Green Budgeting in OECD Countries

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BETTER POLICIES FOR BETTER LIVES

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Foreword

The OECD would like to thank the European Commission for its collaboration in the preparation and implementation of the joint *OECD and European Commission Survey on Emerging Green Budgeting Practices*. Particular thanks goes to Elva Bova, Leire Ormaetxea Igarzabal, Diana Radu and Simona Pojar for their support and collaboration.

This report was prepared by Scherie Nicol and Andrew Park of the Public Management and Budgeting Division in the Directorate for Public Governance under the oversight of Elsa Pilichowski, Director for Public Governance, and Jón Blöndal, Head of the Public Management and Budgeting Division, Public Governance Directorate. Special mention goes to Anne Keller of the Public Management and Budgeting Division, Public governance Directorate for her support in survey design and data analysis. The report has also benefited from valuable input from the OECD's Environmental Directorate and Centre for Tax Policy. The OECD is grateful to all of the parties who provided feedback on the report.

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Methodological Note

Data presented in *Green budgeting in OECD countries* were generated by country responses to the *2020 OECD and European Commission – Joint Survey on Emerging Green Practices* distributed to all OECD countries and European Union member states. Responses are based upon self-reporting from governments, representing the country's own assessment of current practices and procedures. Respondents were largely from Central Budgetary Authorities. The survey results do not capture practices of green budgeting at subnational levels of government if there is not an existing practice at the central level.

Data collection began in July 2020 and ended in September 2020. Preliminary findings were presented and shared at the virtual meeting of the OECD Paris Collaborative on Green Budgeting and the Coalition of Finance Ministers for Climate Action Green Budgeting on 5 October 2020. During the review process, countries were invited to verify and clarify any substantial changes from the earlier data, potential inconsistencies and outliers. The data in this report show the total number of OECD countries where the data is available from OECD countries.

All results and figures from this report are from the joint *2020 OECD and European Commission survey on Emerging Green Budgeting Practices*.

Executive Summary

Climate and environmental considerations have become pressing priorities for governments in recent years. International commitments such as the Paris Agreement, the Aichi Biodiversity Targets under the Convention on Biodiversity (CBD) and the Sustainable Development Goals (SDGs) have spurred momentum across the OECD to prioritise green objectives to policy-making processes. As these efforts require systematic considerations across all parts of government, countries have identified the budget process as playing a key role in ensuring that priorities relating to the environment and climate change are part of the policy-making process. Thus, there has been an emergence of "green budgeting" practices across the OECD.

Green budgeting uses the tools of budgetary policy making to provide policy makers with a clearer understanding of the environmental and climate impacts of budgeting choices, while bringing evidence together in a systematic and co-ordinated manner for more informed decision making to fulfil national and international commitments.

Responses to the *2020 OECD and European Commission – Joint Survey on Emerging Green Budgeting Practices* show that more than a third of OECD countries (14) practice some form of green budgeting, with an additional 5 countries (Chile, Greece, Latvia, Poland and Slovenia) indicating plans to introduce green budgeting in the future. Furthermore, initiatives such as the *European Green Deal* by the European Union and other political commitments across the OECD suggest that interest in green budgeting will continue to grow in the near future.

The OECD Framework for Green Budgeting sets out four key "building blocks" to help ensure approaches are linked to the larger budget process and so that efforts are sustained and remain effective over the medium and long-term:

- A strong strategic framework with clear linkages between environment and climate strategic priorities and objectives are in place to inform fiscal planning;
- Tools for evidence generation and policy coherence to gather evidence on the impact of budget measures on environmental and climate objectives;
- Reporting to facilitate accountability and transparency, which can facilitate scrutiny of the quality and impact of green budgeting
- An enabling budgetary governance framework to sustain green budgeting practices over time.

The OECD has used this framework as a basis for the survey. Some key results are as follows:

Strategic framework for green budgeting

- *Green budgeting is most often rooted in high-level political commitment*: In most OECD countries where green budgeting is practiced, its introduction has been driven and underpinned by high-level political commitment in pursuit of national and international goals.

- *Central Budgetary Authorities play an active leadership role:* In most OECD countries, Central Budgetary Authorities play a leading role alongside the environment ministry and line ministries as responsible authorities for green budgeting, suggesting a co-ordinated approach across government stakeholders.

Tools and methods of green budgeting

- *There is wide variation in green budgeting practices*: There is no “set” model of green budgeting across OECD countries. Existing practices vary in nature and are largely driven by linkages with the country’s unique commitments and motivations.
- *Green budgeting is usually made up of more than one tool or approach*: A majority of OECD countries (12 out of 14 practicing green budgeting) employ more than one tool or method in the implementation of green budgeting. The two most common tools for green budgeting are *ex ante* or *ex post* environmental impact assessments and environmental cost-benefit analysis, suggesting that existing tools for environmental policy analysis are being incorporated into the budget process.

Accountability and transparency

- *Countries are taking efforts to ensure accountability and transparency around green budgeting*: Most OECD countries (13 out of 14 practicing green budgeting) have processes in place to provide accountability and transparency for their green budgeting practice. However, types of reporting vary, ranging from publications that highlight specific impacts of the budget (e.g. carbon emissions) to the publication of information gathered through green budgeting on an open data portal. Efforts like green budget tagging can be a useful practice to help facilitate reporting on the budget’s contribution towards country green objectives to key stakeholders.

Enabling environment

- *Green budgeting efforts tend to be supported by clear guidance and training:* 11 out of 14 OECD countries practicing green budgeting have indicated that the practice is supported by clear guidance, detailed instructions in the annual budget circular or training and skills development within the CBA.
- *Green budgeting practices are held back by a lack of methodologies and resources*: The greatest impediment to implementing green budgeting has been the lack of methodologies and resources. Many OECD countries are just starting their implementation of green budgeting and are identifying and iterating the best approach suited for their national context. In this process, the OECD is supporting countries identify appropriate approaches to green budgeting such as implementing green budget tagging or integrating climate modelling to the budget process.

1 Overview

Evidence over recent decades has highlighted the profound impact climate change, biodiversity loss and environmental degradation have had on our planet, society and global economy. Rising emissions, sea levels and droughts in communities across the world represent one of many challenges countries are working to address as they develop a more sustainable future in the coming decades. This urgency to act has catalysed efforts by countries to develop a set of national goals to protect the environment and mitigate climate change. Furthermore, the commitments made under the Paris Agreement highlight the seriousness with which countries are working to keep themselves accountable to track progress against stated goals under the Nationally Determined Contributions (NDCs).

As budgets play a core role in prioritising and resourcing government action, they can have significant implications on society, the economy and the environment. Tax policies shape business decisions and influence people's choices to work, invest and consume whilst public expenditures on areas from infrastructure to education can represent a significant lever on economic activity. As a central policy document of government, the budget touches upon all policies of the government to be used as a lever to address systemic objectives. As such, countries have identified the budget as a key element to use in tackling higher-level objectives such as gender equality and wellbeing. The emergence of "Green Budgeting" in recent years represents countries seriously incorporating environmental and climate change objectives to the broader budget process (see Box 1.1).

Box 1.1. Green Budgeting

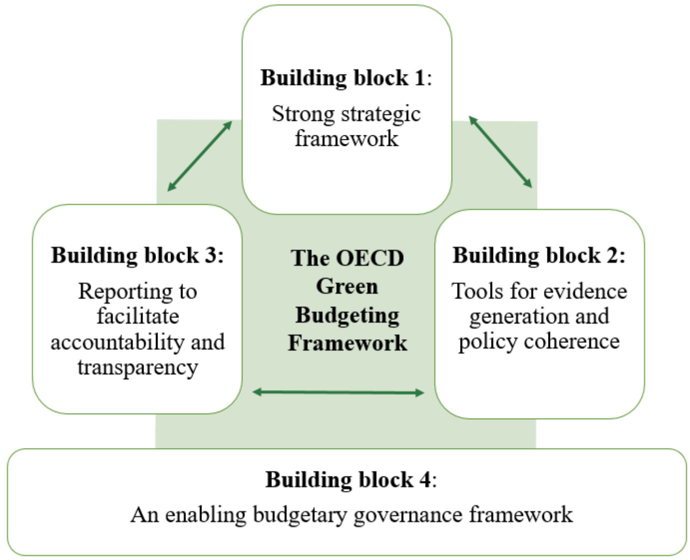
Green budgeting is a practice which uses the tools of budgetary policy-making to help achieve '"green" objectives, i.e., those relating to the climate and environmental dimensions such as biodiversity, air quality and water. There is no one-size fits all approach to green budgeting. Any approach should 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.

This publication sets out the results from the first joint OECD-EU survey of green budgeting. It provides an overview of green budgeting practices across OECD countries and/or plans for future development. Where green budgeting practices are in place, it provides a better understanding of the design of these practices, their implementation and the remaining challenges. The survey provides information on the extent to which countries have the key elements of an effective approach to green budgeting in place, as set out in the OECD Green Budgeting Framework.

The OECD Green Budgeting Framework

The OECD Green Budgeting Framework is composed of four "building blocks". Each "building block" helps to ensure approaches are linked to the larger budget process such that efforts are sustained and remain effective over the medium and long-term (Figure 1.1). The OECD Green Budgeting Framework does not prescribe a particular approach to green budgeting, but instead provides an analytical framework to understand the commonalities and differences in country approaches.

Figure 1.1. The OECD Green Budgeting Framework



Source: (OECD, 2020[1])

A strong **strategic framework** (Building Block 1) should provide information on national environmental and climate objectives. The decision to use green budgeting as one of the tools to help meet these objectives is bolstered when it is underpinned by high-level political commitment, or through budget law requiring green considerations to the budget process. A strong strategic framework will also include clear institutional arrangements for the leadership of green budgeting.

The **green budgeting tools and methods** (Building Block 2) implemented by each country varies, but should aim to help gather evidence on the alignment of budgetary polices with environmental and climate objectives set out in the strategic framework (Building Block 1). Tools and methods, ranging from green budget tagging to carbon assessments of budget measures, should provide information that allows improved decision-making at all stages of the budget cycle.

Efforts to promote **accountability and transparency** in relation to green budgeting help to ensure its credibility (Building block 3). This might be achieved through publishing information which facilitates impartial scrutiny of the information collected through green budgeting. Stakeholders such as the Parliament and other oversight institutions (independent fiscal institutions and supreme audit institutions) can play an important role in scrutinising the information to ensure that government efforts are effective.

Lastly, an **enabling environment** (Building block 4) helps ensure efforts to implement green budgeting deliver results. This may include capacity development within government ministries, departments and agencies as well as making sure efforts are supported by a modern performance budgeting framework, with elements such as strong links between planning and budgeting and programme budgeting being particularly helpful.

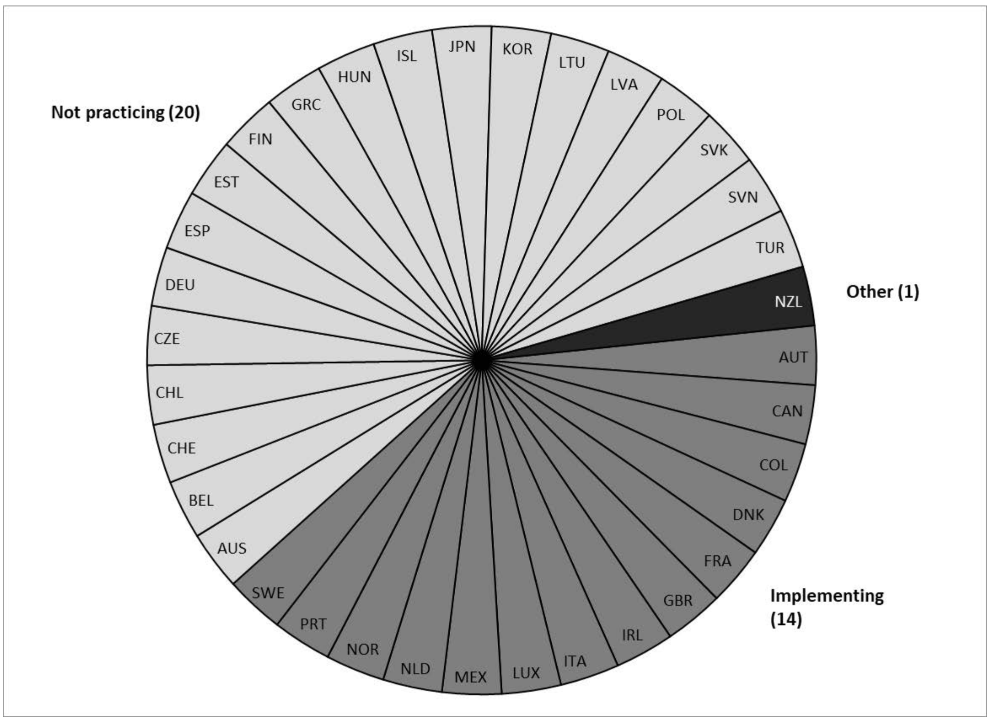
2 Green budgeting across the OECD

This section provides an overview of green budgeting practices across the OECD, based on results from the *2020 OECD and European Commission – Joint Survey on Emerging Green Budgeting Practices*[1] [2]. After providing an overview of green budgeting across the OECD, it sets out information on the extent to which green budgeting practices have in place the key elements of an effective approach to green budgeting, as set out in the OECD Green Budgeting Framework. It then goes on to provide information on the impact of green budgeting and the use of green budgeting in COVID-19 recovery efforts.

