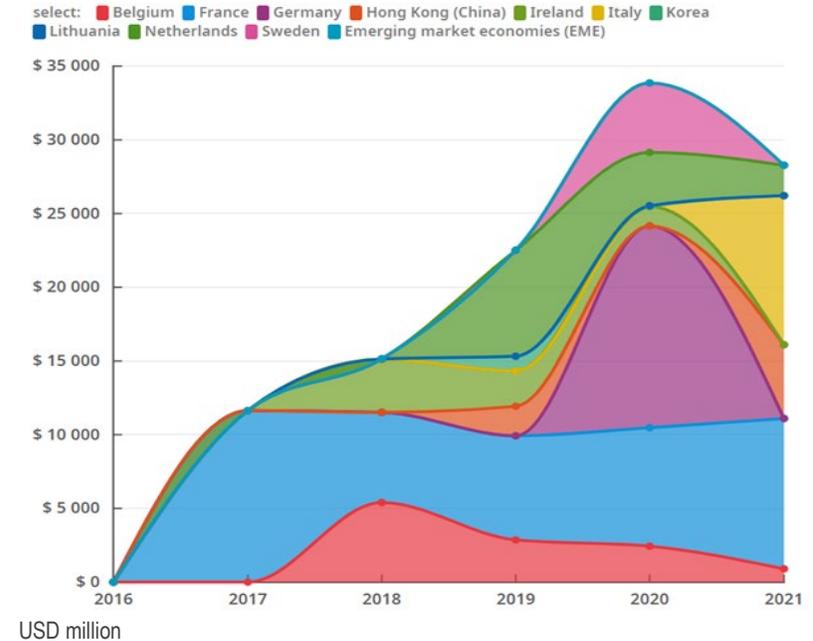
Making use of every fiscal lever for climate action – Revenue, debt and expenditure

Revenue (Climate-related revenue, % of GDP)



For more information, please click on the data source link below.
 Source: OECD, "Environmental policy: Environmentally related tax revenue", OECD Environment Statistics (database)

Debt (Sovereign green bonds)



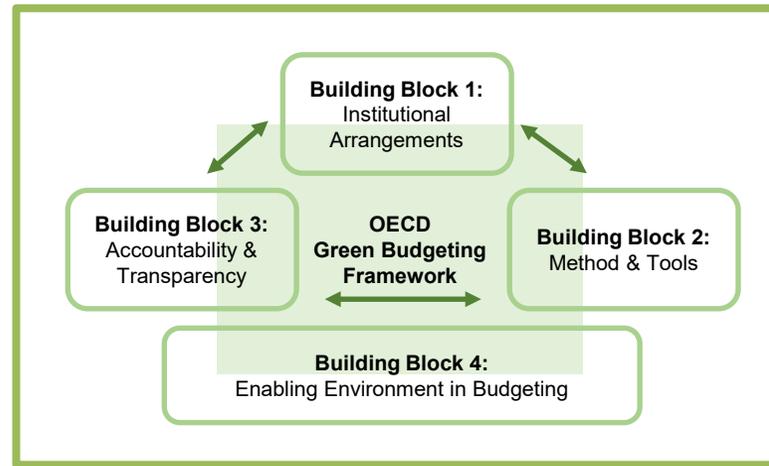
- > Climate-related tax revenue by itself is not sufficient to meet the cost of climate change mitigation and adaptation.
- > Climate related tax revenues are low (1.2%, 2022) on average and as a percentage of GDP and are falling as a percentage within a government's tax mix.
- > The figures are before deducting fossil fuel subsidies.

- > Governments are issuing sovereign green bonds to supplement the resources they have available to respond to climate change.
- > By 2021, over half of the countries in the OECD had issued at least one sovereign green bond.

