



GREEN BUDGETING

10th OECD-Korea International Policy Forum on Budgeting
29-30 September 2022, Paris



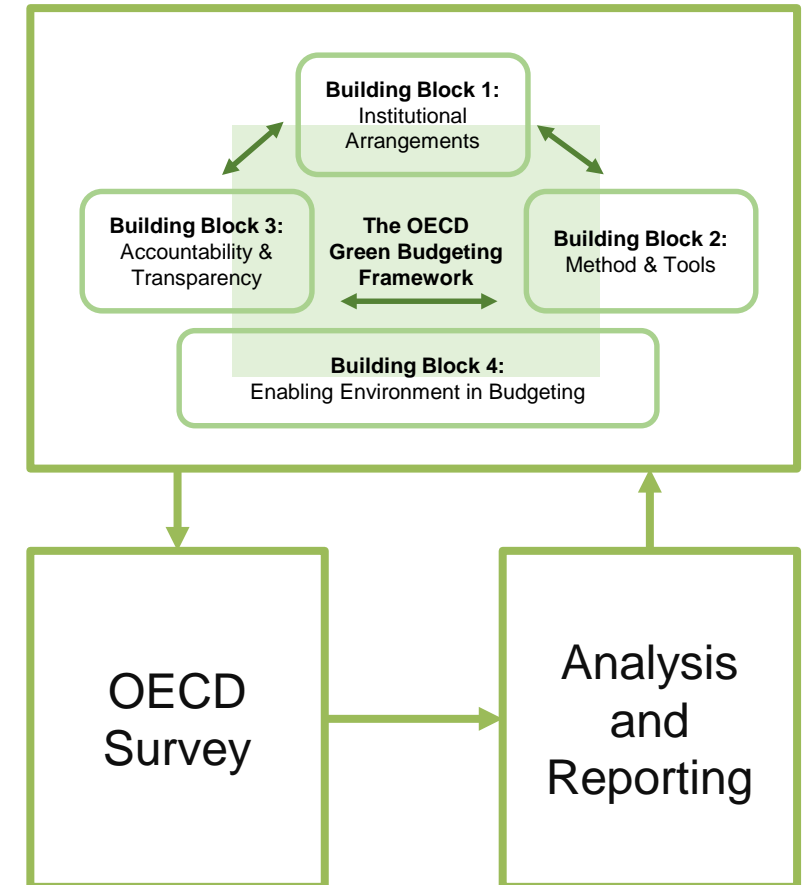
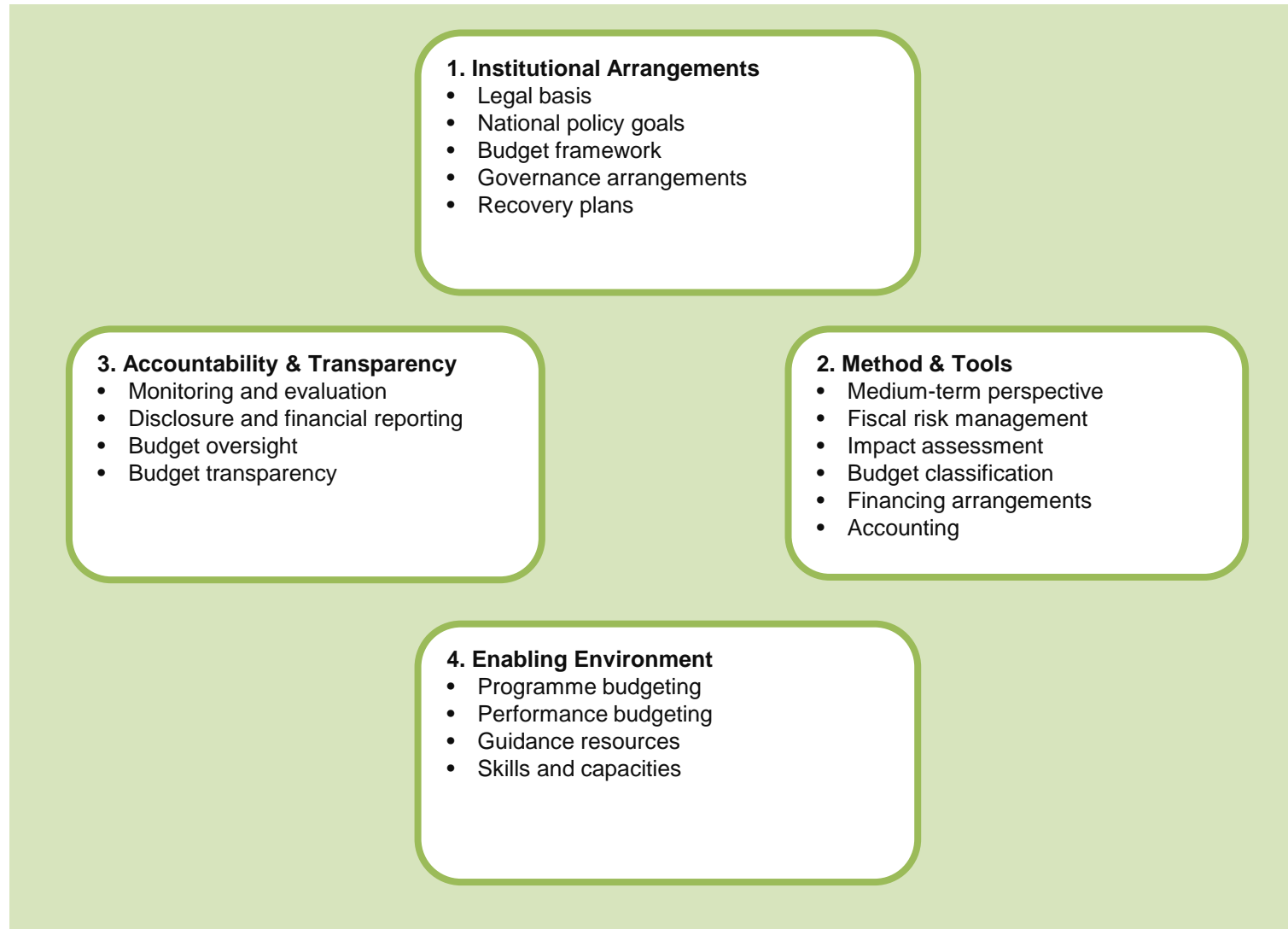
Outline