Overview of green budgeting across the OECD

More than a third of OECD countries surveyed practise some form of green budgeting (14 out of 35 country responses), seen in Figure 2.1. This includes countries with longstanding practice, such as **Italy** (since 2000) as well as more recent initiatives, such as that introduced in **France**, which has presented its first comprehensive "green budget" in 2020.

Figure 2.1. Status of Green Budgeting in OECD countries



Note: Data not available for Israel and the United States. New Zealand practices "Wellbeing budgeting" where the Environment is categorised as a natural capital as part of the country's wellbeing approach.

As described in Box 1.1, the survey defined green budgeting as using the tools of budgetary policy-making to help achieve environmental and climate goals. This includes evaluating environmental impacts of budgetary and fiscal policies as well as assessing their coherences towards the delivery of national and international commitments to contribute to informed, evidence-based debate and discussion on sustainable growth (OECD; European Commission, 2020[2]). For the purpose of standardisation and consistency, the survey considered existing practices as of end-June 2020. As such, practices outside of this cut-off date were not considered for analysis (e.g. Hungary). Additionally, practices that fall tangentially with green budgeting practices, such as New Zealand's "Wellbeing budgeting" initiative, were not included if specific green budgeting tools and approaches commonly seen across the OECD were reported to not being utilised as part of a country's approach.[3] Lastly, some countries utilise a "light" form of practice where an approach (e.g. green budget tagging) does not comprehensively review the budget in the manner seen in other OECD country practices[4].

As detailed later in this report, **green budgeting practices vary in nature.** Some employ comprehensive tagging against green objectives (**France**) while others like **Colombia** tag against green objectives that sit within a broader framework for high-level priorities (e.g. budgeting for the Sustainable Development Goals).

Green budgeting is implemented in a heterogeneous way across all 14 OECD countries that practice it, with approaches attuned to national contexts.

Of the countries that do not practice green budgeting, 5 countries (Slovenia, Poland, Latvia, Greece, and **Chile) plan to introduce green budgeting in the future**. **Chile**, for instance, is planning to conduct a Climate Public Expenditures and Institutional Review (CPEIR) to determine the appropriate approach in relation to existing budget systems. **Slovenia** and **Poland** are also considering the most appropriate approach in their own national contexts. **Greece** plans to integrate green dimensions to its existing performance budgeting practice while **Latvia** is still at the early stages and have not yet developed a plan.

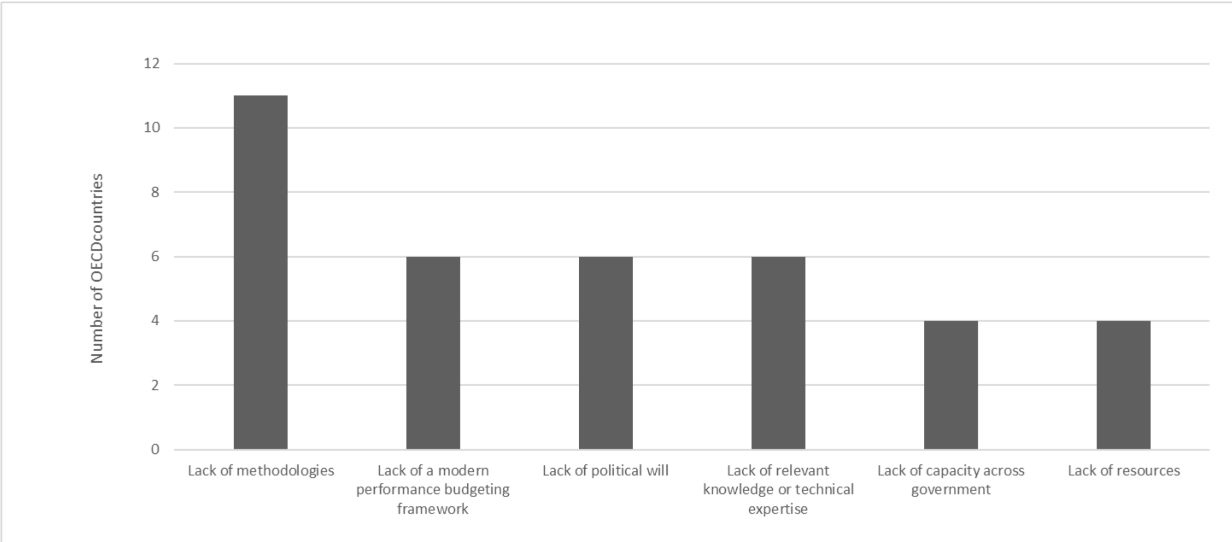
Among countries that do not practice green budgeting, the three biggest impediments to its introduction are the lack of existing methodology for assessing environmental effects, the lack of a modern performance budgetary framework, and a lack of political will (Figure 2.2). The lack of existing methodologies reflects the fact that green budgeting is still a relatively new practice and highlights the importance of platforms such as the OECD Paris Collaborative on Green Budgeting for sharing expertise (Box 2.1). Other factors could also be due to challenges to the application of existing environmental policy such as a lack of information or the varying quality of environmental impact assessments.

Box 2.1. The OECD Paris Collaborative for Green Budgeting

The OECD Paris Collaborative on Green Budgeting was launched by the OECD Secretary-General Angel Gurría and French President Macron at the One Planet Summit in Paris on 12 December 2017. It aims to design new, innovative tools to assess and drive improvements in the alignment of national expenditure and revenue processes with climate and other environmental goals. This serves as a crucial step in achieving a central objective of the Paris Agreement on climate change as well as of the Aichi Biodiversity Targets and the United Nations' Sustainable Development Goals – aligning national policy frameworks and financial flows on a pathway towards low greenhouse gas emissions and environmentally sustainable development.

The lack of a modern performance budgeting framework is related to the fact that practices such as green budgeting are reliant on an outcomes approach being embedded in the budget process and are therefore supported by strong linkages between planning, programmes and budgeting. Most successful practices of green budgeting leverage these elements of good practices, and in a number of OECD countries reforms in this regard are either ongoing or have not yet been implemented.

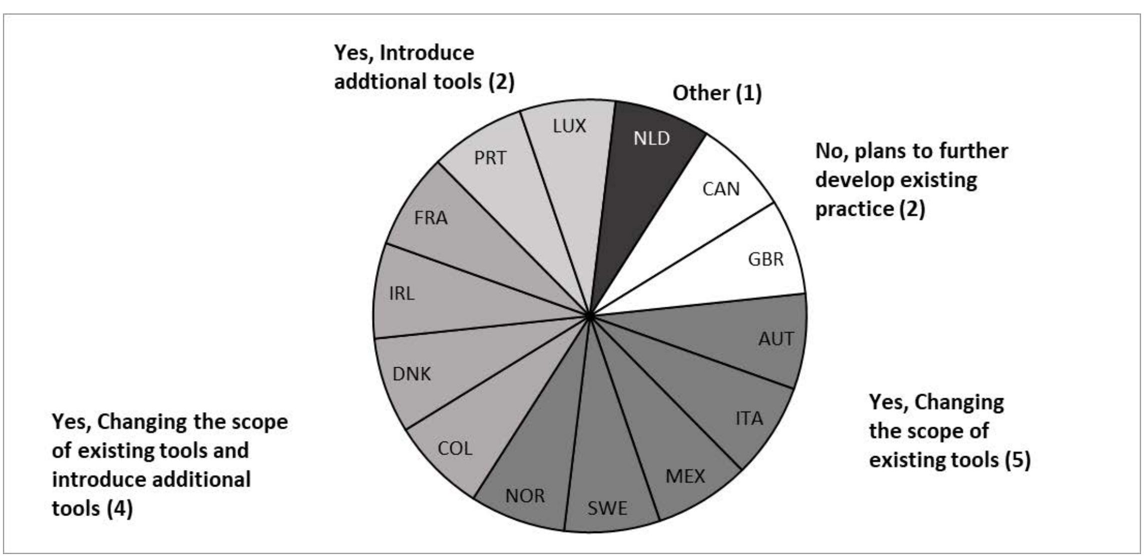
Figure 2.2. Challenges to introducing green budgeting for countries not implementing



Note: Data not available for Israel and the United States.

The majority of OECD countries practicing green budgeting have plans to further develop it in the future (13 out of 14 countries) (Figure 2.3). This highlights the evolving nature of green budgeting across the OECD. Countries such as **Ireland**, which have recently introduced green budgeting, plan to adapt and incorporate additional dimensions – such as tagging negative expenditures and tax expenditures - as capacity develops over time. **Colombia,** which has also recently introduced green budgeting, also plans to further develop its green budget tagging approach to facilitate greater accountability and transparency amongst parliament and the public. In many European countries green budgeting considerations will also evolve in relation to requirements set out as part of the introduction of the *European Green Deal* (Box 2.2).

Figure 2.3. Are there plans to further develop green budgeting?



Note: Data not available for Israel and the United States. The Netherlands is looking to enhance evaluation mechanisms to better-reflect the effectiveness of climate policy.

Box 2.2. European Green Deal and the Recovery and Resilience Facility

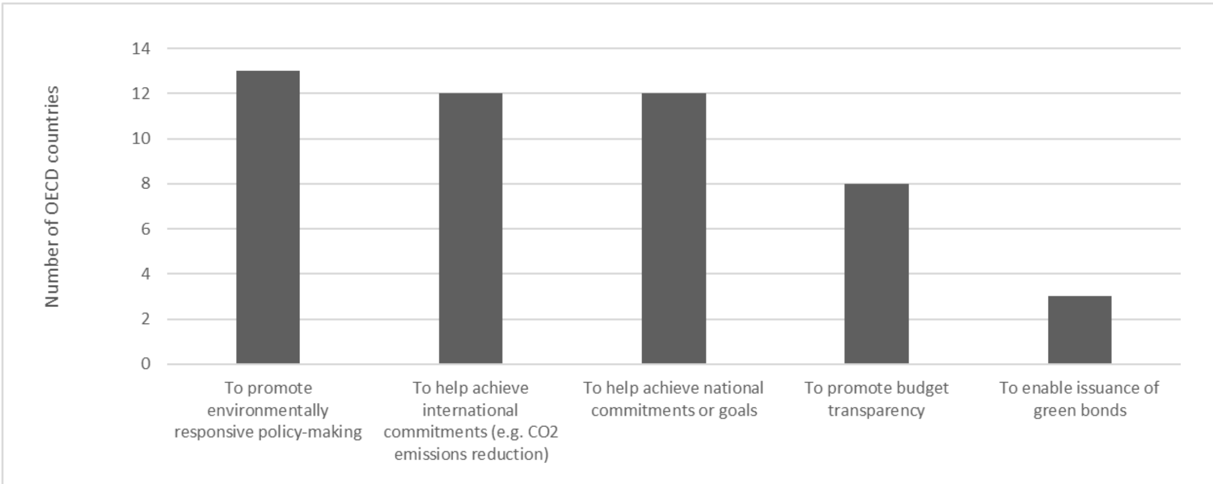
The European Green Deal is the European Union’s plan to make the EU’s economy sustainable by turning climate and environmental challenges integral to policy considerations in the medium and long-term. It aims to transform Europe into a resource-efficient and competitive economy where there are no net emissions of greenhouse gases by 2050, considerations of economic growth decoupled from resource use and processes for a just transition in place such that no segments of society are left behind in the process.

