

Green budgeting

The emergence of “green budgeting” in recent years reflects the importance countries have placed on using the budget process to support the achievement of environmental and climate objectives. Climate change, biodiversity loss and environmental degradation are having a profound impact on our planet, society and global economy. In response, countries have set national goals and made global commitments to protect the environment and mitigate climate change. As budgets play a core role in prioritising and resourcing government action, they can have significant impact on progress towards these objectives. The OECD plays a leading role in green budgeting by helping countries to use budgetary tools to provide policy makers with a clearer understanding of the environmental and climate impact of budget choices.

Green budgeting uses four key mutually reinforcing building blocks: 1) a strong strategic framework; 2) tools for evidence generation and policy coherence; 3) reporting to facilitate accountability and transparency; and 4) an enabling budgetary governance framework (OECD, 2020a). Its implementation involves having national climate change and environmental strategies, budgeting tools such as green budget tagging, the use of green budget statements to inform relevant stakeholders, and a modern budget framework linking strategic planning and budgeting. In 2020, 14 out of 35 OECD countries (40%) reported practising green budgeting (Figure 5.1). This includes countries with longstanding practice such as Italy (since 2000), as well as newcomers such as France, where the first comprehensive green budget (*Rapport sur le budget vert*) was presented in 2020.

Half of those countries practising green budgeting underpin their strategic framework with high-level political commitment or a budget law (7 out of 14 countries in both cases, 50%), and slightly fewer through administrative practice (6 out of 14, 43%), all of which are effective approaches to green budgeting. OECD countries typically use a variety of green budgeting tools and approaches (Table 5.2). The four most commonly reported tools include *ex ante* or *ex post* environmental impact assessments (12 out of the 14 countries, 86%), environmental cost-benefit analysis (10 out of 14, 71%), carbon assessments (10 out of 14, 71%) and carbon pricing instruments (9 out of 14, 64%). Most countries practising green budgeting also have ways to communicate information to the wider public (12 out of 14, 86%).

Country efforts have been sustained through an enabling budgetary governance environment to ensure consistent analysis across all parts of the government in pursuit of green objectives. Within the OECD, 7 out of the 14 countries practising green budgeting have supported their efforts with detailed instructions in the annual budget circular (50%), 6 with training and skills development (43%), and 5 with co-ordination mechanisms across government agencies (35%) (Figure 5.3). The OECD Paris Collaborative initiative continues to drive innovative approaches as more countries consider adopting green budgeting.

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 in OECD countries. 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.

Green budget tagging encompasses any budget tagging practice that comprehensively reviews and identifies budget measures relating to climate and/or other environmental objectives, such as biodiversity, air and water challenges (quantity and quality), among others.

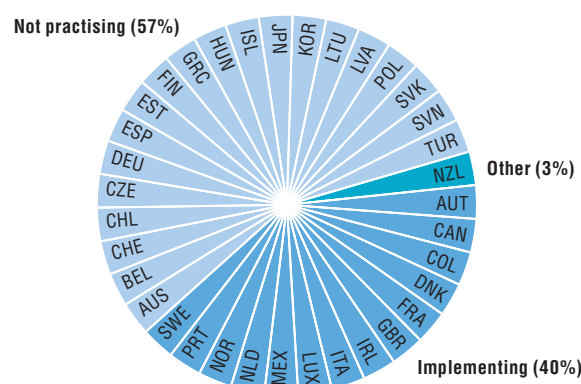
Further reading

- OECD (2020a), *OECD Green Budgeting Framework (Highlights)*, OECD, www.oecd.org/environment/green-budgeting/OECD-Green-Budgeting-Framework-Highlights.pdf.
- OECD (2020b), “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>.
- OECD (2021), *Green Budget Tagging: Introductory Guidance & Principles*, OECD Publishing, Paris, <https://doi.org/10.1787/fe7bfc4-en>.

Figure notes

- 5.1, 5.2 and 5.3. Data for Israel and the United States are not available. Romania does not practise any form of green budgeting.
- 5.1. New Zealand is listed as “other”, as the environment is categorised as natural capital in its “wellbeing budgeting” approach. Finland uses a lighter form of green budget tagging where only specific budgetary programmes contributing to green objectives were reviewed and identified. For standardisation and consistency, the survey only included instances where reviews were comprehensive across all areas of the budget. As Finland only reported green budget tagging as its main tool, it was not categorised as practising green budgeting.

