

6.1 Green budgeting

Green budgeting refers to the use of budgetary policy-making tools to progress climate and environmental objectives. It involves assessing the climate and environmental impact of budgetary and fiscal policies and aligning them with national and international commitments. Green budgeting comprises four building blocks applicable throughout the budget cycle: 1) institutional arrangements; 2) methods and tools; 3) accountability and transparency; and 4) enabling environment in budgeting (OECD, 2020). In 2022, 5 of the 12 surveyed countries in Latin America and the Caribbean (LAC) region (Chile, Colombia, the Dominican Republic, Honduras and Mexico) reported implementing green budgeting (42%). Argentina also has plans to introduce green budgeting and five others are actively considering it (Figure 6.1). In contrast, the majority of OECD countries – 24 of the 36 surveyed (67%) – implement green budgeting, a figure that has almost doubled between 2021 and 2022 (OECD, 2023).

The 2022 OECD Green Budgeting Index measures the degrees to which countries have adopted green budgeting. It is based on the four building blocks of the OECD Green Budgeting Framework, which helps policy makers design and develop green budgeting. Of the five LAC countries with green budgeting, Mexico scores highest overall (0.43). As with OECD countries, the highest average scores among LAC countries are for the enabling environment in budgeting (0.14) and institutional arrangements (0.12). The widest gap between OECD and LAC countries is in methods and tools: OECD countries score 0.12 on average, while LAC countries score 0.07. The exception is Mexico, which makes widespread use of green budgeting tools and scores 0.14 in this area (Figure 6.2).

A number of green budgeting tools that are widely used in OECD countries are not as common in LAC countries. Three out of the five LAC countries that practise green budgeting (60%) use carbon pricing instruments and green budget tagging, while 92% of OECD countries implementing green budgeting use carbon pricing instruments. Mexico is the only LAC country using environmental impact assessments (Figure 6.3). The gap between OECD and LAC countries is also shown in the use of emerging tools: although 25% of the OECD countries (6 out of 24) incorporate green perspectives into spending reviews (OECD, 2023), no LAC countries have yet done so (Figure 6.3).

The scope of green budgeting covers investment spending in four LAC countries, and operational spending in three. Only Colombia includes discretionary and mandatory spending. Notably, none of the countries include tax expenditure (Online Figure F.3.1). All LAC countries set the requirements for green budgeting through circulars, guidance notes or similar, while Chile and Mexico have also incorporated them into budget laws alongside other relevant legislation. Ministries of finance are

responsible for implementing the green budgeting frameworks in four of the surveyed LAC countries. In Colombia and Mexico, the Ministry of Environment is also responsible for the implementation, alongside the Ministry of Finance (Online Figure F.3.2).

Methodology and definitions

Data are drawn from the 2022 OECD/IDB Survey on Green Budgeting and the 2022 OECD Survey on Green Budgeting, encompassing responses from 12 LAC countries. Respondents were predominantly budget officials within central budget authorities. Responses represent the country's own assessment of current practices and procedures. For standardisation and consistency, the surveys considered existing or planned practices as of end-June 2022.

The 2022 OECD Green Budgeting Index has four dimensions based on the building blocks of the OECD Green Budgeting Framework, each with an equal weight (0.25). The index ranges from 0 (not implementing) to 1 (high level of green budgeting practices). Country scores were determined by adding the weighted scores of each dimension, varying from 0 to 1. The variables and weightings used were selected by OECD experts based on their relevance to the concept and have been reviewed by county delegates to the OECD Paris Collaborative on Green Budgeting. Further details on the composite index are available in Annex B.

Further reading

OECD (2023), *Government at a Glance 2023*, OECD Publishing, Paris, <https://doi.org/10.1787/3d5c5d31-en>.

OECD (2020), *OECD Green Budgeting Framework (Highlights)*, OECD, Paris, www.oecd.org/environment/green-budgeting/OECDGreen-Budgeting-Framework-Highlights.pdf.

Pimenta, C. (2022), "Advances and opportunities in green public financial management", Technical note n° 2592, Inter-American Development Bank, Washington, DC, <https://doi.org/10.18235/0004561>.

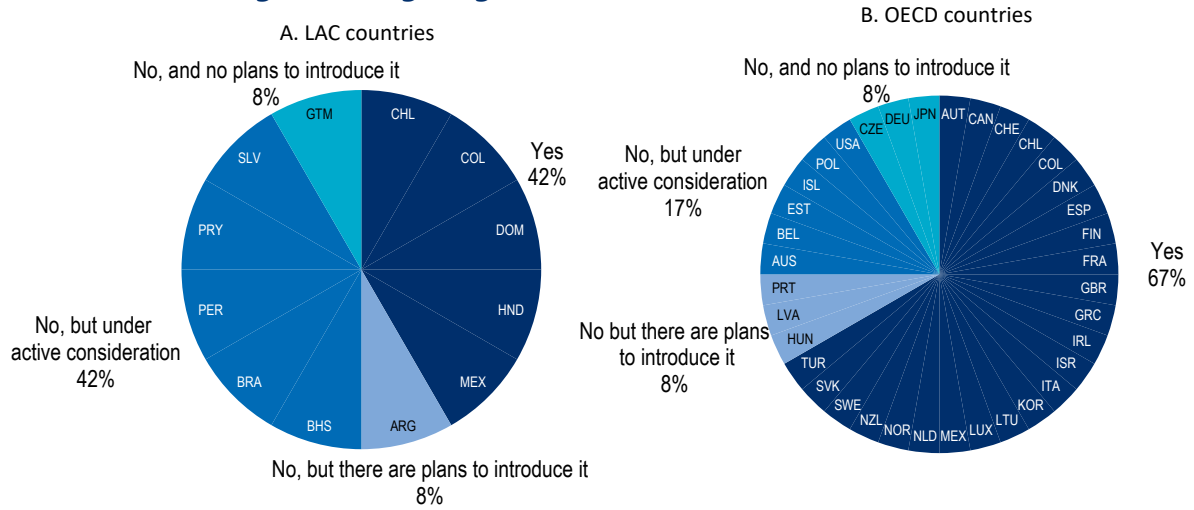
Figure notes

Figure 6.1, Panel B. Data for Costa Rica and Slovenia are not available.

