



# Compendium of Financial Instruments for Subnational Climate Action in OECD and EU Countries: Analysis

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Between October 2020 and June 2022, the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) and the European Commission (DG REGIO) collaborated on the joint project “*Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries*”. The project comprised three pillars of work: subnational government climate expenditure tracking, subnational government climate revenue tracking, and subnational green budgeting. This paper presents an analysis of the data collected within the Compendium of Financial instruments for Subnational Government Climate Action in OECD and EU Countries, the key output of the second pillar on subnational government climate revenue tracking. This Compendium catalogues some climate-related public revenue sources (grants, loans, funds, contracts, etc.) available to subnational governments in OECD and EU countries. The results of this qualitative analysis shed light on the diversity of climate-related revenue sources available to subnational governments as well as the gaps that exist, providing evidence for recommendations on how, and at what level (state, regional, municipal, etc.), additional climate finance resources should be mobilised. The Compendium is available as an interactive dashboard on the new [Subnational Government Climate Finance Hub](#).

Suggested citation: OECD (2022), *Compendium of Financial Instruments that Support Subnational Climate Action in OECD and EU Countries*, <https://www.oecd.org/regional/compendiumsubnationalrevenue.htm>

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# 1

## How much and from who: Compendium Analysis

This compendium lists 311<sup>1</sup> public sources of funding, herewith referred to as instruments, that subnational governments (SNGs) can mobilise to fund climate-related activities. Only instruments provided by central governments (unitary countries), federal and state governments (federal countries), or government owned banks are included in the compendium. Instruments were found for 41 OECD and EU countries (8 federal and 33 unitary), plus the European Union. Research did not identify any currently available climate-related funding instruments provided by central governments for subnational governments in Colombia, Cyprus, and the Netherlands. A full list of the instruments can be found in Annex C.

Based on an analysis of the compendium, federal countries tend to have more climate-related instruments available for subnational governments (13.5 per country on average) than unitary countries (5.5 per country on average). The degree of decentralisation, in particular the degree of devolution of environment and climate competences to subnational governments also appear to be key factors contributing to the number and diversity of funding instruments available to subnational governments. This can be exemplified by comparing Italy and Turkey, two unitary countries with two tiers of subnational governments, but with a large difference in the number of climate-related instruments provided to subnational governments (11 in Italy, and one in Turkey). In Italy, there is a relatively high level of decentralisation, and Italy's subnational governments have important spending responsibilities in climate-related policy domains, such as transportation, energy, waste management, and agriculture. In comparison, Turkey is more fiscally centralised and within the environmental governance system, the national government exercises most of the powers. As a result, Turkish subnational governments have few climate-related spending responsibilities and therefore there is less scope for instruments to fund subnational climate action in Turkey. Regarding the diversity funding instruments available to subnational governments, a general trend of more decentralised and more populous countries providing greater diversity in instruments was noted.

Earmarked grants and funds are by far the most common type of climate-related funding instruments available for subnational governments in the OECD and EU that was identified for the Compendium. In many cases, earmarked grants are used to provide funding to sub-programmes of climate funds that manage a pool of financial resources. However, it is also possible that grants are a stand-alone funding instrument that are not part of a larger fund. The grants identified in the compendium vary considerably in how constrained the use of the funds is. It is important to keep a certain degree of flexibility in how grant funds can be used to allow for subnational governments to implement projects relevant to their local climate adaptation and mitigation needs. Overly restricting the use of grant funding can lead to an inefficient use of funds and hinder the low-carbon investments needed to ensure a carbon-neutral transition.

Loans and contracts are two less common climate-related instruments available to subnational governments from higher levels of government. The compendium includes 34 loan instruments, all of which are available to municipalities, and eight contract instruments, three of which are in Canada and the rest are in European countries (Belgium, France, Denmark, Sweden and Switzerland). Intergovernmental

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<sup>1</sup> Updated as of June 2022.

contracts can help foster place-based, long-term action for reaching climate objectives and have been used in France, Italy or the Netherlands for decades. All the contracts included in the compendium include a funding element. France in particular has a long-standing practice of contractual arrangements, which in recent years have incorporated environmental and climate priorities (

### **Box 1.1. The use of intergovernmental contracts in France**

#### **State-Region Planning Contracts**

In France, the State-Region Planning Contracts (Contrat de Plan Etat-Region - CPER) launched in 1984 have played a critical role in supporting the convergence of financing in favour of structuring projects for the development of the territory, as well as the coherence of public policies based on a shared strategic vision for each region. The new generation of CPER that covers 2021-2027 supports the ecological transition, among other objectives, in close coordination with the 2021-2027 EU funds and the 2021-2022 French Recovery Plan.