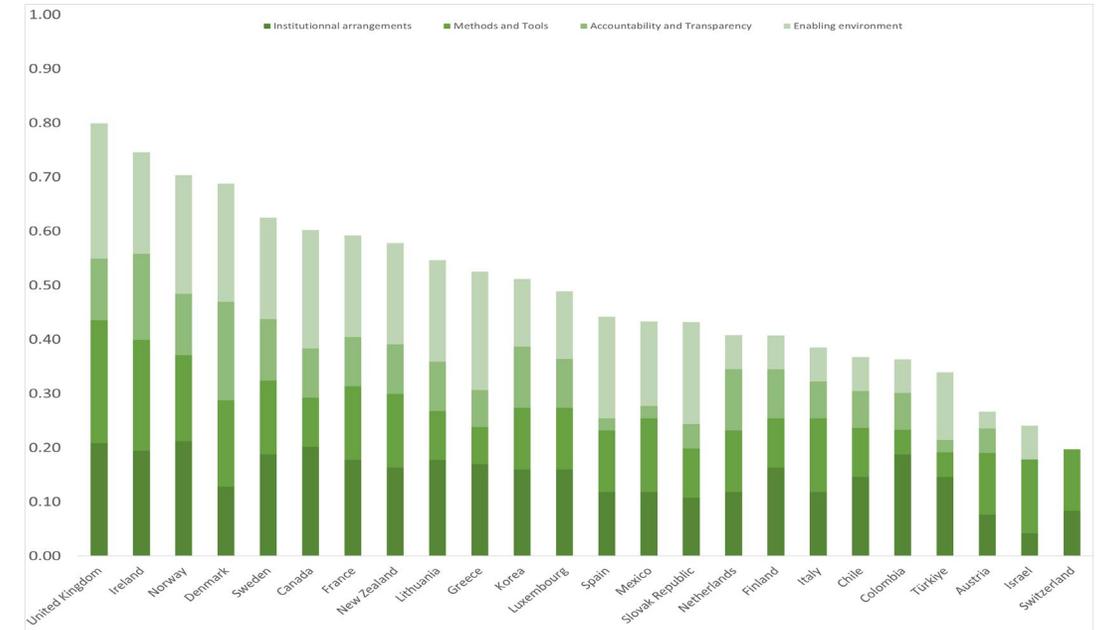


Green budgeting: Integrating climate and environmental considerations into budgeting

OECD Green Budgeting Framework



OECD Green Budgeting Index, 2022



- > The OECD Green Budgeting Framework is one of the resources the OECD Paris Collaborative on Green Budgeting developed to support ministries of finance and environment to **integrate climate and environmental considerations into budget frameworks and processes.**

- > Nearly two thirds of OECD countries that have adopted green budgeting and are implementing initiatives in each of the four building blocks.

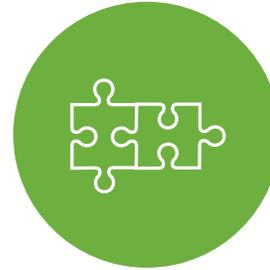


Seven key orientations



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

- Climate and environmental objectives comprise result-based undertakings
- Adopting results-based approaches for green budgeting enables governments to consider impacts from budget proposals



2. Integrate green impacts into all governmental policies

- Climate and environmental considerations are not limited to new expenditure and should apply to existing policies as well as budget proposals
- A special focus should be maintained on capital expenditure to cover climate and environmental adaptation and mitigation



3. Co-ordinate climate and environmental commitments and budgets

- Governments have multiple commitments, e.g., Paris Agreement and carbon budgets
- Commitments in national strategies can have implications for the budget and may require co-ordination in areas such as recovery plans and with sub-national governments



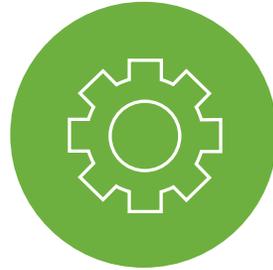
4. Apply a consistent basis to prioritising the activities that matter most to climate and environmental goals

- Budgeting relies on clear frameworks and consistent criteria to inform prioritisation and decision making
- Many OECD countries have used classification methodologies to tag expenditure; these taxonomies have enabled ministries of finance to take stock of the composition of government expenditure