The European Green Deal is helping guide the COVID-19 recovery towards green growth. In December 2020, the European Council and the Parliament reached a provisional agreement on a €672.5 billion Recovery and Resilience Facility (RRF). The RRF will help member states address the economic and social impact of the COVID-19 pandemic whilst ensuring that their economies undertake the green and digital transitions, becoming more sustainable and resilient. In order to receive support from the RRF, member states must prepare national recovery and resilience plans setting out their reform and investment agendas until 2026. At least 37% of each plan’s allocation has to support the green transition. Each reform and each investment should respect the ‘do no significant harm principle’. In order to determine the share of plans dedicated to the green transition, member states will be invited to tag the green content of the proposed measures in line with the methodology for climate tracking already applied in the context of cohesion policy funds. Member states will have to specify whether the reform or investment fully contributes (100%), partially contributes (40%) or has no impact (0%) to green objectives.

Building block 1: Strategic framework for green budgeting

As highlighted in section 1, a strong strategic framework is one of the building blocks underpinning an effective approach to green budgeting (building block 1). **Across the OECD, the three biggest strategic drivers for introducing green budgeting have been to promote environmentally responsive policymaking, to help achieve international commitments and to help achieve national commitments or goals** (Figure 2.4). International commitments will likely include the climate commitments set out through Nationally Determined Contributions (NDCs) under the Paris Agreement. In addition to these factors, there may be national circumstances which provide a strategic driver for introducing green budgeting. For instance, **France’s** approach for green budget tagging has been driven by its desire to demonstrate greater transparency and accountability in its pursuit of green objectives. **Ireland**’s approach has been partially driven by requirements relating to introducing and managing green bonds. In **Chile**, though there is no current practice for green budgeting, consideration for its implementation has been driven by its commitment to the NDCs where accounting for its public spending on climate change is a big component to the country’s efforts.

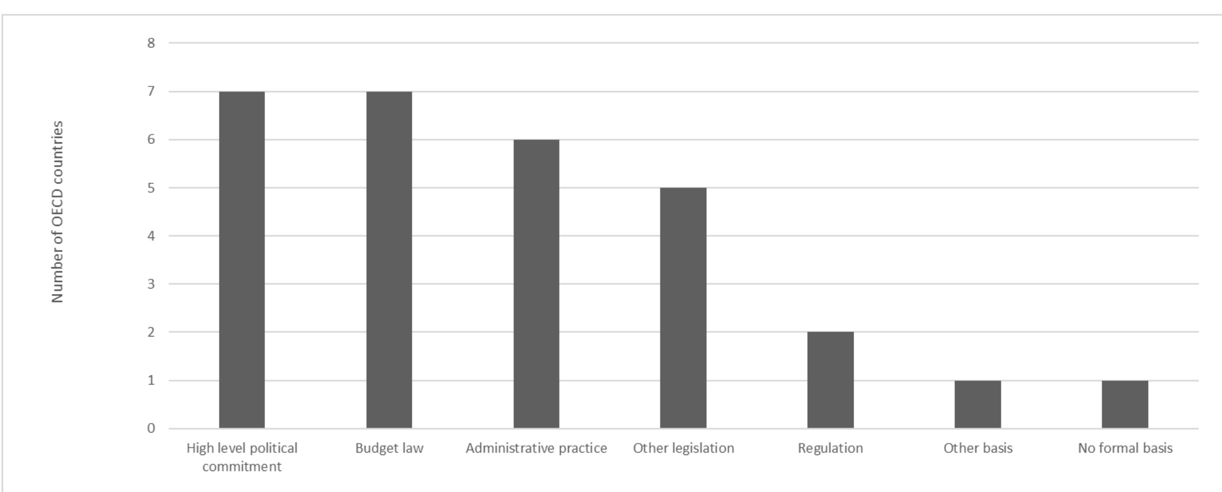
Figure 2.4. Top 5 drivers for introducing green budgeting in OECD countries



Note: Data not available for Israel and the United States.

Green budgeting in OECD countries is most commonly underpinned by high-level political commitment (7 countries), the budget law (7 countries) and administrative practice (6 countries). For example, **Denmark** has a high-level political commitment to green budgeting driven by ministerial desire for the promotion of programmes which reduce carbon emissions. In **Austria**, green considerations were embedded during reforms to its budget law in 2013 where a requirement was introduced to identify the environmental impact of individual budget measures. In **Canada**, a Cabinet Directive requires that new policy and proposals (including budget measures) submitted to a Federal Minister or to Cabinet for approval are accompanied by environmental assessments on programmes where environmental effects are likely.

Figure 2.5. Legal basis or authority for green budgeting



Note: Data not available for Israel and the United States.

Lessons from gender budgeting have shown the value of a strong legal basis in helping to drive the reform and sustain it over time. Whilst most countries have environmentally-responsive legislation citing important requirements for the management of natural resources, regulations and plans for emissions reductions, it is less common to have the budget law requiring green perspectives within the budget process.

The seven OECD countries that have introduced green budgeting and have the practice embedded in their national budget law are Austria, Colombia, France, Italy, Mexico, the Netherlands and Portugal. For example, **Italy**, with one of the longest-running practices of green budgeting amongst OECD countries, has specific requirements under the Law of Accounting and Public Finance for reporting on budget spending and execution related to environmental protection (Box 2.3).

Box 2.3. Legal basis for green budgeting in Italy

Green budgeting in Italy was introduced at the request of parliament for improved transparency on environmental expenditure. This was established through the introduction of **Law 196/2009 (Law of Accounting and Public Finance, article 35, paragraph 6)** where it required the government to present a report on environmental expenditures as part of the General State budget Final Accounts (*Ecobilancio*, translated Eco Budget). In 2011, building off of **Law 196/2009**, the Parliament required an additional reporting on budget execution on the same items (*Ecorendiconto*, translated Eco Report). This also required environmental accounting regulations to be carried out by the Italian National Statistical Office (ISTAT) for the regular production of statistical data on environmental accounts at the national and regional level.

Source: (OECD; European Commission, 2020[2])

A strong green budgeting strategic framework will also include a national strategy that sets out the specific priorities and objectives for green budgeting. Within the OECD, seven countries **(Austria, Canada, Colombia, France, Ireland, Mexico and Portugal)** have a national strategy that guide green budgeting efforts. These may be broader strategies relating to sustainable development (**Canada** and **Colombia**), strategies specific to a green transition (**Portugal**) or a specific climate change strategy as seen in **Mexico's** *Estrategia Nacional de Cambio Climatico* (Box 2.4). In many cases, national strategies complement other frameworks and practices to create a wider system for budgeting for high-level priorities. In **Mexico**, for instance, the country's green budgeting approach is linked with its Sustainable Development Goal (SDG) budgeting approach through the goals set out in the National Development Plans where budget tagging is done in relation to programmes contributing to biodiversity as well as other SDGs.

Box 2.4. Mexico's *Estrategia Nacional de Cambio Climático* (National Strategy of Climate Change)

To deal with the challenges and effects of climate change, and to follow through on the country's international commitments, Mexico developed a National Strategy of Climate Change (*Estrategia Nacional de Cambio Climático*) to move the country towards a competitive, sustainable and low-cost economy. This strategy defined six-year objectives and specific actions for climate change adaptation and mitiation under the following pillar objectives:

- Reduce vulnerability and increase the resilience of society to the effects of climate change
- Reduce vulnerability and increase resilience of the strategic infrastructure and productive systems
- Store and properly use sustainable ecosystems and maintain environmental services

- Accelerate energy transition to clean energy sources
- Reduce energy intensity through efficiency schemes and responsible consumption
- Transition to sustainable cities with low carbon footprint
- Promote better agricultural practices, quarry and forestry and preserve natural carbon sinkholes
- Reduce pollutant emissions and promote health and wellness co-benefits.

The strategy also includes a wide set of policy instruments for the Federal, State and Municipal level as well as policy pillars which include objectives to have mechanisms for measurement, reporting and verification (MRV), economic instruments that focus on climate and platforms for research and development and develop fiscal policies. The strategy also includes goals to identify and allocate budgetary resources in pursuit of these objectives.

Source: (Government of Mexico, 2013[3])

Administrative leadership for green budgeting

A key element of a strong strategic framework for green budgeting is clear institutional arrangements for its implementation. This includes the identification of the most appropriate government authority to lead on its implementation.

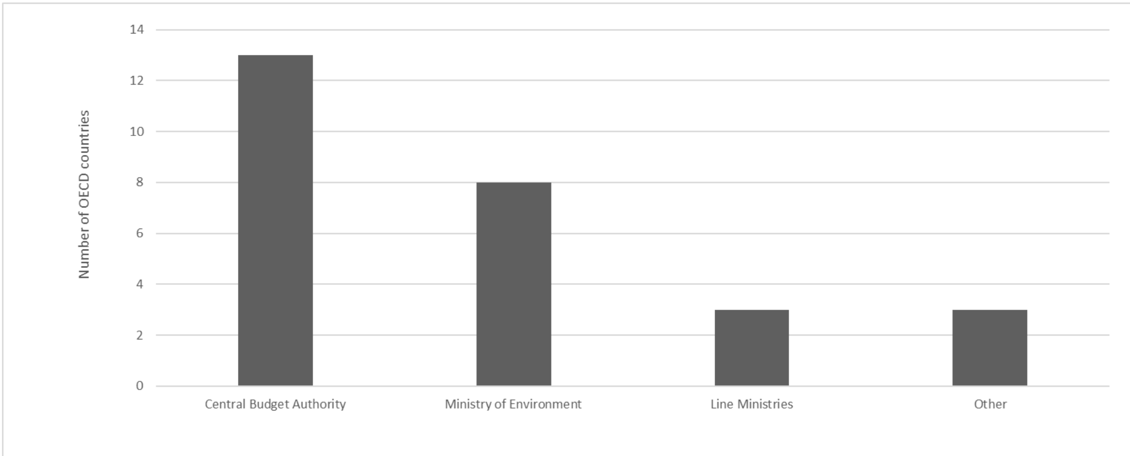
The central budget authority (CBA) usually has a key leadership role in relation to green budgeting across OECD countries alongside other government actors (Figure 2.6). Other potential actors most commonly include the Ministry of Environment, Line Ministries and other government departments and agencies.

Examples of countries where the CBA leads green budgeting efforts are **Denmark, Ireland** and **Mexico**. For instance, in **Ireland**, the Department of Public Expenditure and Reform (DPER) leads the green budget tagging process with support from the Department of Environment, Climate & Communications.

In other countries, the CBA shares its lead role with other actors (**Austria, Canada, Colombia, France, Italy, the Netherlands, Portugal, Sweden,** and **the United Kingdom**). For example, in **Colombia**, responsibility is maintained jointly between the CBA and the Ministry of Environment. In **France,** green budget tagging is conducted by a small-dedicated team from the Ministry of Ecological Transition's General Commission for Sustainable Development (CGDD), the Budget Department (DB), the Tax Legislation Department (DLF) and the Treasury Department (DGT). In **Sweden,** responsibility is shared across a number of government agencies for environmental impact assessments of individual budget measures with the Swedish Environmental Protection Agency playing a coordinating role in preparing an overall report to the government. In **Austria,** the **United Kingdom** and **Canada**, specific government entities also have allocated responsibilities. For example, in **Austria,** in addition to the CBA and the Ministry of Environment, regional budget authorities also serves as an authority for the country's green budgeting efforts. In the **United Kingdom,** authorities also extend to the Department for Business Energy and Industrial Strategy and in **Canada,** to the Privy Council Office

There are few countries where the CBA does not play a role in leading the country's green budgeting efforts. However, one example is **Portugal**, where since 2016 the Ministry of Environment has led in identifying linkages between fiscal and environmental policy, using the Environmental Fund to provide cross-cutting financing for environmental policies.

Figure 2.6. Administrative authorities playing a leading role for green budgeting



*Note: Data not available for Israel and the United States.
*Note on Other: In **Austria,** responsibility includes regional budget authorities (sub-federal level), in **Canada** responsibility includes the Privy Council Office and in the **United Kingdom** the Department for Business Energy and Industrial Strategy shares responsibility with the CBA and Ministry of Environment.