#### **Recovery and Ecological Transition Contracts**

In 2020, France introduced Recovery and Ecological Transition Contracts for inter-municipal cooperation bodies (*Contrat de relance et de transition écologique* - CRTE). These contracts last from 2020 to 2026 and provide a framework for the territorialisation and coordination of a range of public policies that as a whole contribute to the challenges of territorial cohesion and the ecological transition. The priorities of the contract are defined locally and agreed upon with the State. IMCs can access funding for the projects in the contracts from a variety of sources including the Local Investment Support Grant (DSIL), EU funds, State government ministries implicated in the contract, and the private sector

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Source: (Agence nationale de la cohésion des territoires, 2020<sup>[1]</sup>; Ministère de la cohésion des territoires et des relations avec les collectivités territoriales, 2021<sup>[2]</sup>)

Several European countries rely heavily on European Union funds to encourage climate action at the subnational level (

### Box 1.2. The EU system of fiscal instruments available for subnational governments to implement climate-related actions

The European Union currently has at least 22 instruments in place that subnational governments can take advantage of to fund climate mitigation and adaptation actions. They can be divided into two main categories: instruments that subnational governments access indirectly depending on the national use of European funds and instruments that subnational governments can access directly without intermediary.

Examples of the first type of instruments, indirectly accessed by subnational governments, include the Recovery and Resilience Facility, the Common Agricultural Policy Funds, the Modernization Fund and the Cohesion Fund. These funds generally benefit subnational governments but their distribution at the national level depend on national plans proposed by EU countries to the European Commission before approval. Hence, national governments can submit projects that will allow subnational governments to act at their level.

The second type of instrument is the most common and groups funds to which different subnational entities can apply. Examples of these type of instruments include the Environment and Climate Policy Program (LIFE), the Connecting Europe Facility (CEF), the Invest EU Programme, Horizon Europe, or the Just Transition Mechanism.

The EU also provides climate-related funding through its Pre-Accession Assistance Environment Operational Programme to countries undergoing accession to the EU. This instrument is available to subnational governments in Turkey.

Source: Author's compilation based on the data in the compendium.

1.2). The EU Cohesion Fund and the Modernisation Fund in particular are highly relied upon by some Member States (e.g. Czech Republic, Latvia, and Lithuania) to fund subnational climate action. The Modernisation Fund, in particular, is a dedicated funding programme to support 10 lower-income EU Member States in their transition to climate neutrality by helping to modernise their energy systems and improve energy efficiency. Post-COVID recovery and stimulus plans also constitute a significant source of funding for subnational governments in EU and most OECD countries. The majority of stimulus packages that have been introduced since 2020 include climate change as a key investment priority. In the EU, 37% of the EUR 672.5 billion Recovery and Resilience Facility (RRF) is to be allocated to climate-related actions. Subnational governments' access to the RRF is based on national Recovery and Resiliency Plans and whether funding for subnational governments is included in these plans. National governments submit plans to the European Commission for approval and RRF funding is then distributed within a country in accordance with these plans. In Italy, for example, the National Recovery and Resiliency Plan (*Piano Nazionale di Ripresa e Resilienza*) received RRF funding and included six instruments targeted to subnational governments. In France, the "*France Relance*" plan, endowed with a budget of EUR 100 billion over two years, allocates 30% of its resources to the ecological transition and funds seven climate-related instruments benefitting subnational governments. In the United States, both the American Rescue Plan and the Bipartisan Infrastructure Investment and Jobs Act allocated funds to climate-related expenditure and investments at the subnational level.



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An analysis of the compendium based on the sectors that instruments are targeted to, shows that the energy and buildings sectors are the two most common sectors receiving funding in OECD and EU countries. Out of 311 instruments, 40% list energy projects as eligible for funding (renewable energy development, energy efficiency upgrades, etc.). Similarly, more than one-third of the instruments target the buildings sector. Conversely, less than a tenth of the instruments in the compendium address information and communications technology (ICT) infrastructure or air quality. Canada for example, has three instruments funding ICT (among other sectors), one of which is the Rural and Northern Communities Infrastructure Stream of the federal government's Investing in Canada Infrastructure Programme. Countries in Eastern Europe with a historical reliance on fossil fuel energy sources, including Bulgaria, Czech Republic, and Estonia, have a higher share of instruments targeted at air quality compared to other OECD and EU countries.

In both federal and unitary countries, municipalities are the most common beneficiary of climate-related funding instruments. Unique national demographic, geographic, and historical contexts also influence which kinds of subnational governments are targeted. For example, in Canada, Mexico and the United States, there are climate-related instruments specifically targeted to Indigenous communities. Interestingly, this is not the case in Australia and New Zealand, two other OECD countries where Indigenous communities are a prominent form of subnational government. Among EU Member States, particularly unitary ones, it was noted that a large number of climate-related instruments were targeted to inter-municipal cooperation bodies (IMCs). For example, in France 46% of instruments available to subnational governments specifically targeted IMCs, while in Portugal this number rises to 83%. This could reflect the importance of IMCs in delivering climate-related services in those countries, such as water distribution, wastewater treatment, and waste management.



The diversity of public actors providing funding instruments to subnational governments within a country varies considerably between countries, but a general trend noted was that countries with larger populations and a higher level of spending decentralisation tend to have greater variety in terms of public entities providing support to subnational governments for climate action. In France, eight different organisations, such as government ministries, government agencies and specialised public financial institutions provide climate-related funding for subnational governments, from various levels of government, including the central government but also regional and departmental governments. Similarly, in the United Kingdom where 10 instruments were identified, five different public entities are providing and managing these instruments.

## References

Agence nationale de la cohésion des territoires (2020), *Contrat de relance et de Transition écologique*, <https://agence-cohesion-territoires.gouv.fr/crte> (accessed on 27 April 2022). [1]

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