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

- Many OECD countries have introduced carbon taxes and issued sovereign green bonds
- Budgetary discipline is to analyse budget proposals on merits within a funding envelope



6. Leverage existing budgetary frameworks to implement green budgeting

- Green budgeting integrates climate and environmental perspectives into existing budgetary frameworks, tools and processes, e.g., medium-term budget forecasts
- Green budgeting is relevant to the responsibilities of oversight institutions, such as independent fiscal institutions



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

- Government ministries and agencies are accountable for public expenditure through planning, monitoring and reporting
- Ministries of finance have a role in preparing guidance on the responsibilities that line ministries observe, e.g., administrative circulars on current and capital expenditure



Key features and developments



> Strengths

- > Establishes a baseline on climate (and environmental) character of public expenditure
- > Increases awareness to plan for climate action
- > Recognised globally as a priority action

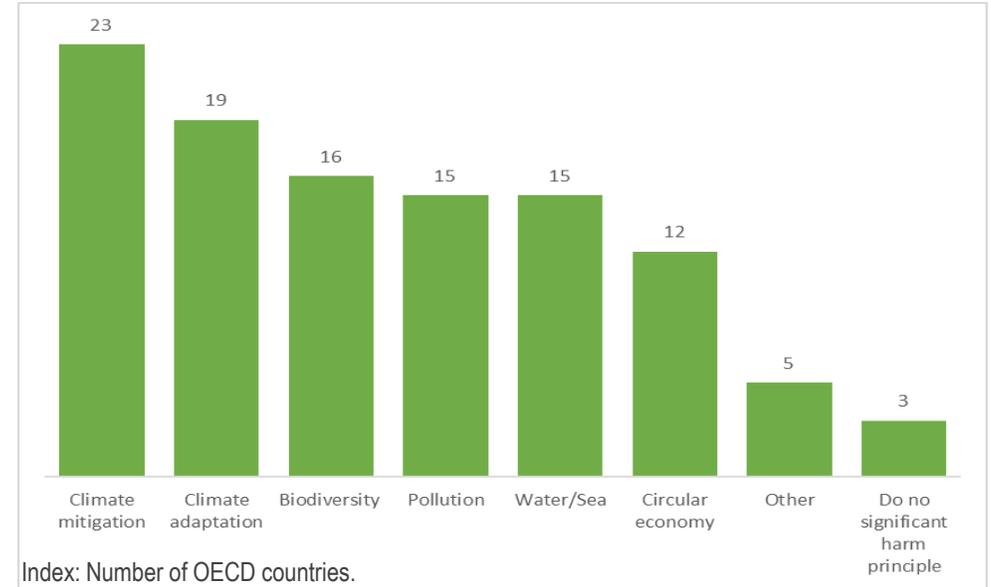
> Weaknesses

- > Not internationally comparable
- > Results can suffer from optimism bias
- > Costly to implement relative to other PFM systems
- > Core frameworks are still evolving

> Pre-requisites

- > Objective framework
- > Scope of application
- > Implementation method (centralised or distributed)
- > Quality assurance
- > Exit strategy

Classification objectives



Index: Number of OECD countries.

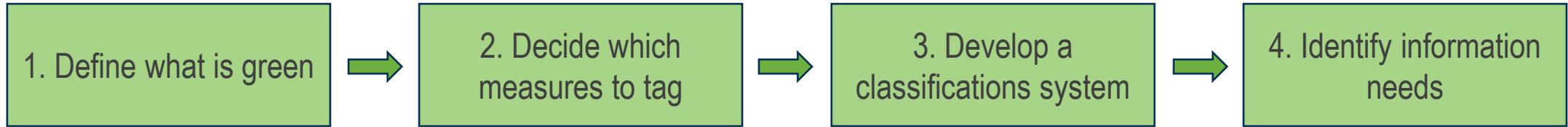
Source: OECD Green Budgeting Survey 2022.