The variety of institutional actors reflects the need for different skills to support the implementation of green budgeting. CBA's often rely on the policy expertise of the Ministry of Environment for example. It is also likely to be driven by the extent to which there is a pre-existing culture of collaboration in relation to other initiatives such as gender budgeting or SDG budgeting. For instance, **Canada** has a strong culture of cross-government collaboration in ensuring that a Gender Based Analysis (GBA+) is provided for all budget proposals, involving engagement from the Department of Finance, line ministries and the federal Department for Women and Gender Equality Canada (WAGE) much like the cross-governmental arrangements it has also put in place for green budgeting (OECD, 2018[4]). In **Mexico**, the CBA (Ministry of Finance and Public Credit) has a strong leadership role in relation to the country's comprehensive performance budgeting system used as a basis for tagging budget programmes relating to different SDGs. These arrangements have been built upon to tag its budgetary programmes to identify how budget programmes align to goals related to the environment and climate.

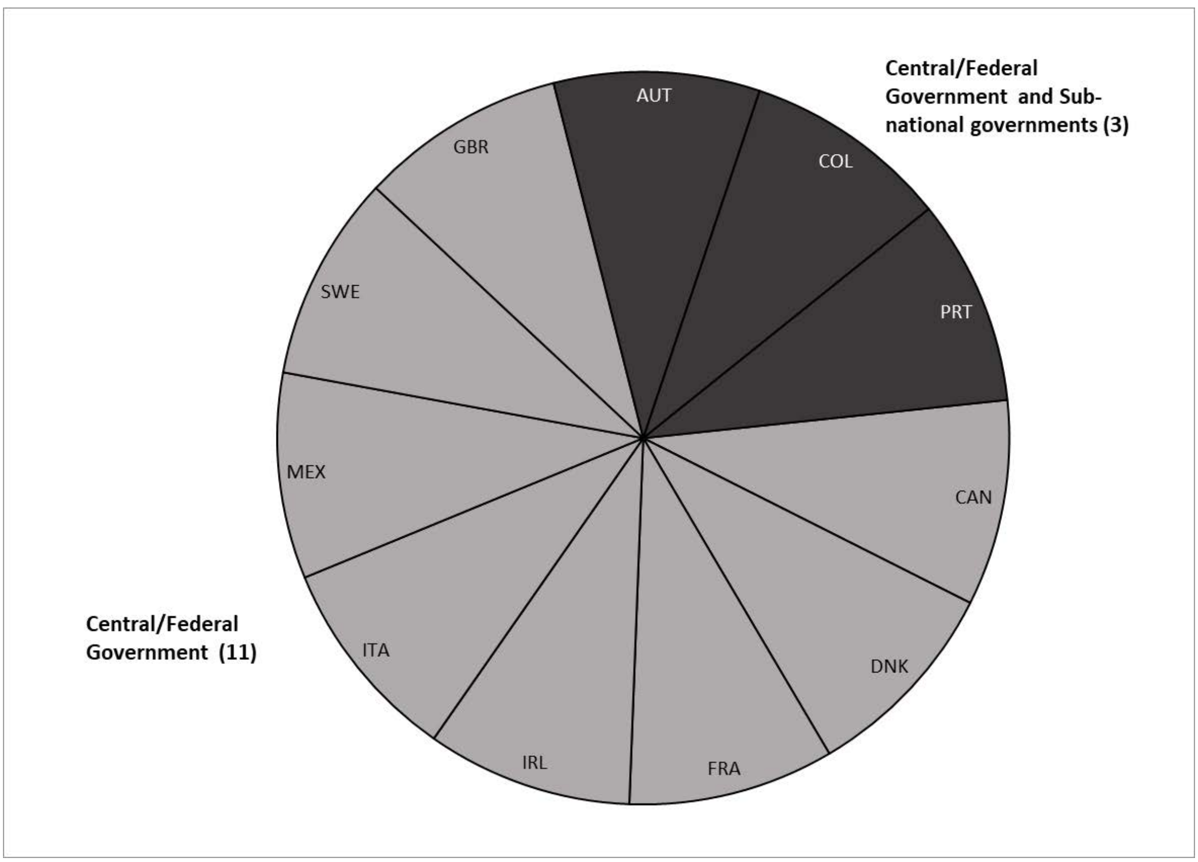
Green budgeting across different levels of government

Subnational government expenditure represent a sizeable portion of public spending on climate and the environment. Approximately 55% of spending and 64% of climate and environmental investments occurring at the subnational level (OECD, 2019[5]). **Of the 14 countries practicing green budgeting in the OECD, 3 countries reported also have green budgeting at the subnational level** (**Austria, Colombia, and Portugal**)[5], as seen in Figure 2.7. In **Austria**, **Colombia,** and **Portugal**, green budgeting is already practiced both at the regional level and the municipal level. In other instances, regional governments have taken the lead in developing a green budgeting approach. Though there currently is not a practice at the central level, in **Spain,** the Andalusian government made efforts to incorporate green perspectives to its budget process (Box 2.5).

Box 2.5. Green budgeting in Andalusia

Faced with the prospect of environmental and climate vulnerabilities in the region, the Andalusian government made commitments to address climate and environmental measures alongside efforts to promote economic growth. Building on its longstanding experience in gender budgeting, the government worked to mainstream green perspectives to its budgeting framework by reporting on how its budgetary programmes contribute to the region's green objectives. Like gender budgeting, the government's approach to green budgeting includes having a strong legal framework, an institutional structure, as well as processes for classifying budgeting programmes and auditing. Their approach also include reviewing the region's fiscal framework to ensure taxes promote economic growth, resilience and fairness alongside environmental objectives. This effort has facilitated the development of green budget fund to finance sustainability projects in the region.

Figure 2.7. Levels of government practising green budgeting



*Note: Data not available for Israel and the United States.

Towards a more integrated approach which incorporates other high-level priorities

The evolution of green budgeting has coincided with the usage of other forms of budgeting practices that seek to make progress against higher-level priorities. One of the most common examples is gender budgeting, used to help promote greater alignment between budget policy and gender equality goals. In

New Zealand, the country's well-being budgeting approach provides the framework for the government to pursue environmental priorities such as use of budget policy statements and well-being domain assessments, further detailed on Box 2.6.

Box 2.6. Well-being budgeting in New Zealand

New Zealand has developed a framework which considers domains for well-being in its policymaking process. The Living Standards Framework (LSF) has worked to identify four "capitals" (Natural, Financial and Physical, Human, and Social) to help drive the basis for its recent wellbeing budget. This process, driven by the Labour-led coalition in 2019, is attempting to develop multi-dimensional considerations to its budgeting process by facilitating cross-sectoral coordination through shared objectives by ministries and using evidence to drive person-centric needs and long-term considerations. The Government sets out a list of 5 outcomes to focus, determined every year, to ensure discretionary resources are prioritised to these areas.

The recent wellbeing budget has developed 5 outcomes to focus the government's efforts:

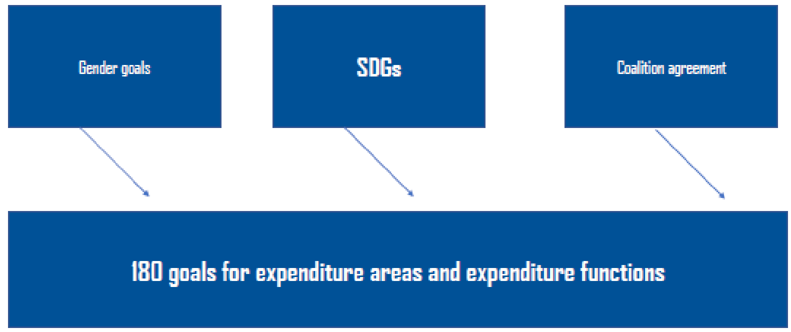
1. **Taking Mental Health Seriously** – Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds
2. **Improving Child Wellbeing** – Reducing child poverty and improving child wellbeing, including addressing family violence
3. **Supporting Māori and Pasifika Aspirations** – Lifting Māori and Pacific incomes, skills and opportunities
4. **Building a Productive Nation** – Supporting a thriving nation in the digital age through innovation, social and economic opportunities
5. **Transforming the Economy** – Creating opportunities for productive businesses, regions, iwi [indigenous communities] and others to transition to a sustainable and low-emissions economy

Existing frameworks (e.g. Living Standards Framework) and wellbeing domain assessments provide the structure for analysis if the government identifies green objectives as its set of priorities.

In pursuit of multiple high-level objectives, countries are looking to design and introduce green budgeting, where other practices such as gender budgeting and well-being budgeting already exist.

Other countries have adopted different means to develop holistic policy frameworks that help to address multiple high-level priorities. In **Iceland**, for example, goals for gender equality, the SDGs, specific sectoral strategies and political priorities are encapsulated in the national strategy where targets feed into a set of 180 goals for expenditure areas and functions, seen in Figure 2.8.

Figure 2.8. Linking high-level priorities in Iceland



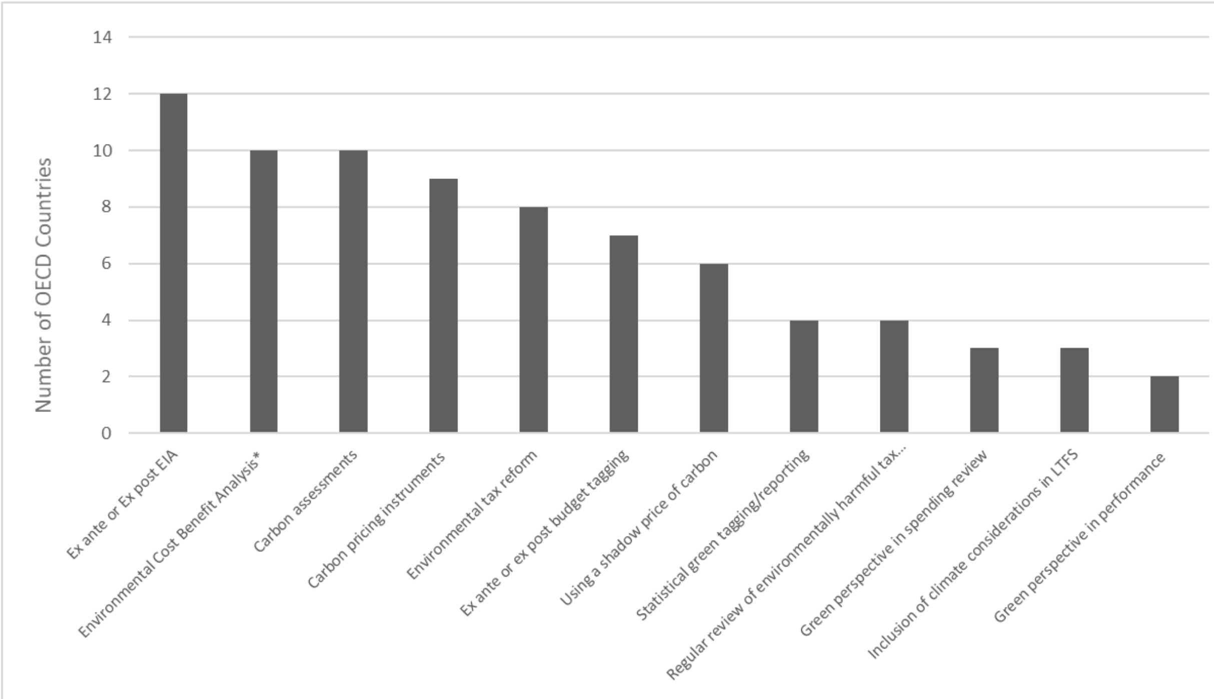
These early approaches to integration suggest the importance of considering the national context so that it is rooted in political commitment, existing strategic frameworks and capacity across the public administration. The emergence of the *European Green Deal* across EU member states and intentions for Green *New Deal* as signalled in **Korea** indicate greater attention and focus will be made in aligning government efforts to address the challenges of climate change and the environment. The evolution of country approaches in pursuit of this priority will be an interesting area for further research in coming years.