1. Defining Green Budgeting
2. Observations
3. Implications from OECD country experiences
4. Related considerations
5. Concluding comments





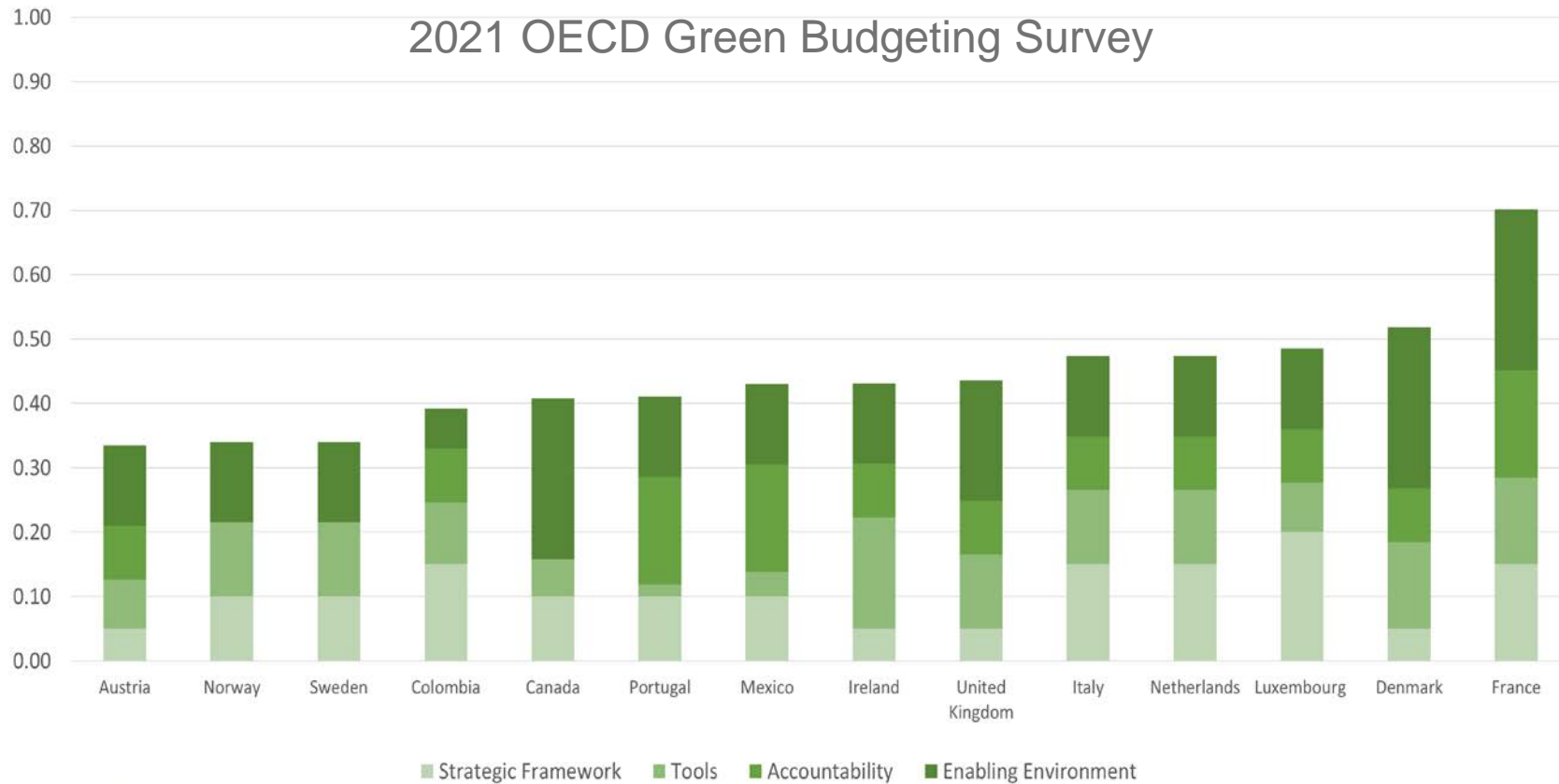
Defining the green budgeting





Major developments in in green budgeting

2021 OECD Green Budgeting Survey

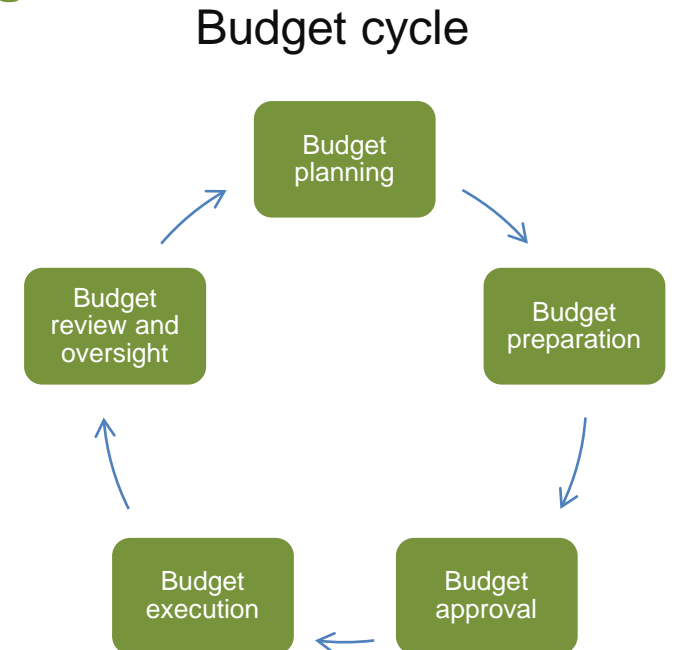


- National plans and strategies
- Development of methods and tools
- Funding initiatives
- Capacity-building initiatives
- Developments on standards