> Lessons and observations

- > Focus on a small number of objectives
- > Relevance for decision making can require additional analysis
- > Implementation requires investment in systems, co-ordination and communication.



Practical considerations



- > Selecting (or defining) a taxonomy
- > Possible scope of application
 - > Incremental operative expenditure
 - > Capital expenditure (a green pipeline of capital expenditure)
 - > Positive expenditure
 - > Negative expenditure
 - > Tax expenditure
 - > Baseline expenditure
- > Possible exclusions
 - > Public sector wages and salaries
 - > Social transfers
 - > Interest expense

Country	Status	Coverage
Australia	In development	-
Canada	In development	8 sectors Environmental domain: 14 indicators.
Chile	In development	Priority sectors
Colombia	Drafted	8 categories
Japan	Operational	-
Korea	Proposed version subject to public consultation	9 categories, 53 activities
Mexico	In development	Includes cities
New Zealand	Proposed version subject to public consultation	1 category (agriculture)
United Kingdom	In development	-

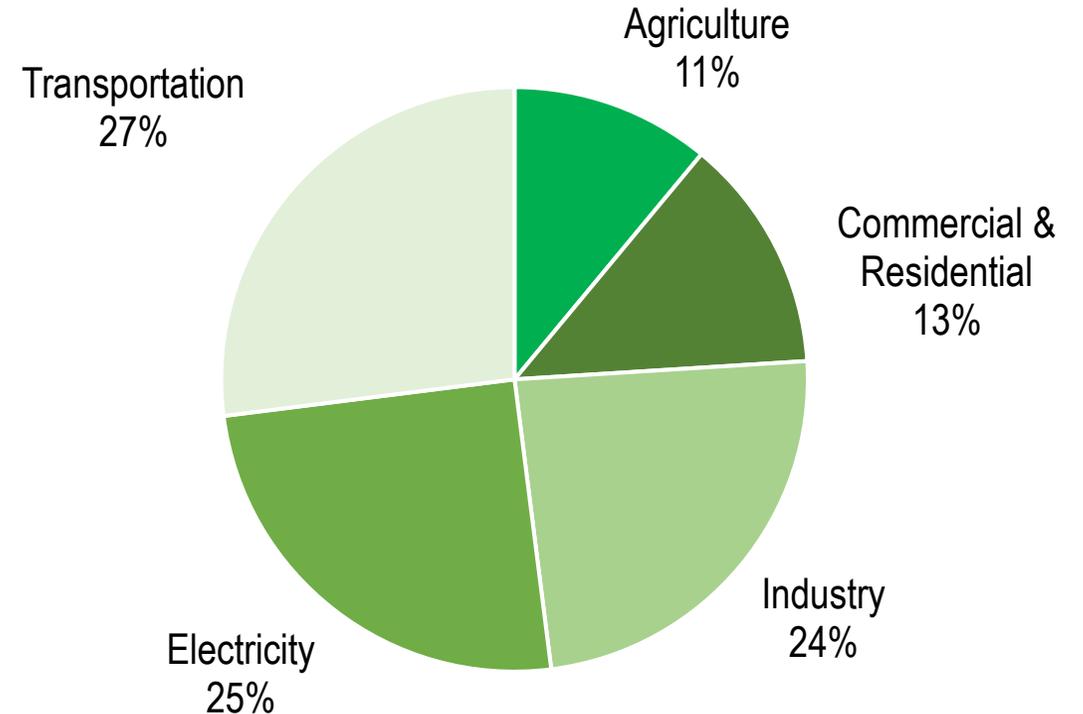
Source: OECD (2022) Green budgeting: A way forward.



Focusing on what matters most

- > The trade-off between a country's Emission Reduction Strategy, and generic taxonomies.
- > The greenhouse gas emissions profile of a country varies according to its economic and natural resource characteristics.
- > Climate mitigation and adaptation priorities are informed by climate commitments, and the country's economic and natural resource characteristics.
- > The OECD's work focuses on the quality of decision making in public financial management and budgeting to prioritise ways to reduce emissions in line with national strategies.