Building block 2: Tools and methods of green budgeting

The selection of appropriate tools and methods for implementing green budgeting is the second building block to an effective approach. There is significant variation in the number of tools and methods, in relation to the budget process, used for green budgeting across OECD countries, seen in Figure 2.9. **Of the 14 countries practicing green budgeting, the majority utilise more than one tool or method in its implementation (12 countries)**, seen in Table 2.1**.** On average, countries utilise about 6 different tools or methods for green budgeting. OECD countries using green budgeting tools more than the average are **United Kingdom** (10 tools), **Ireland** (9 tools), **France** (8 tools), **Norway** (8 tools), the **Netherlands** (7 tools) and **Colombia** (7 tools). Illustratively, **Denmark**'s green budgeting toolkit includes; *ex ante* environmental assessments (of individual budget measures), *ex post* green budget tagging, environmental cost benefit analysis, carbon assessment, the use of a shadow price for carbon in the evaluation of public policies, environmental tax reform and a green perspective in the country's spending review process. At the other end of the scale, **Luxembourg,** and **Mexico** have just one tool in their green budgeting toolkit.

There is also variety in the type of tools and methods used for green budgeting. **The four most common tools for green budgeting are *ex ante* or *ex post* environmental impact assessments** (12 countries)**, environmental cost-benefit analysis** (10 countries)**, carbon assessments** (10 countries) **and carbon pricing instruments** (9 countries) as part of a country's larger green budgeting approach.

Figure 2.9. Tools of green budgeting



*Note: Data not available for Israel and the United States. The data represents usage of tools in relation to the budget process.

Table 2.1. Use of green budgeting tools

	Ex ante or Ex Post Environmental Impact Assessments (individual measures)	Environmental Cost Benefit Analysis (individual or all measures)	Carbon Assessments	Carbon pricing instruments (including fuel and carbon taxation, emissions trading systems)	Environmental tax reform	*Ex ante or Ex Post* green budget tagging	Using a shadow price of carbon	Regular review of environmentally harmful tax epxneditures and subsidies	Statistical green tagging/reporting	Green perspective in spending review	Inclusion of climate considerations in long-term fiscal sustainability analysis	Green perspective in performance setting or performane budgeting	Environmental audit or validation of the budget	Biodiversity/Ecosystem pricing	Green balance sheet
Austria	■		■												
Canada	■	■		■				■	■						
Colombia	■	■	■	■	■	■					■				
Denmark	■	■	■		■		■			■					
France	■	■	■	■		■	■	■	■						
Ireland	■	■	■	■	■	■	■			■		■			
Italy	■	■	■			■			■						
Luxembourg						■									
Mexico						■									
Netherlands	■	■	■	■	■			■			■				
Norway	■	■	■	■	■	■	■		■						
Portugal	■			■	■										
Sweden	■	■	■	■	■		■								
United Kingdom	■	■	■	■	■		■	■		■	■	■			
Total	**12**	**10**	**10**	**9**	**8**	**7**	**6**	**4**	**4**	**3**	**3**	**2**	**0**	**0**	**0**

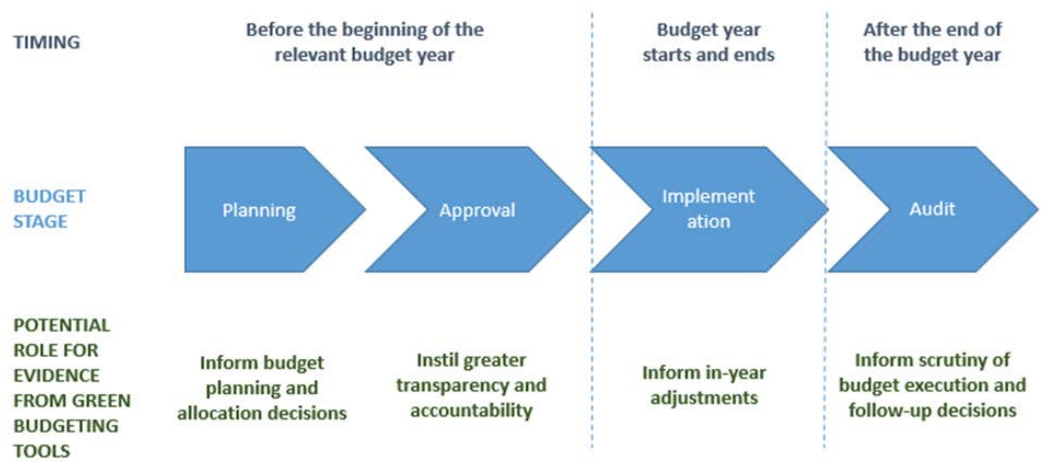
*Note: Data not available for Israel and the United States.

The tools and methods selected will depend on the strengths of the existing budget process and existing enablers for implementing environmental policy. A strong performance budgeting structure, for instance, can provide a framework to apply a set of indicators and targets in relation to green goals and programme budgeting can support green budget tagging whilst a sound practice of environmental policy evaluation can provide the basis to include such analysis to the budget process.

The role of green budgeting tools throughout the budget cycle

It is helpful if the choice of tools allows green dimensions to feed into policy and budget decision-making throughout the budget cycle (Figure 2.10).

Figure 2.10. Role of evidence from green budgeting tools at different stages of the budget cycle



Implementing green budgeting at the *ex ante* budget phase creates opportunities to use tools of green budgeting to inform budget decisions. For example, in **Norway**, official guidance requires environmental cost-benefit analysis of government measures prior to final decision-making (Government of Norway, 2018[6]). Similarly, in the **UK**, environmental considerations are taken into account as part of *ex ante* cost-benefit assessments that inform budget decision-making (Box 2.7).

Box 2.7. Environmental dimension to *ex ante* cost-benefit analysis in the United Kingdom

In the United Kingdom, the Green Book is issued by HM Treasury and provides information on how to appraise policies, spending proposals, programmes and projects by providing instructions and supplementary 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. This encourages departments across the government to robustly quantify and monetise (wherever possible) the differential "green" impacts in calculations for value-for-money and cost-benefit assessments.

During the budget approval phase, the provision of green budget statements or other reports can foster greater transparency and accountability. For example, in **Austria**, the Parliamentary Budget Office publishes a green budgeting "landscape" to support budget scrutiny at parliament. This presents summary information on green goals, activities and targets from across different budget chapters. In **Italy**, the

Box 2.8. The French “Green Budget” statement

In 2017, France committed to the OECD 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 developed its first comprehensive “Green Budget” as part of the 2021 Budget that provides an overview of budget measures and their alignment with France’s green objectives. Specifically, as included as part of the larger PLF 2021 (*la loi de finance pour 2021*), all budget measures including revenues as well expenditures were categorised in according to the extent they have a favourable, neutral or negative impact on six environmental dimensions (based on the EU taxonomy regulation). This “Green Budget” aims to facilitate transparency and accountability in the government’s commitments towards green objectives as well as to help inform better decisions by policymakers.

Ministry of Environment, Land and Sea (MATTM) developed a catalogue of harmful subsidies in response to a request from the Italian Parliament. This helps support oversight of proposed government subsidies from a green perspective. In **France**, the Green Budget presented alongside the budget provides an overview of budget measures and their alignment with France’s green objectives (Box 2.8).

Implementation during the concurrent and *ex post* phases creates the opportunity to use green budgeting to inform in-year adjustments and to improve scrutiny of budget execution. Within the OECD, **Italy** has had a longstanding practice of reporting on its environmental programmes of both budget execution and final accounts presented to Parliament to inform considerations of budget decisions in accordance to environmental objectives.

The role of tax policy in green budgeting

Carbon pricing instruments can be effective green budgeting tools on the revenue-side to encourage low-carbon investment and consumption choices to address green objectives (Box 2.9). As part of a green budgeting approach, carbon pricing can serve as a core tool of a green tax policy framework to provide a technology-neutral case for low-carbon investment and consumption, to promote green growth (OECD, 2020[7]).

Box 2.9. Carbon pricing instruments

Carbon pricing can be an effective tool to reduce emissions as it helps to increase the price of carbon-based energy and thus, decreasing demand for it. It encourages substitution towards less carbon-intensive forms of energy and lowers demand for energy overall. As such, emitters have an incentive to cut emissions as long as it is cheaper than paying the price, decentralising abatement decisions whilst providing an ongoing incentive to cut emissions and stimulate innovation.

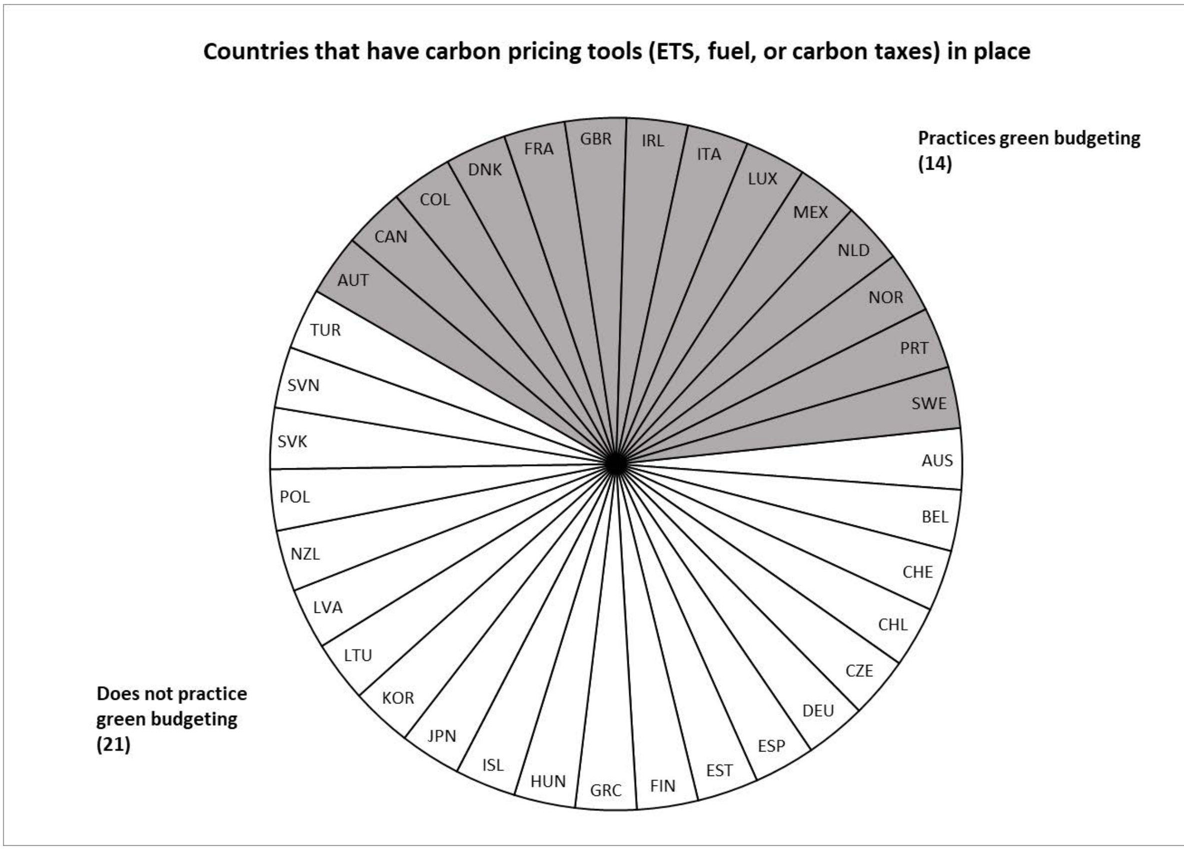
Countries use different tools to price carbon emissions, or a combination of them:

- **Explicit carbon taxes**, which typically set a tax rate on energy use based on its carbon content (e.g. EUR 40 per metric ton of CO_2),
- **Specific taxes on energy use** (such as fuel taxes), which typically set per physical unit or unit of energy, but can be translated into effective carbon tax rates based on carbon content of each form of energy,
- **Emission Trading systems**, where the price of tradable emission permits represents the opportunity cost of emitting an extra unit of carbon regardless of the method to allocate permits.

In most cases, having a carbon price in place does not fully determine the *effective* carbon price in a country due to tax exemptions for specific sectors or energy users. As such, across the OECD, many countries fall short of benchmarks set for pricing carbon emissions (i.e. Carbon pricing gap).

Though carbon pricing is widely used across the OECD, **Austria, Denmark, Italy, Luxembourg,** and **Mexico,** do not report it as being part of their larger green budgeting efforts (OECD, 2019[8]) (OECD; European Commission, 2020[2]). This may be due to countries viewing green budgeting as an initiative that focuses only on expenditures, as in the case of **Italy**, or that the scope and mandate of the efforts not as broad-reaching towards policy domains with a traditional environmental focus. To illustrate this point, Figure 2.11 shows the ubiquity of carbon pricing instruments such as emission trading systems (ETS) or having fuel or carbon taxes in place across the OECD (all OECD member states), of which, only a handful of countries report practicing some form of green budgeting.