Figure 6.2. The figure only shows LAC countries using green budgeting. OECD average does not include Costa Rica and Slovenia, as data are not available.

F.3.1 (Scope of green budgeting, 2022) and F.3.2 (Legal basis and institutional setting for green budgeting, 2022) are available online in Annex F.

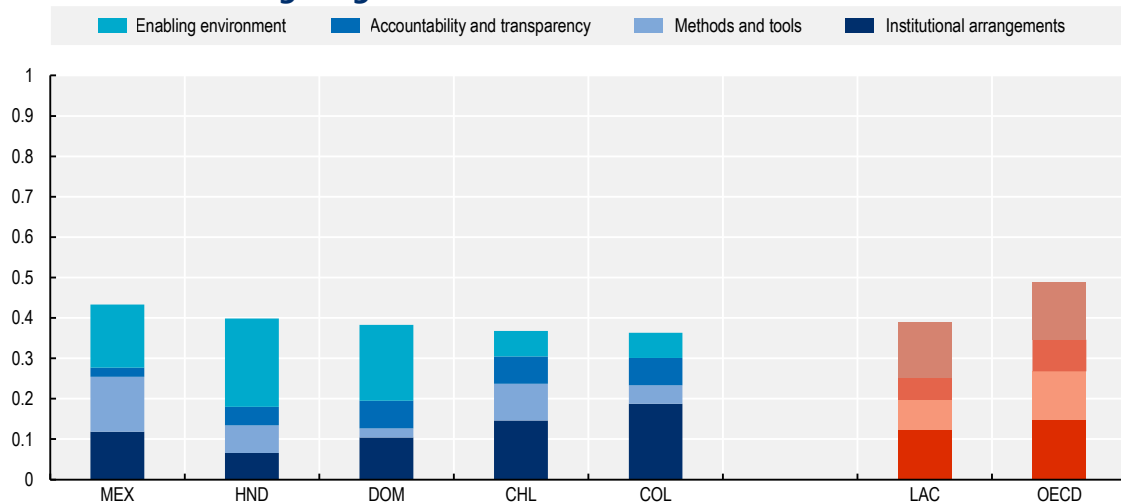
Figure 6.1. Existence of green budgeting in LAC and OECD countries, 2022



Source: OECD-IDB (2022), Survey on Green Budgeting; OECD (2022), OECD Survey on Green Budgeting.

StatLink <https://stat.link/s7in5t>

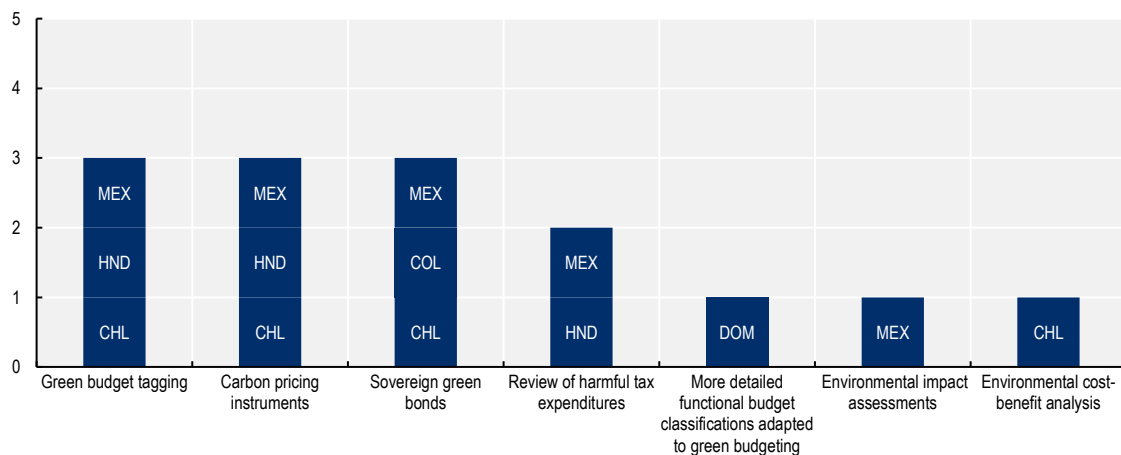
Figure 6.2. OECD Green Budgeting Index for LAC countries, 2022



Source: OECD-IDB (2022), Survey on Green Budgeting; OECD (2022), OECD Survey on Green Budgeting.

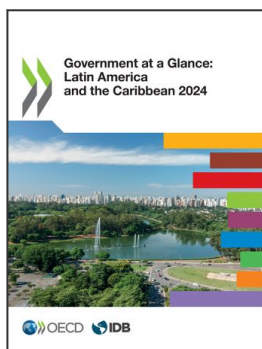
StatLink <https://stat.link/3kr0lh>

Figure 6.3. Green budgeting methods and tools, 2022



Source: OECD-IDB (2022), Survey on Green Budgeting.

StatLink <https://stat.link/saiu43>



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