

Executive summary

Fiscal policy is one of the most powerful and effective tools that policy makers have at their disposal for resourcing and implementing co-ordinated policy action to address climate change, biodiversity loss, and environmental degradation. This new study, part of a joint OECD-European Commission project on “*Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries*”, looks at the potential of green budgeting for subnational governments to help achieve environmental and climate objectives.

At the national and subnational levels, green budgeting is a relatively new area of research and practice in many OECD countries, which received a strong boost in 2017 with the establishment of the OECD Paris Collaborative on Green Budgeting (PGCB). The interest in green budgeting has been accentuated at all levels of government by the push for a post-pandemic green recovery, and the accompanying need to identify and prioritise green investments.

Green budgeting is defined as “using the tools of budgetary policy making to help achieve environmental and climate objectives”. It is a concrete, practical tool that governments can use to mainstream climate and environmental action within budgetary decisions and broader policy making, and to monitor progress towards achieving environmental and climate goals, a central objective of the Paris Agreement.

Green budgeting is particularly relevant for regional and local governments given the important role they play in tackling climate change and catalysing the transition to a carbon-neutral economy. Regions and cities have jurisdiction over key policy areas relevant to the transition and play an important role in catalysing the green transition through their spending, investment, and revenue raising decisions. Indeed, all spending decisions have an environmental and climate impact, be it positive, neutral or negative. Subnational governments can use green budgeting to align their fiscal policies with their green objectives by identifying, quantifying, and tracking their impacts to inform the budgetary and policy decision-making processes.

Green budgeting presents several opportunities for subnational governments. Initiating a green budgeting approach can align financial decisions with environmental and climate goals. Green budgeting also helps governments prioritise low-carbon and resilient investment projects and spending. Green budgeting tools can also assist subnational governments to mobilise additional sources of public and private finance to bridge funding gaps and help respond to a growing demand for transparency and accountability in subnational government public action.

However, adopting a green budgeting approach also poses several challenges for subnational governments that can fit into four broad categories: methodological, operational, resource, and political challenges. A key methodological challenge is the lack of proven methodologies adapted to the specific budgeting contexts of subnational governments. Resource challenges can be further categorised into human and financial resources challenges. A key operational challenge that subnational governments may face in implementing a green budgeting practice is establishing a dedicated organisational structure based on horizontal co-ordination amongst departments. Ensuring sustained, high-level support for green budgeting from both administrative and elected officials, involving territorial stakeholders (citizens,

businesses, partners, etc.) and reconciling social and green objectives are key political challenges. The last challenge is the need for a green budgeting practice to continue over time and not become a one-off exercise.

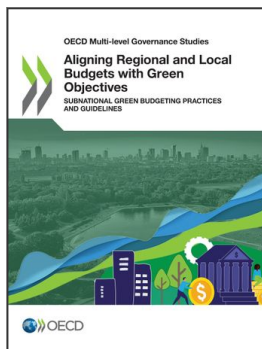
Green budgeting is not a silver bullet and is one of several tools that subnational governments have at their disposal, such as regulatory policies or environmental and land-use planning tools. Green budgeting is most effective when it is used in combination and co-ordination with these other actions.

There is no one-size-fits-all approach to green budgeting. This is particularly true for the subnational level because budgeting and accounting systems differ substantially from one country to another and across levels of subnational governments. A stocktake of existing subnational green budgeting practices in OECD and EU countries found that green budgeting encompasses a variety of practices including carbon budgets, ecoBudgets, climate budgets, environmental and climate impact analyses, green budget tagging, and more. Despite this heterogeneity, it is possible to identify some common features among existing practices.

Among the countries identified in the stocktake as having subnational green budgeting exercises, France stands out for having a large number of green budgeting exercises at all levels of subnational government: regional, departmental, and municipal. Other interesting exercises were identified in Austria, Italy, Norway, Spain and the United Kingdom. At the regional level, there are a variety of green budgeting methodologies being used. For example, the French region of Brittany started a green budgeting process to tag expenditure according to its positive or negative impact on regional climate adaptation and mitigation objectives, an exercise that has highlighted the challenges in implementing green budgeting as well as the elements necessary to achieve success. In contrast, at the municipal level, most municipalities, regardless of the country, were found to have based their green budgeting practice on one of two methods: the climate budgetary assessment (climate budget tagging) or the climate budget approach (a climate governance system that integrates emissions impact assessments of proposed and adopted expenditure items into decision-making processes). The case study of the city of Venice shows that there is a great interest in developing new budgeting practices and better linking climate science and related indicators with budgetary decision-making processes, although the city faces considerable challenges in doing so, that need to be overcome through increased financial and technical support.

The OECD has developed a set of six guidelines for regions and cities to use in developing and launching their own subnational green budgeting practice. The purpose of these guidelines, which are accompanied by recommendations for supranational bodies, national and subnational governments and a self-assessment tool, is to help subnational governments, regardless of their type, level of responsibility or their size, to put in place the conditions necessary to launch or strengthen a green budgeting practice, and ensure it endures over time.

- **Guideline 1:** Conduct a diagnostic of local environmental and climate challenges as a prerequisite to launching a green budgeting practice.
- **Guideline 2:** Ensure strong, high-level involvement and support from both the administrative and elected sides of government.
- **Guideline 3:** Ensure the practice has a robust, shared scientific basis to facilitate public trust and ensure the practice can adapt to changing scientific evidence.
- **Guideline 4:** Adopt a step-wise approach to implementing green budgeting in order to learn from previous steps and reinforce the alignment of the practice with local strategic priorities.
- **Guideline 5:** Integrate the green budgeting practice into existing public financial management procedures and tools to help ensure the practice endures.
- **Guideline 6:** Include revenues within the scope of the green budgeting practice to ensure the entire budget aligns with green objectives.



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