Figure 2.11.Use of carbon pricing instruments across the OECD

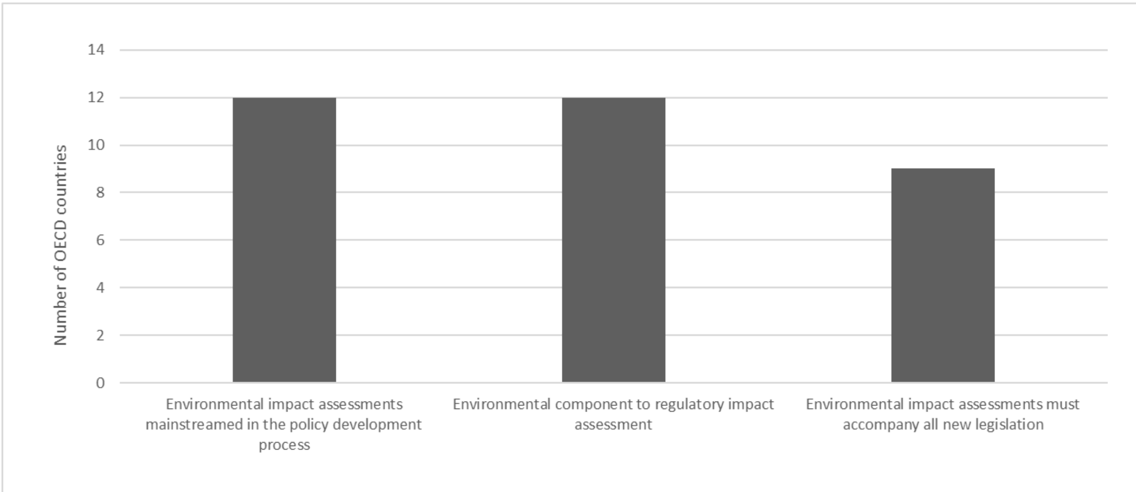


*Note: Data on green budgeting not available for Israel and the United States. Data on ETS and Fuel and Carbon taxes reflects findings from 2018. Canada, Japan, and The United States has ETS at the subnational level and all countries under the EU implement EU ETS.

Tools that support green policy-making but that are not part of green budgeting efforts

A majority of OECD country respondents (27 countries) report that they have tools or processes in place outside the budget process to promote environmentally responsive or green policies (27 out of 37). Across the OECD, about a third of member states (12 countries) report having some form of environmental impact assessments mainstreamed in the policy development process as well as an environmental component to regulatory impact assessments, seen in Figure 2.12.

Figure 2.12. Green tools used outside of the budget process



*Note: Data not available for Israel and the United States.

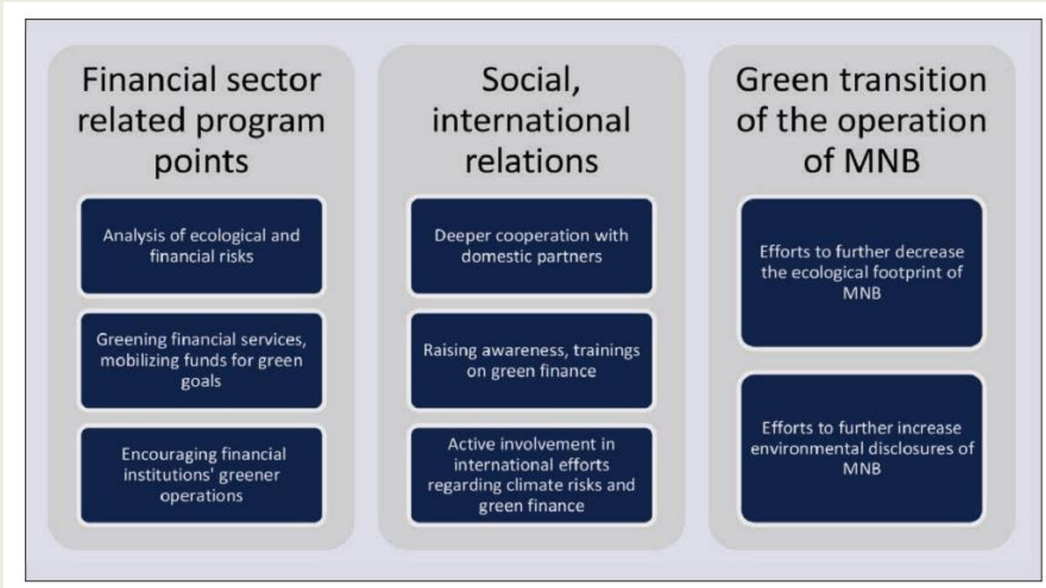
In some countries, these tools used outside of the budget process may be considered already effective-limiting the value-add of introducing green budgeting approach. For instance, in **Switzerland**, it is mandatory to analyse the environmental and economic effects of new policy propositions. As this already sets the basis for identifying the environmental effects of many budget measures, introducing a new tool or approach, such as budget tagging, may only provide limited value. In **Germany,** separate reports on identifying harmful spending and tax expenditure are published by the Federal Environmental Agency as a means to demonstrate greater transparency and accountability (Umweltbundesamt, 2016[9]).

In **Portugal**, there is a criteria for estimating impacts on greenhouse gas (GHG) emissions as part of *ex ante* cost-benefit analysis in the transport or energy sectors. However, this is not considered as part of its overall green budgeting effort (OECD, 2018[10]).

Box 2.10. Hungary's Green Programme

Following the passage of the Second National Climate Protection Strategy in 2018, Hungary made a commitment to undergo a gradual transition to a low carbon emission economy. In support of this strategy, the Hungary Central Bank, *Magyar Nemzeti Bank* (MNB) developed the "Green Program" to integrate environmental and sustainability considerations to its supervisory duties. Set along the three pillars of the National Climate Protection Strategy, the programme aims to:

- Identify and assess the risks climate change and other ecological anomalies to financial stability. This includes facilitating the greening of financial services and mobilising funds for green goals by analysing "green" products offered by financial institutions and investigating the role of environmental considerations for financial services (i.e. environmental parameters for loans)
- Promote greater awareness engagement and training amongst domestic financial institutions
- Transition Bank operations to decrease its ecological footprint and increase transparency by publishing environmental disclosures



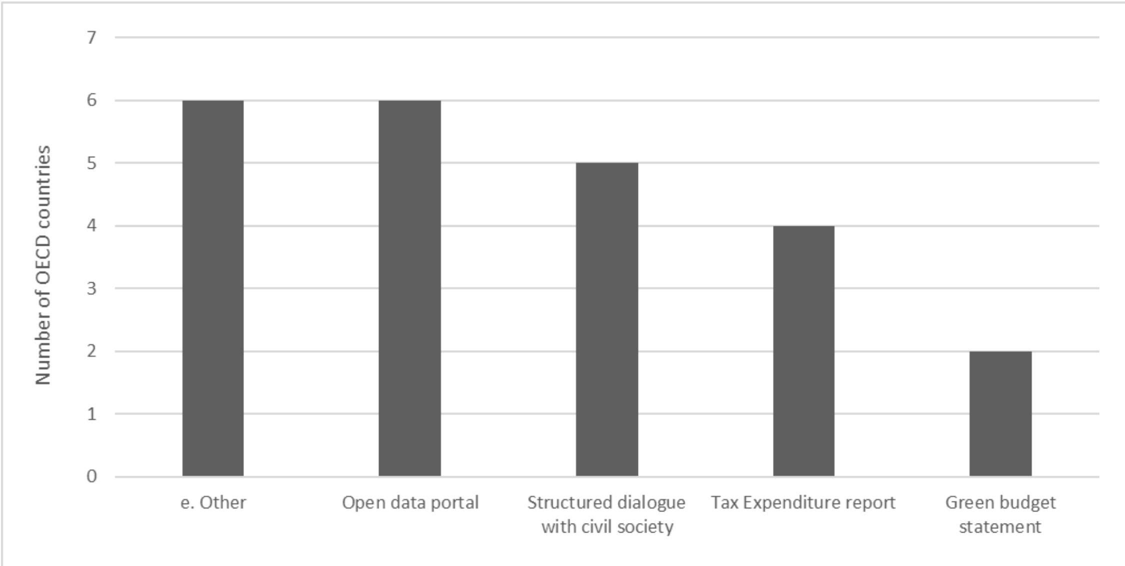
Additionally, there is a lot of variation in country practices of those not practicing green budgeting, as reported in the survey. In **Belgium**, responsibilities for environmental policies are shared between federal and regional levels. In **Poland**, the National Fund for Environmental Protection and Water Management was created to help finance ecologically beneficial investments while in **Hungary**, the Central Bank of Hungary leads the Green Program that supports the maintenance of the stability of the financial sector by integrating green perspectives to economic growth, seen in Box 2.10. As countries consider green budgeting approaches in pursuit of green objectives, it is therefore important to identify how it fits within the broader framework for environmental and climate policies.

Building block 3: Accountability and transparency

The third building block of an effective approach to green budgeting is measures that promote accountability and transparency, facilitating impartial scrutiny of, and input to, the quality and completeness of assessments, processes and reporting.

The majority of OECD countries that do green budgeting take action to provide transparency and accountability for their green budgeting practice (13 out of 14 countries). The way in which green budgeting information is communicated tends to vary by country, with many selecting the “other” category (Figure 2.13). This includes countries like **Denmark** where a separate report is published highlighting the estimated effects on carbon emissions or the **Netherlands** and **Sweden** where information is presented as part of a set of objectives in relation to environmental quality or sustainable development.

Figure 2.13. Ways in which green budgeting information is communicated



*Note: Data not available for Israel and the United States.

Just two countries (**Italy and France**) publish a green budget statement. Green budget statements are typically statements that are published alongside the budget and provide 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.

The countries that publish green budget statements are **Italy** and **France. Italy** publishes two green budget statements (*Ecobilancio* and *Ecorendiconto*) where information and analysis of green expenditure and revenues, progress indicators and a qualitative narrative statement is presented. **France**, as referenced earlier in Box 2.8, publishes how the state budget (including expenditure and revenue) affects its green objectives.

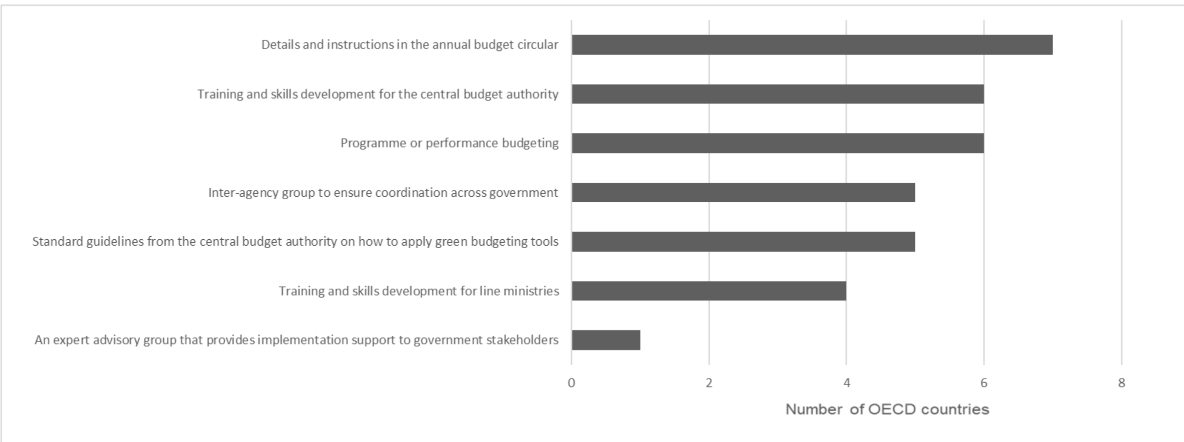
Building block 4: Enabling environment

The fourth and final building block to an effective green budgeting approach is a supportive enabling environment, helping to ensure efforts are sustained and improved over time. This includes key elements such as ensuring appropriate training and skills are in place, coordination mechanisms across multiple ministries and stakeholders, clear guidance for implementing green budgeting tools and a modern performance budgeting framework which enables the alignment of strategy, programmes and performance to the budget.