Sources of Greenhouse Gas Emissions, United States, 2020



Advancing practices in green budgeting

1. Modelling and forecasting

- General equilibrium models and regression analyses to help identify the implications to the economy and the requirements to implement policy settings.

2. Fiscal risk assessment

- Extreme weather events
- Green transition

3. Cost-benefit and impact Assessments

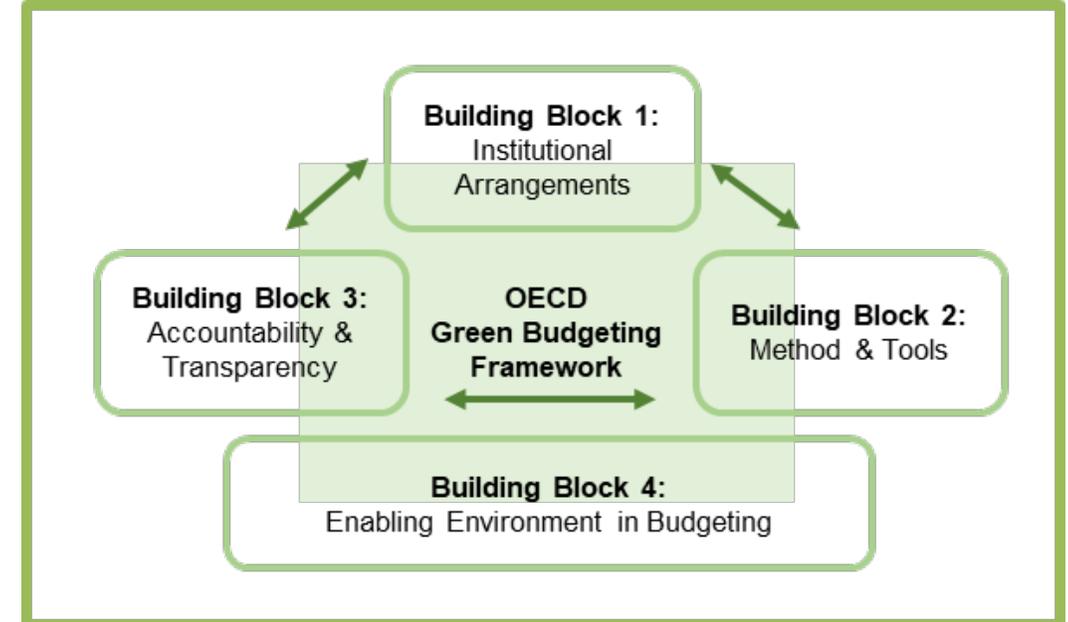
- Add climate and environmental considerations to cost-benefit analyses and impacts assessments.

4. Oversight

- Role of independent fiscal institutions in relation to fiscal sustainability and fiscal frameworks.
- Role of external audit and the scope of audit opinion.

5. Standard setters

- Accounting (ISSB and IPSAS)
- Statistical data (OECD, UN)





Concluding comments

- Green budgeting integrates climate and environmental considerations into budget frameworks and processes to help enable climate-informed decision making in the allocation of resources. It is not a separate budget, nor an expression of how much to spend.
- There is no single approach to green budgeting for good reason – budgeting, priorities, and capacities differ across countries; but the OECD’s research indicates that approaches to green budgeting are landing on a set of practices that are relevant to core budgetary processes and accountabilities.
- Some ministries of finance are also developing advanced practices in green budgeting, including forecasting and modelling, fiscal risk management, and impact assessment and reporting. These practices highlight that green budgeting has inter-relationships with independent fiscal institutions, audit offices, and standard setters.
- Sharing experiences about what works is helping to advance green budgeting practices in general. The private sector and capital market responses to climate change are influencing the design of public sector responses to climate change; while recognising there are differences between the two sectors.
- Key issues remain, including how information is used from decision making through to implementation and public accountability arrangements; how to manage gaps in data; and how to co-ordinate climate action across government.



www.oecd.org/gov/budgeting