Observations from OECD countries

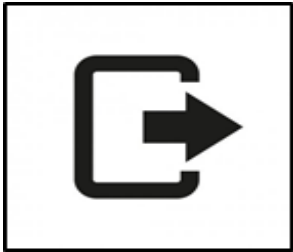
1. The quality of green spending proposals vary and **'green-washing'** continues; but appraisal tools in budgeting are improving.
2. There is a greater focus on **emission profiles** including from carbon budgets and Nationally Determined Commitments.
3. Expenditure decisions are focusing on **adaptation** as well as mitigation, but data is limited.
4. Green budgeting is being integrated into all stages of the **budget cycle**
5. Cross-governmental **co-ordination** on green budgeting is increasing: key actors include ministries of finance in conjunction with ministries of climate change and environment.
6. **Institutional arrangements** are evolving: Independent fiscal institutions and accounting standard setters are playing a greater role.





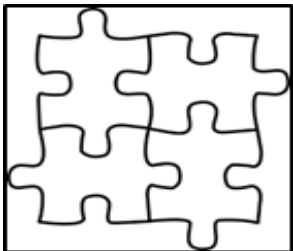
Implications from OECD country experiences

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



- Climate and environmental objectives are result-based.
- OECD countries use result-based approaches in budget frameworks
 - performance budgeting
 - output-based appropriations.

2. Integrate green impacts into all governmental policies



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



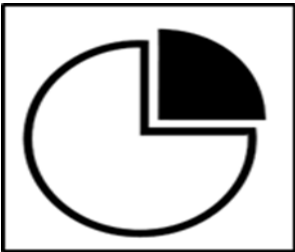
Implications from OECD country experiences

3. Co-ordinate climate and environmental commitments and budgets



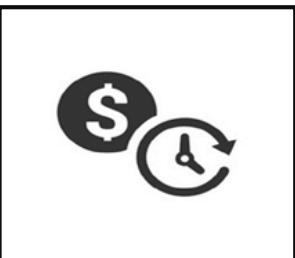
- Governments enter multiple commitments on climate change, which can have implications for the budget (Paris Agreement, national strategies).

4. Apply a consistent basis to prioritising reforms on climate and environmental objectives



- Budgeting relies on clear frameworks and consistent criteria to inform prioritisation and decision making.

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



- Many OECD countries have introduced carbon taxes, sovereign green bonds, special-purpose funds for climate and environmental objectives, which may require new approaches in the co-ordination of decision-making in budgeting.



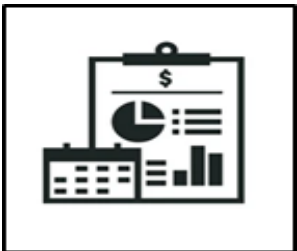
Implications from OECD country experiences

6. Leverage existing budgetary frameworks to implement green budgeting



- Green budgeting integrates climate and environmental perspectives into existing budgetary frameworks, including performance budgeting, fiscal risk management, and Medium-term budgeting
- Green budgeting is relevant to oversight institutions, such as independent fiscal institutions and standard setters.

7. Strengthen accountability and transparency when implementing green initiatives



- Government ministries and agencies are accountable for public expenditure through planning, execution, monitoring, and reporting.
- Ministries of finance prepare guidance, e.g. administrative circulars on current and capital expenditure
- Updating the guidance can help ensure climate and environmental considerations are explicitly included in the departmental accountabilities



The relevance of climate adaptation is increasing

- To date, inadequate resources have been allocated to climate adaptation relative to climate mitigation initiatives.
 - Estimates of the expenditure needed for climate adaptation are around USD 300 billion by 2030.
- Many OECD countries have adopted carbon taxes and issued green bonds.
 - Funding frameworks allow for some flexibility in the use of funds for climate mitigation and/or adaptation reforms.
- Adaptation challenges include the coverage of climate-response strategies, green washing inflating estimates, and the measurement of costs and benefits.

