

Green budgeting to support a green recovery

The COVID-19 pandemic has led governments to take unprecedented fiscal policy action as an immediate emergency response to support public services, households and businesses. Existing challenges from climate change and environmental degradation have mobilised governments to address national and international green objectives in the recovery period. These recovery packages can help increase resilience to future shocks and reduce risks, including those related to climate change, while also helping to finance the extraordinary expenditure associated with recovery from the pandemic through cost-effective approaches and investments.

Green budgeting can help facilitating the design and implementation of green recovery packages. A recent joint OECD-EC survey found 21 out of 34 OECD countries (62%) had taken actions to integrate green perspectives into recent COVID-19 rescue measures (Figure 5.4). The most commonly adopted measures are environmental impact assessment of budget measures (8 out of 21, 38%), green budget tagging (6 out of 21, 29%), attaching green conditionality to the use of recovery funds (5 out of 21, 24%), and publishing a green budget statement to show how the recovery package supports national green objectives (1 out of 21, 5%) (Table 5.5). Looking ahead, by June 2020 a majority of the OECD countries responding (24 out of 35, 69%) were planning actions to integrate green perspectives into their forthcoming recovery packages, ranging from plans to use environmental impact assessments to attaching green conditionality to support measures and providing support for sub-national governments to practise green budgeting.

Green public spending can support the recovery, but there may be trade-offs between environmental, economic and social goals. Even recovery packages with a large green component commonly also include a substantial share of traditional spending to address other social and economic priorities. Carbon pricing and related tax policy tools can ensure that stimulus policies that are not explicitly green are nevertheless aligned with green objectives. By increasing the cost of carbon-intensive assets, carbon pricing will steer investment and consumption towards low-carbon alternatives while still serving as a tool to restore public finances and augment tax revenues (OECD, 2020).

As countries look to a green recovery, well-communicated spending and tax policy choices that look at the long-run benefits for wellbeing, environmental protection and resilience to climate and future shocks can serve to raise greater public awareness and support for a green transition (OECD, 2020).

Methodology and definitions

Data are drawn from the 2020 OECD and European Commission Joint Survey on Emerging Green Budgeting Practices, encompassing responses from

35 OECD countries and Romania. Respondents were predominantly budget officials within central budget authorities. Responses represent the country's own assessment of current practices and procedures. Data refer mainly to central/federal governments and exclude the sub-national level. For the purpose of standardisation and consistency, the survey considered existing practices or planned as of end-June 2020. The full dataset also includes other member states of the European Union, which are not shown here.

Green budgeting refers to the use of budgetary policy-making tools helping to achieve environmental and climate goals. This includes evaluating the environmental impact 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.

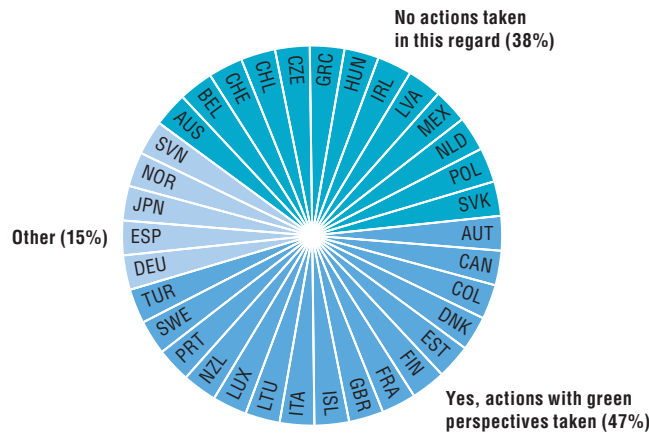
Further reading

OECD (2020), "Green budgeting and tax policy tools to support a green recovery", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, <https://doi.org/10.1787/bd02ea23-en>.

Figure notes

- 5.4 and 5.5. Data for Israel, Korea and the United States are not available. Romania has not taken actions to integrate green perspectives into COVID-19 measures.
- 5.4. Main reasons not to integrate green perspectives into early COVID-19 recovery measures were to focus on other areas such as containing the virus and supporting the health system, economy, and vulnerable businesses and individuals. Under "other", in Germany, the recovery includes measures to facilitate structural transformation of the automotive industry and future-proof value chains; in Japan, efforts included environmentally responsive measures such as solar power generation facilities and high-performance ventilation equipment in public places; in Norway, relevant government actions undergo consideration of environmental consequences; in Slovenia, the government has prepared the recovery plan to include green transition into its growth strategy; in Spain, the Ministry of Ecological Transition has promoted a series of measures directly related to COVID-19 (e.g. sanitary waste management).
- 5.5. Based on countries that integrate green perspectives into COVID-19 recovery measures or other type of strategy. Under "other", in Iceland, projects under the country's Covid Investment Initiative included investments in energy transition, green solutions and environmental issues; in Finland, emphasis was given to measures that addressed the government's carbon neutrality goal; in Portugal, the Economic and Social Stabilization Programme considered environmental measures such as forestry management as well as work on sustainable buildings, hydrographic network and sustainable mobility.

5.4. Actions taken to integrate green perspectives into COVID-19 recovery measures, as of end-June 2020



Source: OECD and EC (2020), Joint Survey on Emerging Green Budgeting Practices.

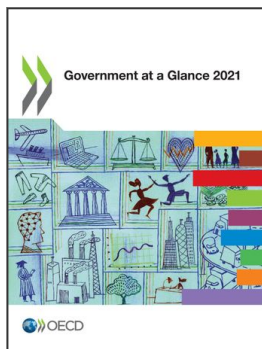
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5.5. Use of green budgeting tools in the recovery, as of end-June 2020

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

Source: OECD and EC (2020), Joint Survey on Emerging Green Budgeting Practices.

StatLink <https://doi.org/10.1787/888934257869>



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