5.1. Existence of green budgeting practices, 2020



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

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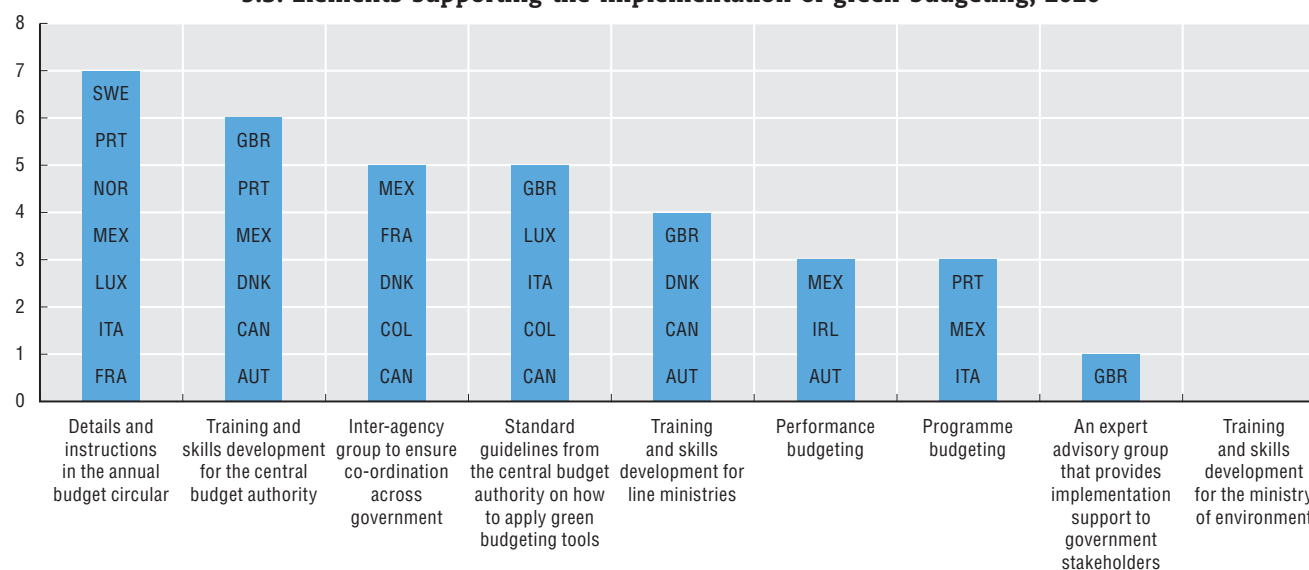
5.2. Commonly used tools by countries practising green budgeting, 2020

Country	<i>Ex ante</i> or <i>ex post</i> environmental impact assessments (individual measures)	Environmental cost-benefit analysis (individual or all measures)	Carbon assessments	Carbon pricing instruments (including fuel and carbon taxation, emissions trading systems)	Environmental tax reform	<i>Ex ante</i> or <i>ex post</i> green budget tagging
Austria	●		●			
Canada	●	●		●		
Colombia	●	●	●	●	●	●
Denmark	●	●	●		●	
France	●	●	●	●		●
Ireland	●	●	●	●	●	●
Italy	●	●	●			●
Luxembourg						●
Mexico						●
Netherlands	●	●	●	●	●	
Norway	●	●	●	●	●	●
Portugal	●	●	●	●	●	
Sweden	●	●	●	●	●	
United Kingdom	●	●	●	●	●	
OECD Total						
● Yes	12	10	10	9	8	7

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

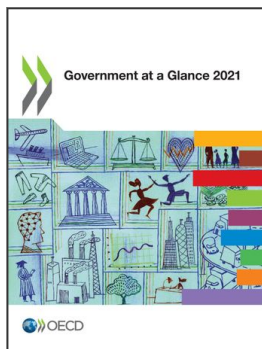
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5.3. Elements supporting the implementation of green budgeting, 2020



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

StatLink <https://doi.org/10.1787/888934257831>



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