Within the OECD, the most common elements put in place to support the implementation of green budgeting are:

- Detailed instructions in the annual budget circular (**France, Italy, Luxembourg, Mexico, Norway, Portugal and Sweden**)
- Training and skills development within the CBA (**Austria, Canada, Colombia, Denmark, Mexico, and Portugal**)
- An inter-agency group to ensure coordination across the government (**Canada, Colombia, Denmark, France and Mexico**), as seen in Figure 2.14.

Figure 2.14. Enabling factors for green budgeting



*Note: Data not available for Israel and the United States.

These supportive elements are particularly important given how new green budgeting is in many countries. For countries like **France, Italy** and **Mexico** where green budget tagging has been introduced, central guidance has been instrumental in ensuring that there is a standardised and consistent approach. This guidance helps provide for the quality and validation of information tagged.

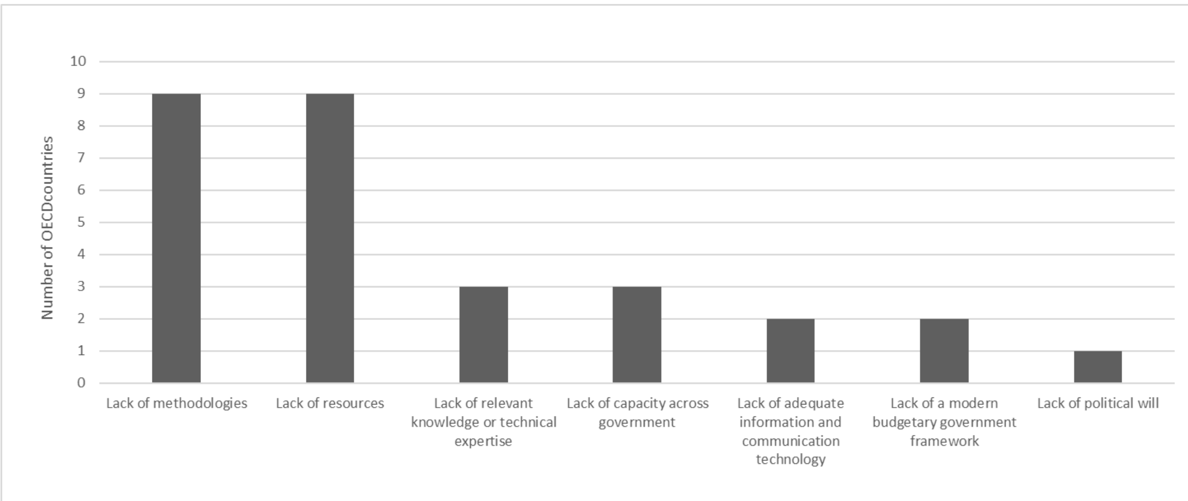
Existing practices for programme or performance budgeting are also identified as supportive of green budgeting. In **Mexico**, the country's longstanding efforts in modernising its budget towards a more programme and performance-based structure has provided a useful platform for green budget tagging. In **Austria**, likewise, the performance budgeting framework has provided a useful platform to incorporate tracking of progress towards green objectives.

Challenges in implementing green budgeting

The majority of OECD countries practicing green budgeting have noted a lack of methodologies and a lack of resources as two of the main challenges for implementing green budgeting (Figure 2.15). These are similar challenges as identified by countries not yet implementing green budgeting (Figure 2.2). For instance, one of the main challenges for considering and implementing green budgeting is the lack of methodologies for a coherent approach to green budgeting. This can be explained as countries are still working to identify approaches most suited to their national context. For example, there may not be existing identification of appropriate methodologies for assessing environmental effects, the identification of appropriate roles and responsibilities (e.g. CBA and Ministry of Environment) as well as a lack of capacity and resources in time and staff to effectively implement these efforts. In other cases, countries may be hesitant to implement an approach (at this time) mindful that over time there may be requirements introduced at the supranational level (e.g. European Union) to have some standard form of practice.

Across most OECD practices, countries plan to continuously iterate and adapt their methodologies over time. For example, countries like **France** and **Ireland** have plans to adapt their green budgeting efforts as capacity grows across the public administration and as the process becomes more normalised as part of the budget process over the coming years. This includes potentially inserting additional dimensions for analysis (e.g. negative expenditures and tax expenditures) or evolving the methodology to better-evaluate budgetary programmes where the environmental effects may not be clear (e.g. public housing and staffing budgets).

Figure 2.15. Main challenges implementing green budgeting

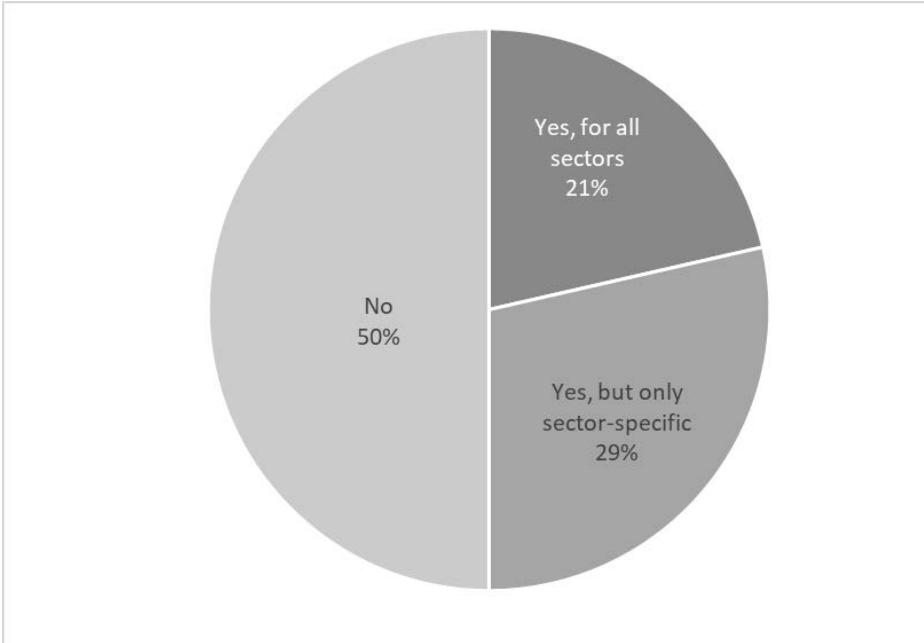


*Note: Data not available for Israel and the United States.

Impact of green budgeting

For green budgeting to improve its effectiveness overtime, it is important to examine the ways in which it is – or is not - delivering impact. **Half of OECD countries practising green budgeting (7 countries) have seen it have impact across some or all sectors, promoting an environmental perspective in policy development and resource allocation.**

Figure 2.16. Have green budgeting efforts been effective in promoting environmental perspective in policy development and resource allocation



*Note: Data not available for Israel and the United States.

In **Denmark**, where sector-specific impacts are observed, green budgeting has helped highlight the effectiveness of budget measures in addressing environmental priorities. In **Luxembourg**, green budgeting has helped to foster greater dedication across all levels of government to use the budget to address environmental objectives, bringing sector-specific improvements.

For countries where green budgeting has been effective in promoting an environmental perspective for all sectors, green considerations have become an integral part of the budget process, or have become mainstreamed in appraisals and evaluations applied across government. In **Sweden**, impacts across all sectors have been observed, green budgeting has improved the reporting of progress towards environmental goals, and provided greater transparency for Parliament (*Riksdag*). In the **United Kingdom**, the HM Treasury Green Book (Box 2.7) incorporates guidance to ensure analysis and quantification of energy use and emissions of greenhouse gasses (GHGs) on appraisal and evaluation in the central government. This has helped to improve the quality of the environmental assessment of proposals that have both a direct and indirect impact on energy use, generating improved evaluation of policies across all of government.

Half of OECD countries practising green budgeting have not observed its impact in promoting a clear green perspective in policy development and resource application. This is partly because green budgeting is still a very new practice in many countries. **Ireland** highlighted the need for green budgeting processes to grow and develop to generate greater interest and use by key stakeholders.

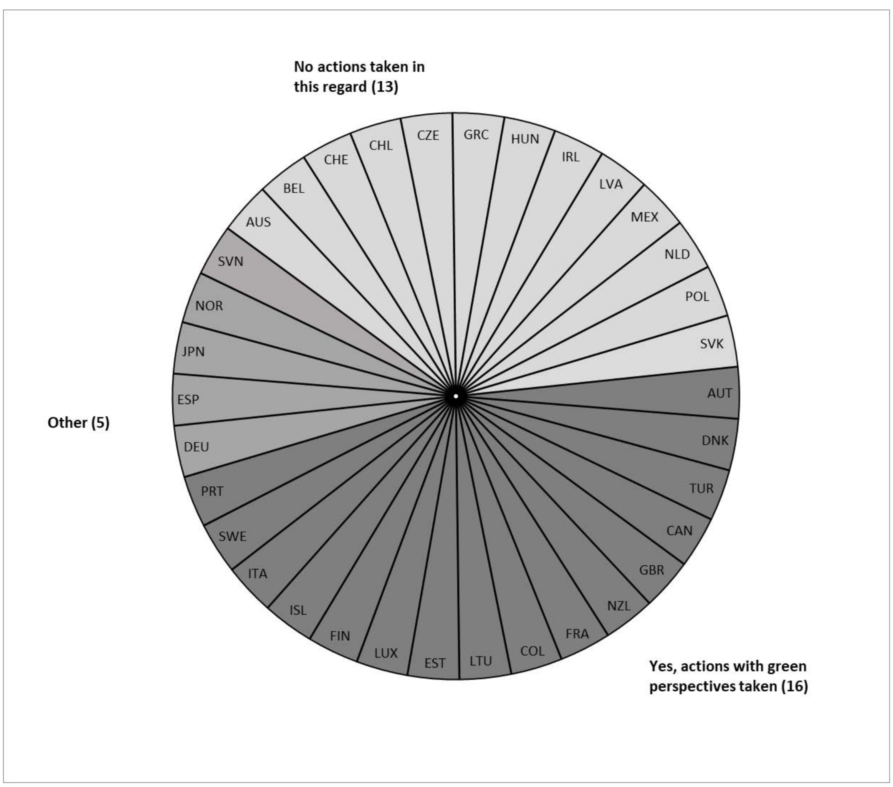
At present, only 3 OECD countries practicing green budgeting currently have tools or processes in place to measure the impact of their approach (**Colombia, Mexico** and **Sweden**). For example, **Sweden** has a Climate Policy Council which independently evaluates how government policy (including budget bills) is progressing against the country's green objectives. **Mexico** uses its performance evaluation system to monitor and evaluate the results and impact of measures supporting green objectives.

Some countries also noted challenges in identifying the actual impact of budget measures while others such as **Austria** and **Colombia** highlighted opportunities for improvement in the metrics and use of information for decision-making processes. Others, such as **Italy**, noted that challenges exist in generating sufficient interest in the information provided through green budgeting. It has seen limited engagement and discussion of information presented alongside the budget, citing the need for greater public perception of environmental objectives in discourse on public spending.

Green budgeting in COVID-19 recovery efforts

Recovery from the social and economic disruptions caused by the COVID-19 pandemic will require concerted policy action. As countries consider recovery packages, there are opportunities to prioritise green policy choices that help promote environmental objectives and speed up structural change towards the low-carbon transition, increasing society's resilience to future shocks and reducing future risks. Governments can use green budgeting to identify and prioritise investments that support a low-carbon recovery which can help to mobilise public resources towards transformative investments in line with achieving climate and environmental goals (OECD, 2020[7]). **Over half of OECD countries that have responded took actions to integrate green into recent COVID-19 rescue measures** (Figure 2.17).

Figure 2.17. Were actions taken to integrate green perspectives into recent COVID-19 rescue measures?



*Note: Data not available for Israel, Korea and the United States.
Note on "Other": In **Spain,** the Ministry of Ecological Transition has promoted a series of measures directly related COVID-19 (e.g. sanitary waste management), in **Germany,** the recovery included measures to facilitate structural transformation of the automotive industry and future-proof value chains, in **Slovenia,** the government has prepared the recovery plan to include green transition into its growth strategy, in **Japan**, recovery efforts included environmentally-responsive measures such as solar power generation facilities and high-performance ventilation equipment at public places, in **Norway** relevant government actions undergo considerations for environmental consequences.