Budgetary responses

- **Planning:** Climate Adaptation Plans. (Korea)
- **Funding:** Allocating funding sources for climate mitigation and adaptation purposes. (New Zealand)
- **Appraisal:** adapting cost-benefit models to allow for the cost of carbon over the medium term, and the estimate demand implications. (Ireland)



Related considerations in budgeting

- **Circular economy**
 - Eliminating waste and pollution, keeping materials in use, regenerating nature.
 - Instruments: National strategies, roadmaps, guidance, monitoring, and reporting.
 - Leading examples: France, Ireland, Netherlands, and Spain.
- **Sustainable development**
 - 7 of the 17 Sustainable Development Goals relate to climate and the environment
 - Instruments: SDG Budgeting
 - Leading examples: Colombia and Mexico.
- **Just transition**
 - Supporting a green transition with structural reform in labour markets through retraining, relocation and other initiatives to ensure an effective, adaptive and sustainable workforce.
 - Instruments: Public employment and management reform.
 - Leading examples: Australia and Canada.

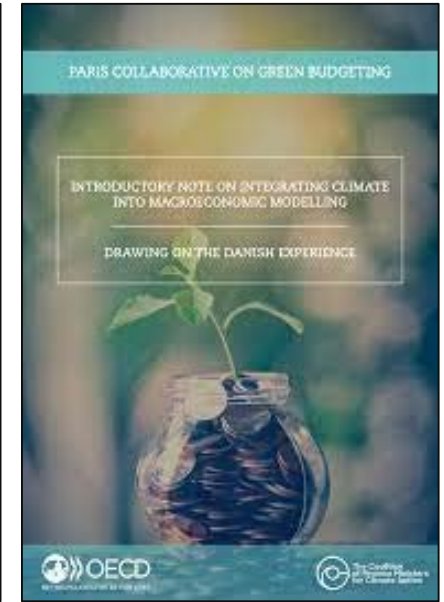
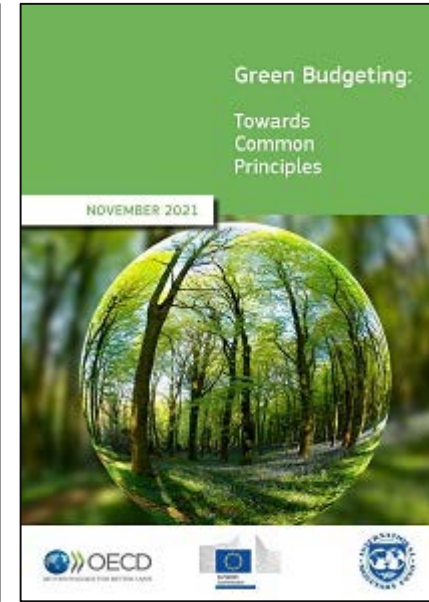
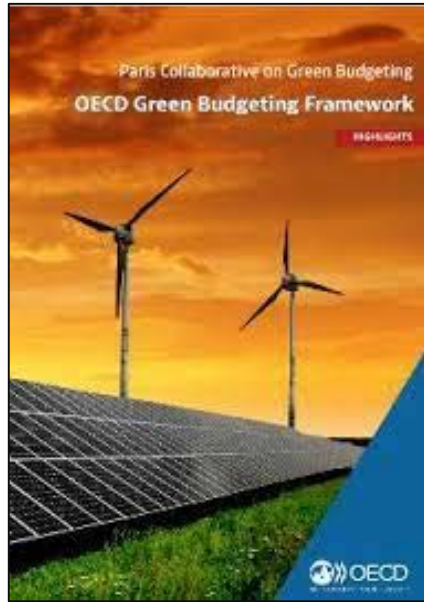


Concluding comments

- Climate change goals are ambitious – reflecting the scale of the ‘climate emergency’. National and multilateral responses call for increasing levels of ambition in climate plans are to give effect to the goals.
- Many countries are not yet on track to achieve their climate goals, but preliminary findings from the OECD 2022 Green Budgeting Survey indicates there are positive signs of governmental action in budget reforms through planning, financing, appraisal, measurement and reporting.
- Countries with advanced practices in green budgeting are mainstreaming climate into budgetary processes; ensuring climate considerations are part of departmental accountabilities; and consider the social as well as economic impacts of climate-related reforms.
- The number of institutions in government with an interest in green budgeting is increasing, which can influence the work of a ministry of finance: government too needs to reach a net-zero position in line with national climate goals.
- The seven key areas in this paper identify developments where OECD countries are taking steps to maximise the value from green budgeting practices.



OECD Resources and publications



www.oecd.org/gov/budgeting
www.oecd.org/environment/green-budgeting