Of the 20 OECD countries that took actions to include green perspectives within recent COVID-19 rescue measures[6], **8 countries utilised environmental impact assessment and 6 countries used green budget tagging**. Three quarters of countries (5 out 8 countries) that undertook *ex ante* environmental impact assessment for individual measures or the entire package of rescue measures had existing practices for these assessments embedded within the normal budget process. By comparison, just half of countries (3 out of 6) that used green budget tagging to integrate green perspectives into rescue measures had an existing practice.

Table 2.2. Recovery measures taken with green perspective

	Other	Ex ante Environmental Impact Assessments	Green Budget Tagging	Green conditionality	Ex post audit on support for national cliamte and environmental objectives	Published statement on how package supports green objectives	Training or capacity building	Support for subnational governments
Austria		•						
Canada		•		•				
Colombia		•	•					•
Denmark		•						
Estonia			•					
Finland	•		•					
France		•	•	•		•		
Germany	•							
Iceland	•		•					
Italy				•				
Japan	•							
Lithuania					•			
Luxembourg			•					
New Zealand		•						
Norway	•							
Portugal	•						•	
Slovenia	•							
Spain	•							
Sweden				•				
Turkey		•						
United Kingdom		•		•				
Total	**8**	**8**	**6**	**5**	**1**	**1**	**1**	**1**

Note: Represents reported measures taken as of end-June 2020

Four countries, corresponding to 20% of countries that incorporated green perspectives into rescue measures did this through attaching green conditionality to the measures. Examples include **Italy,** which offered tax credits for climate-friendly rebuilding and renovation to improve energy efficiency and the **United Kingdom,** where the Treasury required businesses requesting support (as last resort) to commit to ambitious conditions on climate change and the UK's Net Zero target of reducing net emissions. Another example can be found in **Canada** (Box 2.11).

Box 2.11. Canada's green conditionality measures for recovery response

Emergency measures to support the Canadian economy during the COVID-19 crisis included provisions to encourage the recipients to contribute to environmental and climate goals. The *Large Employer Emergency Financing Facility*, for example, provides bridge financing to Canada's largest employers to ensure continuity of operations. Recipient companies were required to commit to publishing annual climate-related disclosure reports, including information on how future operations will support environmental sustainability and national climate objectives.

Other actions taken to integrate green perspectives into rescue measures included offering training or capacity building, providing support to subnational governments to practice green budgeting and implementing specific environmentally responsive policies to address green goals. For example, in **Portugal**, specific training programmes on emerging skills related to energy and climate change were included in rescue measures to support employment and vocational training. In **Colombia**, guidance documents were provided to subnational governments to include environmental dimensions to development plans. In **Spain**, the Ministry of Ecological Transition included green measures, such as sustainable sanitary waste management processes, as part of the country's COVID-19 recovery efforts while in **Japan**, specific environmentally responsive measures, such as investments in solar power generation facilities, were put in place as part of the country's broader rescue measures.

40% of surveyed OECD countries did not incorporate green perspectives into recent COVID-19 rescue measures[7]. This may in part be because rescue measures required quick action focussed on communities and business most affected by the crisis. The primary focus for the initial rescue phase of the response has been on economic and household support.

Conclusions

Across most countries in the OECD, green budgeting is a new and evolving practice. As initiatives such as the *European Green Deal* by the European Union and other "Green" commitments come to the forefront of policy discourse, more countries are likely to adopt and adapt green budgeting practices to fulfil country commitments over the coming years. Early survey results show that countries lack the resources and appropriate methodology for implementing green budgeting. As countries work to identify the best approach for their national context, platforms such as the OECD Paris Collaborative on Green Budgeting can serve as a helpful forum to identify best practices and innovative approaches by bringing together country experiences and work-streams on climate and environmental policy. With green budgeting practices maturing over time, focussed research can be made on its effectiveness in promoting climate and environmental perspectives in policy development and resource allocation.

Glossary

Biodiversity/ecosystem services pricing: refers to adequately pricing the externalities associated with the use of biodiversity (covering species and ecosystems e.g. forests, wildlife, fish, wetlands, coral reef) and the ecosystem services they provide. This can be undertaken via policy instruments such as taxes (e.g. on pesticides and fertilisers), fees and charges (e.g. on hunting, fishing, and use of protected areas), tradable permits (e.g. on fishing, groundwater use), and environmentally motivated subsidies.

Carbon assessment of individual budget measures: An assessment of the estimated greenhouse gas (GHG) emissions associated with individual budget measures.

Carbon assessment of the budget as a whole: An assessment of the estimated greenhouse gas (GHG) emissions associated with the entire budget.

Carbon pricing instruments including fuel and carbon taxation, emissions trading systems: Putting a price on environmental externalities, such as greenhouse gas emissions, often through taxes and emissions trading systems, to facilitate achievement of national and climate goals.

Central Budget Authority: 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 within or is synonymous with the Ministry of Finance/Economy.

Climate considerations in long-term fiscal sustainability analysis: Including an assessment highlighting the long-term fiscal sustainability, “fiscal risk” and budgetary implications of potentially disruptive and transformative factors arising from environmental challenges, such as extreme weather events and/or gradual transformation of the environment due to temperature changes. For example, these can include reports highlighting fiscal costs related to climate change adaptation and mitigation policy measures.

Environmental audit or validation of the budget: An independent, objective ex-post analysis conducted within the budgetary process by a competent authority different from the central budgetary authority, of the extent to which environmental objectives are effectively promoted by the proposed policies set out in the annual budget and/or multiannual documents. This is typically conducted by the Supreme Audit Institution or possibly by Climate/Environmental watchdogs. Environmental Costs Benefit Analysis: The routinely application of cost-benefit analysis to projects or policies that have the deliberate aim of environmental improvement or are actions that affect, in some way, the natural environment as an indirect consequence.

Environmental effects in a country’s general tax expenditure report: A tax expenditure report that includes estimates of the size of tax expenditure and/or their environmental effects. Environmentally harmful expenditure: Expenditures which negatively impact the environment (i.e. brown expenditure)

Environmentally harmful subsidies: Subsidies that negatively (either intentionally or unintentionally) affect the environment. A regular review of these may include a report or catalogue that assesses subsidies (both fiscal expenditure and direct subsidies) concerning their environmental and financial impact on the state budget, and classifies them into environmentally harmful, friendly, uncertain or neutral subsidies.

Environmentally harmful tax expenditures: Tax expenditures that negatively (either intentionally or unintentionally) affect the environment. Environmentally harmful revenues: Revenues that negatively (either intentionally or unintentionally) affect the environment. Environmentally positive expenditure: Expenditure which positively affect the environment (i.e. green expenditure) Environmentally positive subsidies: Subsidies that positively (either intentionally or unintentionally) affect the environment. Environmentally positive tax expenditures: Tax expenditures that positively (either intentional or unintentional) affect the environment. Environmentally positive revenues: Revenue from environmental externalities and taxes that positively (either intentional or unintentional) affect the environment.

Ex-ante environmental impact assessments of individual budgetary measures: The assessment of budget measures in advance of their inclusion in the budget to ensure environmental and climate implications of decisions are taken into account. Such ex ante environmental impact assessment (EIA) may be conducted either routinely for all policies, or selectively (e.g. for policies which are likely to have significant impact on the environment or climate). Budget measures include measures on expenditure and revenues (i.e. taxation). Ex-ante green budget tagging: The tagging of budget measures in advance of budget execution (i.e. as part of the budget proposal, draft budgetary plans or also budget law) to inform the budget's relevance and contribution to environmental and climate objectives. Expenditure on adaptation measures: Expenditures that aim to reduce the adverse consequences of climate impacts. Expenditure on mitigation measures: Expenditures that aim to reduce greenhouse gas (GHG) emissions.

Ex-post environmental impact assessments of individual budgetary measures: The assessment of budget measures after their introduction/implementation to assess their impacts on the environment and climate. Such *ex post* EIA may be conducted either routinely for all policies, or selectively to specific policies related to the environment and climate (e.g. for policies which are likely to have had an impact on the environment). Budget measures include measures on expenditure and revenue (i.e. taxation). Ex-post green budget tagging: The tagging of budget measures after final allocation and/or execution of budget measures to inform the budget's relevance and contribution to environmental and climate objectives.

Green balance sheet: A balance sheet to report assets and liabilities in relation to natural resources and the environment at large as well as to assess whether environmental policies affect the public sector's financial position. This could also include attempts at capturing the government´s natural capital stock.

Green budget statement (GBS): A statement accompanying the annual budget that illustrates in a concise manner whether and to what extent the government's budget moves a country closer to the achievement of its environmental objectives. The GBS may include a narrative (qualitative) statement summarising in broad narrative terms how the range of measures introduced in the budget are intended to support environmental priorities and objectives, information on green expenditure and revenue or a progress report in relation to established environmental indicators and objectives. Green budget tagging: The identification and tracking of budget measures in accordance to their environmental and/or climate impact. The scope of tagging can include relevant expenditures and revenues that have direct or indirect effects on the climate and environment.

Green budgeting: Using the tools of budgetary policy-making to help achieve environmental and climate goals. This includes evaluating environmental impacts of budgetary and fiscal policies and assessing their coherence towards the delivery of national and international commitments. Green budgeting can also contribute to informed, evidence-based debate and discussion on sustainable growth.

Green perspective in performance setting or performance budgeting: Requirements prescribing that a minimum proportion of budget-related performance objectives be linked to environmental policies.

Green perspective in spending review: Incorporating consideration of the impact of budgetary measures on national environmental and climate goals alongside considerations of efficiency during the spending review process. For example, including environmental and sustainability criteria as a distinct dimension of analysis in spending review.

ICT (Information Communications Technology): Refers to information technology equipment (computers and related hardware), communications equipment, and software (Financial Management Information Systems).

SDG budgeting: The systematic application of analytical tools and processes, as a routine part of the budget process, in order to highlight the degree of implementation of the SDGs and to inform, prioritise and resource SDG-responsive policies.

Shadow price of carbon to evaluate public policies and investment: Adding a price on greenhouse gas (GHG) emissions to programmes and investments to help assess the social value of policies in relation to the achievement of climate goals. Statistical green tagging/reporting: The use of international statistical classifications of expenditures and finance. Possible standards include CEPA, CReMA, COFOG, SEEA, EU Taxonomy for sustainable activities, OECD Inventory on Fossil Fuels, OECD ERTR, OECD Rio Markers (ODA).

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Notes

[1] Survey reflects green budgeting practices that were either under implementation or planned as of end-June 2020

[2] Note, the European Commission will also be publishing a separate report with results specific to EC countries.

[3] New Zealand's Wellbeing Budgeting approach does not use specific green budgeting tools commonly seen across the OECD. The Environment is categorised as a Natural Capital as part of the country's wellbeing approach.

[4] For example, in Finland, green budget tagging approaches comprise of a "lighter" form of tagging where only specific budgetary programmes contributing to green objectives were reviewed and identified. For standardisation and consistency with other OECD country practices, the survey only included instances of green budget tagging where the review was comprehensive across all areas of the budget. As Finland has only reported budget tagging as its main tool and approach to green budgeting and as we did not consider the country's tagging approach as consistent with other OECD practices, it was categorised as not practicing green budgeting.

[5] The survey results do not capture practices of green budgeting at lower levels of government if there is not an existing practice at the central level. As such, not all subnational practices are likely to have been reflected in the survey data.

[6] Measures taken before period of survey (as of end-June 2020)

[7] Measures taken before period of survey (as of end-June 2020)

Green Budgeting in OECD Countries

Climate and environmental considerations have become pressing priorities for governments in recent years. International commitments such as the Paris Agreement, the Aichi Biodiversity Targets under the Convention on Biodiversity (CBD) and the Sustainable Development Goals (SDGs) have spurred momentum across the OECD to prioritise green objectives to policy-making processes. As these efforts require systematic considerations across all parts of government, countries have identified the budget process as playing a key role in ensuring that priorities relating to the environment and climate change are part of the policy-making process. Thus, there has been an emergence of “green budgeting” practices across the OECD.

Countries use green budgeting as a tool of budgetary policy making to provide policy makers with a clearer understanding of the environmental and climate impacts of budgeting choices, while bringing evidence together in a systematic and co-ordinated manner for more informed decision making to fulfil national and international commitments. This publication presents the findings from the first survey on green budgeting across OECD countries and provides information on the extent to which countries have the key elements of an effective approach to pursue environmental and climate priorities.

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